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

Enlargement Strategy and Main Challenges 2008-2009

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Enlargement Strategy and Main Challenges 2008-2009

1. INTRODUCTION

Enlargement is one of the EU's most powerful policy tools. It serves the EU's strategic interests in stability, security, and conflict prevention. It has helped to increase prosperity and growth opportunities, to improve links with vital transport and energy routes, and to increase the EU's weight in the world. In May 2009, the EU will mark the fifth anniversary of the 2004 enlargement.

The present enlargement agenda covers the Western Balkans and Turkey, which have been given the perspective of becoming EU members once they fulfil the necessary conditions. The European perspective has contributed to peace and stability, and enabled partners to cope with major challenges, such as Kosovo's declaration of independence, while maintaining regional security. It provides in both the Western Balkans and Turkey strong encouragement for political and economic reform. It is in the EU's strategic interest to keep up the momentum of this process, on the basis of agreed principles and conditions. This interest to project stability is all the more apparent in the light of recent challenges to stability to the East of the EU, including in the southern Caucasus.

Turkey's strategic importance to the EU has further increased in key areas such as energy security, conflict prevention and resolution and regional security in the Southern Caucasus and the Middle East. The country's engagement with the EU, through the negotiations and related reforms which are underway, makes it a stronger force for stability in a region facing many challenges. The present security environment in Europe also calls for the consolidation of stability and enhancement of reform in the Western Balkans.

Against this background, the consistent implementation of the renewed consensus on enlargement, as defined by the December 2006 European Council, is more important than ever. This consensus is based on the principles of consolidation of commitments, fair and rigorous conditionality and better communication with the public, combined with the EU's capacity to integrate new members.

The EU has taken steps to improve the quality of the enlargement process, considering in particular the lessons learned from previous enlargements. Greater focus is now given at an early stage to the rule of law and good governance. The pace at which a candidate or potential candidate approaches the EU reflects the pace of its political and economic reforms as well as its capacity to assume the rights and obligations of membership in accordance with the Copenhagen criteria.

The year ahead will be a crucial one in addressing challenges in the Western Balkans. The progress of the Western Balkan countries towards EU membership can be accelerated, provided they meet the necessary conditions. Croatia is expected to reach the final phase of accession negotiations by the end of 2009 if it has taken the necessary preparatory steps. Further reforms in the former Yugoslav Republic of Macedonia will bring the country closer

to the EU. For the potential candidates, progress could result in candidate status when they have demonstrated their readiness.

The pace of accession negotiations with Turkey reflects the pace of reform as well as the country's fulfilment of the relevant conditions. Turkey now needs to renew its political reform effort.

The international financial crisis has so far had only a limited direct impact on the economy and the financial sector of the Western Balkans and Turkey. However, the significant widening of the current account deficit experienced by most countries raises their vulnerability to external shocks. Both external credit and FDI are likely to slow as a result of the global financial crisis.

As regards the Cyprus issue, the leaders of the Greek Cypriot and Turkish Cypriot communities started full-fledged negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission supports their efforts and stands ready to provide technical advice on issues within EU competence.

The European Union is stronger with stable, prosperous and democratic neighbours. Working together on the basis of shared values and common interests, the EU and its neighbours can more effectively address current challenges. The Union will also intensify its relations with European Neighbourhood Policy partners to the East and South to further enhance mutual security and prosperity. The Eastern Partnership under preparation as well as the Barcelona Process: Union for the Mediterranean will be particularly important in this regard.

The present communication sets out the progress made and the key challenges faced by the countries engaged in the enlargement process. It outlines the Commission's approach to guiding and supporting their efforts in the coming year.

2. IMPLEMENTING THE RENEWED ENLARGEMENT CONSENSUS

2.1. State of play of progress made and remaining challenges in the countries

Western Balkans

The Western Balkans have moved closer to the EU over the past year, as the region made progress, albeit uneven, in reforms and in meeting established criteria and conditions. Stability has been maintained in the region and the situation remained generally calm after the declaration of independence and the entry into force of the constitution in Kosovo. The region continued to enjoy high growth rates, thanks in particular to domestic and foreign investments while, in general, reforms progressed and overall living standards improved. The Regional Cooperation Council (RCC) took over from the Stability Pact, strengthening ownership of regional cooperation in South East Europe by the countries directly concerned.

Still, the Western Balkans are today confronting a number of testing issues which could affect security, stability and prosperity in the region. Reform and reconciliation have yet to become entrenched. In much of the Western Balkans, state-building, consolidation of institutions as well as better governance constitute priority concerns. In most countries a professional, impartial and accountable civil service remains to be set up. The enforcement of the rule of law, notably through judicial reform and the fight against corruption and organised crime, remains a major issue throughout the region. Dialogue among political forces and a spirit of

compromise are still insufficient, including on ethnic-related issues. Unresolved neighbourhood issues persist. Average inflation picked up. Current account deficits have risen significantly. Unemployment remains very high in some countries. Further reforms of employment and social policies are needed. Macro-economic challenges have risen, due to a less favourable external environment, in particular the international financial crisis.

At a country level, the following developments can be reported.

Croatia's accession negotiations have entered their decisive phase, thus demonstrating to the region as a whole that the perspective of EU membership is a reality, in line with the Union's commitments provided the necessary conditions are fulfilled.

In the former Yugoslav Republic of Macedonia, progress has been made in a number of key areas highlighted in the Commission's communication of March 2008¹, in particular as regards judicial reform, and police reform, and implementation of requirements under the Stabilisation and Association Agreement. However, violent incidents and serious irregularities marred parliamentary elections. A constructive political dialogue and decisive action are needed to implement reforms in accordance with the Accession Partnership priorities.

Albania has continued to make progress on key political reforms. The interim agreement with the EU entered into force two years ago and is now being implemented smoothly on the whole. However, the rule of law and ensuring the proper functioning of state institutions remain major challenges. Administrative and enforcement capacity requires further improvement.

Political reforms have gone ahead in Montenegro. Implementation of the interim agreement, which entered into force at the beginning of this year, is progressing smoothly on the whole. However, there is a need to pursue judicial reform and to entrench the rule of law, which remain major challenges. Administrative and enforcement capacity require further improvement.

The signing of the Stabilisation and Association Agreement (SAA) with Bosnia and Herzegovina confirmed the EU's commitment to the country's European future. Bosnia and Herzegovina began implementing the interim agreement in July. But constitutional elements established by the Dayton/Paris peace agreement have been challenged by key political leaders in both entities, and EU related reforms have stagnated. Consensus remains weak on key reform priorities.

Following presidential and parliamentary elections, Serbia has renewed its commitment to a European future based on shared values. The SAA was signed and the interim agreement will start being implemented as soon as the Council ascertains that Serbia is fully cooperating with the International Criminal Tribunal for the former Yugoslavia (ICTY). The arrest and bringing to justice of Radovan Karadzic was a major step forward but this process needs to be completed. Serbia has shown that it has the administrative capacity to make substantial progress towards the EU. However, over the past year reforms were delayed. Judicial reform and preventing corruption remain important challenges.

¹ Western Balkans: enhancing the European perspective - COM(2008)127 final of 5.3.2008.

The new reality in Kosovo² has led to the reconfiguration of the international presence. This should facilitate the deployment of the EULEX mission which is now underway. The situation in Kosovo is sui generis and cannot be considered as creating a precedent. The European Council stated the EU's readiness to assist Kosovo's political and economic development through a clear European perspective, in line with the EU perspective of the region. The constitution adopted by Kosovo is in line with European standards and a considerable amount of key legislation has been adopted. However, major challenges remain, notably to strengthen institutions, to entrench the rule of law, and to enhance dialogue and reconciliation between the communities.

Turkey

The year was marked by strong political tensions. The Chief Public Prosecutor applied to the Constitutional Court to close the governing party for anti-secular activities. The Court eventually decided not to follow the request of the Prosecutor and imposed instead a financial penalty. This helped to avert a serious political crisis and should provide fresh opportunities to restore dialogue and a spirit of compromise between political parties.

The EU has strongly condemned terrorist attacks by the PKK which have claimed many lives. The Turkish armed forces carried out several operations against PKK bases in northern Iraq.

Turkey has played a constructive role in its neighbourhood and the wider Middle East through active diplomacy. Following the crisis in Georgia, it proposed a Caucasus Stability and Cooperation Platform to promote dialogue between the countries of that region. President Gül paid a visit to Yerevan, the first visit ever of a Turkish President since the independence of Armenia. Turkey undertook efforts as a mediator between Israel and Syria and conducted a dialogue with Iran on the nuclear issue.

Turkey's geo-strategic position gives the country a vital role in the EU's energy security, particularly diversification of energy sources. Closer energy cooperation between the EU, Turkey, as well as other states in the region - both suppliers and transit countries - is essential. Existing and future pipeline projects are a resource for all countries through whose territory they pass, notably for Turkey. The timely completion of the Southern Gas Corridor through the swift realisation of the planned projects, and notably the Nabucco gas pipeline, is among the EU's highest energy security priorities.

The current government came to power on the basis of free and fair elections in July 2007 with a strong mandate for reform. It renewed its commitment to the EU accession process and related reforms and announced work on a new constitution. Some progress was achieved in the areas of freedom of expression and the rights of non-Muslim religious communities. Article 301 of the Penal Code was amended with the intention of strengthening safeguards for freedom of expression. The Parliament adopted a new law on foundations, which addresses a number of problems faced by the non-Muslim religious communities. Furthermore, the Government decided to complete the South-East Anatolia Project (GAP) for the economic development of the southeast of the country.

However, a new impetus now needs to be given to reform, in order to strengthen democracy and human rights, to modernise and develop the country and to bring it closer to the EU. The

² Under UN Security Council Resolution 1244/99.

rules on political parties, constitutional reform, freedom of expression, and women's rights require particular attention.

Turkey's economy continued to perform relatively well, and macro-economic stability has been preserved in spite of a slower GDP growth. The international financial crisis has led to a correction of asset prices and currency, without seriously affecting the banking sector so far. However, the considerable external financing needs increase the vulnerability to external shocks. Turkey is now a functioning market economy in terms of the Copenhagen economic criteria. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues to implement a comprehensive reform programme to address structural weaknesses. In addition, Turkey's economic interdependence with the EU increased.

2.2. Pre-accession instruments: addressing the key challenges

The Commission has made full use of its pre-accession instruments for addressing the key challenges of state building, good governance, the rule of law, and civil society development, based on the 2007 enlargement strategy document. This has already yielded significant results.

Continued efforts were made to improve the quality of the enlargement process, including by laying down rigorous benchmarks as conditions for opening and closing negotiating chapters, and by issuing further impact studies on key policy areas.

The Council adopted Commission proposals for Accession and European Partnerships that include these key priorities. The Commission has intensified political dialogue, with the partnerships as main reference documents. Progress was also made on economic dialogue through the pre-accession fiscal surveillance mechanism.

Partnership priorities guided programming and delivery of aid under the Instrument for Pre-accession Assistance (IPA), leading to increased support for fundamental reforms. IPA support amounts to €1.4 billion for 2008. Of the €840 million earmarked for transition assistance and institution building in national IPA programmes, 33 % is now used to enhance governance, encourage administrative and judicial reform, strengthen the rule of law, support the fight against corruption and organised crime, promote human rights, protect minorities, and develop civil society. Rapid-response assistance from EU member state officials is also provided through TAIEX and SIGMA³. Medium-term assistance to those reforms includes twinning networks between public administrations and grant schemes for NGO projects.

The Commission has taken initiatives to coordinate IPA support with that of the International Financial Institutions (IFIs) and other donors. This increases the leverage of IPA support in the area of economic and social development. An Infrastructure Projects Facility has been launched with the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB). It constitutes an important move towards establishing a Western Balkans Investment Framework by 2010, as agreed by the Commission, the EIB, the ERBD and the CEB and endorsed by the June European Council. Other initiatives include an energy efficiency facility

³ TAIEX: Technical Assistance and Information Exchange, run by the Commission - SIGMA: Support for Improvement of Governance and Management, an OECD programme supported by the Commission in the enlargement context.

as well as a single instrument for SME development: the European Fund for South East Europe. This benefits tens of thousands of small businesses across the region.

The transition from implementation of pre-accession assistance by the European Agency for Reconstruction (EAR) to the Commission delegations and offices in Belgrade, Podgorica, Pristina and Skopje has been completed. The agency will be phased out on 31 December 2008. The eventual goal is for partners themselves to take over the implementation of assistance, when they demonstrate their readiness to do so.

The Commission organised in July a Donor Conference for the socio-economic development of Kosovo which resulted in a total pledge of €1.2 billion, with the European Union and its member states contributing nearly €800 million. This support should provide a considerable boost to Kosovo's development. It is essential that the Kosovo government accompany donor assistance by delivering on its commitments as regards fiscal discipline, public expenditure management and economic policy reform.

Special attention has been given to people-to-people contacts in line with the 2007 enlargement strategy document. Visa facilitation and readmission agreements entered into force with all countries concerned in January 2008 and the Commission is conducting a dialogue on visa liberalisation with them. In this context, roadmaps for visa liberalisation were established, setting out clear and realistic benchmarks for the lifting of the visa obligation. Measures aimed at increasing people-to-people contacts also include more mobility opportunities for undergraduate and graduate students under the Erasmus Mundus programme and additional funds for youth exchanges and partnership under the Youth in Action programme. The Tempus programme continued to provide support to higher education reform through partnerships between universities.

Following the establishment of the Energy Community, negotiations have begun for the creation of a Transport Community with the Western Balkans with the aim of signing an agreement in the course of 2009. Progress has also been made towards implementation of the European Common Aviation Area (ECAA). In the field of environment a new regional cooperation mechanism is being developed to jointly tackle the environmental challenges linked to pre-accession.

In response to the international financial crisis, the Commission stands ready to assist the authorities in the enlargement countries in managing its financial and economic consequences.

Important efforts have been made to provide support for regional cooperation initiatives, in accordance with the Thessaloniki agenda and with steps outlined in the Commission's communication of March 2008. The newly established Regional Cooperation Council (RCC) is operational. It now faces the challenge of ensuring the efficiency of regional activities and their further streamlining. Regional initiatives supported by the Commission include assistance to the secretariat of the RCC, the Regional School of Public Administration to be set up in Danilovgrad (Montenegro), a new disaster risk reduction initiative, as well as cultural heritage rehabilitation and history textbooks projects. The Commission also supports cooperation in trade matters through the CEFTA Secretariat. Regarding customs, provisions

on diagonal cumulation on rules of origin between the EU and some Western Balkan countries will soon come into effect, thus facilitating regional trade integration⁴.

The Commission set up a new financing facility under IPA to promote civil society development and dialogue. Support under the Civil Society Facility for 2008 amounts to some €30 million, geared towards capacity building at local level. The Commission organised a major conference on civil society development in Southeast Europe in April. The conference stimulated networking, exchanging best practices and building partnerships. These initiatives favour reconciliation among peoples as well as progress on the path towards EU membership.

Better communication with the public is a key principle of the renewed consensus on enlargement. The Commission is promoting public debate about EU enlargement, both in the member states and the enlargement countries, carrying out communication activities for civil society organisations, journalists and youth, including the release of video clips, the European Street Football Festival in Foca and a competition for young journalists "Enlarge your vision". These initiatives complemented communication efforts undertaken by member states and partner countries.

3. THE ENLARGEMENT AGENDA IN 2008-2009

3.1. Accelerating the course of the Western Balkans towards EU membership

The June 2008 European Council reaffirmed its full support for the European perspective of the Western Balkans. It stressed that by making solid progress in economic and political reform and by fulfilling the necessary conditions and requirements, the remaining potential candidates in the Western Balkans should achieve candidate status, according to their own merits, with EU membership as the ultimate goal.

The EU perspective remains essential for the stability, reconciliation and development of the Western Balkans, in accordance with the Stabilisation and Association Process (SAP). It is in the interest of the European Union, and of Europe as a whole, that the region should go ahead as rapidly as possible with political and economic reform, reconciliation among peoples and progress towards the EU. The EU should be ready to accelerate their pre-accession preparations, as soon as they meet the necessary conditions, and to ensure that the region continues to benefit from the highest level of political and economic treatment in line with the SAP. However, ultimately progress on the way towards membership lies in the hands of the people of the region and their leaders, as its pace depends on each country's achievements in adopting the necessary reforms.

The Commission is proposing in the present communication an indicative roadmap for concluding the technical negotiations with Croatia by the end of 2009, provided the conditions are met. This is explained in section 3.2.

Further steps by the former Yugoslav Republic of Macedonia in its progress towards the EU will be possible, once the Copenhagen political criteria are met and the key priorities of the accession partnership are fulfilled. In particular the country needs to ensure free and fair

⁴ Diagonal cumulation enables a country to transform and export a product under preferential trade treatment to the EU, even though part of the product's input originated from another country participating in the scheme.

elections. The dialogue between major political parties and actors needs to improve so as to permit the normal functioning of institutions and accelerate the pace of reforms. The Commission will closely monitor the former Yugoslav Republic of Macedonia's progress. Outstanding key partnership priorities concern establishing a track record of implementation of the judicial reforms, ensuring an impartial and non-politicised police service, continuing the fight against corruption in an objective manner, and ensuring that recruitments and promotion in the civil service are based on professional criteria.

A number of countries in the Western Balkans have indicated that they are considering submitting applications for membership in the EU. The Commission recalls that a satisfactory track record, notably in implementing obligations arising from an SAA, including the trade-related provisions, is an essential element for each country's progress towards membership. An application for membership gives rise in due course, upon request from the Council, to a Commission opinion assessing the country's readiness and a study on the impact of accession on the key policy areas.

Albania needs to ensure that its 2009 parliamentary elections are properly prepared and conducted. Montenegro needs to intensify judicial reform. Both countries need to further build up their track records of SAA implementation, including by improving their administrative and enforcement capacity and by strengthening the rule of law.

Bosnia and Herzegovina now urgently needs to achieve the necessary political consensus and to proceed with reforms, in particular with a view to assuming greater ownership of its governance. A shared vision on the direction of the country is needed for a smooth operation of institutions, for creating more functional and efficient state structures, and for speaking with one voice on EU matters. The Peace Implementation Council (PIC) will review later this month the country's readiness for closure of the Office of the High Representative. This depends on progress in meeting five specific objectives⁵ as well as of a positive assessment by the PIC of the political situation based on full compliance with the Dayton Peace Agreement. The Commission stands ready to support the efforts of Bosnia and Herzegovina towards fulfilling these conditions.

The June European Council stated that Serbia can accelerate its progress towards the EU, including candidate status, as soon as all the necessary conditions are met. The Commission considers that it should be possible to grant candidate status to Serbia in 2009 if these conditions are met and in the light of a Commission opinion. Serbia needs to build on positive developments through implementing full cooperation with ICTY and pressing ahead with its reform agenda, leading to tangible progress in priority areas including on strengthening the rule of law and accelerating economic and budget reforms. Serbia has a key role to play in the region. It is encouraged to take a constructive approach towards Kosovo's participation in regional initiatives and international fora and to the EU's efforts to contribute to peace and stability in the Western Balkans.

⁵ 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 (promoted by an agreement on a permanent ITA coefficient methodology and establishment of a National Fiscal Council); 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).

The socio-economic development of Kosovo is crucial to the well-being of its population and for the stability of the wider region. The European Council stated in June that, in line with the rest of the Western Balkans, Kosovo has a clear EU perspective. The EU expects Serbia to take a constructive line on EULEX deployment and encourages Kosovo Serbs to participate in Kosovo's development. The regular dialogue between the Commission and the Kosovo authorities on reforms will intensify. The Commission will explore all avenues to promote Kosovo's involvement in regional cooperation and calls on all parties to adopt a constructive approach in this regard. It will evaluate means to further Kosovo's political and socio-economic development, and will examine how Kosovo can progress, as part of the region, towards integration with the EU in the context of the Stabilisation and Association Process. The outcome of this analysis will be presented in a feasibility study in the autumn of 2009.

