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IN THE UNITED STATES AND IN THE EU

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*Dragan Simeunović*¹

Homegrown terrorism in the United States and in the EU

ABSTRACT

In books and articles focused on the problem of homegrown terrorism authors from different countries mostly describe this kind of terrorism in very different ways. Usually, homegrown terrorism is connected with the promotion of violent radicalization and different forms of ideologically based violence. The Internet especially has aided in facilitating violent radicalization and the process of homegrown terrorism in the United States and in the EU. Understanding the motivational factors that lead to violent radicalization and homegrown terrorism or other forms of ideologically based violence is a vital step toward eradicating these threats. The USA and Europe devote a lot of attention to Islamic terrorism because of the post 9/11 legacy both in terms of the threats and in terms of the anti-terrorist policy.

Key words: homegrown terrorism, United States, EU, violent radicalization, Islamist terrorism, “Balkan connection”, countermeasures.

The Term and Definition

The term homegrown terrorism requires some discussion and must be more precisely defined. In books and the articles focused on the problem of the homegrown terrorism authors from the different countries mostly described this kind of terrorism in very different ways.

It produced the next definitional problems:

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1. The problem of place

The most restrictive view is to apply the term when the act of terrorism was planned and committed in one country. Another view is to apply the term and define homegrown when and where the terrorist conspiracy was planned, regardless of where the terrorist attack took place.² The Dutch “apply the label ‘home-grown’ (sic) when the radicalization process has taken place in the Netherlands, regardless of where the terrorist acts are committed.”³

2. The problem of actors of the homegrown terrorism.

Who are the homegrown terrorists?

Mostly, they are identified as the citizen and/or resident who seeks to cause harm to fellow citizens and residents, “whether targeted for a single purpose, as with Theo Van Gogh, or murdered indiscriminately as in Spain and the United Kingdom”.⁴ This may range from lone wolf individuals who wish to perpetrate an attack, to groups who are a “self recruited, self-trained, and self-executing” “group of guys” with few, if any, connections to an international conspiracy, to those who may be groups living in a particular country who have trained with and maintained connections to the al Qaeda transnational network, and finally to “ sleeper cells” planted by al Qaeda in a particular country who are bent on conducting a medium- or long-term terrorist mission.⁵

3. “Islamization” of the term

In all books and articles the term homegrown terrorism is only connected with terrorism based on radical interpretation of Islam. The authors eschew to pronounce as homegrown terrorists some groups which are rightly described as terrorists when they use violence, such as animal and environmental rights groups, the terrorist who acts to bring pressure on another nation—for example,

² Kimberley L. Thachuk, Marion E. “Spike” Bowman, and Courtney Richardson: *Homegrown Terrorism The Threat Within*, Center for Technology and National Security Policy, National Defense University, May 2008, p. 3.

³ “Homegrown Terrorism and Radicalization in the Netherlands: Experiences, Explanations and Approaches,” Testimony by Lidewijde Ongering, Dutch Deputy National Coordinator for Counterterrorism to the U.S. Senate Homeland Security and Governmental Affairs Committee, June 27, 2007.

⁴ Kimberley, p. 1.

⁵ “Protecting America from Terrorist Attack,” Speech by FBI Director Robert Mueller at City Club of Cleveland, Friday, June 23, 2006.

the anti-Castro Cuban or the Sikh separatist.⁶ They also leave aside the completely terrorist etno-separatistic or ideological spectrum as well.

Practically, homegrown terrorism means Islamist homegrown terrorism or in other words “Homegrown terrorism inspired by violent Islamist extremism”.⁷ The term homegrown terrorism is used to pronounce Islamist terrorism as a threat within Western societies.

4. “Westernization” of the term homegrown terrorism

The term homegrown terrorism is used only to focus this kind of terrorism in Western countries. Actually, the homegrown terrorism of focus in most of the books and articles is driven by some form of radical Islam and involves citizens and/or residents of Western countries who “have picked up the sword of the idea” and are willing to attack their own countries, even if they are themselves killed in the process.⁸ This term covers more or less “autonomous Western based groups who did not have any direct links to other international terrorist organizations, but were inspired by the ideology of militant Islamism”.⁹

5. Narrowing of meaning leads to the creation of sub-terms

In the literature of homegrown terrorism *homegrown* means to be associated with one or more of three categories of insiders: a) immigrants and visitors - legal or illegal; b) second- and third-generation members of the Muslim diaspora community; and c) converts to Islam.¹⁰

That is residents or citizens of countries who are either lone wolves, self-organizing “groups of guys,” or groups that have among their members some who have traveled and trained with al Qaeda and returned to their country of residence to commit terrorist attacks. The latter category may maintain close contacts with other transnational radical Islamic terrorist cells as well.

⁶ Kimberley, p. 1.

⁷ “Violent Islamist Extremism, The Internet, and the Homegrown Terrorist Threat”, United States Senate, Committee on Homeland Security and Governmental Affairs, Majority and Minority Staff Report, Joseph Lieberman, Chairman, Susan Collins, Ranking Minority Member, May 8, 2008.

⁸ Term used by a senior FBI official cited in Raffi Khatchadourian, “Azzam the American”, *The New Yorker*, January 22, 2007.

⁹ “Home grown terrorism and Islamist radicalization in Europe”, By Tomas Precht, Research report funded by Danish ministry of Justice (December 2007).

¹⁰ Kimberley, p. 2, Daniel Pipes, “Converts to Terror,” *The New York Times*, December 6, 2005.

The Administrative Definition of Homegrown Terrorism

Regarding the Violent Radicalization and Homegrown Terrorism Prevention Act of 2007 referred on October 24, 2007 to the Committee on Homeland Security and Governmental Affairs in the Senate of the United States the term “homegrown terrorism” means the use, planned use, or threatened use of force or violence by a group or individual born, raised, or based and operating primarily within the United States or any possession of the United States to intimidate or coerce the United States government, the civilian population of the United States, or any segment thereof, in furtherance of political or social objectives.

This structurally very good and very precise definition can be adapted and used in another milieu as well.

Homegrown Terrorism in the United States and in the EU

Homegrown terrorism is a cause of growing concern both in the United States and the EU.

Homegrown terrorism poses one of the two main threats to homeland security in the United States. In September 2006, FBI Director Robert Mueller stated that he saw a rising threat from homegrown terrorists. Reflecting on numbers, he said, “We have certainly hundreds... But if you’re looking at terrorism across the board...we have several thousand cases.”¹¹ Hundreds of domestic extremists were arrested in 2006 and 2007 on charges ranging from hate crimes to weapons and explosives violations, to murder. However, that statistics is somewhat misleading because the greatest numbers of domestic extremist violence in the United States probably comes from extremist environmental and animal rights organizations, which are somewhat removed from the extreme violence related to terrorism. Their violence does not terrorize the general population, in other words it is more targeted than indiscriminate. Homegrown terrorism produces indiscriminate violence.

In the EU, the overall number of terrorist attacks in all member states in 2008 decreased by 24 percent in comparison to 2007. But, homegrown terrorism is the only kind of terrorism increasing in the EU. The number of persons associated with homegrown Islamist terrorist groups is rising in the EU. A majority of the arrested individuals belonged to small autonomous cells rather than to well-known terrorist organizations.

¹¹ Michael J. Sniffen, “Domestic Terrorism Threat on the Rise, Says FBI Chief,” *Associated Press*, available at <<http://www.insurancejournal.com/news/national/2006/09/08/72233.htm>>.

There is a question as to whether the Muslims in Europe differ in their sentiments and attraction to terrorism from the Muslims in North America, and whether there are differing constitutional, legal and even societal traditions that facilitate or hamper their ability to express themselves.¹² European populations are as ethnically diverse as are North America's. However, in Europe there are an estimated 15–20 million Muslims in the diaspora community, with Islam being the fastest growing of the continent's religions.¹³ Regarding the Statistics offered by European Commission's Eurostat and Network of European Foundations only France, Germany and the United Kingdom together have more than ten million Muslims and more than 6,000 mosques¹⁴. Further, it is estimated that approximately one million Muslims immigrate to European Union (EU) countries each year.¹⁵ The growing influx of Muslims immigrants from the Balkans, especially from Bosnia-Herzegovina and Kosovo into the European Union during the 1990s did not face any obstacles.¹⁶ But today in the European Union there are growing concerns about Islam and the US sees the Balkans as a potential breeding ground for European homegrown terrorists.

While differences in terms of constitutional and legal traditions are few amongst the EU countries, there are gradations of social tolerance that make for a rather marked contrast when, for example, the United States and the Netherlands or the United Kingdom are compared. In countries such as Canada, the UK, and the Netherlands, multi-ethnic societies have evolved in such a way that young Muslims often have distinct identities that diverge from those of the states in which they currently reside — a divergence that, in the case of Canada, is even guaranteed by the Constitution. In fact, in many countries, there are distinct cultural enclaves where people apparently choose not to integrate into their adopted countries; rather, they live their lives within ethnic enclaves that have the linguistic, cultural, and social norms of their states of origin.¹⁷

In the United States, patriotism overwhelms most feelings of ethnic loyalty. Displaying a divergent identity in the United States is less accepted simply because that is not the norm; while tolerated, it is neither embraced nor

¹² Kimberley, p. 5.

¹³ Kristin Archick, John Rollins, and Steven Woehrel, *Islamist Extremism in Europe* (Washington, DC: Congressional Research Service, July 29, 2005), 1.

¹⁴ Branislav Radeljić, "Growing Concerns about Islam in the European Union", *The Review of International Affairs*, Vol. LXI, No. 1140, October-December 2010, p. 16.

¹⁵ Esther Pan, "Europe: Integrating Islam", *Council on Foreign Relations*, July 13, 2005, available at <http://www.cfr.org/publication/8252/europe.html?breadcrumb=%2Fregion%2Fpublication_list%3Fgroupby%3D0%26id%3D0%26filter%3D323%26page%3D3>.

¹⁶ Branislav Radeljić, op.cit., p. 16.

¹⁷ Kimberley, p. 5.

guaranteed. Further, pluralism in the United States means that while religious and cultural diversity is respected, equality under the law is guaranteed. Arguably, it is this guarantee, which extends across the civic culture to include opportunities for education, housing, and economic prosperity, which has led to less social alienation of legal immigrants in the United States as compared to Europe.

Moreover, in Europe rifts have developed in society as a result of, on the one hand, states attempting to accommodate and assimilate all manners of cultures, and, on the other hand, sub-cultures attempting to assert their increasingly devolved powers. In terms of overall integration of the Muslims into society, the record is poor in all European countries. A disproportionate number of the Muslims in EU countries are unemployed, economically disadvantaged, lacking opportunities for advancement, or incarcerated.

The specific situation is mostly in Germany. That country seems to be relatively immune from terrorist attacks. In fact, Germany has the largest Muslim population in Western Europe after France with 3.2 – 3.4 million Muslims out of the total German population of 82.4 million.

The Germans believe that they will not be targeted by radical Islamic groups because Germany did not participate in the invasion of Iraq. Also, approximately three-quarters (2.5 – 2.6 million) of Germany's Muslims are from Turkey (or are their descendants). Turkish immigrants have shown little interest in political or radical Islam.

But the reality is not so simple. Several serious attempts of Islamist terrorist attacks occurred in Germany in the last ten years. Thanks to the prevention and to the good fortune without any success, but only until 3 March 2011.

On this date 21-year-old Kosovo Albanian Arid Uka gunned down two US airmen at the Frankfurt airport. Two others were injured, one critically. According to the sources, when he opened fire, the gunman shouted "Allah Akbar". The airmen were on their way to serve in Afghanistan. Arid Uka later told police: "I did it for Allah!"

The German officials said Uka acted alone and might have become radicalized in the past few weeks before the shooting. The FBI considers that there may have been more people involved.

The facts are the following: Arid Uka was born in Kosovska Mitrovica. His father had moved from Kosovo to Germany 40 years ago and his mother moved with all of the children to Germany 17 years ago. Uka grew up in Germany. He went to high school but did not finish it. The reason may be that he did the last year in social service at the Green Crescent, a Frankfurt group that cares for elderly Muslim immigrants with no family. He apparently worked at the airport.

His family confirmed that he was a devout Muslim who prayed five times a day. His grandfather was an imam in their native Kosovo. Arid Uka even gave his mother half of his salary for the pilgrimage to Mecca.

One of the specific characteristics of homegrown terrorism is a strong link with the world of Islamic extremism through video tapes and the Internet. According to the German security officials and prosecutors, the Internet may have played a major role in Uka's radicalization. Uka's Facebook page contained hate-filled rants against the Jews. He had been listed on the social networking site under his real name, but changed it to Abu Reyan, his "warrior" title. Uka calls German Chancellor Angela Merkel an unbeliever, claiming she has sided with Israel, which he described as "a declaration of war". He posted a link to a jihadist battle hymn: "I can no longer stand this life of humiliation among you. My weapon is ready at all times." Understanding the motivational factors that lead to the violent radicalization and homegrown terrorism or other forms of ideologically based violence is a very important. Uka decided to carry out the attack after seeing a video on You Tube that apparently showed American soldiers raping a girl in Afghanistan. There is indeed a video that was posted recently on several jihadist forums and is still available showing men in United States uniforms appearing to rape a young woman. The Pentagon spokesman called the You Tube video the work of extremists and part of propaganda.

Uka's contacts with extremist preachers, including German Muslim Pierre Vogel, are confirmed as well. An official also confirmed that Rami M, who was picked up in Pakistan last year and extradited to Germany where he faces charges of membership in a terrorist organization, also lived in Uka's building. The neighbors said Uka and Rami had known one another. Rami M left Germany in 2009 for Pakistan.

It was the first terrorist attack on German soil in the decade since September 11. Regarding the German prosecutors the act was motivated by Islamism. Homegrown terrorism has begun to be a reality in Germany as well.

The Key Factors of Homegrown Terrorism

Usually, homegrown terrorism is connected with the promotion of violent radicalization and different forms of ideologically based violence.

The term "violent radicalization" means the process of adopting or promoting an extremist belief system for the purpose of facilitating ideologically based violence to advance political, religious, or social change.

The Internet has especially aided in facilitating violent radicalization and homegrown terrorism process in the United States by providing access to broad and constant streams of terrorist-related propaganda to United States citizens.

Individuals prone to violent radicalization, homegrown terrorism, and ideologically based violence span all races, ethnicities, and religious beliefs.

While overall, al Qaeda no longer exists in its original form, it continues to inspire a growing revolutionary movement. Since January 2005, as many as 40 grassroots groups have formed (and continue to evolve) in such a way that al Qaeda seldom exercises command and control.¹⁸ As a coordinator and source of inspiration, al Qaeda still has a role to play.¹⁹

A special variety of jihadism is offered by Muslim extremists from Europe and the USA, carriers of the so-called “homegrown” terrorism. They use bin Laden’s fatwas as well as speeches of other Islamic extremists, most commonly those of Ayman Al-Zawahiri, Abu Yahya Al Libi and Sheikh Abu Musab and Al Wudud, but their extremism is mainly reactive in its nature. Namely, they react to the “Judeo-Christian” environment in which they are situated, and that, in their opinion, undervalues them as humans and believers, and never accepts them completely. Hence, there are a number of Islamic terrorists who became what they are not in their homeland, but after coming to Europe or the USA. A good example for this was a New Jersey terrorist group consisting of the Albanians from Macedonia and Kosovo, as well as of one Turk and one Jordanian — who came to hate their new homeland even after it provided them hospitality, life standards and jobs, and decided to even the score using weapons in the name of Allah.

Understanding the motivational factors that lead to violent radicalization and homegrown terrorism or other forms of ideologically based violence is a vital step toward eradicating these threats. But, sometimes it is not easy. For example, in May 2008, a bomb exploded in a restaurant located in a shopping mall in Exeter, South-West England. The device, which consisted of caustic soda, drains cleaner, kerosene and nails, went off prematurely. In this event, only the attacker himself was injured. The suspect was an apparently vulnerable 22-year-old UK national who had converted to Islam. Acting alone, he was apparently “self-radicalized” and “encouraged” by literature and other material on the Internet. In October 2008, the suspect pleaded guilty to the attempted murder and preparing an act of terrorism. In January 2009, he was jailed for life with a recommendation that he should serve a minimum of 18 years. But, the motive seems to be not sufficiently identified.

In general, it appears that the Western foreign policy provides a major motivational factor for entering the radicalization path.²⁰

¹⁸ Kimberley, p. 7.

¹⁹ “Home grown terrorism and Islamist radicalization in Europe”, By Tomas Precht, Research report funded by Danish ministry of Justice (December 2007).

²⁰ Ibid, p. 79.

The Specific Characteristic of Homegrown Terrorism in the United States and in EU

One specific characteristic of homegrown terrorism in the United States and in the EU is the organization of small groups, consisting of only a few members. They are linked with the world of Islamic extremism only virtually, through video tapes and the Internet. They are religiously influenced towards jihadism mainly through their radical friends and traveling imams. They gather in apartments or on picnics, and not in mosques as did former groups of Islamic terrorists, what makes surveillance and capture difficult. The vengeful note in proclamations of al Qaeda and other radical Islamic groups “heals the soul” of frustrated young Muslims from Europe and the USA who are resentful of their environment for the “injustice” it has done to the Islamic world, in the first place to Afghanistan and Iraq. The appeal of jihadists for amending all the injustice they see is a chance to punish their environment, but also a chance to amend some personal injustice they experience. While, for example, left-wing terrorists fight for social justice, Islamic extremists fight for justice for Muslims.

Approximately 80 percent of the people who become radical Islamic militants join in the diaspora community via friends in soccer clubs, social groups, and local mosques. Recruitment is self-starting; groups of about eight persons are formed who become very close knit and who associate like a family, eating together, and even marrying each others’ sisters. Most are between the ages of 15 and 30 and have no particular racial or criminal profile to distinguish them — although once in the group they tend to wear the same clothes, display the same facial hair, and eat the same food. Many are married and have post-secondary education, with computer science, science, and medical degrees topping the list. Few have any formal religious education; they only encounter religion when they become “born again” in their militant group.²¹

This is a strategy in which small groups (cells) and individuals fight an entrenched power through independent acts of violence. The cells do not require any central coordination or communication with each other. Often they do not even have a leader. The train bombings in Madrid and London, for example, demonstrated that those responsible did not have strong ties to al Qaeda’s leadership. Rather, there were ties at some level between the bombers and clerics that did have a relationship to bin Laden, al- Zawahiri, or camps in Afghanistan.

The Countermeasures

The USA and Europe give a lot of attention to Islamic terrorism because of everything that has happened. After 9/11 attacks thousands of persons were

²¹ Kimberley, p. 8.

arrested in the USA and Europe as suspected for having connections to terrorists. Regarding the prevention, the following four components are suggested: societal measures, counter-ideology, public diplomacy and policing and community involvement.²² Prevention has become a way of everyday life in the USA and Western Europe to the extent where all surprises are theoretically impossible. Even so, new discoveries are present almost every day when it comes to homegrown terrorism. Some of them are rather bizarre, such as the exposure of British doctors as al Qaeda terrorists, or finding in July 2007 that eight officers of Scotland Yard, all of them Muslims, had contacts with Islamic radicals, visited al Qaeda websites and websites of other Islamic terrorist organizations. Three of them even managed to secretly get to terrorist training camps in Afghanistan and Pakistan.

A fact to be added is that in 2007, Muslim Albanians in the USA were key actors of a large Islamic conspiracy and a drastic example of homegrown terrorism, with the goal to kill American soldiers in military bases on the USA soil, primarily Fort Dix, and they were two thirds of all the members of the arrested terrorist group.

This group of radical Islamist from South Jersey consisted of Albanians Agron Abdulahu from Kosovo, brothers Driton, Elvir and Shain Duka from Macedonia, Serdar Tatar from Turkey, a legal resident of the USA and Mohammad Shnever, an American citizen born in Jordan. During 2006 and 2007, they prepared terrorist attacks on American military bases in order to kill as many American soldiers as they could. They were ready, as they said, to “sacrifice themselves to God in the name of jihad”. Therefore, they had target practice with firearms in the deserted area of the Pocono Mountains in Pennsylvania. In the serious police surveillance action, which lasted seventeen months, the FBI managed to infiltrate two of their associates in the group, one of whom (called Besnik) was a former member of the KLA. After hard evidence was gathered, this group was arrested in the beginning of May 2007. At the time they were arrested, they were trying to obtain bazookas in order to blow up Fort Dix military base posing as pizza delivery. Tapes in the possession of FBI confirm without any doubt that they were Islamic radicals inspired by al Qaeda propaganda and that they perceived themselves as warriors of jihad. A vast amount of Islamic materials was found in their computers; especially bin Laden’s fatwa’s calling for Holy War. They were mobilized for an action over the Internet. They were trained for the attack yelling “Allah ackbar” and cheering jihad.

²² “Home grown terrorism and Islamist radicalization in Europe”, By Tomas Precht, Research report funded by Danish ministry of Justice (December 2007), p. 73.

It is a paradox that these people, to whom the USA gave not only a new home, but also jobs and security, and even political support for their people, showed such ultimate ungratefulness and hatred towards the USA by choosing Fort Dix military base for their first target — the same place where Hillary Clinton in 1999 met thousands of Albanian refugees, many of whom had temporary accommodation there. Besides, they were plotting to assassinate US president George Bush, and Elvir Duka had made plans for a sniper assassination. Among the materials that the prosecutor gathered are also statements of the participants that show serious commitment to terrorist activity. For example, Dritan Duka wanted to join the American Army, only to get a chance to kill as many soldiers as possible “from the inside”. Guns were provided by Abdulahu, an emigrant from Kosovo, who also trained them to shoot. The FBI materials show not only the degree of hatred that interlocked the group with warriors of jihad, but also the degree of their excitement with bin Laden, al Qaeda and the Taliban. The recordings of their conversations show that they considered themselves as part of the Islamic terrorist network. For example, Dritan Duka told his brother: “The Taliban are advancing gloriously and I am joyfully bringing you the news — **we** are winning the war.”

The extent of their fanaticism can be also seen from the information from the prosecutors that the Albanian from Kosovo, Agron Abdulahu, after being arrested kept drawing Kalashnikovs firing at the FBI in his cell, which can be seen as the ideological extension of his combat. Even in prison they never stopped waging jihad.

Being a big challenge for homeland security, homegrown terrorism needs an adequate response. The US Congress finds that the development and implementation of methods and processes that can be utilized to prevent violent radicalization, homegrown terrorism, and ideologically based violence in the United States is critical to combating domestic terrorism. While the United States must continue its vigilant efforts to combat international terrorism, it should also strengthen efforts to combat the threat posed by homegrown terrorists that are based and operate within the United States. Preventing the potential rise of self-radicalized, unaffiliated terrorists domestically cannot be easily accomplished solely through the traditional Federal intelligence or law enforcement efforts, and can benefit from the incorporation of State and local efforts. As we pronounced, individuals prone to violent radicalization, homegrown terrorism, and ideologically based violence span all races, ethnicities, and religious beliefs, and for this reason in the fight on homegrown terrorism, individuals should not be targeted based solely on race, ethnicity, or religion.

Despite the fact that homegrown terrorism poses serious threats to homeland security in the United States any measure taken to prevent violent radicalization, homegrown terrorism, and ideologically based violence in the

United States should not violate the constitutional rights, civil rights, or civil liberties of the United States citizens or lawful permanent residents.

Certain governments, including the United States, the United Kingdom, Canada, and Australia have significant experience with homegrown terrorism and every country can benefit from lessons learned by those nations.

In the US, the National Commission on the Prevention of Violent Radicalization and Homegrown Terrorism is established within the legislative branch of the Government.

The purposes of this Commission are to examine and report upon the facts and causes of violent radicalization, homegrown terrorism, and ideologically based violence in the United States, including the United States connections to non-United States persons and networks, violent radicalization, homegrown terrorism, and ideologically based violence in prison, individual or “lone wolf” violent radicalization, homegrown terrorism, and ideologically based violence, and other faces of the phenomena of violent radicalization, homegrown terrorism, and ideologically based violence that the Commission considers important.

The important measure of the Secretary of Homeland Security is establishing or designating a university-based Center of Excellence for the Study of Violent Radicalization and Homegrown Terrorism in the United States following the merit-review processes and procedures and other limitations that have been previously established for selecting and supporting the University Programs Centers of Excellence. The Center shall assist Federal, State, local and tribal homeland security officials through training, education, and research in preventing violent radicalization and homegrown terrorism in the United States. In carrying out this section, the Secretary may choose to either create a new Center designed exclusively for the purpose stated herein or identify and expand the existing Department of Homeland Security Center of Excellence, so that a working group is exclusively designated within the existing Center of Excellence to achieve the purpose.

It shall be the purpose of the Center to study the social, criminal, political, psychological, and economic roots of violent radicalization and homegrown terrorism in the United States and methods that can be utilized by Federal, State, local, and tribal homeland security officials to mitigate violent radicalization and homegrown terrorism.

In carrying out this section, the Center shall develop the following activities:

(1) Contribute to the establishment of training, written materials, information, analytical assistance and professional resources to aid in combating violent radicalization and homegrown terrorism;

(2) utilize theories, methods and data from the social and behavioral sciences to better understand the origins, dynamics, and social and psychological aspects of violent radicalization and homegrown terrorism;

(3) Conduct research on the motivational factors that lead to violent radicalization and homegrown terrorism; and

(4) Coordinate with other academic institutions studying the effects of violent radicalization and homegrown terrorism where appropriate.

Conclusion

Since 2002, terrorism has morphed into something that questions national social, legal, and cultural policies. In other words, it has evolved from being primarily external to also including a rising element of internal threat from local residents.

Homegrown terrorism is a serious challenge for homeland security in the United States and similar institutions in other countries. The Western intelligence services assess that the threat of homegrown terrorism is growing and probably will last for up to a generation.²³ The United States has an interest in the way other countries contend with their homegrown terrorists. Multilateral agreements, while they are encouraging, are often too broad to be of use for the variety and the scope of terrorist activities. Meanwhile, bilateral agreements are able to pinpoint specific problems, but these are often slow to be concluded and adopted. States can ill-afford to further alienate isolated and angry groups in their societies by declaring war on them. Preventing Islamist extremism and radicalization is extremely complex and difficult. Regarding the experience of some European countries, local communities and a dialogue play essential roles in counter-radicalization measures.

The growing phenomenon of homegrown terrorism requires further scrutiny, but it unfortunately appears to require scrutiny of individual states. It also requires that policy-makers focus on solutions that get at the heart of the problem, rather than to simply institute more stringent laws and formulate strong anti-terrorism policies.

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Why People Support Capital Punishment – Evidence from Poland and Scotland²

ABSTRACT

Conventional wisdom uses to link support for repression and punitivity to a high level or a sudden increase of crime statistics. According to this approach, citizens should support capital punishment as a reaction to more crime. However, this is not supported by social science research. The evidence from the case studies as well as from the public opinion surveys suggests a strong link between fear and repression, however fear can, but need not be connected to high crime rates. The paper presents an overview of the most recent literature on repression, punitivity and support for death penalty of two selected case studies, which are based on social surveys in Poland and Scotland. They show that authoritarian values and xenophobia contribute more to support for capital punishment than any other factor examined. The study then discusses some practical implications emanating from the lack of correlation between the actual crime rates on one hand, and punitive attitudes and threat perceptions on the other. It argues that authoritarian and xenophobic societies may increase support for capital punishment even in situations when crime rates decrease and the police becomes more efficient.

Key words: repression, crime, death penalty, punitivity.

Introduction

Repressivity — or repression — is conceptualized as a societal tendency for more repression of deviant behavior. In order to avoid misunderstandings it should be mentioned here what repressivity does not include. The notion does not claim to describe the actual degree of coercion a group, state or an institution exercises

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on its subjects. “Repression” is often used as a notion that describes the harshness, brutality, depth of interference in every day life or the attempts of authoritarian and totalitarian regimes to regulate values and attitudes of its citizens. However, here, I will stick to the social science definition of “repression” or “repressivity”, which describes attitudes, not behavior. For the purpose of this paper, “repression” is a societal tendency towards harsher sanctions for deviant behavior, which can, but not necessarily lead to more repressive behavior. The latter is then defined as “punitivity” — the tendency to introduce harsher punishment for illegal deeds. Respondents in social surveys may be more or less “repressive” and seek to convince others on the need to deter or punish perpetrators with higher sentences or changes in the criminal code of their country. This may or may not lead actually to more punishment, that is, to more severe criminal regulations. Punitivity, therefore, describes a tendency that seeks to impose higher criminal sanctions, whereas “repression” or “repressivity” is a larger notion, which includes also non-legal „social“ sanctions, like boycotts, public condemnation and social exclusion. A community that ousts foreign travellers, criticising them in public and forbidding them to enter the city centre, would be more repressive than another community, which refrains from such measures. It would only be punitive, if it also introduced higher sanctions for infringements of these rules.

Death penalty is a special element of both — repression and punitivity, and as such has often been an object of intense debate and research. In social surveys, it is possible to use questions about the admissibility of and support for capital punishment as an instrument, which allows measuring the degree of respondents’ repression. Together with questions about the appropriateness of actual criminal sanctions (“Do you think criminals are treated too liberal or too harsh in our country?”), questions about capital punishment are a good and popular measurement of repression. However, it should be kept in mind that a high degree of repression need not automatically correspond with a high degree of punitivity, since the latter depends not only on societal moods, but also on constitutional constraints and external actors like international obligations. A society may become more and more repressive over time, but this need not automatically lead to a more actual punishment or even penalisation. Also, the second can be true: A country may become more punitive, despite declining support for repression in opinion polls. The latter may happen, when punishment and crime are no salient issues in public debates.

