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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2011-2012

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1. INTRODUCTION

The European Union's enlargement process has entered a new phase. The completion of accession negotiations with Croatia, opening the way to membership in mid-2013, vindicates the policy adopted in the aftermath of the devastating Balkan conflicts of the 1990s, which aims to bring peace, stability, democracy and ultimately EU membership to the whole region. As fresh evidence for the transformational power of the EU's enlargement policy, it provides new momentum for reform in all enlargement countries.

The EU's enlargement policy, as enshrined in the Treaty on European Union¹, is the response to the legitimate aspiration of people of our continent to join the endeavour of a unified Europe. The integration of the countries of Central and Eastern Europe over the past decade has shown that enlargement benefits the EU as a whole and allows it to be better positioned to address global challenges.

The enlargement policy has proven to be a powerful tool for societal transformation. Countries that have already acceded to the EU and those on the road to join have undergone impressive changes through accession-driven democratic and economic reforms. Commitment, conditionality and credibility have been situated at the core of the accession process and its success.

The renewed consensus on enlargement, agreed by the December 2006 European Council, and based on the principles of consolidation of commitments, fair and rigorous conditionality and good communication with the public, combined with the EU's capacity to integrate new members, remains the framework for the EU enlargement policy.

Through the enlargement policy, the EU extends its zone of peace, stability, democracy, and prosperity; concepts that have gained renewed relevance, in the light of recent developments:

- The dramatic events in the Southern Mediterranean and the Middle East, as well as the fragility of the ensuing situations, underline the importance of a pole of stability and democracy in South-East Europe, solidly anchored in the EU's enlargement process.
- The recent global financial crisis and the present difficulties in the Eurozone have highlighted the interdependence of national economies both within and beyond the EU. These events underline the importance of further consolidating economic and financial stability and fostering growth, also in the enlargement countries. The enlargement process is a powerful tool to that end.

¹ Article 49

Since the adoption of the last enlargement package, further positive developments have taken place in the Western Balkans. The arrest and transfer to the International Criminal Tribunal for the former Yugoslavia (ICTY) of Ratko Mladić and Goran Hadžić removed a major stumbling block from the European path of Serbia and marked an important step towards reconciliation. A dialogue between Belgrade and Pristina, aiming *inter alia* at achieving progress on the road towards the EU, was established and has yielded first results. Progress in EU-related reforms can be reported in most enlargement countries. Visa-free travel has been granted to the citizens of two more Western Balkan countries, Albania and Bosnia and Herzegovina.

Nevertheless, in a number of countries important reforms were delayed, often as a result of internal political developments and conflicts. Delays and blockages were particularly serious in Bosnia and Herzegovina and Albania. Good governance, the rule of law, administrative capacity, unemployment, economic reform and social inclusion remain major challenges in most countries. There have been a number of concerning developments in the area of freedom of expression in the media. Differences over status continue to affect negatively both Kosovo² and the region. The recent events in Northern Kosovo are cause of grave concern. The name question concerning the former Yugoslav Republic of Macedonia remains unsolved.

Iceland's accession process has made headway over the past year. Progress in negotiations is due to Iceland's already highly integrated structures through its long established democracy, its membership of the European Economic Area and the Schengen zone, and its high calibre public administration.

In Turkey, accession process remains the most effective framework for promoting EU-related reforms, developing dialogue on foreign and security policy issues, strengthening economic competitiveness and diversifying supply of energy sources. In the accession negotiations, it has regrettably not been possible to open a new negotiating chapter for over a year. A new constructive phase in the relations with Turkey needs to be triggered based on concrete steps in areas of common interest.

Croatia's imminent accession demonstrates that the enlargement process is geared to maximise its transformative effects on the countries concerned. Improvements brought to the process by the 2006 renewed consensus on enlargement were put into practice with Croatia and have proved their value. Ongoing and future negotiations with other enlargement countries should build further on this experience. In particular, difficult negotiating chapters such as those on the judiciary and fundamental rights and on justice, freedom and security should be tackled as early as possible to allow adequate time for the candidate country to build the necessary track record of reform.

The accession of Croatia will be a major step in the historic project of integrating the Western Balkans into the EU. The EU has consistently proclaimed the inclusiveness of its policy towards the Western Balkans, starting with the 'regional approach' of the mid-1990s and most prominently through the Stabilisation and Association process launched in 1999 and the 2003 Thessaloniki summit which confirmed that the future of the Western Balkans lies within the EU. Far from drawing a dividing line in the Balkans, it should serve as an incentive and catalyst for the rest of the region to accelerate its course towards the EU. In view of the EU's

² Under UNSCR 1244/1999

commitments, as well as the history and geography of the region, ‘unfinished business’ will remain until the whole of the Western Balkans are included, once the conditions are met.

Within this context, the Commission remains fully attached to the principle of own merits. The pace at which each country advances towards membership depends mainly on its performance in meeting the established criteria and conditions.

Croatia’s successful experience sends strong messages to other enlargement countries:

- The EU delivers on its commitments once the conditions are met.
- The criteria and conditions for accession are demanding and their implementation is monitored with increased attention. This, however, is not an obstacle, but results in the candidate state achieving a higher level of readiness which will benefit both it and the EU upon accession.
- Bilateral disputes with neighbours should and can be addressed through dialogue and compromise, in line with established principles.

The continued credibility of the enlargement process is an important element for advancing reforms in the enlargement countries and ensuring support of Member States. Developments over the past year have confirmed that tangible results along the path towards the EU are also achievable ahead of accession, when the respective conditions are met. The Commission recommendations in this Communication for moving to next stages of the accession process and the extension of visa liberalisation to Albania and Bosnia and Herzegovina are eloquent examples. On the other hand, where political will and the commitment to achieve concrete results are insufficient or lacking, the accession process has not advanced and risks stalling.

This communication assesses the current state of the European Union's enlargement agenda, comprising the Western Balkans, Turkey, and Iceland. Based on the accompanying in-depth country analyses³, it takes stock of what these countries have achieved preparing for membership, where they stand today, assesses their prospects for the coming years and in this regard makes a number of recommendations. As in previous years, a number of key challenges are given particular attention.

2. KEY CHALLENGES

2.1. Increased focus on strengthening the rule of law and public administration reform

Strengthening the rule of law has been identified as a continuing major challenge and a crucial condition for countries moving towards EU membership. This issue has been given greater attention in recent years at all stages of the accession process, in line with the renewed consensus on enlargement.

This emphasis on the rule of law was reflected in the extensive consideration given to these issues during the accession negotiations with Croatia, particularly in the context of the negotiating chapters on the judiciary and fundamental rights and on justice, freedom and

³ Summaries and conclusions of the country reports are included as an annex to the present Communication.

security. The weight of rule of law issues in the key priorities set out as conditions for the opening of accession negotiations with Albania and Montenegro is another example of prioritising this area ahead of the actual negotiations.

The experience acquired from the accession negotiations with Croatia will put to the benefit of the ongoing and future negotiations with other countries. To that end, the Commission will propose a new approach with respect to issues related to the judiciary and fundamental rights and to justice and home affairs. These should be tackled early in the accession process and the corresponding chapters opened accordingly on the basis of action plans, as they require the establishment of convincing track records. The Commission would report regularly, at all stages of the process, on progress achieved in these areas along milestones defined in the action plans with, where appropriate, the necessary corrective measures. IPA funds will be targeted to support this process.

Within the framework of the pre-accession process, the Commission has been encouraging countries to build up independent and efficient *judiciaries* and to remedy existing shortcomings. In this respect, Croatia improved its system of appointing judges, Serbia launched a review of the re-appointment procedure for judges and prosecutors, Montenegro started a revision of key constitutional and legal provisions concerning the judiciary. Kosovo completed its vetting process of judges and prosecutors.

The *fight against corruption* is one of the key challenges for the rule of law in most enlargement countries. Corruption remains a serious problem, affecting not only citizens' everyday life in vital areas such as healthcare and education. It also has serious negative impacts on investments and business activities and damages national budgets, especially concerning public procurement and privatisation. The Commission has sharpened its focus on the fight against corruption in the enlargement countries in recent years.

The important experience gained working with the enlargement countries has contributed to the development of the EU's own approach to fighting corruption, across all policy areas, internal as well as external⁴. While the Commission is setting up a corruption monitoring mechanism for the Member States, it will continue to give high priority to the monitoring of anti-corruption policies in the enlargement countries, with an emphasis on results and sustainability, from the early stages of accession preparations. The Commission will also promote close coordination between international donors to ensure an optimal use of resources.

The *fight against organised crime* remains an important priority for the enlargement countries. It is closely linked with fighting corruption and establishing independent judiciaries. The cross border nature of many criminal activities poses a major challenge to the fight against organised crime. *Regional cooperation between law enforcement and judicial bodies*, including the creation of professional networks, is particularly important for addressing this challenge. The Commission is supporting the creation of a regional prosecutors' network that is assisted by seconded experts from Member States, as well as by the relevant European agencies. The Commission also assists the establishment of coordinated witness protection systems in the region.

⁴ This is reflected in the Commission's recent Communication on fighting corruption COM(2011) 308 final.

Over the course of the past year, the Commission has intensified its *rule of law dialogue* with the countries of the Western Balkans. The aim is to strengthen preparations at earlier stages of the pre-accession process, based on in-depth analyses of the justice and home affairs sectors. To that end, expert missions were carried out in most of the enlargement countries. The Commission strengthened cooperation and the exchange of information with the relevant EU agencies, including Europol, Frontex, Eurojust, and the European Monitoring Centre for Drugs and Drug Addiction, as well as with regional initiatives, the Council of Europe and other international organisations. Where appropriate, benchmarking was already applied during early stages of the process. A Structured Dialogue on justice was launched with Bosnia and Herzegovina and the Commission proposes a similar dialogue with Kosovo on the rule of law with the aim to address the challenges in this area and support judicial reform.

Public administration reform, aiming at enhancing transparency, accountability and effectiveness, essential for democracy and the rule of law, continues to be a key priority under the political criteria in most enlargement countries. Adequate administrative procedures, including with respect to human resource and public financial management, are crucial for the implementation of the *acquis*. Countries need to increase their efforts to improve their public administrations on the basis of overall national strategies.

In some enlargement countries, there is increasing evidence that the distinct roles of the ruling parties and of the state are inadequately respected. Such practices risk undermining the rule of law and the functioning of democracy.

2.2. Ensuring freedom of expression in the media

Freedom of expression is a fundamental right, which is safeguarded by international law and forms an integral part of the functioning of pluralistic democracy. For the accession process, ensuring this freedom is a key component of the Copenhagen political criteria for membership.

The enlargement countries are characterised on the whole by pluralist media landscapes. However, in a number of countries, negative developments in this area have recently been observed. This is a source of serious concern. The Commission further examines freedom of expression in the accompanying reports, where the situation in each country is outlined.

Challenges to freedom of expression and the media include: political interference, sometimes manifested also through the legal system; economic pressure; using crime and corruption to influence the media; and insufficient protection of journalists against harassment or even violent attacks. Economic challenges relate to a lack of transparency and concentration of ownership, lack of fair competition, and the lack of independence of market regulators. In a number of enlargement countries, the overall implementation of media legislation is not satisfactory. A number of cases of attacks on journalists, including killings, remain unresolved, several years after their occurrence. In Turkey, the legal framework does not yet sufficiently safeguard freedom of expression. The high number of legal cases and investigations against journalists and undue pressure on the media raise serious concern.

All of these issues place serious restrictions on the expression of views by media critical of governments and discourage investigative journalism. Media and journalists are often forced into self-censorship.

It is essential that the enlargement countries guarantee open and pluralistic media landscapes, which allow for a culture of critical and independent journalism. Public Service Broadcasters need to improve their economic standing and autonomy in order to fulfil their role. At the same time, the media profession should commit itself to self-regulation on the basis of comprehensive codes of ethics and professional standards.

In May 2011, the Commission organised a conference on freedom of expression, which brought together media and civil society stakeholders from the Western Balkans and Turkey. This conference aimed to reach out, beyond its official government interlocutors, to those directly concerned and listen to their views and experiences. The conclusions of the conference will continue to feed into the Commission's work in this area.

The Commission will closely monitor developments in the framework of existing agreements and structured dialogues with the enlargement countries. It will further integrate these issues into accession negotiations, notably under the judiciary and fundamental rights chapter. It will identify priorities and encourage government efforts to reach European standards in the field of freedom of expression. To this end, cooperation will be strengthened with the relevant partner countries and international organisations - in particular the Council of Europe and the Organization for Security and Cooperation in Europe. Dialogue with journalists and their associations will be further developed.

2.3. Enhancing regional cooperation and reconciliation in the Western Balkans

Regional cooperation and good neighbourly relations are essential elements of the Stabilisation and Association process and, as such, are closely monitored by the Commission at all stages of the accession process. Regional cooperation underpins and enhances reconciliation in a region that suffered major conflicts in the recent past. Regional cooperation and trade can bring further economic benefits to the region. It is also an integral part of the process of integration into the EU, which often necessitates regional approaches and measures.

Significant progress has been achieved in this respect over the past decade and further important steps can be reported in the past year. Visits by leaders of the region, in particular those of Serbia and Croatia, to neighbouring countries, as well as statements made on the conflicts of the 1990s have contributed substantially to regional reconciliation. The Sarajevo process on refugee return involving Serbia, Croatia, Bosnia and Herzegovina and Montenegro, is about to be successfully completed in the coming days. Initiatives by NGOs and civil society, such as the Youth Initiative for Human Rights, the Truth and Reconciliation Commission (RECOM), and the Igman Initiative play an important role in enhancing reconciliation beyond governments among the citizens of the region.

Cooperation within specific sectors is functioning well and is advancing, including through the Energy Community, the European Common Aviation Area, and joint training at the now fully operational Regional School of Public Administration (ReSPA). In December 2010, a strategy to boost the development of the Danube region was proposed by the Commission and subsequently endorsed by the Member States⁵. Regional trade within the Central European

⁵ The strategy implies cooperation among the Danube basin countries in the areas of environment, transport, energy, socio-economic development, education research and innovation, and safety and security. Among the enlargement countries, Croatia, Serbia, Bosnia and Herzegovina and Montenegro participate in this strategy. See COM(2010) 715 final and Council conclusions of 13 April 2011.

Free Trade Agreement (CEFTA) framework is growing and the agreement is being extended to areas such as competition policy, further abolition of tariff barriers and liberalisation of services. The Regional Cooperation Council (RCC) has started implementing its three-year strategy and work programme, working towards more result-oriented action.

At the same time, issues stemming from past conflicts, together with other open bilateral issues remain key challenges to stability in the Western Balkans that affect regional cooperation, relations between countries, as well as their internal functioning and reform process. It is urgent to address these remaining issues. Resolving these issues will remove a major impediment to the Western Balkans' course towards the EU.

In particular, *disputes related to inter-ethnic or status* issues, notably in Bosnia and Herzegovina and Kosovo, continue to obstruct the normal functioning of institutions, act as a brake to the reform process and the European agenda and can sometimes have broader regional implications. The Commission holds that pursuing their EU path is the best way for the countries to address these problems. Recent developments, in particular progress in the EU-facilitated Belgrade-Pristina dialogue is key in this context. The 10th anniversary of the signing of the Ohrid Framework Agreement, celebrated this August, is a reminder that difficult ethnic-related issues *can* be successfully addressed through dialogue and compromise.

Positive results were recently achieved in overcoming problems concerning the *inclusive* functioning of regional initiatives resulting from differences of views over the status of Kosovo, but more needs to be done. An agreement was reached in the framework of the Belgrade-Pristina dialogue on the acceptance by Serbia of the Kosovo customs stamps; this should allow for regional trade to be restored within the framework of CEFTA. Previously, the holding of CEFTA and RCC meetings with participation of all parties was restored and the Pan-Euro-Med Convention on Preferential Rules of Origin was signed. However, differences over the status of Kosovo have continued to obstruct the finalisation and signing of the Transport Community Treaty and the extension of the Autonomous Trade Measures for Kosovo and other Western Balkan partners. These differences remain an obstacle to the development of contractual relations between the EU and Kosovo.

A comprehensive settlement of issues related to regional cooperation is pending in the Belgrade-Pristina dialogue. The Commission calls upon all parties involved to continue to seek practical and pragmatic solutions to ensure the inclusiveness of regional cooperation, without prejudice to differing positions over the status of Kosovo. Progress made in the past year shows that this is possible.

Completing the process of rendering justice for *crimes committed during the wars* in the former Yugoslavia is essential for lasting reconciliation. Full cooperation with the ICTY remains an essential condition for the accession process in the Western Balkans. The recent arrests and transfers to The Hague of the last two ICTY indictees were major steps in that direction. The Commission also calls upon the governments concerned to pursue with greater vigour the proper conduct of domestic war crime trials.

The Commission takes very seriously the report endorsed by the Parliamentary Assembly of the Council of Europe in January (Marty report) concerning crimes, including human organ harvesting, allegedly committed in the period during and after the conflict in Kosovo. It fully supports the investigation conducted by EULEX, notes the importance of witness protection

in this context and welcomes the establishment of a Brussels-based EULEX Task Force, as well as the cooperation of the relevant governments with this Task Force.

Overall, it is important that governments and civil society organisations in the region do more to explain to citizens that reconciliation is an integral part of their European future and that justice with respect to war crimes is an indispensable element of this process. Political leaders should avoid statements and measures that could call these important principles into question.

With respect to open *bilateral issues*, these need to be solved by the parties concerned as early as possible during the enlargement process, with determination, in a good neighbourly spirit and taking into account the overall EU interests. The Commission urges them to make every effort towards solving outstanding border disputes in line with established principles and means, including referring issues to the International Court of Justice if appropriate. Bilateral issues should not hold up the accession process. The Commission stands ready to facilitate the creation of the necessary political impetus in the search for solutions and to support related initiatives.

The border arbitration agreement between Slovenia and Croatia, the implementation of which is due to begin later this year, paves the way for addressing bilateral issues. The Commission strongly encourages the parties to the dispute over the name of the former Yugoslav Republic of Macedonia to employ a similarly constructive spirit in the ongoing UN-led talks.

2.4. Achieving sustainable economic recovery and embracing Europe 2020

All enlargement countries have now embarked upon a path of recovery, though at varying paces: Turkey has emerged from the crisis with a bigger economy and its growth continues to be impressive, but there are increasing signs of overheating. The Western Balkan economies are also beginning to recover, though it will take some time for them to reach pre-crisis levels. Iceland's economy continues to emerge from the major economic disturbances it experienced during the crisis.

However, the enlargement countries are confronted with important socio-economic challenges. Unemployment remains high and rising in most countries. Unemployment in Kosovo, Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia remains the highest in Europe. Labour force participation rates are low, especially for women and the young and widespread informal employment remains a challenge. Exports from the Western Balkans, which are contributing to the recovery, remain dominated by low added value products, including commodities, which are exposed to price volatility and strong competition from emerging markets.

Most enlargement countries have maintained overall prudent macroeconomic policies. Fiscal consolidation and the reform of labour markets remain the most urgent short-term priorities, reflecting largely similar challenges to those presently faced in the EU. More structural reforms are needed to boost competitiveness and improve the investment climate, thus attracting foreign direct investment, fostering job creation and ensuring the sustainability of growth. In the Western Balkans, improving the capacity of public administration, and strengthening the rule of law, including by reforming the judiciary and combating widespread corruption present particular challenges. Progress in these areas would also be conducive to the business environment. Public services to the business and investment in infrastructure remain scarce.

Labour market reforms, including a review of transfer-benefit systems, taxation issues and overhauls of education systems, should contribute to addressing a major structural weakness in the Western Balkans and an impediment to achieving stronger, sustainable, and inclusive growth.

Embracing the objectives of the Europe 2020 strategy

Europe 2020 is the EU's growth strategy for the present decade, guiding the Union towards becoming a smart, sustainable and inclusive economy in a changing world. The enlargement countries are encouraged to associate to the Europe 2020 strategy and its flagship initiatives⁶. This provides a useful anchor for reform.

The Europe 2020 objectives are reflected, as appropriate, in the dialogues on economic policy and on employment and social policies between the Commission and enlargement countries. The Commission has guided the programming of financial assistance towards the objectives of Europe 2020, especially with respect to socio-economic development. The Commission's cooperation with the international financial institutions (IFIs) takes these objectives into account.

The ongoing debt crisis in Europe has underlined the importance of *sound public finances* and the Commission is sharing some of its peer review mechanisms with the candidate countries and potential candidates. Multilateral fiscal surveillance by the EU is an important tool to this end. It will be progressively adapted to the upcoming strengthened economic governance in the EU.

In the area of *private sector development*, policy coordination with the Western Balkans and Turkey is guided by the provisions of the EU's Small Business Act⁷. This coordination, based on regular evaluations against established EU benchmarks, has resulted in the emergence of well-tested recommendations reflecting the national particularities of the enlargement countries. The Commission proposes that the results of the Small Business Act be used as a reference tool for future Small and Medium Enterprises (SME) -related activities in the region.

Within the Western Balkans Investment Framework, the Commission encourages partner International financial Institutions (IFIs) to support new forms of SME financing, in particular equity, venture capital and guarantee mechanisms. The Commission will co-finance a Western Balkan SME platform, which aims to improve access to finance for SMEs through guarantees and venture capital.

In the area of *research and innovation*, the cooperation of enlargement countries with the EU is already advanced in terms of eligibility for participation in EU initiatives. Enlargement countries participate in the 7th Framework Programme for Research and Technological Development and the Competitiveness and Innovation programme. Current indicators, however, show that in most cases they are significantly below the EU average in terms of investments and development of research and innovation policies. Regional leaders, including

⁶ The Europe 2020 flagship initiatives are *digital agenda for Europe, innovation union, youth on the move, resource efficient Europe, industrial policy for the globalisation era, agenda for new skills and jobs, European platform against poverty*.

⁷ COM(2008) 394 final.

at the upcoming ministerial conferences, are encouraged to commit to increase investment in research, innovation and human capital.

Enlargement countries need to become better prepared to withstand *climate change* and align with the EU's efforts to address this challenge, including through awareness raising. Progressive climate action will bring benefits through low-carbon development and can create jobs.

The nascent economic recovery has yet to be reflected in an improved *social situation*. The share of the population living below the poverty line remains high and in the Western Balkans continues to grow. High informal employment impacts negatively on the social situation, particularly concerning young people.

Securing jobs and the social inclusion of vulnerable groups is a priority. However, little real investment has occurred in the social sector and cooperation with international donors has faced obstacles in strategic planning. The Commission emphasises employment and social policies in its policy dialogue and encourages countries to set clear and realistic targets in these two areas and to better target and prioritise social spending. The objectives of the European Platform against Poverty and Social Exclusion should be taken up as appropriate by the enlargement countries.

Sustained measures for the inclusion of all vulnerable groups into mainstream society should be adopted. Concerning the particularly disadvantaged Roma minority, the Commission has invited the Western Balkans and Turkey to cooperate within the EU Roma platforms, which systematically monitor inclusion and propose related actions. The Commission has held a series of seminars on Roma issues to encourage the countries of the region to review and strengthen the relevant national action plans and their implementation on fighting discrimination and improving Roma integration, particularly in the areas of education, employment, housing and health. Strong efforts should be made by the countries of the Western Balkans to facilitate the civil registration of displaced persons.

Improved *education and training* are key factors of structural change for sustainable and inclusive growth. So far, investments into education, skills and qualifications have typically been low and regional recognition of national qualifications is insufficient. State education systems and infrastructure need to be reformed and internationally comparable vocational, education and training programmes are needed to address the existing skills mismatch.

The Commission has opened the Education and Training 2020 strategic framework for participation of the candidate countries which the former Yugoslav Republic of Macedonia and Montenegro are yet to join. The Commission has proposed to develop a Western Balkans Platform on education and training, based on the open method of coordination, to allow for the participation of all enlargement countries. This will enhance dialogue on main policy challenges and secure implementation and monitoring. The countries of the Western Balkans have been invited to participate in the centralised activities of the EU's Lifelong Learning Programme.

2.5. Extending transport and energy networks

Improved transport and energy cooperation with the enlargement countries directly benefits European citizens and businesses. Transport and energy interconnection are key elements in the EU's cooperation with all neighbouring countries aimed at promoting sustainable economic growth, trade and cultural exchange, employment, as well as at improving living

conditions. In the case of the enlargement countries this cooperation also aims at preparing them to fully take on and implement the transport and energy *acquis*.

With its strategic location at the crossroads between Europe, the Middle East and the Caucasus, Turkey has steadily developed and strengthened its links with the EU – as illustrated by recent developments in the aviation sector or its role in the establishment of the Southern Gas Corridor. Further development of these links would benefit both sides. The Southern Gas Corridor would contribute to Europe's security of supply for natural gas, as it would make a considerable contribution in expanding supply routes and stimulate competition in the international gas market. The Commission supports Turkey financially in the further development of its transport networks, in particular concerning high speed rail connections and the modernisation of port facilities. At the same time, Turkey should be encouraged to deepen its gas market, increasing liquidity and contract flexibility. Such a process would lead to the emergence of an 'energy hub', the existence of which would achieve greater energy security.

In the Western Balkans, a regional transport network has been defined within the framework of the South East Europe Transport Observatory (SEETO) identifying priority projects of regional interest. The Western Balkan countries participate, together with the EU Member States and other European countries, in the European Common Aviation Area Agreement, which was signed in 2006. Cooperation in the field of transport is also foreseen under the Danube Strategy.

Since 2008, the Commission has been negotiating the creation of a Transport Community with the Western Balkan countries, establishing an integrated market for infrastructure and land, inland waterway and maritime transport. Negotiations have been almost completed, but are held back by differences over the denomination of Kosovo. The Commission urges the parties concerned to take the necessary steps that will allow for a rapid conclusion of the negotiations and the signing of the Treaty.

The Commission has proposed a review of the EU's Trans-European Networks in the field of transport (TEN-T) with a view to improving connections with the countries covered by the enlargement and neighbourhood policies⁸.

In the field of *energy*, the EU is also pursuing the integration of networks, notably through support for the Energy Community which encompasses the EU and its Member States, all the Western Balkans as well as some neighbourhood countries⁹. The Energy Community, based on EU energy rules, establishes an open, transparent and competitive regional market which helps to attract investments. The Energy Community *acquis* already covers the internal energy market, energy efficiency and renewable energies, as well as selected parts of environmental, social and competition *acquis*. It will be extended to cover mandatory oil stocks, in addition to the electricity and gas markets.