Good neighbourly relations and regional cooperation remain key in advancing towards EU membership and as such constitute a central element of the Stabilisation and Association Process. Nearly all regional partners have unresolved bilateral issues with their neighbours, including border disputes. The Commission will continue to monitor developments in this respect and urges all partners to address bilateral issues as a priority. Significant efforts are needed to enhance judicial cooperation on criminal matters, including for investigations on domestic war crimes.

People-to-people contacts make the European perspective tangible for citizens.

The Commission will continue to closely monitor the correct implementation of the visa facilitation agreements. It will monitor the implementation of the roadmaps for visa liberalisation and will support the countries in meeting the benchmarks set out in the roadmaps. The pace of the visa dialogue will depend on the results obtained by each of the countries. Provided the benchmarks are met by a country, the Commission may propose, on a country-by-country basis, lifting of the visa obligation in the course of 2009.

The Commission will also double the funds allocated to scholarships for students of the Western Balkans under IPA 2009.

Participation in Community programmes and agencies has proved useful in bringing institutions and citizens of partner countries closer to the EU. The Commission will encourage greater participation by beneficiaries from these countries in programmes that are open to them. It will also explore possibilities to open further programmes to the potential candidates. As regards Community agencies, the Commission will seek to offer further participation possibilities, including observer status for all enlargement countries in the meeting of the management boards or expert groups. The Commission proposes to upgrade the opportunities and conditions for participation offered to potential candidate countries. The EU could co-finance up to 90% of the country contribution to a Community programme or Agency in the first year of participation through IPA. In the following years, that contribution would decrease, in percentage or in real amounts. The total level of co-financing for the Community programmes, other than research and development ones, should in principle remain around 10% of the national IPA programmes.

Increased participation of civil society organisations in the reforms undertaken in the enlargement countries is a strong determinant for the pace and quality of the accession process, as well as in attaining public support for accession. Further capacity building and networking projects will be funded as part of the new Civil Society Facility, including the 'People 2 people' visitor programme, the setting up in the first half of 2009 of technical

support offices in each country, and support schemes to civic partnerships in the areas such as environment, energy efficiency, health and safety at work, as well as the fight against corruption, organised crime and trafficking. Under IPA 2009 support schemes to civil society partnerships will give priority to sectors such as culture, minorities and business associations.

Ensuring public support remains a crucial goal for the EU enlargement policy. Member states in particular have a responsibility to foster public understanding of the challenges and benefits of enlargement. Partner countries need to play their part in explaining to their own citizens the conditions for progress towards the EU. The Commission will continue to treat enlargement as a priority area of its communication policy and will carry out further actions to support and complement their efforts by providing factual information and encouraging debate among key opinion formers.

3.2. Furthering accession negotiations

Croatia

Croatia has made good overall progress three years after the opening of negotiations. 21 out of 35 chapters have been opened and four chapters have been provisionally closed⁶. Following an acceleration of work over the past months, Croatia has now fulfilled the opening benchmarks for all but two chapters.

Overall, Croatia continued to comply with the general conditionality of the Stabilisation and Association Process (SAP). It now largely complies with its obligations under the Stabilisation and Association Agreement and has agreed with the Commission a solution for eliminating the discriminatory taxation of cigarettes. Over the past months Croatia has taken significant steps to improve its management of EU pre-accession funds, although it will still need to demonstrate concrete results in improving its management.

In the light of the overall progress to date, it should be possible to reach the final stage of accession negotiations with Croatia by the end of 2009, provided that Croatia fulfils all the necessary conditions. With this in mind the Commission proposes an indicative road map for concluding technical negotiations. This indicative timetable may need to be adapted depending on progress made in meeting the conditions. Croatia needs to devote substantial further efforts in order to complete the work on the benchmarks set out in the negotiating chapters. The country needs to pursue reform efforts, in particular in the judiciary and public administration, the fight against corruption and organised crime, the promotion of minority rights, including refugee return, the pursuit of war crime trials, and access for ICTY to documents. Croatia must also make substantial further efforts in restructuring shipyards. The Commission will closely monitor the fulfilment of commitments undertaken by Croatia.

Turkey

Now that Turkey has averted a political crisis linked to the constitutional court case against the ruling party, it needs to reinvigorate the process of political reform. The closure case highlighted the importance of amending the rules governing political parties so as to ensure transparent financing mechanisms and to bring the provisions on the closure of parties in line with European standards and best practices. Legislation is also necessary to reinforce the defence of citizens' rights irrespective of personal beliefs or political affiliations, and to

⁶ Research and development; education and culture; enterprise and industrial policy, external relations.

establish an ombudsman function. Judicial reform needs to be pursued. Greater dialogue is needed among the country's different political forces in order to build a consensus favourable to reform.

Continued efforts are required to promote women's rights and gender equality, guarantee freedom of expression and freedom of religion in practice, prevent corruption, reinforce cultural rights for all citizens, strengthen civilian control over the military, and bring the legislation on trade unions into line with ILO and EU standards.

Following the start of full fledged negotiations between the leaders of the Greek Cypriot and Turkish Cypriot communities on a comprehensive settlement of the Cyprus issue, it is crucial that Turkey continues supporting a solution and the efforts of the UN.

Good neighbourly relations remain key. Turkey is expected to ensure full, non discriminatory implementation of the Additional Protocol to the Association Agreement and to make progress towards normalisation of bilateral relations with the Republic of Cyprus. The EU will continue to follow up and review progress made on the issues covered by the Declaration of 21 September 2005, in accordance with the Council Conclusions of 11 December 2006.

The adoption of a National Programme for the Adoption of the *Acquis* (NPAA) to address the priorities of the Accession Partnership will constitute an important signal of Turkey's willingness to relaunch its reform effort. The pace of accession negotiations reflects the pace of reform as well as Turkey's fulfilment of the relevant conditions.

EU public opinion on future enlargement is influenced by perception of past enlargements. It is essential to listen to citizens, address their concerns, and provide further information so that the public can see both the benefits and challenges clearly.

2009 will mark the fifth anniversary of the entry of new member states in the Union and will coincide with the 20th anniversary of the fall of the Berlin Wall. In this context, the incoming Czech Presidency will organise a major event to mark the anniversary of the 2004 enlargement. The Commission will provide its full support to this event and will present on that occasion a study on the impact of the fifth enlargement on the EU's economy.

4. CONCLUSIONS AND RECOMMENDATIONS

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

1. Enlargement serves the EU's strategic interests in stability, security and conflict prevention. It has helped to increase prosperity and growth opportunities, to improve links with vital transport and energy routes, and to increase the EU's weight in the world. The present enlargement agenda covers the Western Balkans and Turkey, which have been given the perspective of becoming EU members once they fulfil the necessary conditions.
2. The consistent implementation of the renewed consensus on enlargement, as defined by the December 2006 European Council, gains importance in the light of recent challenges to stability to the East of the EU, including in the southern Caucasus.

3. The EU has taken steps to improve the quality of the enlargement process. Based on the analysis set out in the 2007 enlargement strategy paper, greater focus is being given at an early stage to the rule of law and good governance, including the fight against corruption and organised crime, administrative and judicial reforms, and civil society development.
4. Good neighbourly relations and regional cooperation remain key. The peaceful settlement of disputes remains a priority for all parties.
5. In the light of the overall progress to date, it should be possible to reach the final stage of accession negotiations with Croatia by the end of 2009, provided that Croatia fulfils all the necessary conditions. With this in mind the Commission proposes an indicative road map for concluding technical negotiations. This indicative timetable may need to be adapted depending on progress made in meeting the conditions. Croatia needs to devote substantial further efforts in order to complete the work on the benchmarks set out in the negotiating chapters. The country needs to pursue reform efforts, in particular in the judiciary and public administration, the fight against corruption and organised crime, the promotion of minority rights, including refugee return, the pursuit of war crime trials, and access for ICTY to documents. Croatia must also make substantial further efforts in restructuring shipyards. The Commission will closely monitor the fulfilment of commitments undertaken by Croatia.
6. Turkey needs to renew political reform efforts, in order to strengthen democracy and human rights, to modernise and develop the country and to bring it closer to the EU. The pace of accession negotiations reflects the pace of reform as well as Turkey's fulfilment of the relevant conditions. Turkey is expected to ensure full, non-discriminatory implementation of the Additional Protocol to the Association Agreement and to make progress towards normalisation of bilateral relations with the Republic of Cyprus.
7. As regards the Cyprus issue, the leaders of the Greek Cypriot and Turkish Cypriot communities started full-fledged negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission supports their efforts and stands ready to provide technical advice on issues within EU competence. It calls on both leaders to make decisive progress and on Turkey to contribute to a favourable climate for such a comprehensive settlement.
8. The former Yugoslav Republic of Macedonia needs to ensure the holding of free and fair elections, to improve the dialogue between major political parties and actors, and to fulfil outstanding key partnership priorities. The Commission will continue to monitor closely progress in these areas.
9. The progress of the Western Balkan countries towards EU membership can be accelerated, provided they meet the necessary conditions. For the potential candidates, this could result in candidate status when they have demonstrated their readiness, in accordance with established procedures.
10. Implementation of the interim agreements with Albania, Montenegro and Bosnia and Herzegovina is progressing; the rule of law remains a major challenge, and administrative and enforcement capacity requires further improvement. In particular,

Albania needs to ensure proper preparation and conduct of its 2009 parliamentary elections. Montenegro needs to make particular efforts to pursue judicial reform. Bosnia and Herzegovina's political leaders need to reach a common vision on the direction of the country, to speak with one voice on EU and international matters, and to achieve consensus on the key reforms required for European integration.

11. Serbia needs to build on positive developments through full cooperation with ICTY and tangible progress in priority reform areas. The Commission considers that it should be possible to grant candidate status to Serbia in 2009, if the conditions are met and in the light of a Commission opinion assessing the country's readiness.
12. Kosovo has a clear European perspective, in line with the rest of the Western Balkans. In the autumn of 2009, the Commission will present a feasibility study evaluating means to further Kosovo's political and socio-economic development, and examining how best Kosovo can progress as part of the region towards integration with the EU in the context of the Stabilisation and Association Process.
13. The Commission is taking measures to make the European perspective tangible for citizens in the Western Balkans. Provided that the benchmarks set out in the roadmaps for visa liberalisation are met, the Commission may propose, on a country-by-country basis, lifting the visa obligation in the course of 2009. Funding for scholarships for students of the Western Balkans will double in 2009. Negotiations for a Transport Community with the Western Balkans will be carried forward with the aim of signing an agreement in the course of 2009.
14. Assistance under the Instrument for Pre-Accession Assistance (IPA) will further focus on core reform issues. This is reflected in the revised Multi-annual Indicative Financial Framework covering 2010-2012, which the Commission is presenting today. Implementation of the new Civil Society Facility will continue in 2009. Greater participation by partner countries in Community programmes and agencies will be encouraged.
15. Coordination with International Financial Institutions (IFIs) and other donors increases the leverage of IPA support. The Commission will move towards establishing a Western Balkans Investment Framework by 2010 as agreed with the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Bank.
16. The international financial crisis has so far had only a limited direct impact on the Western Balkans and Turkey. The Commission stands ready to assist the authorities in the enlargement countries in managing its financial and economic consequences.
17. In May 2009, under the Czech Presidency, the EU will mark the fifth anniversary of the 2004 enlargement. The Commission will present on that occasion a study on the impact of the fifth enlargement on the EU's economy.
18. Public support for enlargement is crucial. It is important for authorities in the member states and EU institutions to foster public understanding of the Union's interest in enlargement.

ANNEX 1

A road map for reaching the final stage of accession negotiations with Croatia

In line with the negotiating framework and the December 2006 European Council conclusions, the pace of the accession negotiations depends on Croatia meeting the necessary conditions. In accordance with the own merits principle, progress in the negotiations depends on Croatia implementing the necessary political, economic, legislative and administrative reforms. The country needs to pursue reform efforts, in particular on judiciary and public administration, the fight against corruption and organised crime, minority rights, including refugee return, war crimes trials, and access for ICTY to documents in Croatia, as well as the restructuring of shipyards.

Given the close link of these issues with the accession negotiations, Croatia will need to demonstrate concrete results in fulfilling its obligations under the Stabilisation and Association Agreement, complying with the general conditionality of the Stabilisation and Association Process (SAP) and improving its management of EU pre-accession funds.

Opening of the remaining chapters:

- *Free movement of capital*
- *Public procurement*
- *Competition policy)*
- *Agriculture and rural development*
- *Food safety, veterinary and phytosanitary policy*
- *Fisheries*
- *Taxation*
- *Regional policy*
- *Judiciary and fundamental rights*
- *Justice freedom and security*
- *Environment*
- *Foreign, security and defence policy.*

The Commission suggests that the accession conference make every effort to open the outstanding chapters by the end of 2008, if made possible by Croatia's meeting of the necessary conditions, and any remaining ones early in 2009.

Regarding opening benchmarks for the chapter *competition policy*, Croatia must make further efforts, in particular as regards shipbuilding. Regarding the chapter on *judiciary and*

fundamental rights, Croatia must make final efforts in order to meet the outstanding elements of the opening benchmarks.

Provisional closing of the remaining chapters:

31 chapters remain to be closed. This depends on Croatia meeting the closing benchmarks that have been set.

Croatia has requested a substantial number of transitional arrangements in certain chapters which increases the need for further negotiations and therefore may delay the provisional closure of a chapter.

In order to reach the final phase of the accession negotiations by the end of 2009, it would be necessary for Croatia to complete its work on the closing benchmarks sufficiently in time as to allow for the closure of chapters according to the following priority schedule:

Priority schedule for the remainder of 2008

- *Intellectual property law*
- *Economic and monetary policy*
- *Trans-European networks*
- *Customs union*

Priority schedule for the first half of 2009

- *Right of establishment and freedom to provide services*
- *Company law*
- *Financial services*
- *Information society and media*
- *Transport policy*
- *Energy*
- *Statistics*
- *Social policy and employment*
- *Consumer and health protection*
- *Foreign, security and defence policy*
- *Financial control*

Priority schedule for the second half of 2009

- *Free movement of goods*

- *Freedom of movement of workers*
- *Free movement of capital*
- *Public procurement*
- *Competition policy*
- *Agriculture and rural development*
- *Food safety, veterinary and phytosanitary policy*
- *Fisheries*
- *Taxation*
- *Regional policy and coordination of structural instruments*
- *Judiciary and fundamental rights*
- *Justice, freedom and security*
- *Environment*
- *Financial and budgetary provisions*
- *Institutions*
- *Other issues.*

Subject to Croatia maintaining overall progress in its preparations, the Commission will present a Communication in the course of 2009 on a financial package for the accession of Croatia.

The Commission further recommends that the Council set up the ad-hoc technical working party for the drafting of the Accession Treaty, on the basis of texts prepared by the Commission. This group may work in parallel to the negotiations and could therefore start its work during the first half of 2009. In parallel, Croatia needs to ensure the timely availability of the translation of the *acquis* in its official language.

The indicative timetable put forward in this roadmap may need to be adapted depending on progress by Croatia. The Commission will continue to support Croatia in its preparations for accession and to continue to help it with expertise, including by making full use of instruments such as TAIEX and twinning, and through well targeted financial assistance.

The Commission will closely monitor that the commitments undertaken by Croatia in the negotiations are fulfilled and will report on its findings. It will make use of regular peer assessment missions, including as regards the rule of law, as well as of all other available tools.

ANNEX 2

Conclusions on Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Kosovo⁷, Turkey

Albania

As regards **political criteria**, Albania has continued to make progress on democracy and the rule of law. Based on cross-party consensus, key reforms have made headway. However, the culture of dialogue between political parties and the proper functioning of the state institutions require further consolidation. The 2009 parliamentary elections need to be properly prepared so as to demonstrate the democratic maturity of the country. Albania needs to further build up its administrative capacity. Despite some progress, the fight against corruption and organised crime remains a major challenge.

Some progress has been made on *democracy and the rule of law*. Albania's *parliament* adopted major constitutional amendments, including on electoral reform, based on a broad consensus between the two largest parties. A new electoral code remains to be adopted in time for the 2009 parliamentary elections. Albania has made some progress in strengthening its *government* structures to implement SAA commitments and to coordinate work towards EU integration. However, further strengthening of capacity and strategic planning remains necessary. In the area of *public administration*, major efforts are needed to establish an independent, efficient and merit-based civil service. There continue to be appointments in breach of the civil service law. Full implementation of the civil service law, including the official career structure, will be key to progress.

There has been some progress on reforming the *judicial system*. Important legislative acts on the organisation of the judiciary have been adopted. Court infrastructure has started to improve but remains inadequate. A comprehensive reform strategy for the judiciary is missing. Major legislative acts regarding the functioning of the High Court of Justice and the Prosecutor's Office are pending. Enforcement of judgements, particularly in civil cases, remains slow. The problem of backlogs continues and court infrastructure remains inadequate. The judiciary has continued to function poorly and much remains to be done to ensure its independence, transparency and efficiency.

The government has continued its efforts in the *fight against corruption*, which is a key European Partnership priority. An overall anti corruption strategy, with its action plan, was adopted but implementation has not started and monitoring mechanisms remain to be assessed. Electronic procedures have been introduced for taxation and public procurement. Anti-corruption investigations led to the dismissal and, in some cases, arrest of a number of officials. The perception of corruption has improved. However, corruption remains widespread and constitutes a particularly serious problem. The institutional arrangements and inter-agency coordination in the fight against corruption remain weak. Fighting corruption in the judiciary remains a key issue. A thorough investigation of the Gerdec explosion case is needed. Much work is still needed on all aspects of the issue, including judicial accountability and transparency of political party funding.

⁷

Under UNSCR 1244/99.

Some progress has been achieved regarding *human rights and the protection of minorities*. The legislative framework is broadly in place. Some efforts have been made to prosecute cases of *ill treatment* in pre-trial detention. New *prisons* and pre-trial detention centres have been built. However, considerable efforts are still required to protect human rights and prosecute those accused of violations. Regarding *access to justice*, legislation is in place to provide free legal aid, but it is not applied effectively. Very poor detention standards, exacerbated by overcrowding, remain an issue of serious concern.

Albania has made further progress on *freedom of expression*. The legal framework on media policy has improved, but better implementation of the existing legislation is required. Further efforts are needed in order to decriminalise defamation and to ensure freedom of information and independence of the public broadcasting regulator.

There is a favourable legal framework for *civil society* organisations. A Civil Society Fund to promote NGOs has been established, but implementation mechanisms are not in place. Civil society organisations remain weak and their participation in policy-making requires further strengthening.

There has been further progress on strengthening *women's rights*. New legislation on gender equality was adopted. A strategy to prevent domestic violence was adopted but has not been implemented. The protection of women against all forms of violence is insufficient and remains an issue of serious concern. There has been further progress on *children's rights*. Amendments to the criminal code were adopted regarding the exploitation of children but more efforts are needed to address child labour. Juveniles can now be given sentences of community service or be put on probation. School attendance rates among Roma children have improved somewhat. However, full implementation is hindered by lack of resources. A social protection strategy for 2008-2013 was adopted, but lacks implementation mechanisms. Support mechanisms for *socially vulnerable people and people with disabilities* remain limited. Better co-ordination of government agencies is needed. Regarding anti-discrimination policy, there has been little progress on the legal framework. Lack of progress in amending labour legislation hampers the development of social dialogue.

There has been progress on consolidating *property rights*. The initial registration of real estate is almost completed and the process of valuing property for assessing restitution and compensation claims is ongoing. Unresolved property issues have undermined efforts to develop a functional land market and kept foreign investment below potential.