Public controversies in the light of social research

Public disputes tend to concentrate on normative aspects of punishment: For decades, if not centuries, they have focused on the moral aspects of punishment, especially capital punishment, and on the question whether and if

yes, how far, punishment reduces crime, deters from committing crimes and makes society safer by isolating criminals from it. The outcome of these disputes largely depends on the value system; a society (or an individual, arguing in favor or against punishment) adheres to.³

All these debates normally concentrate on death penalty, although the logic applied by supporters and rejectors of death penalties can be easily detected in less passionate debates about the reasons and consequences of harsher punishment. All these debates refer to a basic logic, which either claims or rejects the need for punishment: Does punishment lead to less crime (because punishment deters from crime and prevents imprisoned wrongdoers from recidivism) or does it increase crime statistics (by turning petty criminals into professionals behind bars)? This dichotomy in public discourses about punishment and crime has a strong imprint on popular wisdom about why people support (capital) punishment. Most commentators in the media, politicians and even experts tend to construe a link between more crime and more punishment. It may be disputable whether more crime leads to more punishment (or *vice versa*), but it is rarely disputed that people tend to support more punishment because there is more crime. This mechanism can always be observed when a major crime, which is strongly highlighted by the media, is discussed in public. The first reaction of politicians (and large parts of the media) is then to demand new and more severe laws, which, in their view, would deter from committing such crimes.⁴

However, constructing a connection between crime and punishment is quite contrary to the results in social sciences and criminology. Whenever opponents of (capital) punishment point to low crime rates in countries with death penalty, supporters see this as a proof for deterrence. When crime rates are high, supporters of capital punishment will argue that this requires the imposture of capital punishment.

In this paper, I do not claim to provide the ultimate argument for or against death penalty or harsher punishment for crimes. Instead, I will focus on the reasons why people support death penalty. “Reason” should not be confounded with “justification”: People tend to support or reject capital punishment by using arguments from the media and public discussions, which they deem compelling to others. These arguments may vary over time and

³ A rather unusual perspective on crime and punishment can be found in: Mark A. R. Kleiman, *When brute force fails. How to have less crime and less punishment*, Princeton, Oxford, PUP, 2009.

⁴ On deterrent effects of capital punishment on murder rates in the US, see: Hashem Dezhbakhsh, Joanna M. Shepherd, *The Deterrent Effect of Capital Punishment: Evidence from a “Judicial Experiment”*, Emory University Economics Working Paper, July 2003. http://www.economics.emory.edu/Working_Papers/wp/dezhbakhsh_03_14_paper.pdf.

place and they do not answer the question which attitudes, social status, place of residence or level of education make support and opposition to capital punishment more or less likely. This is the focus of this paper. I concentrate on death penalty (instead of examining the whole issue of repressivity and punitivity) because questions about support and opposition to capital punishment are more often included in social surveys than questions about more or less punishment in general.

Methodology

After a general overview of the existing literature on repressivity, punitivity and death penalty support, I provide some basic information about the development of punitive trends in Poland and support for death penalty over time. I confront the data concerning crime rates and support for death penalty.

In the second step, I proceed to the analysis of two case studies. I use the data files from two opinion surveys, which include questions about capital punishment and allow testing alternative hypotheses — one from the Polish General Social Survey 1992-2002 and another from the Scottish Social Attitudes Survey 2004.⁵ Because the scope and methods from both surveys differ very much, I use the Polish survey to test some hypotheses retrieved from the literature and I refer to the Scottish poll in order to test some additional factors.⁶ After assessing the strength for different factors, I discuss some practical implications from this study for practitioners. Since legal definitions are very different in Poland and Scotland, I do not compare crime rates in both countries. I chose these surveys because both are rather recent. They include questions about capital punishment and allow testing of different (and complementary) hypotheses about why people support capital punishment.⁷

⁵ The Scottish Social Attitudes Survey 2004 was conducted on behalf of the Scottish Centre for Social Research. It was based on face-to-face interviews with a sample representative for the Scottish Population 18+ and carried out in the second half of 2004. The Polish General Social Survey was conducted by the Institute for Social Studies of the University Of Warsaw and the Institute of Philosophy and Sociology of the Polish Academy of Sciences and carried out on a sample representative for the Polish population 18+, based on the face-to-face interviews. Codebooks and data files are accessible on www.esds.ac.uk and www.ads.org.pl. For the latter see also: Bogdan Cichomski (kierownik programu), Tomasz Jerzyński, i Marcin Zieliński. *Polskie Generalne Sondaże Społeczne: skumulowany komputerowy zbiór danych 1992–2008*, Instytut Studiów Społecznych, Uniwersytet Warszawski, Warszawa, styczeń 2009.

⁶ It should be kept in mind that the results from the Scottish survey should not be used for explaining the developments in Poland and vice versa. A factor that contributes to a certain attitude in Scotland can, but need not necessarily contribute to the same attitude in Poland (and should not be expected to contribute with the same strength).

In the general overview, I also refer to the research conducted in Poland and the US in order to formulate hypotheses, which then I test against the above mentioned polls. I do not use polls from the US, since specific factors — especially the race issue — which are absent in most of Europe, seem to have an important impact on attitudes towards death penalty. As the above mentioned has shown, the US is very specific and difficult to compare to Europe when it comes to the issues of social and legal values, religion, secularization, capital punishment and repression.

Research done so far

In 2004, Jacobs and Carmichael tested several hypotheses concerning the link between ideologies, threat perceptions, the presence of (racial) minorities and death penalty enforcement.⁸ They found that the political explanations for the likelihood of death penalty execution were sustained by the empirical findings. Larger numbers of death sentences were more probable in states with greater membership in conservative churches and in states with higher violent crime rates. The findings also indicated that political conservatism, a stronger Republican party, and racial threat (understood as perceived threat from a large racial minority presence) explain whether death sentences are carried out in a state. However, as both authors admitted, “these hypotheses do not account for the number of death sentences beyond one.” It must also be emphasized, that their research was based on several independent variables (crime rate, threat and conservatism), this also including a problematic dependent one (death penalty enforcement) and hence, claimed to measure the influence of social and political attitudes on institutional behavior — a claim, that lacks theoretical embedding. These variables may explain why a state (re-) introduces capital punishment or why judges tend to impose it more often than before or more often than in other states. Without further assumptions, it would be difficult to understand, why these attitudes would incline a governor to execute prisoners, instead of delaying executions or changing death sentences into lifelong imprisonment.

Other researchers found strong links between the presence of racial minorities and support for death penalty among the white population in the US: The higher the percentage of black people in the neighborhood, the more likely whites would support death penalty. This hypothesis does not make sense in a

⁷ Initially I planned to include more surveys in my study (Ukraine, Slovenia and Australia), but it quickly turned out that the data files either did not contain questions about death penalty (or inappropriate ones) or where coded in languages I was not able to understand.

⁸ David Jacobs, Jason T. Carmichael, “Ideology, Social Threat and the Death Sentences across Time and Space”, *Social Forces*, vol. 83, No. 1 (Sept. 2004), pp. 249-78.

European context. It could be altered into one that examines the connection between the foreign (immigrant) population, xenophobic attitudes, the presence of traditional minorities and support for death penalty. Other research indicates a link between authoritarianism and support for death penalty and a negative correlation between trust in the government and institutions on one hand, and support for capital punishment on the other hand.⁹

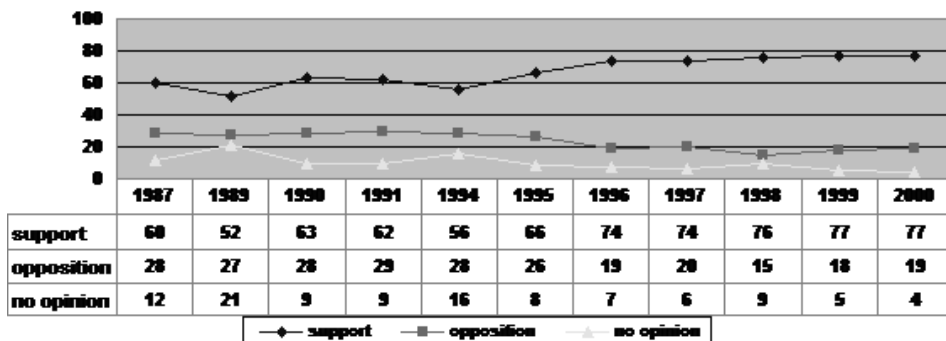
1. Poland

From a historical point of view, support for capital punishment has always been strong in Poland and has grown over time, no matter who has ruled the country. Support for death penalty rose during the communist time and continued to rise until 2006.¹⁰ However, there were two points in time, when support for death penalty rose dramatically and at both times, this occurred when the country underwent sudden changes, whose impact interfered deeply with everyday life. The first case was between 1988 and 1992 and the second during the late nineties.

As the crime statistics shows, the link between support for death penalty and shifts in the number of murders (counted as murder 1 and 2, according to the Polish legal definitions) seems to be rather weak.¹¹

The link between support for the death penalty and general feelings of insecurity, as measured by the question “Do you think Poland is a secure /

Tab. 1: Support and opposition to death penalty in Poland 1987 - 2000

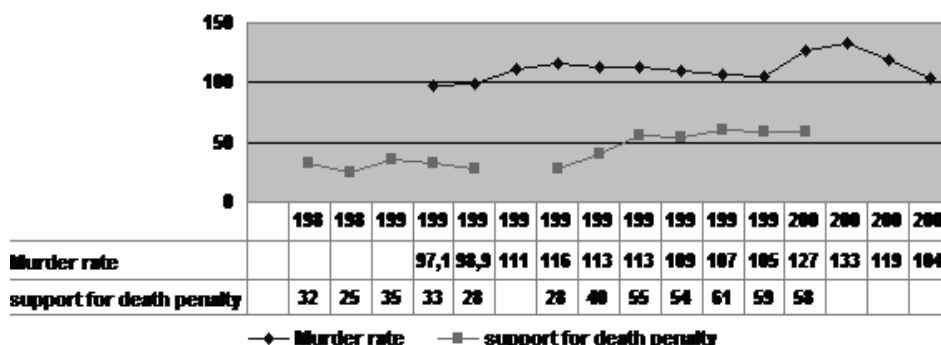


⁹ Joe, Soss, Laura Langbein, Alan R. Metelko, “Why do White Americans support the Death Penalty?”, *The Journal of Politics*, vol 65, No. 2 (May 2003), pp. 397-421.

¹⁰ Klaus Bachmann, “Tod dem Mörder. Zur repressiven Mentalität in Polen”. In: *Osteuropa* 59 – 9 – 2009, pp. 95-113.

¹¹ It should be mentioned, that the trends of tables 1 and 2 are retrieved and constructed from other polls than the ones, which are the basis for the Polish case study. The sources of both

Tab. 2: Murder rate and support for death penalty in Poland

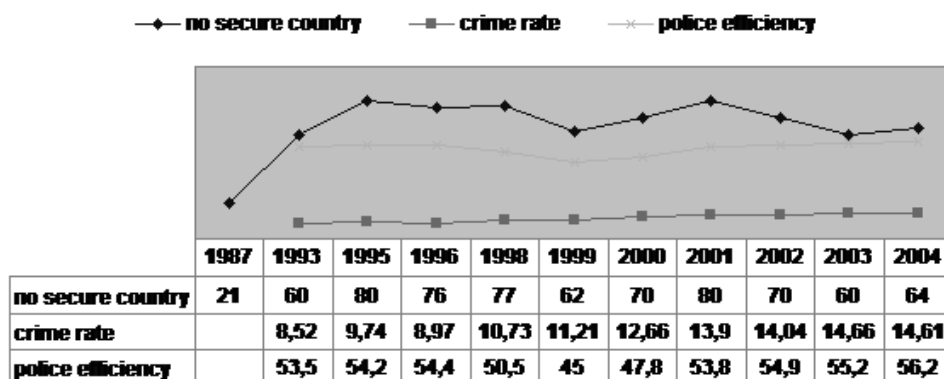


insecure country”, is much stronger than the correlation between the crime rate or murder rate and support for the death penalty.

Table 3 shows a sharp increase in feelings of insecurity (between 1988 and 1992) at a time, when there were no increases, either in crime rate, or in the efficiency of law enforcement (as measured by the rate of crimes, which led to indictments of suspects).

Table 3 seems to indicate a close link between the political reform and feelings of insecurity. This presumption is sustained by other poll analyses,

Tab. 3: Crime rate, police efficiency and perceived insecurity

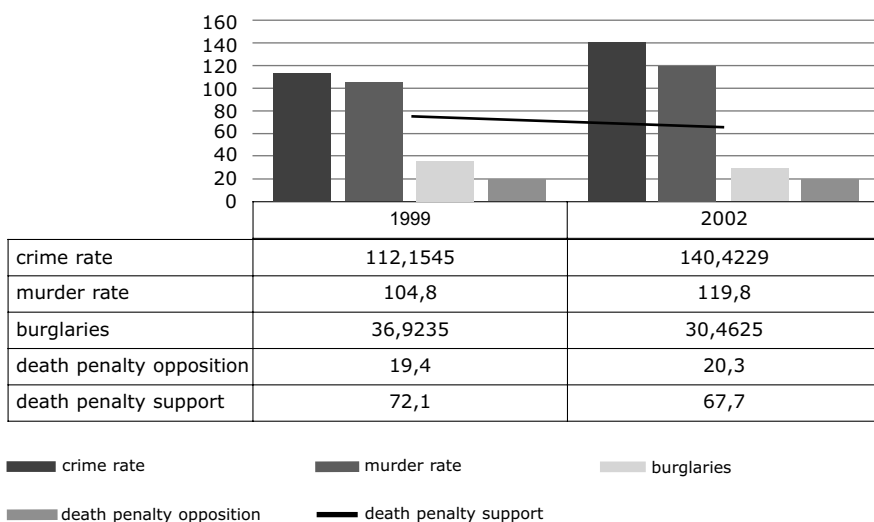


graphs are reports from the Polish Centre for Public Opinion (Centrum Badań Opinii Społecznej), which can be found on www.cbos.pl. It is worth mentioning, that the CBOS data show a decline in support for death penalty beginning with 2006, whereas the PGSS data show such a decline already in 2002 (see below in this article).

which show an increase in xenophobic attitudes and dissatisfaction with democracy at the same time.¹²

There is, however, absolutely no link between crime and support for death penalty in the Polish case. A comparison between the development of crime rates for murder and burglary (the latter often having the strongest impact on perceived insecurity) and the support rate for death penalty from the Polish General Social Survey, reveals even a weak negative correlation. The higher the number of burglaries and murders, the lower the percentage of death penalty supporters!

Tab. 4: *Crime rate and support for capital punishment in Poland 1999–2002*¹³



As the table reveals, in the same interval, when the crime rate and the number of murders rose rather strongly, the percentage of respondents, who opposed death penalty rose slightly and the percentage of supporters of death

¹² Klaus Bachmann, “Die List der Vernunft. Populismus und Modernisierung in Polen“, *Osteuropa 11-12 2006*, pp. 13-32.

¹³ Crime statistics were retrieved from the Headquarter of the Polish Police (Komenda Główna Policji): http://www.statystyka.policja.pl/porta1/st/842/47682/Postepowania_wszczete_przestepstwa_stwierdzone_i_wykrywalnosc_w_latach_19992009.html.

The poll data come from the Polish General Social Survey 1992–2002 (data for crimes and poll data were congruent only for 1999 and 2002).

penalty fell. If there is any statistical link between support for capital punishment and crime, it may be hidden in the number of burglaries, which fell together with the number of death penalty supporters.

The Polish General Social Survey data for 1992–2002, which provides the data for death penalty support, allows testing of many additional hypotheses concerning the shifts in support for capital punishment.¹⁴ On the basis of the above mentioned literature, I formulate the following expectations:

1. That respondents who attribute a high level of importance to religion and church are less likely to be in favor of capital punishment;
2. Respondents with a positive attitude towards communism (regarded as a system with authoritarian traits) are more likely to support capital punishment
3. Trust in the government decreases the likelihood of favoring death penalty.
4. Trust in the police decreases the likelihood of supporting capital punishment.
5. Xenophobic attitudes correlate strongly with support for the death penalty.

Unfortunately, the remaining hypotheses could not be tested for the lack of adequate variables. However, there was one factor, which could be excluded indirectly: The presence of traditional (ethnic and national) minorities in Poland does not increase support of respondents from minority areas. The Survey did not ask about the presence of minorities, but it split the respondents according to the voivodship they inhabited (with respect to the old, 49 voivodships and with respect to the new partition 16 bigger ones).¹⁵ Support for death penalty varied slightly across regions, but voivodships with a high percentage of minorities (mainly the Warmia — Mazury Region with many Ukrainians, Germans, Belorussians and the Opole Region with the highest percentage of Germans and Silesians) did not show higher scores of support for death penalty than others. Warsaw — as the entity with most immigrants and other foreigners in Poland — was also no outlier in terms of support for death penalty. Czestochowa and Gorzow were the entities with the highest scores in favor of capital punishment — and the ones with barely any minorities, immigrants and other foreigners. This is, however, the only circumstantial evidence, since an analysis on a lower level (for example, in local communities) could reveal a link between both factors.

It is worth mentioning that the impact of traditional socio-demographical factors on attitudes towards death penalty is very low. Variance in age and place

¹⁴ The values used are the average for 10 years. Support for capital punishment varied only slightly over time, between 73 percent in 1995 (the highest score) and 67.7 percent in 2002 (the lowest score).

¹⁵ To increase precision, I used the smaller entities of the 49 voivodships.

of residence does not explain much of the variance of the dependant variable. There is one example — the level of education. Support for capital punishment varies across different age cohorts with a difference in percentage points (measured as the distance between the cohort with the lowest and the cohort with the highest support) of 26.7. Opposition to death penalty varies across the same cohorts with $d\% = 19.4$.

In order to test the hypotheses above mentioned, I examined the strength of the relations between the different independent variables and support for death penalty by using Cramer's V , which allows comparisons between crosstables of different sizes. The outcome is presented in the table below:

Tab. 5: *The relation between several independent variables and support for death penalty*

Independent variable	Cramer's V	Rank order
Positive attitude towards communism	.119	2
Religion and church important for respondent	.063*	6
Personal fear	.082	5
Trust in the current government	.113*	3
Trust in police	.106	4
Xenophobic attitude	.149	1

*) Here the influence is adverse: The more important religion and church, the less likely is support for death penalty; the higher trust in the current government, the less likely is support for capital punishment.

Among the hypotheses, the relationship between xenophobic attitudes and support for death penalty is the strongest, followed by positive attitudes towards communism and trust in the current government, which decreases the likelihood that respondents support death penalty. Religious and church influence go in the same direction, however, the impact is the weakest of all factors. Trust in the police does not have any positive or negative influence, since the variable does not differentiate respondents — about 60 percent of both supporters and opponents of death penalty declared “moderate trust” in the police. Also, the other categories (“trust very much” and “do not trust at all”) showed the same percentages of supporters and opponents to capital punishment.

The regression analysis shows the same picture. The opinion, according to which immigrants increase criminality, contributes most to support for death penalty, followed by perceived personal fear. Religiosity decreases support for capital punishment. All other factors, except education, are statistically not significant.

Tab. 6: *Regression analysis for different variables affecting support for capital punishment*

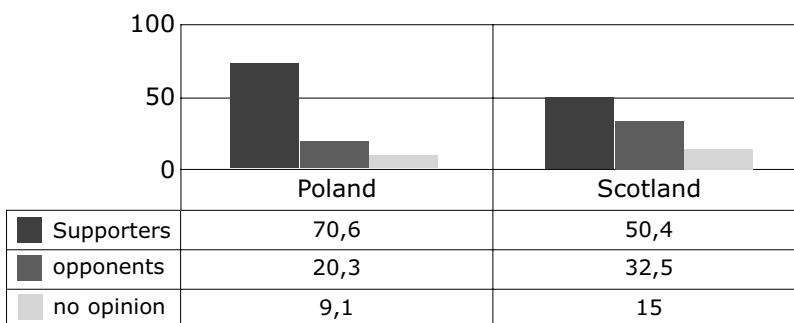
Independent variable	B	Beta	significance
Importance of religion and church	075	.068	011
Education level	045	.083	002
Xenophobia	129	.134	000
Perceived personal fear	113	.075	003

The picture is very clear: Nothing makes a respondent more likely to favor death penalty than xenophobia.

2. Scotland

At first glance, the level of support for capital punishment is much lower than in Poland — 20.8 percent of respondents agree strongly with the phrase “For some crimes, death penalty is the most appropriate sentence”, 29.6 percent agree with it, 21.3 percent disagree and 11.2 disagree strongly. In the case of Poland, the percentage of death penalty supporters was 70.6 percent, opponents constituted 20.3 percent and 9.1 percent of all respondents did not express any opinion.

Tab. 7: *Support for capital punishment in Poland and Scotland*¹⁶



¹⁶ In the Scottish Poll, 21 percent of respondents did not answer the question. In the Scottish poll, answers like “agree” and “agree strongly” as well as “disagree” and “disagree strongly” were cumulated into the same dichotomy like in the Polish poll.

Age and sex are statistically insignificant in the Scottish poll, too. Some other variables, which could be measured in Scotland, are potentially misleading. I, therefore, refrained from including “trust in the Scottish government” and “trust in the Scottish government” in the analysis supposing that both questions are more apt to measure shifts in loyalties of respondents to either Britain or Scotland and should not be confounded with the trust question in Poland, which rather intends to measure trust in the (centralized) state in general.

Some other issues, which were absent in the Polish poll, are highly interesting. Being different from the Polish poll, the Scottish Survey allows testing for authoritarian values. They are measured through two statements. In both cases, respondents were asked to express their opinion based on Likert scale (agree strongly, agree, no opinion, disagree, and disagree strongly): “Schools should teach to obey authority” and “Law should always be obeyed, even if wrong.” It turned out that the first statement had the strongest impact on support for death penalty, the second was slightly weaker, but its impact was stronger than xenophobia in the Polish poll, anyway.¹⁷

Tab. 8: *How authoritarian values contribute to support for death penalty*

Independent variables	Cramer's V	significance
Schools should teach obey authority	.394	.000
Law always be obeyed	.380	.000

Conclusion

Contrary to popular wisdom, support for death penalty is not explained by increases in crime. As the Polish data reveal, crime statistics may rise, the number of murders may increase and support for capital punishment may decline in the same period. There are other factors, which more strongly affect the likelihood of respondents to favor death penalty over other kinds of punishment. The level of a respondent's education affects the likelihood of support for capital punishment negatively — the better educated, the more likely is rejection of death penalty. The more respondents attribute importance to religion and church, the less likely they support death penalty. Perceived personal threat slightly increases the likelihood of support for capital punishment. However, nothing contributes more to punitive attitudes than authoritarian attitudes and xenophobia.

¹⁷ Unfortunately, no question was asked about xenophobia, which makes it impossible to test whether authoritarian values have a stronger impact than xenophobia in Scotland.

The Polish example also shows that perceived threat need not correspond to the actual threat: Threat perceptions and feelings of insecurity may rise in times of sudden changes (in politics, the labor market and everyday life), although crime rates remain stable or even go down. For practitioners, this means that increases in police efficiency and decreases in crime statistics need not automatically contribute to higher trust in law enforcement agencies and stronger perceptions of security: People may feel insecure when crime decreases and they may mistrust the police, even when the latter is more efficient than ever.¹⁸

When it comes to punitivity and support for capital punishment, the latter should not be regarded as a result of increasing crime rates. Authoritarian and xenophobic societies are more likely to support death penalty even in times of decreasing crime statistics and higher police efficiency. There are several factors, which can contribute to upward shifts in punitivity that were not mentioned in this study, but are well-known from some other research:

People may become more punitive as a result of few, but strongly mediatized crimes. The Dutroux affair in Belgium and the kidnapping of the Lindberg baby in the US are famous examples. This indicates that the media play an important role in explaining shifts in punitivity, an issue that is beyond the scope of this investigation.

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¹⁸ Siemaszko found that the factors that most increase fear of crime was not the crime itself, but the place of residence of respondents (townspeople felt more threatened than villagers) and the possession of a car (car owners felt more threatened by crime than people without cars). The latter factor may no longer be significant, since in the meantime, "car possession" does no longer differentiate Poles. Andrzej Siemaszko, *Kogo biją, komu kradną. Przestępczość nie rejestrowana w Polsce i na świecie*, Warsaw, Instytut Wymiaru Sprawiedliwości 2001, p. 149.

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Organized crime in sub-optimally developed societies

ABSTRACT

The aim of this article is to show the broad picture of criminal relations in sub-optimally developed societies. It is Africa which has been the home for the biggest number of developing countries for many years now. However, due to an enormous diversity of the continent, the main focus of this paper will be the region of East Africa, which consists of thirteen countries, including Kenya, Tanzania, Uganda, Burundi, Rwanda, Djibouti, Eritrea, Ethiopia and Somalia, as well as the Indian Ocean islands off the East African coast: Seychelles, Comoros, Mauritius and Madagascar. This article will search for the answer to the question of whether or not there are growing trends of concern, and whether they pose a significant threat to the stability of the societies of East Africa.

Key words: organized crime, East Africa, developing countries, small arms and light weapons.

It seems that the end of the 20th century and the beginning of the 21st century was a difficult time for East Africa region due to the proliferation of small arms and light weapons (SALW) and an upturn in crime rate statistics.² The objective of this paper is to provide a broad overview of illicit transnational activities and the involvement of organized crime in the above mentioned region, which so far has not been subject of a comprehensive study. Four different areas are going to be examined: trafficking in persons and migrant smuggling, firearms trafficking (SALW), drugs trafficking, environmental degradation.

The World Bank Report “African Poverty at the Millennium” claims that most of the time the data concerning African countries are truly worrying but

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² Data according to the UNODC 2009-12 Regional Programme for Eastern Africa: Promoting the Rule of Law and Human Security.

also that they display a considerable variability.³ It has been proven that they are often hard to verify, if not totally divergent. Although recent evidence suggests that many African countries have been affected by organized crime groups, little attention has thus far been given to a systematic analysis of the problem in the Eastern region of the continent. One fifth of the world's population lives in Africa and more than a quarter of all countries in the world are in Africa, and still the continent is the least documented region in terms of data and information on crime. Many African Governments are unable to supply information concerning crime in their country, including information requested by international drug and crime control treaties.⁴ That is why when examining crime in sub-optimally developed societies we face a lack of reliable data (data are either not collected, not easily accessible, or treated as confidential). However, the existence of organized crime and transnational trafficking in illegal goods such as firearms, drugs and counterfeit products is not contested.

The starting point for this analysis is three broad impacts of crime described by the United Nations Office on Drugs and Crime (UNODC) in the report "Crime and Development in Africa":

- crime erodes Africa's social and human capital,
- crime drives business away from Africa,
- crime undermines the ability of the state to promote development.⁵

Illicit trafficking and the associated problem of organized crime always affects the society by threatening the human security and state development, it also restricts investment and corrupts state institutions. Organized crime and corruption have the power to keep African countries in the vicious circle of the present-day stagnation. There is a number of factors which facilitate these processes:

- weak governments and instability,
- low allocation of resources to criminal justice systems,
- corruption as a critical problem,
- lack of transparency, accountability and awareness,
- poverty and inequality,

³ White Howard, Killick Tony, *African Poverty at the Millennium. Causes, Complexities, and Challenges*, The World Bank, Washington, 2001.

⁴ United Nations Office on Drugs and Crime, <http://www.unodc.org/unodc/en/organized-crime/index.html>, 28.09.2010.

⁵ United Nations Office on Drugs and Crime (UNODC): "Crime and Development in Africa", Vienna 2005, p. 67.

- demographic trends,
- geographical location,
- mismanagement of natural resources,
- African markets as destination markets for illegal commodities.

While there is no internationally accepted definition of “organized crime”, in this article it will be defined according to the United Nations Convention against Transnational Organized Crime (UNTOC) which says that “an organized crime group” is “a structured group of three or more persons existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offences established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit”.⁶ This is a rather broad definition, which does not perceive organized crime only in terms of mafia-style organizations with a strict hierarchical structure but it also includes street gangs and other different groups.⁷

Organized crime and Africa

“[In Africa] security means the protection of individuals with respect of the satisfaction of the basic needs of life, it also encompasses the creation of the social, political, economic, military, environmental and cultural conditions necessary for survival, including the protection of fundamental freedoms, access to education, healthcare and ensuring that each individual has opportunities and choices to fulfill his/her own potential.”⁸

Africa is the second largest continent and first in terms of being in trouble. For years, the international community has been trying to create different plans and agendas to strengthen the African economic and social development. The face of poverty and inequality in sub-Saharan Africa is still very harsh. According to the Social Indicators of 2005, “African Development Indicators” published by World Bank, more than 1.2 billion people live on less than one US dollar a day — most of them in sub-Saharan Africa.⁹ At the beginning of the 21st century, Africa yields insight into a group of global issues: from “the new

⁶ Article 2(a) of the UN Convention against Transnational Organized Crime.

⁷ Organised Crime and Trafficking in Eastern Africa, United Nations Office on Drugs and Crime, Nairobi, November, 2009, p. 13.

⁸ Draft text as adopted by the first meeting of the African ministers of defence and security on the establishment of the African Standby Force and the Common African Defence and Security Policy, 20-22 January 2004, Addis Ababa, Ethiopia. The text was adopted during the African Union Summit in the same year.

⁹ *African Development Indicators 2005*, The World Bank, Washington, 2005.

security threats” (drugs, gangs, SALW proliferation etc.), environmental problems and the global warming (droughts, the disappearance of biodiversity) to the redefinition of statehood, foreign policy (no longer the monopoly of the state) and state and human security. It seems that Africa is no less integrated into globalization than any other region in the world. “These constitute particular aspects of ‘globalizations’ — the uneven patterns of competitive restructuring involving further incorporation, structural change especially of state-society-economy relations, compressed communications, transformed technologies, internationalized patterns of taste and consumption, and so forth (...) — which have been transmitted to the continent as ‘structural adjustment’ programs (SAPs) and conditionalities (...)”.¹⁰ With the international aid, Africa has experienced considerable progress towards sustainable development over the last decade. However, the economic crisis, ongoing poverty enhancement and social inequality, climate change and an ever-present danger of escalating violence and conflict in the region have continued to menace Africa’s progress and have provided ground for different threats, in particular organized crime and trafficking. Governments in the region have made efforts to develop and implement policies to turn the tide, but it is often the case that corruption, weak governance and the rule of law have undermined those efforts.¹¹

As it was already mentioned, transnational organized crime is considered one of the major threats to human security, impeding social, economic, political and cultural development of societies worldwide. It is a multi-dimensional phenomenon and has manifested itself in different ways.¹² The process of globalization has changed the international environment, so the range of organized crime activities has broadened and diversified. Traditional structures of organized crime groups have been replaced with loose networks that work together in order to exploit new opportunities in the rising economies. The signing of the United Nations Convention against Transnational Organized Crime in 2000 was a step forward in countering this threat.