⁸ COM(2011) 415 final.

⁹ Turkey is an observer. The neighbourhood countries involved are Ukraine and Moldova as full members, and Georgia and Armenia as observers.

3. PROGRESS IN THE ENLARGEMENT COUNTRIES AND AGENDA FOR 2011-2012

3.1. Western Balkans

Croatia

The accession negotiations with Croatia were closed in June. This was the result of Croatia meeting the closing benchmarks in the remaining areas over the past year, including in difficult chapters such as judiciary and fundamental rights and competition policy. Croatia has achieved substantial results in the fight against corruption, introduced a new objective and transparent system for appointing judges and prosecutors, and has much improved implementation of housing care programmes for returning refugees. The restructuring of its shipyards in difficulty has progressed substantially.

The result of the accession negotiations will be embodied in an accession treaty which, as foreseen by the June European Council, should be signed by the end of the year. This should enable Croatia to join the EU on 1 July 2013 provided that the necessary ratification procedures have been completed. Croatia has achieved a very high level of preparation to assume the responsibilities of membership upon accession. It meets the Copenhagen political criteria. It is expected to meet the economic and *acquis* criteria by 1 July 2013. This momentum needs to be maintained.

Croatia needs to continue building on the reforms implemented and capacities developed during the course of the accession negotiations. The Commission will closely monitor Croatia's fulfilment of all the commitments undertaken and its continued preparations to assume the responsibilities of membership upon accession. The monitoring will focus in particular on commitments undertaken by Croatia in the following areas: judiciary and fundamental rights; justice, freedom and security; as well as competition policy.

The monitoring will consist of regularly updated monitoring tables, the dialogue under the Stabilisation and Association Agreement, peer assessment missions, the pre-accession economic programme and fiscal notifications. The Commission will issue six-monthly assessments up to Croatia's accession on the implementation of commitments taken by the country in these chapters. A Comprehensive Monitoring Report will be presented to the European Parliament and the Council in autumn 2012.

If issues of concern are identified during the monitoring process and are not remedied by Croatia, the Commission will, if necessary, address early warning letters to the Croatian authorities and may propose to the Council to take all appropriate measures already prior to accession. In addition, as in the fifth enlargement, the accession treaty will contain a general economic safeguard clause, an internal market safeguard clause and a safeguard clause in the area of justice, freedom and security.

Croatia is expected to continue playing an active role in regional cooperation in the Western Balkans. The Commission looks forward to the implementation of the border arbitration agreement between Slovenia and Croatia. It will support the establishment and functioning of the Arbitral Tribunal, as foreseen in the said agreement. The Commission welcomes the Statement by the Croatian Government to support the other countries of the region on their path to EU-membership, and encourages Croatia to address the remaining open bilateral issues with its neighbours ahead of accession. At the same time, political leaders should avoid

statements and measures that could call into question the importance of reconciliation or neglect the seriousness of war crimes.

The former Yugoslav Republic of Macedonia

The June parliamentary elections in the former Yugoslav Republic of Macedonia were mostly in line with international standards and the country has continued accession-related reforms. The governing coalition has been stable. The country continues to sufficiently meet the political criteria. Some progress has been made as regards the reform of the parliament, the judiciary, public administration and respect for and protection of minorities, though core challenges remain. Further efforts are needed in particular as regards freedom of expression in the media, independence of the judiciary, reform of public administration and fighting corruption. The efforts of the political forces to cooperate need to be strengthened.

The country continues to fulfil its commitments under the Stabilisation and Association Agreement (SAA). The Commission maintains its proposal to move to the second stage of the association as provided for by the SAA and encourages the Council to act on this without further delay.

The Commission notes that the Council has not been able to follow up on the Commission recommendation dating from 2009 for opening accession negotiations with the former Yugoslav Republic of Macedonia. Moving the accession process of this country to its next stage will benefit the momentum of reforms and the climate of inter-ethnic relations, and will impact positively on the region.

The dispute between Greece and the former Yugoslav Republic of Macedonia over the name of the latter has remained unresolved for almost two decades. A dialogue under the auspices of the UN has been ongoing since the 1990s and it is complemented since 2009 by bilateral contacts, including at Prime Ministerial level. However, these processes have yet to yield results. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential. The Commission underlines the need for a redoubling of efforts for a solution without further delay. It also recalls that actions and statements that could negatively impact on good neighbourly relations should be avoided. A solution to the name issue is long overdue.

Montenegro

In December 2010, the European Council granted candidate country status to Montenegro and endorsed the seven key priorities for the opening of accession negotiations identified in the Commission's Opinion on Montenegro's application for EU membership.

Since the adoption of the Opinion, Montenegro has made good progress in meeting the Copenhagen political criteria, achieving overall satisfactory results, in particular in the identified key priorities. The legislative and institutional framework has been improved with a view to strengthening the work of the parliament, the electoral framework, professionalism and de-politicisation of public administration, the independence and accountability of the judiciary, fight against corruption and organised crime, media freedom and cooperation with civil society. Sustained efforts are needed, however, in further developing a track record in the area of rule of law, in particular with respect to high-level corruption and organised crime cases. Positive steps have also been made in anti-discrimination policies and in improving the

situation of displaced persons. This now needs to translate into reducing discrimination in practice towards vulnerable groups, including displaced persons.

The Commission will place particular attention on monitoring Montenegro's progress in the areas of rule of law and anti-discrimination in view of maintaining the momentum of reforms in these areas and will continue to support Montenegro in implementing EU-related reforms.

Albania

Albania's domestic political scene has been largely dominated by the continuation of the political stalemate and further confrontational developments. Violent clashes between anti-government protestors and police led to the death of four persons and amplified the climate of mistrust between political forces, as well as vis-à-vis certain State institutions. The local elections in May, although assessed as competitive and transparent, were decisively marked by shortcomings which need to be addressed. In particular, the controversy surrounding the vote count of misplaced ballots for the Tirana mayor increased polarisation between the ruling majority and the opposition.

It is now urgent that the political forces in Albania re-establish and maintain a level of political dialogue that would allow the proper functioning of key democratic institutions, notably the parliament, and progress on the EU integration path. The significant shortcomings identified in the last two elections warrant a comprehensive electoral reform that would benefit from external independent advice and consensus among political parties.

The two main political parties have taken up the EU's offer for reengaging constructively with the country's European integration priorities. It is essential now for Albania's political parties to commit to a structured and sustained process of working together on European reforms. The way forward should include a process of joint review and adoption of the Action Plan addressing the Opinion recommendations and a schedule for essential reforms, including on parliamentary work and elections.

Overall, Albania has made limited progress in meeting the political criteria for membership and the twelve key priorities for the opening of accession negotiations, as identified in the Commission's Opinion endorsed by the Council in December 2010. There has been some progress in fighting organised crime, improving the treatment of detained persons in prisons, and on rights of the child, but progress remains insufficient regarding, the judiciary, anti-corruption policy, property rights and improving the living conditions of the Roma community in addition to the work needed on parliamentary procedure and elections. Albania has started implementing an action plan to address the recommendations of the Commission's Opinion. However, further efforts are required to ensure the effectiveness and completeness of the actions envisaged, including through close cooperation with the opposition. Albania will need to make sustained efforts and achieve demonstrable progress on all of these matters before the Commission can recommend candidate status and the opening of EU accession negotiations.

Albania has continued to smoothly implement the Stabilisation and Association Agreement. In December 2010, the country was granted visa-free access to the Schengen area for its citizens, as a result of its satisfactory achievements in the visa liberalisation dialogue.

The Commission is committed to continue supporting Albania in achieving EU-oriented reforms and meeting the Opinion's key priorities.

Bosnia and Herzegovina

In Bosnia and Herzegovina, the actions of its political representatives continue to reflect a lack of a common understanding on the overall direction and future of the country and its institutional setup. No consensus has been found for ensuring and improving the functioning of the institutions, while safeguarding the interests of its constituent peoples, especially in view of the country's widely shared EU aspirations. The process of establishing executive and legislative authorities following the October 2010 elections still has to be completed with the formation of the State-level Government. This long delay has been hampering Bosnia and Herzegovina's much needed reforms which would allow the country to make further progress towards the EU. The EU accession process requires functional institutions at all levels and an effective coordination mechanism for dealing with the EU, allowing the country to speak with one voice.

As a result, the overall pace of reforms has been very limited. Some results were achieved, notably concerning achievements which led to the country being granted visa-free access to the EU for its citizens in December 2010. In June, the country's leadership agreed to engage with the EU on a Structured Dialogue on Justice under the Stabilisation and Association process, aiming at ensuring an independent, effective, impartial and accountable judicial system.

Compliance with the European Convention on Human Rights is an essential requirement of the Interim Agreement and the Stabilisation and Association Agreement. In this respect, the persistent delay in harmonising the Constitution with a European Court of Human Rights' ruling on ethnic discrimination regarding representation in the institutions of the country remains an issue of serious concern¹⁰. A credible process must be put in place for addressing the ECtHR decision and a State Aid Law adopted at state level. Progress is also needed towards adoption of a state level census law and speeding up reforms to facilitate the country's EU integration process. The adoption of the Global Fiscal Framework is a priority for fiscal sustainability.

Bosnia and Herzegovina's governance continues to involve an international presence with an executive mandate. Regarding the Brčko Final Award, one of the objectives and conditions for the closure of the Office of the High Representative¹¹, progress was made in resolving the electricity issue. Further efforts are needed to meet remaining outstanding objectives, to facilitate the transition from a country with an international system of governance and security towards a country with domestic institutions in full ownership of their political and legislative process- in line with the requirements for a country aspiring to become a member of the EU. Overarching these issues is the need for a stable political environment.

The establishment of the Structured Dialogue on Justice, as well as experience from the reforms that were carried out under the visa liberalisation process show the way forward: by adopting a European approach of dialogue and compromise and focusing on the EU agenda,

¹⁰ Sejdović-Finci vs. Bosnia and Herzegovina case, December 2009.

¹¹ These cover 5 objectives: 1) Acceptable and sustainable resolution of the issue of apportionment of property between State and other levels of government; 2) Acceptable and sustainable resolution of defence property; 3) Completion of the Brčko Final Award; 4) Fiscal sustainability; and 5) Entrenchment of the rule of law (demonstrated by adoption of a National War Crimes Strategy, of a Law on Aliens and Asylum and of a National Justice Sector Reform Strategy), as well as two specific conditions: 1) signing of the Stabilisation and Association Agreement 2) a stable political situation.

the country will be able to gradually move from paralysis and confrontation to cooperation, and from international supervision to its EU future.

The EU has reinforced its role in Bosnia and Herzegovina, with the EU's first single representative in Bosnia and Herzegovina having taken up office. The EU will continue to strengthen its support for the country's institutions in implementing the objectives of the EU agenda, in line with the March 2011 Council conclusions.

Serbia

In parallel to this Communication, the Commission has adopted its Opinion on Serbia's application for EU membership. The conclusions and recommendation of the Opinion are set out in annex to this Communication.

Kosovo

In a period of early parliamentary elections and lengthy elections of a new President by parliament, little progress took place as regards the reform agenda. The elections themselves were marked by serious shortcomings, which need to be addressed. The constitutional court played a positive role through the way it exercised its responsibilities.

The new government has demonstrated commitment to Kosovo's European perspective, including through sustained efforts in areas such as visa and trade and the establishment of a National Council for EU Integration. The new parliament has recently started to pass the relevant legislation for launching key reforms. Much more needs to be done to tackle organised crime and corruption. Public administration is weak and the implementation of judicial reform remains a challenge.

Following the UN General Assembly Resolution of September 2010, an EU facilitated dialogue between Pristina and Belgrade was launched. The dialogue aims at promoting cooperation, achieving progress on the path to the EU and improving the lives of people. It was conducted in a generally constructive spirit until September and has led to agreements on several issues: freedom of movement of goods and persons, civil registry and cadastre. These constructive efforts need to continue and lead to further steps in normalising their relations. Agreements reached need to be implemented in good faith.

The integration of Kosovo Serbs south of the Ibër/Ibar river has improved. Kosovo Serbs took part in the Kosovo census and their participation in the recent general elections increased. On the other hand, in northern Kosovo inter-ethnic tensions and incidents persist. Separate Serb structures, supported by Belgrade, opposed the census and encouraged the boycott of the elections organised by the Kosovo authorities. The Commission urges all concerned in Kosovo to defuse tensions and to fully cooperate with EULEX.

Pursuit of solutions through dialogue, and rejection of unilateral actions and violence, is the only possible basis for moving ahead in Kosovo. The Commission calls on all actors to reject violence and to refrain from taking any measures which threaten stability.

Kosovo shares the European perspective of the Western Balkans. In March, the Commission issued its proposal for a framework agreement allowing Kosovo to participate in EU

programmes, one of the key initiatives announced in the 2009 Kosovo communication.¹² The Commission will continue supporting Kosovo's efforts in reaching the other two key objectives – eventual visa liberalisation and a trade agreement with the EU, as well as other reform efforts enhancing its European perspective. The Commission will review its 2009 Communication to ensure that Kosovo can further benefit from the EU accession process. The Commission proposes to launch a structured dialogue with Kosovo on the rule of law. The Commission also underlines the importance of Kosovo launching a comprehensive agenda for the north.

3.2. Turkey

With its dynamic economy, important regional role and its contribution to EU's foreign policy and energy security, Turkey is a key country for the security and prosperity of the European Union. It is already integrated to a large extent into the EU in terms of trade and foreign investment through the Customs Union. The country has become an important industrial platform for a number of leading European companies, and is therefore a valuable component of Europe's competitiveness. Turkey's high GDP growth, which reached almost 9% in 2010 and is expected to attain 6.1% this year, as well as its membership to the G-20, further increases the economic significance of the country.

Turkey's contribution to the European Union in a number of crucial areas will only be fully effective with an active and credible accession process. This process must respect the EU's commitments and the established conditionality.

It remains essential that Turkey continues its reforms concerning the political accession criteria. The creation of a specific Ministry for EU affairs is an encouraging signal in this regard. While substantial progress has been made over the past ten years, significant further efforts are required to guarantee fundamental rights in practice, in particular freedom of expression, women's rights and freedom of religion. Turkey's recent adoption of legislation on Religious Foundations facilitating the recovery of confiscated property of religious foundations is a significant step forward. The Commission stands ready to further assist Turkey in advancing the necessary reforms, including an inclusive constitutional reform process.

Turkey is further increasing its diplomatic activity following developments across Northern Africa and the Middle East. It also remains a constructive partner in the Western Balkans. As a stable state with democratic institutions, a fast growing economy and a candidate country negotiating its accession to the EU, Turkey can play an important role in projecting stability and supporting reforms in its neighbourhood, which is also the neighbourhood of the European Union. The EU is further developing its political dialogue with Turkey on foreign policy issues of mutual interest. In the present context, it is important that such dialogue further develops as a complement to the accession process and with the aim of increased coordination.

In the light of progress achieved between the leaders of the two communities under the good offices of the UN Secretary-General to find a comprehensive settlement to the Cyprus problem, Turkey is encouraged to increase in concrete terms its commitment and contribution to these talks. A comprehensive settlement is in the interest of all sides since it would enhance

¹² COM (2009) 534 final

stability in the Southeast Mediterranean, offer new economic opportunities and give a strong boost to its EU accession negotiations, which have reached a critical stage.

The Commission is concerned about the recent tensions in relations between Turkey and Cyprus. It recalls that the Council has urged the avoidance of any kind of threat, source of friction or action that could damage good neighbourly relations and the peaceful settlement of disputes. The EU has also stressed all the sovereign rights of EU Member States which include entering into bilateral agreements, in accordance with the EU *acquis* and international law, including the UN Convention on the Law of the Sea. In line with the repeated Council and Commission positions from previous years, the Commission reiterates that it is urgent that Turkey fulfils its obligation of fully implementing the Additional Protocol and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. It also urges the avoidance of any kind of threat, source of friction or action that could damage good neighbourly relations and the peaceful settlement of disputes. The EU will continue to follow up and review progress made on these issues in accordance with the relevant Council decisions.

Turkey needs to step up efforts to solve open bilateral issues, including border disputes, with its neighbours. A substantial number of formal complaints about violations of its territorial waters and airspace by Turkey were made by Greece, including flights over Greek islands.

The Commission will work to launch a new virtuous circle in the accession process with Turkey. Based on a pragmatic approach and incorporating concrete steps in areas of common interest, a joint understanding of constraints and a search for progress in Turkey's alignment with the EU, a fresh and positive agenda should be developed, to enable a more constructive and positive relationship.

This agenda should cover a broad range of areas, including intensified dialogue and cooperation on political reforms, visa, mobility and migration, energy, the fight against terrorism, the further participation of Turkey in Community programmes such as "Europe for citizens", town twinning, as well as trade and the Customs Union with the aims of eliminating ongoing trade irritants, seeking closer coordination in the negotiations on free trade agreements and exploring new avenues to make full use of the EU's and Turkey's joint economic potential. Alongside the accession negotiations, the Commission intends to enhance its cooperation with Turkey, in support of the country's efforts to pursue reforms and align with the *acquis*, including on chapters where accession negotiations cannot be opened for the time being. The Commission will continue informing the Council as soon as it considers that Turkey has met relevant benchmarks.¹³

3.3. Iceland

Iceland continues to recover from the 2008/2009 financial and economic collapse. The political situation has remained stable, though the coalition government has been tested on several occasions and seen its majority in Parliament reduced.

Iceland's accession process continued and screening of the Icelandic legislation is being completed. The country's already high level of integration with the EU across a wide range of policy areas is a considerable advantage in this process. The Commission takes Iceland's

¹³ Examples of this are chapter 20-Enterprise and industrial policy, chapter 21-trans-European networks.

specificities and expectations into account, within the existing approach on accession negotiations and fully safeguarding the principles and *acquis* of the Union. Continued open and constructive work will produce solutions, reflecting the high level of cooperation between the EU and the Icelandic authorities.

On this basis, the accession negotiations on specific negotiating chapters have been launched. Four chapters were opened of which two have been provisionally closed. With an overall good level of alignment in particular in the chapters covered by the European Economic Area (EEA) and Schengen agreements, the negotiations should be able to proceed well. Iceland will still need to address existing obligations, such as those identified by the EFTA Surveillance Authority under the EEA Agreement.

Communication activities promoting an informed debate about Iceland's accession process have started. EU accession remains a controversial issue in Iceland. The Commission will continue to provide support in the field of information and people-to-people contacts.

4. SUPPORTING THE ENLARGEMENT PROCESS

4.1. Financial assistance

The Commission provides financial and technical support to the enlargement countries for their preparation for accession. Assistance is provided essentially under the Instrument for Pre-Accession Assistance (IPA), under which total allocation over the period 2007-2013 is € 11.6 billion¹⁴.

Since 2010 the Commission has been gradually shifting financial assistance from support to individual projects to a more global, sector-wide approach, focusing on key areas of the reform agenda of the beneficiary countries. Governments in the enlargement countries are encouraged to adopt comprehensive and sustainable policies in priority sectors such as justice and home affairs, public administration, private sector development, transport, energy, environment and climate change, social development, agriculture and rural development.

The Multi-Annual Indicative Planning Documents (MIPDs) for the period 2011-2013 identify for each country the key sectors, according to the specific situation in each country and the progress in the accession process. Special attention is devoted to the fight against corruption, development of civil society and freedom of expression. Around 10% of the available IPA funds will be allocated to multi-country projects across the Western Balkans and Turkey. The Commission adopted today its annual revised Multi-annual Indicative Financial Framework for assistance under IPA, covering the period 2012-13.

In line with its Communication of June 2011 on "A budget for Europe 2020"¹⁵, the Commission is now preparing the legal framework for providing pre-accession assistance under the next multi-annual financial framework which will cover the period 2014-2020, as part of a package of instruments in the domain of external action.

Assistance under the current IPA Regulation has proved to be efficient and effective. The proposal for a new financial instrument to be presented in December 2011 will draw

¹⁴ Regulation (EC) No 1085/2006.

¹⁵ COM(2011) 500

experience from the implementation of the current instrument. Building on this, the new instrument will cover both support for meeting the accession criteria and support for socio-economic development.

In dialogue with the beneficiary countries, the other donors and civil society and drawing from the experience to date, the Commission has been reflecting on ways to strengthen the link between financial assistance and the priorities identified in the enlargement strategy, as well as to make financial assistance more strategic, more focussed, more flexible and to simplify procedures. In this context, elements considered include longer term and comprehensive planning of the assistance covering all policy areas, greater focus on the needs and priorities of the recipient countries, rewarding progress in the accession process, using IPA funds to leverage more funds from other donors and the private sector and enhancing the role of civil society.

4.2. Visa liberalisation and mobility

Achieving visa-free travel to the EU is of the highest importance to the citizens of all the enlargement partners and is part of the accession process. However, steps towards liberalisation are subject to the countries concerned meeting conditions that safeguard the internal security and migration policy interests of the EU.

Iceland is already part of the Schengen area. In the Western Balkans, Croatian citizens have always travelled to the EU without visas. Citizens of the former Yugoslav Republic of Macedonia, Montenegro and Serbia were granted visa-free travel to the Schengen Area in December 2009 and the same status was granted one year later to the citizens of Albania and Bosnia and Herzegovina.

The recent decisions to drop the visa requirement for citizens of the Western Balkan countries were based on these countries fulfilling the benchmarks of roadmaps that were set out in the context of Commission-led visa liberalisation dialogues. The dialogues acted as a strong incentive for reforms towards reaching EU-standards in the justice and home affairs areas, notably in strengthening administrative capacity in border management and the security of documents, but also in strengthening the rule of law and combating transnational organised crime, corruption and illegal migration.

However, following the lifting of the visa requirement, some EU Member States witnessed significantly increased numbers of asylum applications by citizens from the countries concerned, in particular Serbia and the former Yugoslav Republic of Macedonia, pointing towards abuse of the visa-free regime. In response, the Commission set up, as of January 2011, a post-visa liberalisation monitoring mechanism under the framework of the Stabilisation and Association Process, engaging with the countries concerned in a dialogue to assess the consistent implementation of the reforms and effective remedial measures. The countries concerned have since strengthened controls on the ground and launched information campaigns to inform the citizens on the rights and obligations of visa free travel. The Commission invites the authorities of the countries concerned to take all the necessary further measures to allow for the visa free regime to function smoothly. The success of such measures will also need to be complemented by increased support and better living conditions for the most vulnerable groups concerned, including the Roma.

In a broader revision of the EU's visa policy, the Commission has presented to the Council a draft amendment to the visa regulation which would allow for a temporary suspension of an existing visa free regime with a third country in case of a sudden influx of persons¹⁶.

Visa liberalisation for Kosovo would complete this process for the Western Balkans. In December 2010, the Council affirmed this perspective once all conditions are met. To address these conditions, Kosovo has adopted a legal framework for readmission and signed bilateral readmission agreements with 13 Schengen area states. It has adopted reintegration plans and continued their implementation. The Commission will therefore launch a visa dialogue with Kosovo towards the end of the year.

The EU and Turkey started to intensify their *cooperation on visa issues*, while the Commission entered into a dialogue with Turkey on *visa, mobility and migration*, in line with the Council conclusions of February 2011. This process started delivering results on both the issuance of visas for Turkish travellers and the tackling of irregular immigration to the EU and will help identify concrete steps required from Turkey in view of a future visa liberalisation. In this context, an important step would be that Turkey take the necessary action for the swift conclusion of the readmission agreement.

4.3. Information and communication

Public support is key to the success of enlargement policy. The authorities of Member States and enlargement countries at national, regional and local level have a central role to play in information and communication efforts to this end.

The Commission is committed to facilitating an informed public debate about the enlargement process, based on user-friendly, factual information provided through all types of media. These need to address as a priority young people and key opinion formers such as journalists and representatives of civil society organisations and business. Parliamentary exchanges can also play an important role in fostering informed debate and mutual understanding of the enlargement process.

In the period ahead, next steps in the accession process with enlargement countries will be under discussion. Tangible results are the best advertisements for the EU's enlargement policy. The successful outcome of negotiations with Croatia can be a powerful example, as is economic resilience in South-East Europe and concrete achievements on key issues such as energy supply or transport networks. It is essential to explain to the public how pursuing the enlargement agenda can help the EU attain its objectives linked to the economic crisis, jobs, the environment and climate change, safety, and migration while at the same time accelerating the reform agenda and improving living conditions in the enlargement countries.

5. CONCLUSIONS AND RECOMMENDATIONS

Based on the above analysis, the Commission puts forward the following **conclusions** and **recommendations**:

1. Enlargement aims to extend the EU's zone of peace, stability, democracy and prosperity. Enlargement benefits the EU as a whole and allows it to be better

¹⁶ COM(2011) 290.

positioned to address global challenges. With the completion of accession negotiations with Croatia in June, the European Union's enlargement process has entered a new phase.

2. The enlargement policy has proven to be a powerful tool for societal transformation. Countries that have already acceded to the EU and those on the road to join have undergone impressive changes through accession-driven democratic and economic reforms. Croatia's development since it embarked on its accession path provides fresh evidence for this **transformative power** of the EU.
3. Through its enlargement policy, based on the renewed consensus approved by the European Council in December 2006, the EU applies a demanding **conditionality** and monitors progress with increased attention. This results in the aspiring states achieving a high level of readiness which will benefit both them and the EU.
4. Experience acquired from the negotiations with Croatia will be put to the benefit of ongoing and future negotiations. To that end, the Commission will propose a new approach with respect to issues related to the judiciary and fundamental rights and to justice, freedom and security. These should be tackled early in the accession process and the corresponding chapters opened accordingly on the basis of action plans, as they require the establishment of convincing track records. The Commission would report regularly, at all stages of the process, on progress achieved in these areas along milestones defined in the action plans with, where appropriate, the necessary corrective measures. IPA funds will be targeted to support this process.
5. A **credible enlargement process**, providing a clear accession perspective based on strict conditionality, is key for enhancing reforms in the enlargement countries and provides the citizens of the enlargement countries with tangible results already along their path towards the EU. Conditionality for advancing towards the EU provides strong incentives to embark on difficult reforms. It is also key in ensuring support for enlargement in the Member States.
6. Croatia's successful European course shows the way to the other enlargement countries. As the first Western Balkan country enters the EU, the region's European future is becoming a reality.
7. Strengthening the **rule of law** remains a major challenge for most enlargement countries and is a crucial condition for moving towards EU membership. The Commission continues to prioritise judiciary and public administration reform, the fight against organised crime and corruption, including through its regular monitoring, structured dialogues, peer reviews, institution building, twinning, and financial assistance.
8. In a number of enlargement countries, there have been negative developments in the area of **freedom of expression**. It is essential that the enlargement countries guarantee open and pluralistic media landscapes, which allow for critical and independent journalism. The Commission will closely monitor developments in this area and further integrate these issues into accession negotiations, notably under the judiciary and fundamental rights chapter.