Albania took some measures to fulfil its commitments on the protection of *minorities*, notably to promote the use of minority languages. Improvement is needed, in particular by collecting reliable data on the size and situation of minorities. Some steps have been taken to improve the situation of the *Roma*, particularly on school registration, but the impact of these measures has been limited. Better coordination and adequate resources are needed for participation in the Roma Decade and to implement existing strategies. The Roma minority continues to face very difficult living conditions and discrimination, with poor access to education, social protection, health care, housing and employment.

Regarding *regional issues and international obligations*, Albania has continued to play a constructive role in maintaining regional stability and fostering good relations with other Western Balkan and neighbouring EU countries. The country participated actively in regional cooperation, including the newly established 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 is not in line with the relevant EU common position and guiding principles.

The **economy** of Albania continued to grow at a relatively fast pace. Inflationary pressures were contained, but external imbalances widened and the fiscal stance loosened. Macroeconomic stability was broadly maintained, supported by a wide range of structural reforms. The business environment improved. However, unreliable energy supply, poor infrastructure, and weak rule of law and contract enforcement continued to hinder economic development.

As regards the **economic criteria**, Albania made further progress towards establishing a functioning market economy. A continuation of structural reforms and sizeable investment in infrastructure and education are needed in order to enable the economy to cope with competitive pressures and market forces within the Union over the long term.

Political consensus on the fundamentals of market-oriented economic policies and macroeconomic stability has been maintained. The economy coped well with strong pressures from rising global food prices, and achieved an improvement in the labour market performance. The administration of public finances improved, resulting in higher tax revenues. Privatisation of large-scale state-owned companies progressed and business registration procedures were extensively simplified.

Measures were taken to improve labour force skills and to promote investments in infrastructure and enterprise restructuring progressed. The government intensified its fight against corruption and tax evasion. The financial sector remained sound, with increasing transparency in the credit market. State-induced distortions of competition remained limited.

However, macroeconomic risks increased as the current account deficit widened, mainly driven by increased demand for energy and machinery imports. Exports remained limited, and were well below the level of imports. On the financing side, capital inflows remained relatively small. A delayed fiscal consolidation also contributed to the existing aggregate savings-investment gap, given the increases in public investments in infrastructure. The unfinished restructuring of the loss-making state-owned power corporation remained a fiscal risk.

Unreliable energy supply continued to hinder economic development. The competitiveness of the economy remained hampered by shortages of qualified staff and a limited capital stock, including poor infrastructure. Employment in the agricultural sector remained unproportionally high. The large informal sector is fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organised crime. The informal sector remains an important challenge, as it reduces the tax base and the efficiency of economic policies.

Albania has made progress in aligning its legislation, policies and capacity with **European standards** and in implementing its Interim Agreement commitments. Progress continued in areas such as customs and competition. In other areas, such as energy, transport and intellectual property rights, progress has remained limited. Progress on veterinary and phytosanitary control is still necessary in order to benefit fully from trade concessions under the Stabilisation and Association Agreement (SAA). Further efforts are needed to improve administrative capacity for the non-trade-related provisions of the SAA and for effective law implementation.

There has been progress in some *internal market* fields, but further efforts are needed in order to fulfil Albania's SAA obligations. Progress in adopting European technical standards and in accreditation has continued. Some improvements in the areas of metrology and market surveillance have taken place, but further efforts are required. The legislative framework on *consumer protection* improved. No significant progress can be reported on the *right of establishment*. Certain restrictions on liberalisation of *movement of capital* remain in place.

Progress continued on *customs'* administrative capacity. Infrastructure at border crossing points is being improved. Customs revenue continued to rise, while tariff reductions under the Interim Agreement were implemented on time. However, strategies for information technology and training need to be defined and further improvements in infrastructure and alignment with EU practices are required. There has been progress in *taxation*. Income and corporate tax revenues have increased. However, tax collection remains low, particularly at the local government level. Tax collection, control strategy and further alignment with EU legislation and practices need to be further strengthened.

Progress continued in the area of *competition*. The Competition Authority was further strengthened, by imposing anti-trust fines in key sectors. The legislative framework is largely in line with the *acquis*, but further efforts are needed to implement it. Albania has made further progress towards meeting its state aid obligations under the Stabilisation and Association Agreement. An inventory of aid schemes has been completed.

Limited progress can be reported as regards *public procurement*. E-procurement procedures have been introduced, but further legislative approximation is required, particularly in the areas of concessions and utilities. Capacity at the Public Procurement Agency has improved, but requires further strengthening. The impartiality of the review procedures needs to be ensured. Current procedures for handling complaints do not meet international standards. Amendments to the Customs code in relation to *intellectual property rights* (IPR) and a law on industrial property rights were adopted. However, IPR enforcement remains weak and the number of infringement cases brought to court is low. The capacities of the Patent and Copyright offices remain weak. Considerable further efforts are required to fulfil Interim Agreement obligations on IPR.

There has been some progress in approximating to European standards on *employment and social policies*. Programmes have been put in place to foster the employment of vulnerable groups. The labour inspectorate was strengthened, but its capacity to enforce labour rights is limited. Occupational health and safety standards remain poor. Continued progress has taken place in *public health*. Some progress has been made on *education*. The education budget has continued to increase. A new digitalised central system for university admissions was introduced. Access for students with disabilities has improved. However, secondary schools enrolment in rural areas remains low. There has been some progress in the field of *research*, but capacity requires further strengthening.

Progress can be reported on some *sectoral policies*. Regarding *industry and SMEs*, progress has been made in implementing the European Charter for Small Enterprises. Some progress can be reported on *agriculture*, particularly as regards the legislative framework and in setting up rural development structures. The legal framework on *food safety, veterinary and phytosanitary* policy has improved, but compliance with EU standards remains poor, and further efforts are needed to strengthen institutional capacity. There has been some progress in the area of *fisheries* regarding inspection, control and international cooperation. Law enforcement and implementation require further attention.

Regarding *environment*, horizontal legislation has improved, but implementation and enforcement are lagging behind. The administrative capacity for environmental policy making and enforcement needs to be strengthened.

Some progress can be reported in the field of *transport*. Albania continues to actively participate in the South East Europe Transport Observatory. However, substantial improvements are still needed in all transport sectors.

There was limited progress in the *energy* sector. Albania made progress towards implementing EU legislation in line with its Energy Community Treaty commitments. Progress continued on the restructuring of the electricity company and efforts are underway to improve its financial situation. However, the energy sector remains in a critical state. Security of electricity supply is not ensured as generation capacity is not sufficient to meet domestic demand, and limited interconnection capacity continues to hinder imports.

Some progress can be reported regarding *information society and media*. New legislation on electronic communications and e-signature was adopted and market liberalisation started. However, the regulatory framework is not yet in line with the *acquis* and the capacity of the telecommunications regulator is inadequate. On audiovisual policy the administrative capacity of the broadcasting authority was strengthened, but technical resources remain limited. Regarding *financial control*, a new budget law was adopted. However, managerial accountability and financial control are at an early stage. Progress has been reasonable in the field of *statistics*. The capacity of the Albanian statistical office improved. Most statistical classifications are in place, in line with EU standards. Alignment is moderately advanced.

In the field of *justice, freedom and security*, some progress has been made in most areas, albeit unevenly. Further improvement is needed overall. Regarding *visas*, a reliable civil registry and address system is being set up to improve document security. The law on foreigners was adopted. The EC-Albania readmission agreement has been in place since 2006. The EC-Albania visa facilitation agreement entered into force and the visa liberalisation dialogue was launched. Biometric passports in line with EU standards need to be issued. The visa regime is not yet in line with EU standards.

Border control has been improved as a result of a new law on border management, better infrastructure and inter-agency co-operation. Implementation of the integrated border management strategy has started. However, staffing levels and training for the border police needs strengthening. Cross-border cooperation needs to be enhanced. There is little progress to report on *asylum policy*. The review of the legal framework for approximation to EU standards has not been completed. Implementation capacity remains weak and inter-agency cooperation needs strengthening. Some progress can be reported in the area of *migration*. A central return and readmission unit was established to oversee regional readmission centres. Migration checks at borders are more effective, but considerable further efforts are needed.

Limited progress has been made in preventing *money laundering*. The legal framework and cooperation between banks and financial institutions on money laundering, have improved. However, enforcement capacity to confiscate assets remains low. Investigation resources, inter-agency cooperation and enforcement capacity need to be further improved.

Limited progress can be reported in the fight against *drugs*, and drug trafficking remains a serious concern. Drug-related prosecutions have increased. Better infrastructure for pre-trial storage of seized drugs has been built. However, strong determination is needed to achieve

sufficient results in this area, while detection measures and equipment at borders need to be improved.

Progress continued on *policing*, with the implementation of the new police law. Implementation of the Europol strategic agreement and of the South East Europe Police Cooperation Convention has started. However, police management, staffing, training, and internal control structures need to be further strengthened. More efforts are needed to develop reliable crime statistics.

Limited progress can be reported in the fight against *organised crime*, which remains a serious problem and is affecting the rule of law and the business environment. A national strategy to fight organised crime was adopted. The legal framework improved. Co-operation with Interpol has improved, allowing a number of international arrest warrants to be executed. However, efforts to combat organised crime are undermined by corruption and poor witness protection. Difficulties in cooperation between police and prosecutors continued to reduce the effectiveness of investigations.

A strategy to combat *trafficking in human beings* has been adopted. Much remains to be done, particularly in terms of victim protection. More political will and better coordination are needed for the implementation of the anti-trafficking strategy, particularly regarding victim protection. Albania remains a significant country of origin for trafficking in human beings, both for sexual exploitation of women and girls and forced labour. Internal trafficking of women and children is on the increase.

Good progress can be reported on the *protection of personal data*. The legal framework is now in place and an independent data supervisory authority has been appointed. However, adequate resources are needed for the proper implementation of its mandate.

Bosnia and Herzegovina

Bosnia and Herzegovina has made limited progress in addressing **political criteria** in line with the European Partnership. Following progress in four key areas set out by the Commission and the Council in 2005⁸ the Stabilisation and Association Agreement (SAA) was signed in June 2008. However, the lack of consensus on the main features of state building, frequent challenges to the Dayton/Paris peace agreement and inflammatory rhetoric have adversely affected the functioning of institutions and have slowed down reform. A shared vision by the political leaders on the direction of the country and on the key EU-related reforms, as well as ability to speak with one voice on EU and international matters, are essential elements for the country's further progress towards the European Union. Bosnia and Herzegovina also needs to further build up its administrative capacity, in particular at the State level, and to increase its anti-corruption efforts.

Regarding *democracy and the rule of law*, there has been limited progress towards creating more functional and efficient state structures and no progress on *constitutional* reform. Bosnia and Herzegovina's system of governance continues to involve international presence. The

⁸ 1) Implementation of police reform in compliance with the October 2005 agreement on police restructuring; 2) full co-operation with the ICTY; 3) adoption and implementation of all necessary public broadcasting legislation; and 4) development of the legislative framework and administrative capacity to allow for proper implementation of the SAA.

closure of the Office of the High Representative (OHR) is conditional on Bosnia and Herzegovina's progress in addressing specific requirements⁹.

The municipal elections in October 2008 were held in accordance with international standards. There has been some progress in improving the efficiency of the *Parliamentary Assembly of Bosnia and Herzegovina*. The assembly adopted a number of important laws based on the European Partnership during the first half of 2008, but its work has been adversely affected by the political climate, systematic voting along ethnic lines and insufficient administrative resources. As regards the *government* at State level, consensus on European integration helped to move the legislative agenda forward until the spring of 2008. However, reforms have stagnated in recent months. Internal tensions and fragmented and uncoordinated policy-making between the State and the Entities remain the main obstacles to efficient work by the State-level government. Lack of political will and capacity problems in government and parliament continue to delay the adoption of legislation. The Directorate for European Integration has continued to play an important role in promoting European integration, but has been adversely affected by limited resources for personnel and the difficult political climate. The lack of a recent population census is a serious handicap for policy planning in Bosnia and Herzegovina as a whole.

Some progress has been made in the area of *public administration*, but further efforts are needed. The public administration reform co-ordinator's office has been strengthened. The public administration reform strategy, which is a key European Partnership priority, is being implemented. The public administration reform fund has become operational. Coordination between the State- and Entity-level Civil Service Agencies has improved, with joint involvement in several large-scale training schemes. Nonetheless, sustained efforts remain necessary to prevent political interference, to limit the role played by ethnic identity in appointments, and to establish a professional and efficient civil service based on merit and competence. The process of drafting the Law on State property, which is a condition for closure of the OHR, has been very slow. The appointment of the four State Ombudsmen and the transfer of the Ombudsmen's competences to the State-level have been delayed.

Bosnia and Herzegovina has continued to make progress in improving the *judicial system*. A National Strategy for Development of the Justice Sector, which aims to further strengthen the independence, accountability, efficiency, professionalism and harmonisation of the judicial system, has been adopted. The High Judicial and Prosecutorial Council continued its efforts to improve the situation in the judiciary. However, the fragmentation of the judicial system and complexity of the legal framework continue to hamper the operation of the judiciary. Problems persist with the prosecution of organised crime and of war crimes in the Entities and the Cantons. The independence, accountability and efficiency of the judicial system need to be further enhanced. The jurisdiction and the competences of the State-level judicial agencies to operate freely in Republika Srpska have been challenged by the Republika Srpska government, which is a serious cause for concern.

⁹ These cover five 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 (promoted by an agreement on a permanent ITA coefficient methodology and establishment of a National Fiscal Council); 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 SAA and 2) a stable political situation.

Bosnia and Herzegovina has achieved little progress in the *fight against corruption*, which remains widespread and constitutes a serious problem. The National Anti-Corruption Strategy is not properly implemented. Convictions for corruption remain very limited. Transparency of public administration activities is hampered by political pressure on public external audit institutions and corruption watchdogs. Bosnia and Herzegovina needs strengthened commitment and determined action against corruption.

There has been limited progress as regards *human rights and protection of minorities*. Bosnia and Herzegovina has ratified all the major UN and international human rights conventions including, in July 2008, the revised European Social Charter. However, implementation of international human rights conventions needs to improve. In a number of cases the decisions of the Human Rights Commission of the Constitutional Court of Bosnia and Herzegovina have not been properly implemented.

There has been some progress in addressing *civil and political rights*. Steps have been taken to support *civil society* development. The establishment of the Civil Society Board is a positive development, even though *civil society* organisations remain weak overall and their participation in policy-making requires further strengthening. The funds needed for the construction of the State-level *prison* have been secured. However, there continues to be no unified practice of criminal sanctions between the State and the Entities. *Ill-treatment* of inmates and detainees continues to be a problem. Prosecution of perpetrators remains low. *Access to justice* in civil and criminal trials remains a matter of concern, and equality before the law is not always guaranteed.

The State and the Entity constitutions provide for the *freedom of expression* and media, the *freedom of assembly and association* and the *freedom of religion*. However, there has been little additional progress in these areas, and better implementation of the existing legislation is required. The Federation public broadcasting law has been adopted, even though full harmonisation with the relevant state-level legislation is still required. All broadcasting laws will need to be properly implemented in order to meet this key European Partnership priority. There have been attempts to withhold financial resources from the public broadcasting system. There have been further cases of physical attacks against journalists and editors.

There has been limited progress in the area of *economic and social rights*. Sustained efforts are needed regarding the protection of *women* against all forms of violence. Although an Action Plan for *children* is in place, problems in the fields of health, social protection, education and domestic violence against children remain. Inadequacies in social welfare systems adversely affect the conditions of *vulnerable groups*, including the mentally ill. The ratification of the revised European Social Charter is a progress, but the complex system of government and the fragmentation of legislation continue to hamper social dialogue across the country. Progress has continued in the areas of *property rights* and land administration reform. The mandate of the Commission for Property Claims of Displaced Persons and Refugees has been extended to address residual property repossession cases. Bosnia and Herzegovina's legal framework includes provisions to protect economic and social rights, but overall, implementation remains poor.

There has been some progress in the area of *cultural rights* and *minority rights*. The State-level Council of National Minorities has been established, and a National Minorities Council is operational in Republika Srpska. Further steps need to be taken to improve the implementation of the Law on national minorities, and the State-level Constitution needs to be changed to allow access of minorities to all political functions. Separation of children within

schools along ethnic lines remains an issue. Bosnia and Herzegovina has joined the Decade for *Roma* inclusion 2005-2015. An Action Plan on Roma housing, health and employment and a coordination mechanism are in place. However, the Roma minority continues to face very difficult living conditions and discrimination, with poor access to education, social protection, health care, housing and employment. The lack of civil registration continues to hinder their access to basic social and economic rights.

Concerning *refugees and internally displaced persons*, further improvements were recorded in the security situation, but little additional progress has been achieved in improving the socio-economic integration of those who have returned.

As regards **regional issues and international obligations**, Bosnia and Herzegovina has continued to participate actively in regional cooperation initiatives, including the Regional Co-operation Council (RCC) whose headquarters were established in Sarajevo in February 2008, and in CEFTA. Bosnia and Herzegovina has maintained satisfactory cooperation with the ICTY, which is a key European Partnership priority. As regards the International Criminal Court, the bilateral immunity agreement with the United States is not in line with the EU common position and principles. Bosnia and Herzegovina is still subject to the monitoring procedure concerning its obligations and commitments relating to its membership to the Council of Europe.

On the whole, Bosnia and Herzegovina's relations with its neighbours have been good, but there has been very little progress in resolving outstanding issues, including trade- and border-related matters with Croatia and Serbia.

The **economy** of Bosnia and Herzegovina has continued to expand rapidly. Macroeconomic stability weakened as a result of widening external deficits, higher inflation, and expansionary fiscal policies. The persistence of very high unemployment and low labour market participation in the country remains a major cause of concern together with diverging reform paths between the entities.

As regards the **economic criteria**, Bosnia and Herzegovina has made some uneven progress towards becoming a functioning market economy. Further considerable reform efforts must be pursued with determination to enable the country to cope over the long term with competitive pressure and market forces within the Union.

Some progress was made in reaching consensus on the fundamentals of economic policy, and inter-entity cooperation in economic policy areas has improved. A commitment to improve fiscal coordination was made through the adoption of the law on the National Fiscal Council and the inauguration of the Fiscal Council under the new law in early September. Agreement was reached on the allocation of indirect taxes. The currency board arrangement continued to function smoothly and financial stability was maintained for the most part despite international volatility and the high growth rates of domestic lending. Some labour market indicators improved. High corporate and income tax rates in the Federation were reduced and legislative measures were taken to avoid double taxation in the country.

The business environment improved somewhat in the areas of business registration, bankruptcy procedures and land registration. The SME sector is benefiting from better access to financing. FDI surged in 2007, driven by the large privatisations in Republika Srpska and fully covered the current account deficit. The upgrading of physical capital accelerated, also supported by rapidly growing public investment in Republika Srpska.

The fiscal slippage, which began in 2006, continued in 2007 and 2008. In the Federation, fiscal risks have risen owing to large commitments on social spending made against decelerating budget revenues. In addition, the public sector wage policy has been loosened at all government levels through wage increases and indexation mechanisms that weaken fiscal sustainability and private sector competitiveness. Restructuring and liquidation of state-owned enterprises advanced slowly, with only marginal progress being made in privatisation in the Federation. Unemployment has remained very high.

The shift in the structure of production towards higher value-added activities remains sluggish. The weak productive capacity and structural rigidities - high rates of social contributions, distorted wage-setting mechanisms, high and poorly targeted social transfers and low labour mobility – hamper job creation. The business environment is still affected by administrative inefficiencies. The large informal sector is fuelled by a weak regulatory framework, by inappropriate tax and expenditure policies, and by weaknesses in law enforcement, including the fight against corruption and organised crime. This remains an important challenge, as it reduces the tax base and the efficiency of economic policies.

Bosnia and Herzegovina has made some progress in aligning its legislation and policies with **European standards**. The implementation of customs-related provisions following the entry into force of the Interim Agreement on 1 July 2008 has generally been satisfactory. However, Bosnia and Herzegovina's administrative capacity needs strengthening and the country needs to build up its track record of SAA implementation.