Nowadays, it is the United Nations Convention against Transnational Organized Crime that entered into force in September 2003, which counters organized crime worldwide. The Convention commits members of the

¹⁰ Shaw Timothy M., *African Foreign Policy in the New Millennium: From Coming Anarchies to Security Communities? From New Regionalisms to New Realisms?* in: Dunn Kevin C., Shaw Timothy M., (eds.) *Africa’s Challenge to International Relations Theory*, Palgrave Macmillan, 2001, p. 207.

¹¹ *Organised Crime and Trafficking in Eastern Africa*, United Nations Office on Drugs and Crime, Nairobi, November, 2009, p. 3.

¹² United Nations Office on Drugs and Crime, <http://www.unodc.org/unodc/en/organized-crime/index.html>, 28.09.2010.

international community to introduce a range of measures, including the creation of domestic criminal offences; the adoption of new frameworks for mutual legal assistance; extradition; law enforcement cooperation; technical assistance and training. According to its website, “UNODC works closely with governments, organizations and civil society to strengthen international cooperation to counter the pervading influence of organized crime and drug trafficking. The Unit has initiated and oversees numerous counter-narcotics and anti-organized crime projects.”¹³

Crime syndicates are smuggling diamonds, petrol, ivory, weapons, timber and also human beings. Because it is illegal and often done discreetly, experts note that the extent of organized crime is hard to establish. “But international crime intelligence and seizures of contraband suggest that Africa may have become the continent most targeted by organized crime”, according to UNODC’s 2005 report, *Crime and Development in Africa*.¹⁴ “Lack of official controls makes the continent vulnerable to money laundering and corruption activities, both of which are vital to the expansion of organized crime”.¹⁵

Scientists point out that organized crime threatens security of individuals and their property, the growth of democracy, good governance and human rights. This can dramatically limit development. Unsustainable development contributes to crime, resulting in an unstoppable cycle of poverty-crime-corruption. Crime also leads to the loss of different kinds of possibilities. Fear of crime can put off people who would like to invest in Africa. Despite the fact that returns are much higher than in other parts of the world, foreign direct investment (FDI) in Africa in 2008 reached a record high of \$88 billion, the peak of an uninterrupted six-year increase in investment.¹⁶ Wilfred Machage, Kenya’s Assistant Minister of Health, notes that to maintain this achievement it is necessary to focus on fighting organized crime, but it depends on increased funding, ongoing disruption of the criminal networks, and cooperation with regional and international law enforcement agencies.¹⁷

Organized crime in Africa is also increasingly linked with terrorism, which is illustrated by the 2010 killing of an aid worker in West Africa and the suicide bombings in Kampala, Uganda. This changed the traditional view that Africa

¹³ Information according to UNODC.

¹⁴ *Crime and Development in Africa*, United Nations Office on Drugs and Crime (UNODC), Vienna 2005, p. 29.

¹⁵ Mutume Gumisai, *Organized crime targets weak African states*, United Nations Africa Renewal, www.un.org/africarenewal.

¹⁶ The United Nations Conference on Trade Development (UNCTAD), World Investment Report 2009, 17.09.2009.

¹⁷ Ibidem.

was not a “hot spot” for terrorism. According to Jean-Paul Laborde, chairman of the UN Counter-Terrorism Implementation Task Force (CTITF), the specific alliance between transnational organized crime and terrorism forces us to focus particularly on Africa. In the past, terrorism in Africa was linked to movements of liberation, to the pretext of establishing a state or to mark the differences between religions, but it is no longer the case, since terrorist groups operating in the region are linked to transnational organized crime activities.¹⁸ According to his statement, both East and West Africa are becoming more popular as an intermediate destination in the trans-shipment of drugs and people from elsewhere to Europe. It has also become obvious that terrorist groups are using funds raised in this process to buy weapons for attacks and bombings. The arrival of fighters from two dominant terrorist organizations in the region, al Qaeda and al Shaabab, introduced new terror methods to African countries: suicide bombing have become common not only in Nigeria and Somalia, but also in other parts of the region (Kenya, Tanzania, Uganda). They are still operating freely between all the countries of the region.

The African security remains endangered not only by the extreme poverty, but also by radical groups, which play a significant role in the region. Without alternative financial incentives, unemployed youths, poor farmers and other low-paid workers will remain increasingly interested in this arena. Political, religious and ethnic tensions are also fueling the desire of some Africans to participate in terrorist activities. “The failure to reach out to the moderate nationalists only advances the goal of the radicals. It puts everyone into the biggest race to be seen as being the biggest supporter of the jihadists and diminishes the chances of creating a credible alternative to the militias”.¹⁹ The latest events in Kampala show how complicated the situation is.

¹⁸ UN Official Warns Terrorism and Organized Crime Increasingly Linked, AllAfrica, 30.07.2010, <http://allafrica.com/stories/201007300978.html>.

¹⁹ Adbi Rashid of the International Crisis Group in: Mutiga Murithi, *How Al Shaabab Became Al Qaeda's Incidental Stepchild*, The East African, 10.07.2010.

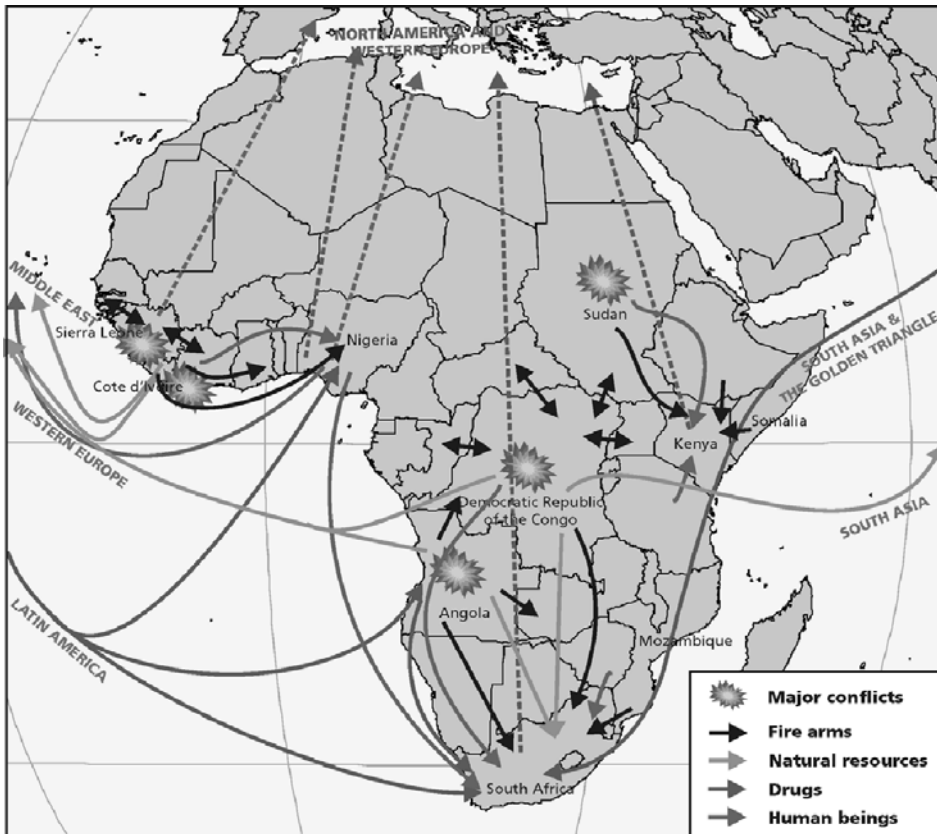


Figure 1: Illicit trafficking in sub-Saharan Africa

Source: UNODC

Crime in East Africa

The region of East Africa is one of the most conflict-prone on the map of Africa. Within the region we will find one of the most insecure and under-developed countries, Somalia, as well as an old inter-state conflict between Ethiopia and Eritrea and an intra-state rebellion in northern parts of Uganda. This region is also home to the countries like Rwanda, Burundi or Kenya, where the memory of recent violence is still vivid. There is a constant threat that East Africa will remain in this vicious circle of underdevelopment and violence, while on its borders we will also find serious problems like the conflict in the Democratic Republic of Congo and the complicated situation in Southern Sudan. The region is host to thousands of refugees and migrants. According to the United Nations High Commission on Refugees, in 2004 there were over 2

million refugees in sub-Saharan Africa, including 1 million refugees in Central Africa and the Great Lakes region, 670, 000 in East Africa and the Horn of Africa, 220, 000 in South Africa, and 330, 000 in West Africa. African refugees comprised about 37% of the global total.²⁰ As a result, this region has become home to different kinds of gangs and illegal militias.

Recent evidence suggests that many East African countries have been affected by organized crime groups. There is much anecdotal evidence to suggest that with the growth of international trade, the region is becoming an important transit point for illegal drugs and trafficked persons being transported to the Middle East, Europe and elsewhere. Furthermore, the long term impact on biodiversity and environmental resources is now a crucial issue for the whole region.²¹ The health and lives of Africans in this region are put at risk due to the widespread presence of counterfeit medicines. Also, counterfeiting different products or buying counterfeited items from Asia, occurring on a regular basis in the countries of the region, are against international law. Armed conflicts and violent crimes such as piracy are possible due to the presence and trade in SALW. The question now is not whether these activities undermine the states in East Africa, but rather to what extent they pose a threat to the development of these societies, and what the consequence might be if no further action is taken.²²

Trafficking in persons and migrant smuggling

Trafficking in persons is called a modern-day slavery, involving victims who are forced into labor or sexual exploitation. The International Labor Organization (ILO) estimates that “12.3 million people worldwide are enslaved in forced labor, bonded labor, forced child labor, sexual servitude, and involuntary servitude at any given time”.²³ And it is important to mention that “human trafficking is a multi-dimensional threat, depriving people of their human rights and freedoms, risking global health, promoting social inequality, inhibiting development by depriving countries of their human capital, and helping fuel the growth of organized crime”.²⁴ Article 3, paragraph (a) of the

²⁰ *Crime and Development in Africa*, United Nations Office on Drugs and Crime (UNODC), Vienna 2005, pp. 27-8.

²¹ Rice Mary, *Environmental Crime. A threat to our future*, Environmental Investigation Agency, 2008.

²² *Organised Crime and Trafficking in Eastern Africa*, United Nations Office on Drugs and Crime, Nairobi, November 2009, p. 6.

²³ International Labor Organization: A Global Alliance Against Forced Labor.

²⁴ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/fields/2196.html#documentContent>, 29.09.2010.

Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime defines Trafficking in Persons “as the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labor or services, slavery or practices similar to slavery, servitude or the removal of organs”.²⁵

Migrant smuggling is defined by a supplementing protocol to the United Nations Convention against Transnational Organized Crime (UNTOC), known as the Protocol against the Smuggling of Migrants by Land, Sea and Air and it defines the smuggling of migrants as the “procurement, in order to obtain, directly or indirectly, a financial or other material benefit, of the illegal entry of a person into a State Party of which the person is not a national or a permanent resident.” (Article 3, Migrant Smuggling Protocol).²⁶

Smuggling of migrants and trafficking in persons seem to be similar; however, it is necessary to mention that they are distinct crimes. According to the UNODC report “Organised Crime and Trafficking in Eastern Africa”, “the key distinction is that smuggled migrants normally consent to the smuggling process and their relationship with the smuggler ends once they arrive at their intended destination. On the other hand, victims of trafficking have either never given their consent or their initial consent is nullified by the means used by the trafficker to gain control over the victim, such as deception and violence. Also, the purpose of trafficking is always exploitation, which ultimately generates profits for the traffickers, while smugglers generate their profits through selling their services to their clients — illegal entry to another country — a relationship that is terminated when reaching the destination country”.²⁷

In 2006, approximately 800,000 people were trafficked across national borders and millions more were trafficked within their own countries.²⁸ Out of

²⁵ Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime.

²⁶ Protocol against the Smuggling of Migrants by Land, Sea and Air supplementing the United Nations Convention against Transnational Organized Crime.

²⁷ *Organised Crime and Trafficking in Eastern Africa*, United Nations Office on Drugs and Crime, Nairobi, November, 2009, pp. 15-6.

²⁸ *Ibidem*.

these figures, approximately 80 percent of transnational victims are women and girls and up to 50 percent are minors.²⁹ However, like in many other cases, in the issue of human trafficking we are facing a lack of reliable data.

The position of East African migrants is highly complicated. They are dependent on the situation in their country of origin, which often leads to internal and international displacement, which in turn creates a prospective atmosphere for trafficking. Unfortunately, it seems that there are no future prospects for improving this situation. In the area of human trafficking, the need for efficient border management ought to be emphasized. "Borders are long and unguarded, permitting people to travel relatively easily across them, and the border police lack the necessary training and equipment. The problem of human trafficking and migrant smuggling is further exacerbated due to the presence of weak governments and criminal justice systems. The lack of an adequate legislative and regulatory framework and awareness of the part of law enforcement and government officials only serves to impede the effective and coherent prevention of human trafficking".³⁰

While searching for the reasons why people are trafficked, several factors may be singled out, such as the following: the process of globalization, poverty, illegal migration, lack of education, women's socio-economic inequality, lack of employment opportunities, and demand for cheap labor.³¹ The profiles of the victims of human trafficking are often very similar — they are unemployed persons, poorly educated with low income level. The strategy of the traffickers is to promise a good job, a higher salary, improvement in education or other favorable prospects, but the promised conditions are rarely met. "The demand for female victims is boosted in the region by the growing tourism and sex industry, and forced child labor is prevalent in rural areas on plantations, and in the fishing and mining industries".³²

Firearms trafficking (SALW proliferation)

Of the estimated 875 million combined civilian, law enforcement, and military firearms in the world, 100 million of those are thought to be in Africa. The majority of global firearms, however, roughly 75 per cent of the known

²⁹ Trafficking in Persons Report, *United States*, 2006.

³⁰ *Organised Crime and Trafficking in Eastern Africa*, United Nations Office on Drugs and Crime, Nairobi, November, 2009, p. 20.

³¹ According to Prevent Human Trafficking Institute (PHI) website: <http://www.child-trafficking.info/upload/Files/phi-faqs-human-trafficking-for-dfw.pdf>.

³² *Organised Crime and Trafficking in Eastern Africa*, United Nations Office on Drugs and Crime, Nairobi, November, 2009, p. 18.

total, are in the hands of civil society.³³ The term ‘small arms and light weapons’ (SALW) is used to describe most firearms in use by individuals and small groups of individuals, and the ammunition used for the weapons. Common firearms in East Africa are the AK-47 and G3. SALW are used for a range of reasons, from civilians’ use for protection, to pastoral uses, to the more sinister uses of criminal gangs, militias and terrorist groups.

Authorized international transfers of ammunition for SALW—including undocumented transfers — are estimated to have averaged USD 4.3 billion annually between 2006 and 2009. Small arms ammunition comprised of USD 1.8 billion of this total, with ammunition for light weapons (excluding man-portable guided missiles and single-shot, disposable rockets) accounting to USD 2.5 billion. A combination of 2010 findings with those of the Small Arms Survey 2009 shows that the global authorized trade in small arms and ammunition is significantly greater than USD 6 billion per year, what is much larger than the previous estimates.³⁴ According to the same survey, 10 million out of some 875 million firearms worldwide belong to gangs (just over one per cent). Other non-state armed groups have roughly 1.4 million altogether (less than 0.2 per cent), of which some 350,000 belong to groups that were actively fighting in 2009.³⁵

From the available data, it is difficult to analyze the current situation regarding the illegal possession and trafficking in SALW in East Africa and how it is to develop. However, considering the available facts and figures it is highly unlikely that weapon possession and illicit trafficking in SALW will decrease anytime soon. Instead, most indicators lead to the conclusion that the situation is most likely to deteriorate both in short and long term if no further action is taken. According to East African Community (EAC) SALW program, the five Partner States (Burundi, Kenya, Rwanda, Tanzania, Uganda) have destroyed more than 12,000 small arms and five tones of explosives in an attempt to make EAC secure and peaceful for its people and investments.³⁶ There is a strong belief that this problem should be jointly resolved by all the countries — that is why many initiatives have been undertaken by the international community and among them is the above mentioned EAC — SALW program, or International Conference on Great Lakes Region (ICGLR)

³³ Small Arm Survey, <http://www.smallarmssurvey.org/files/portal/issueareas/inventories/inventories.html>, 29.09.2010.

³⁴ Small Arms Survey 2010: Gangs, Groups, and Guns, Cambridge University Press, 2010.

³⁵ Ibidem.

³⁶ Nambi Irene V., Karuhanga James, *EAC to Destroy 2600 Illicit Arms*, *AllAfrica*, 30.09.2010, <http://allafrica.com/stories/201005240208.html>.

and some more.³⁷ Most of the countries of the region signed and/or implemented the regional legal and policy framework, like:

Nairobi Protocol for the prevention, control and reduction of SALW in the Great Lakes and Horn of Africa regions	X		X	X	X	X				X	X	X	X	X
ECCAS Permanent Consultative Committee on Security Matters in Africa	X									X				
SADC Protocol on the control of firearms, ammunition and other related material													X	
AU-Bamako Declaration on illicit small arms	X					X				X			X	X
UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons (PoA)	X					X				X			X	X
Ottawa Convention (Mine Ban Treaty)	X					X				X			X	X
UN Arms Trade Register														
UN Firearms Protocol						X								

Figure 2: Regional SALW Legal and Policy Framework

Data according to: Regional Centre on Small Arms (RESCA): Fact Sheet 2008

SALW problems are manifested differently across the region, often according to the cultural contexts being irrespective of political boundaries. A regional approach to tackling illegal trade and addressing its impacts is therefore essential. However, such an approach is complicated by the differing national capacities of the states concerned. Most of the countries which are under examination in this paper are classified as Least Developed Countries, where national capacities are greatly limited. Without a strong administrative and governing sector, SALW-related activities cannot be sustained. It is, then, necessary to take more efforts to build states' national capacities, in addition to addressing development and security sector reform simultaneously with regional approaches in order to avoid shifting SALW problems and their effects to weaker areas in the region or into neighboring countries with the well-known

³⁷ For more visit the website: <http://www.icglr.org/peace-security.php>.

spillover syndrome. The instability of the Great Lakes Region will continue to test the effectiveness of any effort to address the issue of SALW in East Africa, but an adequate infrastructure, capacity, resources, coordination and information-sharing will greatly help lessen the extent to which external instabilities affect the region.³⁸

Drugs trafficking

The East African region is attractive to international drug trafficking due to its availability as well as imperfections of national and international criminal justice systems. East African countries are facing security threats of drug traffickers infiltrating ports in order to bring their products into the country and move them to Europe, or to other African states. However, it is confirmed that the low seizure figures seem to indicate that few resources are allocated to collect data on drug control and that international border controls are weak, rather than that no drugs are being trafficked through the region. International and domestic response to drug trafficking has been varied, but several players are involved, from the UN to the United States, European countries and regional organizations from several different African countries.

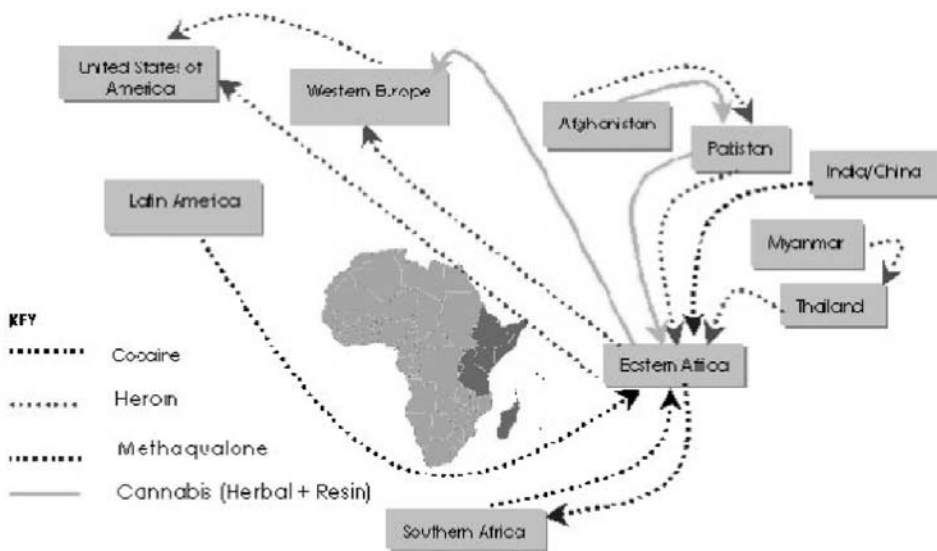


Figure 3: Major Drug Transit Routes in Eastern Africa

Source: <http://www.unodc.org/easternafrika/en/illicit-drugs>

³⁸ Maze Kerry, Rhee Hyunjo, *International Assistance for Implementing the UN Programme of Action on the Illicit Trade of Small Arms and Light Weapons in All Its Aspects: Case Study of East Africa*, United Nations Institute For Disarmament Research, p. 13.

The region under scrutiny is accessible by sea and air to heroin, opium and cannabis resin producer countries in South West and South East Asia through the ports in Djibouti, Eritrea, Kenya and Tanzania. Anecdotal evidence suggests that Somalia, currently in the process of disintegration, is host to widespread illegal transactions, including both drug and arms trafficking. There are two important international airports in the region, Addis-Ababa and Nairobi, which are used as transit points for drugs. Both airports have connections between West Africa and the heroin-producing countries in South West and South East Asia. There is also an increasing use of postal and courier services for cocaine, heroin and hashish. A review of drug seizures from 1998 to date indicates an increase in the trafficking of heroin to East African countries from Pakistan, Thailand and India. Increased seizures of heroin with Nigerian connections bound for Uganda, Tanzania and Kenya through Ethiopia have been noted as well. Seizures and arrest statistics show that more Tanzanians and Mozambicans are becoming involved in the trafficking of heroin from Pakistan and Iran.³⁹ Uganda has gradually become one of the leading drug trafficking conduits for organized international drug cartels in Latin America, West Africa to Europe and Far East countries. In May 2010, Kenya Police at Jomo Kenyatta International Airport arrested Ugandan Anne Birungi Bisaso, alias Gillian Kiconco, with 21 kg of cocaine worth ca. USD 1m.⁴⁰ A major seizure of 1.2 tones of cocaine took place in the Port of Mombassa (Kenya) in 2006, and a number of smaller cocaine shipments were also reported, which originated in South America and were headed to Kenya via West Africa before being subsequently shipped to Europe.⁴¹

East Africa's role as a transit point and destination for illicit drugs seems to increase unless an immediate action is not taken. The region as a whole is characterized by weak border controls (land, sea and air), as well as intensive but still limited cross-border and regional cooperation, which can be easily exploited by traffickers. Antonio Mazzitelli, United Nations Office on Drugs and Crime Regional Representative for Central and West Africa, defined "the cycle of failed states" as organized crimes and illicit trafficking, which then produces corruption, in turn making a country vulnerable to political terrorism, but also to other transnational organized criminal activities.⁴² Drug trafficking

³⁹ United Nations Office on Drugs and Crime (UNODC), www.unodc.org/easternafrika/en/illicit-drugs/drug-trafficking-patterns.html.

⁴⁰ *East Africa Needs Joint Anti-Drug Trafficking Task-Force*, AllAfrica, <http://allafrica.com/stories/201006220037.html>, 30.09.2010.

⁴¹ *Organised Crime and Trafficking in Eastern Africa*, United Nations Office on Drugs and Crime, Nairobi, November 2009, p. 30.

⁴² *Global Drug Trade: Africa's Expanding Role*, Woodrow Wilson International Center for Scholars. 28.05.2009.

in Africa has gained special attention in recent years. However, as long as there are no effective control mechanisms in the countries of the region, the trafficking and importation of illegal drugs will continue to rise, further diminishing the development process in the region.⁴³

Environmental degradation

Environmental degradation is a rising challenge for developed and sub-optimally developed countries. It is often transnational in nature and involves organized crime activities such as trafficking in natural resources, illegal trade in wildlife, illegal, unregulated and unreported fishing and illegal exploitation of and trafficking in minerals and precious stones.⁴⁴ Environmental crime has become increasingly organized and transnational in nature and can be seen, just as drug and firearms trafficking, as one of the most significant areas of trans-border criminal activity, threatening to disrupt societies in the region and impair sustainable development.⁴⁵ In East Africa, we can particularly observe the process of facilitation of different forms of crime by the established involvement of organized criminal groups, the failings of national structures and the transnational nature of environmental crimes.

In East Africa, environmental crime ranges from poaching and illegal logging and trade in biodiversity products (flora and fauna) to improper transportation and dumping of waste. Although widespread for decades, trade in illegal timber and illegal logging has only been seen as a major concern in recent years. Also, illegal exploitation of natural resources is of great concern for local communities. According to the “Environmental Crime. A Threat to Our Future” report, these activities threaten ecosystems and the future sustainability of forests, foster corruption and violence and result in unexpected losses for the state and businesses. Moreover, they undercut the prices of legal products on the international market and are connected to organized crime, human rights abuses and international and intrastate conflicts. Lack of or poor legislation concerning the environment and increasing levels of corruption in producer countries impede the prevention and detection of this crime.

Environmental crime in the East African region is committed at the following two levels: at a local level by members of pastoral communities for the purpose of ensuring their livelihood and at an international level for

⁴³ Ibidem.

⁴⁴ According to the UNODC website: <http://www.unodc.org/unodc/en/frontpage/what-does-environmental-crime-have-in-common-with-organised-crime.html>.

⁴⁵ Rice Mary, *Environmental Crime. A threat to our future*, Environmental Investigation Agency, 2008.

commercial purposes, with the latter case involving criminal networks composed of nationals and foreigners. Processes of despoliation, warfare, and above all the dramatic inequalities lie behind environmental degradation between few wealthy people and the desperate mass. Beyond this, however, there is little agreement among researchers about how cause and effect operate between crime, conflict, politics and resource management.⁴⁶

Nowadays, in East Africa just as in the Wild West and other frontier societies, pillage is systematic and is connected with the destruction of the state in the Democratic Republic of Congo (former Zaire). This systems of extraction recruit landless labor and homeless refugees, which may be involved in the work of mining, killing or despoiling natural resources, or all three. Using their own weapons or hired guns, gangs and different militias compete for their share of the loot. At the regional level, this economy of pillage and competition for land, minerals and control, extends to the central authorities of two regional states — Rwanda and Uganda, and involves sectors of the Burundian military and also political elites. Increasingly, during the 1990s, these state authorities started to depend for their revenue, especially for military operations, on the systematic pillage of Congolese resources of all kinds. From the regional level, the chain of profit ends up at the global economy level, especially with large mining companies like Anglo-American, Barclays Bank, Bayer AG, de Beers and others.⁴⁷

Criminal relations in sub-optimally developed societies

There is no evidence that Africa is less integrated into globalization than other parts of the world. That is why the whole region together with its sub-regions (Central, East, West, South Africa, as well as the countries of Maghreb) is endangered by the expansion of transnational crime. In this article, we searched for an answer to the question of whether or not there are growing trends of concern and whether they pose a significant threat to the stability of societies, particularly in East Africa. After a careful examination we can confirm that in the analyzed areas there are serious trends of concern which can diminish the meaning of all the programs and agendas undertaken by local communities as well as international organizations to strengthen the uneasy process of sustainable development and growth. All of the problems mentioned above, such as trafficking in persons and migrant smuggling, firearms

⁴⁶ Hintjens Helen, *Conflict and resources in post-genocide Rwanda and the Great Lakes region*, International Journal of Environmental Studies, Vol. 63, No. 5, October 2006, pp. 600-1.

⁴⁷ Ibidem, p. 610 and www.fataltransactions.org.

trafficking and SALW proliferation, as well as drugs trafficking and environmental degradation are only few out of the whole list of those present in East Africa. In this article, we did not focus on piracy, counterfeiting or money laundering which are also serious areas of concern in sub-developed societies; however, they need another study. All those problems can seriously affect not only the examined region, which can already be observed on the streets of Nairobi, Dar es-Salaam or Bujumbura, but can also spread to different parts of the world if appropriate steps are not taken soon.

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New Battles in Africa – Oil Revenue Management as a Source of Intrastate Conflicts

ABSTRACT

The paper uses Galtung's conflict (ABC) triangle model that explains creation of conflict formations and Collier and Hoeffler concept of "greed and grievance", which analyzes the main reasons for outbreaks of civil wars in order to demonstrate how the unequal distribution of oil revenues in African countries and social divisions created in this way may induce violent intrastate conflicts. A theoretical framework is then applied on the case study of Sudan where conditions above mention are widely present and where conflict may occur in the near future.

Key words: Conflict (ABC) triangle, greed and grievance, resource abundance, resource wars, intrastate wars, Sudan.

Introduction

Energy resources such as oil, natural gas and coal have become the most valuable commodity at the beginning of the 21st century. In that context, Africa's resources, widespread and mostly untapped, represent the treasure yet to be found. The abundance of resources provides new opportunities for the development of African states, but it can also lead to uneven income distribution between the political/economic elites and the rest of the population as well as to the creation of wide gaps between "the electricity have and electricity have-nots."²

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² Thomas Friedman, *Hot, Flat, and Crowded. Why We Need a Green Revolution — and How It Can Renew America*, Farrar, Straus & Giroux, New York, 2008, p. 27.

The end of the Cold War has “lifted the lid off”³ and released new types of conflicts which were suppressed during the fifty years of ideological struggle. According to the study of Sarkees and Wayman,⁴ since the end of the Cold War (1990) there have been 77 wars around the world. Out of that number 32 wars took place in Africa with only one not being an intrastate war.⁵ A more detailed observation shows that 20 wars occurred in the countries which possess high amounts of natural resources and more than one half of that number comprises the countries with vast amounts of energy reserves (Sudan, Nigeria, Angola and Somalia). The conclusion which can be drawn is that almost all conflicts in Africa in the last twenty years were internal (civil) conflicts and that one third of them occurred in oil rich countries. However, little research⁶ has addressed this connection. Thus, this paper seeks to correlate the unequal distribution of energy incomes, and social divisions created in this way and intrastate wars *via* the theoretical conflict triangle model introduced by Galtung.⁷ In doing so, the paper determines whether energy resources will be the main cause of internal conflicts in Africa in the future and to predict the consequences of these “resource wars.”⁸

The paper will consist of two parts. Section 1 provides theoretical background for energy resources-intrastate wars by using Galtung’s model of conflict (ABC) triangle. Section 2 applies this framework on the case study of Sudan.

³ Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil War”, *World Bank Policy Research Working Paper*, Washington, 2000, p. 10, Internet, <http://ssrn.com/abstract=630727> [Accessed 7 August 2010]

⁴ Meredith Reid Sarkees and Frank Wayman, *Resort to War: 1816-2007*, CQ Press, New York, 2010, Internet, http://www.correlatesofwar.org/COW2%20Data/WarData_NEW/WarList_NEW.pdf [Accessed 9 August 2010]

⁵ “Intrastate wars are wars that are fought within state borders between a government and non-government forces (civil war)... In order to be classified as a civil war, the central government should be actively involved in military action with effective resistance for both sides, and there should be at least 1000 battle related deaths during the civil war. In order to constitute effective resistance, both sides must have been initially organized for violent conflict, or the weaker side must be able to inflict upon the stronger opponents at least five percent of the number of fatalities it sustains.”, *Ibid*, p. 1.

⁶ See Abiodun Alao, *Natural Resources and Conflict in Africa*, University of Rochester Press, Rochester, 2007, and Ibrahim Elbadawi and Nicholas Sambanis, “Why Are There so Many Civil Wars in Africa? Understanding and Preventing Violent Conflict”, *Journal of African Economies*, vol. 9, no. 3, 2009, pp. 244-269.

⁷ Johan Galtung, *Peace by Peaceful Means: Peace and Conflict, Development and Civilization*, PRIO, Oslo, 1996.

⁸ Michael T. Klare, *Resources War: The New Landscape of Global Conflict*, Henry Holt and Company, New York, 2002.

1. Conflict as a Destroyer

Conflicts are integral part of our lives. Every day we are faced with challenges i.e. choices which can be at some point transformed into the conflicts. They are usually defined as “dispute of two persons, or actors pursuing the same scarce goal.”⁹ From this definition we can see that all conflicts have something in common and that there is contradiction (both actors want the same) between the actors involved. If the contradiction is not severe, then potentially something positive can emerge from it and in that case we are talking about creative conflicts. On the other hand, if conflicts are “highly solution-resistant”¹⁰ then the probability for violent behavior becomes very likely. For the purpose of this paper only violent conflicts will be analyzed.

As Galtung states, conflict is a complex process which consists of more than pure physical violence. In the author’s opinion, every conflict has three parts (i.e. corners which can be joined in one triangle) equally important and influencing the creation of conflict. First corner of his “theoretical triangle” is corner A, i.e. attitudes. If the attitudes of two actors are compatible there is no real danger of conflict but if they (attitudes) are very opposing than there is potential for violent conflict. The second corner is made out of the actors’ behavior (B). The same as in the case of attitudes there can be the constructive but the destructive behavior as well. Finally, Galtung identifies the third part, corner C, which is comprised out of contradictions. Contradiction is the content or substance of the conflict; it is what all the parties want. Since it is impossible for all the parties to obtain the whole content for themselves violent behavior and contradictory attitudes must occur.

According to Galtung conflict can begin and end in each of the corners. Contradiction can create opposite attitudes (non-present between two actors until their attempt to obtain the content) which can then lead to violent behavior. Also, conflicting attitudes can create contradiction (non-present up to that moment) which can consequently induce violent behavior. The same goes for behavior as a starting point. The author recognizes eight possible scenarios depending on the starting point. The results of all eight developments are the same, i.e. the creation of conflict, with the only difference in the order of influence of points A, B, and C.¹¹

⁹ Johan Galtung, *Peace by Peaceful Means: Peace and Conflict, Development and Civilization*, op. cit., p. 71.

¹⁰ Ibid., p. 71.

¹¹ Ibid., p. 73.

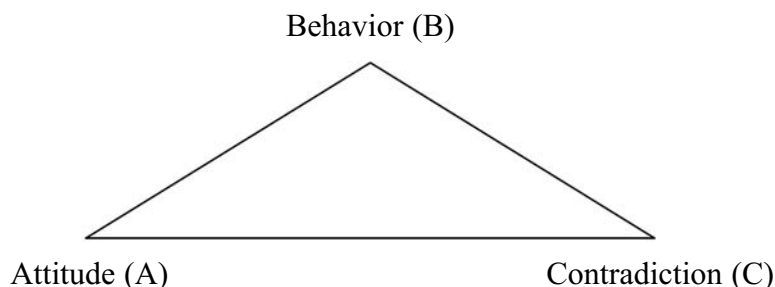


Figure 1. ABC Triangle

The ABC triangle can be applied not only to personal conflicts but also to states (who are actors as well) or to entities inside a state. The only precondition for the application of the ABC triangle is the existence of all three i.e. A, B, and C points in the case in question. If we tried to apply this theoretical framework to intrastate conflicts we would firstly need to find all three points.

In their study Collier and Hoeffler tried to identify the causes of civil wars. The model which they produced is often called “Greed and Grievance model.”¹² Using statistical methods, the authors showed that greed of conflict parties is one of the main reasons for the outbreaks of intrastate wars. The authors went even further and compared rebellions with organized crime groups with the only difference in terms of scale and casualties.¹³ Since greed can be interpreted as a form of behavior (the effects of greed can be observed, felt, and identified), we will recognize greed as point B of our triangle.

In addition to greed, grievance is seen by Collier and Hoeffler as the second main cause of civil wars. The authors observe that grievance can derive from many manifestations such as inter-ethnic or religious hatred, political exclusion, and most often economic inequality. According to their findings, these injustices (if measurable) can initiate the creation of irreconcilable attitudes of the oppressed and the ruling majority, which can later be transformed into aggressive behavior. According to the authors, greed and grievance usually go hand in hand but that does not necessarily mean that grievance by itself cannot fuel the conflict. These findings are sufficient enough for us to consider grievance as the attitude (A) suitable for our theoretical framework.

Now when we have points A and B we still have to determine whether we can find an appropriate point C which will represent the contradiction applicable to greed and grievance as the other two corners of the ABC triangle.

¹² Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil War”, op.cit., p. 26.

¹³ Ibid., p. 3.

Many studies, such as Le Billon's, have assessed natural resources as crucial "in shaping the patterns of conflicts and violence"¹⁴ in the post-Cold War world. In the study on the importance of the resources *vis-à-vis* the types of conflicts Le Billon argues that while resources can be a valuable development instrument, they can also be the source of vulnerability which can lead to political instability, lack of economic development, territorial disputes and finally violent conflicts. The author also differentiates between "resource caused conflicts" which do not cause territorial changes and conflicts whose result is the secession of a part of the territory (the author gives the example of the Sudan). The study of Elbadawi and Sambanis¹⁵ on conflicts in Africa confirms Le Billon's finding by using an empirical model. Their study has shown that conflicts in Africa are not caused by ethnic or language differences but by high poverty, resource (energy) products and failed political institutions.¹⁶ Taking this into account, it is clear that energy resources can be an appropriate point C of our model.

Now, when we have all three points (A-grievance, B-greed, and C-natural resources) our theoretical model can be constructed. We assume that all three points are highly interdependent. The existence of one corner can cause the creation of the other two, which can then lead to the formation of a violent conflict. The starting point of the model is a contradiction due to the uneven distribution of oil revenues which creates grievance of those who do not benefit from the whole distribution process and greed manifested by all parties involved (government and insurgents). The direct result is a violent conflict between those who are in possession of resources and the ones who would like to obtain them. Our position is that these conditions are mostly present in Africa and that the theoretical model can be applicable especially on this continent. In order to prove that we will use the case study of Sudan.

2. Case Study: Sudan

Sudan gained independence in 1956 and from the beginning of its existence the state has been divided into two regions, northern and southern, with very different conditions present in both of them. The divisions are twofold. The

¹⁴ Philippe Le Billon, "The Geopolitical Economy of Resource Wars", in: Le Billon Philippe (ed), *The Geopolitics of Resource Wars, Resource Dependence, Governance and Violence*, Frank Cass, New York, 2005, p. 2.

¹⁵ Elbadawi Ibrahim and Sambanis Nicholas, "Why Are There so Many Civil Wars in Africa? Understanding and Preventing Violent Conflict", *Journal of African Economies*, vol. 9, no. 3, 2009, pp. 244-69.

¹⁶ Ibid., p. 2, 10.

Arabs live in the north live Arabs and their religion is Islam, while African live in the south and they are predominantly Christians and to a smaller extent animist. Since Sudan gained independence, the north has been far more economically developed although the Arab population (living in the north) does not have an overall majority (40 percent compared with 30 percent of Africans in the south) and does not possess any resources in comparison with the south whose oil reserves are one of the largest proved reserves in Africa.¹⁷ Also, according to Gadir, Elbadawi, and El-Batahani,¹⁸ the most prominent political parties in Sudan originated from religious orders from the north and possessed more than 75 percent of the parliamentary seats, making political bargaining processes for the south impossible. We argue that the existence of these discriminatory conditions created the attitude of grievance in the south due to the economic disparity between the two regions¹⁹ and the question of political participation of the south in Sudan. The grievance created in this way can be considered an attitude appropriate for the theoretical framework, which we apply in the case of Sudan.

The economic and social marginalization of the south provided a volatile context for the beginning of the first civil war (1955-1972) between the federal government in the north and the insurgents from the south called Anyanya who demanded political and economic autonomy. The conflict had its focus on fundamental differences since the southern Sudanese resent the overall hegemony of the north. The substantial marginalization of the south created a belief that a rebellion has almost no opportunity cost for the southerners.²⁰

The war had lasted for seventeen years when the agreement on autonomy of the south was reached in 1972. Unfortunately “the conditions of conflict in

¹⁷ Abiodun Alao, *Natural Resources and Conflict in Africa*, op. cit., p. 164, and Michael T. Klare, *Rising Powers Shrinking Planet, The New Geopolitics of Energy*, Metropolitan Books, New York, 2008, p. 152.

¹⁸ Ali Abder Gadir, Ibrahim Elbadawi, and Atta El-Batahani, “Sudan’s Civil War: Why Has It Prevailed for So Long”, in: Paul Collier and Nicholas Sambanis (eds), *Understanding Civil War*, The World Bank, Washington DC, 2005, pp. 193-221.

¹⁹ In his study Hassan Ali demonstrates how disparities increased in Sudan in the period of almost fifty years (1956-2003). The author shows that the poverty ratio (per head) in Sudan was 60% in 1953, 73% in 1980 (when the oil production started), and 78% in 2003. In the case of the Gini coefficient, which measures the inequality of a distribution, Hassan Ali notices increase from 40 in 1953, to 45 in 1980, and finally to 47 in 2003. These data suggest that Sudan is deeply a polarized society and that the cleavages are increasing rather than decreasing. Mohamed Hisham Hassan Ali, “An Analysis of Growth and Inequality in Sudan: Cointegration and Causality Evidence (1956-2003)”, 2008, Internet, <http://ssrn.com/abstract=1144446> [Accessed 7 August 2010]

²⁰ Ali Abder Gadir, Ibrahim Elbadawi, and Atta El-Batahani, “Sudan’s Civil War: Why Has It Prevailed for So Long”, p. 198.

Sudan with its self-reinforcing tendencies outweighed the power of peace agreements.”²¹ The roots of the conflict such as political exclusion, economic backwardness and religious marginalization remained despite the provisions on the reintegration of the South, stipulated in the peace accord. The lack of concrete progress led to the creation of another insurgent movement in the south called the Sudan People’s Liberation Movement (SPLM), which started the second civil war (1983-2005), this time not for autonomy but rather for independence.

The difference between the two civil wars was the discovery of oil in the south of Sudan. This discovery created “greed fever” both on the side of the central government and on the insurgent side. In attempt to obtain as much oil as possible the federal government from Khartoum changed the administrative map of the country with a sole purpose of putting oil reserves under the northern section of the country. Moreover, the government decided to place oil refineries not in the south but rather in the north of the country, in that way depriving the south of its right to development.²² At the same time, the SPLM saw in the oil revenues an opportunity to completely separate the south from the rest of the country, without any profits going to the capital Khartoum. The author describes this situation as “a struggle over the ownership of oil reserves”²³ between the government and rebels who were at the same time fighting for oil and challenging the government’s legitimacy. While the exclusion of the south during the independence process created the attitude of grievance in this part of the country, the discovery of oil stimulated greed, both in the north and in the south. Since this kind of behavior was present on both sides, it can be identified as point B in our theoretical model.

What about the contradiction in our “Sudanese conflict triangle”? The second Sudanese Civil War (1983-2005) ended in 2005 when the Comprehensive Peace Agreement (CPA) was signed by the representatives of the federal government and SPLA, ending a two decade long war. “According to provisions of the CPA, at the end of the interim period southerners would hold a referendum to decide their political future as either an independent or subordinate southern Sudan.”²⁴ Although the Khartoum government did not have any major objections to the referendum held earlier this year, when 99 per cent of the population from the south voted for independence, the question of oil

²¹ Benjamin R. Maitre, “What Sustains ‘Internal Wars’? The Dynamics of Violent Conflict and State Weakness in Sudan”, *Third World Quarterly*, vol. 30, no. 1, 2009, p. 53.

²² Abiodun Alao, *Natural Resources and Conflict in Africa*, op.cit., p. 164.

²³ Ibid., p. 171.

²⁴ Benjamin R. Maitre, “What Sustains ‘Internal Wars’? The Dynamics of Violent Conflict and State Weakness in Sudan”, p. 57.

revenues is not undisputed. The problem lies in the fact that the oil fields are in the heart of the contested area between the two parts of the country, or more precisely in the Abyei region where around one quarter of total oil reserves are located. This region is relatively a small piece of land between the north and the south of Sudan. Administratively, it is under the jurisdiction of the north, but the majority of the population is from the ethnic group of Dinka Ngok, which belongs to the south and that is why both, the federal government and the SPLA, are claiming the rights to this, oil rich region. According to the CPA, Abyei has a special administrative status and a distinctive revenue sharing formula where 50 per cent of all oil revenues goes to the federal government, 42 per cent to the south and the rest to different ethnic groups living in the region.²⁵ The problem was intensified when five years after the signing of the Peace Agreement the south did not receive a full share of its revenues from Khartoum. In addition to that, the CPA stipulated that a separate referendum should be held in the Abyei at the same time as the national one, but it was not conducted due to the dispute over the voting rights, which created more animosity on both sides, especially from the SPLA. It is because of the unknown future of this unstable part of the country where the possibility of a new violent conflict should not be excluded since Abyei's oil money (not territory itself) is one of the most fiercely contested issues between the two parties.²⁶

The share of oil revenues in Abyei as well as in other oil rich regions is emerging as the key issue (contradiction) in the future north-south relations. Both parties are unwilling to reach a compromise (which would replace the one under the CPA after the independence of the south) when it comes to profit sharing²⁷ because it could cause a serious lack of funding in already poor state apparatuses (more than 50 per cent of state income in the north and staggering 90 per cent in the south come from oil revenues alone). In this situation (oil

²⁵ Muna Abdalla, "Abyei Natural Resource Conflict", Institute for Security Studies, Addis Ababa, 2010, Internet, <http://www.issafrica.org/uploads/AbyeiSitRepJul2010.pdf> [Accessed 3 March 2011], p. 1.

²⁶ Ibid, p. 3.

²⁷ Sudan re-started to produce oil in the 1990s reaching 63,000 barrels per day in 1999 (bcd). The production increased over the years and reached 480,00 bcd in 2010. According to that, oil revenues considerably increased from \$61 million in 2000 up to the estimated \$1,600 million in 2010. According to the 2010 BP Statistical Review of World Energy Sudan has 6.7 billion barrels of proven oil reserves which makes 0.5 per cent of the total world reserves. It should be noted that numbers may be under-estimated by the Khartoum government due to its obligation to transfer a part of the revenues to the south government. For more details see "Fuelling Mistrust — The Need for Transparency in Sudan's Oil Industry", Global Witness, September 2009, Internet, http://www.globalwitness.org/sites/default/files/pdfs/v12_final_sudan_fuelling_mistrust_lowres.pdf.

zero-sum logic) it is very unlikely that any of the parties involved will step down from the claim to the bigger part oil revenues since oil is the only valuable commodity present in this poor and undeveloped country.

The present contradiction (both parties want the same content, i.e. oil revenues) could prove to be much more dangerous than any of the previous ones. The struggle over the claim to oil reserves, which are one of the largest in Africa and greed for its benefits (prevalent since the first oil findings in the 1970s, but much more excessive today) can revive grievances in the south, present since the First Civil War. A potential new conflict would be much more violent than any of the previous ones, since stakes are higher than ever before (both, the economic wealth and the creation of the state for the south). Another civil war would bring destabilization not only of the Sudanese state but to the whole region as well. The north-south confrontation could involve the neighboring as well as external countries that are interested in obtaining as much of the Sudanese oil resources as possible and a new battle for the African treasure could consequently begin.

Conclusion

The paper shows how two theoretical concepts, Galtung's conflict triangle and Collier and Hoeffler "Greed and Grievance" can be used in predicting new possible causes of intrastate conflicts in Africa. They stipulate that the contradiction caused by the uneven distribution of the oil revenues can be connected with the attitudes of the parties involved (especially with the grievance by the ones who do not benefit) and their behavior (greed in obtaining more revenues) and may potentially induce violent conflict if all the factors are present at the same time. By using the case study of Sudan the paper demonstrate how these processes function together in reality since relations between the north and the south already incorporate attitudes and behavior of the actors necessary for the creation of the contradiction, which may manifest itself through violence.

The possible violent scenario that may break out over the control of oil revenues in Sudan is not the only one in Africa. Other oil rich countries, such as Nigeria and Angola are facing the identical problems (civil war legacy, extreme economic and social polarization, and uneven income distribution) and the pattern explained here may very likely appear in those states as well. Energy resources prove to be more a curse than a blessing for African countries.

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CONFERENCE

DEVELOPMENT OF THE INDONESIAN ECONOMY

On 12 December 2010, Institute of International Politics and Economics (IIPE) had the honour to host the representatives of the Embassy of The Republic of Indonesia in Belgrade. Duško Dimitrijević, Director of IIPE, delivered an opening speech, introducing His Excellency, Mr Samuel Samson, Ambassador of the Republic of Indonesia to Serbia. Apart from him, the participants in this presentation were two prominent Indonesian professors, Dr Roberto Akyuwen, Senior Lecturer at the Finance Education and Training Centre of the Ministry of Finance of the Republic of Indonesia and Mr Eco Himawan, Economic Counsellor of the Indonesian Embassy in Belgrade. The central issues that were discussed during the presentation were development of the Indonesian economy, possibilities for bilateral cooperation with the Republic of Serbia and potential investments in the Republic of Serbia.

At the beginning of the opening session, Mr Duško Dimitrijević pointed to the important role of IIPE in establishing and developing foreign political and economic relations, since it has assisted the authorized bodies in creating and formulating the Serbian foreign policy.

Recognizing that the Republic of Serbia and the Republic of Indonesia have established a close relationship, Mr Samuel Samson emphasized the importance of this agenda. He also pointed out the fact that the Republic of Indonesia was the largest producer of palm oil in the world.

The first speaker, Mr Eco Himawan discussed the sustainable palm oil production, benefits to the social and economic development in relation with the 6th Indonesian Palm Oil Conference and Price Outlook 2011 that was held in Bali from 1–3 December 2010. Relying on the statistical indicators, Professor came up with a fact that Indonesia had become the number one in palm oil production with the total palm oil plantation of 7 million ha (5% of the total plantation area), with the total land area of 188 million ha, the total forest area of 120 million ha and the total plantation area of 7 million ha. As he mentioned, the palm oil cultivation spread across 5 main islands, with Sumatera as the main planting area covering 70% of the production. Further on, palm oil has the highest productivity in comparison to other vegetable oil.

It is superior in terms of land use efficiency and can also absorb a great amount of carbon dioxide over a long period. The issue of sustainability of palm oil took the next important place in the Professor's presentation. Within that context, he stressed the significance of business enabler, risk management, and enhance competitiveness. The main conclusions relating to business enabler are as follows: improving company image and general acceptance, support of talent recruitment and motivating employees bring about improved productivity and secure long-term returns. The last issue that was analyzed was the price outlook 2010, which was mostly based on the results of the conference in Bali. At the end of his presentation, Professor concluded that in case of Indonesia, palm oil considerably contributed to economic growth, employment, poverty alleviation and rise of exchange revenues, but sustainability of palm oil should be developed further.

The next speaker, Professor Roberto Akyuwen, examined the dynamics of Indonesia's CPO export. Within this agenda, two relevant issues were discussed – crude palm oil and CPO export policy. The most extensive conclusions referred to the CPO export volume, factors affecting CPO export performance and the role of CPO export in the national economy.

The last part of this scientific event was marked by the discussion by the present participants on the topics that were opened here.

Blagoje Babić, Research Professor, pointed to the necessity to invest in Serbia and create its market as the best way for increasing demand in palm oil, what should be done by speeding up the investment and creating a habit of its consumption.

Sanja Jelisavac, Research Associate at IIPE, discussed the following issues: climate changes affecting agriculture, the World Trade Organization rules on domestic support and production and possibilities for increasing imports from Serbia to Indonesia.

Finally, Svetlana Djurdjević Lukić, Research Associate at IIPE, highlighted the similarities in terms of transition in Indonesia and Serbia. She also pointed to the state image as an important factor in international relations that could contribute to the achievement of certain policy goals. Within that context, the so-called new economic look of Serbia should be promoted.

Nevena PROLOVIĆ

DOCUMENTS*

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Enlargement Strategy and Main Challenges 2010-2011

1. INTRODUCTION

The EU's enlargement process has gained new momentum since the Commission adopted its last progress reports, notwithstanding the many other challenges the Union faces. The entry into force of the Lisbon Treaty ensures that the EU can pursue its enlargement agenda, while maintaining the momentum of European integration.

Negotiations with Croatia have entered their final stage, demonstrating to all enlargement countries that accession can become a reality, provided the necessary conditions are fulfilled. Serbia has applied for membership. The Commission today issues its opinions on applications from Montenegro and Albania. Iceland began accession negotiations in July. New chapters have been opened in the negotiations with Turkey and the country has embarked on a thorough revision of its constitution, moving closer to European standards. Visa liberalisation for the Western Balkans has progressed. There have been significant break-through in long-standing bilateral differences between Slovenia and Croatia and a dialogue is under preparation between Serbia and Kosovo.¹ Post-conflict reconciliation among peoples has advanced and the countries themselves have started to take greater responsibility for regional cooperation.

However, many challenges persist. In some enlargement countries the reform momentum has slowed down. All need to focus on good governance, improving the rule of law, speeding up economic reform and improving their capacity to adopt and implement the *acquis*. Upholding freedom of expression is a concern in most countries. Several complex problems remain to be solved, including the governance of Bosnia-

* In view of fact that the text in this section are an official nature, no alternations of any kind have been made to them by the editor of the *Review of International Affairs*.

¹ Under UNSCR 1244/99.

Herzegovina and the name question concerning the Former Yugoslav Republic of Macedonia. Open bilateral issues remain and differences over Kosovo's status have held up regional cooperation. As regards the Cyprus issue, negotiations on a comprehensive settlement have progressed but have not yet been concluded.

The EU's commitment to the enlargement process reflects the Member States' conviction that it is in the mutual interest of the Union and the aspirant countries. This straight-forward message needs to be presented and explained clearly to the public in order to strengthen understanding and support for enlargement. The EU's enlargement process contributes to stability in Europe and to the security and well-being of its citizens. It provides a unique incentive for political and economic reform in the enlargement countries. It is in the mutual interest of the EU and enlargement countries to open discussions on difficult negotiating chapters early in the process. This process aims to bring the enlargement countries up to European standards in all areas covered by the EU treaties and thereby help the EU to attain its own objectives. These objectives today include dealing with the economic crisis and governance, restoring growth for jobs through the 2020 reform agenda, making the EU a safer place and pulling our weight on the world stage. The Commission's 2011 Work Programme includes a number of initiatives with these goals in mind.

Enlargement needs to remain credible for all involved. Aspirant countries and their citizens need a clear perspective of accession, once conditions are met, and should see tangible benefits along the way. Member States and EU public opinion must be sure that new accessions are prepared well through rigorous conditionality. Making a success of enlargement requires the firm political commitment of all stakeholders. The renewed consensus on enlargement, agreed by the December 2006 European Council, remains the framework for achieving these objectives. This policy is based on the principles of consolidation of commitments, fair and rigorous conditionality and good communication with the public, combined with the EU's capacity to integrate new members.

The enlargement process provides mechanisms and incentives, culminating in membership, that encourage enlargement countries to work together with the EU in realising common objectives. As economic governance within the EU is reinforced, economic dialogue with the enlargement countries will also be intensified, enabling us to focus together on putting the crisis behind us and creating jobs. The EU's global competitiveness gains from closer integration with countries that have a number of comparative advantages. This is one of the lasting benefits of the fifth enlargement, which brought the EU from 15 to 27 Member States between 2004 and 2007. Trade between 'old' and 'new' Member States tripled from around €150 billion to €450 billion during the decade leading to 2008. The enlargement process has provided the financial means for the EU to step in, together with the international financial institutions, to maintain economic stability in times of crisis, where necessary. Small and medium sized enterprises, which generate two out of three private sector jobs in the EU and are a major stimulus for innovation, benefit from an enlarged internal market and are an important focus for pre-accession assistance.

Closer integration through the enlargement process helps the EU to achieve its objectives in a number of areas which are key to economic recovery and sustainable growth, including energy, transport, the protection of the environment and efforts to address climate change. The countries of the Western Balkans are entirely surrounded by Member States. Turkey adjoins the European Union by land and sea. The construction of trans-European transport corridors, the diversification of energy sources, the mitigation

of and adaptation to climate change and the reduction of trans-boundary air and water pollution are among the EU's goals whose achievement requires the full commitment of the enlargement countries.

They, too, benefit from progress in such areas; the accession perspective provides them with incentives to give priority to goals shared with the EU. Grants from the Instrument for Pre- Accession Assistance (IPA) and loans from the European Investment Bank and other international financial institutions, which IPA helps to leverage, provide practical means of support. The most recent candidate which has begun accession negotiations, Iceland, is a world leader in various forms of renewable energy and has much to contribute to EU innovation efforts in this and other advanced fields.

Making Europe a safer place is high on the EU's agenda as defined in the Stockholm Programme. Enlargement countries are required to take over the *acquis* of the Union and to demonstrate their capacity to implement it fully. For this reason, the Commission has redoubled efforts to support enlargement countries to prevent and tackle organised crime and experts in law enforcement, border management and migration now assist counterparts in the enlargement countries to share their expertise and to check on progress. The fulfilment of the benchmarks, which determines the pace at which a candidate country advances towards EU membership in accession negotiations, requires a convincing track record in administering justice in an independent and effective manner.

The experience of visa liberalisation for the Western Balkans shows how much can be achieved by combining rigorous conditionality with the delivery of specific benefits, linked to progress towards EU membership. It also underlines the importance of continuous efforts by the governments concerned to ensure that the limits and conditions attaching to freer movement of persons are respected.

With the entry into force of the Lisbon Treaty, the EU has given itself the means to pull its weight on the global scene. The EU's role in the adoption of the UN General Assembly Resolution on Kosovo is an example of this potential. In a world where emerging powers are playing an increasing role, enlargement gives the EU greater weight and strengthens its voice in international fora. The fifth enlargement gave a new impetus to the EU's relations with its eastern and southern neighbours and led it to explore ways of developing initiatives in the Baltic and Black sea regions. The accession process with countries in the Western Balkans and Turkey, gives the EU a still greater interest and influence in the Mediterranean and Black Sea regions and in the Danube basin. Provided that Turkey's role in its own region is developed as a complement to its accession process and in coordination with the EU, it can add to both parties' weight in world affairs, not least in the Middle East and the Southern Caucasus. By acting together, the EU and Turkey can strengthen energy security, address regional conflicts, and prevent cleavages developing along ethnic or religious lines. Iceland and the EU can together play an important role in addressing energy, environmental, maritime and security issues in the Arctic. To be sure, the full potential of such synergies can only be realised through mutual commitment to a credible enlargement strategy.

The EU's weight in the world also depends to a considerable extent on the attractiveness of its regulatory model. The vitality of the internal market and the adoption of EU norms and standards by countries around the world are a major stimulus to trade, investment and growth. The single market act presented by the Commission aims to remove many remaining bottlenecks and release new growth potential. Through the enlargement process, enlargement countries will progressively adopt the *acquis*, widening the area in which a single set of standards applies. This should stimulate new

investment, innovation and social cohesion as well as strengthen the attractiveness of the EU's regulatory model in neighbouring countries and in the wider international system.

Much is at stake in the enlargement process both for the EU and the aspirant countries. At the same time public perceptions of the importance of this agenda are affected by daily concerns which may often appear more pressing. This year's package of reports, and accompanying conclusions and recommendations, show that the enlargement process is part of the solution to many of our citizens' concerns, whether in the prevention and tackling of organised crime and corruption or in the creation of growth and jobs. The EU institutions and its Member States need to work hand in hand to strengthen understanding and support for the enlargement process and to explain how it can help us achieve our common objectives. By making a success of further enlargement, the EU will be able better to address the many other challenges which it faces.

2. KEY CHALLENGES

2.1. Overcoming the economic crisis

The economic crisis has affected all enlargement countries. Its impact, however, varied depending on each country's economic structure. Albania, Kosovo and the former Yugoslav Republic of Macedonia were least affected, as they are less dependent on exports and their domestic markets kept up well. Croatia, Serbia and Turkey, which are more integrated in the global market, were heavily affected. Montenegro was severely hit, due to its dependence on external financing and few sectors. In Bosnia and Herzegovina the impact of the crisis has been exacerbated by pro-cyclical fiscal policies with a high share of subsidies and social transfers in the budget.

In 2010, there are modest signs of recovery in the Western Balkans. Domestic demand is still weak, reflecting tight credit conditions and persistent unemployment. Recovery with a robust growth rate is well on track in Turkey, which benefited from fiscal consolidation and the restructuring of its banking sector at the start of the decade. Iceland is still suffering from the effects of the global financial turmoil and the collapse of its banking system.

Public finances remain under pressure in a number of countries. Despite relatively low average public debt fiscal expansion in the boom period increased the vulnerability and exposure of enlargement countries to the global financial crisis, with the exception of Turkey. Most Western Balkan countries lacked the fiscal margin of manoeuvre and the capacity needed to prioritise public spending for fiscal stimulus in response to the crisis. Fiscal tightening measures, involving budget rebalancing, have been implemented in the Western Balkans. However this has not been sufficient to prevent a widening of fiscal deficits. Iceland, Serbia, Kosovo and Bosnia and Herzegovina have made use of IMF support.