9. Regional cooperation, underpinning reconciliation and integration into the EU, remains an essential element of the Stabilisation and Association process. While this cooperation has marked further progress in a number of areas, issues mostly stemming from past conflicts continue to have negative effects and to challenge stability in the Western Balkans. It is urgent to address these issues. Achieving in particular inclusiveness in regional cooperation is a pressing priority. This should be possible, irrespective of differences over the status of Kosovo, by all parties adopting a constructive and pragmatic approach.
10. **Bilateral issues** need to be solved by the parties concerned, with determination, in a good neighbourly spirit and taking into account overall EU interests. They should be tackled as early as possible and not hold up the accession process. Blockages linked to bilateral issues can compromise the transformative power of the enlargement process. The Commission urges parties concerned to make every effort towards solving outstanding border disputes in line with established principles and means, including referring issues to the International Court of Justice if appropriate. Good neighbourly relations remain key. The EU stands ready to facilitate the search for solutions and to support related initiatives.
11. Achieving visa-free travel to the EU is of the highest importance to the citizens of all the enlargement partners. **Visa liberalisation**, as part of the accession process, has seen further progress with the lifting of the visa obligation for citizens from Bosnia and Herzegovina and Albania in December 2010, once both countries had met the established conditions. The Commission urges the authorities of Western Balkan countries to take all the necessary measures against abuse of the visa-free travel regime. For its part, the Commission has strengthened the post visa liberalisation monitoring by setting up a dialogue mechanism with the countries concerned, including measures to remedy abuse.
12. Considering Kosovo's progress on readmission and reintegration of returnees and in line with the December 2010 Council conclusions, the Commission will launch a visa dialogue with Kosovo towards the end of the year. With Turkey, the EU has intensified cooperation on visa issues and the Commission has entered into a dialogue with Turkey on visa, mobility and migration and will identify concrete steps required from Turkey in view of a future visa liberalisation. An important step would be that Turkey takes the necessary action for the swift conclusion and entry into force of the readmission agreement.
13. Following the global economic crisis, the enlargement countries have now embarked upon a path of **economic recovery**, though at varying pace. Turkey has emerged from the crisis with a bigger economy and its growth continues to be impressive. However, all enlargement countries are confronted with important challenges. Unemployment remains high and rising in most countries. Fiscal consolidation, structural reform and improvement of the business environment, including through strengthening the rule of law and labour market reform, are major priorities for ensuring the sustainability of the recovery and achieving inclusive growth. In this context, the Commission invites the enlargement countries to use the objectives of **Europe 2020** as a reform anchor.
14. In December 2011, the Commission will present the framework for providing pre-accession **financial assistance** under the 2014-2020 multi-annual financial

framework, based on the positive experience from the current instrument. Drawing from this experience, the Commission will strengthen the link between assistance and the priorities of the enlargement strategy, emphasising socioeconomic development, increasing the flexibility of assistance and simplifying procedures.

15. **Public support** is key to the success of enlargement policy. The authorities of Member States and enlargement countries at national, regional and local level have a central role to play in information and communication efforts to this end. The Commission is committed to facilitating an informed public debate about the enlargement process, based on user-friendly, factual information. The Commission encourages the development of an active civil society as an essential element of democracy, also as a facilitator of an informed debate on EU enlargement.
16. The Commission adopted a favourable Opinion on **Croatia's** accession to the EU, as of 1 July 2013. The completion of the accession negotiations has been made possible by Croatia meeting the remaining closing benchmarks, including in difficult chapters such as judiciary and fundamental rights and competition policy. Croatia needs to continue consolidating its reforms, in line with the commitments undertaken during the accession negotiations. The Commission will closely monitor Croatia's further preparations to assume the responsibilities of membership upon accession. Croatia is expected to continue to support the accession process of the other Western Balkan countries.
17. With its dynamic economy and its important regional role, **Turkey** is a key country for the European Union. This has been highlighted by the current regional and global political and economic developments. Turkey has continued EU-relevant reforms, but significant further efforts are required, including on guaranteeing core fundamental rights. Regrettably, accession negotiations have not moved on for more than one year. The Commission will work for a renewed positive agenda in EU-Turkey relations, one that will continue to support reforms, in particular an inclusive constitutional reform process, and economic integration. This agenda could cover a broad range of areas of common interest including political reforms, foreign policy dialogue, alignment with the EU *acquis*, visas, mobility and migration, energy, the fight against terrorism, trade and participation in EU programmes. The country's contribution to the EU will only be fully effective within a credible and active accession perspective.

The Commission is concerned about the recent tension in relations between Turkey and Cyprus. The Commission recalls that the Council has urged Turkey to refrain from any kind of threat, sources of friction or action, which could negatively affect good neighbourly relations and the peaceful settlement of border disputes. Furthermore, the EU has stressed all the sovereign rights of EU Member States which include entering into bilateral agreements, in accordance with the EU *acquis* and international law, including the UN Convention on the Law of the Sea.

The EU has repeatedly underlined the urgency of Turkey's fulfilment of its obligation of full non-discriminatory implementation of the Additional Protocol to the Association Agreement and progress towards normalisation of bilateral relations with the Republic of Cyprus. This could provide a significant boost to the accession process. The EU will continue to follow up and review progress made on issues covered by the Declaration of 21 September 2005, in accordance with the relevant

Council Conclusions. In the absence of progress, the Commission recommends that the EU maintains its measures from 2006.

18. As regards **the Cyprus issue**, the leaders of the Greek Cypriot and Turkish Cypriot communities have intensified the negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission strongly supports their efforts and provides technical advice on issues within EU competence. The Commission urges both leaders to now make the necessary compromises to bring the negotiations to a successful conclusion and urges all actors involved to focus all efforts and minds on the comprehensive settlement in Cyprus. During the ongoing intensive phase of Cyprus talks, it is essential that all parties concerned exert restraint and do their utmost to ensure a positive climate that will facilitate a successful completion of the process, contributing in concrete terms to a comprehensive settlement.
19. The accession process with **Iceland** is gaining momentum and negotiations on specific *acquis* chapters have been launched. The country's high level of integration with the EU across a wide range of policy areas is proving a considerable advantage. The Commission takes Iceland's specificities and expectations into account, while fully respecting the established approach on accession negotiations and safeguarding the principles and the *acquis* of the Union, as well as the negotiating framework. The Commission will continue to supply the public debate on accession in Iceland with factual information about EU membership.
20. **The former Yugoslav Republic of Macedonia** continues to sufficiently fulfil the political criteria. Some progress has been made on core reforms. The implementation of adopted legislation, as well as guaranteeing the freedom of expression in the media, strengthening independence of the judiciary, reform of public administration, and fighting corruption continue, however, to represent significant challenges.

The Commission reiterates its recommendation that negotiations for accession to the European Union should be opened with the former Yugoslav Republic of Macedonia. The Commission also reiterates its proposal to move to the second stage of association as provided by the Stabilisation and Association Agreement, without further delay.

Maintaining good neighbourly relations, including a negotiated and mutually accepted solution to the name issue, under the auspices of the UN, is essential. Another year should not be lost.
21. **Montenegro** has successfully addressed the key priorities set out in 2010 by the EU as a pre-requisite to opening accession negotiations. The country has consolidated national consensus on European Integration. In view of the progress made, the Commission considers that Montenegro has achieved the necessary degree of compliance with the membership criteria and in particular the Copenhagen political criteria. Yet, maintaining the reform momentum, with particular focus on implementation of legislation and policies in the area of rule of law, remains essential. To that aim, the Commission intends to propose to apply in the case of Montenegro the new approach for the negotiating chapters on judiciary and fundamental rights and justice, freedom and security referred to under point 4 above.

In light of these considerations and taking into account the Council conclusions of December 2010, the Commission recommends that accession negotiations be opened with Montenegro.

22. Over the past year, **Albania's** domestic political scene has been largely dominated by the political stalemate between the ruling majority and opposition and further confrontational developments. It is now urgent that, building on recent encouraging signals, the political forces in Albania re-establish and sustain a level of political dialogue allowing the functioning of key democratic institutions, improving the electoral framework, and the implementation of essential reforms. The Commission encourages the key actors to jointly establish concrete methods for bridging domestic differences in order to realising the country's European perspective.
23. The Commission presented its Opinion on **Serbia's** membership application today. The Commission recommends that the European Council should grant Serbia the status of candidate country, taking into account progress achieved so far and on the understanding that Serbia re-engages in the dialogue with Kosovo and is moving swiftly to the implementation in good faith of agreements reached to date.

Serbia is well on its way towards sufficiently fulfilling the political criteria set by the Copenhagen European Council in 1993 and the conditions of the Stabilisation and Association process, provided that progress continues and that practical solutions are found to the problems with Kosovo.

The Commission therefore recommends that negotiations for accession to the European Union should be opened with Serbia as soon as it achieves further significant progress in meeting the following key priority:

- Further steps to normalise relations with Kosovo in line with the conditions of the Stabilisation and Association Process by: fully respecting the principles of inclusive regional cooperation; fully respecting the provisions of the Energy Community Treaty; finding solutions for telecommunications and mutual acceptance of diplomas; by continuing to implement in good faith all agreements reached; and by cooperating actively with EULEX in order for it to exercise its functions in all parts of Kosovo.

The Commission will present a report on Serbia's implementation of the above key priority as soon as sufficient progress has been achieved.

24. The EU will continue to facilitate the **dialogue between Belgrade and Pristina** to promote cooperation, achieve progress on the path to the EU and improve the lives of people. The dialogue has proved to date a valuable means to address differences between the two parties and has led to several agreements in areas including freedom of movement of goods and persons, civil registry and cadastre.
25. In a year marked by lengthy electoral processes in **Kosovo**, progress achieved with the reform agenda was limited. The President and government have demonstrated commitment to Kosovo's European perspective. This has produced some initial reforms. Major challenges remain concerning organised crime and corruption, as well as the strengthening of public administration. The Commission proposes to

launch a structured dialogue with Kosovo on the rule of law with the aim to address these challenges and support judicial reform.

While the integration of Kosovo Serbs has improved in the South, tensions in northern Kosovo have increased. People in the north also need to benefit from the European perspective. To that end, the Commission underlines the importance of Kosovo launching a comprehensive agenda for the north.

The Commission will continue to support Kosovo's efforts to further fulfil its European perspective, notably as regards visas, a trade agreement, and Kosovo's participation in EU programmes, in line with its 2009 Communication. To this end, the Commission will review its 2009 Communication to ensure that Kosovo can further benefit from the EU accession process. The Commission encourages efforts for overcoming obstacles to the development of relations between the EU and Kosovo caused by differences on Kosovo's status.

26. In **Bosnia and Herzegovina** the political and institutional deadlock has continued, prolonging the blockages in the functioning of the state and in the implementation of EU-related reforms. The formation of a State-level government is an urgent priority to ensure effective state-level governance. To advance towards the EU the country still needs to amend its Constitution in line with a European Court of Human Rights ruling, for eliminating ethnic discrimination regarding representation in state institutions, as well as adopting a Law on State Aid. A Census Law remains to be adopted. The country's engagement on a Structured Dialogue on Justice under the Stabilisation and Association process shows the way ahead, through dialogue and compromise as well as focus on the EU agenda.

Making further progress towards meeting the objectives and conditions which have been set for the closure of the Office of the High Representative remains essential. The appointment of the EU's first single representative in Bosnia and Herzegovina reinforces the EU presence and support to the country on its way from international supervision to its European future, in line with the March 2011 Council conclusions.

27. The EU's enlargement policy has brought about deep **democratic and economic transformations** in countries seeking to join. The past year's record underlines the value of a credible enlargement policy. At the same time, where political will and the commitment to achieve concrete results are insufficient or lacking, the accession process will not advance and risks stalling. Tackling difficult reforms brings stable, better prepared, and more prosperous enlargement countries closer to the EU.

ANNEX 1

Conclusions and Recommendations of the Commission's Opinions on the membership applications by Serbia

In the light of substantial reforms over the last years, Serbia has considerably progressed towards fulfilling the political criteria related to the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, set by the Copenhagen European Council in 1993, as well as the conditions of the Stabilisation and Association Process. Serbia has a comprehensive constitutional, legislative and institutional framework which overall corresponds to European and international standards. Parliament has become far more effective in its legislative activity under the current legislature. The legal and institutional framework for the rule of law is comprehensive, including in the areas of the fight against corruption and organised crime where initial results were achieved. The legal framework for the protection of human rights and minorities is well developed and has started being implemented. Serbia has reached a fully satisfactory level in its cooperation with ICTY and has taken an increasingly active role in fostering reconciliation in the region. Serbia has agreed to and participated in a process of dialogue with Kosovo to facilitate the lives of the people which has led to several agreements (free movement of persons and goods, civil registry and cadastre) and Serbia has taken initial steps for implementation.

As regards the economic criteria, Serbia has taken important steps towards establishing a functioning market economy and achieved a certain degree of macroeconomic stability in spite of the global economic and financial crisis. However, further efforts will be necessary for restructuring the economy and improving the business environment, in particular by strengthening the rule of law and removing red tape, enhancing competition and the role of the private sector as well as tackling rigidities on the labour market. In order to enable it to cope in the medium term with competitive pressure and market forces within the Union, Serbia needs to pursue structural reforms to upgrade the productive capacity of the economy and create a climate conducive to increased foreign investment.

Serbia has built up a positive track record in implementing its obligations under the Stabilisation and Association Agreement and the Interim Agreement.

Serbia would be in a position to take on the obligations of membership in the medium term, in nearly all *acquis* fields, provided that the alignment process continues and that further efforts are made to ensure the implementation and enforcement of legislation. Particular attention needs to be paid to the areas of agriculture and rural development, judiciary and fundamental rights, justice, freedom and security and financial control. Full compliance with the *acquis* in the field of the environment and climate change could be achieved only in the long term and would necessitate increased levels of investment.

Based on preliminary estimates, Serbia's accession would have a limited overall impact on European Union policies and would not affect the Union's capacity to maintain and deepen its own development.

The Commission recommends that the Council should grant Serbia the status of candidate country, taking into account progress achieved so far and on the understanding that Serbia re-engages in the dialogue with Kosovo and is moving swiftly to the implementation in good faith of agreements reached to date.

Serbia is well on its way towards sufficiently fulfilling the political criteria set by the Copenhagen European Council in 1993 and the conditions of the Stabilisation and Association process, provided that progress continues and that practical solutions are found to the problems with Kosovo.

The Commission therefore recommends that negotiations for accession to the European Union should be opened with Serbia as soon as it achieves further significant progress in meeting the following key priority:

- Further steps to normalise relations with Kosovo in line with the conditions of the Stabilisation and Association Process by: fully respecting the principles of inclusive regional cooperation; fully respecting the provisions of the Energy Community Treaty; finding solutions for telecommunications and mutual acceptance of diplomas; by continuing to implement in good faith all agreements reached; and by cooperating actively with EULEX in order for it to exercise its functions in all parts of Kosovo.

The Commission will present a report on Serbia's implementation of the above key priority as soon as sufficient progress has been achieved.

Serbia is encouraged to maintain the momentum of reforms in pursuing the necessary degree of compliance with the membership criteria, with particular attention to the rule of law, and to continue its constructive engagement in regional cooperation and in strengthening bilateral relations with neighbouring countries. Implementation of the Interim Agreement, and from its entry into force, the Stabilisation and Association Agreement, are expected to continue. The Commission will continue to support these efforts through the IPA financial instrument.

ANNEX 2

Conclusions on Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Albania, Bosnia and Herzegovina, Kosovo¹⁷, Turkey and Iceland

Croatia

After Croatia met the remaining closing benchmarks, accession negotiations were concluded in June 2011. Croatia now needs to build on the high degree of alignment achieved and focus on the remaining work before accession. This Progress Report is part of the Commission's monitoring of Croatia's fulfilment of all the commitments taken in the accession negotiations and its continued preparations to assume the responsibilities of membership upon accession.

Croatia continues to meet the **political criteria**. Substantial progress has been made in all areas, including rule of law, and results are becoming tangible. Efforts must continue to consolidate these results.

Democracy and the rule of law have been further strengthened. The *government* and the *parliament* have continued to function effectively. In the area of *public administration* reform, further efforts are needed to consolidate efficient implementation of the legal framework in order to complete building a modern, reliable, de-politicised and citizen-oriented public service.

Croatia has made good progress regarding the *judiciary*. New legislation further strengthened judicial independence and many measures have been taken to improve the efficiency of the judiciary. A new system for appointing judicial officials has been established. Some challenges remain, especially the need to further increase judicial efficiency, and to ensure the practical implementation of new measures relating to independence, impartiality and accountability of the judiciary. Progress has been made with the impartial handling of war crimes trials. The four specialised war crimes chambers have been made exclusively competent for all new cases and their role should be further strengthened for pending cases. The Ministry of Justice adopted a strategy for addressing impunity, especially in cases where the victims were ethnic Serbs or the alleged perpetrators were members of the Croatian security forces.

There has been substantial progress in the *fight against corruption*. Anti-corruption efforts have been accelerated with positive results; legislation has been improved and the relevant authorities strengthened. The track record of effective handling of corruption cases needs to be further developed, especially covering high level corruption, local level corruption and including cases related to public procurement and the judiciary. Further experience is needed on implementing the newly adopted preventive legal framework in practice and the implementing structures remain to be further strengthened.

Human rights continue to be generally well respected and further progress has been made in the areas of **human rights and the protection of minorities**. Croatia has continued to take various measures to raise public awareness and improve protection of human rights. As for *access to justice*, implementation of the Law on Legal Aid has continued to improve, notably by simplifying procedures. With regard to the *prison system*, work on the expansion of

¹⁷ Under UN Security Council Resolution 1244.

existing detention and treatment facilities has continued, but Croatian prisons remain overcrowded. As regards *ill treatment*, the Ombudsman continued to receive complaints regarding excessive use of force by the police which need to be followed up adequately.

Freedom of expression, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. There has been further progress regarding transparency of media ownership, but limited progress with investigating cases, from previous years, of intimidation of journalists working on cases of corruption and organised crime. Few new cases have been reported, however. Economic pressures in particular are hampering the development of investigative reporting. Problems with political interference at local level remain. *Freedom of assembly* requires continued attention in terms of handling of demonstrations.

There has been some progress with regard to *women's rights and gender equality*. However, the position of women on the labour market has not changed significantly and the percentage of unemployed women remains high. There has been limited progress with *children's rights*. The Ombudsperson for Children became more active in cases where violence against children was not being properly addressed by the relevant authorities.

There has been limited progress as regards the inclusion of *socially vulnerable groups and persons with disabilities*. The capacity of the Office of the Ombudsman for Persons with Disabilities is being strengthened. Criteria for establishing entitlements are not equally applied and legislation regulating specific rights is fragmented. The transition from institutional care to community-based care services has progressed slowly. *Labour and trade union rights* are generally respected.

Croatia has begun developing a track record of implementation of the *Anti-Discrimination Law* and legislation on hate crimes. Various awareness-raising measures were taken and the Office of the Human Rights Ombudsman is being reinforced. Law enforcement bodies have started a number of cases under hate crime legislation. However, the track record needs to be developed further and societal homophobic and xenophobic sentiment addressed.

There has been some progress with the *respect for and protection of minorities and cultural rights*. High-level public expressions of commitment to the rights of minorities, reaffirming their place in Croatian society, have continued. Funding has been secured for minority organisations. Police investigations into incidents against minorities have improved. Steps have been taken to improve implementation of the employment provisions of the constitutional act on the rights of national minorities and a plan for minority employment was adopted and now needs to be implemented. However, Croatia needs to continue to foster a spirit of tolerance towards minorities, in particular Croatian Serbs. Cases of discrimination continue, particularly in the public sector at local level. Improvements have been made in education for the Roma minority, particularly in pre-school education. Infrastructure improvements to some Roma settlements have continued. Problems remain with participation by the Roma community in the education system. There is scope for improved take-up by the Roma of measures in their favour. Access to adequate housing, social protection and health care remain problems for Roma and unemployment remains extremely high.

There has been good progress on *refugee return* issues. Refugees continued to return to Croatia. Progress was made with housing issues, in particular by providing accommodation under housing care programmes for returnees. The backlog of appeals against refused housing reconstruction applications has also been reduced. Progress has been made with the

reconstruction of the remaining properties. Implementation of the decision on validating pension rights has continued. However, Croatia needs to make progress in providing accommodation to the estimated 2,500 remaining housing care applicants. Efforts to create the economic and social conditions necessary for sustainable returns of refugees need to be accelerated.

As regards **regional issues and international obligations**, Croatia continues to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). The government's inter agency task force has explored important new avenues in its investigations aimed at locating or determining the fate of missing artillery documents requested by the Office of the ICTY Prosecutor. Croatia has, however, been unable to fully account for the missing military documents. Political leaders should also avoid statements and measures that could call into question the importance of reconciliation and the need to serve justice through the prosecution of war crimes.

Significant progress was made with regard to the *Sarajevo Declaration Process*. Following the meetings in June and September 2011, Bosnia and Herzegovina, Croatia, Montenegro and Serbia, agreed on a number of issues, including on the text of a joint declaration to be signed at a ministerial conference in November 2011 in Belgrade.

In July, the Croatian government adopted and transmitted to parliament for adoption a declaration on promoting European values in Southeast Europe stating a firm commitment from Croatia that bilateral issues, such as border issues, must not obstruct the accession of candidate countries to the EU from the beginning of the accession process until the Accession Treaty comes into effect.

Croatia continued to participate actively in regional initiatives, including the South-East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), and the Central European Free Trade Agreement (CEFTA). Bilateral relations with other enlargement countries and neighbouring EU Member States continue to develop, including with Serbia, but some issues require continued attention, notably regarding cooperation on the investigation and prosecution of war crimes. Relations with *Slovenia* have further improved, with the entry into force of the Border Arbitration Agreement.

The **economy** of Croatia was still in recession in 2010 and the first quarter of 2011 in spite of the recovery in the economies of the EU and other trading partners. There are, however, signs of increasing economic activity since the spring. Unemployment, public deficit and debt continued to increase. The high external indebtedness remains a key vulnerability of the economy.

As regards the **economic criteria**, Croatia is a functioning market economy. Croatia should be able to cope with competitive pressures and market forces within the Union, provided that it implements its comprehensive reform programme with determination in order to reduce structural weaknesses.

Broad political consensus on the fundamentals of a market economy was maintained. Given the existing constraints, macroeconomic policy has, by and large, been appropriate to address the challenges of the recession. The central bank succeeded to preserve exchange rate and financial stability while maintaining an accommodative monetary policy as underlying inflationary pressures stayed low. The banking sector remained resilient to shocks. In the fiscal area, the authorities made efforts to contain the rising deficit by reining in expenditures.

The budgetary framework for achieving fiscal sustainability over the medium term has been improved. The current account deficit continued to narrow as exports expanded while subdued domestic demand kept imports low. Some progress, albeit limited, was achieved on structural reforms within the framework of the Economic Recovery Programme.

However, in overall terms the speed of structural reforms remained slow, not least with respect to privatisation and the restructuring of loss-making enterprises. The investment climate continued to suffer from a heavy regulatory burden, unpredictability of administrative decisions in particular at local level and numerous non-tax fees. Planned reforms of the highly rigid labour market were narrowly circumscribed and the already low employment and participation rates declined further. Social transfer payments, which represent a relatively high share of public budgets, remained not well-targeted. Considering the need to achieve medium-term fiscal sustainability, the budgetary process could be improved further. Enhancing the efficiency of public spending remains a key challenge.

Regarding Croatia's **ability to take on the obligations of membership**, preparations for meeting EU requirements have continued to progress well and there is a high-degree of alignment with EU rules in most sectors. In most areas there has been further progress, including in those chapters where the level of alignment is already high. Additional efforts are needed in certain areas to strengthen the administrative capacity necessary for proper implementation of the *acquis*. Implementation of the Stabilisation and Association Agreement has progressed smoothly.

Good progress has been made in the field of *free movement of goods*. Alignment with the *acquis* in this chapter is well advanced. However, further efforts are necessary, particularly on the remaining revisions of the horizontal legislation and on the New and Old Approach product legislation in order to bring national legislation fully into line with the *acquis*.

Continued progress has been made in the field of *freedom of movement for workers* and preparations to apply the *acquis* are on track. Continued attention must be paid to strengthening administrative capacity with regard to the coordination of social security systems.

Further progress has been made in the field of *right of establishment and freedom to provide services* where, in general, alignment with the *acquis* is satisfactory. Continued work on mutual recognition of professional qualifications and on transposition and implementation of the Services Directive in order to achieve complete alignment is needed as well as further strengthening of the administrative capacity of the postal services regulator.

Further progress has been made in the field of *free movement of capital* as regards the *acquis* on payment services, liberalisation of capital movements and anti-money-laundering. Legislative alignment is almost completed.

Progress has continued in the field of *public procurement*. Alignment with the *acquis* is on track and nearing completion. Special attention should be paid to aligning the secondary legislation with the new public procurement law, and to strengthening the institutions in this sector through continuous training and professional development of their staff.

Progress can be reported in the field of *company law*. Alignment with the *acquis* is well on track. Further progress has been achieved in the field of *intellectual property law* and

alignment with the *acquis* has reached a very high level. Public awareness of intellectual property rights remains to be further strengthened.