Bosnia and Herzegovina has made some progress in addressing European Partnership priorities in areas of the *internal market*. As regards *free movement of goods*, limited progress has been made in the fields of standardisation, certification and market surveillance. Continued efforts remain necessary in order to approximate the legal framework to EU legislation in this area and to develop the necessary administrative capacity. The Law on pharmaceuticals and medical devices has been adopted, which will contribute to achieving a single internal market within Bosnia and Herzegovina in this sector. The Council for *Consumer Protection* has become fully operational.

Limited progress has been made as regards *services, right of establishment and company law*. There has been progress as regards business registration. However, no progress has been made towards the establishment of a single State-level supervisory agency for banking and the adoption of State-level legislation on leasing and obligations.

There have been no new developments in the area of *free movement of capital*, but Bosnia and Herzegovina's preparations in this area are on track. Progress has been made in the field of *customs*, as regards both legislative alignment and administrative capacity. Customs strategies – especially for training, information technology and other areas – need now to be defined. There has also been progress in addressing European Partnership priorities related to *taxation*. A national fiscal council was inaugurated in September 2008. VAT collection improved as a result of growing economic activity and the increasing number of registered VAT taxpayers.

As regards *competition*, Bosnia and Herzegovina has made some progress in the field of anti-trust control. The Competition Council has increased its activities, even though there has been no further legislative alignment with the *acquis*. No progress has been made in the field of state aid, and the legislation for and establishment of an operationally independent State aid monitoring authority remain pending. There has been only limited progress in the field of *public procurement*. Proper implementation of public procurement procedures across the

country is not yet ensured. Little progress has been made regarding the enforcement of *intellectual property rights*. The legislative framework is incomplete and implementation capacity needs to be strengthened.

Limited progress was made on *social and employment policies*. Coordination and strategic planning in the public health sector has improved. A Conference of Health Ministers has been established and meets regularly. Some steps have been taken towards the implementation of the WHO Framework Convention, even though implementation needs to improve. However, social and employment legislation and policies remain extremely fragmented. The institutional set-up of the country continues to be a serious handicap to the development of the necessary co-ordinated approaches.

Some progress has been made with the European standards in the field of *education*. Coordination between the fourteen ministries of education in the country has improved slightly as a result of the establishment of a Conference of Ministers. A state level law on vocational training has been adopted. Bosnia and Herzegovina has also taken additional steps towards implementing the Bologna reforms. However, harmonisation of legislation at Entity and Canton-level has not been completed and implementation across the country is uneven. As regards research, the procedure to associate the country to the Seventh Research Framework Programme (FP7) has been launched, which should increase the research opportunities with EU partners. Nonetheless, significant efforts remain necessary in order to increase research capacity in the country.

Bosnia and Herzegovina is relatively advanced in its preparations to join the *WTO*, but it needs to step up its efforts to meet its own objective of early accession.

Bosnia and Herzegovina has made some progress in addressing European standards on a number of *sectoral policies*. There has been limited progress in the area of *industry and small and medium enterprises (SME)*. No country-wide SME Strategy has been adopted. The industry policy strategy also remains outstanding.

Some progress has been made in approximation with EU policies in the area of *agriculture and fisheries*. The State-level Law on agriculture, food and rural development has been adopted. However, there has been no progress on setting up the State-level Ministry of Agriculture. The development of a comprehensive agricultural strategy has been delayed. There has been limited progress in the fields of food safety, veterinary and phytosanitary policies. Problems remain owing to inadequate human and financial resources and weak co-ordination between State and Entity services. Bosnia and Herzegovina's preparations in the field of *environment* remain at an early stage. A State-level environmental law to create the framework for a nationwide, harmonised environmental protection has not been adopted and the State environment agency has not been set up.

Bosnia and Herzegovina has made some progress in the *transport* sector, both on strengthening its institutional set up and on adjusting the regulatory framework. There has been progress on development of the trans-European transport networks, but substantial reforms and alignment are still required as regards railways. The country continues to actively participate in the South East Europe Transport Observatory. The market for commercial air carriers has been opened following ratification of the European Common Aviation Area (ECAA) Agreement. However, the ECAA Agreement should be applied consistently. Further efforts are needed to complete the transformation of the institutional set-up and ensure the conditions for market opening in all transport modes.

Limited progress has been made in the field of *energy*. As a party to the Energy Community Treaty, Bosnia and Herzegovina needs to implement the relevant EU energy legislation, but it is significantly lagging behind in a number of energy-related areas. Reforms in the gas sector in particular are delayed. In the electricity sector, transmission has been unbundled, and the independent system operator (ISO) and the transmission company (Transco) are in place. However, developments regarding Transco, in particular a proposal by Republika Srpska to split the company along Entity lines, put the progress achieved in the electricity sector at risk. No comprehensive energy strategy has been developed.

Bosnia and Herzegovina has made some progress in the areas of *information society and media*. With the adoption of the Federation Public Broadcasting Law, the legal framework for public broadcasting in Bosnia and Herzegovina has been completed, even though some alignment with the relevant state-level legislation is still required. The independence of the Communications Regulatory Authority has been further challenged by new staff salary rules and difficulties in appointing a director general. No progress has been made on the establishment of a State-level information agency. Some limited progress has been made in the area of *financial control*.

Some progress has been made in the area of *statistics*. However, the co-operation agreement between the country's statistics institutions at State and Entity level has not been properly implemented. Due to political divergences, a decision confirming that the census will be conducted in 2011 has still not been taken. Significant efforts are necessary to establish an effective, EU-compliant statistical system in Bosnia and Herzegovina.

In the area of *justice, freedom and security*, progress has continued in the fields of *visa administration, border management, asylum and migration*. Nonetheless, efforts directed at further improvements in all these areas need to be pursued. The Visa Facilitation Agreement between the EC and Bosnia and Herzegovina entered into force in January 2008. A visa liberalisation dialogue with the European Commission has been launched. Further steps have been taken towards the introduction of biometric passports. However, further improvement of the citizen identification protection system (CIPS) is required, including a secure and effective management of the system. A new integrated border management (IBM) strategy has been adopted. A State Border Management Commission, in charge of IBM coordination and implementation of the strategy, was established in July 2008. Further action is now needed to improve the cooperation between the different authorities at the borders. Further progress has been made in establishing a functioning asylum system. Some progress has been made on migration. A temporary reception centre for irregular migrants was opened in May, but the new migration strategy has still to be adopted. Bosnia and Herzegovina has implemented well the Readmission Agreement with the European Communities, which entered into force in January 2008.

Limited progress has been made on preventing *money laundering*. Cooperation at international level has improved, and the Council of Europe Convention on laundering, search, seizure and confiscation of the proceeds of crime and financing of terrorism has entered into force. However, domestic legislation remains to be harmonised with the Convention. Furthermore, the Financial Intelligence Unit (FIU) in the State Investigation and Protection Agency has not been significantly reinforced in terms of staff numbers. Increased efforts are needed to strengthen the administrative capacity to prevent money laundering. Some steps have been taken in the fight against *drugs*, and the Commission on Narcotic Drugs has been established. However, Bosnia and Herzegovina has not adopted a strategy on

illicit drugs or a corresponding action plan. Drug trafficking remains a serious problem, which requires sustained efforts.

Progress has been made with regard to the operation of the *police*. The adoption of relevant police legislation, which will provide for seven new agencies at State level, is positive. These laws now need to be implemented without delay and the directors of the new agencies need to be appointed. Some steps have been taken to facilitate the work of the State Investigation and Protection Agency. However, Bosnia and Herzegovina's police forces remain fragmented, and competences related to communications systems, databases, computer-based investigation, criminal analysis systems and forensics remain divided.

Bosnia and Herzegovina has made limited progress as regards the fight against *organised crime*, which remains a matter of serious concern and affects the rule of law and the business environment. Implementation of the strategy to combat organised crime has been insufficient. The legal framework is in place, but law implementation needs to improve. Little follow-up has been given to the 2006 anti-terrorism strategy. Bosnia and Herzegovina has adopted a new national action plan for combating *trafficking in human beings* for 2008-2012. The Council of Europe Convention against Trafficking in Human Beings has entered into force. However, implementation needs to improve. Bosnia and Herzegovina is a country of origin, transit and destination for trafficking in human beings. This remains a matter of concern. The State agency for *data protection* is not yet operational.

Croatia

Croatia continues to meet the **political criteria**. Progress has been made across the board but further sustained efforts are still required in a number of areas, including judicial and administrative reform, the fight against corruption, minority rights and refugee return. The Accession Partnership priorities have been partially addressed.

Democracy and the rule of law have been further strengthened. Both government and parliament have continued to function well. However, there is considerable scope for further improvement in the judiciary, in the public administration and in the fight against corruption. Significant improvements in these areas are essential to create a solid basis for full implementation of the *acquis*.

Some progress has been made on *public administration* reform. The government adopted a Public Administration Reform Strategy, a proposal for a revised General Administrative Procedures Act and improvements were made to the Civil Service law. The capacity of the Central State Office for Administration was strengthened. Various e-Government initiatives have been taken. However, the legal basis for building a modern and professional civil service is still incomplete. Not all regulations necessary for implementation of the Civil Service Law have been adopted. This law is not implemented consistently across the state administration. An overhaul of legislation on administrative procedures is still pending. The administrative system still lacks efficiency. Weaknesses in human resources management remain and the civil service continues to suffer from high staff turnover and a lack of qualified personnel. There have been considerable delays in decentralisation. Further sustained efforts are needed across the board.

Some progress has been made on reform of the *judicial system*. New legislation was adopted and a revised Action Plan addressing all major reform issues was approved in June 2008. The system of judicial inspection is starting to show results. A more balanced approach in war

crimes proceedings is slowly becoming evident, with a greater willingness to prosecute perpetrators irrespective of ethnicity. However, the case backlog before the courts remains large and the length of judicial procedures excessive. Court rationalisation has not yet begun in earnest. Further improvements in the accountability, professionalism and competence of the judiciary are required. A common standard of criminal accountability for war crimes is not being applied irrespective of ethnicity. Many such crimes remain unprosecuted. The issue of *in absentia* verdicts from the 1990s has not been adequately addressed. Overall, reforms in the judiciary continue but at a relatively slow pace, and concrete results are needed. Currently, effective dispensation of justice for Croatian citizens is not always assured.

There has been some progress in the *fight against corruption*. The legal framework has been further improved and a revised anti-corruption strategy and action plan adopted. A new inter-ministerial coordination system for monitoring anti-corruption efforts is in place. The Office for the Fight against Corruption and Organised Crime, USKOK, continues to intensify its activities. However, corruption remains widespread. Implementation of anti-corruption efforts still lacks strong co-ordination and efficient non-partisan monitoring and institutional capacity requires strengthening. The police need to become more effective in the fight against corruption and organised crime. The total number of corruption cases prosecuted has increased but the number of actual convictions remains low. Further efforts are required in tackling high level corruption. There has been little progress in preventing conflicts of interest. A culture of political accountability is lacking.

Some progress has been made in the area of *human rights and the protection of minorities*. Human rights protection is broadly ensured but certain important challenges remain in terms of implementation. Sustained efforts are needed on minority rights and refugees return.

A new Law on Legal Aid as well as legislation on attorneys' tariffs were adopted, aimed at improving *access to justice*, which has been hampered over the past year by the limits of the existing legislation and weaknesses in the judicial system. Some steps were taken to address shortcomings in *prison conditions*. However, a shortage of prison staff and capacity persists and the new legal aid system remains to be implemented

Freedom of expression, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. However, there have been cases of threats and attacks against journalists, particularly those working on corruption cases or organised crime. Two journalists have been recently murdered. Editors and journalists continue to report undue political pressure.

Policies aimed at improving *women's and children's rights* have continued to raise awareness. However, further improvements in implementation are needed. Implementation of measures regarding the protection of children's rights must also be accelerated.

The Office of the Ombudsman for Persons with Disabilities was set up and a National Implementation Plan on Social Inclusion 2007-2008 was produced. However, continued efforts are needed as regards the *socially vulnerable and persons with disabilities*. In the area of mental health, the policy of providing care through community-based services instead of in institutions has shown no tangible progress.

A comprehensive law on *anti-discrimination* was adopted in July 2008, signifying important progress. However, in practice the level of protection against discrimination and its judicial

prosecution is not yet in line with EU standards. The functioning of the police and institutions of the health and social system displayed certain weaknesses.

Some progress has been made with regard to *minorities*. An action plan for implementation of the Constitutional Law on National Minorities (CLNM) was adopted, as was a recruitment plan for 2008 for minorities in the state administration. Funding for minorities was further increased. The Roma minority has continued to receive attention, with improvements in pre-school education. An ethnic Serb has been appointed to one of the Deputy Prime Minister posts.

However, many problems remain for minorities. Croatia needs to encourage a spirit of tolerance towards the Serb minority and take appropriate measures to protect those who may still be subject to threats or acts of discrimination, hostility or violence. Minorities continue to face particular difficulties in the area of employment, both in terms of under-representation in state administration, the judiciary and the police as well as in the wider public sector. The Roma minority faces difficult living conditions and challenges remain in the areas of education, social protection, health care, housing and employment. Legal provisions and programmes need to be implemented with more determination, and adequate monitoring needs to be ensured, especially in the area of employment.

There has been some progress on *refugee return* issues. An action plan for the accelerated implementation of housing care programmes was adopted, with a target completion date of end 2009. Important decisions were taken which open up the possibility of validating pension rights. Reconstruction of housing has continued. So far, the target for 2007 to provide 1,400 accommodation units out of a total of 12,500 applications under the housing care programmes for former tenancy rights holders has been largely met. However, implementation of these programmes remains weak. Only 12% of cases have been resolved in the urban areas. The Government's implementation targets are behind schedule, although implementation has picked up in recent months. Other key concerns facing returnees include enduring hostility in certain localities, and employment. Efforts to create the economic and social conditions necessary for the sustainability of refugee return need to be accelerated.

As regards *regional issues and international obligations*, co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has continued. However, there are problems of access for ICTY to certain documents in Croatia which must be resolved. Overall compliance with the Dayton/Paris and Erdut agreements has been ensured. Impartial prosecution of cases transferred from ICTY to Croatian jurisdiction as well as of domestically initiated cases needs to be ensured.

There has been continued general progress in the area of regional co-operation. Croatia has continued to participate actively in regional initiatives, including the new Regional Cooperation Council and CEFTA. Important progress was made when Croatia again suspended the implementation of the ecological and fishing protection zone for EU vessels, in line with earlier commitments. Some progress was made on certain open bilateral issues between Croatia and its neighbours. However, further progress is required towards finding definitive solutions to the various bilateral issues which remain open, particularly as regards borders. Efforts are needed to further develop co-operation and good neighbourly relations.

The **economy** of Croatia continued to benefit from a solid performance. Growth has decelerated as domestic demand has started to ease. Macroeconomic stability has been preserved, but inflation has risen considerably, largely due to higher energy and food prices.

So far, the Croatian economy has been only mildly affected by the financial turbulences, but higher external deficits and debt levels have increased external vulnerabilities. The process of structural reforms has generally been slow. There is an urgent need to build on existing progress by further improving the business environment.

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

Political consensus on the fundamentals of a market economy has been maintained. In an increasingly uncertain international environment, stability-oriented macroeconomic policies have been preserved. The stable exchange rate policy has served the country well and remained a factor of financial stability. Fiscal consolidation led to a further reduction of the general government deficit, but the existence of quasi-fiscal operations may imply additional fiscal risks and undermines budget transparency. Economic growth remained solid with some rebalancing, as consumption slowed and private investment picked up further.

The labour market benefited from high employment growth and unemployment continued to decline. The technical and institutional capacity in public finance was further strengthened. Additional prudential measures led to a stronger resilience of the generally sound banking sector and reduced macro-financial risks. Croatia's economy is well integrated with the EU.

However, the government's economic policy has sometimes lacked a clear medium-term orientation. The structural reform agenda has moved slowly and there has often been a gap between the adoption of policy strategies and their actual implementation. The government's communication with the Central Bank has at times been weak, adversely affecting the quality of policy coordination. Higher inflation and rising external imbalances pose risks to macroeconomic stability and require stronger fiscal consolidation. Limited progress has been achieved in increasing the efficiency of public spending, in particular in the health sector. Social spending remained high and was not properly targeted, leading to inefficiencies. Public finances still suffer from a lack of strategy-based budget planning and implementation.

Significant subsidies to enterprises have not been used effectively for restructuring and privatisation continued at an uneven pace. Further progress has been made in facilitating business registration procedures but private sector initiative continued to be hampered by excessive regulations and ad-hoc requirements, potentially undermining market entry and exit procedures. Reinforcing and deepening structural reforms with more determination remains of high importance.

Croatia has improved its **ability to take on the obligations of membership**. Preparations for meeting EU requirements are moving forward at a steady pace and there is a high degree of alignment with EU rules in a number of sectors. In most areas there has been some progress, principally in terms of legislative alignment but also as regards administrative capacity building. In a number of chapters the good progress made in previous years has been sustained. However, significant efforts lie ahead and as regards the overall level of alignment and administrative capacity, much remains to be done.

Good progress has been made on alignment of legislation with the *acquis* on *free movement of goods*. Alignment with the *acquis* in this chapter is well underway. However, adjusting the conformity assessment infrastructure and market surveillance activities remains an important

challenge. Considerable efforts are needed to continue the process of alignment with the *acquis* and its effective implementation and enforcement.

Some progress has been made on the *free movement of workers*. A satisfactory level of legal alignment has been reached. However, Croatia's legislation is not yet in line with the EU rules on access to the labour market. Sustained efforts are also needed to develop the necessary administrative capacity, in particular for the coordination of social security systems.

Some progress has been made but further substantial work is required regarding the *right of establishment and freedom to provide services*. Various obstacles remain in this regard. Overall, alignment is moderately advanced, but considerable efforts are still required in some areas. Strengthening of the related administrative capacity is required.

There has been some progress on the *free movement of capital*, mainly as regards the processing of applications for permission to purchase real estate by EU nationals and the adoption of an action plan and new legislation in the area of anti-money laundering. Overall alignment is moderately advanced, but further efforts will be needed, especially on implementation and enforcement.

Good progress can be reported in the area of *public procurement*, with the necessary institutional set-up in place and a comprehensive strategy adopted. However, further legislative alignment is needed and administrative capacity remains to be improved. Anti-corruption measures need to cover the legal framework and its functional application, ensuring greater transparency and efficiency.

Some progress can be reported in the field of company law. Alignment is on track, but continued efforts are needed to implement of the recently adopted amendments and strengthen the administrative capacity.

In the field of *intellectual property law*, good progress can be reported. Legislative alignment is at a very high level. Further efforts are required to strengthen the administrative capacity for enforcement of IP rights, to raise awareness amongst stakeholders and to continue the fight against piracy and counterfeiting.

Some progress has been achieved on *competition policy*, in particular as regards state aid to the steel sector as well as the regional aid map and the alignment of fiscal aid schemes. However, significant efforts are required in particular as regards restructuring aid to the shipyards, which must be addressed in the context of their foreseen privatisation.

Good progress can be reported on *financial services*. Legislative alignment is well underway, but additional attention is needed regarding its proper implementation. Both supervisory authorities need to intensify their efforts to improve their supervision function and consultative interaction with the sector.

Substantial progress has been made in the field of *information society and media*, especially as regards the liberalisation of the electronic communications market and media reform. A good level of alignment with the *acquis* in this chapter has been reached, but additional efforts are required for due functioning of the electronic communications market.

Progress in the area of *agriculture and rural development* has been very uneven. In the areas of quality policy and organic farming the situation is already well advanced. In rural development, good experience has been gained in the context of pre-accession assistance but

the capacity to absorb EU funds in this area needs to be improved. Efforts need to be substantially and urgently strengthened with regard to the Paying Agency, IACS and the LPIS. The present system of support in Croatia linked to production differs from the reformed CAP. Alignment of the support system should be commenced in order to prepare for a smooth transition to the CAP.