The EU, together with the international financial institutions, helped alleviate the impact of the crisis. IPA assistance was reprogrammed to support investment in infrastructure and competitiveness. Budget support and macro-financial assistance were made available to some countries. The Western Balkans Investment Framework plays an important role in mobilising funds for large infrastructure projects (*see section 3 below*).

Achieving sustainable growth rates and real convergence will require further structural reforms and prudent fiscal policies. Domestic sources of growth need to be more effectively exploited in order to improve productive capacity, job creation and

competitiveness. Higher volumes of domestic and foreign investment are now needed in greenfield projects, particularly in export-oriented activities. This will contribute to raising output and productivity, in turn leading to higher employment and more sustainable trade balances. It will also help in addressing the region's pressing social problems.

To increase foreign and domestic investment, governments need to improve the business environment. This means increasing the efficiency of public administration and the independence of judiciary, removing informal barriers to trade and strengthening the rule of law. A functional regional market within the Central European Free Trade Agreement (CEFTA) and continued *acquis* alignment are important to attract investment. The planned liberalisation of trade in agricultural products and services across the region and the opening of public procurement markets will further increase the region's growth potential.

Ensuring sound and sustainable public finances is crucial for the enlargement countries. It is also a key issue in preparing for EU-membership. Recent experience has shown the interdependence of European economies and the destabilising potential of large imbalances even in small economies.

The Commission will continue to make full use of pre-accession instruments and economic surveillance to monitor the economic and fiscal performance of the enlargement countries. The EU conducts a regular dialogue with candidate countries, introducing them to the system of economic policy coordination and surveillance within the EU. A similar process has been established with potential candidates. The economic dialogues between the Commission and enlargement countries under the Association Agreements are likewise being used for economic policy surveillance.

Currently, steps are being taken to enhance economic governance within the EU. Once this reinforced macroeconomic, budgetary and structural reform coordination is fully defined and formalised, the Commission will examine how some of its provisions could be extended to the enlargement countries.

In addition to dialogue and surveillance, the EU is actively supporting the enlargement countries' endeavours towards economic recovery, macroeconomic stabilisation and fiscal consolidation. Substantial IPA assistance is being targeted at improving public finance management, increasing the quality of statistics and strengthening banking sector supervision.

The enlargement process contributes to the objectives of the Europe 2020 strategy by extending the area of the EU's regulatory framework and creating new trading opportunities. The Commission welcomes the intention of many enlargement countries to reflect the Europe 2020 strategy in their national reform priorities. The Commission will associate enlargement countries with initiatives taken at EU level to meet the goals of smart, sustainable and inclusive growth, delivering high levels of employment, productivity and social cohesion. In the field of education, the Commission will explore the possibilities to include all enlargement countries in the "Education and Training 2020" framework and engage them in peer-learning activities.²

Enlargement countries have started to take up initiatives in regional groups, where they can jointly evaluate progress and set region-specific targets. The Small Business Act for Europe, a set of measures to improve the business environment for SMEs, is an example of such an initiative. The Commission will propose to the Regional Cooperation

² Croatia, Turkey and Iceland already participate in the "Education and Training 2020" framework.

Council that it sets up platforms for dialogue and peer review in other areas in line with Europe 2020 priorities. When programming IPA assistance, the Commission will take into account the priorities of the Europe 2020 strategy.

2.2. Social inclusion

The economic crisis has had a negative impact on social welfare in the enlargement countries. Vulnerable groups, including minorities, disadvantaged communities and people with disabilities, have been particularly affected. High levels of unemployment, especially youth unemployment, low labour force participation rates and poverty are widespread throughout the region. Roma constitute a particularly vulnerable minority; they are affected by poverty, discrimination and segregation in access to education, employment, housing and social services, including health care. A significant number of Roma still lack civil registration or personal documents. Many of them still live in camps as Internally Displaced Persons as a consequence of the recent wars.

The Commission is committed to helping the enlargement countries to improve conditions for vulnerable groups, including the social and economic inclusion of Roma. The Commission provides substantial IPA support for vulnerable groups through education and the strengthening of social and employment services with the aim to integrate people at a disadvantage into the labour market. It also finances the upgrading of infrastructure in Roma settlements. This support will be reinforced, with a view to improving living conditions in the countries most concerned, by helping them to develop a comprehensive approach to problems of social inclusion. In the case of Croatia, a Joint Inclusion Memorandum has already been concluded, providing a policy framework in this field. The enlargement countries have taken certain measures to address the challenges outlined above but more needs to be done. The Commission encourages them to work to reduce poverty and social exclusion, in line with the priorities of the Europe 2020 strategy, and to make better use of the opportunities provided by the Decade of Roma Inclusion. The enlargement countries should consider setting explicit and ambitious targets on employment, education and poverty reduction of disadvantaged communities, in particular Roma.

2.3. Strengthening the rule of law and public administration

Strengthening the rule of law, in particular the judiciary and the fight against organised crime and corruption is a crucial challenge for most of the countries in the enlargement process. Tangible results, bringing sustained improvements to the rule of law, are an important element in moving to the next stages of the EU accession process.

The renewed consensus on enlargement, agreed in 2006, calls for issues related to the rule of law to be addressed at an early stage of the accession process. The Commission has given high priority to tackling these issues and using all available instruments. The use of benchmarks in the accession negotiations serves as an important catalyst for reforms and gives a clear message that rule of law issues must be addressed seriously before accession. The visa liberalisation process has demonstrated the effectiveness of an approach which set concrete, specific reform requirements thus allowing the countries to better focus their efforts. Peer assessment and other missions have been intensified, bringing judges, prosecutors and other experts in law enforcement, border management and migration from the Member States into direct contact with their counterparts. Intensified judicial and police cooperation within the region, with EU

Member States as well as with Europol, Eurojust and Frontex, provide means to tackle transnational crime during the pre-accession period.

In the light of this experience, the Commission will further step up its work and intensify the dialogue on the rule of law with candidate countries and potential candidates. The countries should work towards achieving concrete, sustainable results and establishing a convincing and credible track-record in the fight against organised crime and corruption and the reform of the judiciary. Achieving a stable legal framework and implementing it is key. The use of peer missions and of benchmarking will be extended. The Commission Opinions on the application for membership by Montenegro and Albania set out priorities in the area of the rule of law.

The Commission is closely monitoring progress, in particular through the joint bodies under the Stabilisation and Association Agreements or Interim Agreements and assessment missions. The results of this dialogue are reflected in the Progress Reports. IPA assistance has a major focus on the rule of law. TAIEX organises more than 100 rule of law-related training events per year for the enlargement countries.

There have been positive developments recently on judicial cooperation in several Western Balkan countries. New bilateral agreements on police cooperation, notably between Serbia and Albania, on mutual legal assistance and mutual enforcement of sentences in penal matters have been concluded. Croatia and Serbia went further, signing an agreement enabling them to extradite their nationals to each other for criminal proceedings or enforcement of prison sentences in cases of organised crime and corruption. The Commission encourages other countries in the region to follow this example. Judicial cooperation would be further improved by expanding the possibility to extradite nationals in all cases of serious crimes, including war crime cases. The Regional Cooperation Council strives to enhance cooperation between the police, prosecution services and the judiciary.

A professional and non-politicised civil service is essential for the rule of law and improving governance. Public administration reform is a priority in enlargement countries most of which are in various stages of state-building. In order to be sustainable, reforms need to be embedded within existing state structures and take account of the specific social and governance context. The Commission will continue to support public governance reforms in enlargement countries, in close cooperation with SIGMA.³

2.4. Freedom of expression and media

Freedom of expression and of the media, which is an integral part of any democratic system, remains a concern in most enlargement countries. In Turkey, the legal framework does not yet sufficiently guarantee freedom of expression. In several Western Balkan countries, threats and physical attacks against journalists continued. In some countries, defamation remains a criminal offence or subject to disproportionately high fines. In several countries political interference with the independence of media, including public service broadcasters, is a problem. Editorial independence is undermined by undue political and economic pressures. These issues need to be addressed by the countries concerned as a matter of urgency.

³ Short-term assistance in the field of horizontal governance issues and public administration reform is delivered through SIGMA (Support for Improvement of Governance and Management), an OECD programme supported by the Commission in the enlargement context.

The Commission will closely monitor progress in this area. The main focus will be on areas such as the legal framework and its compliance with European standards, in particular regarding defamation; the responsibility of authorities to duly sanction all cases of attacks on journalists; the establishment of self-regulatory bodies and their contribution to enhanced professionalism; the role of public service broadcasters in pluralistic democracies; cross-border networks for enhancing reporting across the region thereby contributing to better mutual understanding. The Commission will organise a conference on freedom of expression and the media in the enlargement countries in spring 2011 which will provide an opportunity to take stock of progress in these areas. IPA support will be provided as a follow-up to the conference, where appropriate.

2.5. Reconciliation, regional cooperation and bilateral issues in the Western Balkans

Over the last decade, the Western Balkans has made substantial progress towards stability and regional cooperation. However, a number of issues stemming from conflicts in the region remain open and affect both the internal functioning of states and relations among them. The EU is working with parties in the region to overcome this legacy of the past.

Progress on reconciliation is a key element for stability in Kosovo, where a new phase has opened following the Advisory Opinion of the International Court of Justice. Following the adoption of the UN General Assembly Resolution, the EU is ready to facilitate a process of dialogue between Pristina and Belgrade with the aim of promoting cooperation, achieving progress on the path to the EU and improving the lives of people. Progress in reconciliation is also essential in Bosnia and Herzegovina, not least for the functioning of the state. Full implementation of the Ohrid agreement in the former Yugoslav Republic of Macedonia, respect for and protection of ethnic minorities throughout the region, return of refugees and cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) as well as the proper conduct of domestic war crimes trials are important for reconciliation.

Lasting reconciliation requires efforts at all levels – governments, judiciary and civil society. It is also linked to addressing poverty and social exclusion. There have recently been a number of positive signals. The Serbian parliament adopted a declaration condemning the crime in Srebrenica and referring to the International Court of Justice ruling on Srebrenica. NGOs have launched an initiative to establish a regional commission for truth-seeking and truth-telling. This so-called RECOM initiative is supported by the Presidents of Croatia and Serbia, by the Montenegrin parliament and religious communities. A wider regional support would contribute to reconciliation. The May 2010 summit of the Igman Initiative in Sarajevo was attended by the Presidents of Serbia, Bosnia and Herzegovina, Croatia and Montenegro; more than 140 NGOs are involved with the aim of promoting and facilitating local and regional cooperation. These various efforts must be underpinned by the judicial prosecution of war crimes through full cooperation with ICTY and proper and speedy handling of war crimes cases in domestic courts. Full cooperation with ICTY, in particular by Serbia and Croatia, remains key.

There have been positive developments on the refugee return issue as initiated by the Sarajevo Process. A ministerial conference, held in March in Belgrade, reopened the dialogue between the governments concerned. The Commission is ready to consider additional EU financial contributions for this process and to support the holding of a donors' conference once the countries have reached agreement on concrete actions for

solving remaining problems. There are still 14,631 (as of August 2010) persons missing as a result of the armed conflicts in the region and the process of resolving the remaining cases is very slow. The countries concerned need to increase their efforts to solve the remaining cases within a reasonable time limit.

Regional cooperation contributes to reconciliation, good neighbourly relations and a climate conducive to addressing open bilateral issues. In the Western Balkans it is also crucial for economic development and to address joint problems such as organised crime, border management, climate change or environmental pollution. Regional cooperation is essential to make progress on the EU integration agenda in areas such as security of citizens, energy or transport.

The region has taken steps to strengthen regionally owned structures. The Regional Cooperation Council (RCC) has a key role in guiding and monitoring regional cooperation. The RCC adopted an ambitious strategy and work programme for 2011-2013 which now needs to be implemented, with a focus on result-oriented activities where the RCC can add real value. The Central European Free Trade Agreement (CEFTA) is essential for completing the regional free-trade area. The Energy Community is working towards a regional energy market and preparing for integration into the EU's energy market. The European Common Aviation Area Agreement will upgrade standards in the areas of safety, security and air traffic management and lead to more competitive conditions for air passengers.

The Commission provides substantial financial support for regional cooperation. In 2011, IPA funds will be mobilised to facilitate the region's participation in major international agreements such as the Transport Treaty. The Regional School of Public Administration (ReSPA) is now fully operational and currently delivering around 2,500 training days per year. The International Agreement establishing its legal personality was ratified in July 2010. The official opening of its premises in Danilovgrad (Montenegro) is expected to take place on 11 November 2010.

The Commission will continue to support the rehabilitation of cultural heritage, in the context of the Ljubljana process. The RCC will establish a Task Force on Culture and Society, supported by a permanent secretariat benefiting from EU pre-accession financial assistance. Its task will be to manage the Ljubljana Process, in co-operation with the Council of Europe and the Commission.

The Commission is currently finalising a Danube Strategy, bringing together Member States, enlargement and eastern partnership countries. The inclusion and active participation of the Western Balkan countries sharing the Danube basin with their EU neighbours is essential for the success of the strategy. The strategy is an opportunity for mutually beneficial investments in the transport, energy and environment sectors and for socio-economic development.

Regional cooperation has been held back by differences over Kosovo. In particular, the functioning of CEFTA, the extension of the Pan-Euro-Med system of diagonal cumulation and the signing of the Transport Community agreement have been affected. It has sometimes proved impossible to hold meetings with the participation of all regional actors. The Commission strongly encourages all parties concerned to seek practical and pragmatic solutions to ensure the inclusiveness of regional cooperation, without prejudice to differing positions over the status of Kosovo.

Slovenia and Croatia signed and ratified a Border Arbitration Agreement which paves the way for a final settlement. This agreement shows that bilateral issues can be

solved in the spirit of good neighbourliness. The former Yugoslav Republic of Macedonia and Kosovo completed the demarcation of their border. However, a number of other bilateral issues, in particular regarding borders, remain unresolved, as does the name issue between Greece and the former Yugoslav Republic of Macedonia.

Open bilateral issues, including border disputes, need to be solved by the parties concerned, in a good neighbourly spirit and taking into account overall EU interests. They require a renewed political will by the parties concerned. The Commission expects them to make every effort towards solving outstanding border disputes in line with the principle of peaceful settlement of disputes in accordance with the United Nations Charter, including if necessary jurisdiction of the International Court of Justice. Bilateral issues should not hold up the accession process. The EU stands ready to facilitate the creation of the necessary political impetus in the search for solutions and to support related initiatives.

3. PRE-ACCESSION INSTRUMENTS SERVING ENLARGEMENT POLICY

Financial Assistance – strategic approach

Financial assistance under the Instrument of Pre-accession Assistance (IPA) is designed to help candidate countries and potential candidates in their efforts to meet accession criteria, to align with EU policies and standards and to foster socio-economic development. Such assistance through the EU budget provides clear added value. Assistance to enlargement countries is an investment in the future of the EU; by supporting its future members to prepare adequately for accession, the EU itself will be better placed to meet its strategic goals. €11.6 billion is available under IPA for 2007-2013 to help enlargement countries prepare for accession. An indicative breakdown is given in the revised multi-annual indicative financial framework for 2011-2013.

IPA is designed to allow for strategic planning of assistance through three-year multi-annual indicative planning documents (MIPDs). These documents set out the main priorities for assistance over the coming years and form the basis for annual or multi-annual programming. The MIPDs are based on the needs identified in the partnerships and progress reports.

The Commission has taken a number of steps to enhance the strategic nature of this process and to strengthen the link between the priorities established in the Accession or European Partnerships and the progress reports and the programming of assistance. This has led to an increased focus on key fundamental areas such as good governance and the rule of law. To better illustrate this focus, and to strengthen ownership by the beneficiary countries, the Commission will increasingly use a more sector-based approach in its planning of pre-accession assistance.

Enlargement countries are therefore encouraged to develop detailed, strategic programmes in key sectors that have been identified as essential for progressing towards the EU. Accession priorities should be fully integrated into these country owned programmes. The next MIPDs covering the years 2011-2013 will set out the objectives for IPA assistance within these sectors.

Other areas that will continue to be included in the MIPDs as priorities will be those linked to regional development, human resource development and rural development, particularly for candidate countries. By learning how to manage pre-accession aid

effectively and in line with the principles of sound financial management, the governments of the enlargement countries can prepare themselves for the management of EU funds as future Member States.

However, challenges remain when it comes to effective implementation of IPA programmes in some countries. Beneficiary countries need to increase their efforts to ensure sufficient administrative capacity and expertise in the development and implementation of sustainable, results-oriented projects in order to optimise the absorption of available pre-accession funds. The Commission will support beneficiaries to improve their capacity and will monitor the IPA financial cycle, identifying deficiencies at an early stage.

The Commission will also increasingly programme on a multi-annual basis allowing better prioritisation and sequencing of planned measures, as well as more predictability of financial assistance for the beneficiary countries.

A sector approach will facilitate cooperation among donors and beneficiaries, eliminating duplication of efforts and leading to greater efficiency and effectiveness. This in turn should allow all stakeholders to focus increasingly on the expected results and impact of our combined efforts.

The magnitude of investment needed in the enlargement countries to prepare for membership and real convergence requires significant contributions from national budgets, support from other donors, the International Financial Institutions (IFIs), and the mobilisation of private investors. Public-private partnerships are particularly valuable in bringing together grants from public budgets and loans from private banks. The Western Balkans Investment Framework (WBIF), the European Fund for South-East Europe (EFSE) and the Green for Growth Fund (GGF) are good examples of leveraging a high level of capital in-flow with limited public resources.

The WBIF was set up in December 2009 as a joint initiative of the Commission and partner IFIs. It is a key tool for channelling investments into infrastructure in the region. It leverages significant loans from the IFIs with IPA grants. €137 million of grants have been attributed that could leverage investments for an estimated value of €6.6 billion. The WBIF will focus on increasing the number of water and waste water projects in the region, stimulating support for energy efficiency, accelerating investments in the core transport network, and supporting the development of SMEs and mechanisms to encourage economic growth in the aftermath of the financial crisis. Projects under the WBIF cover a number of countries in the Western Balkans and strengthen regional cooperation. The WBIF will favour major investments of regional importance such as the South-east Europe core regional transport network, which can be considered to be the precursor of the future trans-European transport network (TEN-T) in the region.

Financial assistance under IPA for regional cooperation aims to ensure regional stability, increase intra-regional trade flows, and support regional cooperation initiatives and structures in the Western Balkans, including the Regional Cooperation Council and the Regional School for Public Administration. The Regional Cooperation Council has an important role in monitoring whether IPA and other donor funding reflects regional cooperation priorities.

Participation in EU Programmes and Agencies

Participation of enlargement countries in EU programmes and agencies aims to enhance cooperation with Member States and familiarise countries with EU policies and

working methods. Candidate countries and potential candidates are able to take part in EU programmes on the basis of framework agreements and can participate in EU agencies on a case-by-case basis. Participation may be partially funded through IPA financial assistance. Countries are encouraged to focus their participation on programmes or agencies where involvement supports key sectors for reform and where they can get the most benefit.

Information and communication

A successful enlargement policy requires solid public support. Member States and enlargement countries have a central role in the information and communication efforts that can help maintain this public support. The Commission is committed to improving the flow of objective information about the enlargement process, presented in user-friendly form, through the different media of communication now available. It is particularly important that this information reaches young people whose life experience may not give them a sense of the importance of reinforcing security and stability in Europe. It is up to political leaders at EU, national, regional and local level to make use of this information in ways which are most meaningful to their own constituents.

Experience from the fifth enlargement has shown that a gap in communication is quickly filled by misleading information. The gap needs to be overcome by freely available and accurate information. This is essential if the public is to understand fully what is at stake. In 2010 the Union is facing new challenges linked to the economic crisis, the environment, jobs, safety of the citizen, climate change and migration. These are the issues that concern the public in both the Member States and the enlargement countries. The challenge for leaders is to explain how the pursuit of the enlargement agenda can help the EU attain its objectives in these crucial areas, and can accelerate the reform agenda and improve living conditions in the enlargement countries. Tangible and real results of the process are the best advertisements for enlargement. Visa liberalisation for the Western Balkans is one powerful example.

Civil society development

Civil society activities are essential for a mature democracy, the respect for human rights and the rule of law. Such activities enhance political accountability, stimulate and expand the space for discourse on societal choices and strengthen the consensus for a pluralistic society. By contributing to a more open, participatory and dynamic democracy, a lively and vibrant civil society is also conducive to tolerance and reconciliation. The involvement of civil society organisations in the pre-accession process contributes to the quality of and public support for accession-related reforms.

A culture of acceptance and appreciation of the role played by civil society need to be in place to allow civil society organisations to engage in an effective policy dialogue. Public consultation on policy initiatives and draft laws should become the general principle. The access of civil society to government support is frequently hindered by a lack of transparency and poorly developed allocation criteria.

The civil society facility helps civil society organisations to strengthen their capacities and professionalism, allowing them to engage in an effective dialogue with public and private actors and to monitor developments in areas such as the rule of law and respect for fundamental rights. The facility finances initiatives at local level, regional networking and short-term visits to the EU.

The Commission has reviewed the facility to better reach out to local community-based organisations, taking into account feed-back from civil society organisations. The Commission will better target needs in each country and provide longer-term seed-funding to NGOs. Stronger, well-established organisations could become mentors and facilitators for smaller organisations.

4. PROGRESS IN THE ENLARGEMENT COUNTRIES AND AGENDA FOR 2010-2011

4.1. Steering the Western Balkans towards EU membership

At the Sarajevo EU-Western Balkans ministerial meeting on 2 June 2010, the EU reiterated its unequivocal commitment to the European perspective of the Western Balkans. The future of the Western Balkans lies in the European Union.

The Western Balkans have moved closer to the EU over the past year, as the region made progress, albeit unevenly, in reforms and in meeting established criteria and conditions. The progress of Croatia confirms that the Stabilisation and Association Process for the Western Balkans is a policy leading to EU accession. Progress of the other countries of the Western Balkans towards EU membership depends likewise on the pace of their political and economic reforms.

Substantial progress was made towards visa liberalisation. Over the past year, the EU has lifted visa requirements for Serbia, Montenegro and the former Yugoslav Republic of Macedonia, when they demonstrated their capacity to meet the benchmarks which had been set in areas like the security of travel documents, border management, migration, asylum, public order and security, as well as respect for human rights. Visa requirements will shortly be lifted for Bosnia and Herzegovina and Albania, on the basis of clear evidence that they too have met these benchmarks. It is important that the countries concerned intensify their efforts to inform their citizens about the scope and limits of the visa-free regime. Kosovo adopted a law on readmission and stepped up efforts on reintegration of repatriated persons, thus paving the way for the visa liberalisation dialogue.

Croatia

Croatia has made steady progress towards meeting the criteria for membership since starting accession negotiations in October 2005. Croatia meets the Copenhagen political criteria. 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, provided that it implements its comprehensive reform programme with determination in order to reduce structural weaknesses.

Regarding the *acquis* criteria, Croatia has made good progress in the accession negotiations.

33 chapters were opened, and 25 have been provisionally closed. Croatia has made good progress towards meeting the conditions for the closure of the negotiating chapters with financial implications (*agriculture and rural development; regional policy and coordination of structural instruments; financial and budgetary provisions*). Croatia needs to sustain efforts to fully establish the administrative structures required for the management and control of EU funds.

Croatia needs to meet outstanding closing benchmarks in the field of *judiciary and fundamental rights*, in particular building up the necessary track records as regards the independence and efficiency of the judiciary, the fight against corruption and organised crime, respect for and protection of minorities, including refugee return, war crimes trials and full cooperation with the ICTY including settling the issue of access for ICTY to documents. Regarding *competition*, Croatia needs to adopt restructuring plans for the shipyards, in line with the *acquis*. Croatia is expected to continue to play an active role in regional cooperation in the Western Balkans and to support the other countries of the region on their path towards EU membership.

Bearing in mind Croatia's track record in meeting benchmarks and in implementing the commitments given in the accession negotiations, Croatia is well on its way to meeting the *acquis* criteria. This is demonstrated in the monitoring tables which the Commission establishes for provisionally closed chapters.

The Commission will continue to monitor the implementation of commitments until accession, by using all available instruments, including peer assessments and structures under the Stabilisation and Association Agreement. Monitoring Reports will be presented regularly by the Commission.

The former Yugoslav Republic of Macedonia

The Former Yugoslav Republic of Macedonia continues to sufficiently fulfil the political criteria. Following substantial reforms in 2009, further progress has been made, although at an uneven pace, as regards the reform of the parliament, the police, the judiciary, public administration and respect for and protection of minorities. The country needs to make further progress in relation to dialogue among political actors, judiciary and public administration reform, the fight against corruption, freedom of expression and improving the business environment. Implementation of the legislation is essential.

The country continued to fulfil its commitments under the Stabilisation and Association Agreement. The Commission has proposed moving to the second stage of the association as provided for by the SAA.

The Council has not yet taken a position on the Commission's recommendation from October 2009 to open accession negotiations. The name issue with Greece remains unresolved. The two countries are engaged in talks under the auspices of the UN on resolving it and a number of bilateral contacts including at prime minister level, have taken place, although this momentum has not yet led to concrete results. Actions and statements which could adversely affect good neighbourly relations should be avoided. Maintaining good neighbourly relations, including a negotiated and mutually accepted solution to the name issue, under the auspices of the UN, is essential.

Montenegro

In parallel to this Strategy Paper, the Commission has adopted its Opinion on Montenegro's application for EU membership. The conclusions and recommendations of the Opinion are set out in the Annex to this Communication.

Albania

In parallel to this Strategy Paper, the Commission has adopted its Opinion on Albania's application for EU membership. The conclusions and recommendations of the Opinion are set out in the Annex to this Communication.

Bosnia and Herzegovina

Bosnia and Herzegovina has made limited progress in addressing key reforms. The elections of October 2010 were generally in line with international standards. Incompatibilities between Bosnia and Herzegovina's Constitution and the European Convention on Human Rights were not removed, despite the ruling of the European Court of Human Rights. Respect for democratic principles and the right to equal treatment without discrimination, as embodied in the ECHR, constitutes an essential element of the Interim Agreement.

Developing a shared vision by the leaders on the overall direction of the country and on key EU-related reforms remains essential for further progress towards EU membership. The country needs to increase efforts to establish a satisfactory track record in implementing the provisions of the Interim Agreement.

Initial steps should be taken, as a matter of urgency, by Bosnia and Herzegovina to align its Constitution with the European Convention of Human Rights (ECHR) and to improve the efficiency and functioning of its institutions. The country must be in a position to adopt, implement and enforce the laws and rules of the EU. Regarding international obligations, making progress towards meeting the objectives and conditions which have been set for the closure of the Office of the High Representative (OHR) remains essential. The EU, through a reinforced presence, will assist Bosnia and Herzegovina in implementing the objectives of the EU agenda.

Serbia

Serbia applied for EU membership in December 2009 and has demonstrated a renewed commitment towards meeting the Copenhagen criteria. In October 2010, the Council invited the Commission to submit its Opinion on this application. In February 2010 the Interim Agreement entered into force and in June 2010 the Member States agreed to submit the Stabilisation and Association Agreement to their parliaments for ratification.

Serbia has continued to implement its political reform agenda. Some positive results have been achieved in the fight against organised crime. Additional efforts are required regarding judicial and public administration reform as well as the fight against organised crime and corruption. Serbia has continued to build a track record in implementing the Interim Agreement and is well placed to fulfil the requirements under the SAA. Serbia has taken important steps towards reconciliation in the region, in particular with Croatia and Bosnia and Herzegovina. Serbia has continued to cooperate actively with the International Criminal Tribunal for the former Yugoslavia. However, the two remaining ICTY fugitives are still at large. Full cooperation with the Tribunal remains an essential condition for membership of the EU, as set out in the Council conclusions of 25 October 2010.

Serbia needs to demonstrate a more constructive attitude towards Kosovo's participation in regional trade and cooperation. It should recognise Kosovo's customs stamps which UNMIK has twice certified as in compliance with UNSCR 1244. Cooperation with the EULEX rule of law mission with respect to the north of Kosovo needs to be strengthened. Following the UN General Assembly Resolution, the EU is ready to facilitate a process of dialogue between Belgrade and Pristina to promote cooperation, achieve progress on the path to the EU and improve the lives of people.

Kosovo

In Kosovo local elections at the end of 2009 were conducted in an orderly manner and with participation of all communities. Voter turnout was very low in northern Kosovo. The decentralisation process has advanced significantly. Cooperation with EULEX increased. The government has improved its capacity to implement Kosovo's European agenda and reform policy. However, major challenges remain as regards the public administration reform and the rule of law, including the judiciary. More needs to be done to tackle corruption, organised crime and money-laundering. Dialogue and reconciliation between communities and the protection and integration of minorities, particularly the Kosovo Serbs, are still areas of concern. The authorities need to ensure a constructive approach towards Kosovo's participation in regional cooperation fora, in order to keep pace with regional developments.

In December 2009, the Council welcomed the Commission's Communication 'Kosovo – Fulfilling its European Perspective'.⁴ The Council invited the Commission to take the necessary measures to support Kosovo's progress towards the EU, in line with the European perspective of the region to report back on progress in this regard. The Council underlined the importance to measures related to trade and visas, without prejudice to Member States' positions on status.

In February, the Commission proposed the extension of the autonomous trade measures for Kosovo. In July it undertook an expert mission to assess Kosovo's preparedness to meet requirements relevant to a possible trade agreement with the EU. Efforts will be necessary concerning technical regulation of products, control of origin, intellectual property, competition rules and public procurement. The Commission will step up efforts to assist Kosovo to address the shortcoming identified. Once Kosovo meets the relevant requirements, the Commission will propose negotiating directives for a trade agreement.

The Commission will take forward Kosovo's participation in relevant Union programmes. Together with the Kosovo authorities, the Commission launched the Stabilisation and Association Process dialogue with Kosovo in January. A full cycle of meetings has been completed.

The Commission supports Kosovo's participation in IPA cross-border cooperation programmes with the former Yugoslav Republic of Macedonia and Albania. As of 2011, support will also include programmes with Montenegro.

The Commission will continue to take forward the initiatives it outlined in its communication on Kosovo, in line with the Council conclusions.