Substantial progress has been achieved in *competition policy*, in particular by the approval of restructuring plans for the shipyards. However, none of the privatisation contracts has been signed. A high level of legislative alignment has been achieved. Further efforts are required to continue developing the Croatian Competition Agency's enforcement record against cartels following the entering into force of the new Competition Act.

Good progress has been made in *financial services*, both on aligning legislation and on strengthening administrative capacity. Alignment is at a high level.

Croatia has made good progress on *information society and media* and has achieved a high level of alignment with the *acquis*. Further efforts are needed to sustain liberalisation of all segments of electronic communications markets and to promote the independence of the public service broadcaster.

Good progress can be reported in *agriculture and rural development*, in particular on the establishment and implementation of the paying agency and of the integrated administration and control system and on the common market organisation. Overall, preparations are on track. Croatia needs to sustain considerable efforts in all these areas in order to have fully operational and compliant systems in place. Continued efforts are also necessary on alignment of the agricultural support system with the *acquis*. Croatia needs to increase its absorption capacity for rural development funds without delay.

Good progress can be reported in the fields of *food safety, veterinary and phytosanitary policy*, in particular on transposition of EU legislation and adoption of implementing legislation. Transposition of legislation is reaching completion in several sectors. Croatia needs to maintain its efforts on upgrading and monitoring establishments, setting up border inspection posts, monitoring the animal by-products sector and strengthening its administrative and control capacity.

Croatia continued to make good progress in aligning with the *acquis* in the field of *fisheries*. Overall preparations are well advanced. Croatia needs to continue its efforts regarding implementation of legislation, in particular with regard to fleet management, inspection and control and structural policy.

Further progress has been achieved and the level of alignment in the field of *transport policy* is good. Additional efforts are needed, in particular to continue work on the second phase of the European Common Aviation Area Agreement, to complete alignment of the aviation legislation and to ensure full functioning of the railway safety authority and of the vessel traffic monitoring information system.

Some progress has been made in the field of *energy*, where the level of alignment is high. Further efforts are needed, in particular on opening the electricity and gas markets and meeting the EU's targets for renewable energy sources and energy efficiency. Administrative procedures related to renewable energy projects need to be simplified and administrative capacity strengthened.

Some progress was made in the field of *taxation*. Croatia's level of legislative alignment is very high, but some further efforts are needed, most notably in the field of VAT and excise duties. Croatia should continue working on preparations for IT interconnectivity.

There has been some progress in the area of *economic and monetary policy* and alignment with the *acquis* in this area is complete. Continued efforts to improve economic policy coordination would be beneficial.

Good progress has been made in the area of *statistics*. A good level of alignment has been achieved. Efforts need to continue in order to align Croatian statistics fully with the EU requirements.

Some progress has been made in the area of *social policy and employment*. There is a good level of alignment with the *acquis*. However, some gaps remain in alignment of the legislation, notably on transposing labour law directives outside the scope of the Labour Act, and in the fields of anti-discrimination and gender equality. Due attention should be paid to addressing structural weaknesses on the labour market, as well as to the functioning of social dialogue and capacity-building of social partners. Administrative capacity requires continuous strengthening across all areas.

Croatia made some progress in the field of *enterprise and industrial policy*. Alignment with the *acquis* in this chapter is very advanced. Further sustained efforts need to focus on improving the business environment, by reducing the administrative burden, and on innovation and skills. Alignment of the definition of SMEs with the *acquis* needs to be completed. Efforts to restructure the shipbuilding industry need to be further pursued.

Croatia has made further progress in the field of *trans European networks*, where alignment with the *acquis* has been completed.

Good progress was made in the field of *regional policy and coordination of structural instruments*. Croatia is at an advanced stage of preparations for implementation of the cohesion policy in all areas. Further sustained efforts need to focus on increasing Croatia's administrative capacity for future implementation of cohesion policy and on developing a mature project pipeline.

Croatia has made substantial progress on *judiciary and fundamental rights*. Reform of the judiciary has continued with the adoption of new legislation further strengthening judicial independence and a further reduction of the case backlog. Judicial reform requires constant attention, especially concerning judicial efficiency and the practical implementation of new measures relating to independence, impartiality and accountability of the judiciary. Croatia has continued to improve the handling of domestic war crimes cases. The issue of impunity needs to be thoroughly addressed. Anti-corruption efforts have been accelerated with positive results, in particular as regards improved legislation and the strengthening of the relevant authorities. The track record of effective handling of corruption cases needs to be further developed, especially in relation to high level corruption, local level corruption, and including cases related to public procurement and the judiciary. Further experience is needed with implementing the newly adopted preventive legal framework in practice. Protection of fundamental rights has been strengthened, but it needs to be further improved in practice, especially for minorities and refugees.

Good progress can be reported in the field of *justice, freedom and security*, where the overall level of alignment with the *acquis* is advanced. On asylum, the legal framework was strengthened. Attention needs to be paid to improving the integration of persons granted protection in Croatia, and to the protection of irregular minors migrants. Alignment with the EU *acquis* on visas needs to continue. Progress has been made as regards external borders. Strengthening of the Border Police has continued with regard to staffing and equipment. Croatia needs to focus on the timely implementation of the revised Integrated Border Management Action Plan. Progress has been made in the field of judicial cooperation in civil and criminal matters. Good progress can also be reported in the fight against organised crime and against drugs.

Progress in the field of *science and research* has continued, the level of alignment is high, but efforts remain necessary with respect to the level of investment in research and to quality researchers and their rights. Preparations for the Innovation Union should be duly considered.

Good progress has been made in the areas of *education, training, youth and culture*. There is a good level of alignment with the *acquis*. Croatia has been fully participating in the Lifelong Learning and Youth in Action programmes since January 2011. Vocational education and training and adult education require continuous attention.

There has been progress in the area of *environment*. Overall, Croatia's preparations are nearing completion with regard to both alignment and implementation of legislation, in particular in the areas of water quality and chemicals. Implementation of the horizontal *acquis*, and in particular effective public participation and access to justice in environmental matters, need to be improved. Significant efforts are still required to further strengthen administrative capacity, especially as regards nature protection and climate change. Regarding *climate change*, significant further efforts are still necessary to complete the legislative alignment and to ensure implementation, in particular in the areas of aviation, free allocation, registries and auctioning.

There has been some progress in the area of *consumer and health protection*. Alignment with the *acquis* and preparations in the area of consumer protection are well advanced. Sustained efforts are necessary in order to address the remaining outstanding issues in the area of public health.

Croatia continued to make good progress in the field of *customs union*. Legislative alignment in this field is very high and further alignment was achieved during the period. Croatia has continued to reinforce its administrative and operational capacity by upgrading its equipment for physical checks and improving its risk analysis capability. Preparations are also well advanced in the area of IT interconnectivity and should proceed. Efforts are needed to reinforce administrative capacity in the areas of internal controls, post-clearance and risk management.

Croatia continued to make progress in the field of *external relations*, where it has reached an advanced level of alignment and is continuing to coordinate and align its positions with those of the EU in international organisations. However, Croatia should step up its efforts to bring its international agreements into line with the EU *acquis* and to continue strengthening its administrative capacity in the areas of development policy and humanitarian aid.

Croatia has made further progress in *foreign, security and defence policy*. It has continued to participate in several EU CSDP missions. Croatia has reached a high level of alignment in this

area. Croatia needs to continue strengthening enforcement of arms control, including the transparency of arms-related information.

Croatia has made further progress in the field of *financial control*, where it has reached an advanced level of alignment. Continuous efforts are needed in order to improve overall public internal financial control and external audit in Croatia at central and local levels.

Good progress can be reported in the field of *financial and budgetary provisions*. The administrative infrastructure and procedures for managing the own resources system upon accession are largely in place.

The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia continues to sufficiently meet the **political criteria**. The country has continued accession-related reforms, though core challenges remain. The parliamentary elections in June were generally in line with international standards. The new governing coalition was formed swiftly. Some progress has been made in the fields of the judiciary and public administration, notably as regards the legal framework. Further efforts are needed to ensure effective implementation, in particular concerning freedom of expression in the media, judicial and administrative reform and fighting corruption. Dialogue between the government and the opposition needs to be strengthened in order to ensure the smooth functioning of institutions.

The Ohrid Framework Agreement (OFA), which has reached its tenth anniversary, continues to be an essential element for democracy and rule of law in the country. There has been some progress on implementing the Law on languages, on decentralisation and on equitable representation. Continued efforts are needed to address ongoing challenges such as education and to ensure harmonious relations between all communities.

There has been an improvement in the conduct of elections which were competitive and well-administered throughout the country. The government needs to address the gaps and implement fully the conclusions and recommendations of the OSCE/ODIHR election observation mission. The resources of the parliament need to be increased to allow it to fulfil its role. The boycott by the opposition hampered the functioning of parliament from January until the elections. Following the elections the opposition is present in the new parliament. Some progress has been made on the reform of parliament. Implementation of the Law on languages and the rules of procedure has moved forward. Political dialogue needs to be further strengthened.

The government coalition has overcome difficulties and strengthened its internal cooperation. The new government has given fresh impetus to the EU reform process. As regards local government, the financial framework for local service delivery needs to be more transparent and equitable.

There was progress as regards the framework for public administration with the creation of a Ministry responsible for public administration reform. E-government services have advanced to improve services to citizens. However, there was limited progress on overall implementation of the reforms. Significant further efforts are needed, notably as regards recruitment policy and respect for the principles of transparency, professionalism and independence of the civil service. The amendments to the Law on general administrative

procedures do not ensure effective provision of administrative services and protection of citizens.

A wide-ranging legal package was adopted to strengthen the efficiency of the judiciary, parts of which will enter into force between 2012 and 2015. A High Administrative Court has been created, filling a gap in the judicial system. The voting rights of the Minister of Justice in the Judicial Council have been abolished in order to strengthen independence of the judiciary. Further steps are needed to improve independence and professionalism in practice, in particular through recruitment practices. Implementation of previous reforms needs to be strengthened.

Further amendments were made to the legal framework for anti-corruption policy. GRECO recommendations were addressed and systematic verification of asset declarations has begun. A track record on handling high-level corruption cases has yet to be established and verification of conflict of interest declarations needs to be systematised. Transparency of public expenditure and of the funding of political parties remains insufficient. Corruption remains prevalent in many areas and continues to be a serious problem.

The legal and institutional framework for **human rights and the protection of minorities** is broadly in place. *Civil and political rights* are respected in general and limited further progress was made. Certain prisons were renovated but the country has yet to develop an effective national strategy for the prison system. Deficiencies with regard to combating impunity within the law enforcement agencies remain. A dialogue has begun regarding serious concerns about lack of freedom of expression in the media. Editors and journalists reported increasing political pressure and intimidation. The closure, on charges of tax evasion, of a major television channel and three newspapers which are critical of the government has raised concerns about the proportionality and selectivity of the procedure, reducing the diversity of the media landscape. In this context, journalists and editorial policies are easily influenced, resulting in widespread self-censorship. The public broadcaster is failing to play its statutory role.

Economic and social rights are broadly in place, and some further progress was made. New criteria for representative participation of social partners were applied. The National Council for Prevention of Juvenile Delinquency and the Commission for Protection against Discrimination have come into operation. The Law on anti-discrimination remains to be fully aligned with the *acquis*, notably as regards discrimination on grounds of sexual orientation. The capacity of the Anti-discrimination Commission needs to be strengthened.

Some progress was achieved in the area of *cultural rights and minorities*. The 10th anniversary of the Ohrid Framework Agreement provided a good opportunity for enhanced dialogue between the communities in the country. The President of the Republic and the Prime Minister both participated in events marking this milestone. In parliament, implementation of the Law on languages moved forward. Representation of the ethnic Albanian community in the civil service is in line with its proportion of the population and the representation of the Roma and Turkish communities increased. Integration of the Roma in the education system improved, with increased enrolment in secondary and university education. Continued efforts are necessary to foster trust, especially in the areas of education, culture and language. Roma continue to face very difficult living conditions and discrimination.

Regarding **regional issues and international obligations**, the country maintained full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). In July the Parliament adopted an Authentic Interpretation of the Amnesty Law which stated that the amnesty should cover the suspects of all cases that will not be processed by the ICTY. As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the EU Common Positions and guiding principles. The country needs to align with the EU position.

The country has continued to participate actively in regional cooperation initiatives, including the South-East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Area (CEFTA).

The former Yugoslav Republic of Macedonia is an active partner in the region and continued to develop relations with neighbouring and other enlargement countries. Relations with Greece continued to be adversely affected by the unresolved name issue. The country remains engaged in talks, under the auspices of the UN as well as through direct meetings of the prime ministers, in order to resolve it. Actions and statements which could negatively impact on good neighbourly relations should be avoided. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

The former Yugoslav Republic of Macedonia has improved its **ability to assume the obligations of membership**. It made some progress on fulfilling the priorities of the Accession Partnership. However, the country continues to face major shortcomings in implementing and effectively enforcing legislation. Adequate human and financial resources for full implementation of the *acquis* are lacking.

The **economy** of the former Yugoslav Republic of Macedonia started to recover in the second half of 2010, benefitting from external demand and increased investment, in particular in construction. In late 2010, the government agreed with the IMF on a pre-cautionary credit line. This should strengthen international markets confidence. Structural reforms have continued. However, high structural unemployment, in particular among the young and poorly educated, remains a major cause of concern. Institutional capacities of the public administration and of regulatory and supervisory agencies are still inadequate.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia continues to be well advanced. In some areas, it has made further progress towards becoming a functioning market economy, notably by facilitating company registration, accelerating judiciary procedures, improving the functioning of financial markets, further simplifying the regulatory framework and improving communication with the business community. The country should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it vigorously implements its reform programme in order to reduce significant structural weaknesses.

The country has maintained a broad consensus on the essentials of economic policies. The economic dialogue with the business community has improved. The stance of monetary policy, based on the de facto peg to the euro, supported growth and contributed to macro-economic stability. Fiscal policy maintained its stability orientation. Some further progress has been achieved in facilitating market entry and in simplifying the regulatory framework. The duration of bankruptcy procedures has been further reduced and real estate registration is practically completed. The financial sector started to recover from the global financial crisis.

Competition in this sector has slightly improved, as well as the level of financial intermediation

Weaknesses in the rule of law continue to impede the proper functioning of the market economy. Public administration efficiency is still low, reflecting heavy procedures, weaknesses in staffing and a high turnover of officials. Some regulatory and supervisory agencies continue to lack the necessary independence and resource allocation to fulfil their functions effectively. Contract enforcement is still difficult, which hampers the business environment, in particular for small and medium sized enterprises. The quality of education and of the human capital is low. Physical capital needs further modernisation and deepening. The quality of fiscal governance has remained low, partly due to a strong short-term orientation of public spending. As a result, progress with reducing the very high structural unemployment has remained very limited. Public sector debt has increased, reflecting continued fiscal deficits and increased external lending. The informal sector remains an important challenge.

There has been some progress in the area of *free movement of goods*. The budget for the implementation of the comprehensive strategy on the horizontal institutions has increased however the framework legislation is still not fully aligned with the horizontal *acquis*. There was little progress in the area of *freedom of movement for workers* and alignment with the *acquis* is still at an early stage. In the area of the *right of establishment and freedom to provide services* the country is on track, particularly in the area of postal services. The level of coordination among the various bodies responsible for authorising cross-border services has also improved. On mutual recognition of professional qualifications, the country is at an early stage. Progress on *free movement of capital* was focused on enforcement in the area of combating money laundering and financing of terrorism. There are restrictions on short-term portfolio investments and on cross-border payment transfers, pending the passage to the second stage of the Stabilisation and Association Agreement.

There has been progress in the area of *public procurement*. Procurement procedures are more transparent and enforcement was stepped up. The legislation on concessions and Public Private Partnerships remains to be aligned with the *acquis*. Administrative capacity in the field of remedies and concessions, as well as at the level of contracting authorities, remains weak.

Good progress was made in the area of *Company law*, especially on further legislative alignment with the *acquis*. The legal framework in the area of auditing remains only partially aligned. Some progress was made in enhancing the legal framework for *intellectual property*. The track record on investigation, prosecution and judicial handling of piracy and counterfeiting is not satisfactory and the level of awareness of intellectual property rights among the public remains low.

Some progress was made in the area of *competition*. The enforcement record has quantitatively improved in the field of mergers and State aid, but remains weak in the field of cartels. The quality of the decisions in the area of State aid needs to be further improved. The Commission for Protection of Competition does not have adequate budgetary resources and staff in the area of anti-trust and mergers.

There was overall good progress in the area of *financial services*. Risk based supervision is gradually applied. New legislation has been introduced regulating financial services such as leasing and non-banking financial companies.

Progress was made in the field of *information society and media*. Alignment with the EU *acquis* is advancing and most of the key competitive safeguards were introduced. The capacity of the Broadcasting Council to monitor the market effectively remains inadequate.

Further progress was achieved in the field of *agriculture and rural development*. Key support policies for agricultural and rural development are gradually being aligned with EU requirements. Alignment with the *acquis* requires continuing sustained efforts. Administrative capacity remains a concern throughout the sector. There was good progress in the area of *food safety, veterinary and phytosanitary policy*, in particular with respect to the adoption of new framework legislation. Administrative capacity of the Food and Veterinary Agency remains however insufficient to ensure proper implementation of the *acquis*.

In the area of *transport policy*, progress was noted in particular regarding use of tachographs. Remaining challenges are related in particular to the still insufficient administrative capacity of the regulatory and safety transport authorities. The safety certification procedures need to be introduced.

Good progress was made in the *energy sector*, in particular the enactment of the new framework legislation and the resolution of the long-standing dispute with the distribution system operator, a major EU investor. An effectively functioning electricity market has yet to be established, and conditions for competition ensured. The financial independence of the radiation protection regulator is still not secured.

Limited progress can be reported in the field of harmonisation of *taxation legislation* with the *acquis*. Operational capacity for the administration of taxes continued to improve. Effective means to combat tax fraud have yet to be introduced and a code of conduct for business taxation is not yet in place.

There was significant progress in the area of *economic and monetary policy*, especially in adoption of the relevant central bank legislation. The quality of the pre-accession economic programme has improved. There was good progress in several areas of *statistics*; substantial efforts are still needed to improve in particular economic statistics.

Limited progress was noted in aligning with the *acquis* on *social policy and employment*. The implementation of the framework law on anti-discrimination has commenced. Full alignment with the *acquis* remains to be achieved. The high unemployment rate and the low labour market participation remain worrying. Inclusion of Roma, people with disabilities and other socially excluded people is slow. Effective employment and social inclusion policies are should be further implemented, and the social dialogue should be further strengthened. The overall administrative capacity is not sufficient.

Progress was good but uneven in the field of *enterprise and industrial policy*. There have been some achievements in simplification of the legislation and administrative procedures for business operation and reduction of business costs. Enterprise support measures remain scattered within several programmes.

In the area of *trans-European networks* further progress was made. The country continues developing its transport, energy and telecommunications networks and participates actively in the South East Europe Transport Observatory and the Energy Community. The implementation of corridor X remains delayed as additional time was needed to establish the financial framework.

Some progress was noted in the area of *regional development and coordination of structural funds*. There has been some progress in the implementation of the IPA components concerning operational programme for the regional development and human resources development. Inadequate expertise and insufficient institutional coordination has led to considerable delays. It is necessary to strengthen ownership of the programme implementation by the authorities.

Some limited progress can be reported on independence and efficiency of *the judiciary*, including the amendment of the Minister of Justice's role on the Judicial Council and the establishment of the High Administrative Court. Further efforts are needed as regards the evaluation and security of tenure of judges. Some limited progress was made on *anti-corruption policy*. Legislative alignment has continued and systematic verification of asset declarations was introduced. A track record in handling high level corruption cases has yet to be established. As regards *fundamental rights*, while the legal and institutional framework is broadly in place, better implementation is needed. A dialogue has been launched to address serious concerns regarding freedom of expression in the media. Some progress was made as regards cultural rights and minorities. The Ohrid Framework Agreement remains an essential element for democracy and rule of law in the country.

In the area of *justice, freedom and security*, good progress can be reported on external borders and Schengen, judicial cooperation and customs cooperation. The border police still lack adequate technical equipment, budgetary means. Some progress has been achieved on migration, visa policy, police cooperation and the fight against organised crime. The implementation of the police reform has continued, however structural problems, understaffing and lack of budgetary provision still persist. Implementation in the field of asylum remains insufficient, including on the provision of legal aid, interpretation and access to social rights.

Concerning European standards on *science and research* progress was noted. The national strategy for 2011 – 2020 was adopted. The participation rate in the Seventh EU Framework Research Programme has further increased. The administrative capacity to support participation in the framework programmes is weak. Some progress can be reported concerning European standards in the areas of *education, training, youth and culture*. The country improved its performance in relation to the Education and Training 2020 common benchmarks. The Lifelong Learning and Youth in Action programmes remained suspended. Increasing interaction between the ethnic communities in education remains a challenge.

Some progress can be reported in the field of the *environment*, especially as regards transposing the EU *acquis* into national legislation and in ratifying multilateral environmental agreements. Significant efforts to implement the national legislation are required especially in the areas of water management and industrial pollution control. Regarding *climate change*, little progress has been made on aligning with and implementing the EU climate change *acquis*. Further efforts are required to strengthen institutional capacities and inter-institutional cooperation. There was some progress in the area of *consumer and health protection*. Efforts are still hampered by the limited financial resources and weak operational structures.

Good progress was made in the area of *customs union*, both on customs legislation and on administrative and operational capacity.

Progress was made in the area of *external relations*, notably in the alignment towards the common commercial policy.

There was also progress in the area of *foreign, security and defence policy*. The country took measures to ensure better coordination between the competent authorities in the implementation of international restrictive measures. It aligned with all EU declarations and Council decisions and showed continued commitment to participate in civil and military and crisis management operations.

Progress in the area of *financial control* was related mainly to legislative alignment, and efforts are called for to ensure its implementation, especially in relation to the establishment of Financial Management and Control systems. The State Audit Office's administrative capacity has been further strengthened; however its independence remains to be anchored in the Constitution. There is no particular progress to report under *financial and budgetary provisions*. Overall there are no significant divergences between the systems in the country and the EU in terms of basic principles and institutions for the underlying policy areas that might affect the correct application of the rules on own resources. The administrative framework for the application of the own resources framework is still not in place.

Montenegro

Montenegro has made good progress in meeting the **political criteria** for membership of the EU, achieving overall satisfactory results, in particular in addressing the key priorities identified in the Commission Opinion released in 2010¹⁸. The legislative and institutional framework has been improved with a view to strengthening the work of the parliament, the electoral framework, the professionalism and de-politicisation of public administration, the independence and accountability of the judiciary, anti-corruption policy, media freedom and cooperation with the civil society. Montenegro has stepped up efforts to develop its track record in combating corruption and organised crime. Steps have been made to improve the implementation of anti-discrimination policies and to guarantee the legal status of displaced persons and ensure that the respect of their rights. Yet, vulnerable groups still face discrimination in practice. Montenegro continued to play its constructive role in the region and to implement smoothly the Stabilisation and Association Agreement.

As regards **democracy and rule of law**, legislation on minority rights and freedoms and on elections was harmonised with the Constitution.

The legislative and institutional framework for *elections*, an Opinion key priority, has been considerably enhanced, in line with the main recommendations made by OSCE/ODIHR and Venice Commission. The new election bill implements the constitutional commitment to authentic representation of minorities by introducing affirmative action for representation in parliamentary elections for all minorities. It also improves administration and strengthens the transparency of the election process. Progress has been made in strengthening *parliament's* legislative and oversight role, also an Opinion key priority, through enhanced support to parliamentary committees, better planning of parliamentary work and closer oversight, particularly in the areas of defence and security. Parliament's overall capacity and means to scrutinise draft legislation against the EU *acquis* remain to be improved. Further efforts are needed to consolidate parliament's oversight role and to enhance its administrative capacity.

¹⁸ The key priorities concern the following areas: legislative framework for elections and Parliament's legislative and oversight role; public administration reform; judicial reform; fight against corruption; fight against organised crime; media freedom and cooperation with civil society; implementation of the anti-discrimination framework and the situation of displaced persons. For the full text of the key priorities, please see COM (2010) 670.

The EU integration process is given high priority by the new *government*. Coordination of Government work and policy-making have further improved, particularly the quality of consultations with civil society. Government work on the action plan on addressing the key priorities set out in the Commission Opinion has been systematic and efficient. The capacity of ministries to ensure consistency and monitor the effective implementation of laws has improved to a certain extent, but remains to be further developed. The administrative capacity involved in European integration coordination, including on financial assistance, needs to be substantially strengthened. Legislative amendments with a view to establishing a transparent, efficient and accountable administration at local level are still pending.

Montenegro has taken important steps to address the main challenges posed by the *public administration reform*, which is a key priority identified in the Opinion. The Government has adopted and started to implement a public administration reform strategy aimed at introducing European standards on recruitment and promotion and enhancing efficiency. An improved legal framework in the area of civil service and state administration aiming at efficiency, de-politicisation and merit-based recruitment has been adopted. Legislation regulating administrative procedures has been amended and a further comprehensive reform has been launched. The Human Resources Management Authority has been strengthened. Preparations for implementation of the adopted legislation have to be stepped up and focus on ensuring in practice the de-politicisation, professionalism, effectiveness and impartiality of the administration, including through merit-based recruitment and promotion. The implementation of this strategy needs to take due account of the need to rationalise administrative structures and strengthen administrative capacity, notably in areas related to European integration, while ensuring the financial sustainability of public administration. The capacity of the Ombudsman office and the State Audit Institution is to be further enhanced.

As regards the *judicial system*, Montenegro has made progress in reinforcing the independence, autonomy, efficiency and accountability of judges and prosecutors, which is one of the key priorities set out in the Opinion. The legal framework has been improved at sub-constitutional level regarding the independence of the judiciary and the autonomy of public prosecution, and the process of constitutional reform has advanced. Provisions on the accountability of judges and prosecutors have been strengthened. Significant efforts will be needed in the period ahead to ensure completion of the legal reform and effective implementation of the newly adopted legislation, including through convincing results on corruption and organised crime cases at all levels. A country-wide single recruitment system based on anonymous tests for first-time judicial appointments remains to be established. Systematic training for all judges and prosecutors, in particular on new legislation and EU law, has yet to be put in place. Efforts to reduce the case backlog before courts have been stepped up, but the methodology used needs to become more consistent. The lack of adequate infrastructure and equipment continues to hinder judicial efficiency. Full publicity of court rulings needs to be ensured.