Good progress has been made overall concerning *food safety, veterinary and phytosanitary policy*, in particular with the passing of implementing legislation. Further efforts are required in particular as regards animal welfare, as well as strengthening of the administrative and inspection capacity.

Croatia has made some progress in the field of *fisheries*. Preparations have started but gaps remain in the areas of fleet management, inspection and control, structural action and State aid. Croatia will need to step up its efforts to close these gaps.

There has been progress in the field of *transport*. Croatia still needs to establish a competent and effective railway regulatory body. Further efforts are required regarding the enforcement of EU rules on road transport, combined transport of goods, as well as the implementation of the EU aviation legislation, including reinforcing administrative capacity.

Overall, there has been good progress regarding *energy*. However, significant efforts are still needed, particularly in energy efficiency, and the independence and strengthening of the regulatory authority and in administrative capacity.

On *taxation*, Croatia has made very limited progress. No progress was made on legislative alignment. Even though the overall structure of the tax legislation is similar to the *acquis*, substantial efforts are required in all areas. Croatia has agreed with the Commission a solution for eliminating the discriminatory taxation of cigarettes. Substantial efforts are also required to strengthen the administrative capacity, including IT interconnectivity.

There has been significant progress in the area of *economic and monetary policy*. Overall alignment with the *acquis* in the area of economic and monetary policy is well advanced.

On *statistics*, overall, good progress has been made. A satisfactory level of legal alignment has been reached. However, efforts are required, in particular on the strengthening of administrative capacity, agricultural and macro-economic and business statistics.

Good progress has been made on *social policy and employment*. A good level of legal alignment has been reached, although some gaps remain. Further efforts are required in order to strengthen the administrative capacity in good time before accession to ensure proper implementation and enforcement.

Croatia has made good progress on *enterprise and industrial policy*, in particular regarding SME policy as well as the industrial strategy and restructuring of the steel industry. In other sectors, such as shipbuilding, significant efforts are required. Overall, Croatia has achieved a good level of alignment.

Regarding *Trans-European Networks*, Croatia has made good progress and continues to actively participate in the South East Europe Transport Observatory.

Some progress can be reported in the area of *regional policy and the coordination of structural instruments*. Croatia still needs to make efforts to establish institutional and administrative capacity. Overall, Croatia is partially aligned with the *acquis* in this chapter.

Croatia has made some progress regarding *judiciary and fundamental rights*. Reforms in the judiciary continue but at a relatively slow pace. Significant challenges remain. Most tools are in place to fight against corruption but, given the scale of the problem, these are not being deployed with sufficient vigour. Legal provisions on fundamental rights are in general adequate, but despite some progress, a number of important challenges remain in terms of implementation.

Croatia has made some progress in the area of *justice, freedom and security*, particularly as regards the fight against drugs and dealing with trafficking of human beings. However, significant efforts are needed in the management of external borders. Concrete results are also needed in the fight against organised crime, which is a matter of concern. Croatia needs to step up its efforts to ensure the necessary administrative capacity to implement and enforce the EU *acquis* upon accession.

Good progress has been made in the areas of *science and research* and *education and culture*. Overall, a good level of alignment has been achieved but some further efforts remain necessary.

Overall, good progress has been achieved in the *environment* chapter, especially in the areas of air quality, chemicals and GMOs. Considerable efforts will be needed with regard to water, industrial pollution control and risk management, climate change and horizontal sectors. Substantial efforts will be needed as regards investments.

Some progress has taken place in the area of *consumer and health protection*. A good level of legal alignment has been reached. However, further efforts are required in the fields of consumer product safety, including for the RAPEX alert system, and the public health *acquis* on tobacco and on reproductive tissues and cells

In the area of the *customs union*, Croatia has made good progress. Efforts are still needed in order to continue legislative alignment, to create the conditions for effective implementation of customs rules and to make further progress on IT interconnectivity.

Croatia has made further progress concerning the area of *external relations*. Alignment is well on track in this area.

Croatia has continued to make progress in the area of *Foreign, Security and Defence Policy*. Overall, Croatia has reached a good level of alignment but needs to strengthen implementation and enforcement of arms control including transparency of arms-related information.

Regarding *financial control*, Croatia has made some progress. Continued efforts are needed to establish a strong and adequate PIFC system, in particular in relation to the management system for EU funds.

There has been some further progress on *financial and budgetary provisions*, notably the development of a coordination structure for own resources. Overall, Croatia has reached a good level of alignment.

The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia made some progress in the course of the last year but does not yet meet the **political criteria**. The parliamentary elections of 2008 did not meet key international standards and the recommendations of the OSCE/ODIHR need to be fully addressed. The lack of constructive political dialogue between major political parties and actors adversely affected the functioning of the political institutions; increasing efforts to foster political dialogue are now being made. Steps have been taken to address key Accession Partnership priorities and further efforts are required.

The implementation of the Ohrid Framework Agreement is contributing to the consolidation of **democracy and the rule of law**. The adoption of a law on languages marked an important step forward in relations among the ethnic communities of the country. Further efforts in a constructive spirit are needed to fulfil the objectives of the Ohrid Agreement.

The conduct of the early parliamentary elections of 2008 was marred by violence and irregularities. The authorities have begun to bring the perpetrators to justice and to address the OSCE/ODIHR recommendations on the conduct of elections, notably by amending the electoral code. A new *government* coalition of a multi-ethnic character was established in July. Opposition parties boycotted the new *Parliament* for a prolonged period and Parliament made extensive use of emergency procedure to adopt legislation. Significant further efforts are needed to improve and sustain political dialogue.

As regards *public administration reform* there has been some progress with the introduction of salary incentives and the adoption of a continuous training system, as required by the law on the civil service. However, little progress has been made to ensure that senior recruitments are based on professional qualifications. Priority needs to be given to creating a stable, professional and merit-based civil service. The role of the Civil Servants Agency needs to be strengthened and the capacity of the human resources units in line ministries needs to be increased. Implementation of police reform has progressed. The eight new regional commanders and all 38 new local commanders have been appointed as required by law. Training of police officers has continued and human resource management improved. However, the politicisation of the senior levels of the police in some areas raises serious concerns.

Good progress has been made on *judicial reform*. The new Court of Appeal and the new Administrative Court and the Judicial Council are functioning and the new Council of Public Prosecutors has started to meet. The Academy for training judges and prosecutors is in place and new IT systems have been introduced into the courts. However, further strengthening of the judiciary is required as regards its independence, efficiency, human resources and budgetary framework. The vacancies in the prosecution service need to be filled. Case backlogs persist and a track record of implementation of the recent reforms remains to be established, in particular as regards the impartiality, accountability and efficiency of the judiciary.

Further progress has been made in implementing *anti-corruption policy*. The government's Action Plan has been allocated a specific budget. Special investigation measures may now be used in corruption cases. An Action Plan against conflict of interest has been adopted. There have been convictions in some high-profile cases. The perception of corruption has somewhat improved. However, corruption remains widespread and constitutes a particularly serious problem. Further steps are necessary, in particular to strengthen operational coordination

amongst law enforcement agencies and to implement provisions on financing of political parties and campaign financing.

The legal and institutional framework for the *protection of human rights and of minorities* is broadly in place. Nevertheless, further efforts are required to improve implementation in a number of fields.

Allegations of *ill-treatment* by the police need to be more effectively investigated and prosecuted. The *prison* infrastructure is being gradually renovated. Action is needed, however, to eliminate inhuman and degrading conditions and to establish professional management. As regards *women's rights*, a national strategy against domestic violence has been adopted and the legal provisions concerning rape have been strengthened. Nonetheless, sustained efforts are needed regarding the protection of women against all forms of violence. Regarding *children's rights*, compulsory education has been extended and the law on juvenile justice has entered into force. However, efforts to protect children's rights need to be strengthened.

Regarding *cultural rights* and *minority rights* there has been some progress in implementing the strategy for equitable representation, in line with the Ohrid Framework Agreement. A law on languages has been adopted which provides for greater use of the Albanian language in parliament. A law on the advancement and protection of the rights of the smaller communities was adopted which, in particular, provides for a specialised agency to be set up.

However, the authorities need to make further efforts to promote integration of the ethnic communities of the country, particularly in education. The concerns of the smaller ethnic minorities are not sufficiently addressed. Little progress can be reported regarding the *Roma*. The relevant action plans are being implemented slowly. Roma still face very difficult living conditions and discrimination, with poor access to education, social protection, health care, housing and employment.

Regarding *regional issues and international obligations*, the former Yugoslav Republic of Macedonia has cooperated fully with the International Criminal Tribunal for the former Yugoslavia (ICTY). The judicial reforms necessary to ensure proper handling of the cases referred back to the national authorities were adopted and the relevant training of judges and prosecutors has been undertaken. As regards the International Criminal Court, the bilateral immunity agreement with the United States is not in line with the relevant EU common position and principles.

The country has continued to participate actively in regional initiatives, including in the new Regional Cooperation Council (RCC). The country assumed the first chairmanship of the 2006 Central European Free Trade Agreement (CEFTA) after its entry into force.

A joint committee was established on border demarcation with Kosovo and is approaching completion of the process. The government decided to recognise the independence of Kosovo in October.

The former Yugoslav Republic of Macedonia has generally good relations with countries in the region. However, relations with Greece were further affected by the unresolved name issue. 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 **economy** of the former Yugoslav Republic of Macedonia has maintained solid growth. However, the less favourable international economic environment contributed to a sharp deterioration in the external accounts and a rise in inflation. Progress with structural reforms has continued and business environment has been improved. However, the persistence of very high unemployment remains a major cause for concern. Institutional weaknesses and deficiencies in the rule of law continue to impede the smooth functioning of the market economy and have a negative bearing on the business climate.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia is well advanced. It has moved closer towards becoming a functioning market economy. It should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it vigorously implements its comprehensive reform programme in order to reduce significant structural weaknesses.

The country has maintained a broad political consensus on the essentials of economic policy. The policy mix remained largely in line with macroeconomic stability and predictability. The country's growth performance has remained solid. The quality of public finances was improved by reducing tax rates and increasing efficiency in tax collection as well as by increased spending for infrastructure and education. The relatively low level of public sector debt has been maintained. Improved tax collection points to some success in reducing the informal economy.

FDI inflows increased markedly during the last year. Privatisation is largely completed. The share of the private sector in total output accounts for about 80% of the value added. Price and trade liberalisation has been accomplished practically in all sectors. Bankruptcy procedures have been further shortened and property registration has been accelerated. Financial independence of supervisory and regulatory agencies has been somewhat strengthened. Financial intermediation has increased. Competition in the network industries has been improved. In addition, measures have been taken to improve the quality of human capital. Economic integration with the EU is well advanced.

However, the deterioration in the country's external balances has increased external vulnerabilities, making fiscal discipline even more important. Labour markets are still functioning poorly; very high unemployment rates persist. The functioning of the market economy is still hampered by institutional weaknesses and the need to strengthen the rule of law. Public administration remains inefficient and in some sectors the degree of legal certainty is still low, which has a negative bearing on the country's attractiveness for foreign investment. The judiciary continues to be a bottleneck, and regulatory and supervisory agencies sometimes still lack the resources to function effectively.

Despite efforts to reduce the unregistered economy, the informal sector remained sizeable. It is fuelled by a weak regulatory framework, and by weaknesses in law enforcement, including the fight against corruption and organised crime. The informal sector remains an important challenge as it reduces the tax base and the efficiency of economic policies.

The former Yugoslav Republic of Macedonia has made further efforts to improve its **ability to assume the obligations of membership**. There was some progress in the fulfilment of the priorities of the Accession Partnership. However, the country still faces major shortcomings

in implementing and effectively enforcing legislation. Adequate human and financial resources for the full implementation the *acquis* are lacking.

In the area of *free movement of goods*, administrative capacity has improved but it is still insufficient to ensure proper enforcement. Most of the sectoral *acquis* has still to be transposed and implemented. There has been limited progress in the areas of *freedom of movement for workers* and *right of establishment and freedom to provide services*, where alignment of legislation with the *acquis* remains at an early stage. Good progress was made as regards approximation of legislation in the area of *free movement of capital*. Administrative capacity and the enforcement record on combating money laundering are not sufficient.

Substantial progress has been made in the area of *public procurement*. However, the newly adopted legislation on concessions and public-private partnerships is not yet aligned with the *acquis*. Current efforts on training for the contracting authorities and economic operators on the new public procurement rules need to be sustained. Good progress has been made in the area of *company law*, where legislative alignment is satisfactory. In the area of *intellectual property law*, progress has been made with strengthening the legal framework and enhancing the administrative capacity. The enforcement record is slowly improving but further efforts are needed in order to reach a satisfactory level in tackling piracy and counterfeiting.

Good, but uneven, progress can be reported in the area of *competition* including state aid policy. The competition authority still needs more and better qualified staff and adequate funding. The *ex-ante* control of state aid is not sufficiently effective.

There has been progress in legislative alignment with the *acquis* in the area of *financial services*. Deficiencies persist in the administrative capacity of the supervisory bodies, in particular as regards insurance, where enforcement is particularly insufficient.

In the area of *information society and media*, significant progress can be reported in alignment with the *acquis* on electronic communications, including application of enforcement measures. This has brought more competitive conditions to the benefit of consumers. However, the financial situation of the Broadcasting Council and the public service broadcaster remain a cause for concern.

In the area of *agriculture and rural development*, progress in policy development has been followed by increases in the administrative capacity of the relevant institutions and better implementation, although alignment with the *acquis* remains at an early stage. There has been modest progress in the area of *food safety, veterinary and phytosanitary policy*, mainly related to legislation. Administrative capacity has been strengthened, but is not yet adequate to ensure proper implementation of the *acquis*. There has been progress in legislative alignment in the area of *fisheries*, where administrative capacity has still to be developed.

Good progress can be reported in the area of *transport policy*. However, administrative capacity in all sectors remains insufficient. Regulatory bodies and safety authorities have yet to become operational in the fields of land, air and rail transport. The reforms undertaken in railways still need further implementation.

Progress has been made in the *energy* sector, in particular as regards legislative alignment and liberalisation of the electricity market. However, certain outstanding issues related to tariffs and electricity distribution still require attention. The administrative capacity to enforce the

energy-efficiency policy and radiation protection regulations has improved, but requires further strengthening. The degree of independence of the regulators remains inadequate.

The level of legislative alignment in indirect *taxation* is sufficient but needs to be improved in direct taxation. Administrative capacity for tax collection has markedly improved and tax revenue has increased, but efforts are still needed to ensure effective implementation and enforcement of tax legislation. The significant efforts made to curb corruption in this sector need to be continued.

There has been some progress in legislative alignment with the *acquis* and administrative capacity in the area of *economic and monetary policy*. In the area of *statistics*, progress has been made towards improving both the statistical infrastructure and sector statistics. Alignment of the classifications with the *acquis* has advanced well. Further efforts are needed in order to achieve and maintain sufficient quality in the statistics.

Limited progress can be reported in the area of *social policy and employment*. A moderate level of legal alignment has been reached. While administrative capacity is slowly being strengthened, it remains insufficient to implement properly the legislation and policies adopted.

Good progress has been made in the field of *enterprise and industrial policy*, in particular regarding the regulatory framework and the sector policies.

Progress has been made in the area of *trans-European networks*. The country continues to participate actively in the South-East Europe Transport Observatory. The sizeable financial resources needed to upgrade the infrastructure remain a major impediment.

Some progress can be reported in the area of *regional policy and coordination of structural instruments*, although substantial work still lies ahead for the implementation of the components of IPA serving as pre-cursors to the Structural Funds. Administrative capacity at regional and local level and in the line ministries needs to be significantly strengthened.

Some progress has been made in the area of *judiciary and fundamental rights*. As regards judicial reform, the judicial council is functioning, the Council of public prosecutors has been established and the law on the public prosecutor's office has been adopted. However, further strengthening of the judiciary is required as regards its independence, efficiency, human resources and budgetary framework. The law on criminal procedure was amended to allow the use of special investigative measures in corruption cases. The anti-corruption Action Plan was allocated a specific budget. Further efforts are necessary, notably as regards financing of political parties and election campaigns. Concerning fundamental rights, a law on languages was adopted which allows for further use of the Albanian language in public life. However, further efforts are needed to address the concerns of the smaller ethnic minorities, including the Roma.

In the area of *justice, freedom and security*, the operational capacity of the competent authorities has further improved. Progress can be reported in police cooperation, the fight against organised crime, migration, asylum, and visa policy as well as border management. The legislation is largely in place and implementation is under way. The visa facilitation and readmission agreements between the EC and the former Yugoslav Republic of Macedonia entered into force in January 2008. A visa liberalisation dialogue with the European Commission has been launched. There has been good progress in fulfilling the benchmarks of

the roadmap for visa liberalisation, notably as regards the introduction of biometric passports. Progress has been made with profiling and breaking up criminal groups involved in human trafficking, but the country remains a country of origin, transit and destination for trafficking in human beings. The politicisation of senior police officers has led to abuse. Overall administrative capacity has to be further strengthened and organised crime remains a serious concern, which affects the rule of law and the business environment.

In the field of *science and research*, progress has been made on organisation of research cooperation at national level, but capacity is still insufficient. The first year of participation in FP7 has produced good results. Substantial efforts to facilitate integration into the European Research Area remain necessary.

Progress has been good in the area of *education and culture*, although capacity to implement the enacted legislation remains insufficient. The country should continue its efforts to prepare for management of the Lifelong Learning and Youth in Action programmes.

Progress has been made in developing the legislative framework in the field of *environment* in particular as concerns horizontal legislation and the air and waste sectors. A substantial amount of implementing legislation has still to be prepared. Some sectors, such as water quality or nature protection are lagging behind. Administrative capacity requires substantial strengthening and, although significant efforts have been made to increase financial resources, investments in environmental infrastructure are still largely insufficient. In the area of *consumer and health protection*, progress has been made in building the institutional capacity for consumer protection and increasing funding for public health. However, an effective and transparent market surveillance system is not yet in place. Administrative resources are not sufficient to allow full implementation of legislation, strategies and action plans in the area of public health.

Substantial progress has been made in the area of *customs union*. Revenue collection has increased substantially and good results have been achieved in combating cross-border crime. The customs legislation is well aligned with the *acquis*, but still has to be further harmonised. Administrative and operational capacity has improved significantly and the fight against corruption has led to tangible results.

There has been some progress in the alignment with the *EU's external relations* policy, in particular as a result of implementation of the CEFTA, as well as in the area of *foreign, security and defence policy*. Further efforts are needed to strengthen administrative capacity in these areas.

In the area of *financial control*, limited progress has been made on aligning and implementing the legislation. The administrative capacity of the institutions responsible for public internal financial control and external audit has been strengthened, but is still inadequate to meet the obligations arising from the *acquis*. In the area of *financial and budgetary provisions* some progress has been made on combating VAT and customs fraud. Appropriate coordination structures, implementing rules and administrative strengthening in the area of own resources will be needed in due course.

Montenegro

Montenegro has made important progress in addressing the **political criteria**, in improving its legal framework and in strengthening its institutional capacity in line with the European

Partnership. Implementation of the constitution proceeded well. However, Montenegro still needs to enhance its efforts to implement reforms. Particular efforts are needed to complete the judicial reform. Despite some progress, the fight against corruption and organised crime remains a major challenge. Political consensus remains strong on EU-related issues, but needs to be broadened on other areas of state-building. Administrative capacity needs to be enhanced.

Democracy and the rule of law have been strengthened. There has been some progress in implementing the new constitution adopted in October 2007. However, there is a need to improve governance and the functioning of the judiciary and to show greater political will to achieve results in the fight against corruption.

Parliament established a Council on European Integration which is headed by a member of the opposition. Legislative activity has been intense. However, parliament needs further to consolidate its capacity and effectiveness as a law-making and political oversight body.