4.2. Furthering accession negotiations with Turkey

Turkey has continued its political reform process. Turkey amended its constitution introducing key reforms to its political and legal system which address a number of priorities in the areas of judiciary and fundamental rights. The reforms limit the competence of military courts; restructure the constitutional court; widen the composition of the high council of judges and public prosecutors, making it more representative of the judiciary as a whole; broaden trade union rights in the public sector; provide the basis for the adoption of special measures protecting the rights of women and children; guarantee

⁴ COM(2009) 534 final, 14.10.2009.

protection of personal data; and grant the right to apply to an ombudsman, thus providing the legal basis for the establishment of the ombudsman institution.

The constitutional amendments are an important step in the right direction. However, broad public consultation involving all political parties and civil society, with their full engagement, is needed to strengthen support for constitutional reform. It is now essential to ensure proper implementation of these reforms through relevant legislation. A new civilian constitution would provide a solid base for a further strengthening of democracy in Turkey, in line with European standards and the EU accession criteria.

Regarding fundamental rights, freedom of expression and of the media needs to be strengthened in Turkey both in law and in practice. A number of shortcomings remain in the exercise of the freedom of religion. Progress is also needed regarding, women's rights and gender equality and ensuring full trade union rights. The 'democratic opening' aimed notably at addressing the Kurdish issue has produced only limited results. The security situation in the South-East has worsened, with a resurgence of attacks by the terrorist organisation PKK/Kongra-Gel. Some progress has been made in the fight against corruption.

Accession negotiations advanced, albeit rather slowly. They have reached a demanding stage requiring Turkey to step up its efforts in meeting established conditions. By advancing in the fulfilment of benchmarks and of the requirements specified in the Negotiating Framework, Turkey will be able to accelerate the pace of negotiations. During the next months, Turkey should give particular priority to the *competition policy*, *public procurement* and *social policy and employment* chapters.

Turkey's foreign policy has become more active in its wider neighbourhood. This is an asset for the European Union, provided it is developed as a complement to Turkey's accession process and in coordination with the EU. Turkey has made a number of proposals for closer EU-Turkey foreign policy cooperation. Considerable progress has been made in the negotiations towards a readmission agreement with Turkey.

Turkey has continued to express public support for the negotiations under UN auspices between the leaders of the Greek Cypriot and Turkish Cypriot communities to reach 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. It is urgent that Turkey fulfils its obligation of full non-discriminatory implementation of the Additional Protocol and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. The EU will continue to follow up and review progress made on issues covered by the Declaration of 21 September 2005, in accordance with the Council Conclusions, including the December 2006 and December 2009 conclusions. In the absence of progress, the Commission recommends that the EU maintains its measures from 2006, which will have a continuous effect on overall progress in the negotiations.

Turkey needs to step up efforts to solve open bilateral issues, including border disputes, with its neighbours. There is a renewed impetus to improve relations with Greece. A considerable number of formal complaints were made by Greece about continued violations of its airspace by Turkey, including flights over Greek islands. Greece also made complaints about violations of its territorial waters. The protocols on the normalisation of relations with Armenia signed in 2009 have not been ratified.

4.3. Launching the accession process with Iceland

recommendation in its Opinion of February 2010 and the decision of the June European Council, accession negotiations were opened in July 2010 and the screening of the EU *acquis* with Iceland is about to start. Iceland is now entitled to IPA assistance which is available to support the country's efforts towards becoming fully prepared for EU membership.

Good progress was made to further improve the legal framework related to conflict of interests and the financing of political parties. The rules on the appointment of judges were amended with the aim of further strengthening the independence of the judiciary. The Important steps of economic stabilisation have been taken. Progress has been made in consolidating public finances and restoring the financial system. The IMF programme is on track. However, economic uncertainties and challenges remain. Iceland will need to address existing obligations, such as those identified by the EFTA Surveillance Authority (ESA) under the European Economic Area Agreement. Substantial efforts are needed to ensure that citizens in Iceland are properly informed about what EU membership entails.

5. CONCLUSIONS AND RECOMMENDATIONS

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

1. Enlargement reinforces peace and stability in Europe. It is in the EU's strategic interest to take the enlargement process forward on the basis of the agreed principles and conditions and the renewed consensus on enlargement approved by the European Council in December 2006. The firm political commitment of all stakeholders is required to make a success of enlargement. Enlargement must remain credible for all involved. Aspirant countries need to be well prepared through rigorous conditionality and to have a clear and tangible European perspective, once conditions are met.

2. The enlargement process helps the EU to better achieve its policy objectives in a number of areas, which are key to economic recovery and sustainable growth, including regulatory convergence and the internal market, energy, transport, the protection of the environment and efforts to limit climate change as well as making the EU a safer place.

3. The Commission will further strengthen the monitoring of macro-economic policies of the enlargement countries, also taking into account new developments in EU economic governance. The Commission expects the enlargement countries to pursue EU-related reforms, and to improve the business environment, thereby helping to overcome the economic crisis and to achieve sustainable growth. The Commission will associate enlargement countries with initiatives taken at the EU level to meet the goals of the Europe 2020 strategy. It invites the enlargement countries to reflect the 2020 targets in their national political priorities, to engage in regional policy groups with the aim of reviewing regularly the results of these reforms and to set region specific targets, where appropriate.

4. The Commission encourages the enlargement countries to work on improving conditions for vulnerable groups, including the social and economic inclusion of Roma. The Commission is committed to support them in this endeavour.

5. The Commission will give continued priority to judiciary and public administration reform, the fight against organised crime and corruption and further intensify the rule of law dialogue with enlargement countries. Most enlargement countries need to make

substantial progress to consolidate the rule of law and, in particular, to establish credible track-records in the fight against organised crime and corruption.

6. Freedom of expression and of the media remains a concern in most enlargement countries and the problems identified must be addressed as a matter of priority. Progress in this area is essential and will be closely monitored by the Commission. The Commission will continue to support civil society organisations and make full use of its civil society facility.

7. Regional cooperation is an essential element of the Stabilisation and Association process. The Western Balkans have made important progress in regional cooperation, which should not be undermined by divergences over Kosovo. The Regional Cooperation Council needs to focus on the implementation of its results-oriented strategy.

8. Substantial progress has been made towards visa liberalisation. The visa obligation for citizens from the former Yugoslav Republic of Macedonia, Montenegro and Serbia was lifted. Visa requirements will shortly be lifted for Bosnia and Herzegovina and Albania, on the basis of clear evidence that they too have met the benchmarks. Further efforts are needed by the countries concerned to inform their citizens about the scope and limits of the visa-free regime, to monitor closely its implementation and, where required, take adequate corrective measures.

9. Bilateral issues need to be solved by the parties concerned, in a good neighbourly spirit and taking into account overall EU interests. They should not hold up the accession process. The EU stands ready to facilitate the search for solutions and to support related initiatives. The time has come for the region to overcome the legacy of the conflicts of the past, building on recent positive momentum regarding reconciliation. Good neighbourly relations remain key.

10. The Commission recalls that negotiating chapters for which technical preparations have been completed should be opened or provisionally closed on the basis of the *acquis* concerned, in line with the Negotiating Frameworks, and subject to measures agreed by the Council. It is in the EU's interest to open discussions on difficult chapters early in the negotiations, including the chapter on judiciary and fundamental rights, which requires the establishment of convincing and credible track records and hence is likely to be among the last chapters to be closed.

11. Pre-accession assistance forms an integral part of the enlargement strategy and is designed to help meet the priorities identified in the partnerships and progress reports. Beneficiary countries need to strengthen their capacity to use EU funds effectively.

12. The Commission invites Member States to work with the EU institutions to strengthen understanding and support for the enlargement process and to explain how it can help us achieve our common objectives. The Commission is committed to improving the flow of objective information about the enlargement process, presented in user-friendly form, through the different media of communication now available.

13. Croatia has made good progress towards meeting the criteria for membership and the accession negotiations have reached the final phase. Full cooperation with the International Criminal Tribunal for the former Yugoslavia remains a requirement for Croatia's progress throughout the accession process, in line with the Negotiating Framework. The Commission considers that negotiations should be concluded once Croatia has met outstanding closing benchmarks, in particular in the field of judiciary and fundamental rights, including the fight against corruption, thus removing the need for the EU to consider a cooperation and verification mechanism after accession. The

Commission will closely monitor Croatia's progress in the field of judiciary and fundamental rights and take stock of the situation in the first quarter of 2011.

14. Turkey has continued its political reform process, in particular through the reform of its constitution. Further results are needed regarding fundamental rights, the 'democratic opening' and the involvement of all stakeholders in the reform process. Assuring freedom of expression in practice is particularly challenging. Accession negotiations advanced, albeit rather slowly. By advancing in the fulfilment of benchmarks and of the requirements specified in the Negotiating Framework, Turkey will be able to accelerate the pace of negotiations. It is now urgent that Turkey fulfils its obligation of full non-discriminatory implementation of the Additional Protocol to the Association Agreement and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. The EU will continue to follow up and review progress made on issues covered by the Declaration of 21 September 2005, in accordance with the Council Conclusions, including the conclusions of December 2006 and December 2009. In the absence of progress, the Commission recommends that the EU maintains its measures from 2006, which will have a continuous effect on overall progress in the negotiations.

15. As regards the Cyprus issue, the leaders of the Greek Cypriot and of the Turkish Cypriot communities are continuing negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission supports their efforts and provides technical advice on issues within EU competence. It calls on both leaders to strengthen their efforts to bring the settlement talks to a successful conclusion as soon as possible and reiterates its call on Turkey to contribute in concrete terms to such a comprehensive settlement of the Cyprus issue.

16. The accession process with Iceland has been launched. Following the Commission's recommendation in its Opinion of February 2010 and the decision of the June European Council, accession negotiations were opened in July 2010 and the screening of the EU acquis with Iceland is about to start. Iceland will need to address existing obligations, such as those identified by the EFTA Surveillance Authority (ESA) under the EEA Agreement. Substantial efforts are needed to ensure that citizens in Iceland are properly informed about what EU membership entails.

17. The former Yugoslav Republic of Macedonia continues to sufficiently fulfil the political criteria. Further progress has been made in key reform areas, although at an uneven pace. Efforts are needed in particular as regards judiciary and public administration reforms. The Commission reiterates its recommendation that negotiations for accession to the European Union should be opened with the former Yugoslav Republic of Macedonia. Maintaining good neighbourly relations, including a negotiated and mutually accepted solution to the name issue, under the auspices of the UN, is essential.

18. In its Opinions adopted today the Commission recommends that accession negotiations should be opened with Montenegro and Albania once these countries have achieved the necessary degree of compliance with the membership criteria set out by the 1993 Copenhagen European Council. In particular, Montenegro and Albania need to meet the specific key priorities set out in each Opinion. The Commission recommends that the Council grant the status of candidate country to Montenegro. It urges Albania to make further efforts to build on the progress made to The Commission's progress report on both countries in the 2011 enlargement package will focus in particular on the implementation of the key priorities which need to be addressed with a view to the opening of accession negotiations. Serbia applied for EU membership in December 2009 and in October 2010 the Council invited the Commission to submit its Opinion. Serbia

has continued to implement its political reform agenda and to build a track record in implementing the Interim Agreement. It is well placed to fulfil the requirements under the SAA. Serbia has taken important steps towards reconciliation in the region. Additional efforts are required regarding judicial and public administration reform as well as the fight against organised crime and corruption. Serbia has continued its cooperation with the International Criminal Tribunal for the former Yugoslavia. However, the two remaining ICTY fugitives are still at large. Full cooperation with the Tribunal remains an essential condition for membership of the EU, as set out in the Council conclusions of 25 October 2010. Serbia needs to demonstrate a more constructive attitude towards Kosovo's participation in regional trade and cooperation. Cooperation with the EULEX rule of law mission with respect to the north of Kosovo needs to be strengthened.

20. Following the UN General Assembly Resolution, the EU will facilitate a process of dialogue between Belgrade and Pristina to promote cooperation, achieve progress on the path to the EU and improve the lives of people.

21. The decentralisation process in Kosovo has advanced significantly and cooperation with EULEX has increased. The government has improved its capacity to implement Kosovo's European agenda and reform policy. However, major challenges remain as regards the rule of law, including the reform of public administration and the judiciary, as well as tackling corruption, organised crime and money-laundering. Dialogue and reconciliation between communities and the protection and integration of minorities, particularly the Kosovo Serbs, are still areas of concern. The authorities need to ensure a constructive approach towards Kosovo's participation in regional cooperation fora, in order to keep pace with regional developments. The Commission is taking forward the initiatives outlined in its October 2009 Communication on Kosovo, in line with the December 2009 Council conclusions. The Commission welcomes the recent progress Kosovo made in adopting the legislation on readmission, in devising an Action Plan on reintegration of returnees underpinned with earmarked resources. Subject to its continued implementation, the Commission is committed to launch a visa liberalisation dialogue shortly. The Commission is assisting Kosovo to put into place the conditions needed for a possible trade agreement with the EU. Once Kosovo meets the relevant requirements, the Commission will propose negotiating directives for a trade agreement. The Commission will propose the opening to Kosovo's participation of relevant Union programmes, such as Europe for Citizens and Culture. The Commission will propose negotiating directives for a framework agreement to this effect.

22. Bosnia and Herzegovina needs to form a government committed to the country's EU future and to speed up relevant reforms. Initial steps should be taken, as a matter of urgency, by Bosnia and Herzegovina to align its Constitution with the European Convention of Human Rights and to improve the functioning of its institutions. The country must be in a position to adopt, implement and enforce the laws and rules of the EU. Regarding international obligations, making progress towards meeting the objectives and conditions which have been set for the closure of the Office of the High Representative (OHR) remains essential. The EU, through a reinforced EU presence, will assist Bosnia and Herzegovina in implementing the objectives of the EU agenda.

23. Overall, the 2010 progress reports indicate that the EU's enlargement process is moving forward at a pace which is largely determined by the proven capacity of the aspirant countries to take on the obligations of membership. This requires durable reforms as well as legislative and institutional adaptations which are credible and convincing. As the countries concerned meet the standards which have been set, including notably those linked

to democracy, the rule of law and fundamental rights and freedoms, the EU is committed to working with them to advance to the next steps in the process.

ANEX 1

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

Montenegro

Montenegro has made progress towards fulfilling the criteria related to the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, set by the Copenhagen European Council in 1993, as well as the conditions of the Stabilisation and Association Process. Nonetheless, further efforts are needed.

As regards the economic criteria, Montenegro has achieved a certain degree of macroeconomic stability. However, to become a functioning market economy, as set out by the 1993 Copenhagen European Council, Montenegro needs to address internal and external imbalances, as well as existing weaknesses, notably in the financial sector and the functioning of labour markets, and strengthen the rule of law. In order to enable it to cope in the medium term with competitive pressure and market forces within the Union, Montenegro needs to strengthen its physical infrastructure and human capital and to continue implementing structural reforms.

Montenegro's track record in implementing its obligations under the Stabilisation and Association Agreement is positive overall.

Montenegro would be in a position to take on the obligations of membership in the medium term, in most of the *acquis* fields, provided that the alignment process continues and that, considerable and sustained further efforts are made to ensure the implementation and enforcement of legislation. Particular attention needs to be paid to the areas of free movement of goods, intellectual property law, agriculture and rural development, food safety, veterinary and phyto-sanitary policy, fisheries, statistics, social policy and employment, regional policy and coordination of structural instruments, judiciary and fundamental rights, justice, freedom and security and financial control. Full compliance with the *acquis* in the field of the environment could be achieved only in the long term and would necessitate increased levels of investment; efforts in this area need to be accelerated.

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

The Commission considers that negotiations for accession to the European Union should be opened with Montenegro once the country has achieved the necessary degree of compliance with the membership criteria and in particular the Copenhagen political criteria requiring the stability of institutions guaranteeing notably the rule of law. In this regard Montenegro needs in particular to meet the following key priorities:

- Improve the legislative framework for elections in line with the recommendations of the OSCE-ODIHR and the Venice Commission; strengthen the Parliament's legislative and oversight role.

- Complete essential steps in public administration reform including amendments to the law on general administrative procedure and the law on civil servants and state employees and the strengthening of the Human Resources Management Authority and the State Audit Institution, with a view to enhancing professionalism and de-politicisation of public administration and to strengthening a transparent, merit-based approach to appointments and promotions.
- Strengthen rule of law, in particular through de-politicised and merit-based appointments of members of the judicial and prosecutorial councils and of state prosecutors as well as through reinforcement of the independence, autonomy, efficiency and accountability of judges and prosecutors.
- Improve the anti-corruption legal framework and implement the government's anti-corruption strategy and action plan; establish a solid track record of proactive investigations, prosecutions and convictions in corruption cases at all levels.
- Strengthen the fight against organised crime based on threat assessment and proactive investigations, increased cooperation with regional and EU partners, efficient processing of criminal intelligence and enhanced law enforcement capacities and coordination. Develop a solid track-record in this area.
- Enhance media freedom notably by aligning with the case-law of the European Court for Human Rights on defamation and strengthen cooperation with civil society
- Implement the legal and policy framework on anti-discrimination in line with European and international standards; guarantee the legal status of displaced persons, in particular Roma, Ashkali and Egyptians, and ensure respect for their rights. This will include the adoption and implementation of a sustainable strategy for the closure of the Konik camp.

Montenegro is encouraged to continue its constructive engagement in regional cooperation and in strengthening bilateral relations with neighbouring countries. Outstanding bilateral issues need to be addressed. The SAA needs to continue to be implemented smoothly; in this context, due attention to addressing identified gaps in areas such as state aids and transit traffic is required. In addition, the country is strongly encouraged to continue enhancing its administrative capacity across the board. Particular efforts are required as regards the effectiveness and impartiality of the state administration in sensitive areas such as environmental protection. Cases of violence and intimidation against journalists and NGO activists need to be properly prosecuted. The issues of domestic violence, ill-treatment and sub-standard prison conditions need to be addressed.

In the light of the progress made so far, the Commission recommends that the Council should grant Montenegro the status of candidate country.

The Commission will monitor progress of the necessary reforms within the institutional framework of the Stabilisation and Association Agreement and continue to support efforts through the IPA financial instrument. The Commission will present a report on Montenegro's progress in the 2011 enlargement package. This report will focus in particular on the implementation of the key priorities which need to be addressed with a view to the opening of accession negotiations.

Albania

Albania has made progress towards fulfilling the criteria related to the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and

protection of minorities, set by the Copenhagen European Council in 1993, as well as the conditions of the Stabilisation and Association Process. Nonetheless, considerable further efforts are needed.

As regards the economic criteria, Albania has achieved a certain degree of macroeconomic stability. However, to become a functioning market economy, as set out by the 1993 Copenhagen European Council, Albania needs to further strengthen governance, improve the performance of the labour market, ensure the recognition of property rights and strengthen the rule of law. In order to enable it to cope over the medium term with competitive pressure and market forces within the Union, Albania needs to strengthen its physical infrastructure and human capital and pursue further structural reforms.

Albania's track record in implementing its obligations under the Stabilisation and Association Agreement is positive overall.

Albania would be in a position to take on the obligations of membership in the medium term in most of the *acquis* fields, provided that the alignment process continues and that considerable and sustained further efforts are made to ensure the implementation and enforcement of legislation. Particular attention should be paid to the areas of free movement of goods, intellectual property law, information society and media, agriculture and rural development, food safety, veterinary and phyto-sanitary policy, fisheries, transport policy, social policy and employment, regional policy and coordination of structural instruments, judiciary and fundamental rights, justice, freedom and security and financial control. Full compliance with the *acquis* in the field of the environment could be achieved only in the long term and would require substantial levels of investment; efforts in this area should be accelerated.

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

The Commission considers that negotiations for accession to the European Union should be opened with Albania once the country has achieved the necessary degree of compliance with the membership criteria and in particular the Copenhagen political criteria requiring the stability of institutions guaranteeing notably democracy and the rule of law. In this regard, Albania needs in particular to meet the following key priorities:

- Ensure the proper functioning of Parliament on the basis of a constructive and sustained political dialogue among all political parties.
- Adopt pending laws requiring a reinforced majority in Parliament.
- Appoint the Ombudsman, and ensure an orderly hearing and voting process in Parliament for constitutional and high court appointments.
- Modify the legislative framework for elections in line with OSCE-ODIHR recommendations.
- Ensure elections are conducted in line with European and international standards.
- Complete essential steps in public administration reform including amendments to the civil service law and strengthening of the Department of Public Administration, with a view to enhancing professionalism and de-politicisation of public administration and to strengthening a transparent, merit-based approach to appointments and promotions.

- Strengthen rule of law through adoption and implementation of a reform strategy for the judiciary, ensuring the independence, efficiency and accountability of judicial institutions.
- Effectively implement the government's anti-corruption strategy and action plan, remove obstacles to investigations, in particular of judges, ministers and Member of Parliaments; develop a solid track record of proactive investigations, prosecutions and convictions in corruption cases at all levels.
- Strengthen the fight against organised crime, based on threat assessment and proactive investigation, increased cooperation with regional and EU partners and better coordination of law enforcement agencies. Develop a solid track record in this area.
- Prepare, adopt and implement a national strategy and action plan on property rights following broad stakeholder consultation and taking ECtHR case law into account; this should cover restitution, compensation and legalisation processes.
- Take concrete steps to reinforce the protection of human rights, notably for women, children and Roma, and to effectively implement anti-discrimination policies.
- Take additional measures to improve treatment of detainees in police stations, pre-trial detention and prisons. Strengthen the judicial follow-up of cases of ill-treatment and improve the application of recommendations of the Ombudsman in this field.

Albania is encouraged to continue its constructive engagement in regional cooperation and in strengthening bilateral relations with neighbouring countries. The SAA needs to continue to be implemented smoothly; in this context, due attention to the respect of deadlines for its commitments is required. In addition, the country is strongly encouraged to continue strengthening its administrative capacity across the board. Cooperation with civil society needs to be upgraded. Albania needs to allocate appropriate resources to guarantee effective functioning of its human rights institutions and upgrade its efforts in the field of protection of minorities. Strengthening media freedom and its independence, and addressing the prevalence of political influences is required.

The Commission will monitor progress of necessary reforms within the institutional framework of the Stabilisation and Association Agreement and continue to support efforts through the IPA financial instrument. The Commission will present a report on Albania's progress in the 2011 enlargement package. This report will focus in particular on the implementation of the key priorities that need to be addressed for the opening of accession negotiations.

ANNEX 2

Conclusions of the Progress Reports on Croatia, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Serbia, Kosovo, Turkey and Iceland

Croatia

Croatia continues to meet the political criteria. Progress has been made in many areas, including in the field of rule of law. However, efforts must continue and further intensify in particular in the field of judicial and administrative reform, the fight against corruption and organised crime, respect for and protection of minorities and refugee return.

Democracy and the rule of law have been further strengthened. The *government* and the *parliament* have continued to function effectively. However, the capacity of the

parliament to scrutinise the legislative process needs enhancing. Judicial reform has continued but significant challenges remain, especially relating to judicial efficiency, independence and accountability.

There has been limited progress in the area of *public administration* reform. The law on general administrative procedures entered into force and a human resources development strategy and action plan for the civil service was adopted. However, the public administration continues to suffer from shortcomings, including complex administrative procedures, politicisation and weak human resources management. In order to achieve tangible results, stronger political commitment and improved co-ordination between the key stakeholders at central, regional and local levels are required.

Judicial reform has continued. Case backlogs were reduced in the courts and judicial independence was strengthened through constitutional amendments. However, the main expected results of the reform process are yet to be seen. Challenges remain in particular with regard to the application of transparent criteria for the appointment of judges and prosecutors, the further reduction of the backlog of cases, the length of proceedings and the enforcement of decisions. Some progress was made with the handling of war crimes cases, including the review of questionable verdicts from the 1990s. However, the problem of impunity remains, especially for crimes committed against ethnic Serbs, many of which have not been properly investigated.

There has been good progress in the *fight against corruption*. Implementation and overall coordination of anti-corruption efforts has improved. The office for the fight against corruption and organised crime continued to be active and issued indictments in some important cases. The number of court verdicts has increased. A right of access to information from public bodies has been included in the constitution. However, corruption remains prevalent in many areas. The recently upgraded legal and administrative structures have yet to be fully tested in practice, particularly the courts' ability to handle the increasing number and complexity of cases. A track record of effective investigation, prosecution and court rulings remains to be established, especially for high level corruption. There has been little progress in preventing conflicts of interest. There has been limited improvement in the application of access to information legislation. Shortcomings remain with regard to the financing of political parties and election campaigns.

Some progress has been made in the area of *human rights and the protection of minorities*. Human rights protection is ensured overall but certain important challenges remain in terms of implementation. As for *access to justice*, substantial reform of the system of administrative justice has begun. State funded free legal aid is now being provided. However, procedures are complicated and the overall level of aid provided is low. With regard to the *prison system*, legislative measures have been taken to improve prison conditions through the foreseen introduction of a probation system. Prisons remain overcrowded and provide inadequate health protection. As regards *ill treatment*, the Ombudsman continued to receive complaints regarding the excessive use of force by the police.

Freedom of expression, including freedom and pluralism of the media, is provided for by law and is generally respected. However, editors and journalists continue to report on political pressure. Problems with the independence of local media remain.

There has been limited progress with regard to *women's rights* and gender equality. The position of women in the labour market has not significantly changed and the level

of female unemployment remains high. The Ombudsman for Children has become more active in promoting and protecting *children rights*. However, this body lacks appropriate resources to carry out fully its mandate.

There has been some progress as regards the *socially vulnerable and persons with disabilities*. The capacity of the Office of the Ombudsman for Persons with Disabilities is being strengthened, notably in view of extending representation in the regions. There is, however, a lack of information on rights and entitlements in the area of social welfare, health care and pensions. Criteria for the establishment of entitlements are not consistently applied and legislative provisions regulating specific rights are fragmented. The transition from institutional care to community-based care services has progressed slowly.

Some steps have been taken to raise awareness of the new *anti-discrimination law*. However, knowledge of its scope among the authorities and citizens is limited and only a small number of discrimination complaints reach the courts. There has been some progress as regards hate crime legislation, though implementation is at an early stage.

There has been some progress with regard to *respect for and protection of minorities and cultural rights*. Greater focus on minority issues can be reported in a context of improved relations in the region, particularly between Croatia and Serbia. Constitutional provisions on minorities were strengthened. The Roma minority has continued to receive attention, with improvements particularly in pre-school education. The level of funding available for minority organisations has only been marginally reduced, despite the financial austerity measures. However, many problems remain for minorities. Croatia needs to continue to foster a spirit of tolerance towards the Serb minority. Croatia also needs to take appropriate measures to protect those who may still be subject to threats or acts of discrimination, hostility or violence. The Roma minority faces particularly difficult living conditions and challenges remain in the areas of education, social protection, health care, employment and access to personal documents. Minorities continue to face 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.

There has been some progress regarding *refugees*. Refugees continued to return to Croatia. Provision of housing care to former occupancy and tenancy rights holders has continued. A revised action plan has been adopted for accelerated implementation of the government's delayed 2009 housing care plans, with the aim of full implementation in 2011. Some progress was made with the reconstruction of damaged houses. The substantial backlog of appeals against rejected applications for reconstruction assistance was reduced. Implementation of the decision on validating pension rights has continued. However, progress towards meeting the 2009 housing targets has been slow. Several thousand applications for housing care remain to be fully processed and housing units made available to returning refugees. A high number of appeals for housing reconstruction remain pending. Efforts to create the necessary conditions for the permanent return of refugees need to be made.

As regards regional issues and international obligations, Croatia continues to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). The special task force set up by the government needs to continue its work to locate or determine the fate of missing artillery documents requested by the Office of the ICTY Prosecutor. Fresh impetus was given to the Sarajevo declaration process following the Ministerial meeting held in Belgrade in March 2010. This brought together Bosnia and Herzegovina, Croatia, Montenegro and Serbia which agreed to work together to clarify

refugee statistics. The countries also committed themselves to work towards solutions to a number of outstanding issues by the end of the year.

Croatia continued to participate actively in regional initiatives, including the South-East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). The Croatian President has assumed a pro-active approach regarding regional cooperation. Bilateral relations with other enlargement countries and neighbouring EU Member States continue to develop, including with Serbia. Relations with Slovenia have improved with the signing of the Agreement on international Arbitration of the Border.

The economy of Croatia has been severely affected by the global economic and financial crisis. The country fell into recession in the first quarter of 2009 and there were no clear signs of a recovery by mid-2010. Unemployment, public deficit and debt have increased significantly. External indebtedness rose further and remains a key vulnerability of the economy. Monetary stability was preserved by the policies of the central bank and the financial sector weathered the crisis relatively well.

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

Broad political consensus on the fundamentals of a market economy was maintained. The Economic Recovery Programme has given economic policy a medium-term orientation. The programme's benefit for growth and international competitiveness depends on its effective implementation. Given the existing constraints, macroeconomic policy has, by and large, been appropriate to address the consequences of the global economic and financial crisis. Monetary policy succeeded to preserve exchange rate and financial stability while alleviating liquidity pressures. The current account deficit narrowed as a consequence of the recession and inflationary pressures subsided further. The banking sector remained resilient to shocks.

However, structural reforms generally advanced at a very slow pace, not least with respect to privatisation and the restructuring of loss-making enterprises. The labour market remained highly rigid, with low employment and participation rates which declined further during the recession. In the fiscal area, the authorities made limited efforts to contain the rising deficit and to increase the efficiency of public spending. Social transfer payments remained high and not well-targeted and a large number of state-owned enterprises continued to receive State support through direct and indirect subsidies and guarantees. For achieving medium-term fiscal sustainability, it remains a key challenge to improve the budgetary process and discipline and to enhance the efficiency of public spending. The investment climate continued to suffer from a heavy regulatory burden and numerous para-fiscal taxes.

Croatia has improved its ability to take on the obligations of membership. Preparations for meeting EU requirements have continued to progress well and there is a good degree of alignment with EU rules in most sectors. In most areas there has been further progress including in those chapters where the level of alignment is already high. Additional efforts are needed in certain areas to strengthen the administrative capacity necessary for proper implementation of the *acquis*.

Good progress has been made in the field of *free movement of goods* and alignment with the *acquis* in this chapter is well advanced. However, further efforts are necessary,

particularly on conformity assessment, metrology and market surveillance. Croatia needs to complete alignment with the *acquis* and to strengthen implementation capacity. Good progress can be reported in the area of *free movement of workers*, and a satisfactory level of legal alignment has been achieved. Additional efforts are needed to strengthen, in particular, the coordination of social security systems.