In the field of *anti-corruption policy*, progress has been made in the implementation of the government's anti-corruption strategy and action plan, which is one of the key priorities set out in the Opinion. The strategic and legislative framework on anti-corruption has been strengthened in the key areas of political party financing, conflict of interest, incriminations, protection of whistleblowers and public procurement. Risk analysis in vulnerable areas has been completed with a view to further refining prevention policies. Technical and administrative capacity for preventing and combating corruption has been upgraded, and several investigations of corruption cases have been carried out. Steps have been made to establish a solid track record of proactive investigations, prosecutions and convictions in

corruption cases at all efforts, which is part of the Opinion key priority on anti-corruption. Yet, efforts need to be stepped up to further develop it. The number of final convictions, in particular for high-level corruption cases, remains low. Use of special investigative measures continues to be impeded by the lack of adequate equipment and specialised human resources. Inter-agency coordination and, in particular, cooperation between prosecutors and the police need to be further improved. Implementation of the legislative framework is uneven. The newly enacted provisions in the areas of conflict of interest and political party financing need to be implemented with determination. There continues to be a need for stronger monitoring of corruption and conflicts of interest in the judiciary. Corruption remains prevalent in many areas and continues to be a serious problem.

Respect of **human rights and protection of minorities** in Montenegro is broadly ensured. Efforts were made to further improve the relevant legal and institutional framework. Effective implementation of existing legislation and strengthening of administrative capacities need to be ensured.

As regards *promotion and enforcement of human rights*, limited progress has been made. The authority and influence of the Protector of Human Rights and Freedoms (Ombudsman) Office have been considerably enhanced: the new Law on the Ombudsman, establishing the latter as the national mechanism for protection against torture and discrimination, was adopted in July. However, the Ombudsman's Office continues to face shortcomings regarding its financial and administrative capacity to carry out its tasks efficiently. Some limited progress has been made as regards *ill-treatment and fight against impunity*. Relevant staff have undergone further training. Occasional cases of violence continue to be reported, in particular in police stations. Processing of reported cases is still slow. As regards the *prison system*, the legal and regulatory framework for the establishment of a system for alternative sanctions and implementation of criminal sanctions has been developed. Prison conditions still need to be further aligned with international standards, in particular as regards provision of medical treatment and family rooms. The issue of effective implementation of sanctions also needs to be addressed.

Progress was made in the area of *freedom of expression*, one of the key priorities set out in the Opinion. Defamation and libel were fully decriminalised. The Supreme Court adopted guidelines sent to the national Courts regulating the level of pecuniary compensation in defamation cases against the media, in line with European standards and the case law of the European Court of Human Rights. However, previous cases of violence and current threats against journalists have still not been properly investigated and prosecuted.

Freedom of assembly and association is broadly respected. Very good progress has been made in the cooperation of State institutions with *civil society* organisations, one of the key priorities set out in the Opinion. The Law on NGOs was adopted in July. The highest State authorities have maintained regular contacts with NGOs and overall open and constructive cooperation with relevant stakeholders. Efforts have also been undertaken to improve cooperation with civil society at local level.

Montenegro made progress as regards *anti-discrimination* policies, which is one of the key priorities set out in the Opinion. The Law on the Ombudsman was passed in July; the Ombudsman has now responsibility over cases of anti-discrimination. An advisor on anti-discrimination was appointed in September in the Prime Minister's office. Roma, Ashkali and Egyptians, persons with disabilities as well as lesbian, gay, bisexual and transgender (LGBT) persons continue to face discrimination, including by public entities. Effective

implementation of the anti-discrimination law needs to be demonstrated by enhancing the capacity of the Ombudsman Office and of law enforcement bodies to properly process discrimination cases. Progress has been made with regard to the enforcement of rights of *persons with disabilities*. The Law on anti-discrimination against persons with disabilities and the Law on Professional rehabilitation and employment of persons with disabilities have been adopted. Inclusive education activities have been launched and some efforts have been made to promote their employment. However, the legal framework presents shortcomings, notably regarding positive action and sanctions mechanisms, and these persons continue to face discrimination notably as regards employment and access to public places. Conditions in the Komanski Most remain a cause of concern. Some progress has been made with regard to the promotion of the respect of *women's rights*, but the enforcement of these rights, in particular as regards protection of victims of domestic violence, remains limited. Access of women to decision-making positions needs to be improved.

Limited progress has been made as regards *property rights*. The process of restitution continues to be very slow and needs to be accelerated. Due to several cases of forgery of property documents, measures have been taken to strengthen control over the cadastre offices. The Parliament adopted in July amendments to the law on state survey and immovable property cadastre; yet, functioning of the cadastre system remains to be further improved, in particular as regards the completeness and accuracy of data, and its national coverage.

Interethnic relations have remained stable in Montenegro. Efforts have been made to improve minority political representation, amending the Law on minority rights to harmonize it with the Constitution. Progress in the economic, social and political inclusion of *Roma, Ashkali and Egyptian* persons is still rather limited, despite the continuing efforts of the authorities at national and local levels. Limited progress has been achieved in terms of improving the situation of *displaced persons*, one of the key priorities set out in the Opinion. Despite efforts by the authorities to provide these persons with legal status, the cumbersome procedures mean that only a small number of persons have so far obtained legal resident status.

Regarding **regional issues and international obligations**, Montenegro continues to satisfy the conditionality of the Stabilisation and Association Process on cooperation with the ICTY and regional cooperation. Montenegro pursued its active participation in regional cooperation initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). In 2010-2011, it held the chairmanship of the Central European Initiative (CEI), the South-East European Cooperation Process (SEECP) and the Adriatic-Ionian Initiative (AII). The country continues to be strongly committed to regional cooperation and to playing a constructive regional role. Outstanding bilateral issues remain to be resolved.

Significant progress was made in relation to the *Sarajevo Declaration Process*. Following the meetings of June and September 2011, Bosnia and Herzegovina, Croatia, Montenegro and Serbia agreed on a number of issues, including on the text of a joint declaration to be signed at a ministerial conference in November 2011 in Belgrade.

As regards the International Criminal Court, the 2003 bilateral immunity agreement with the United States does not comply with the EU Common Positions and guiding principles. Montenegro needs to align with the EU position.

The **economy** of Montenegro started to recover in 2010 from the effects of the crisis which challenged the country's economic policy framework. The absence of standard monetary

policy tools¹⁹ left fiscal policy with the difficult mission of striking a balance between restoring growth and proceeding with consolidation. Nevertheless, the country managed to improve overall macroeconomic stability and the quality of public finances, and kept up the pace of reforms. The recovery process of the Montenegrin economy is still fragile. The competitiveness of the economy remains limited with low diversification across the sectors. Shortcomings remain concerning the rule of law, public administration, human resources and infrastructure.

As regards the **economic criteria**, Montenegro has made further progress towards a functioning market economy as a result of progress in stabilising the banking sector and maintaining a relatively prudent fiscal stance, thus reinforcing macroeconomic stability. Montenegro should be able to cope with competitive pressures and market forces within the Union in the medium-term, provided that it addresses existing structural weaknesses through the implementation of its reform programme.

The recovery of export-oriented industries stimulated economic growth and, together with subdued domestic demand and positive developments in tourism, contributed to a reduction of the still high external imbalances. The economic policy remained consistent and some structural reforms advanced. The reform of public pensions is a step towards a higher quality and sustainability of public finances. Market entry and exit mechanisms, contract enforcement as well as business and property registration procedures were further improved. Financial legislation was developed with a view to improving the resilience of the sector.

However, the financial intermediation role of banks remained subdued as banks pursued the consolidation of their balance sheets. The very high share of non-performing loans remains a serious concern for financial stability. Businesses continue to be confronted with tight and expensive credit conditions. Unemployment is high. Budget financing needs led to the expansion of public debt while contingent liabilities from state guarantees and budget arrears increased significantly. The privatisation process suffered from the negative global environment. Besides tourism and exports of commodities, economic activity remains concentrated on non-tradable sectors. The informal sector remains an important challenge. Persisting weaknesses in the rule of law negatively affect the investment and business environment.

Montenegro has made good progress in improving its ability **to assume the obligations of membership**, in particular in the areas of public procurement, company law, statistics, financial services, judiciary and fundamental rights, science and research, education, youth and culture. Progress has been limited in other areas such as free movement of workers, freedom to provide services, agriculture, environment, regional policy and coordination of structural funds. Overall, Montenegro continued to smoothly implement the obligations under the Stabilisation and Association Agreement (SAA). However, some gaps remain as regards State aids and transit traffic, where further efforts towards alignment are needed.

In the field of *free movement of goods*, there has been some progress in standardisation, accreditation, metrology and market surveillance. Alignment of the horizontal legal framework with the *acquis* is not very advanced, and transposition of the product specific *acquis* has not yet fully started. There was little progress in the area of *freedom of movement of workers*, mainly in the field of coordination of the social security systems. Alignment of the

¹⁹ Montenegro unilaterally uses the euro as the sole legal tender.

legislative framework with the *acquis* is still in the early stages. Little progress has been made in the area of the *right of establishment and freedom to provide services*, in particular in relation to the issuance of construction permits. Full independence of the Agency for Electronic Communications and Postal Services is not ensured. Efforts to align with the EU Services Directive need to be strengthened. There was some progress in the area of *free movement of capital*, more particularly on combating money laundering, action to counter financing of terrorism and cooperation between the financial supervisory authorities and enforcement agencies. Administrative and supervisory capacities remain weak. Good progress can be reported in the area of *public procurement*. Administrative capacity has been strengthened and transparency of the procedures has improved. The overall institutional set-up for public procurement raises some concerns. Montenegro has made good progress in the field of *company law*. There were advances in the alignment of the legislation on business organisation, accounting and auditing and takeover bids with the *acquis*.

Some progress was made in the area of *intellectual property law*, in particular regarding alignment of the legislation with the *acquis* in the fields of Copyrights and Related Rights, trademarks and protection of industrial designs. Additional strengthening of administrative capacity is vital for further progress in this area.

In the field of *competition policy*, some progress was made in aligning national legislation with the *acquis*. Yet, challenges remain on the administrative capacity of the Competition Protection Administration and the State aid bodies. Furthermore, the alignment of the legal framework on State aid control to EU rules has not been completed. The lack of full respect of the State aid commitments under the Stabilisation and Association Agreement remains a cause for concern. The operational independence of the State aid authority needs to be further guaranteed. As regards the metal industry, authorities need to ensure full transparency on the amount of State aid provided to the aluminium and steel companies. Decisions about the ownership of the steel company which was declared bankrupt need to be taken without delay.

Montenegro made uneven progress in the field of *financial services*, particularly in banking. Cooperation between the three regulatory institutions has been strengthened. Legislative alignment in the areas of insurance, financial infrastructure, securities markets and investment services is still at an early stage, and the situation of the occupational pension funds needs to be addressed.

As regards *information society and media*, there has been further progress in terms of legislative alignment. In the area of electronic communications and information society, independence of the regulatory authority improved but remains endangered. Efforts remain to be made to implement the legislation fully and to introduce competitive safeguards ensuring level playing field for all operators. In the area of audiovisual policy, the Agency for Electronic media has been strengthened, but its capacity to monitor the market effectively remains inadequate.

There has been some progress in the area of *agriculture and rural development*. A basis for accurate agricultural statistics is being established. Progress on policy development and on using the available financial assistance in the field of rural development has been fairly limited.

Some progress was made in the area of *food safety, veterinary and phytosanitary policy*, on strengthening capacity in the field of food safety and alignment with the *acquis* in the field of phytosanitary and veterinary policy. Some progress was made in the area of *fisheries*, mainly

with regard to upgrading administrative capacity, enhancing inspection and monitoring of marine fishery resources and in collecting data in a more systematic manner. Management and inspection capacity of the fisheries administration remain weak.

Some progress was made in the field of *transport policy* in terms of aligning with the *acquis*, particularly in the areas of road and air transport. Further efforts are to be made in order to fully align the transport *acquis*, in particular with the third railway package. Decisions to abolish discriminatory road charges towards EU vehicles have been adopted. Yet, they need to be fully implemented. Montenegro has made some progress in the field of *energy*, in particular in the field of renewable energy. A new strategy on energy policy until 2030 was adopted. Further efforts should be made towards adopting legislation concerning oil stocks and setting up a regulatory environment that would foster the increased use of renewable energy sources in all the sectors. Administrative capacity is still limited.

Montenegro made some progress in the field of *taxation*, principally through the development of a computerised registration and collection system. Administrative capacities in the field of information technologies (IT) and effectiveness of the data systems in the fields of administrative cooperation and internal control remain weak.

Further progress was made in the field of *economic and monetary policy*, consisting mainly of an improvement of the legal framework, with the adoption of detailed provisions on reserve requirements, on the credit registry and on the withdrawal, replacement and destruction of worn out banknotes and coins.

Good progress was made in the area of *statistics*. Montenegro successfully carried out the population and housing census in April 2011 and published the first complete results in July. Yet, further considerable efforts are needed to address identified weaknesses and to improve statistical infrastructure in view of reaching a satisfactory level of alignment with the *acquis* in statistics.

Little progress has been made with regard to alignment with the *acquis* in the area of *social policy and employment*, in particular in the area of health and safety at work, social inclusion and social protection. Some progress has been made on social dialogue. Efforts have been made in the area of anti-discrimination, particularly through the adoption of Law on the Ombudsman and awareness raising activities. Both the capacity of the Public Employment service and active labour market measures remain weak when it comes to addressing low activity and employment rates, and the mismatch between needs and the skills available. Overall, the situation of public finance negatively affects reforms in the social area.

There has been some progress in the field of *enterprise and industrial policy*, particularly as regards policy development in favour of SMEs. However, efforts to develop industrial policy and policy in strategically important manufacturing sectors need to be intensified.

There has been little progress in the area of *trans-European networks*. Regarding TEN-T infrastructures, further work remains to be done on improving road and rail links. Progress regarding the TEN-E network was mainly linked to the improvement of electricity interconnection lines.

Little progress has been made in the field of *regional policy and coordination of structural instruments*, mainly towards the establishment of relevant implementation structures for IPA components III and IV. These structures need to be completed as a matter of urgency.

Appropriate administrative capacity needs to be developed, notably in areas such as strategic planning, project development, project management and financial management and control.

In the area of *judiciary and fundamental rights*, Montenegro has made some progress, in particular in addressing the relevant key priorities set out in the Commission Opinion. Further sustained efforts will be needed to align with the *acquis* in this chapter, in particular to implement and enforce it effectively in the medium term. The track record in combating serious crime, notably high-level corruption, has to be further developed. As regards fundamental rights, although some progress has been made in reinforcing the legal and institutional framework, the existing legal guarantees need to be fully enforced and administrative capacities strengthened.

As regards *justice, freedom and security*, good progress has been achieved on strengthening judicial cooperation, particularly in criminal matters. Some progress has been made in the field of migration and asylum. Progress has been also made in the area of border management. A new strategy was adopted for fighting terrorism. Progress has been made on addressing challenges in the fight against organised crime, in particular in the form of closer international and regional cooperation. The number of related investigations and arrests, notably in the area of drugs trafficking, increased slightly. Financial investigations in two major cases led to the temporary seizure of assets of significant amount. Yet, the overall number of financial investigations and confiscations of criminal assets remains low. Intelligence-led policing and inter-agency cooperation need to be improved. Investigation and prosecution mechanisms have to be strengthened, in particular in the areas of trafficking in human beings and money laundering. Amendments to the laws on internal affairs and on preventing money laundering are still pending. Visa policy requires further alignment. Further efforts are needed to ensure proper reception conditions for asylum-seekers and irregular migrants.

Good progress was made in the area of *research and innovation*. The institutional and legislative framework for scientific research activities has been strengthened and several measures have been taken to improve the mobility of researchers. Preparations for the Innovation Union need to be duly considered.

Some progress can be reported in the areas of *education and culture* in particular in aligning with the *acquis*. Further efforts are still necessary to ensure inclusive education for vulnerable groups and children with special needs.

Montenegro has made little progress with alignment and implementation of the *acquis* in the field of *environment and climate change*. Progress is mainly a result of the adoption of implementing legislation in waste management and nature areas and the ratification of international environmental agreements. The administrative capacity of the Environmental Protection Agency (EPA) has improved, but still needs considerable strengthening in particular in the field of inspections. Montenegro needs to speed up its strategic planning in all sectors, integrate more systematically environment in other sectors to find sustainable funding for implementation. The capacity of the administration for environment and climate change at local and national level requires strengthening responsible.

In the field of *consumer and health protection*, Montenegro is making progress towards alignment with the EU consumer policy and the EU health strategy. However, further efforts are required to align national legislation with the *acquis* and build up administrative capacity. Support for consumer organisations and awareness-raising activities remains low.

Some progress has been achieved in the area of *Customs Union*, especially in aligning the combined nomenclature and abolishing customs fees that are not in line with the *acquis* and SAA obligations. Further efforts remain necessary in areas such as management of quotas, security-related provisions and alignment with the EU Customs Code.

Some progress has been made in the area of *external relations*. Strengthening of institutional and administrative capacity is needed as regards commercial, development and humanitarian policies. Montenegro has continued to make progress regarding *foreign, security and defence policy*. In particular, it has continued to make a strong contribution to regional stability.

Montenegro has made progress in the field of *financial control*, in particular in the fields of internal and external audit. However, the country's implementation capacities in fields related to financial management and control still need strengthening in order to implement the legislation fully and effectively. In the field of *financial and budgetary provisions*, there are no major differences between the systems in Montenegro and the EU in terms of the basic principles and institutions in the policy areas underlying the application of the own resources rules, however, the administrative framework for the application of the own resources rules is not yet in place.

Albania

Albania's domestic political scene has been dominated by the continuation of the political stalemate and the partial boycott of Parliament by the opposition. This political deadlock dates back to the June 2009 general elections. The outcome of these elections, which were considered by OSCE/ODIHR to meet most international standards although marked by shortcomings, was contested by the Socialist Party. The violent incidents of 21 January 2011, which led to the death of four demonstrators, exacerbated the climate of mistrust between the two larger political parties and also towards certain State institutions. The local elections of 8 May, as a result of the controversial vote count of misplaced ballots and contested results in Tirana, further accentuated the polarization between ruling majority and opposition. All these events diverted political attention away from much needed EU policy reforms.

Against this background, the government made some efforts to move ahead with the EU integration agenda and in particular to prepare an action plan to address the recommendations of the Commission's 2010 Opinion. These efforts were mirrored by good cooperation between the ruling majority and the opposition on the Action Plan in the parliamentary committee for European integration and joint work to achieve agreement on necessary reforms. The efforts, also to launch working groups on electoral reform, eventually stalled. On 5 September, the opposition ended its boycott and returned to parliamentary work.

Overall, Albania has made limited progress in fulfilling the **political criteria** for membership of the EU. Important EU-related reforms have been hampered by the political stalemate. Progress in addressing the key priorities²⁰ and the other challenges identified in the Opinion has been uneven. There has been some progress on implementing measures to combat

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The key priorities concern the following areas: the proper functioning of parliament; adopting reinforced majority laws; appointment procedures and appointments for key institutions; electoral reform; the conduct of elections; public administration reform; rule of law and judicial reform; fighting corruption; fighting organised crime; addressing property issues; reinforcing human rights and implementing anti-discrimination policies; improving the treatment of detainees and applying recommendations of the Ombudsman. For the full text of the key priorities, please see COM(2010) 680.

organised crime, on improving the treatment of detained persons in prisons, and on children's rights. However, there was only limited progress regarding the work of parliament, elections, the judiciary, anti-corruption policy, property rights and improving the living conditions of the Roma community. Albania will need to make considerable and sustained efforts on all areas identified in last year's Opinion.

As regards **democracy and rule of law**, the continuation of the political stalemate, further confrontational developments and increasing mistrust between majority and opposition have negatively impacted on Albania's reform agenda. Key reform areas are still work in progress and important pieces of legislation are awaiting adoption or finalisation.

Despite some improvements in parliamentary rules and practice and some increase of the parliament's administrative capacities, the performance of the *Parliament* on legislative and oversight functions, a key priority of the Opinion, remains insufficient. The political stalemate has seriously hampered parliamentary work, as well as the need for sustained and constructive political dialogue. It has also prevented the establishment of a consensus enabling the implementation of relevant EU reforms. The opposition's partial boycott has obstructed parliamentary business, including hampering the adoption of laws requiring a three-fifths majority. The end of the opposition's boycott and their return to parliamentary work on 5 September is a positive step towards the normalisation of political dialogue and cooperation. An inclusive political environment conducive to cross-party consensus needs to be fostered in Parliament. The climate of polarization and mistrust between the government and the opposition affected the local elections of 8 May. There are areas where international standards were met, in the conduct of these elections, a key priority of the Opinion, and areas where this was not the case. Electoral reform, which is a key priority of the Opinion, has stalled. Parliament has not yet ensured an orderly hearing and voting procedure for constitutional and high court appointments, a key priority of the Opinion.

Efforts have been made by the *government* and by the parliamentary committee for European integration to advance and coordinate reforms on EU integration including to develop and conduct consultations on an action plan to address the recommendations in the Commission's Opinion, and in particular the 12 key priorities. The quality of legislative drafting and consultation with third parties need to be significantly improved. The decentralisation reform process was adversely affected by the difficult relationship between central and local government.

Essential steps in *public administration* reform, which is a key priority of the Opinion, including amendments to the civil service law, have not been completed. Despite some reform measures such as the Council of Ministers' decision on the structure and organisation of public bodies of June 2011, adoption of essential legislation is still pending and contingent on overcoming fully and in a sustained way the political stalemate as it requires adoption by three-fifths majority vote in Parliament. Implementation of existing laws and administrative acts remains weak. The Department of Public Administration (DOPA) still lacks sufficient authority in the institutional context to fully assume its role. Establishing an independent, merit-based and professional civil service free from political interference has still to be achieved. Appointment of the Ombudsman is still pending.

As regards the *judiciary*, limited progress has been made in completing judicial reform, which is a key priority of the Opinion. The judicial reform strategy and its action plan were adopted in July. They form a good basis for reform efforts. Implementation will require the allocation of adequate human and financial resources as well as sound inter-institutional cooperation.

Important legislation requiring adoption by a three-fifths majority vote in Parliament such as the Law on Administrative Courts is pending adoption. The efficiency of the judicial system is undermined by lengthy court proceedings leading to backlogs. Budgetary appropriations for the judiciary remain generally insufficient. The rate of enforcement of decisions is still weak. No concrete steps have been taken to combat corruption in the judiciary, including through limiting or abolishing the immunity of judges.

Limited progress was made in the field of *anti-corruption* policy, which is a key priority of the Opinion. The legal framework and inter-agency structures are mostly in place, but implementation of specific actions remains overall ineffective and results are insufficient. Public awareness campaigns are only starting. The immunity of certain public officials, the absence of a proactive approach and lack of resources and equipment continue to seriously obstruct effective investigation. A track record of investigations, prosecutions and convictions is lacking at all levels. Corruption prevails in many areas and continues to be a particularly serious problem.

Albania has further enhanced the legal and institutional framework for ***human rights and the protection of minorities***. There has been progress in certain key priority areas, such as strengthening the protection of children's rights through the adoption of a comprehensive law and improvements in the conditions of detained persons in prison and the development of alternatives to detention. Progress in the field of human rights has nonetheless been uneven and renewed concerns have emerged in certain areas, such as freedom of media, where editorial independence continues to be hampered by political and business interests. Effective implementation and enforcement of legislative and policy tools governing human rights and protection of minorities needs to be substantially reinforced.

Property rights remain an issue of great concern. There has been little progress towards the adoption and implementation of a coherent property reform strategy and action plan. This is a key priority of the Opinion. The fragmentation of responsibilities and lack of coordination between the various institutions involved hampers effective policy implementation and creates legal insecurity and a systemic risk of corruption.

There has been partial progress on addressing the key priority which calls for reinforcing the protection of human rights, notably for women, children and Roma, and the effective implementation of *anti-discrimination* policies. There have been developments in this area, including the adoption of the new National strategy on gender equality and the fight against domestic violence; the start of implementation of the Law on Protection from Discrimination. Some important legislative gaps remain, in particular with regard to *persons with disabilities*, and Albania needs to ensure the consistent implementation of existing legislative and policy tools. General awareness of anti-discrimination legislation and the complaints mechanism needs to be increased. Concerns remain over continued discrimination against certain vulnerable groups, such as lesbian gay bisexual and transgender persons and Roma. The *Roma* community continues to be marginalised and lacks access to social protection and services.

Some progress has been made towards addressing the key priority on improving the treatment of *detainees* and application of the recommendations of the Ombudsman in this field. Measures have been taken to improve the conditions of detention and to systematise the follow-up of the Ombudsman's recommendations. However, cases of *ill-treatment* are still being reported, notably during arrest and police custody. The treatment of mentally ill

offenders still needs to be improved. The lack of a permanent appropriate solution for the placement of those under obligatory treatment remains a serious concern.

Regarding **regional issues and international obligations**, Albania has continued to contribute to regional stability by fostering positive relations with neighbours and regional partners. It now has a visa-free regime in place with all Western Balkan countries. The country has continued to participate actively in regional cooperation initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA).

As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the EU Common Positions and guiding principles. The country needs to align with the EU position.

The **economy** of Albania maintained macroeconomic stability and positive growth during and in the aftermath of the global crisis. However, the political stalemate hampered the capacity of the government to implement necessary structural reforms. The economy grew by 3.8% in 2010, thanks to exports, while domestic demand was muted. Monetary policy has successfully assisted in keeping inflation stable, also against heightened international commodity prices. Shortcomings regarding the enforceability of contracts and the rule of law, together with weak infrastructure and human capital and the informal economy continue to hinder economic development.

As regards the **economic criteria**, Albania made some progress towards becoming a functioning market economy by reducing the fiscal and external deficits and keeping inflation expectations anchored thereby reinforcing macroeconomic stability. Albania should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it steps-up structural reforms, including by reinforcing the legal system and strengthening physical and human capital.