The *government* has continued to adapt to the requirements created by the country's independence. It has further improved its coordination of European integration. But management and capacity, in particular in line ministries, remain weak.

Progress has been made in strengthening the legislative framework for the *public administration*. Some progress has been made in human resources management and local government reform. However, lack of human and financial resources, along with structural weaknesses and corruption, continue to hamper the overall effectiveness of the public administration. Administrative capacity remains limited. In key areas, such as urban planning and environmental protection, existing administrative structures and capacity are inadequate and need improvement. There is a need to further improve civil service legislation and to ensure its coherent implementation. The ombudsman's office was strengthened with the creation of two deputy ombudsman posts but its overall effectiveness remains limited.

Some progress has been made on reforming the *judiciary*. Montenegro has adopted an action plan and legislation implementing the new constitution. Special departments in high courts for combating organised crime, corruption, war crimes and terrorism were established in September 2008. However, core reform legislation to ensure the independence and accountability of the judiciary is still missing. The overall efficiency of the judicial system remains low. Backlogs in civil and criminal cases and excessively lengthy procedures remain a cause for concern. Criminal procedures in the case of the deportation and disappearance of more than 80 Bosnian civilians in 1992 have still not been finalised.

There has been some progress in strengthening the strategic and administrative framework for the *fight against corruption*. The perception of corruption has somewhat improved. However, implementation remains weak and results have so far been limited. Key legislation, such as a new law on conflict of interest, has not yet been adopted. Montenegro lacks strong and independent supervisory or audit authorities. The investigation capacity of the law enforcement authorities continues to be insufficient, resulting in a very low number of final convictions in corruption cases. Corruption remains widespread and is a particularly serious problem.

There has been some progress in the area of *human rights and protection of minorities*, where Montenegro remains broadly in line with European standards. The guarantee of retroactive application of the *European Convention on Human Rights* (ECHR) needs to be

clarified in the Law on the implementation of the constitution. Multi-annual strategies for social and *child* protection, for integration of persons with disabilities and for protection of the elderly were adopted in November 2007 but the conditions have not yet substantially improved in practice. Broader public attention and adequate legislation are needed to address domestic violence against *women*. Progress is needed on defining implementation mechanisms, improving protection and awareness-raising from gender-based discrimination. In view of recent incidents involving attacks against journalists, *freedom of expression* needs to be better protected. Investigations in such cases need to be thorough. Violence and defamation cases against journalists are a cause for concern. The conditions for *civil society* organisations remain, for the most part, satisfactory but there is room for improvement in cooperation between government and civil society. Regarding *property rights*, the process of restitution and compensation is proceeding and complaints against decisions taken by the three first instance regional restitution commissions continue to be filed.

Montenegro made some progress on strengthening the framework for *minority protection* by adopting a minority policy strategy and a national *Roma* strategy, forming national minority councils and establishing specific funding mechanisms. However, most implementing measures, including distribution of funds, have still to be put in place. Inter-ethnic relations are smooth but social and economic rights of displaced persons, among them many Roma from Kosovo, are not yet guaranteed. The Roma, Ashkali and Egyptian communities continue to face very difficult living conditions and discrimination, with poor access to education, social protection, healthcare, housing and employment. The recently adopted government strategy covering the period 2008-2012 now needs to be implemented.

Regarding *regional issues and international obligations*, Montenegro has continued to play a constructive role in the region and to participate actively in regional cooperation, including the newly established Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) remains satisfactory and Montenegro has signed cooperation agreements on war crime cases with the state prosecution services of Serbia and Croatia.

Good relations and cooperation with neighbouring states were further fostered. Bilateral cooperation has further progressed. In particular, progress has been achieved in settling bilateral border issues between Montenegro and Croatia, as they decided jointly to refer the Prevlaka peninsula case to the International Court of Justice. Montenegro recognised the independence of Kosovo¹⁰ in October 2008.

As regards the International Criminal Court, the bilateral immunity agreement with the United States is not in line with the relevant EU common position and guiding principles.

The **economy** of Montenegro has continued to expand vigorously. The pace of structural reforms accelerated and institutional capacities were reinforced. Macroeconomic stability weakened due to rising inflation and external vulnerabilities. Shortcomings in the rule of law and their resolution remain the key challenge for economic development.

As regards **economic criteria**, the country has made further progress towards establishing a functioning market economy. Completion and swift implementation of the ongoing reforms is

¹⁰ Under UNSCR 1244/99.

required to cope in the medium term with competitive pressure and market forces within the Union.

Economic growth remained robust, driven by strong inflows of FDI and domestic demand, further lowering the unemployment rate. The deceleration of lending growth of commercial banks to more sustainable levels in 2008 reinforced macroeconomic stability. The strong fiscal position enabled additional capital investment and a further reduction of the external public debt. The privatisation process accelerated, reducing the exposure of public finances and enhancing competitiveness.

Restructuring of the transport and energy sectors got underway. Regulation and functioning of the financial services sector improved with the revision and implementation of a new banking law, and the setting-up of an insurance supervisory agency. The Council for the elimination of business barriers was established. The upgrading of human resources continued with the implementation of more efficient training programmes. Economic integration with the EU remains high.

However, the current account deficit reached unprecedented levels, and the structure of its financing became less favourable. The fiscal stance remained accommodative despite the temporary nature of the cyclical upswing. Headline inflation increased due to rising energy and food prices. The mismatch and shortages of labour skills drove wages upwards. Privatisation of some companies failed due to lack of investor interest.

Industrial production remained relatively volatile. Export capacity of small and medium-size enterprises is still very limited. Market entry, property registration and delivery of building permits suffer from administrative weakness. The large informal sector is fuelled by a weak regulatory framework and by weaknesses in law enforcement, including the fight against corruption and organised crime. It remains an important challenge as it reduces the tax base and the efficiency of economic policies.

Montenegro has made further progress in alignment with **European standards**. On the whole, the Interim Agreement is being implemented smoothly since 1 January 2008. Good progress was achieved in the areas of free movement of services, customs and taxation, agriculture, road transit traffic and research. Some progress can also be reported with regard to the creation of the legal framework in the areas of free movement of goods, competition, public procurement, intellectual property rights, education, employment and social policies, industry and SMEs, food safety, justice, freedom and security. However, further improvement in completion of legislation, institutional set-up and administrative capacity are still needed in these areas. Particular efforts are needed on justice, freedom and security. Progress in transport, energy, environment and information society remained uneven. Progress has not been satisfactory in statistical system development.

As regards the *internal market*, Montenegro has made some progress in addressing related European Partnership priorities. In the area of *free movement of goods*, the establishment of institutions continues. But Montenegro needs further to strengthen the related administrative and human capacities, to enhance cooperation between the relevant state institutions and to align the horizontal legal framework with Community legislation. Additional efforts are also needed on the sector-specific *acquis*.

The legislative framework in the field of *free movement of persons* was improved with the adoption of the Law on employment and work of foreigners, which will be applied from 1

January 2009. Progress in the area of *free movement of services* was significant, due to the liberalisation in the framework of the ongoing WTO accession negotiations. Regarding the *right of establishment*, the company law was amended in order to align it further with the EU company directives.

Progress was also made in the field of *free movement of capital* by amending the legislation on foreign currency and capital operations by revoking some protective measures.

Good progress was achieved in the field of *customs and taxation*. Legislation has been further aligned with the *acquis*. However, a continuous effort is needed with both alignment and improvement of tax collection. The administrative capacity of the customs and tax authorities needs to be further enhanced, including the effective use of risk analysis and computerisation. The fight against corruption remains a priority.

Regarding *competition*, the institutional set-up continued with the establishment of the administration for competition protection and of the state aid control commission. Their operational independence will need to be ensured and their administrative capacity strengthened.

Progress continued in the *public procurement* system. In some areas, such as utilities, concessions and public-private partnerships, alignment remains poor. Staff of the public procurement agency have received training but its administrative capacity needs further strengthening.

Further progress still needs to be made on *intellectual property rights* protection. The Montenegrin Intellectual Property Office (IPO) was officially opened on 28 May 2008, but the institutional and enforcement capacity and the level of public awareness are still limited.

Further progress was made to develop *employment policies* and legislation, with the adoption of the labour law, but implementation capacities are still lagging behind. Regarding *social policies* and the protection of vulnerable groups, where Montenegro continues broadly to fulfil its requirements, some progress was made on the legislative framework and with the establishment of the Social Council as a platform to enhance social dialogue.

While some initial steps have been undertaken by the government on *public health policy*, overall progress has been limited.

There has been progress in the area of *education*. The legal framework for education and the quality assurance system has been strengthened. Further progress is needed to implement a comprehensive lifelong learning policy. There has been good progress on *research*, particularly on development of a strategy and on regional and international cooperation, including with the EU.

Montenegro's accession to the *WTO* has entered its final stage. Progress was recorded at both multilateral and bilateral levels, including the deal reached in April with the EC.

As far as *sectoral policies* are concerned, progress can be reported in the area of *industry and SMEs*, although it is still limited in the harmonisation and acceleration of the procedure for issuing licences and permits and in the setting up of business facilities.

In the area of *agriculture and rural development, food safety, veterinary and phytosanitary issues, as well as fisheries*, progress can be reported on the legislative reform and

development planning. Nevertheless, implementation needs to be enhanced and an integrated food safety system established.

Some progress has been achieved in terms of alignment with the *acquis* in the field of *environment*. Significant efforts are needed, however, on implementation and enforcement. Special attention needs to be paid to strengthening administrative capacity and to establishing of effective inspection services. Further efforts should be put into raising awareness of environment protection issues. Overall, environmental protection, in particular in coastal areas and national parks, is a matter of concern.

There has been progress in the liberalisation of *transport*, in particular with regard to road transit traffic. Restructuring of railways is being implemented but access conditions to the infrastructure are yet to be defined. Progress in road safety, maritime transport, and in systemic approach to transport development has been limited. Substantial efforts are required in implementing the aviation *acquis*. Montenegro continues to actively participate in the South East Europe Transport Observatory.

Progress in the *energy* sector can be reported but it remains uneven. Continued efforts are still needed to meet the requirements of the Energy Community Treaty.

Some progress has been made in the field of *information society and media*. However, there are concerns on the independence of the new Electronic Communications Authority. Moreover, the transfer of competences to the new regulator may have an important negative financial impact on the Broadcasting Agency.

Developments in public internal *financial control* and external audit are at an early stage. Considerable awareness-raising efforts and training on the new systems are required. The independence and capacity of the State Audit Institution will need to be substantially strengthened.

Limited progress has been made in the production of *statistics* and the administrative capacity remains very weak. The statistical office (MONSTAT) has serious difficulties to fulfil its obligations and continues to lack professional independence. Substantial efforts are needed in all areas in order to reach a level in line with EU standards.

In the area of *justice, freedom and security*, Montenegro has started to address its priorities but implementation remains limited.

Montenegro made progress in the area of *visa* policy. The EC-Montenegro visa facilitation and readmission agreements entered into force in January 2008. A visa liberalisation dialogue with the European Commission has been launched. Montenegro adopted relevant new legislation and started issuing biometric travel documents. However, the visa regime is not fully in line with European standards and further efforts are needed to fulfil the criteria set out in the roadmap on visa liberalisation.

Regarding *border management*, Montenegro has started to implement the integrated border management strategy and the action plan and to strengthen the cooperation between the border police and customs services. However, a new law on state border surveillance is still missing. The technical equipment at several border crossing-points is insufficient.

In the areas of *asylum* and *migration*, progress has been uneven. Some progress was made in the field of asylum with the adoption of secondary legislation and the establishment of the

office on asylum and the state asylum appeal commission. In the area of migration however, preparations remain at an early stage. A law on foreigners has yet to be adopted. The newly adopted migration strategy has to be implemented effectively. A detention centre for illegal migrants is still lacking.

Some progress has been made in the area of *money laundering* with the adoption of a new law on the prevention of money laundering and terrorist financing. Secondary legislation now needs to be adopted and implementing capacity enhanced. Competencies and capacities of the financial intelligence unit remain limited. The investigative capacity of law enforcement bodies is still insufficient. Money laundering remains a serious cause for concern and significant further efforts are needed to prevent and combat it.

A new anti-drug strategy has been adopted and further training was provided to border police and customs staff, but *drug* transit and trafficking, in particular by organised crime groups, remain a matter of serious concern. Drug abuse and drug-related crime in the country continue to rise. Montenegro has started to address its priorities but further action is needed.

Modest progress was made in the area of policing. Internal reorganisation of the *police* and training sessions continued, but equipment, facilities and professional capacity need to be further improved.

Some progress was made in the fight against *organised crime*, in particular in the form of adopting an updated action plan and setting up special departments for organised crime in high courts. However, organised crime remains a matter of serious concern which affects the rule of law and the business environment. A new criminal procedure code has not yet been adopted. Investigations remain poor and lead to very few final convictions. There has been little progress in preventing the *trafficking in human beings*. Montenegro remains a country of origin, transit and destination. Investigations in this area are rare and a more proactive approach for identifying and assisting victims is needed.

There has been limited progress in the area of personal *data protection*. In the absence of a new legislative act and an independent and efficient supervisory authority, existing data protection rules remain unimplemented, which is a matter of serious concern.

Serbia

Serbia has made some progress on fulfilling the **political criteria** in line with the European Partnership. The Stabilisation and Association Agreement (SAA) was signed in April 2008, marking a milestone in EU-Serbia relations. Significant progress was made on cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). Full cooperation remains a key international obligation which must be fully complied with. In the Council conclusions of 29 April 2008 EU ministers agreed to submit the SAA to their parliaments for ratification and the Community agreed to implement the Interim Agreement as soon as the Council decides that Serbia is fully cooperating with the ICTY. In the course of the year, political life in Serbia was dominated to a considerable extent by the declaration of independence of Kosovo¹¹. Divisions between political parties on major policy issues adversely affected the activities of parliament and government, leading to early legislative elections. Since the Presidential and legislative elections there has been increased stability in

¹¹ under UNSCR 1244/99

government and greater consensus on European integration. The new government, formed in July 2008, has begun to address key political priorities and to accelerate the reform process.

In the areas of *democracy and the rule of law*, there has been some progress on adopting legislation to implement the new *constitutional* framework. However, further reforms are needed to ensure that the constitutional provisions on the judiciary are implemented in line with European standards.

Parliament ratified the SAA in September 2008 and has begun work on a legislative package addressing European standards in a number of areas. However, legislative output was limited and few laws were adopted during the reporting period. Parliamentary reform has been delayed and the issue of party control over the mandates of members of parliament has not been addressed. The capacity of the parliamentary committees remains limited and election legislation has still to be revised.

Government activities during much of the reporting period were affected by issues relating to Kosovo and a lack of consensus regarding relations with the EU. The new government, which took office in July 2008, has made a commitment to strengthen ties with the EU and to advance the reform process. Policy coordination in general between ministries and agencies needs to be improved. There was some progress in legislative reform in relation to local government. There is a need for further improvement and alignment with European standards in this area.

Serbia has good overall capacity in the area of *public administration*. European integration structures have been strengthened and, under the coordination of the Serbian European Integration Office, the Serbian administration actively participated in the preparation of the National Programme for EU Integration which was adopted by the Serbian government in October 2008. The newly established Office of the State Ombudsman was active in responding to citizens' requests for assistance and in proposing numerous amendments to draft legislation. Independent and regulatory bodies have performed relatively well under difficult conditions. Greater determination needs to be shown by the Serbian authorities to empower independent regulatory bodies and to ensure that they operate more effectively. Further efforts need to be made to strengthen professionalism and accountability throughout the civil service.

Progress was made towards ensuring *civilian oversight of the security forces* with the adoption of a number of laws. Reform in this sector still has to be completed and parliament needs to ensure effective democratic oversight.

In the area of *judiciary*, the Constitutional Court resumed its duties following the appointment of its President and 10 out of its 15 judges. Training and employment conditions for magistrates have further improved. Reform of the *judicial system* is still at an early stage, however, and the legislative framework to implement judicial reform is not fully in place. Administrative and appellate courts have not been established. Further efforts need to be made by Serbia to ensure the independence, accountability and efficiency of the judicial system.

There was some progress in the *fight against corruption*. Amendments to the law on financing political parties, and the law establishing an anti-corruption agency, which also contains new rules on conflict of interest, were adopted in October 2008. The Civil Law Convention on Corruption and the Additional Protocol to the Criminal Law Convention on Corruption were ratified in November 2007. However, a clear anti-corruption strategy is still lacking. There is

a lack of sufficiently independent oversight bodies covering party financing, conflict of interest, public procurement and privatisation and there has been limited practical results. Overall, corruption remains widespread and constitutes a serious problem in Serbia.

The overall framework for respect of *human rights and the protection of minorities* in Serbia is in place. The constitution contains guarantees for *civil and political rights* which are generally protected. However, these rights were affected by the climate in the country immediately following the declaration of independence of Kosovo. There were a number of incidents involving inflammatory language and violence against civil society organisations, human rights defenders and some sections of the media. Existing constitutional and legal guarantees in this area need to be fully enforced. There have been reforms of the *prison* system. However, overcrowding, violence and drug abuse pose serious problems.

The legal provisions for protection of *economic and social rights* are largely in place in Serbia. The legal framework, however, needs to be further developed, including a comprehensive anti-discrimination law. Legislation needs to be fully implemented. In the area of *women's rights*, the Ministry for Labour and Social Affairs has been active in furthering women's rights. However, a specific law on gender equality and the national strategy to improve women's position and enhance gender equality have not yet been adopted. Protection of women and children against all forms of violence needs to be improved. Further efforts are needed to improve the social inclusion of *children, persons with disabilities and vulnerable groups*, in particular access to health and proper education. With regard to *property rights*, legislation on restitution has not yet been adopted, preventing the proper launching of the restitution process.

Minority rights in Serbia are generally respected. Legislation to regulate national councils on *minorities* has, however, not been adopted. There were a number of incidents in Vojvodina in the period immediately following the declaration of independence of Kosovo, in particular against the Albanian national minority. The situation in southern Serbia remained stable but tense, whereas the situation in Sandžak has worsened following a deepening of divisions within the Muslim community. Insufficient attention has been paid to resolving the status of *refugees and internally displaced persons*. The *Roma* minority continues to face very difficult living conditions and discrimination, with poor access to education, social protection, healthcare, housing and employment. The lack of civil registration continues to hinder their access to basic social and economic rights.

As regards *regional issues and international obligations*, Serbia has made significant progress on improving cooperation with the ICTY, by arresting, and transferring to The Hague, indictees Stojan Župljanin and Radovan Karadžić. Full cooperation with the ICTY is an international obligation which must be fully complied with, and one of the key priorities of the European Partnership.

Serbia actively participated in regional initiatives, including the newly established Regional Cooperation Council (RCC). Serbia cooperated constructively in ensuring the implementation of the Central European Free Trade Agreement (CEFTA). Serbia has insisted that the Kosovo authorities be represented by UNMIK in regional groupings. It is important that Serbia demonstrates a constructive attitude towards Kosovo's participation in regional initiatives and international fora.

Relations between the EU and Serbia have been affected by the declaration of independence of *Kosovo*. In February 2008 a demonstration against the declaration of independence ended

in violence with several protestors attacking foreign diplomatic missions in Belgrade, including EU embassies. The EU condemned these attacks and urged the Serbian authorities to do all in their powers to prevent further violence.

Serbia has vowed to use only peaceful means and has exercised restraint in its response to the declaration of independence by the Kosovo assembly. The Serbian government has taken legal and diplomatic measures to contest the legality of the declaration of independence. The Serbian authorities recalled serving ambassadors from countries that recognised Kosovo, including EU Member States. Serbian ambassadors who had been withdrawn from EU Member States have since returned to their posts. In October 2008, the UN General Assembly voted in favour of a resolution tabled by Serbia, seeking a non-binding advisory opinion from the International Court of Justice (ICJ) on the legality of the Kosovo declaration of independence.