Progress has been made in the field of *right of establishment and freedom to provide services*, in particular on mutual recognition of professional qualifications and on postal services. Overall alignment with the *acquis* is satisfactory. Increased efforts are required to complete alignment, in particular in the area of mutual recognition of professional qualifications and to transpose the Services Directive. Work on improving administrative capacity needs to be continued.

Further progress has been made in aligning with the *acquis* in the field of *free movement of capital*. Continued efforts are needed to complete liberalisation of capital movements and to consolidate the enforcement of anti-money laundering legislation.

Good progress can be reported in *public procurement*, in particular on improving the capacity of the main stakeholders to co-ordinate and implement public procurement policy. The ability to apply the law efficiently still needs to be further enhanced at all levels of the procurement system.

Some progress can be reported in the *company law* chapter. Alignment with the *acquis* is on track. Further efforts are needed in the area of auditing.

Progress can be reported in the field of *intellectual property law*. Alignment with the *acquis* has reached a very high level and progress can be reported with enforcement. Overall awareness of intellectual property rights remains to be strengthened.

Significant progress has been achieved in *competition policy*, in particular towards finalisation of the tendering procedure for restructuring the shipyards. Overall, a good level of alignment has been achieved. However, further efforts are still required to adopt restructuring plans in line with the State aid *acquis* for the shipyards in difficulty, to improve the Croatian Competition Agency's enforcement record against cartels and to improve its administrative capacity further, in particular in the area of antitrust. Alignment of the Croatian Broadcasting Act needs to be completed. The National Restructuring Plans for the steel industry also need updating.

Substantial progress can be reported in the area of *financial services*, both on alignment of legislation and on strengthening administrative resources. However, further strengthening of the administrative capacity of the regulators is needed.

Croatia has made significant progress in the field of *information society and media* and has achieved a high level of alignment with the *acquis*. However, continued efforts are needed to strengthen the capacity of the two national regulators to apply the legal framework correctly. Liberalisation of all segments of electronic communications markets needs to be sustained.

Good progress can be reported in the field of *agriculture and rural development*, in particular on establishment and implementation of the paying agency and of the integrated administration and control system and on the common market organisation. However, considerable efforts in these key areas of the Common Agricultural Policy need to be sustained. Croatia also needs to align the agricultural support system fully with the *acquis* and to increase absorption capacity for rural development funds.

Good progress has been made in alignment in the field of *food safety, veterinary and phytosanitary policy*, in particular with the adoption and implementation of secondary legislation. Transposition of the *acquis* is well advanced in all sectors. Significant progress has been made through the adoption of the national programme for upgrading establishments for food of animal origin and animal by-products. Continued efforts are required regarding the programme's implementation, as well as on strengthening administrative and control capacity, and setting up border inspection posts.

Croatia has made good progress in aligning with the *acquis* in the field of *fisheries*. Preparations for applying fisheries policy are well advanced. Croatia needs to improve implementation of the legislation, in particular with regard to fleet management, inspection and control and structural policy.

Further progress has been achieved in the field of *transport*. Overall, the level of alignment is good. However the completion of the alignment is needed in the aviation sector. Additional efforts are still needed to implement and enforce the *acquis*.

Further progress has been achieved in the *energy* chapter, where the level of alignment is high. However, significant efforts are needed to increase the performance of the administration and independence of the energy sector regulatory authorities.

Progress was made in *taxation*, in particular on operational capacity and computerisation. Croatia's legislation in the field of direct and indirect taxation is largely in line with the *acquis*. Nevertheless, some further alignment is required, most notably in the fields of VAT and excise duties. Efforts to strengthen administrative capacity, including on IT interconnectivity, need to continue.

There has been further progress in the area of *economic and monetary policy* where, overall, alignment with the *acquis* is effectively complete.

On *statistics*, substantial progress has been made on modernising the statistical infrastructure. A good level of alignment has been achieved. Efforts need to continue in order to align Croatian statistics fully with EU requirements.

Good progress has been made on *social policy and employment*. There is a good level of alignment with the *acquis*. However, some gaps remain in alignment of the legislation, notably on transposing labour law directives, and in the field of anti-discrimination and gender equality. Administrative capacity requires further strengthening.

Croatia has made progress on *enterprise and industrial policy*, particularly with regard to policy principles and instruments. Alignment with the *acquis* is very advanced. Further sustained efforts need to focus on improving the business environment. Efforts to restructure the steel and, particularly, shipbuilding industries need to be pursued.

Croatia made further progress with the development of the *trans-European networks*. Alignment with the *acquis* has been completed.

Good progress was made under *regional policy and coordination of structural instruments*, notably on preparing strategic documents and designating the institutions and mechanisms to implement EU cohesion policy, recruit and train further staff. Croatia's preparations for applying EU cohesion policy are relatively advanced. Croatia needs to complete its preparations by focusing on establishment of a mature project pipeline and absorption of funds.

Croatia has made good progress on *judiciary and fundamental rights*. Reform of the judiciary has continued with the adoption of new legislation strengthening judicial independence and a further reduction of the case backlog. However, judicial reform

remains a major undertaking and significant challenges remain, especially relating to judicial efficiency, independence and accountability. Anti-corruption efforts have been stepped up with some positive results but corruption remains prevalent in many areas. A track record of effective investigation, prosecution and court rulings remains to be established, especially for high level corruption. Preventive measures such as improved transparency of public spending need to be strengthened. Protection of fundamental rights has been strengthened but need to be improved in practice, especially for minorities and refugees.

Croatia made substantial progress in the field of *justice, freedom and security*. The asylum system has been significantly improved, but attention needs to be paid to integrating persons granted protection in Croatia and to protecting minors among irregular migrants. Good progress has been made in the field of visas. However, alignment with the *acquis* on visas needs to continue. Progress has been made in the field of external borders. However, several aspects of the integrated border management action plan need to be amended and the upgrading of equipment needs to be stepped up. Significant progress was made in the field of judicial cooperation in civil and criminal matters. Progress also continued in the counter- narcotics policy.

Progress in *science and research* has continued, but has slowed down as a result of the economic and financial crisis. Efforts are needed to further strengthen research capacity, provide training, and increase investment in research by industry and small and medium enterprises. Further progress has been made regarding the *acquis* in the area of *education and culture*. There is a good level of alignment. Croatia needs to continue its efforts to prepare for the management of the Lifelong Learning and Youth in Action Programmes.

Good progress has been made in the *environment* chapter as regards both alignment and implementation of the legislation. Legislative alignment in the field of water quality and also, to a certain extent, climate change needs to be completed. Implementation of the horizontal *acquis* and cooperation with non-governmental organisations active in the field of environment needs to be improved. Overall, Croatia's preparations are nearing completion. Croatia needs to continue strengthening administrative capacity, especially at local level.

There has been good progress in the area of *consumer and health protection*. A good level of alignment has been achieved. Sustained efforts are necessary to strengthen further administrative capacity.

Good progress has been made with regard to *customs union*. Croatia's customs legislation is aligned with the *acquis* to a very large extent. Croatia has continued to make progress in the area of IT, notably in interconnectivity. Further progress towards removing the last discrepancies in Croatia's legislation, implementing the Anti-Corruption Strategy and preparing for IT interconnectivity is required.

Some progress has been made in the field of *external relations*. Croatia has reached an advanced level of alignment and is continuing to coordinate and align its positions in international *fora*. However, Croatia needs to pay attention to fully complying with its international obligations when resorting to safeguards. Further resources need to be allocated to development policy and humanitarian aid.

Croatia has made further progress in the area of *foreign, security and defence policy*. It has continued to participate in several EU military and civilian missions. Overall, Croatia has reached a high level of alignment. Croatia needs to continue strengthening

implementation and enforcement of arms control, including the transparency of arms-related information.

Progress can be reported in the field of *financial control*. Independence of the State Audit Office was strengthened. Efforts should now focus on the sustainability of the reforms. The bodies involved in the Anti-Fraud Coordination Structure need to enhance their efforts for efficient implementation of the anti-fraud strategy.

There has been further progress in the field of *financial and budgetary provisions*. The institutional capacity for applying the rules on own resources has been further developed. Croatia has reached a good level of alignment with the *acquis* and capacity to implement it, except in the case of sugar levies. Croatia needs to further enhance its coordination capacity.

The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia continues to sufficiently fulfil the political criteria. Following substantial reforms in 2009 further progress has been made although at an uneven pace. Overall, the governing coalition is stable and there is cooperation between political forces. Some progress has been achieved as regards the reform of the parliament, the police, the judiciary, public administration and respect for and protection of minorities. However, further efforts are needed in most areas related to the political criteria, in particular important ongoing concerns as regards independence of the judiciary, reform of public administration and freedom of expression in the media. Political dialogue needs to be strengthened.

The Ohrid Framework Agreement remains an essential element for *democracy and rule of law* in the country. There has been some progress on implementing the law on languages, on decentralisation and equitable representation. Continuous efforts, through dialogue, are needed to fulfil the objectives of the Agreement and ensure its full implementation.

There has been further progress in the reform of the *parliament*. Amendments to the rules of procedure were adopted which safeguard the rights of the opposition. The parliament took measures to strengthen its institutional capacity, in particular through the establishment of the Parliamentary Institute. However, dialogue on inter-ethnic relations was hampered by the failure of the relevant parliamentary committee to meet regularly.

The partners in the *government* coalition are maintaining constructive cooperation. They are committed to reforms to prepare the country for accession to the European Union. However, more dialogue is required on issues concerning inter-ethnic relations. Additional efforts are necessary to take forward the decentralisation process in line with the Ohrid Framework Agreement. The financial framework for local government needs to be more transparent and equitable. The government's cooperation with the National Council for European Integration needs to be developed further.

There was some progress as regards the functioning of *public administration*. The Law on public servants was adopted. The Law on internal affairs regarding reform of the police entered into force and most implementing legislation has been adopted. However, significant further efforts are needed to ensure the transparency, professionalism and independence of the civil service. There has been undue political interference in recruitments and promotions at all levels in the public administration. The legal framework needs to be further improved, in particular as regards merit-based staff recruitment. The process of converting a large number of temporary posts into permanent ones in many cases did not provide for competitive and merit-based recruitment.

There was limited progress on *judicial reform*. The efficiency of courts was strengthened through improved budgetary management. However, there are concerns about the independence and impartiality of the judiciary: no further progress was made in ensuring that existing legal provisions were implemented in practice. In this context it is important that graduates from the Academy for Training of Judges and Prosecutors be given priority in new recruitments.

Progress was made in the field of *anti-corruption policy*. Large scale police operations making use of special investigative measures were carried out. Whilst the legislative and institutional framework is broadly in place, the track-record of successful convictions on cases of high level corruption needs to be strengthened. Existing provisions on asset declarations, conflict of interest and financing of political parties are not implemented effectively. The resource base of the State Commission for Anti-Corruption needs to be ensured. Corruption remains prevalent in many areas and continues to be a serious problem.

The legal and institutional framework for *human rights and the protection of minorities* is in place and *civil and political rights* are broadly respected. However, existing legal guarantees need to be fully enforced.

The semi-open ward of Idrizovo prison, where conditions were degrading and inhumane, was closed down. However, the strategy to address the remaining serious shortcomings in prison conditions is progressing slowly. Oversight of law enforcement agencies remains incomplete. With regard to freedom of expression there are growing concerns about political interference in the media and undue pressure on journalists. The involvement of civil society in the policy development process remains limited. The Ombudsman continued to be the main focal point for the protection and promotion of human rights. His workload increased over the reporting period. However, the proportion of recommendations accepted by public bodies decreased. The authority and the resources of the Ombudsman need to be strengthened.

The legal provisions on the protection of *social and economic rights* are largely in place. The implementation of the strategy against domestic violence has continued. The membership of the Economic and Social Council has been agreed, thus facilitating a social dialogue. A framework anti-discrimination law has been adopted. However, sexual orientation as a ground for discrimination has been omitted. A strategic approach to equal opportunities needs to be developed. Additional efforts are needed to implement the juvenile justice law and the UN Convention on the Rights of the Child.

Progress was achieved in the area of *respect for and protection of minorities and cultural rights*. There has been some progress on equitable representation and the government undertook steps to foster inter-ethnic integration in the education system. Nonetheless, the integration of ethnic communities remains limited and greater dialogue is needed to foster trust especially in the areas of culture and language. As regards the rights of Roma the number of persons lacking personal documents was reduced. Measures were adopted to avoid undue placement of children in special schools. However, Roma continue to face very difficult living conditions and discrimination.

Regarding *regional issues and international obligations*, the former Yugoslav Republic of Macedonia maintained full co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY). The domestic legal system is processing cases referred by the ICTY back to the national authorities.

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

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

The Former Yugoslav Republic of Macedonia is an active partner in the region and its bilateral relations with neighbours are generally good. With the completion of the demarcation of its border with Kosovo, the former Yugoslav Republic of Macedonia has no outstanding border issues. However, relations with Greece continued to be adversely affected by the unresolved name issue. The country is engaged in talks under the auspices of the UN on resolving it. Actions and statements which could negatively impact on good neighbourly relations should be avoided. The direct meetings at the highest political levels are positive steps, although this momentum has not yet led to concrete results. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

The economy of the former Yugoslav Republic of Macedonia contracted only slightly due to the financial sector's low exposure to toxic international assets, resilient private capital inflows and a stable public sector. Structural reforms have continued. However, high structural unemployment, in particular among young and poorly educated, remains a major cause of concern. Some minor improvements have been achieved with respect to addressing institutional weaknesses, but deficiencies in the rule of law continue to have a negative bearing on the business climate.

As regards the economic criteria, the former Yugoslav Republic of Macedonia continues to be well advanced. In some areas, it has made further progress towards becoming a functioning market economy, notably by reducing barriers to market entry and exit and improving the capacity of the courts to handle economy-related cases. 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 reform programme in order to reduce significant structural weaknesses.

The country has maintained a broad consensus on the essentials of economic policies. Monetary policy, based on the de facto peg to the euro, contributed to macro-economic stability. After an expansionary approach in 2008, fiscal policy became more stability oriented during 2009. The country's external balances improved, reflecting a slight recovery in exports, a drop in imports due to weak domestic demand, and strong private capital inflows. Privatisation is largely completed. Price and trade liberalisation has been largely accomplished. Some further progress has been achieved in improving market entry and registration and in simplifying the regulatory framework. The duration of bankruptcy procedures has been further reduced and property registration is largely completed. The financial sector weathered the crisis well and the independence of some of its supervisory and regulatory agencies has been strengthened.

As a result of widening fiscal deficits, public sector debt increased. The quality of public spending deteriorated, partly due to a decrease of medium-term oriented capital spending. Unemployment remained very high. FDI inflows continued to decelerate from an already low level. The functioning of the market economy remained hampered by institutional weaknesses, lack of stability in the administration and weaknesses in the rule of law. Lack of consultations with stakeholders prior to government decisions hampers

the predictability of the business environment. The judiciary is still a bottleneck and regulatory and supervisory agencies sometimes continue to lack the necessary independence and resources to fulfil their functions effectively. The degree of legal certainty remains low, which has a negative bearing on the country's attractiveness for foreign investment. The informal sector remains an important challenge.

The former Yugoslav Republic of Macedonia has made some progress in improving its ability to assume the obligations of membership, in particular as regards the free movement of goods, company law, financial services and justice, freedom and security. Less progress has been achieved in certain other areas such as public procurement, information society and media as well as social policy and employment. Overall, there was further progress in the fulfilment of the priorities of the Accession Partnership. However, sustained efforts are needed to strengthen administrative capacity for the implementation and enforcement of legislation. Commitments undertaken in the Stabilisation and Association agreement have been implemented.

There has been good progress in the area of *free movement of goods*. Part of the horizontal and sector *acquis* has been transposed. The administrative capacity of the market surveillance authorities is insufficient to ensure the enforcement of technical legislation. Little progress can be reported in the area of *freedom of movement of workers*. There was some progress in the area of *right of establishment and freedom to provide services*, more particularly in the area of postal services. The preparations for mutual recognition of professional qualifications are at an early stage. There was overall progress in the area of *free movement of capital*. Restrictions remain on short-term capital movements and on cross-border payment transfers. The legislative framework, the administrative capacity and the enforcement record in combating money laundering are moderately advanced.

Progress has been made in the area of *public procurement*. The Public Procurement Bureau adopted a strategy for the development of the public procurement system. The legislation on concessions and public-private partnerships is not in line with the *acquis*. The administrative capacity to apply procurement rules at the operational level is still not satisfactory. Good progress has been made in the area of *company law*. However, alignment with the auditing *acquis* remains at an early stage. Some progress has been made in enhancing the legal framework in the area of *intellectual property*. The National Strategy on Intellectual Property is being implemented. However, further efforts are needed as regards enforcement.

Some progress was made in the area of *competition*. In the area of state aid, the number of *ex- ante* decisions increased moderately. However the human and financial resources of the Commission for Protection of Competition need to be strengthened in the sector of antitrust.

There was overall good progress in the area of *financial services*. Efforts have been made to ensure regulation and supervision of the insurance sector. Some financial services, such as leasing, remain to be regulated or supervised.

There has been uneven progress in the field of *information society and media*. Alignment with the EU *acquis* and market liberalisation are improving. However, the sustainability of the public service broadcaster is yet to be ensured. Media legislation is not yet aligned with the Audiovisual Media Services Directive.

Progress has been achieved in the field of *agriculture and rural development*. The rural development policy is gradually being aligned with EU requirements. While AFSARD and IPARD operational structures have been strengthened, the capacity of

other administrative bodies in the sector needs to be improved. Alignment with the *acquis* requires further sustained efforts. There has been some progress in the area of *food safety, veterinary and phytosanitary policy*, in particular with respect to legislative preparedness and implementation by food business operators. Administrative capacity needs to be strengthened, in particular as regards the effectiveness of monitoring and control systems.

Some progress can be reported in the area of *transport policy*. The process of opening the market for rail transport faced challenges. Further efforts are needed to improve the functioning of the safety authorities, in particular the Air Accident Investigation Committee.

Some progress has been made in the energy sector. New energy strategies were adopted. However, the new comprehensive energy law remains to be enacted. Electricity tariffs do not fully reflect costs. Whilst there has been good progress, a final resolution of the dispute with the distribution system operator, a major EU investor, is still outstanding. The energy regulator and the radiation protection regulator need to become functionally independent.

No progress was made in harmonising direct and indirect *taxation* legislation with the *acquis*. Some progress can be reported in the area of operational capacity for the tax administration as regards taxpayers' services and audit efficiency. Audit and tax investigation capacity to fight fiscal evasion remain weak.

Limited progress has been made in the area of *economic and monetary policy*. Alignment with the *acquis* is incomplete and administrative capacity for policy implementation diverges widely. There was good progress in the field of *statistics*. However, the resource situation of the State Statistical Office remains weak and equitable representation needs to be ensured. It is essential that funds are secured for the population and housing census 2011. Efforts to improve sector statistics need to continue, in particular for economic statistics.

Little progress has been made in alignment to the *acquis* in the area of *social policy and employment*. A framework anti-discrimination law has been adopted but with some substantial gaps and without the support of the relevant civil society groups. Tripartite and bipartite social dialogue continues to be weak. Inclusion of people with disabilities and other socially excluded people is slow.

There has been some progress in the field of *enterprise and industrial policy*. Good progress has been achieved in reducing the administrative barriers and costs for operation of businesses. New bodies have been established and significant resources have been devoted to their operation. However, strategies to support enterprises and the SME sector need more financial support.

Some progress was made in the area of *trans-European networks*. The country is continuing to participate actively in the South-East Europe Transport Observatory and the Energy Community. However, progress on corridor X is significantly delayed.

Some uneven progress was made in the area of *regional development and coordination of structural funds*. The implementation of the operational programme for regional development is significantly delayed. The administrative capacity in the line ministries, in particular technical expertise, needs to be strengthened. It is also necessary to strengthen project preparation and implementation in order to ensure future absorption of IPA funds. Overall, alignment with the *acquis* in the area of regional policy and coordination of structural instruments is at an early stage.

There has been limited progress in reform of the *judiciary* and in safeguarding *fundamental rights* and some progress in addressing *corruption*. The Judicial Council and

the Council of Public Prosecutors need to ensure high standards of independence and impartiality of the judiciary in practice. Large scale anti-corruption operations were carried out by the police using special investigative measures. However, the track record on high-level corruption cases remains to be strengthened. The new legislation on conflict of interest and financing of political parties needs to be effectively implemented. As regards fundamental rights, while the legal and institutional framework is broadly in place the existing legal guarantees need to be fully enforced.

In the area of *justice, freedom and security*, good progress can be reported on asylum, visa policy, external borders and Schengen. The increase in asylum seekers in the EU that arose in the first period of implementation of the visa-free regime was addressed. However, a new rise in asylum applications was registered in August and September. The authorities need to continue addressing this issue and informing citizens about the rights and obligations stemming from visa-free travel. The implementation of police reform has continued and international police cooperation has improved. However, the role of the Ministry for the Interior in authorising interception orders needs to be addressed, as does the effectiveness of the external oversight mechanism. Some progress can be reported in the area of *science and research*. The rate of participation in the Seventh EU Research Framework Programme has increased. Some progress has been made in alignment to the *acquis* in the areas of *education, training, youth and culture*. However, management of the Lifelong Learning and Youth in Action programmes remains poor.

Further progress has been made as regards the *environment*. Alignment of national legislation has progressed in particular in the air quality and waste sectors. However, efforts to align with the EU *acquis* in the water sector need to be significantly strengthened. Administrative capacity and investments need to be considerably increased. Some progress has been made in the area of *consumer and health protection*. As regards public health, good progress was made in the field of tobacco control.

There was some progress in the area of *customs union*, in particular as regards administrative and operational capacity. Alignment of the customs legislation with the *acquis* is well advanced, except in the case of transit. The administrative capacity of the customs administration to implement legislation and to tackle cross-border crime and corruption needs strengthening.

Progress was made in the area of *external relations*, in particular as regards the common commercial policy. There has been progress in the area of *foreign, security and defence policy*. The country aligned with most EU declarations and common positions and showed a continued commitment to participate in CSDP operations. Sustained efforts are needed to reduce the number of illegal weapons.

As regards *financial control*, some progress has been made. The SAO's functional and financial independence has been strengthened; however, its constitutional anchoring is missing. Efforts are needed for the establishment of Financial Management and Control systems. In the field of *financial and budgetary provisions* some progress has been made towards improving the operational capacity of the customs and tax authorities, and the state statistical office. Further efforts are needed to combat customs duty and VAT fraud.

Bosnia and Herzegovina

Bosnia and Herzegovina has made limited progress in addressing the **political criteria**. Some progress related to the rule of law, notably in areas such as border management and migration policy, was made through reforms aimed at meeting visa

liberalisation requirements. Important steps were also taken to promote regional reconciliation and cooperation, notably in terms of refugee return. Nevertheless, overall implementation of reforms was insufficient and the domestic political climate during the pre-electoral period was dominated by nationalistic rhetoric. The lack of a shared vision by political leaders on the direction of the country is blocking key EU-related reforms and impeding further progress towards the EU.

The general elections were assessed by the OSCE/ODIHR as being generally in line with international standards for democratic elections. However, they were held once again with ethnicity and residency-based limitations to suffrage rights due to provisions established by the Dayton/Paris Peace Agreement. Respect for democratic principles and the right to equal treatment without discrimination, as embodied in the European Convention on Human Rights (ECHR), constitutes an essential element of the Interim Agreement (IA). Delays in harmonising the Constitution with the ECHR, as required by the December 2009 European Court of Human Rights (ECtHR) judgment in the *Sejdić-Finci vs. Bosnia and Herzegovina* case, remain a fundamental issue of concern.

Regarding international obligations, making progress towards meeting the conditions which have been set for the closure of the Office of the High Representative (OHR),⁵ remains essential. Bosnia and Herzegovina's system of governance continues to involve an international presence. The country has made very little progress towards meeting the requirements for the closure of the OHR. Primary among these are the apportionment of property between the state and the other levels of government, the defence property issue and fulfilling the obligations on the Brčko Final Award. Overarching all these issues is the need for a stable and constructive political environment in the country.

Regarding *democracy and the rule of law*, there has been little progress towards *constitutional* reform and towards creating functional and effective institutional structures. The Council of Ministers adopted an Action Plan for the implementation of the ECtHR ruling, but without results.

The functioning of the state-level executive and legislative bodies has continued to be negatively affected by the prevalence of ethnically oriented considerations. The administrative capacity of the *Parliament* improved but coordination with the Council of Ministers and with the Entities remained poor. The functioning of *government* institutions, at different levels, continued to be affected by fragmented, uncoordinated policy-making. Steps were taken to improve administrative capacity with the appointment of some high-level officials including at the Directorate for European Integration. However, other key positions remain vacant. The state-level census law, which is required for further progress on the EU agenda and for the country's social and economic development remains to be adopted as a matter of urgency.

Little progress has been made in the area of *public administration*, where the reform strategy is being implemented, albeit slowly. Coordination between the various

⁵ 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 awards; 4) Fiscal sustainability ; and 5) Entrenchment of the rule of law (demonstrated by adoption of a National War Crimes Strategy, of a Law on aliens and asylum and of a National Justice Sector Reform Strategy), as well as two specific conditions: 1) signing of the Stabilisation and Association Agreement 2) a stable political situation.

administrations remains weak. Sustained efforts remain necessary to prevent political interference and to limit the role played by political affiliation in appointments. Progress towards the establishment of a professional, accountable, transparent and efficient civil service based on merit and competence also needs further attention. A single State-level Ombudsman is functioning, but budgetary constraints hamper its effectiveness and need to be addressed.

Bosnia and Herzegovina has made limited progress in improving the *judicial system*. New legislation has been adopted on the criminal procedures code, but little has been achieved to reduce the backlog of cases. Implementation of the Justice Sector Reform Strategy and the War Crimes Strategy remained minimal. The complexity of the legal framework, the fragmentation of the judicial system and the absence of a single budget continue to delay progress towards an independent judiciary. Mandates of international judges and prosecutors dealing with war crimes were extended by the High Representative, following the inability of the authorities to reach an agreement. Prosecution of war crimes by the State Court has continued to be satisfactory, but needs to improve in the Entities and Cantons. Bosnia and Herzegovina has achieved limited progress in tackling *corruption*, which remains a serious problem and is prevalent in many areas. The implementation of the anti-corruption strategy and action plan started. The agency responsible for monitoring its implementation has been established and an acting director has been appointed. Some progress has been made in meeting the recommendations formulated by the Group of States against Corruption (GRECO). The judicial follow-up of corruption cases remained slow and only a limited number of high-level cases led to prosecution. Insufficient implementation of legislation and problems of coordination between entities remain issues of concern. Bosnia and Herzegovina needs strengthened commitment and determined action against corruption.

There has been limited progress regarding *human rights and protection of minorities*. Bosnia and Herzegovina has ratified the major international human rights conventions, but sustained efforts are necessary to ensure better implementation. Enforcement of domestic rulings, including those of the Constitutional Court of Bosnia and Herzegovina, needs to be strengthened.

Civil and political rights are broadly respected. Some progress has been made towards harmonising criminal sanctions across the country. However, adoption of the Framework law on free legal aid, needed to comply with the ECHR, is pending. *Access to justice* in civil and criminal trials needs to be ensured. *Prison* conditions improved but overcrowding and *ill-treatment* of detainees remain issues of concern.

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, existing legislation is not fully implemented. Political pressure on the media increased, as did its ethnic bias. Cases of intimidation against journalists also increased. The implementation of the public broadcasting reform has been delayed. The independence of the Communications Regulatory Agency continued to be undermined. The Entities' governments adopted cooperation agreements with *civil society*. However, further efforts are needed to enhance dialogue with civil society and to support its development.

There has been little progress in the area of *economic and social rights*. They are protected by the existing legal framework, but fragmentation remains and implementation continued to be poor. A comprehensive state-level anti-discrimination law is in place but its scope remains limited. The protection of *women* against all forms of violence needs to improve, as does the social protection of *children*. The

predominantly rights based system of social benefits has adverse affects on the conditions of *vulnerable groups*, including the mentally disabled. Social dialogue and the exercise of labour rights are hampered by the lack of recognition of State-level social partners and a fragmented legislative framework.

There has been some progress regarding the *respect for and protection of minorities and cultural rights*.⁶ In terms of inter-ethnic relations, the number of divided schools ('2 schools under 1 roof') has decreased and a common nine-year curriculum has been introduced in most schools. However, separation of children within schools along ethnic lines remains an issue. Despite an increase in financial resources for the implementation of the *Roma* strategy, this minority continues to face very difficult living conditions and discrimination. The lack of birth registration continues to hinder their access to basic social and economic rights. Further steps are needed in order to improve the implementation of the Law on national minorities.

Some progress has been achieved concerning *refugees and internally displaced persons*. The country-wide strategy aimed at supporting the return process and ensuring proper implementation of Annex VII of the Dayton/Paris Peace Agreement (DPA) has been adopted. However, little progress has been achieved in ensuring local integration and sustainability of return.

As regards *regional issues and international obligations*, implementation of the DPA has continued. Cooperation with the International Criminal Tribunal for the former Yugoslavia has remained satisfactory. However, during the pre-election period, Republika Srpska frequently challenged the territorial integrity of the country. Furthermore, statements by Republika Srpska's political leadership denying the gravity of war-time massacres involving the civilian population have continued.

Cooperation between the courts and prosecutors from Bosnia and Herzegovina, Croatia and Serbia improved. Bilateral agreements were signed on the mutual recognition and enforcement of court rulings in criminal matters. Further efforts are needed to strengthen the capacity to deal with war crimes cases, particularly at cantonal and district courts, and to ensure adequate financial resources. Regional cooperation and adequate witness protection will be key in this regard.

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

Fresh impetus was given to the Sarajevo declaration process following the Ministerial meeting held in Belgrade in March 2010. This brought together Bosnia and Herzegovina, Croatia, Montenegro and Serbia who agreed to cooperate in order to clarify refugee statistics. The countries also committed themselves to work towards finding solutions for a number of outstanding issues by the end of the year.

Bosnia and Herzegovina has continued to participate actively in regional cooperation initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Bosnia and Herzegovina's relations with its neighbours have developed further due to some important regional initiatives to promote reconciliation. However, some border-related issues with neighbouring countries remain open.