Despite a more polarised political landscape, a broad agreement on the key essentials of a market economy was maintained. The Albanian economy continued to grow, albeit at a slower pace and notwithstanding the weak economic conditions in important trading partners. Monetary policy remained sound, maintaining price stability while inflation stayed within the target range. The current account deficit and the fiscal imbalance declined in 2010. State involvement in the economy is low and subsidies remain limited. The banking sector remains well-capitalised and liquid. Some progress was made to further facilitate market entry. The EU continues to be Albania's main trade and investment partner.

However, a lasting reduction of the relatively high public debt has not been achieved. Further narrowing of the external imbalances may prove challenging especially if the decline in workers' remittances persists. Labour market performance deteriorated in 2010, while unemployment remains high. Implementation of bankruptcy procedures remains incomplete, while the weak rule of law hampers the enforceability of contracts and the business environment in general. The issue of property rights remains unaddressed. The high level of non-performing loans in the banking system continues to be an issue of concern. Investment in human capital and infrastructure remain inadequate. The informal sector remains a challenge. The concentration of the production in terms of sectors and export markets leaves the economy vulnerable to external shocks.

Albania has made some progress in improving its **ability to assume the obligations of membership**, in particular in the areas of free movement of goods, enterprise and industrial policy, justice, freedom and security, external relations and financial control. Progress has been limited in other areas such as free movement of workers, public procurement, intellectual property law, information society and media as well as energy, environment and air transport. Overall, sustained efforts are needed to strengthen administrative capacity for the implementation and enforcement of legislation. Additional efforts are required to ensure the timely implementation of commitments under the Stabilisation and Association Agreement.

In the area of *free movement of goods* there has been good progress in standardisation. An adequate market surveillance structure needs to be established. In the area of *freedom of movement of workers*, there was little progress and preparations are at an early stage. There was some progress in the area of *right of establishment and freedom to provide services*, mainly in the area of postal services. There was some progress in the area of *free movement of capital* as regards the legislative framework on payment systems and combating money laundering. Further efforts are required to effectively implement the national strategy to combat money laundering and financial crime.

Little progress was made in the area of *public procurement*. Institutional capacity remains weak and there is a lack of a clear definition and distribution of competencies in all public procurement institutions. Preparations in this field are moderately advanced. There was some progress in the area of *company law*. However, the capacity of the National Accounting Council and the operational independence of the Public Oversight Board remain weak. There was limited progress in the area of *intellectual property law*, and preparations are not very advanced. Effective enforcement of intellectual and industrial property rights remains poor. Albania has not succeeded in meeting on-time its SAA obligation of guaranteeing a level of protection similar to that in the EU, including as regards enforcement. There was moderate progress in the area of *competition*, in the fields of both antitrust and State aid. However, the responsible authorities lack the appropriate administrative capacity. The operational independence of the State Aid Commission must be safeguarded. Preparations in this area are on track.

There was some progress in the area of *financial services*. The regulatory framework on risk management and capital adequacy improved. Supervisory capacity in the non-banking sector remains weak.

There has been uneven progress in the field of *information society and media*. Alignment with the *acquis* and market liberalisation on electronic communications are improving. However, media legislation is not yet aligned with the Audiovisual Media Services Directive and the capacity of the radio and television regulatory authority remains weak. Preparations in this field are not very advanced.

Some progress was made in the area of *agriculture and rural development*. Progress in setting up the structures for the implementation of rural development was made. However, the capacities to carry out analyses, as well as to design and implement rural development policies remain weak. There has been some progress, albeit uneven, in the area of *food safety, veterinary and phytosanitary policy*. The operational capacity of the National Food Authority was significantly enhanced and there were improvements in the legislative framework on food safety and veterinary issues. Overall capacity and inter-service cooperation and definition of competencies remain weak. There was some progress in the field of *fisheries*, particularly as

regards inspection and control. Enforcement of the regulatory framework remains poor due to lack of physical and financial resources and poor inter-institutional cooperation.

There was some progress, albeit uneven, in the area of *transport policy*. Although alignment advanced in the areas of road transport and air traffic management, air safety remains a concern. The rail and maritime transport sectors require further efforts. There has been limited progress on *energy*. Security of supply improved slightly, but market reform in the electricity sector has not yet been effectively achieved and ensuring its economic viability will require further efforts. The capacities and institutional independence of the electricity, gas, and radiation protection regulatory authorities need strengthening. Preparations in this field are advancing slowly.

Although some progress was made in aligning *taxation* legislation with the *acquis*, and preparations are advancing, further efforts are required in the administrative and technical capacity, including in the area of tax fraud and avoidance. There is no progress to report in the area of *economic and monetary policy*. Progress was made in the field of *statistics*, particularly as regards classifications and statistical infrastructure. Progress as regards sector statistics was uneven.

Progress in the area of *social policy and employment* has been uneven. Although there were some positive developments in the fields of health and safety at work, social dialogue, and social protection, high levels of informality and inactivity continue in the labour market. Overall implementation of policies also remains insufficient, particularly as far as social inclusion is concerned. Preparations in this field are not very advanced.

There has been progress in the field of *enterprise and industrial policy*, particularly as regards improving the regulatory framework for business and on access to finance to SMEs. Institutions have been established to facilitate innovation and technological development. Preparations in this field are advancing.

Some progress was made in the area of *trans-European networks*. Completion of road corridors advanced and a new electricity interconnection became operational.

There has been limited progress in the area of *regional policy and coordination of structural funds*. Considerable efforts are needed to establish the necessary institutional and administrative capacity and to develop a mature pipeline of projects in the area of regional development. Preparations in this area are still at an early stage.

As regards *judiciary and fundamental rights*, there are still some important gaps despite some efforts to develop legislation in line with European standards. Furthermore, the implementation of legislative and policy tools remains insufficient overall and presents a major challenge. Albania's alignment with European standards and the *acquis* in the field of judiciary and fundamental rights is at an early stage.

Albania has made progress in the area of *justice, freedom and security*. Visa-free travel to the Schengen area entered into force in December 2010 for citizens holding biometric passports. Progress has been made on fighting organised crime, notably through good international cooperation and implementation of the 'anti-mafia' law including confiscation of criminal assets. Nevertheless, organised crime remains a challenge. Efforts need to be maintained for the effective implementation of the legislative framework and in strengthening the fight against organised crime, which is a key priority of the Commission's Opinion. This includes

the building up of a credible track record of proactive investigations, prosecutions and, where appropriate, convictions. Measures to increase the expertise and empowerment of investigators and the cooperation of law enforcement agencies should be actively pursued. The fight against drug trafficking, money laundering, trafficking in human beings and protection of its victims must be intensified and conducted systematically, and the legal framework for the confiscation of criminal assets systematically enforced.

There is progress to report as regards the capacity to implement the *acquis* in the area of *science and research*. Administrative capacity relating to participation in the 7th EU Research Framework Programme improved, although national research capacity remains low. Some progress was made in the areas of *education and culture*, in particular as regards Vocational and Educational Training.

There was little overall progress as regards legislative alignment in the field of *environment*. Overall implementation and enforcement of legislation remains weak. Strengthening administrative capacity and inter-institutional cooperation require further efforts. Regarding *climate change*, Albania has made no progress overall and institutional capacities remain very weak.

Some progress has been made in the area of *consumer and health protection*. There was also progress in consumer protection regulation and enforcement. The legislative framework improved overall. As regards public health, advances were made in legislation on health care insurance and there were positive developments in the fields of communicable diseases and mental health. However, inequalities on access to primary health care remain.

In the area of *customs union* there was some progress on legislative alignment and preparations in this field are advancing. However, the use of reference prices in customs valuation remains high by EU standards and further efforts are required as regards simplified procedures and trade facilitation. Enforcement capacity and management of human resources remain weak.

Some progress was made in the area of *external relations*, in particular as regards the common commercial policy. Strengthening the institutional and administrative capacity is needed. There has been progress in the area of *foreign, security and defence policy*. The country aligned with most EU declarations and common positions, and continued to participate in CSDP operations.

There was progress as regards *financial control*. The primary legal framework for Public Internal Financial Control and centralised budget inspection improved. Administrative capacity in the field of internal control requires strengthening. Preparations in the area of protection of EU's financial interests are at an early stage.

In the field of *financial and budgetary provisions*, the basic principles and institutions for the underlying policy areas affecting the own resources system are in place. The administrative framework for the application of the own resources rules is not yet in place.

Bosnia and Herzegovina

Bosnia and Herzegovina has made limited progress in addressing the **political criteria**.

In the areas of **democracy and the rule of law**, one year after the general elections held on 3 October 2010, the process of establishing executive and legislative authorities remains to be

completed with the establishment of a State-level Government. This long delay has hampered Bosnia and Herzegovina's progress on much needed reforms.

The lack of a credible process for the harmonisation of the *Constitution* with the European Convention on Human Rights remains an issue of serious concern. The first inter-institutional Working Group which was set up to implement the European Court of Human Rights (ECtHR) decision in the Sejdić-Finci²¹ case failed to reach an agreement. The establishment of a new Working Group, as recommended by the Council of Ministers, is outstanding.

The RS National Assembly (RSNA) adopted Conclusions and a decision on holding a referendum challenging the State level judiciary institutions. Following the EU facilitation, the RSNA repealed the decision on the referendum and amended the Conclusions on 1 June. Within the established framework of the Stabilisation and Association Process, Bosnia and Herzegovina has engaged with the EU in a Structured Dialogue on Justice.

The administrative capacity of the *Parliament* improved but lack of coordination between the State and Entity parliaments and political discord between the Entities has continued to hamper the work of the Parliamentary Assembly. The functioning of *government* institutions, at different levels, continued to be affected by fragmented, uncoordinated policy-making. The three Presidency members improved efforts at joint policy formulation and implementation but foreign policy coordination remained subject to disagreements on some issues. An effective coordination mechanism between the State and the Entities remains to be established on EU matters including on programming of financial assistance under the Instrument for Pre-Accession Assistance (IPA).

Limited progress has been made in the area of *public administration reform*. Implementation of the public administration reform strategy is continuing. However, coordination between the various administrations remains weak and the public administration reform process lacks the necessary political support. Sustained efforts remain necessary to prevent political interference. A State-level Ombudsman is in place but staffing and financial constraints hamper its effectiveness. The establishment of a professional, accountable, transparent and efficient civil service based on merit and competence remains an issue to be addressed.

Bosnia and Herzegovina has made limited progress in improving the *judicial system*. An EU-Bosnia and Herzegovina Structured Dialogue on Justice, aiming at ensuring an independent, effective, impartial and accountable judicial system, was launched. Implementation of the Justice Sector Reform Strategy and the War Crimes Strategy needs to be stepped up. Measures were taken to reduce the backlog of cases, particularly of utility bills cases, but the overall backlog remains high. The fragmented legal framework across all jurisdictions places significant legislative and financial burdens on the judiciary. The lack of streamlined budgetary responsibilities continues to affect the independence and effectiveness of the judiciary. The frequent political attacks on the judiciary and the backlog of cases remain causes for serious concern.

Bosnia and Herzegovina has achieved very limited progress in tackling *corruption*, which remains a serious problem and is prevalent in many areas throughout the public and private sector. Implementation of the anti-corruption strategy and action plan remains weak. The

²¹ The Sejdić-Finci vs. Bosnia and Herzegovina case, December 2009, regarding ethnic discrimination for representation in the institutions of the country for persons not belonging to one of the three Constituent Peoples.

Anti-Corruption Authority is not yet fully operational. The judicial follow-up of corruption cases remained slow and only a limited number of high-level cases led to prosecution. Insufficient implementation of legislation and problems of coordination between entities remain issues of concern. Bosnia and Herzegovina needs stronger political commitment and determined action against corruption.

Respect for **human rights and protection of minorities** is broadly ensured. Bosnia and Herzegovina has ratified the major international human rights conventions, but implementation is lagging behind.

Civil and political rights are broadly respected. Little progress has been made towards harmonising criminal sanctions across the country. Adoption of the Framework law on free legal aid, needed to comply with the ECHR, remains outstanding. *Access to justice* in civil and criminal trials needs to be ensured. There has been some improvement in *prison* conditions, particularly in psychiatric facilities, but overcrowding and *ill-treatment* of detainees remain issues to be addressed.

The State and the Entity Constitutions provide for the *freedom of expression* and media, the *freedom of assembly* and association and for the *freedom of religion*. However, better implementation of existing legislation is needed. The self-regulatory activities of the Press Council improved. Citizens' complaints to the Press Council about violations of the Press Code are on the rise. The capacity of the Press Council to enforce professional standards is hampered by lack of resources. Political pressure on the media continued, as did its ethnic bias. Cases of intimidation against journalists also continued. The implementation of the public broadcasting reform remains outstanding. The independence of the Communications Regulatory Agency continued to be undermined and Board appointments remain pending. The development of civil society requires further support and transparency in funding allocations.

Economic and social rights are guaranteed by the existing legal framework, but implementation remained weak due to fragmented levels of competence. A comprehensive State-level anti-discrimination law is in place but its scope remains limited and implementation weak. The protection of *women* against violence needs to improve, as does the social protection of *children*. In terms of inter-ethnic relations, despite the establishment of a coordination body in the Federation, the number of divided schools ('two schools under one roof') and mono-ethnic schools remains a cause for concern. The system of social benefits is based on rights instead of needs, which has an adverse impact on the situation of *vulnerable groups*, including the mentally disabled. Social dialogue and the exercise of labour rights continued to be hampered by the lack of recognition of State-level social partners and a fragmented legislative framework.

*Respect for and protection of minorities*²² and *cultural rights* are broadly ensured. Progress was made in implementing the Roma action plans on housing and employment. Efforts need to be stepped up to ensure effective implementation of the action plans on health and education and to improve resources and sustainability with regard to the action plans. The *Roma* minority continues to face very difficult living conditions and discrimination. The lack

²² According to the Law on the protection of rights of persons belonging to national minorities, there are 17 national minorities in Bosnia and Herzegovina. The three constituent peoples – Bosniaks, Croats and Serbs – do not constitute national minorities.

of birth registration and of access to free legal aid for civil registration continues to hinder their access to basic social and economic rights. Further steps are needed in order to improve implementation of the Law on national minorities and to guarantee minority rights.

Some progress has been achieved concerning *refugees and internally displaced persons*. The revised strategy supporting the return process and ensuring proper implementation of Annex 7 to the Dayton/Paris Peace Agreement (DPA) is in place. Some steps have been taken to implement the strategy, notably as regards funding to deal with vulnerable groups living in collective centres. However, procedures for allocating return assistance are not fully in place yet. Lack of employment opportunities and of access to social protection continues to hamper the sustainability of return and of local integration.

As regards **regional issues and international obligations**, implementation of the DPA has continued but political representatives in Republika Srpska frequently challenged the territorial integrity of the country. Cooperation with the International Criminal Tribunal for the former Yugoslavia has remained satisfactory.

The EUSR mandate was transferred from the Office of the High Representative to a single EU Representative acting under a double-hatted mandate as EUSR and Head of the EU Delegation.

Cooperation between the courts and prosecutors from Bosnia and Herzegovina, Croatia and Serbia continued. Implementation of bilateral agreements on the mutual recognition and enforcement of court rulings in criminal matters is ongoing. However, efforts at prosecuting war crime cases continued to be hampered by legal obstacles to extradition in the Criminal Procedural Code.

As regards the International Criminal Court, the bilateral immunity agreement with the United States does not comply with the EU common positions and guiding principles. The country needs to align with the EU position.

Significant progress was made with regard to the *Sarajevo Declaration Process*. Following the meetings in June and September 2011, Bosnia and Herzegovina, Croatia, Montenegro and Serbia agreed on a number of issues, including on the text of a joint declaration to be signed at a ministerial conference in Belgrade.

Bosnia and Herzegovina continued to participate actively in regional cooperation initiatives, including the South-East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), and the Central European Free Trade Agreement (CEFTA). Bosnia and Herzegovina's relations with its neighbours have developed further. In September, Bosnia and Herzegovina adopted a decision to recognise the customs stamps of Kosovo. However, some border-related issues with neighbouring countries remain open.

The **economy** of Bosnia and Herzegovina gained some speed in 2011 after a modest growth in 2010. The recovery is nevertheless still subdued and mainly driven by external demand. Unemployment remained at very high levels. The fiscal situation eased somewhat as a result of fiscal adjustment measures implemented under the programme of the International Monetary Fund and increased revenues. However, medium-term fiscal sustainability was severely hampered by the failure to adopt the Global Framework for Fiscal Policies 2011-2013. The commitment to structural reforms and sound public finances remained weak and uneven across the country, and the quality of public finances remained low.

As regards the **economic criteria**, Bosnia and Herzegovina has made little further progress towards a functioning market economy. Considerable further reform efforts need to be pursued to enable the country to cope over the long term with competitive pressure and market forces within the Union.

The recovery is mainly driven by external demand, but domestic demand also picked up, supported by resuming credit activities. Industrial production is growing. Trade activities significantly increased and the level of trade integration with the EU remained high. Financial and monetary stability was preserved. The currency board arrangement continued to enjoy a high degree of credibility. Some improvements in the business environment can be reported with regard to business registration and the streamlining of administrative procedures in general.

However, the failure to adopt the Global Framework for Fiscal Policies 2011-2013 severely hampered the sustainability and credibility of fiscal policy in Bosnia and Herzegovina and left fiscal authorities without an agreement on the general fiscal line. The political stalemate in the country resulted in a significant delay of the 2011 State-level budget adoption and postponement of further programme discussions with the International Monetary Fund on the implementation of the Stand-By Arrangement. The quality of public finances remained low with high shares of current expenditures to GDP. External imbalances, in particular the current account deficit, have been rising and inflation picked up. The business environment continued to be affected by administrative inefficiencies and the weak rule of law. Planned privatisation, restructuring of public enterprises and the liberalisation of network industries did not advance. The productive capacity and the competitiveness of the economy remained weak as domestic sources of growth were not adequately exploited. Structural rigidities such as the high rates of social contributions, poorly targeted social transfers and low labour mobility continue to hamper job creation. Unemployment continued to be very high and the informal sector remains an important challenge.

Bosnia and Herzegovina made limited progress in aligning its legislation and policies with **European standards**. Some progress was noted in the areas of intellectual property, State aid, research, culture, transport and a number of justice, freedom and security-related matters. Particular efforts remain necessary on free movement of goods, persons and services, customs and taxation, competition, public procurement, employment and social policies, education, industry and SMEs, agriculture and fisheries, food safety, veterinary and phytosanitary sectors, environment and climate change, energy, information society and media and statistics.

On the whole, the implementation of the Interim Agreement (IA) remained uneven. The country is in breach of the IA due to non-compliance with the European Convention on Human Rights and with the rules on State aid. The State-level State aid law, required for compliance with the Stabilisation and Association Agreement, was adopted by the Council of Ministers in August but adoption by the Parliament is pending. The State-level census law, necessary for the country's social and economic development, remains to be adopted as a matter of priority.

Bosnia and Herzegovina made some progress in **internal market** areas. Regarding *free movement of goods*, some progress was made in market surveillance and consumer protection. Substantial efforts remain necessary to approximate the legal framework to EU legislation, improve administrative capacity and achieve a single economic space.

In the area of *movement of persons, services and right of establishment* limited progress was made. Both Entities adopted implementing legislation on financial services and the coordination of banking supervision improved. Further simplification of company registration and alignment of the legislative framework for postal services will be essential.

There was no progress in the area of *free movement of capital*. Further alignment with the *acquis* as well as country-wide harmonisation of legislation is needed. Good, but uneven progress can be reported in the areas of *customs* and *taxation*. Further alignment of legislation and capacity building to ensure effective implementation and enforcement of intellectual property rights remain essential.

Bosnia and Herzegovina made some progress with the enforcement of *competition* rules. There was no progress in the area of *public procurement*, particularly regarding full alignment of the Public Procurement Law. Progress continued in the area of *intellectual property rights*.

There was little progress in the area of *social and employment policies* and public health policy. Country-wide strategy papers exist or are being prepared, but policies and legislation remain fragmented. Framework laws and strategies are in place in the field of *education* but implementation is pending. Some progress was made on *culture*. Progress continued in the field of *research* and preparations for the Innovation Union started. Negotiations to join the *World Trade Organisation* further advanced.

Bosnia and Herzegovina made little progress towards meeting European standards on a number of **sectoral policies**. Regarding *industry and small and medium sized enterprises* (SMEs), a country development strategy including industrial policy elements remains to be adopted and the SME strategy implemented. There was some progress in the areas of food safety, veterinary and phytosanitary policy and fisheries. Progress in *agriculture and rural development* remained limited. Closer coordination between the State and Entities in aligning with the *acquis* in these fields remains essential. The lack of progress had a negative impact on trade in agricultural products.

Bosnia and Herzegovina's preparations in the field of the *environment* remained at an early stage. A harmonised legal framework for environmental protection and a State Environmental Agency remain to be established. The administrative capacity is weak and the horizontal and vertical communication between the different authorities requires strengthening. Regarding *climate change*, further efforts are needed towards the adoption of a State-level strategy for climate change, alignment with the *acquis* and awareness-raising.

Bosnia and Herzegovina made progress in the *transport* sector. There were some positive developments regarding the trans-European transport networks, road and air transport, rail and inland waterways sectors. The Law on Transport of Dangerous Goods remains to be adopted. The upgrading of transport infrastructure remains an issue to be addressed. Preparations in the field of *energy* are not very advanced. As party to the Energy Community Treaty, Bosnia and Herzegovina needs to implement the relevant EU energy legislation. Some progress was achieved regarding the supply of electricity to Brčko District and the launch of a comprehensive review of the electricity legislation at all levels of Government. To guarantee the security of electricity supply, a country-wide functioning national transmission company needs to be in place and a comprehensive energy strategy adopted.

Progress in *information society and media* was limited. Harmonisation of the legal framework for public broadcasting remains outstanding. The continuing challenges to the independence

of the Communications Regulatory Authority, political pressure and the slow pace of implementation of the public broadcasting reform remained causes for serious concern.

Some progress can be reported in the area of *financial control*. Central Harmonisation Units exist at State and Entity level and the introduction of internal audit started. The financial management and control systems need further development. The independence of the State-level audit office remained an issue of concern. Some progress was made in the area of *statistics* with regard to classifications and registers. Sector Statistics such as national accounts or business and agriculture statistics need to be improved. Cooperation between the country's statistical institutions at State and Entity level and other relevant State-level agencies remained insufficient.

In the area of *justice, freedom and security*, some progress has been made in the different areas. In the area of visa policy, priorities continued to be addressed. The visa facilitation agreement between the EU and Bosnia and Herzegovina and the readmission agreement have continued to be implemented smoothly. Visa-free travel to the Schengen area entered into force in December 2010 for citizens of Bosnia and Herzegovina holding biometric passports.

The country's preparations in the fields of *border management, asylum and migration* have advanced. The asylum and international protection system, the monitoring of migration flows and inter-agency cooperation continued to improve. However, the infrastructure at some border crossing points requires strengthening. Little progress has been made in the fight against *money laundering*. The implementation of the strategy and action plan for the prevention of money laundering remains limited. There has been little progress in the fight against *drugs*. The absence of effective judicial follow-up impedes the fight against drug trafficking, which remains a serious problem.

Bosnia and Herzegovina's preparations in the area of the *police* are advancing. The fragmentation of Bosnia and Herzegovina's police forces continues to undermine efficiency, results, cooperation and information exchange. The *fight against organised crime* remains insufficient due to the lack of effective coordination between law enforcement agencies. Organised crime remains a serious concern that affects the rule of law and the business environment. Efforts to fight *trafficking in human beings* need to be intensified and deficiencies in identification of victims of trafficking addressed. Bosnia and Herzegovina made some progress in fighting terrorism. The Joint Task Force to fight terrorism was re-established. However, the implementation of the strategy for preventing and combating terrorism needs to be enhanced.

Preparations for the *protection of personal data* have continued, but further efforts are necessary on law enforcement and to ensure the independence of the supervisory agency. Well-functioning personal data protection is crucial in order for Bosnia and Herzegovina to conclude agreements with Europol and Eurojust.

Kosovo

The political situation in Kosovo was marked by both parliamentary and presidential elections in the period from October 2010 to April 2011. The conduct of the general elections was marred by serious shortcomings and technical difficulties. A new coalition government was formed in February and a new president elected in April.

The President and the government have demonstrated commitment to the European agenda. Coordination of EU-related reforms has been strengthened. Elections have delayed the implementation of many key reforms. Sustained efforts are now needed to accelerate reforms and their effective implementation. Public administration and the judiciary are both weak. Much more needs to be done to tackle organised crime and corruption, including in the area of public procurement. The economic situation is also serious and the government needs to take urgent steps to improve the budgetary situation in close coordination with the International Monetary Fund. On a more positive perspective, Kosovo has continued to make sustained efforts to deliver on key areas of its European agenda such as visa and trade.

On the basis of the UN General Assembly resolution adopted on 9 September 2010, which had been tabled jointly by Serbia and the 27 EU Member States, a process of dialogue between Belgrade and Pristina started in March. It was conducted in a generally constructive spirit until September and has led to agreements on several issues: free movement of goods and persons, civil registry and cadastre. The agreements reached to date need to be implemented in good faith. Further results remain to be achieved to implement, as a matter of priority, the principles of inclusive and functioning regional cooperation and to provide sustainable solutions on EU *acquis* related matters in sectors such as energy and telecoms.

During the reporting period, integration of the Serb community south of the River Ibër/Ibar has improved. Serbs have benefited from the legal framework protecting their rights. Their participation in general elections increased and they also participated in the census. The teaching staff of Serbia-supported schools has started to sign contracts with Kosovo municipal education directorates.

In northern Kosovo, Serbia-supported structures have continued to be in place and integration has not progressed. The Serbia-supported municipalities opposed the conduct of the census in the north and the turnout of Serbs from northern Kosovo in general elections was negligible. Serbs in the north also challenged the mandate of EULEX. The situation in northern Kosovo and the issue of the control of the border/boundary have led to outbreaks of violence, which resulted in injuries and one dead in July and September. The situation has also led to more frequent inflammatory rhetoric by the Kosovo leadership. All sides need to play their part in defusing tensions in northern Kosovo and allow for the free movement of persons and goods, for the benefit of the people in the region.