Serbia has opposed reconfiguration of the international civilian presence in Kosovo and EULEX deployment unless authorised by the UN Security Council. Serbia organised municipal elections in Kosovo in May 2008 in spite of UNMIK opposition and has strengthened parallel institutions in Kosovo, including the establishment of an assembly of municipalities.

The **economy** of Serbia continued to grow strongly. However, progress in macroeconomic stabilisation was mixed. The continuing reversal of fiscal consolidation added to macroeconomic risks. Structural reforms slowed down and the high level of unemployment, as well as rising inflationary pressures, remained major challenges.

As regards the **economic criteria**, Serbia made some progress towards establishing a functioning market economy. Further efforts are needed to enable Serbia to cope in the medium term with the competitive pressures and market forces within the Union.

Consensus on the fundamentals of a market economy was broadly maintained. The new monetary policy framework of inflation targeting enabled Serbia to meet the inflation targets in 2007. There was some progress in privatisation. Financial intermediation continued to grow from a still relatively low level. Significant progress was made with the development of the non-banking financial sector.

However, external imbalances widened, the quality of financing deteriorated, foreign debt rose, and the degree of macro-vulnerability increased also in the light of the global financial crisis. Fiscal policy remained expansionary, contributing to growing external imbalances and resurfacing inflationary pressures in 2008. Despite high economic growth rates in recent years, unemployment remained a major challenge. At the same time, the economy suffered increasingly from a shortage of skilled employees. There was some progress with regard to the privatisation of state-owned companies and banks. Foreign investment has been affected by the unstable political climate.

A competitive and dynamic private sector has not yet been fully established. Excessive bureaucratic requirements and complex legislation continued to hamper market entry and exit. Legal predictability and trust in the legal system remained limited, in particular as far as the effective enforcement of property rights were concerned. Although having declined, state influence on competitiveness remained high. The large informal sector is fuelled by a weak regulatory framework, by inappropriate tax and expenditure policies, and by weaknesses in

law enforcement, including the fight against corruption and organised crime. It remains an important challenge as it reduces the tax base and the efficiency of economic policies.

In the area of **European Standards**, compliance with the obligations under the SAA, and in particular the Interim Agreement, is a key priority of the European Partnership. The Serbian government took a decision in October 2008 to implement the Interim Agreement by 1 January 2009. Serbia remains well placed to implement the SAA and the Interim Agreement, thanks to its good administrative capacity. In order to benefit from and achieve full compliance with the obligations of the SAA, Serbia will need to make further efforts, notably in the form of adoption and implementation of legislation, and to strengthen its administrative and enforcement capacity, including for regulatory bodies.

Serbia has made some progress in the areas of the *internal market*. However there have been few developments in terms of legislative alignment. In the field of *free movement of goods* progress was made on standardisation, accreditation and conformity assessment. Further improvements are needed to strengthen institutional and administrative capacity and the legislative framework. Legislation on standardisation, metrology and product safety needs to be upgraded and Serbia needs to start establishing a market surveillance structure.

Preparations in the areas of *movement of persons, services and the right of establishment* are moderately advanced. Greater efforts are needed to ensure legislative alignment with the *acquis*, especially in the areas of company law and banking. The capacity of supervisory bodies in the financial services sector needs to be further developed. The Securities Commission was recently strengthened, but still has insufficient powers to fully carry out its functions in line with international standards. In the area of *free movement of capital*, capital flows with Bosnia and Herzegovina have been further liberalised and cooperation in banking supervision with the former Yugoslav Republic of Macedonia has improved. Overall, preparations to meet SAA obligations are moderately advanced in this area.

Improvements in the administrative capacity of the *customs and taxation* administrations yielded positive results in fighting illicit trafficking and smuggling and improving tax collection. New *ad valorem* and specific duties on cigarettes became applicable in line with the *acquis*. However, further strengthening is necessary in order to improve the customs infrastructure. Serbia needs to make further efforts to meet EU standards in the area of direct taxation.

There has been some progress in implementing *competition* legislation. The administrative capacity of the Commission for the Protection of Competition was strengthened. Further efforts are needed to align the existing anti-trust legislation with the requirements of the Interim Agreement. The enforcement capacity of the competition authorities needs to be further improved. Serbia has not yet adopted a legislative framework for state aid, nor has it established an operationally independent state aid authority or a system of *ex-ante* control. In the area of *public procurement*, procedures have become more transparent. However, Serbia still lacks a modern and fully effective public procurement system. Additional efforts are needed in the form of amending the legislation and strengthening the capacity to implement the requirements of the SAA.

In the area of *intellectual property law*, the capacity of the Intellectual Property Office was strengthened. However, its administrative capacity and its independence need to be further developed to ensure greater consistency and more effective enforcement of rules. The process

of granting patents has been streamlined in line with European standards. Some progress has been made in the field of enforcement, leading to seizures of counterfeit goods.

As concerns approximation to European standards in the areas of *employment and social policies*, the implementation record has partly improved, but is still inadequate. Legislation has still to be adopted in the field of social policies and public health and administrative capacity needs to be strengthened. In the area of mental health community-based services need to be further developed as an alternative to institutionalisation. There has been little progress in the area of *education*. Administrative capacity, coordination between institutions and links with the labour market need to be strengthened. In the area of *science and research* Serbia has participated successfully in the Seventh Research Framework Programme. However Serbia has still to develop an integrated research policy including increased investment and mobility of researchers. Serbia is relatively advanced in its preparations to join the *WTO*, but needs to step up its efforts to meet its own objective of early accession.

As regards *sectoral policies*, in the areas of *industry and SMEs* Serbia remains committed to the European Charter for Small and Medium-sized enterprises, in particular through improving cooperation between public and private stakeholders. However, it needs to adopt a new industry policy in line with the EU approach.

In the area of *agriculture*, there have been some improvements in administrative capacity. However, an appropriate legislative framework needs to be adopted and further efforts are needed to strengthen administrative capacity. Little progress has been made in the area of rural development and the phytosanitary area.

In the area of *environment*, Serbia's preparations remain at a moderately advanced level. Enforcement of legislation at all levels has still to be improved. Water management still lacks a comprehensive legal and institutional framework.

Some progress has been made in the area of *transport*. Serbia continues to actively participate in the South East Europe Transport Observatory. Implementation of the first phase of the European Common Aviation Area (ECAA) has continued but the agreement has not yet been ratified. Serbia adopted a new strategy for the development of rail, road, water, air and inter-modal transport, including the extension of Corridor X. However, this strategy needs to be followed up by action plans and sector-based legislative and administrative measures.

There was some progress in the area of *energy*. Tariff systems for electricity transmission have been upgraded and the markets for non-household consumers have been opened up. However, Serbia still needs to adopt amendments to its Energy Law and to strengthen its administrative capacity in order to fulfil the requirements of the Energy Community Treaty.

Little progress has been made in the areas of *information society and media*. Regulations on electronic signature were adopted, but the inadequate legal framework and limited institutional and regulatory capacity continue to undermine further developments in electronic communications, information society services and audiovisual policy.

In the area of *financial control*, a comprehensive policy on Public Internal Financial Control is still not in place. Overall, Serbia is at a very early stage of preparations for introducing a modern and effective system of public financial control. Internal audit units have not been established in all ministries. The State Audit Institution is not yet operational.

Serbia is moderately advanced in fulfilling the requirements of the SAA and the European Partnership in the area of *statistics*. Administrative capacity needs to be further strengthened.

There has been moderate progress in the area of *justice, freedom and security*. The visa facilitation and readmission agreements between the European Union and Serbia entered into force in January 2008 and a visa liberalisation dialogue has started. However, Serbia's visa regime is not fully in line with European standards. Serbia started to issue biometric passports in August 2008. In the area of *border control*, a new law on protection of the state borders was adopted in October 2008. However, implementation of the national integrated border management strategy and the action plan has been slow. Equipment of border crossing-points is uneven.

Following the adoption of the new legislation on *asylum*, Serbia took over responsibility for handling asylum cases from the UNHCR. However, procedural weaknesses persist and implementing legislation needs to be adopted. Progress in the area of *migration* was slow. In particular, reintegration of returnees needs to be improved.

Money laundering continues to be a serious problem. A national strategy for the prevention of money laundering and financing of terrorism was adopted by government in September 2008, but relevant legislation has still to be adopted. Effective measures to enforce and assess reports on suspicious transactions are not in place and the investigation capacity of the law enforcement authorities is insufficient.

Serbia is located on one of the major Balkan routes for smuggling *drugs*. Serbian authorities seized a significant amount of drugs during the reporting period. However, a national strategy and action plan on preventing drug abuse and reducing supply have not been adopted. Drug trafficking remains a serious concern.

The professional capacities of the *police* have improved as a result of additional training activities, but the differences between services remain considerable. Structural problems persist, such as a lack of coordination, transparency and clear division of responsibilities.

The fight against *organised crime* remains a matter of serious concern for Serbia which affects the rule of law and the business environment. New legislation on seizure of assets acquired through criminal acts and on criminal liability of legal persons was adopted in October 2008. However, the legal framework is still incomplete, due to the delayed entry into force of the new Criminal Procedure Code. A national strategy and an action plan have not been adopted. The efficiency of the special prosecutor's activities is hampered by the short term of office. International police cooperation and the capacity of the specialised police services to investigate financial crime remain insufficient. Management capacities for seized assets acquired through criminal acts are not in place and provisions on confiscation of the proceeds of crime are not sufficiently implemented.

Serbia continues to be a country of origin, transit and destination for *trafficking in human beings*. Some efforts were made in terms of investigations and indictments, but there have been an increasing number of Serbian victims. Efforts have to be stepped up to improve cooperation between state authorities and the NGO sector and to support victims better.

In the area of *data protection*, Serbia signed the relevant Council of Europe protocol and adopted a new legislation on data protection. However, in the absence of an independent and

efficient data protection supervisory authority, existing data protection rules have not been implemented.

Kosovo¹²

Kosovo declared independence on 17 February 2008 and adopted a constitution, which came into force on 15 June. In February the EU decided to establish an ESDP rule of law mission (EULEX) in Kosovo and appointed a Special Representative. EULEX is currently being deployed. The UNSG has started reconfiguring the United Nations Mission in Kosovo (UNMIK). UNSCR 1244/99 continues to be the international legal framework for the UN's mandate in Kosovo. The European Council of December 2007 and June 2008 stated the EU's readiness to assist Kosovo's economic and political development through a clear European perspective, in line with the European perspective of the region.

As regards **political criteria**, Kosovo has made some progress in addressing key European Partnership priorities. The constitution that was adopted in April is in line with European standards. A considerable amount of key legislation was adopted. This now needs to be implemented. Strengthening the rule of law, anti-corruption policy, the fight against organised crime and enhancing dialogue and reconciliation between the communities are major political challenges. Relations between Kosovo Albanians and Kosovo Serbs continue to be strained, especially in northern Kosovo. Following the declaration, the security situation remained relatively calm, with the exception of two serious incidents in northern Kosovo - destruction of two border posts and storming of the Court house in Mitrovica - which resulted in one fatality and many injuries. Parallel Serb institutions prevent the government from exercising its authority throughout Kosovo.

Regarding **democracy and rule of law**, overall stability has been maintained despite a number of incidents. Kosovo's political leaders have continued to cooperate with the international community. The complex legal context hinders the rule of law. Kosovo institutions continue to require strengthening at all levels.

The *assembly* took some steps to strengthen its structures. Representatives of the Kosovo Serb community resumed participation in its work after a boycott following the declaration of independence. Shortcomings remain to be addressed in the functioning of the assembly, notably the insufficient capacity to scrutinise draft legislation and to exercise parliamentary control over government.

A new *government* took office in January 2008. It gave priority to European integration matters and adopted its Plan for European Integration and the European Partnership Action Plan. However, reforms have been delayed as the work of the government was affected to a considerable extent by status and other issues related to Kosovo's declaration of independence. Further capacity-strengthening and strategic planning remain necessary. Inter-ministerial coordination and the interaction between the government and the assembly need to be improved.

Public administration in Kosovo is weak and inefficient. The public administration reform strategy and related action plan still require effective implementation at both central and local

¹² Under UNSCR 1244/99

levels. Major efforts are needed to establish the framework for a professional, efficient, independent and merit-based civil service free from political interference.

As regards the *judicial system*, the assembly approved a number of important laws aimed at strengthening the functioning of the judiciary. The Coordination Council for Rule of Law has started to operate. However, the judicial system is still weak. A comprehensive plan to streamline applicable and often competing law is needed. The court system faces serious human resources and organisational challenges and the backlog of cases continues to be a major problem. Witness protection is ineffective. Parallel courts applying Serbian law continue to operate.

As regards the *fight against corruption*, the anti-corruption agency (KAA) improved its working methods and efficiency. However, corruption remains widespread and continues to be a very serious problem. An anti-corruption strategy and action plan are still needed. The institutional framework to tackle corruption is unclear, and the KAA's resources are inadequate.

The constitution provides guarantees for the respect of ***human rights and the protection of minorities***. Legal safeguards to ensure respect of human rights have been established. There continues to be a need for stronger political determination and effective monitoring. Following the declaration of independence, the government continued to reach out to ethnic minorities, in particular Kosovo Serbs. However, more determined efforts are required in order to integrate the Kosovo Serb and other communities.

There has been some progress on *civil and political rights*. The legal aid system is operational. There has been progress in improving the prison system in Kosovo, but challenges remain, notably as regards standards for high-security prisons. Some limited progress was made in the area of *freedom of expression*. However, defamation continues to be a criminal offence. The media continue to be vulnerable to political interference. Freedom of association and assembly is guaranteed under the constitution but the relevant legal framework is not yet in place. The capacity of civil society organisations remains weak.

Economic and social rights are only partially guaranteed. Sustained efforts are needed regarding the protection of women and children against all forms of violence. Integration and protection of socially vulnerable groups and people with disabilities are not ensured. Implementation of *anti-discrimination* legislation is poorly monitored and citizens are not informed of its provisions. Little progress has been achieved in the area of *property rights*. Delays in implementing legislation and obstruction have led to violations of rights. The fact that Kosovo authorities are not allowed access to the land register in Belgrade is a major obstacle to progress in this area. Enforcement of legislation on respect of religious property needs to be strengthened (e.g. the municipalities of Dečani/Dečan and Đakovica/Gjakovë are in breach of the legislation on the inviolability of Orthodox Church property).

As regards *minority rights, cultural rights and the protection of minorities*, progress has been made in the area of minority and cultural rights legislation. The legal framework provides for participation of ethnic minorities in Kosovo society. However, Serbia has discouraged the Kosovo Serb community from taking part. There have been no major inter-ethnic incidents but sporadic outbreaks continue to be reported. Living conditions of minority communities continue to be poor. As concerns *returnees, refugees and internally displaced people*, some progress was made, such as the approval of the reintegration strategy in October 2007, but the returns process slowed down after the declaration of independence and remains a key

challenge. The Roma, Ashkali and Egyptian communities continue to face very difficult living conditions and discrimination, with poor access to education, social protection, healthcare, housing and employment. Further efforts by the government are required for the protection and integration of all minorities.

Concerning regional issues and international obligations, Kosovo participates actively in regional co-operation initiatives. Kosovo, as well as Serbia, needs to demonstrate a constructive attitude regarding its continued participation. UNMIK has offered to facilitate arrangements for Kosovo's continuing engagement in international agreements. A joint committee started work on border demarcation with the former Yugoslav Republic of Macedonia.

The **economy** of Kosovo has grown at a higher rate than in previous years. However, growth remains too low to absorb the additional labour supply offered by a young and growing population. Macroeconomic performance was marked by volatile budget outcomes, growing inflation, very high unemployment and external imbalances. The consensus on economic policy essentials was weakened by the government's focus on political developments and by increased budget volatility. Economic development is further hampered by a standstill in privatisation, erratic energy supply, weak rule of law, limited productive capacity, poor infrastructure and inadequate education.

As regards the **economic criteria**, Kosovo has made very limited and uneven progress towards establishing a functioning market economy. A continued drive for reform and sizable investments in infrastructure and education are necessary to enable Kosovo to cope over the long term with competitive pressure and market forces within the Union.

Overall, economic policies remained market-oriented. The government presented a comprehensive Medium-Term Expenditure Framework 2009-2011 (MTEF). Growth slightly picked up compared with previous years and economic activity is increasingly driven by private-sector dynamism. Foreign direct investment rose. Financial intermediation in Kosovo deepened further. Some procedures for market entry and exit by businesses have been smoothed and economic integration with the EU continued.

However, the consistency and reliability of economic policies were weakened in an uncertain political environment. Stronger fiscal consolidation than planned in 2007 was followed by an expansionary budget plan in 2008, leading to increased budget volatility. The budget is not used as an efficient instrument of fiscal policy and does not contribute to the predictability of economic developments. Instead, it responds to ad hoc spending pressures. Inflation resumed and unemployment remained very high. The external accounts remained precarious, as the trade deficit widened further and Kosovo continued to lack export capacity.

Privatisation was temporarily suspended in 2008, following a ruling by the Supreme Court, which called into question the method of privatisation and the transition from the UNMIK Kosovo Trust Agency (KTA) to the Privatisation Authority of Kosovo. The lack of quality statistics remained a serious obstacle for designing good policies. Major constraints for private-sector development include the unreliable energy supply, a mismatch of skills and poor physical infrastructure. Companies have uneven access to finance and the interest-rate spread between deposits and loans remained very high. The large informal sector is fuelled by a weak regulatory framework, by inappropriate tax and expenditure policies and by weaknesses in law enforcement, including the fight against corruption and organised crime.

This remains an important challenge, as it reduces the tax base and the efficiency of economic policies.

Kosovo has made some progress in approximating its legislation and policies with **European standards**, notably in areas such as customs, agriculture and free movement of goods. However, little progress has been made on effective implementation and enforcement of legislation. More efforts are needed on further approximation to and implementation of European standards, in particular on fighting organised crime, money laundering, drugs, taxation, energy and employment.

Progress in implementing the European Partnership priorities in the area of the EU *internal market* has been mixed. There has been some progress in establishing the necessary horizontal infrastructure required by EU legislation on *free movement of goods*, but alignment with European standards continues to be limited in this area. Considerable efforts are still needed to develop the infrastructure and to upgrade the relevant administrative capacity in order to ensure adequate transposition and implementation of European standards. There has been little progress in the areas of *free movement of persons, services and right of establishment*, in which alignment remained limited and only some progress concerning *free movement of capital*.

There has been some progress in the area of *customs*. Customs legislation is largely aligned with EU legislation, but significant efforts are needed to enforce legislation to fight counterfeit goods and smuggling. The absence of effective customs controls in northern Kosovo, where customs authorities are prevented from operating, deprives the government of important revenue and gives rise to extensive smuggling. Kosovo's legislation in the area of *taxation* is only partially aligned. Tax collection remains extremely weak, largely due to the size of the informal economy and to ineffective controls. There has been no progress in the area of *competition*. As regards *public procurement*, progress has been mixed. The framework law complies with European standards, but its implementing provisions are still lacking and there is no comprehensive strategy for further development. Limited progress was made as regards *intellectual property*. Legislation against property rights infringements came into force, but enforcement remains very weak.

Little progress can be reported on approximation to European standards in the *employment and social sectors*. The absence of a strategic and legislative framework and lack of administrative capacity are obstacles to the development of adequate employment policies and social protection in Kosovo. The *public health* sector is in a very poor state and is not given sufficient attention by the government. On *education*, some progress can be reported in approximating to EU standards. The government committed itself to invest more in this sector as a matter of priority and the Ministry of Education has continued to improve the quality of teaching and learning in higher education. However, education continues to be affected by severe resource constraints. Progress in the area of *research* continues to be limited.

As regards **sectoral policies**, limited progress can be reported on approximating to EU standards in the field of *industry and SMEs*.

There has been some legislative progress in the area of *agriculture and fisheries*. Some elements of the Agricultural and Rural Development Plan for 2007-2013 have begun to be implemented. Public support for agricultural development increased but remains at a very low level considering agriculture's potential importance for Kosovo's economy. A clearer

separation of responsibilities is needed between the different agricultural services (including the *veterinary and phytosanitary* administration) at central and local levels.

As regards the *environment*, there has been some progress, mainly in the area of horizontal legislation, notably related to environmental impact assessment. Further efforts are still required in most sectors on transposition, implementation and enforcement of legislation. The lack of human and financial resources at both central and local levels remains to be addressed. Appropriate coordination mechanisms between all institutions dealing with environmental protection also need to be put in place.

Some progress can be reported in the field of *transport*, which has suffered from decades of underinvestment. Kosovo has increased its investment in transport infrastructure from 2008 on, especially in road building and maintenance. It continues to actively participate in the South East Europe Transport Observatory. However, the capacity to implement European transport standards remains weak, especially in the railway sector. Kosovo needs to develop its capacity to implement investment projects on infrastructure and rolling stock.

There has been some progress in the area of *energy*, particularly in building up the institutional capacity of the ministry, regulator and transmission System Operator (KOSTT). However, energy shortages are still frequent and major problems remain to be solved. The financial viability of the power utility needs to be improved, by reducing commercial and non-technical losses and ensuring more effective bill collection. Stability of supply needs to increase and infrastructure needs upgrading. Kosovo's impending lignite shortfall needs to be addressed.

In the area of *information society and media*, some progress was made. The Press Council and the Media Institution are functioning properly. Market liberalisation progressed as a second mobile telephone operator started to offer services. However, the various regulatory bodies face budgetary restrictions.

There has been some progress in the field of *financial control*, but only limited progress on statistics where concerns persist about administrative capacity and the ability of the institutions to cooperate in collecting and processing data.

As regards justice, freedom and security, there has been some limited progress. Kosovo has no visa regime in place to regulate access of third-country nationals to its territory. Some progress was made in improving the framework for Integrated Border Management. The government has started issuing Kosovo passports. The border police have no effective control over the crossing points in northern Kosovo, for which responsibility remains with UNMIK.

The assembly has adopted an asylum law but the Ministry of Interior has limited capacity to handle asylum cases or cases of involuntary returns of Kosovo citizens. There is no reception centre for asylum-seekers or involuntary returnees. A law on migration still needs to be adopted.

Progress in combating *money laundering* has been insufficient. The determination and capacity to fight against money laundering have to be increased considerably. The judiciary and law enforcement continue to lack the expertise to fight economic and financial crime effectively. There is a shortage of specialised prosecutors. There are no facilities for proper storage of evidence. Communication between the relevant services and institutions remains poor. The fight against money laundering remains a key challenge.

Drug trafficking continues to be a serious concern. Kosovo is one of the main trafficking routes for *drugs* in the Southern Balkans. There is no action plan or strategy to combat drug trafficking. Statistics are unreliable and intelligence-gathering capacity is insufficient.

Progress was made in the field of *policing* with the adoption of laws on the police and on the police inspectorate. However, implementation of an effective crime-reduction strategy requires sustained determination and sufficient police capacity. Kosovo has a multi-ethnic police force. However, some Kosovo Serb police officers boycott the Kosovo Police (KP). The KP cannot ensure effective policing in some Serb-majority areas.

Organised crime continues to be a serious problem, which affects the rule of law and the business environment. There is no strategy to fight organised crime. The legislative framework is still incomplete. Legislation is needed on confiscation of assets, witness protection and undercover agents. A reliable land register is required to allow the confiscation of real-estate assets. In order to tackle organised crime effectively determined and sustained efforts are required on the part of the authorities. Kosovo continues to be an area of origin, transit and destination for *trafficking in human beings*. A strategy and an action plan have been adopted in July, but enforcement is inadequate.

There are no developments on protection of *personal data*. There is still no general legislation on data protection. No independent data protection supervisory authority has been set up yet.

Turkey

Turkey continues to sufficiently fulfil the Copenhagen **political criteria**. The Constitutional Court did not enact the Chief Prosecutor's request to dissolve the ruling party and ban 71 of its prominent members, but imposed financial sanctions, thus averting a major political crisis. Turkey now has a fresh opportunity to advance reforms and establish a climate of dialogue and pluralism. Some progress has been achieved in the areas of freedom of expression, the rights of non-Muslim religious communities, and in promoting the economic development of the South-East. However, a consistent and comprehensive programme of political reforms is needed, in particular reform of the Constitution. Significant further efforts are needed on most areas related to the political criteria.

As regards **democracy and the rule of law**, the new President played a positive role by calling for further political reforms and working actively to improve relations with Armenia. However, the lack of dialogue and of a spirit of compromise between the main political parties had a negative impact on the functioning of the political institutions and on the process of political reforms. The work of the newly elected parliament was affected to a considerable extent by legal cases aimed at dissolution of the governing party and of one of the opposition parties.

As regards local governance, the recently adopted local administration laws need to be implemented and the financial resources of local governments increased.

There has been little progress on *public administration reform*. The civil service system needs to be reformed.

As regards *civilian oversight of the security forces*, full civilian supervisory functions and parliamentary oversight of defence expenditure need to be ensured. Senior members of the armed forces have continued making statements on issues going beyond their remit.

As regards the *judiciary*, work to prepare judicial reform has made progress. However, concerns remain about the independence and impartiality of the judiciary. There has been no progress on the composition of the High Council of Judges and Prosecutors or on establishment of the regional courts of appeal. There is a need to improve the quality of investigations of the police and the gendarmerie to ensure a fair trial.

There has been limited progress in the area of *anti-corruption*. Corruption remains widespread. The continuing absence of an overall strategy, action plan and coordination mechanism is a cause for concern. Turkey needs to develop a track record of investigations, prosecutions and indictments.

Concerning *human rights and the protection of minorities*, progress has been limited. Turkey has continued to enforce the European Court of Human Rights (ECtHR) judgments but further efforts are needed. There has been no progress on ratification of international human rights instruments. The institutional framework for promoting and enforcing human rights still needs to be upgraded. Introduction of an ombudsman system is long overdue.

The Turkish legal framework includes a comprehensive set of safeguards against *torture and ill-treatment*. However, more efforts are needed on implementation of the zero-tolerance policy. Reports of cases of ill-treatment and torture, in particular outside places of detention, are a cause for concern. In this context, ratification of the optional protocol to the UN Convention against Torture (OPCAT) and the fight against impunity for human rights violations remain key issues.

There has been some progress in the efforts to strengthen the safeguards for *freedom of expression*, in particular through the amendment of Article 301 of the Turkish Criminal Code. However, Turkey needs to establish an adequate track record on the implementation of the revised article. In addition, all legal restrictions need to be addressed with a view to ensuring full respect of freedom of expression, in law and in practice, in line with the European Convention of Human Rights (ECHR) and the ECtHR case law. In the light of certain pressures on the exercise of the freedom of the press and of the electronic media, vigilance and monitoring are required in this area.

Further efforts are needed to ensure *freedom of assembly* in practice, in line with European standards, as arbitrary limitations and disproportionate use of force against demonstrators still occur. There have been some improvements to the legal framework on *freedom of association*. However, some associations face excessive administrative difficulties or judicial proceedings. Furthermore, in the light of the recurrent closure cases against political parties, the legal provisions on political parties need to be amended in line with the case law of the ECtHR and best practice in EU Member States, as outlined by the Council of Europe's Venice Commission.

As concerns *freedom of religion*, the adopted Law on foundations addresses a number of outstanding property-related issues concerning non-Muslim communities. However, a legal framework in line with the ECHR has yet to be established, so that all non-Muslim religious communities and Alevis can function without undue constraints. Turkey needs to make further efforts in order to create an environment conducive to full respect of freedom of religion in practice.

The overall legal framework guaranteeing gender equality and *women's rights* is broadly in place but further efforts are needed to ensure full enjoyment of these rights in practice.

Further significant efforts need to be made to address the gap between men and women in economic participation and opportunity, educational attainment, access to healthcare and political empowerment. Efforts to prevent honour killings and domestic violence have continued, but these issues remain a serious problem and efforts need to be stepped up.

There has been progress on *children's* access to education, social services and the juvenile justice system. However, efforts need to continue in all areas related to children's rights, including administrative capacity, education, the juvenile justice system and child labour.

Legislation is still needed to ensure that *trade union rights* are fully respected in line with EU standards and the relevant International Labour Organisation (ILO) conventions, in particular the rights to organise, to strike and to bargain collectively.

The situation with regard to *minority rights* remains unchanged. Turkey made no progress on alignment with European standards. Some limited progress was made on *cultural rights* but restrictions continue, in particular on the use of languages other than Turkish in broadcasting, in political life and when accessing public services. There are no opportunities to learn these languages in the public or private schooling systems. There has been no progress in the situation of the *Roma*, who frequently face discriminatory treatment in access to adequate housing, education, social protection, health and employment. Demolitions of Roma neighbourhoods, in some cases involving forced evictions, continue.

As regards the East and *South-East*, the government's decision to complete the South-East Anatolia Project is a step in the direction of addressing the economic and social difficulties of the region. Further efforts are needed to create the conditions for the predominantly Kurdish population to enjoy full rights and freedoms. Compensation of *internally displaced persons* (IDPs) has continued. However, the government lacks an overall national strategy to address the IDP issue. The village guard system remains to be phased out.

Terrorist attacks by the PKK, which is on the EU list of terrorist organisations, continued and claimed many lives.

With regard to *regional issues and international obligations*, Turkey has expressed public support for the resumption of fully fledged negotiations under UN auspices to find a comprehensive settlement of the *Cyprus problem*. However, there has been no progress towards normalisation of bilateral relations with the Republic of Cyprus. Turkey has not fully implemented the Additional Protocol to the Association Agreement and has not removed all obstacles to the free movement of goods, including restrictions on direct transport links with Cyprus.

Relations with Greece have evolved positively. Further confidence-building steps have been taken, but no agreement was reached on border disputes. Turkey continues to play a positive role in the *Western Balkans*. Relations with *Bulgaria* remain positive. Good neighbourly relations remain key.

The **economy** of Turkey continued to perform relatively well, although growth fell below potential largely owing to a slowdown in domestic demand following severe monetary policy tightening. Macroeconomic stability has been preserved. Inflation has increased significantly, mainly as a result of higher food and energy prices. The structural reform process has accelerated somewhat, in particular in the first half of 2008. Despite some recent initiatives,

further progress is necessary to correct labour market imbalances and address the skills mismatch.

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 it implements its comprehensive reform programme in order to address structural weaknesses.

Over the past year, Turkey has implemented a strong stabilisation programme. Now it is entering a new stage in its development strategy aimed at raising its growth potential through higher public investment, job creation and sectoral reforms. The economy has so far performed well in spite of the global financial turbulence and the domestic political uncertainty.

Long-term capital inflows remained high, leading to an increase in official reserves. Fiscal performance has been satisfactory, although the government missed the 2007 fiscal targets. In June 2008, the authorities approved a 5-year Medium Term Fiscal Framework.

New initiatives to boost investment in infrastructure are aiming to reduce the very high regional disparities. Significant progress was made in the area of price liberalisation, particularly in the energy sector. Privatisation continued with a number of major operations. In spite of several bouts of instability during 2007-2008, the financial sector has so far shown remarkable resilience.

However, inflationary pressures have increased, in part due to higher oil and commodity prices. Considerable external financing needs stemming from large external deficits, coupled with the private sector's significant reliance on external financing and a sizeable - albeit falling - debt stock, make Turkey potentially vulnerable to changes in investor sentiment. Job creation continues to be hampered, notably by a skills mismatch between labour demand and supply and by rigid employment practices. Structural rigidities in the labour market particularly hinder any increase in female and youth employment. The skills of the labour force are still not adapted to the needs of a rapidly growing emerging economy. Allocation of state aid lacks transparency. The large informal sector, fuelled by weaknesses in the regulatory framework, inappropriate tax and expenditure policies and weak law enforcement, reduces the tax base and the efficiency of economic policies. In particular, too often SMEs operate in the grey economy and therefore continue to have insufficient access to finance and know-how.

Turkey improved 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, intellectual property rights, anti-trust policy, energy, enterprise and industrial policy, consumer protection, statistics, Trans-European Networks, and science and research. However, alignment needs to be pursued, in particular in areas such as environment, state aid, public procurement, social policy and employment, company law, food safety, veterinary and phytosanitary policies and free movement of services. A number of important obligations taken on by Turkey as part of its Customs Union with the EU remain unfulfilled. The disproportionate use of safeguard measures and longstanding trade irritants are having an impact on proper functioning of the Customs Union. Turkey's administrative capacity to cope with the *acquis* needs further improvement.

With regard to *free movement of goods*, the level of alignment of product legislation and horizontal measures is advanced, except on market surveillance and metrology. However, certain technical barriers to trade persist. Some progress was made on the *right of establishment and the freedom to provide services*. Alignment remains at an early stage. As regards *free movement of capital*, Turkey made some progress on capital movements, payments and the fight against money laundering but efforts are needed to strengthen the enforcement capabilities. There has been good progress in the area of *financial services*, especially as regards the tightening of prudential and supervisory standards.

In the area of *public procurement*, mixed progress has been made. The designation of the Ministry of Finance as overall policy coordinator is a positive development, but needs to be complemented by a comprehensive strategy identifying the necessary reforms. Turkey's public procurement system is only partially aligned with the EU system. On *company law*, Turkey made little progress. The new commercial code has not been adopted. With regard to *intellectual property law*, legislative alignment is relatively advanced. Coordination and cooperation between the public bodies responsible for Intellectual Property rights and their awareness has improved. However, implementation and enforcement need substantial strengthening. With regard to *information society and media*, Turkey's level of alignment with the audiovisual *acquis* remains limited. There is no progress to report on adoption of the new electronic communications law.

With regard to *competition*, the level of alignment continues to be well advanced in the area of anti-trust. However, there was no progress on adoption of the state aid legislation, establishment of the state aid monitoring authority and implementation of the transparency commitments. Finalising the National Restructuring Programme for the steel industry remains a priority. In the area of *agriculture and rural development*, alignment remains limited. Substantial progress has been made with building the capacity necessary to implement IPARD. Nevertheless, further efforts are needed to complete the necessary administrative and control structures. Turkey has not removed technical barriers to trade of beef meat and live bovine animals. In *fisheries*, no progress was made in establishing the necessary legislative framework. There has been limited progress in the areas of resources, fleet management, and inspection and control. In both agriculture and fisheries, implementing capacities are at an early stage. Concerning *food safety, veterinary and phytosanitary policy*, alignment is at an early stage. A Framework Law on veterinary services, food and feed has yet to be adopted. Work on identification and registration of animals is progressing. Avian influenza outbreaks have been successfully contained. Effective control of other animal diseases, in particular foot and mouth disease, remains a major cause for concern.

Some progress was made on *transport policy*. Alignment in the road sector-has continued but further improvement of the implementation capacity is required. Turkey made little progress in the railway sector. Turkey made limited progress in air transport. The lack of communication between air control centres in Turkey and the Republic of Cyprus compromises air safety. Progress on maritime transport is uneven. In the area of *Trans European Networks*, some progress was made. The Transport Infrastructure Needs Assessment (TINA) has been finalised but there is still a lack of a more reliable system of classified transport data. In the field of *energy*, there was some but uneven progress. Competition remains limited after the adoption of the framework laws on the electricity and natural gas markets. National targets for energy efficiency and renewable energy have yet to be set.

On *taxation* there was some progress in the legislative field. Modernisation of the Tax Administration has led to better service to the taxpayer and improved revenue collection. However, the discriminatory taxation of alcoholic and tobacco products continued.

The administrative capacity in the area of *statistics* improved. However, further progress is still needed concerning mainly agricultural and macroeconomic statistics and business registers.

Some progress was made in the area of *economic and monetary policy*. Several shortcomings still exist, in particular regarding full independence of the central bank, the monetary financing of the public sector and privileged access by the public sector to financial markets. Concerning *employment and social policy*, Turkey has made some progress through the adoption of the Employment package and the Law on social insurance and general health insurance. However, ensuring full trade union rights and combating undeclared work require particular attention. Further efforts are also needed in order to combat child labour and to update and finalise the strategic documents in this area. Gender equality in economic and social life needs to be improved.

Progress continued on *enterprise and industrial policy*, with the adoption of the SME Strategy and Action Plan. Overall, Turkey has a high level of alignment. Good progress was achieved in the area of *science and research*. Overall, Turkey is on track for integration in the European Research Area. In the field of *education and culture* progress was made towards adapting the Turkish education system to the EU structure and qualifications framework. Turkey participated successfully in the Community programmes.

In the field of *regional policy and coordination of structural instruments*, progress was made on building the capacity necessary to implement IPA components III and IV. However, further efforts are required to set up the necessary administrative and control structures at central and local levels.

As regards the *judiciary*, there has been some progress, in particular on the establishment of a judicial reform strategy. However, concerns remain about the independence and impartiality of the judiciary. These are issues that the reform strategy is expected to address. Limited progress can be reported on *anti-corruption*. The government has continued to implement its initiatives in this area. However, there is no legislation in place setting out rules on the transparency of election campaign financing. There has been no progress in limiting the immunity of Members of Parliament. An anti-corruption strategy and action plan need to be developed and to receive the political support necessary for implementation. As regards *fundamental rights*, there has been some legislative progress. Vigorous further efforts need to be made to ensure full respect of the fundamental rights set out by the ECHR and the case law of the ECtHR.

Concerning *justice, freedom and security*, some progress can be reported, particularly to prevent trafficking in drugs and in human beings. Alignment with the *acquis* in this chapter is underway, but sustained efforts are required in areas such as visa policy and judicial co-operation in criminal matters. Sustained efforts are also needed in the fight against organised crime, which remains a matter of concern. The capacity to manage asylum and migration needs to be improved. Efforts need to be stepped up to implement the national action plan on integrated border management. Turkey needs to resume negotiations on a readmission agreement with the European Community.

On *environment*, Turkey made progress in the area of air quality, waste management and in strengthening the administrative capacity at central level. Nonetheless the overall level of alignment remains low. Turkey made no improvements in the areas of industrial pollution, risk management and GMOs.

A satisfactory level of alignment has been reached in the field of *consumer* and *health protection*. Progress was made as regards enforcement of market surveillance and product safety, but more efforts remain to be done in the field of non safety related issues. The consumer movement in Turkey remains weak. Turkey made some progress in the area of *health* protection.

As regards the *Customs Union*, Turkey has reached a high level of alignment. However, alignment is not complete with regard to free-trade zones, customs duty relief, the fight against counterfeit goods and post-clearance. Turkey has also reached an advanced level of alignment in the area of *external relations* but has not associated fully with EU positions in the WTO and in the OECD.

Moderate progress has been achieved in the area of *financial control*. Legislation implementing the Public internal financial control Law is in place, but a number of amendments relating to internal control need to be approved. Permanent structures are needed to cooperate with the European Anti-Fraud Office on protection of the EU financial interests and for contacts with the Commission departments responsible for protection of the Euro against counterfeiting. With regard to *financial and budgetary provisions*, there were no particular developments.

Turkey's close alignment with EU *Foreign, Security and Defence Policy* continued. Turkey is contributing substantially to the ESDP and seeking greater involvement in its activities. However, Turkey objects to EU/NATO co-operation which would involve all EU Member States.

Turkey's has enhanced its role as a positive factor for regional stability and has played a significant part in advancing progress in relations between its regional partners, especially in the Middle East and in the Caucasus. In the course of the conflict in Georgia, Turkey played a conciliatory role and proposed to set up a "Caucasus Co-operation and Stability Platform". The Turkish President's visit to Armenia marked a new encouraging step in bilateral relations and opened up the prospect of normalisation of relations. However, Turkey's land border with Armenia remains closed.