The authorities are cooperating with EULEX in the investigation of the allegations raised in the resolution adopted by the Parliamentary Assembly of the Council of Europe on inhuman treatment of people and illicit trafficking in human organs in Kosovo. Kosovo authorities also need to ensure consistent and effective cooperation with EULEX in all areas of its mandate.

As regards **democracy and rule of law**, the rule of law in particular continues to be an issue of serious concern and needs urgent attention from the government, assembly and judicial authorities of Kosovo.

The fourth mandate of the *assembly* was inaugurated on 21 February following general elections. There were serious shortcomings in the electoral process. Kosovo needs to take urgent steps to address these by simplifying the system, following international standards, and investigating and prosecuting cases of electoral fraud. The assembly adopted a budget and a range of key reform laws relevant to the European agenda. The capacity of the assembly to scrutinise the draft legislation and work of the government remains weak. There are concerns that the rules of procedure of the assembly are not always followed.

A new coalition *government* took office on 22 February. In March, the government adopted a regulation establishing and strengthening the role of the European integration departments within ministries. The Ministry of European Integration has strengthened its role as coordinator of the European agenda and donors, and pressed to accelerate reforms. Further efforts are necessary to identify specific goals and measurable results, which would guide the government better in its reform activities. The efforts on decentralisation have continued. The government needs to find solutions for the long-term sustainability of the newly-founded Serb-majority municipalities. At the same time, Serbia-supported structures have continued to operate within Kosovo preventing full implementation of decentralisation.

There has been limited progress as regards *public administration reform*. The regulatory framework was strengthened, but still needs to be completed. The revised public administration strategy 2010-2013 has not yet been implemented. Public administration reform remains a major challenge and public administration is very weak. The office of Ombudsperson lacks adequate resources, premises and political support.

There has been progress as regards the *judicial system*, notably in the form of key judgements by the Constitutional Court. The assembly adopted important legislation such as the laws on witness protection, on criminal liability of legal persons for criminal offences and the law on international legal cooperation. The reform process needs to continue. Implementation of the four reform laws adopted in the previous reporting period has continued satisfactorily. The Division for International Legal Cooperation in the Ministry of Justice increased its capacity and has handled cases professionally. The Kosovo Judicial Council has started addressing key priorities. All nine members of the Kosovo Prosecutorial Council were appointed and the Council has started to function. Salaries of judges and prosecutors were increased. At the same time, the judicial system in Kosovo remains weak. Significant backlogs of cases persist. There are still reports of threats and intimidation to judges and political interference in the work of the judiciary is still an issue of concern. A more proactive approach by prosecutors and judges is needed to investigate and adjudicate organised crime and corruption cases. There are also serious concerns about transparency in implementation of the law on pardons.

Kosovo has made some progress in addressing *corruption*, notably by starting to tackle some of the corruption cases. Corruption remains prevalent in many areas and continues to be a very serious concern which also affects access by citizens to services. The anti-corruption task force was strengthened. The legislative framework for the fight against corruption was improved by adopting several important laws, even if it is still not complete and needs to be further strengthened. The law on financing of political parties has major shortcomings and monitoring of its implementation also needs to be improved. Breaches of procurement rules continue to be an issue of concern in the context of corruption. Declarations of assets continue to show discrepancies between declared assets and actual revenue.

The Constitution of Kosovo has strong provisions to secure international standards of **human rights and respect for and protection of minorities**. The different institutions dealing with promoting, enforcing and monitoring fundamental rights do not coordinate their activities adequately. Bodies in the executive branch of government suffer from a shortage of capacity, and poorly-defined responsibilities and authority, which frequently overlap with other bodies. Their political and practical impact is limited. More needs to be done to enforce legal and administrative remedies for infringements of human rights. Integration of the members of the Serb community has improved, notably south of the River Ibër/Ibar. More efforts are needed to address the needs of the Serbs across Kosovo, but in particular in the north.

Limited progress has been achieved in the area of *civil and political rights*. Efforts by the government need to continue as regards *prevention of torture and ill-treatment*. Further steps are necessary to eliminate *impunity*. In some *prisons* the lack of space and overcrowding need to be resolved. *Access to justice* is not fully guaranteed, notably in northern Mitrovicë/Mitrovica where the district court is functioning with limited capacity under EULEX. This undermines rule of law in this part of Kosovo.

As regards *freedom of expression*, limited progress can be reported. The transparency of media ownership is guaranteed by a law and the law is properly enforced. Journalists continue to face political pressure and threats. The independence and impartiality of the public broadcaster (RTK) is not guaranteed. *Freedom of assembly and association* is largely respected. The right to association is secured with the adoption of the amendments to the law on freedom of association in NGOs. The environment in which *civil society* operates needs to be significantly improved. The government needs to use civil society expertise better.

In the area of *freedom of thought, conscience and religion*, the police have continued to manage well the transfer of responsibility for guarding historical and religious sites, including Serbian Orthodox ones, from KFOR. Kosovo has advanced its renovation activities of Serbian Orthodox sites in cooperation with relevant participants from the Church and from the Serbian authorities.

Further efforts are needed in order to fully guarantee *economic and social rights*. There has been some progress in relation to *women's rights*, notably by increasing their representation in politics and improving legislative framework to guarantee their rights. The relevant institutions need to be strengthened and the budget increased in order for the legislation to be implemented. Protection of *children's rights* has improved with the implementation of the juvenile justice code. The Council for Child Protection and Justice for Children was established. Child protection remains weak and child poverty high. There has been limited progress on *socially vulnerable groups and persons with disabilities*. A report on the implementation of the action plan for persons with disabilities was published. Implementation of the action plan and relevant laws in this sector needs to be enhanced, particularly at municipal level, notably by securing the access to schools for disabled pupils.

The government carried out awareness-raising campaigns on the *anti-discrimination* law. Discrimination remains a cause for concern. As regards *labour and trade unions rights*, some progress can be reported. The labour law was adopted as well as the law on trade unions and the law on the Economic and Social Council. There has been a mixed progress in the area of *property rights*. The legislative framework was improved and a property rights coordinator was appointed. The significant backlog of cases in this area prevents people from exercising their property rights. More efforts are needed to enforce the existing legislation.

Kosovo has achieved some progress regarding *respect for and protection of minorities and cultural rights*. The newly-founded Serb-majority municipalities are facing a number of challenges such as land management. Limited progress has been achieved on *access to education for minority communities*. The Serb community both north and south of the Ibër/Ibar still relies on textbooks and an education system provided by Serbia. Kosovo authorities need to offer an alternative and to develop a Serbian curriculum. Serbian is not available as the second official language in schools outside the predominantly Serb-populated areas. There has been little progress with regard to the *use of languages*. Implementation of the legal framework is inadequate. Multilingual public services are not in place. The position of Serbian *minority media* has improved, notably by the launch of "TV Mreža".

With regard to the relocation of *Roma, Ashkali and Egyptian* families from areas contaminated by lead, the Çesmin Lug/Česmin Lug camp was closed in October 2010. The Osterode camp is not closed because an alternative public land was not allocated in northern Mitrovicë/Mitrovica. The government has promoted the civil registration of these communities, including by organising registration free of charge. A report on implementation of the Strategy for Integration of Roma, Ashkali and Egyptian Communities was published. At the same time, the living conditions of these communities and their access to employment, education, health care and social protection remain very serious concerns.

The return of *refugees and internally displaced persons* remains a challenge for Kosovo institutions. Public budget allocated to return was reduced by 40% and is very low. Issues such as delayed property restitution proceedings, and the scarcity of economic opportunities continue to be major obstacles to voluntary and sustainable returns. Many displaced persons are still living in difficult conditions. Regarding enforcement of *cultural rights*, limited progress can be reported. Cooperation between the relevant ministries and between central and municipal levels has improved. The legislation on the protection of cultural heritage and implementation of the laws remain weak.

As regards **regional and international obligations**, Kosovo has continued to cooperate with the International Criminal Tribunal for the former Yugoslavia. EULEX has conducted a number of operations, including arrests and convictions in war crime cases, some involving senior political figures, including a former minister. The law on missing persons, adopted in August, is an important development. The law guarantees the recognition of the families' right-to-know, right-to-reparation and provides for the legal status of the missing persons. The government needs to step up its efforts on providing information and resources to clarify the fate of the missing persons. The January resolution of the Parliamentary Assembly of the Council of Europe raised serious allegations related to the conflict of 1999. EULEX has established a Brussels-based task force with a liaison office in Pristina to investigate these allegations. The authorities are cooperating with EULEX in this investigation.

Kosovo participated in the Regional Cooperation Council meeting in Montenegro in June for the first time since summer 2010. Kosovo has chaired CEFTA meetings satisfactorily in 2011. Within the Belgrade/Pristina dialogue, an agreement has been found on the customs stamps. An agreement remains to be found on a sustainable solution for the participation of Kosovo in regional fora. The principles of inclusive and functioning regional cooperation need to be fully implemented by all concerned.

The **economy** of Kosovo has continued to be characterised by fragile growth and significant domestic and external imbalances, aggravated by an unpredictable fiscal policy stance. The high inflation and dysfunctional labour market represent major challenges for economic and social cohesion. A series of *ad hoc* measures and lack of commitment by the authorities derailed the Stand-By Arrangement with the International Monetary Fund (IMF). The new non-disbursing agreement with the IMF, to run until the end of 2011, is an important test for Kosovo to regain credibility in economic and fiscal policy. High uncertainty remained an obstacle to private sector development. Firms are confronted with weak administration, lack of reliable electricity supply, deficient skills of workers, poor infrastructure and deficient rule of law.

As regards the **economic criteria**, Kosovo has made no progress towards establishing a functioning market economy. Considerable reforms and investments are needed to enable it to cope over the long term with competitive pressure and market forces within the Union.

The monetary framework has continued to function relatively well, although there is scope for improvements, in particular in financial sector regulation and supervision. Financial intermediation has continued to deepen and the banking sector has remained stable and profitable, despite increasing non-performing loans. There has been some progress with the privatisation process.

The proper functioning of the macroeconomic policy mix has been increasingly threatened by an unpredictable fiscal policy, unsustainable government expenditure growth and limited financing options. Poor governance and ad hoc measures have negative impact on the private sector and deep structural problems continue to hamper the economy. Inflation has been high and volatile. Unemployment has remained very high and not enough jobs have been created to reduce pressures on the labour market and offer employment opportunities, especially to the young new entrants. The external imbalances have also remained high, especially in the trade in goods, and production-enhancing foreign investment inflows have remained limited. The public electricity company have continued to receive substantial subsidies from the state budget and loans for financing of its investment programme. The weak rule of law and challenges related to property rights have continued to impact negatively on the business environment. The informal sector remains an important challenge.

The electoral campaign ahead of the early general elections, followed by the process to form a new government and to elect a president, left only a short period of time for the assembly and the government to adopt legislation and policies in line with **European standards**. The progress has been mixed. The system for capital movements is well advanced. Kosovo has made progress in the field of asylum and migration, notably on readmission and reintegration of repatriated persons.

There has been some legislative progress regarding competition policy, the energy sector and the information society and media. Some progress has been noted in the following areas: taxation, intellectual property rights, employment, social policies and public health, financial control, statistics, border management and tackling trafficking in human beings. Transport infrastructure needs further development. Limited results have been achieved on the environment, agriculture and food safety, drug-trafficking, organised crime and the fight against terrorism. Little has been done to align legislation with the *acquis* on movement of persons, services and right of establishment, money-laundering, and personal data protection.

Regarding the EU **internal market**, there has been some progress as regards legislation related to free movement of goods. Some progress has been noted on *conformity assessment, accreditation, metrology and market surveillance*. Limited progress has been achieved on *standardisation*. No legislative progress took place concerning *consumer protection*. Approximation with the EU *acquis* in the area of free movement of goods is limited. Better coordination of and a strategy for the alignment process for the whole of the *acquis* in this area are needed. The administrative capacity, the necessary implementation and enforcement measures are inadequate. Alignment with the *acquis* in the areas of *movement of persons, services and right of establishment* and also *company law* is at an early stage. The system for *capital movements* is very liberal and well advanced. Further reform is desirable to introduce Basel II risk requirements and to establish a legal framework fully in line with EU standards.

Kosovo *customs* legislation is largely in line with the EU Customs Code. Efforts need to be pursued further concerning the fight against smuggling and counterfeiting. The Independent Review Board needs to function more effectively and to reduce the backlog of cases. There has been some progress in the area of *taxation*, mostly related to the implementation of

reforms to support the tax compliance strategy. Administrative capacity to enforce tax payments and reduce the large informal sector remains low.

There has been some legislative progress regarding *competition policy*, in particular *antitrust policy* as well as *State aid* by adopting law on State aid. Implementation of the antitrust policy is improving. Progress can be reported in the area of *public procurement*, with the adoption of the amended public procurement law that constitutes a step towards alignment with EU standards. The legal framework remains to be completed and cooperation between the institutions responsible needs to be improved.

There has been some progress in the area of *intellectual property rights*, in particular *concerning industrial property rights*. The legislative framework is still not complete and enforcement of the intellectual property rights rules is insufficient. Some progress can be reported on legislative alignment of *employment, social and public health policies* with EU standards. The implementation of this legislative framework is crucial to help the unemployed and other vulnerable groups to improve their living standards. Administrative capacity in these areas also remains limited, notably at municipal level. Some progress has been made on the alignment with European standards on *education and research*. Capacity at central and municipal level needs to be strengthened to ensure effective implementation of the legal and strategic framework. In the field of research and innovation, limited progress has been made. Serious efforts are needed to create the necessary research and innovation capacity. The implementation of the legislative framework needs to be enhanced by inter alia improving coordination between central and local levels. In order to fully benefit from donors' support, adequate human resources have to be allocated to education and research projects.

Regarding sectoral policies, the implementation plan for the *SME* and industrial strategies needs to be adopted, an adequate budget needs to be allocated and the authorities responsible need to be strengthened. Coordination and cooperation between stakeholders remain a challenge. Kosovo has made limited progress in the areas of *agriculture and food safety*. Efforts have been made to develop administrative capacity, particularly in the area of food safety. Mainly due to insufficient budgetary allocations, limited progress has been made on strengthening the legislative and administrative framework in the area of the *environment and climate change*.

Transport infrastructure needs further development. Kosovo's main road infrastructure project, construction of the highway from Kosovo to the Albanian border, remains a cause for concern given its disproportionately high costs and level of investment required in the long term. Some progress has been made in the field of aviation.

In the *energy sector*, some progress has been made on legal alignment and on implementing the Energy Community Treaty. In order to attract investment, continued efforts are needed to improve electricity billing and collection performance and to put in place a non-subsidised, cost reflective tariff. The planned new Kosovo power plant has suffered delays. This has had an impact on the timetable to close the heavily-polluting Kosovo A plant. Due to differences over status, Kosovo remains unable to participate in regional power transit mechanisms. This imperils the stability of Kosovo's power system and means Kosovo loses out on transit revenue.

In the area of the *information society and media*, Kosovo has adopted some telecommunications regulations to apply EU standards. Important laws on sustainable funding of the public service broadcaster and on the Independent Media Commission were pulled from the Assembly's agenda as they neither meet EU standards nor protected the

independence of the Commission and the public service broadcaster. Both issues need to be resolved as a matter of urgency.

Some progress has been achieved on *financial control*. Public internal financial control practice remains at an early stage. Awareness needs to be raised among managers in budget organisations about the relevance of financial management and control. In the area of *statistics*, Kosovo has achieved some progress, notably by carrying out the population and housing census satisfactorily.

Kosovo has achieved mixed progress in the area of **justice, freedom and security**. Steps have been taken by the Ministry of Internal Affairs to prepare Kosovo for issuing biometric passports. Good progress has been achieved by adopting adequate legislation and improving the reliability of civil registries. Further efforts are still needed to ensure security of documents.

Some progress has been achieved in *border management*. A joint task force involving customs and the police was established to fight cross-border crime. The agencies have organised joint patrols along the border and joint operations at border crossing points. Joint and synchronised police patrols have been conducted with counterparts from Albania and the former Yugoslav Republic of Macedonia. The police took over further responsibilities from KFOR for protecting the green border with the former Yugoslav Republic of Macedonia and Montenegro. The quality and consistency of border checks still need to be improved.

In the area of *asylum*, progress has been achieved. Kosovo has faced an increased number of asylum-seekers. A number of decisions were taken on asylum requests. Shortcomings remain in the asylum procedure, notably lack of interpretation, determination of the origin of persons and appeal procedures. Kosovo has achieved progress in the field of *migration*. It has continued signing new readmission agreements with European countries. The Department for Citizenship, Asylum and Migration has continued dealing with readmission requests from European countries efficiently. Kosovo has achieved considerable progress with regard to the reintegration of repatriated persons, including at the municipal level. Sustained efforts are needed to ensure effective implementation.

Kosovo has made limited progress on addressing *money-laundering* and economic/financial crime. A gradual transfer of the responsibilities of the financial intelligence centre from EULEX to Kosovo authorities has started. Kosovo's capacity to investigate and prosecute economic crimes remains limited. Economic/financial crime and money-laundering remain serious concerns.

The police increased the number of seizures and arrests for narcotics offences, including trafficking, but the amounts seized are still limited. Efforts to fight *drug-trafficking* need to be significantly stepped up to match the scale of the challenge Kosovo is facing. Some progress has been achieved in *policing*. The police took on increased responsibilities from KFOR. Now, they need to address structural and organisational challenges and improve their ability to fight complex types of organised crime.

Limited progress has been made on tackling *organised crime*. A number of searches, arrests, indictments and convictions have been achieved in organised crime cases. A more proactive approach by the law enforcement agencies and judicial authorities is needed to tackle organised crime. Human and technical capacity need to be strengthened and the quality of investigations considerably enhanced. Kosovo's capacity to fight organised crime is still at an

early stage. Serious efforts are needed to address this challenge. Kosovo has made some progress with tackling *trafficking in human beings*. The number of victims identified has increased slightly during the reporting period. The strategy and action plan against trafficking of human beings for 2011-2014 was adopted. The efficiency of the police Directorate for Investigation of Trafficking in Human Beings improved. At the same time, the capacity of the Kosovo prosecutors and courts to investigate, prosecute and sentence cases of trafficking is still weak.

Kosovo has made limited progress in the *fight against terrorism*. Kosovo's capacity to enforce relevant legislation and strategy papers such as the law on prevention of money-laundering and terrorist financing, the counter-terrorism strategy, etc. remains weak. There has been little progress on *personal data protection* and this is a serious concern.

Turkey

Turkey continues to sufficiently fulfil the **political criteria**. Free and fair parliamentary elections took place on 12 June 2011. Work on implementing the 2010 Constitutional reform package was launched by the government. The prevailing political climate lacks an adequate dialogue and spirit of compromise between political parties relations between key institutions are strained; this atmosphere hampered the continuation of the reform process. A new process to reform the constitution started after the elections. Significant further efforts are required to guarantee fundamental rights in most areas. This relates, in particular, to freedom of expression, where the number of court cases against writers and journalists, and the still frequent disproportionate website bans, raised serious concerns.

As regards **democracy and the rule of law**, the Ergenekon investigation and the probes into other alleged coup plans still provide an opportunity for Turkey to shed light on alleged criminal activities against democracy and, thus, to strengthen confidence in the proper functioning of its democratic institutions and the rule of law. There were, however, serious concerns over the conduct of investigations, judicial proceedings and the application of criminal procedures, which put at risk the rights of the defence and affected the legitimacy of the cases.

As regards *public administration reform*, there has been some progress in legislative reform. Attention needs to be paid to the establishment of the institution of the ombudsman. Increased political support is needed for public administration reform and decentralisation.

Good progress has been made in consolidating the principle of *civilian oversight of security forces*. In particular, civilian oversight of military expenditure was reinforced. Decisions of the Supreme Military Council were opened to civilian judicial review. Further reforms are still required in order to consolidate civilian oversight in the domestic security sector, in particular of the gendarmerie, and to continue progress in the area of the military justice system.

Progress has been made in the area of the *judiciary*. The adoption of legislation on the High Council of Judges and Prosecutors and on the Constitutional Court provides the framework for enhanced independence and impartiality of the judiciary. Measures have also been taken to improve the efficiency of the judiciary and address the increasing backlog of pending cases. Further steps are still needed in all areas, including the criminal justice system. Turkey has a large backlog of pending criminal serious cases while a large proportion of the prison population is not finally sentenced. In addition, implementation needs to be monitored, as

measures taken to date have divided the country's legal community and civil society. Judicial proceedings are not sufficiently transparent. Courts and prosecution offices do not inform stakeholders or the public at large on issues of public interest. The judicial reform strategy needs to be revised with the participation of all stakeholders, the Turkish legal community and civil society.

The implementation of the strategy and the *anti-corruption* action plan is at an initial stage. Corruption remains prevalent in many areas. The lack of transparency of political party financing and the scope of immunities remain major challenges. Increased political support is needed in order to strengthen and implement the legislative framework on anti-corruption. As regards investigation into the charity association Deniz Feneri, concerning a fraud case in Germany, a former head of the Radio and Television Supreme Council (RTUK) and four senior executives of television network Kanal 7 were detained. Turkey needs to develop a track record of investigations, indictments and convictions in the area of corruption.

Concerning **human rights and the protection of minorities**, limited progress has been made. Significant efforts are needed in most areas, in particular freedom of expression and freedom of religion.

As regards the *observance of international human rights law* some progress was made, notably through the ratification of the Optional Protocol to the UN Convention against Torture (OPCAT). A number of reforms have been outstanding for several years. Legislation on human rights' institutions needs to be brought fully into line with UN principles.

The positive trend on the prevention of *torture and ill-treatment*, as regards both the incidence and severity of ill-treatment by law enforcement officials, continued. Disproportionate force has still been used by these officials, in particular outside official places of detention. Credible allegations of physical ill-treatment were received, which concerned mainly excessive use of force during arrest. There is no progress on tackling *impunity*, including the processing of cases of alleged ill-treatment brought to the judiciary.

As regards *prisons*, the increase in the prison population is leading to serious overcrowding, which hampers attempts to improve the conditions of detention. An overhaul of the complaints system in prisons is overdue. Implementation of the OPCAT is expected to contribute to tackling some of these matters. Medical services for inmates, as well as the conditions for the detention of juveniles, are matters requiring special efforts.

With regard to *freedom of expression*, an open debate continued on topics perceived as sensitive, such as the Kurdish and Armenian issues, minority and cultural rights and the role of the military. However, the right to freedom of expression is undermined by the large number of legal cases and investigations against journalists, writers, academics and human rights defenders. This leads to self-censorship and, together with undue pressures on the media, raises serious concerns. Present legislation does not sufficiently guarantee freedom of expression in line with the ECHR and the case law of the ECtHR, and it permits restrictive interpretation by the judiciary. Frequent website bans are also a cause for serious concern. Overall, Turkey's legislation and judicial practice are obstacles to the free exchange of information and ideas.

As regards *freedom of assembly*, there has been progress on the ground: various demonstrations, including *Newroz* (the Kurdish New Year) and 1 May, took place peacefully. Demonstrations in the Southeast of the country and in other provinces related to the Kurdish

issue, students' rights, the activities of the higher education supervisory board YÖK and trade union rights were marked by a disproportionate use of force.

Legislation on *freedom of association* is broadly in line with EU standards. Excessive controls and restrictive interpretation of the law still remain. There were no developments as regards the amendment of legal provisions on the closure of political parties.

There has been limited progress on *freedom of thought, conscience and religion*. Freedom of worship is generally respected. The dialogue with the Alevis and with the non-Muslim religious communities continued. Members of minority religions continued to be subject to threats by extremists. A legal framework in line with the ECHR has yet to be established, so that all non-Muslim religious communities and the Alevi community can function without undue constraints.

Protecting *women's rights*, promoting gender equality and combating violence against women remain major challenges. The legal framework guaranteeing women's rights and gender equality is broadly in place. Further substantial efforts are needed in order to turn this legal framework into political, social and economic reality. Legislation has yet to be implemented consistently across the country. Honour killings, early and forced marriages and domestic violence against women remain serious problems. Further training and awareness-raising on women's rights and gender equality are required, in particular for the police.

With respect to *children's rights*, an adequate number of juvenile courts in line with the legislation in force have yet to be established. Children are not detained for the minimum necessary period of time or in appropriate conditions. Efforts, including on preventive and rehabilitative measures, need to be strengthened in all areas, such as education, combating child labour, health, administrative capacity and coordination.

Efforts to improve the situation of *socially vulnerable persons and/or persons with disabilities* continued. Further measures are still required in order to increase the participation of those persons in social and economic life.

Further efforts are required in the fight against *discrimination*. Comprehensive anti-discrimination legislation is lacking.

Many challenges remain in the area of *labour and trade union rights*. The current legal framework is not in line with EU standards and ILO Conventions. Persisting disagreements among social partners and lack of adequate political will, have prevented progress in this area.

As regards *property rights*, a new piece of legislation amending the 2008 Law on foundations facilitates the return of immovable properties to non-Muslim religious communities.

Turkey's approach to *minorities* remains restrictive. Full respect for and protection of language, culture and fundamental rights, in accordance with European standards, has yet to be achieved. Turkey needs to make further efforts to enhance tolerance and promote inclusiveness vis-à-vis minorities. The comprehensive revision of existing legislation and the establishment of protection mechanisms or specific bodies to combat racism, xenophobia, anti-Semitism and intolerance are still outstanding.

Turkey has made progress on *cultural rights*, especially as regards the use of languages other than Turkish by all national radio and television stations, as well as the use of multiple languages by municipalities. The opening of a Kurdish Language and Literature Department

in Muş Alparslan University has been authorised. Restrictions still remain on the use of languages other than Turkish in political life, in contacts with public services and in prisons. The legal framework on the use of languages other than Turkish is open to restrictive interpretation, and implementation remains inconsistent across the country.

There has been some progress as regards the *Roma*, in particular on amendment of discriminatory legislation. There is no comprehensive policy to address the situation of the Roma.

As regards the *East and Southeast*, the 2009 democratic opening was not followed through. The detention of elected politicians and human rights defenders raised concerns. The truth about extra-judicial killings and torture carried out in the Southeast in the 1980s and 1990s has yet to be established following the due process of law. Landmines and the village guard system are still causes for concern.

Terrorist attacks intensified. The PKK is on the EU list of terrorist organisations.

Compensation of *internally displaced persons* (IDPs) has continued. The overall effectiveness of the scheme has yet to be assessed. A national strategy, in order to better address IDP needs, has not been developed yet. Despite some improvements, the lack of a comprehensive legal framework for refugees and asylum-seekers is an impediment to the provision of adequate treatment. The general conditions in foreigners' detention centres need to be further improved.

With regard to **regional issues and international obligations**, Turkey reiterated its support to the negotiations between the leaders of the two communities under the good offices of the UN Secretary-General to find a comprehensive settlement to the *Cyprus problem*. However, despite repeated calls by the Council and the Commission, Turkey has still not complied with its obligation of full non-discriminatory implementation of the Additional Protocol to the Association Agreement and has not removed all obstacles to the free movement of goods, as outlined in the declaration of the European Community and its Member States of 21 September 2005 and in the Council conclusions, including the December 2006 and December 2010 conclusions. There is no progress towards normalisation of bilateral relations with the Republic of Cyprus.

As regards *relations with Greece*, there are continued efforts to improve bilateral relations. The bilateral exploratory talks continued. A substantial number of formal complaints were made by Greece about continued violations of its territorial waters and airspace by Turkey, including flights over Greek islands.

Turkey has significantly intensified contacts in the *Western Balkans*, expressing a firm commitment to the promotion of peace and stability in the region.

The **economy** of Turkey is currently experiencing a robust economic recovery. Public finances are improving and confidence in a lasting transformation of the country's economic prospects and stability is increasing. Nevertheless, the rapid expansion of economic activity, driven by strong domestic demand, has led to significant and rising external imbalances that pose a threat to macroeconomic stability.

As regards the **economic criteria**, Turkey is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it accelerates the implementation of its comprehensive structural reform programme.

The economy expanded rapidly in 2010 and in the first half of 2011. Along with the high GDP growth, strong employment growth allowed for a decrease in unemployment. As a result of primarily higher cyclical revenues and a lower interest burden, the consolidation of public finances remained on track. The financial sector has shown considerable strength thanks to earlier reforms while the legal system continues to function relatively well. Moreover, the new law on State aid monitoring and the operation of the regulatory authority may increase transparency and lead to a reduction of State aid. The free interplay of market forces has been confirmed. Privatisation has accelerated. The EU remains Turkey's most important trade partner and investor.

However, trade and current account deficits have been rising and external imbalances are now significant. Monetary policy has been only mildly successful in curbing credit growth, which along with high commodity prices, continues to feed Turkey's growing current account deficit. More support from the fiscal side, and some specific and targeted micro-prudential measures are being elaborated, including by the banking regulator, in order to help engineering a soft landing of the economy and ease the burden placed on monetary policy. Turkey's price and cost export competitiveness has slightly worsened. Inflation has started to rise, in large part due to pressures stemming from energy and food inputs, buoyant economic activity and hikes in administrative prices. A more resolute implementation of structural reforms is awaited. Measures to increase fiscal transparency and better anchor fiscal policy were modest, while they could help Turkey to gain credibility in the markets. Market exit remains difficult and bankruptcy proceedings are still relatively cumbersome.

Turkey continued improving its **ability to take on the obligations of membership**. Progress was made in most areas. Alignment is advanced in certain areas, such as free movement of goods, anti-trust policy and State aid, energy, economic and monetary policy, enterprise and industrial policy, consumer protection, statistics, Trans-European Networks, and science and research. Efforts need to continue towards alignment in areas such as environment, public procurement, freedom to provide services, social policy and employment and taxation. Enforcement needs to be strengthened in areas such as intellectual property rights and anti-money laundering. As regards the Customs Union and external relations, alignment needs to be completed, particularly in areas such as the general system of preferences. A number of longstanding trade irritants remain unresolved. It is essential that Turkey fully respects its commitments under the Customs Union. For most areas it is crucial that Turkey improves its administrative capacity to cope with the *acquis*.

As regards *free movement of goods*, legislative alignment is advanced, but limited progress was made in the reporting period. Technical barriers to trade continue to prevent free movement of goods in breach of Turkey's obligations under the Customs Union. Hardly any progress can be reported in the area of *freedom of movement for workers* where preparations for applying the *acquis* remain in the early stages. Alignment in the areas of *right of establishment and freedom to provide services* also remains at an early stage. No progress has been recorded in the field of right of establishment, freedom to provide cross border services, postal services and the mutual recognition of professional qualifications. As regards the *free movement of capital*, Turkey made some progress, in particular on capital movements and payments. There has been no progress in the gradual liberalisation of real estate acquisition by foreigners, where various obstacles remain. Restrictions on capital movements remain in place in a number of sectors, including on direct investments originating from the EU. The legal framework against financing of terrorism remains incomplete and the Financial Action Task Force has blacklisted Turkey for its strategic deficiencies in this area.

Limited progress can be reported in the area of *public procurement*. The institutional set-up is in place, but administrative capacity needs improvement. The draft alignment strategy with a time-bound action plan is ready but has yet to be adopted. Turkey still maintains derogations contradicting the *acquis*. It needs to further align its legislation, particularly on utilities, concessions and public-private partnerships. As regards *company law*, significant progress can be noted following adoption of the new Turkish Commercial Code, which is expected to promote openness, transparency and adherence to international accounting and auditing standards. The legal and institutional framework for auditing is not yet in place, nor is the necessary enhanced capacity of the commercial judiciary. Alignment on *intellectual property law* is relatively advanced but enforcement remains poor. The recently launched IPR Working Group with the Commission addresses a key element for the accession negotiations. The adoption of updated draft laws regulating intellectual and industrial property rights, including deterrent criminal sanctions, is still pending. Coordination and cooperation between the different IPR stakeholders and public bodies is essential, as are general awareness campaigns on the risks of IPR infringements.

On *competition policy*, Turkey's alignment record in the field of anti-trust and merger control is high. The Competition Authority enforces antitrust rules effectively, with a satisfactory level of independence. Good progress has been made in the area of State aid. In particular, the State Aid Monitoring Authority is now set up. However, a number of important State aid schemes remain to be aligned with the rules of the Customs Union.

There has been further progress in the area of *financial services*; in particular, the banking regulator took measures to strengthen financial stability. However, overall alignment with the *acquis*, in particular in the insurance sector, is not yet complete. With regard to *information society and the media*, some progress can be reported in the area of electronic communications and also good progress on audiovisual policy.

There is some progress to report in the area of *agriculture and rural development*. Significant progress has been made in the implementation of the Instrument for Pre-Accession Assistance for Rural Development (IPARD) programme, leading to the Commission Decision to confer the management of EU funds, as well as in preparations achieved for the second phase of the IPARD programme. Agricultural support policy differs substantially from the CAP and there is still no strategy for its alignment. The failure to fully remove barriers to beef imports also constitutes a major shortcoming. As regards *food safety, veterinary and phytosanitary policy*, progress towards transposition and implementation of the *acquis* has been achieved. The restructuring of the Ministry of Agriculture and Rural Affairs is a positive step towards strengthening the official control system. The overall control system is still not fully in line with the EU *acquis*. Considerable effort is needed in the area of animal health and in bringing agri-food establishments into compliance with the EU hygiene and structural requirements. In *fisheries*, some progress can be reported overall. In particular some progress has been made on setting up administrative structures as well as on resource and fleet management. Turkey is expected to make further progress in other areas such as inspections and controls.

Some progress has been achieved in alignment of the *transport* sector, except for the railway sector. Alignment in maritime and land transport remains at an advanced level and air transport is following at a slower pace. The lack of communications between air traffic control centres in Turkey and the Republic of Cyprus continues to seriously compromise air safety. In the maritime sector, the Voluntary IMO Member State Audit Scheme is expected to create positive results for becoming a party to international conventions. The implementation capacity is limited, particularly for dangerous goods in land and maritime transport.

In the *energy* sector, progress has been uneven. There has been good progress on the internal market for electricity and on renewable energy. Measures are particularly needed in order to ensure the highest possible standards for nuclear safety, security, safeguards and non-proliferation. Developments on security of supply, the gas sector and energy efficiency also require further efforts.

On *taxation*, there has been limited progress on legislative alignment, particularly towards eliminating some discriminatory practices in the taxation of tobacco. The increase in excise duty on spirits contradicts the Action plan agreed with the Commission on that issue. Abolition of discriminatory practices in taxation is key to making further progress in this chapter. No progress can be reported on direct taxation.

Turkey has made some progress on *economic and monetary policy*. The Central Bank adopted a new policy mix to ensure financial stability, reducing policy rates while increasing reserve requirements for the banking sector. Turkey's alignment with *the acquis* on economic and monetary policy is not complete, particularly as regards the full independence of the Central Bank and the prohibition of privileged access of the public sector to financial institutions. The overall level of preparedness is advanced.

There has been good progress in the area of *statistics*, in which the overall level of alignment with the *acquis* is advanced. Further progress is needed, particularly in national accounts and in agriculture statistics.

Turkey made limited progress in the field of *social policy and employment*. Administrative capacity showed some improvement. Constitutional amendments regarding trade union rights have not resulted in further changes of the legislation aimed at granting full trade union rights in line with EU standards and ILO conventions. The reduction of large-scale undeclared work and the increase of female employment rates are still matters of concern. The scope of the labour law remains limited. Enforcement of health and safety at work legislation needs to be stepped up. The risk of poverty remains very high, especially for the rural population and for children. Legislation establishing an equality body has not yet been adopted.

Turkey has made further progress in the area of *enterprise and industrial policy*, where Turkey maintains a sufficient level of alignment with the *acquis*. The progress relates to the adoption of an Industrial Strategy and Action Plan covering the period 2011-2014, the wider availability of enterprise and industrial policy instruments, the adoption of sectoral strategies and alignment on combating late payment in commercial transactions.

Turkey has made progress in the area of *Trans-European networks*, in particular in the TEN transport area. Further efforts are needed as regards reliable transport data. There is also some progress to report in the TEN energy area.

Some progress was made in the field of *regional policy and co-ordination of structural instruments*. There are delays in establishing the bodies to take over the financial management and control responsibilities of pre-accession funds in this policy area. Although the institutional framework for implementation of pre-accession funds has been finalised and the administrative capacity has been improved, there is a need for further strengthening of this capacity and improved coordination between all relevant institutions in order to accelerate implementation.

Overall, progress has been made in the area of the *judiciary*.

With respect to *anti-corruption*, limited progress has been made as regards the implementation of the strategy and action plan on anti-corruption. The lack of transparency in political party financing and the scope of immunities remain major shortcomings. Turkey needs to develop a track record of investigation, indictments and convictions.

Progress achieved in the area of *justice, freedom and security* has been uneven. The adoption of the Law on Foreigners and International Protection remains a priority to ensure a sound legal basis for an efficient asylum and migration management system, as well as safeguards for the rights of migrants and refugees. There is only limited progress to report in the area of judicial cooperation in criminal and civil matters. Some progress can be reported in the area of drugs and organised crime. Limited progress can be reported in the area of police cooperation and terrorism. Limited progress has been achieved on visa policy and customs cooperation. Very limited progress can be reported in the area of border management where the key issues are the adoption of a law on the establishment of new Border Security Agency and inter-agency cooperation. Turkey remains an important country of transit and destination of irregular migrants. Efforts are needed to prevent irregular migration and to readmit irregular migrants.

Turkey is well prepared for accession in the area of *science and research*. Good progress has been made towards integration into the European Research Area and preparations for the Innovation Union. Overall, Turkey's participation and success rate in the EU Seventh Framework Programme are growing, but further efforts are needed in order to meet the excellence requirement and competitive participation in the EU research programmes.

In *education and culture* there has been progress, in particular in the area of *education and training*. Interest in the Community Programmes continued to grow. There has been some progress in the area of culture, but no progress on legislative alignment.

In the *environment* area, Turkey has made good progress on waste management, whereas only limited progress can be reported on horizontal legislation, air quality and industrial pollution control and risk management. Turkey made very limited progress on water quality, chemicals and on administrative capacity. No progress can be reported on nature protection. Regarding *climate change*, Turkey made limited progress on awareness-raising on EU climate requirements, but a more robust and ambitious climate policy, both domestically and internationally, has yet to be established. There is a need to enhance administrative capacity .

Some progress can be reported on *consumer and health protection*. In the area of consumer protection, revised framework laws for consumer protection and general product safety are still to be adopted. Improvement of market surveillance activities requires the allocation of further financial and human resources, while cooperation with consumer NGOs needs strengthening. In the area of public health, Turkey has not yet completed the legislative alignment process nor built up the administrative capacity to improve the enforcement of legislation in order to enhance the health and safety status of the population.

Turkey has achieved a high level of alignment in the field of *customs* legislation thanks to its Customs Union with the EU. Duty free status of the shops established at entry points and requirements for importers of products in free circulation in the EU to submit information of origin in any format prior to customs clearance is not in line with the Customs Union. Legislation on free zones, surveillance and tariff quotas are yet to be aligned. Improved risk-based controls and simplified procedures would facilitate legitimate trade by reducing the

number of physical controls. There is still no effective enforcement of intellectual property rights at customs and measures to tackle counterfeit goods are still lacking.

Turkey has achieved a high level of alignment in the area of *external relations*, owing to the Customs Union. Some discrepancies still remain in areas such as the general system of preferences in terms of its geographical coverage.

Turkey's alignment with the EU's *common foreign and security policy* has continued; overall Turkish alignment with CFSP declarations fell during the reporting period and Turkey did not align with EU restrictive measures on Iran, Libya or Syria. Turkey has sought dialogue and consultation with the EU on various foreign policy issues. Turkey made efforts to normalise relations with its neighbouring countries, such as Iraq, including the Kurdish regional government. No progress was made in the normalisation of ties with Armenia. Relations with Israel further deteriorated since the Gaza Flotilla incident in 2010. After the publication of the independent UN report, Turkey downgraded relations with Israel and suspended military agreements with Israel.

Turkey is continuing to contribute to CSDP and is seeking greater involvement in CSDP activities. The issue of EU-NATO cooperation, which would involve all EU Member States beyond the "Berlin plus arrangements", remains to be resolved. Turkey has not aligned itself with the EU position on membership of the Wassenaar Arrangement.

There is some progress to report in the area of *financial control*, which already has a fairly advanced level of alignment. Legislation implementing the Public Financial Management and Control Law is fully in force. The Public Internal Financial Control Policy Paper and the action plan need to be revised. The adoption of the Turkish Court of Accounts Law was a significant step in further aligning external audit with relevant international standards. The Turkish Anti-Fraud Cooperation Structure needs to continue reinforcing its coordination function, its operational independence and its operational network.

There is limited progress to report in the area of *financial and budgetary provisions*. Administrative preparations for setting up the own resources system are at a very early stage.

Iceland

Iceland continues to meet the **political criteria**. Iceland is a functioning democracy with strong institutions and deeply rooted traditions of representative democracy. The country's judicial system continues to be of a high standard, and Iceland is ensuring the continuous strengthening of its already high level of protection on fundamental rights.

The unity of the coalition government was tested on several occasions, but remained stable. The domestic scene is characterised by diverging views among the political forces and the population on the prospect of EU accession. Communication activities promoting an informed debate about Iceland's accession process have started.

Both government and parliament have continued to function well. A constitutional council was set up in April 2011 to review the Constitution and propose constitutional changes. Legislation was also drafted to further strengthen the efficiency of the parliament and the public administration.

Good progress can be reported in the further implementation of the recommendations of the Special Investigation Committee on the political and administrative consequences of the

financial crisis. In accordance with these recommendations, the Court of Impeachment was convened in March 2011 to rule on a case against the former Prime Minister. This led to his indictment for gross negligence in May 2011. In parallel, the Office of the Special Prosecutor continued its work efficiently. It investigated numerous cases for alleged fraudulent business practices in the banking sector, which led to some arrests.

Progress can be reported in further strengthening of the efficiency of the judiciary and the anti-corruption framework. A number of judges were appointed in accordance with the rules of the amended Judiciary Act, and the UN Convention against corruption was ratified in February 2011. As regards conflict of interests, Iceland has begun to frame specialised codes of conduct for ministers and for a number of categories of employees.

Iceland continued to safeguard fundamental rights, including economic and social rights. The Council of Europe Framework Convention for the Protection of National Minorities remains to be ratified.

The **economy** of Iceland is slowly recovering from the fallout of its financial crisis and the deep and long recession that followed, but growth prospects remain weak as households and firms continue to suffer from a high level of indebtedness. Economic policies continued to be oriented towards stabilisation, firmly anchored by the successful completion of an IMF programme. Recently rising inflation prompted the central bank to increase interest rates whereas fiscal policy was somewhat relaxed. Expenditure-led fiscal adjustment to reduce public debt to sustainable levels remains a challenge. Unemployment is high, particularly among youth and long-term unemployed. Despite progress in banking sector restructuring, the economy still suffers from a dysfunctional financial sector and the removal of capital controls represents a key challenge.

As regards the **economic criteria**, Iceland can be considered a functioning market economy. However, financial sector weaknesses and capital movement restrictions still impede an efficient allocation of resources. Iceland should be able to cope with competitive pressures and market forces within the Union over the medium term, provided that it continues to address current structural weaknesses through appropriate macroeconomic policies and structural reforms.

The policy mix with a strong focus on exchange rate stabilisation and fiscal consolidation has been supportive in re-establishing a higher degree of macroeconomic stability. In response to trade surpluses and an appreciating exchange rate the central bank continued to reduce its policy rate in the second half of 2010, but reacted with a modest tightening of monetary policy as of August 2011 in reaction to a weaker currency and significantly rising annual inflation. Efforts to strengthen public revenues and implement spending cuts have continued. In view of the high level of public debt, measures were taken to reduce refinancing risks and to strengthen local government finances. Foreign exchange reserves continued to increase and recent central bank estimates point to a more manageable external debt position. New measures were taken to accelerate private sector debt restructuring. A revised strategy for capital account liberalisation was adopted and its implementation remains a challenge. The labour market remained flexible and participation rates relatively high. The country enjoys good basic infrastructure, abundant natural resources, and overall a well-educated population.

However, macro-financial risks remain elevated. Domestic demand has picked up, but the recovery is largely based on temporary measures which supported private consumption. Risks and uncertainties with respect to future sources of growth and its sustainability remain. The

financial sector is still suffering from weak asset quality and an efficient financial intermediation remains hampered by the incomplete private sector debt restructuring process. Public debt has risen above 90% of GDP. The fiscal consolidation path has been somewhat relaxed and public finances remain confronted with the challenge to implement severe spending cuts to enhance long-term sustainability. Fiscal risks arise from sizeable contingent liabilities and the unresolved Icesave issue. The labour market continues to be seriously affected by the deep post-crisis recession with unemployment unprecedentedly high for the country, particularly among the youth and with the large share of long-term unemployed. Growth, investment and development are hampered by weaknesses in the business environment, such as high barriers to market entry in certain sectors. The industrial structure remained little diversified.

In line with the methodology of the first progress report, Iceland's ability to **assume the obligations of membership** continued to be assessed in the light of its participation in the European Economic Area (EEA) and taking into account the exemptions granted under the EEA, as well as the EU legislation falling outside the scope of the EEA. The overall level of preparedness to meet EU *acquis* requirements remains good, in particular due to Iceland's participation in the European Economic Area.

The Icesave dispute remains unresolved. In spite of negotiating efforts, the new bill on the terms and conditions for the loan repayment to the UK and the Netherlands in a referendum was rejected in April 2011. The government confirmed that the outcome of the referendum would not affect the commencement of the payments to the UK and the Netherlands, which are due to start in late 2011. In May 2011, the government sent its reply to the letter of formal notice of May 2010 of the EFTA Surveillance Authority (ESA). In June 2011, ESA proceeded with the second stage of the infringement procedure, namely the issuance of the reasoned opinion. This opinion reiterates in full the findings of the previous letter of formal notice, namely that Iceland acted in breach of the deposit guarantee scheme directive. The European Commission shares the legal analysis of ESA. Iceland's government provided the answer to the EFTA Surveillance Authority's reasoned opinion at the end of September. The Authority is now examining the response in detail before deciding on further action in this case. At this stage, the Icesave dispute remains unresolved.

Preparations to take on the obligations of membership continued, albeit relatively slowly, in areas partly covered by the EEA as well as in chapters not covered by the EEA. Iceland remains largely in line and applies a substantial part of the *acquis* in the fields covered by the EEA, such as free movement of goods, freedom of movement of workers, the right of establishment and freedom to provide services, free movement of capital, public procurement, company law, intellectual property law, competition, financial services and information society and media.

The progress report confirms that the following areas are likely to present challenges in the accession process: financial services, agriculture and rural development, environment, fisheries, free movement of capital as well as food safety, veterinary and phytosanitary policy, taxation and customs.

From the point of view of administrative capacity, attention should be paid to ensuring that human and financial resources are made available and remain available for the necessary preparations associated with the process of EU accession.

Iceland continues to be closely in line with the *acquis* on *free movement of goods*. However, there are no new legislative developments in Iceland to report as far as horizontal measures and product legislation under the 'Old Approach' are concerned. Transposition still needs to be completed in a number of areas where new EU *acquis* was adopted.

Iceland maintains a high level of alignment with the *acquis* in the area of *free movement of workers*.

Legislation on the *right of establishment and freedom to provide services* remains broadly in line, with the exception of the postal services directive. The implementation of the services directive was notified in July 2011.

Iceland largely applies the *acquis* on *free movement of capital*, with some exceptions. However, in the aftermath of the financial crisis, Iceland continues to apply capital controls which will need to be removed by the time of EU accession. .

In the field of *public procurement* Iceland remains broadly aligned with the *acquis*. Alignment with remedies and defence procurement remains outstanding.

Iceland has already reached a high level of alignment and applies a substantial part of the *acquis* in the field of *company law*. However, full alignment with accounting standards and international audit standards remains to be achieved.

Iceland maintains a high level of alignment with the *acquis* on *intellectual property law* and has the administrative capacity necessary to implement it. There is a need to implement a comprehensive enforcement policy.

Iceland maintains a high level of alignment in the field of *competition policy*. Monitoring of the State aid measures taken in response to the financial crisis is proceeding satisfactorily.

Further efforts are needed in order to implement the *acquis* on *financial services* and in particular to ensure its effective enforcement and the adequate supervision of the sector. The Icesave dispute remains unresolved.

Some gaps in transposition remain in the field of *information society and media*.

Iceland's policy on *agriculture and rural development* is overall not in line with the *acquis*, and the appropriate administrative framework for implementation needs to be set up.

Parts of Iceland's legislation and administrative framework are not in line with the *acquis* on *food safety, veterinary and phytosanitary policy*. Particular attention is needed in order to close the remaining gaps with EU legislation on live animals, plant protection products and novel food.

In the area of *fisheries*, Iceland has not begun to align with the EU *acquis* or to set up the mechanisms for implementing and monitoring EU support measures. The existing restrictions on foreign investment in fisheries, which remain in place, are not in line with the *acquis*.

Some progress has been made in the *transport* field, in particular on road and maritime transport. However, there are still several areas where Iceland needs to transpose relevant EU legislation.

Legislation on *energy* continues to be broadly in line, except for oil stocks, the independence of the regulatory authority and energy efficiency.

Iceland's *tax legislation* remains partially aligned with the *acquis*. A strategy for achieving IT interconnectivity and interoperability with EU IT systems for taxation needs to be defined.

On *economic and monetary union*, alignment with the *acquis* on monetary policy remains incomplete and the relevant administrative structures require further strengthening.

Availability of *statistics* in line with EU methods, in particular in business, labour market and agriculture statistics, remains to be further improved.

Iceland continues to apply and implement a substantial part of the *acquis* on *social policy and employment*. A comprehensive employment strategy has yet to be drafted.

Iceland's state of preparation in the area of *enterprise and industrial policy* remains at a high level. Access to SME finance is still affected by the financial crisis.

Iceland maintains a good level of alignment with the EU standards on *trans-European networks*.

On *regional policy and coordination of structural instruments* Iceland needs to identify the institutions responsible for the implementation of the cohesion policy.

Preparations in the area of *judiciary and fundamental rights* continue to be well on track. Progress was made in further reinforcing the independence of the judiciary and the anti-corruption policy framework. Further monitoring of the implementation of these measures is needed. The legislation on citizen's rights and data protection is not yet in line with the *acquis*.

Iceland continues to apply the Schengen Agreement and is well advanced in aligning with the *acquis* in the area of *justice, freedom and security*. Further efforts are still needed to ratify and implement international instruments.

Iceland continues to be well advanced in terms of preparation for EU accession and integration into the *European Research Area*.

Iceland maintains its already high level of alignment in the field of *education and culture*.

Some progress has been made in strengthening the legislative and administrative framework on *environment and climate change*. Full compliance with the *acquis* on nature protection and water quality has yet to be achieved. Iceland needs to gradually align with the EU positions in the international environmental fora, as well as to ratify the outstanding multilateral agreements.

Iceland maintains a good level of alignment with the *acquis* on *health and consumer protection*. However, further efforts are necessary in the field of consumer protection.

The *customs legislation* continues to be partially in line with the *acquis*. Significant efforts are needed in order to address the discrepancies in the legislation, in particular in the fields of customs rules, procedures with economic impact, duty free and security aspects. Preparations for effective implementation of the *acquis* upon accession still have to be initiated, in particular as regards the development of interconnectivity with the EU IT customs systems.

Further progress has been made in *external relations*, in particular in the field of development cooperation and humanitarian aid. Iceland still needs to become member of the Kimberly process.

Iceland maintains a high level of alignment in the area of *foreign, security and defence policy*. Iceland's emphasis on Arctic policy underlines its commitment to play an active role in regional organisations in Northern Europe.

There has been limited progress in legislating on *financial control*. Further efforts are needed in order to prepare a public internal financial control policy paper and to ensure the separation between internal and external audit. Preparations for the protection of the EU's financial interests still have to be enhanced.

With regard to *financial and budgetary provisions*, Iceland has reached a good level of alignment in the policy areas underlying and affecting this chapter. It has continued to identify the required alignment with the *acquis*. Administrative preparations and concepts for setting up the own resources system are needed. A coordination structure remains to be formally established.