⁶ According to the Law on the protection of rights of persons belonging to national minorities, there are 17 national minorities in Bosnia and Herzegovina. The three constituent peoples – Bosniaks, Croats and Serbs – do not constitute national minorities.

Difficulties for Kosovo passport holders in obtaining visas to attend regional meetings in Bosnia and Herzegovina persist.

The economy of Bosnia and Herzegovina made a moderate recovery in 2010 being in recession in 2009. The recovery is mainly driven by external demand. Unemployment remained at very high levels. The fiscal situation worsened significantly in 2009 as public finances came under severe stress due to both declining revenues and high spending commitments. The commitment to structural reforms and sound public finances remained uneven across the country. Some fiscal and structural reform measures have been enacted recently under the pressure of budgetary imbalances and the IMF programme. Nevertheless, budgets are still not self-sustaining and the quality of public finances remains weak.

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

Implementation of the Stand-By Arrangement with the International Monetary Fund has been broadly satisfactory. Financial and monetary stability was preserved. The currency board arrangement continued to enjoy a high degree of credibility. Confidence in local banks has returned and households redirected their savings to the banking sector throughout 2010. Industrial production slightly increased in the first half of 2010. Mainly influenced by international price developments, inflation returned to positive yet low rates in early 2010. Due to soaring exports, external imbalances have decreased. Some limited improvements in the business environment can be reported, in particular regarding business registration.

However, the fiscal situation in Bosnia and Herzegovina remained difficult, especially in the Federation. Commitment to the agreed fiscal adjustment and structural reform measures, as well as their implementation, was uneven across the country. The quality of public finances remained low with high shares of current expenditures to GDP. Privatisation, restructuring of public enterprises and the liberalisation of network industries did not advance. Upgrading of infrastructure has proceeded, though at slow pace. The productive capacity and the competitiveness of the economy remained weak as domestic sources of growth were not adequately exploited. Structural rigidities such as the high rates of social contributions and low labour mobility continue to hamper job creation and labour market participation. The high and poorly targeted social transfers reduce the propensity to work, further highlighting the need for reform of the social benefits system. Unemployment continued to be very high and the informal sector remains an important challenge. The business environment is affected by administrative inefficiencies and the weak rule of law.

Bosnia and Herzegovina has made limited progress in aligning its legislation and policies with European standards. Some progress has been made in areas such as free movement of capital, intellectual property, education and research, transport, financial control, and a number of justice, freedom and security-related matters. Particular efforts remain necessary as regards free movement of goods, persons and services, customs and taxation, competition and state aid, public procurement, employment and social policies, agriculture and fisheries, environment, energy and information society and media.

On the whole, the implementation of the Interim Agreement (IA) has been uneven. The country is in breach of the IA due to non-compliance with the ECHR regarding the

right of equal treatment without discrimination⁷ and the failure to establish a state aid authority. Further strengthening of administrative capacity is required in order to achieve a satisfactory track record of SAA implementation.

Bosnia and Herzegovina has made some progress in areas of the *internal market*. As regards *free movement of goods*, preparations are moderately advanced. Some progress has been made in the area of consumer protection. Continued efforts remain necessary in order to approximate the legal framework to EU legislation and to develop the necessary administrative capacity.

In the area of *movement of persons, services and right of establishment* limited progress has been made, including towards the creation of a single economic space. Further simplification of court procedures and company registration remain to be achieved.

There has been some progress in the area of *free movement of capital*. Further legal alignment with the *acquis* is essential to ensure the proper functioning of capital markets in Bosnia and Herzegovina. Little progress can be reported in the areas of *customs* and *taxation*.

Bosnia and Herzegovina made some progress vis-à-vis the enforcement of *competition* rules. However, no progress has been made in the field of state aid due to the failure to establish a state aid authority. There has been limited progress in the area of *public procurement*. Some progress was made in adopting *intellectual property rights* laws.

There was little progress in the area of *social and employment policies* and public health policy. Country-wide strategic documents are under preparation, but legislation and policies remain fragmented. Good progress was made in the field of research. Framework laws and strategies are in place in the field of *education and culture* but implementation is pending. Negotiations to join the *World Trade Organisation* have continued, but the process has not been completed.

Bosnia and Herzegovina has made some limited progress in meeting European standards on a number of *sectoral policies*. Preparations in the area of *industry and small and medium enterprises* (SMEs) remain at an early stage. A comprehensive industrial strategy remains to be developed and the State-level SME development strategy to be implemented. There has been little progress in the area of *agriculture and rural development*, food safety, veterinary, phytosanitary policy and fisheries. Implementing legislation was adopted, however there has been no progress on setting up the state-level Ministry of Agriculture. Insufficient implementation of the State-level veterinary, food safety and phytosanitary legislation is preventing Bosnia and Herzegovina from meeting EU standards.

Bosnia and Herzegovina's preparations in the field of *environment* and climate change remain at an early stage. A harmonised legal framework for environmental protection and a State Environmental Agency need to be established. Bosnia and Herzegovina has made uneven progress in the *transport sector*. There have been some developments regarding the trans-European transport networks, rail and inland waterways sectors, but progress has been limited in the road sector. The upgrading of transport infrastructure remains an outstanding issue. Preparations in the field of *energy*

⁷ Article 14 in conjunction with Article 3 of Protocol 1 of the ECHR, which provide for a prohibition on discrimination with regard to the right to free elections; and Article 1 of protocol 12 of the ECHR, which establishes a right to equal treatment without discrimination.

are not very advanced. As a party to the Energy Community Treaty, Bosnia and Herzegovina needs to implement the relevant EU energy legislation. To guarantee the security of electricity supply a fully functioning national transmission company needs to be ensured and a comprehensive energy strategy adopted.

Progress in the areas of *information society and media* has been limited. Harmonisation of the legal framework for public broadcasting remains outstanding. The continuing challenges to the independence of the Communications Regulatory Authority and the slow pace of implementation of the public broadcasting reform remain serious issues of concern.

Some progress can be reported in the area of *financial control*. Internal audit is being introduced, but the Financial Management and Control systems need further development. The independence of external audit remains to be ensured. Some progress has been made in the area of *statistics* with regard to classifications and registers. However, the State-level law on the population and household census was not adopted. Statistics on national accounts, on business and on agriculture need to be improved. Co-operation between the country's statistical institutions at state and entity level remains insufficient.

In the area of *justice, freedom and security*, progress has been made, albeit unevenly, in the different areas. In the framework of the visa liberalisation dialogue, steps have been taken to fulfil all the benchmarks set in the roadmap. In the area of visa policy, priorities continued to be addressed. Biometric passports are being issued. The visa facilitation agreement between the EU and Bosnia and Herzegovina and the readmission agreement have continued to be implemented smoothly.

The country's preparations in the fields of *border management, asylum and migration* have advanced. The asylum and international protection system, the monitoring of migration flows and inter-agency cooperation have improved. However, the infrastructure at some border crossing points requires strengthening. Limited progress has been made on preventing *money laundering*. Further efforts are needed, particularly as regards the enforcement of legal provisions. There has been some progress in the fight against *drugs*. However, a lack of effective judicial follow-up impedes the fight against drug trafficking, which remains a serious problem.

Bosnia and Herzegovina's preparations in the area of *police* are advancing, albeit unevenly. The fragmentation of Bosnia and Herzegovina's police forces continues to undermine efficiency, results, cooperation and information exchange. The *fight against organised crime* remains insufficient due to the lack of a coherent institutional framework. Organised crime remains an issue of serious concern that affects the rule of law and the business environment. Some progress has been made in the fight against *trafficking in human beings* with respect to identification of victims. More efforts are needed regarding support to victims and witness protection. Bosnia and Herzegovina has started to tackle the issue of *fighting terrorism* by adopting a comprehensive strategy.

As regards *personal data protection*, preparations for the protection of personal data have continued, but further efforts are necessary regarding law enforcement. Well functioning personal data protection is crucial in order for Bosnia and Herzegovina to conclude agreements with Europol and Eurojust.

Serbia

Serbia has made progress towards meeting the political criteria. Serbia applied for EU membership in December 2009. The Interim Agreement entered into force in

February 2010 and Serbia has further progressed in complying with the Stabilisation and Association Agreement (SAA) requirements. The ratification process of the SAA was launched in June 2010. Judicial reform has continued but there were serious shortcomings in the re-appointment procedure of judges and prosecutors. Despite the active on-going cooperation of Serbia with the International Criminal Tribunal for the former Yugoslavia (ICTY), the two remaining ICTY fugitives, Ratko Mladić and Goran Hadžić, are still at large.

The UN General Assembly adopted on 9 September a joint resolution tabled by Serbia and co-sponsored by the EU as a follow-up to the International Court of Justice advisory opinion on Kosovo. The resolution acknowledged the content of the ICJ advisory opinion and welcomed the readiness of the European Union to facilitate a process of dialogue between the parties; the process of dialogue in itself would be a factor for peace, security and stability in the region, and that dialogue would be to promote cooperation, achieve progress on the path to the European Union and improve the lives of the people. Determined efforts are needed by all parties for the inclusive and effective functioning of regional fora.

Democracy and the rule of law have been further strengthened. Implementation of new Constitutional provisions such as those referring to the Statute of Vojvodina has advanced. Additional efforts are needed to ensure the compatibility of some constitutional provisions with European standards, particularly on the judiciary.

Further steps were taken to improve the functioning of the *parliament* through the adoption of a new Law on the National Assembly and new rules of procedure. However, efforts are necessary to further improve the quality of legislative output. The electoral legislation needs to be brought fully into line with European standards.

The coalition *government* remained stable and continued to demonstrate a high degree of consensus on EU integration as a strategic priority. However, the preparation and implementation of new legislation need to become more effective.

The capacity of the *public administration* is overall good but reform in this area is advancing at a slow and uneven pace. A stronger commitment to respect the mandate of independent regulatory bodies and provide them with adequate resources is needed.

There was good progress towards adopting the legislation providing for *civilian oversight of security forces* and implementing constitutionally guaranteed rights. However, civilian oversight, including by the relevant parliamentary committee, needs to be reinforced.

Serbia continued the reform of its *judicial system* with the re-appointment procedure of all judges and prosecutors and the introduction of a new court network. However, the re-appointment procedure had major shortcomings and was non-transparent. The two Councils responsible were elected under a transitory composition and did not apply objective criteria. Judges and prosecutors were not heard during the procedure and did not receive adequate explanations for the decisions. This puts into question the independence of the judiciary and may give room for political influence. The two Councils still need to be elected in their final composition. The substantial backlog of pending cases remains a matter of concern. Overall, Serbia's judicial system only partially meets its priorities.

Progress in the fight against *corruption* continued with the Anti-Corruption Agency starting its work in January 2010. A majority of public officials submitted asset declarations to the new Agency as required. However, corruption remains prevalent in

many areas and continues to be a serious problem. In the absence of a new law, control of the funding of political parties and financing of election campaigns remains weak. The Anti-Corruption Agency still has to establish a track record of verifying asset declarations and carrying out its role effectively. The number of final convictions, especially in high level cases, remains low. Public procurement, privatisation and public expenditure remain areas of concern. Protection of whistleblowers needs to be improved.

Concerning *human rights and the protection of minorities*, the necessary legislation is in place. The Constitution guarantees *civil and political rights* which are broadly respected but their enforcement remains to be fully ensured. Relevant legislation remains to be further brought in line with European standards.

There has been little progress concerning *the prevention of torture, ill-treatment and impunity* where a number of cases continued to be recorded. *Access to justice* is generally ensured. However, legislation and funding for a more effective system of free legal aid are still missing. Serbia made little progress in the reform of its *prison system*. A strategy to prevent overcrowding was adopted but poor conditions in prisons remain a matter of concern.

Constitutional and legislative provisions for the protection of *freedom of expression* are in place. The legislation allowing the *media* to operate freely is in place. However, incidents involving hate speech, threats and attacks, in particular against journalists, have continued. *Freedom of assembly and association* is guaranteed by the Constitution and in general respected.

Civil society organisations continued to be active in the social, economic and political life of Serbia and remain important in promoting democratic values. An Office for Cooperation with Civil Society was recently established.

Constitutional guarantees allowing for *freedom of religion* are in place. Inter-faith relations have improved. However, the lack of transparency and consistency in the registration process remains the main obstacle to some smaller religious groups exercising their rights.

The legislation for the protection of *social and economic rights* is broadly in place. The protection of women and children against violence needs to be strengthened. The law on gender equality, aiming at improving the position of *women*, was adopted. However, follow-up of cases of domestic violence remains inadequate. In relation to *children's rights*, there has been progress in strengthening the protection of children from abuse and negligence. The legislative framework prohibiting any kind of *discrimination* in the workplace and establishing a mechanism for protection against discrimination is in place. However, in practice, discrimination continues, particularly against the Roma, the LGBT community, women, national minorities and persons with disabilities.

There has been no progress with regard to *property rights* as an adequate legal basis for property restitution is still missing.

The legislation providing for the *respect for and protection of minorities and cultural rights*, is in place. Elections for the 19 National Minority Councils were held in June 2010 and were on the whole well organised. The Councils are yet to become operational.

The inter-ethnic situation in *Vojvodina* has been stable. The implementation of the newly adopted Statute and of the Law on Determination of Competencies, which provides for an extensive autonomy of the province in the areas of local finances and economic development has started. Further legislation needs to be adopted. The situation in *southern Serbia* is on the whole stable but tense. Clashes between ethnic groups and within the Muslim community in *Sandžak* have on the whole decreased. However,

tensions persist in particular between the two existing Islamic organisations and in connection to the constitution of the Bosniak National Minority Council.

Some progress was made in addressing the issue of the status of *refugees* and *internally displaced persons (IDPs)* but further substantial efforts are needed. Despite a number of positive developments, the majority of the *Roma* population continues to live in extreme poverty. They also face discrimination, in particular as regards access to education, social protection, health care, employment and adequate housing.

As regards *regional issues and international obligations*, Serbia has demonstrated a constructive approach in connection to developments in Bosnia and Herzegovina. The Prosecutor of the International Criminal Tribunal for the former Yugoslavia (ICTY) noted in his latest report to the UN Security Council that Serbia's responses to the Office of the Prosecutor's requests for access to documents, archives and witnesses have been timely and adequate and that no requests remain outstanding. He also stressed the professionalism and commitment of the operational services working on the search for fugitives. However, he made a number of operational recommendations. Despite the active on-going cooperation of Serbia with the ICTY, the two remaining ICTY fugitives are still at large. Full cooperation with the ICTY remains an essential condition for membership of the EU, in line with the Council conclusions of 25 October 2010.

Good cooperation with EULEX has been established in relation to war crimes in Kosovo. However, problems of extradition and recognition of sentences continued to exist with some countries of the region.

Fresh impetus was given to the Sarajevo declaration process following the Ministerial meeting held in Belgrade in March 2010, at Serbia's initiative. This brought together Bosnia and Herzegovina, Croatia, Montenegro and Serbia, all of which agreed to work together in order to clarify notably refugee statistics and remaining open issues. The countries also committed themselves to work towards solutions to a number of outstanding issues by the end of the year.

Serbia has continued to actively participate in regional initiatives such as the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Serbia held the Chairmanship of CEFTA in 2010. It has been actively participating in the preparations for the upcoming Danube Strategy. Serbia made significant progress in its bilateral relations with other enlargement countries, particularly Croatia and Bosnia and Herzegovina, and continued to have good relations with neighbouring EU member states. An extradition agreement on cooperation in criminal matters was signed with Croatia. Regional cooperation was, however, affected by a lack of agreement between Serbia and Kosovo on the latter's participation in regional meetings. An acceptable and sustainable solution for the participation of both Serbia and Kosovo in regional fora needs to be agreed as soon as possible. This is essential for inclusive and functioning regional cooperation. Serbia still does not accept the Kosovo customs stamps notified by UNMIK. In Kosovo, Serbia maintained parallel structures and organised parallel municipal by-elections.

Following a severe recession in the wake of the global crisis, Serbia's economy gradually recouped stability as a result of an adjustment programme agreed with the IMF and also supported by the EU and the World Bank. As of the first half of 2010, economic activity has been picking up but recovery remains slow and fragile. Public finances continued to deteriorate despite a number of fiscal adjustment measures put in place to contain the budgetary slippage. Adoption by government of amendments to the budget

system law and the pension law was an important step towards improving the quality of public finances. Other structural reforms, especially privatisation and enterprise restructuring, have been again delayed due to protracted unfavourable market conditions.

As regards the economic criteria, further progress towards establishing a functioning market economy has been limited. Serbia needs to make more efforts in restructuring its economy so as to cope in the medium-term with the competitive pressures and market forces within the European Union.

There is broad consensus on the fundamentals of a market economy. The adoption of timely and appropriate measures in agreement with the IMF was key in re-establishing macroeconomic stability. Serbia's external position improved during the recession. The pick-up in economic activity in 2010 led to a widening of the current account deficit which was, however, limited on the back of strong export and subdued import growth. Foreign exchange reserves remained relatively high despite regular interventions by the central bank to buffer volatility of the exchange rate. Inflation was broadly maintained within the target band as the central bank reverted to restrictive monetary policy. The banks continued to be adequately capitalised and liquid. Amending the budget system law and the pension law commits the government to fiscal consolidation over the medium-term.

However, Serbia has further postponed the reforms to tackle the biggest structural shortcomings. Despite a gradual economic recovery, the labour market has continued to deteriorate, with decreasing employment and increasing unemployment. Notwithstanding the corrective measures to limit the fiscal slippage during the crisis and the amended budget system and pension legislation to enhance fiscal discipline, the public finance sustainability in the medium term needs to be strengthened by reforms in the areas of healthcare system and public administration. Privatisation of the socially-owned companies has back-paddled following repeal of numerous sale contracts. Privatisation of the state-owned companies has been further delayed. The business environment continues to be constrained by red tape and weak legal predictability, in particular with respect to effective enforcement of property rights, which hamper market entry and exit. Furthermore, deficiencies in competition and infrastructure bottlenecks remain barriers to doing business. The informal sector remains an important challenge.

Serbia has made further progress towards aligning its legislation to European Standards. Serbia has also continued to implement the Interim Agreement provisions and made further progress towards complying with the Stabilisation and Association Agreement (SAA) requirements. Administrative capacity is good. However, further efforts are necessary to bring the legislation and the policies in line with the *acquis*. Implementation as well as enforcement of the adopted EU-related legislation needs to be ensured.

With regard to *internal market*, Serbia has made progress in meeting EU standards on *free movement of goods*. Legislation on metrology and on certain new approach directives has been adopted. However, a new legal framework for market surveillance is still lacking. The administrative capacity and cooperation between the State institutions need to be further strengthened. Further efforts are required to continue the transposition of the product-specific *acquis* into Serbian legislation.

Serbia is moderately advanced towards meeting EU standards in the areas of *movement of persons, services, right of establishment and company law*. A number of acts are still pending approval. In the area of *free movement of capital*, Serbia remains moderately advanced. Non-residents are free to make direct investments with certain

restrictions. Serbia needs to continue its efforts to meet the gradual liberalisation requirements laid down in the SAA.

Serbia is already well on track to meeting the EU *acquis* and remains committed to reforms in the areas of *customs and taxation*. Obligations stemming from the Interim Agreement were respected. Further efforts are needed as regards procedures and administrative capacity.

Enforcement capacity of the tax administration and tax collection has improved, although further progress is required in this respect. Serbia needs to take follow-up action to ensure that its tax legislation complies with the Code of Conduct for business taxation.

Serbia made some progress in meeting European standards in the area of *competition*. Implementing legislation of the competition law was adopted. Moreover Serbia should continue to work on its enforcement records. Knowledge of competition law and economics in the judiciary remains weak. Some progress has been made in the area of *state aid*. A State aid authority was established. However, the administrative capacity of the State aid Authority has to be strengthened. Effective implementation of the law needs to be ensured.

Serbia's preparations for establishing an effective and fully independent *public procurement* system with streamlined award procedures are moderately advanced. Significant efforts remain necessary to strengthen the capacity to implement the requirements of the EU *acquis*. Progress has been made in the area of *intellectual property* but further efforts are needed in terms of alignment with the *acquis*. Concerning enforcement, better co-ordination among relevant agencies is required, as well as substantial investment in judicial training.

Preparations are continuing towards meeting European standards in the areas of *employment and social policy*. Progress has been made in the area of *public health*. The strategic "Health Protection Development Plan" for 2010-2015 prepared by the National Health Council of Serbia prepared adopted by the Government.

Serbia has made some progress to align with European standards in the area of *education*. An overall strategy involving all levels of education, including lifelong learning, remains to be developed. Good progress has been made on alignment in *science and research*. However further efforts are needed to facilitate Serbia's integration into the European Research Area and to strengthen its national research capacity.

Negotiations for Serbia's accession to the *World Trade Organisation* (WTO) are nearing their end; the bilateral track of negotiations has already been completed with most WTO partners.

With respect to *sectoral policies*, in the area of *industry and SMEs*, Serbia is well advanced and fulfils European standards. Preparation of an industrial strategy is at a very early stage.

Serbia is advancing well towards meeting European standards in the areas of *agriculture, rural development, food safety, veterinary and phytosanitary policy*. The legal framework continues to improve. However, implementation and enforcement needs to be upgraded, especially in the food safety area. Administrative capacity is weak and resources need to be more efficiently allocated. Inspection services need further training. Recruitment of qualified staff needs to take place in the newly established bodies. Progress has been made concerning official control of laboratories.

In the area of *environment*, Serbia remains moderately advanced towards fulfilling the European standards. The National Programme for Environmental Protection 2010–2019 and a number of laws on air and water quality as well as on nature protection and climate change were adopted. The new Chemicals Agency became operational. However, the capacity to implement and enforce legislation still needs to be strengthened.

Serbia has made some progress in the area of *transport*. The market access provisions of the European Civil Aviation Agreement are now applied. However, framework legislation remains to be adopted in the railways sector. Administrative capacity needs to be strengthened.

In the *energy* sector, Serbia has made some progress in terms of alignment with European standards. However, progress remains uneven. Further efforts are needed to achieve unbundling and real market opening together with a pricing policy offering a sustainable tariff reflecting costs. Further efforts need to be made to strengthen the nuclear regulator.

Some progress has been made in the *information society and media* area. The legislative framework has been strengthened, but implementation remains slow and inadequate market and regulatory developments in the electronic communication sector are of particular concern. Preparations in the field of information society services are moderately advanced. In the audiovisual sector, media legislation needs to be aligned with the *acquis*, and a number of provisions of the Law on Public Information continue to raise concerns.

While Serbia is still at the early stages in the introduction of good practices in public internal financial control and external audit, some progress can be reported with the establishment of financial control Central Harmonisation Unit and the first audit of the state accounts by the State Audit Institution.

Serbia has made good progress in advancing towards meeting European standards in the area of *statistics* by adopting laws on statistics and the censuses of population and agriculture. Preparations for the population census are well advanced but its funding remains to be ensured. However, further progress is needed in several statistical domains and additional efforts are needed to strengthen the capacity of the statistical office.

Progress in the area of *justice freedom and security* has continued. Visa-free travel entered into force in December 2009 for Serbian citizens holding biometric passports.

There has been some progress in the area of *border management*, mainly through upgrading of equipment and infrastructure. However, further efforts are needed to eliminate the disparities between individual border crossing points and to improve control at the borders with the Former Yugoslav Republic of Macedonia, Montenegro, Bosnia and Herzegovina and Croatia and in particular at the administrative boundary line with Kosovo.

Little progress has been made in the area of *asylum*. A list of safe countries for asylum seekers was adopted. However, the Asylum Office, the first instance body for asylum claims, has not been established. Many cases are closed because applicants leave Serbian territory or disappear. Serbia has made some progress in the area of *migration*. Implementation of the readmission agreement between Serbia and the European Union continued without significant problems. However, effective implementation of the migration management strategy is lacking. Efforts are needed to improve the coordination between the responsible bodies and to strengthen their capacities.

Some progress has been achieved to prevent *money laundering*. An action plan was adopted and a coordination body established. Efforts to improve national and international cooperation in the investigation and processing of offences continued. However, practical results have remained weak. The Administration for Prevention of Money Laundering lacks capacity to systematically identify suspicious cases. Reporting needs to be improved, in particular outside the banking sector. The judiciary and law enforcement services lack the necessary expertise in money laundering cases and financial investigations. Final convictions remain rare.

Good progress can be reported in the area of fight against *drugs*. Law enforcement agencies continued investigations and improved international cooperation, leading to seizure of large quantities of illicit drugs. However, weaknesses continue to exist in surveillance of the borders with the former Yugoslav Republic of Macedonia, Montenegro, Bosnia and Herzegovina and Croatia and the Administrative Boundary Line with Kosovo.

Capacity building within the *police* has continued with the upgrading of specialised services of the criminal police. Cooperation between various police structures, as well as regional and international cooperation, has improved. However, strategic planning and human resource management need to be upgraded and recruitment procedures made more transparent. Internal control needs to be strengthened.

Good progress has been made in fighting *organised crime*. Cooperation between relevant agencies has improved within the country, in the region and internationally; this has led to good results in high-profile investigations and the arrest of a number of suspects. Confiscation of assets started in a more systematic way and confiscations were carried out in a number of cases. However, a new and substantially revised Criminal Procedure Code has still not been adopted. The capacities of the law enforcement agencies to use modern investigative techniques, in particular in the area of financial investigations, need to be further strengthened.

Procedures to identify victims of *trafficking of human beings* have been adopted and the number of identified victims continued to increase. However, the strategic framework needs to be amended to allow a better policy response to emerging trends and improved cooperation between the police, prosecution and courts. Serbia has made some progress in the fight against *terrorism* with the adoption of the Law on military security and military intelligence agencies. However, prevention policies need to be improved. A database on terrorist suspects has not yet been established.

There has been little progress on *protection of personal data*. The strategy for implementing the Law on personal data protection was adopted in August 2010. Despite some improvements, the office of the Commissioner for Information of Public Importance and Personal Data Protection continues to lack financial and human resources. Personal data protection is a key precondition for Serbia to conclude an agreement with Eurojust and an operational agreement with Europol.

Kosovo

Kosovo has made progress as regards the political criteria. It has strengthened its commitment to the European agenda and policy reform and established a Ministry for European Integration. The government has ensured the successful conduct of the Stabilisation and Association Process (SAP) dialogue with the European Union. The authorities now need to step up the pace of reform. The capacity of the public

administration remains weak and the judiciary is not functioning effectively. Rule of law remains a serious concern. Cooperation with the EU rule of law mission (EULEX) has improved and the authorities have launched a number of anti-corruption operations with EULEX support. These efforts need to continue and cover organised crime, drugs and money-laundering. Elections have been called following the resignation of the President of Kosovo.

Kosovo has made significant progress in decentralisation. Four new municipalities have been established and are now operational. Local elections were held at the end of 2009. A European Parliament mission considered that the election process took place in a peaceful environment with considerable voter participation, including among the Kosovo Serb community. However, concerns remain with regard to northern Kosovo. There have been a number of violent incidents. Decentralisation can only be completed with the participation of the local population. More needs to be done to ensure the integration of all communities and the delivery of public services in all municipalities. Support from local communities is important in this regard, including a constructive role in consolidating the rule of law. Parallel structures continue to operate hampering the decentralisation process.

In July, the International Court of Justice (ICJ) issued an advisory opinion, which concluded that Kosovo's declaration of independence did not violate general international law or UN Security Council resolution 1244 (1999). Following the UN General Assembly resolution of 9 September the EU has confirmed its readiness to facilitate a process of dialogue between Pristina and Belgrade to promote cooperation, achieve progress on the path to the European Union and improve the lives of the people. Determined efforts are needed by all parties for the inclusive and effective functioning of regional fora.

Regarding *democracy and the rule of law*, there has been progress in strengthening executive and parliamentary structures, in particular as concerns European integration. However, the rule of law is in need of further strengthening and is an issue of serious concern.

In September, the Constitutional Court ruled that it is unconstitutional to hold at the same time the office of President of Kosovo and of Chairman/President of a political party. Following the ruling, the President of Kosovo resigned. The LDK then withdrew from the governing coalition. Elections have been called for 12 December 2010.

The *assembly* has established a public accounts committee. The Committee on European Integration has streamlined its rules and procedures. However, capacity to scrutinise draft legislation and to monitor its implementation after adoption remains weak. Parliamentary oversight of the government needs to be further strengthened.

The main structures of *government* are in place and continue to function in line with relevant constitutional provisions. The Ministry for European Integration has made a good start and now needs to strengthen its capacity and consolidate its role in coordinating other government departments.

Public administration reform in Kosovo remains a major challenge. The legal framework has been developed further with the adoption of the laws on civil service and on salaries. The capacity of the public administration to deliver the necessary services to all people in Kosovo needs to be substantially strengthened. Kosovo's public administration remains weak.

Kosovo has made progress as regards reform of the *judicial system*. Major judicial reform has been launched by adoption of four reform laws on courts, on prosecution, on

the Kosovo Judicial Council and on the Kosovo Prosecutorial Council. The law on courts introduces a new salary system, which significantly improves the situation of judges. The vetting of judges and prosecutors has also been completed. Over 340 judges and prosecutors have been appointed by the President to positions at all levels of the judiciary. This includes the appointment of local members of the Kosovo Judicial Council who have elected the Council's president. After passing the bar exam, the first prospective judges and prosecutors have graduated from the Kosovo Judicial Institute in December 2009. However, there have been cases of political interference in the judicial system, notably in the reappointment process of judges and prosecutors. There is still a significant backlog of cases, particularly in civil matters, including property rights. Kosovo institutions need to attach sufficient importance to support investigations and judicial follow-up of war crimes. Plans to implement the reform of judiciary need to be prepared and resources allocated. Kosovo is still at an early stage in addressing priorities in the area of justice.

The legal framework on *anti-corruption* has improved with the adoption of laws on the anti-corruption agency and on declaration and origin of the property and gifts to senior public officials. The law on preventing conflict of interest in exercising public functions has been amended. The law on financing political parties is not fully in line with European standards. However, results in the fight against corruption are limited. The main areas of concern continue to be the procurement process and the judicial and law enforcement systems. EULEX has had to continue exercising its executive mandate in high profile cases. There are a number of ongoing anti-corruption investigations. In April, searches were undertaken at the ministry of transport; in July, the Kosovo Police arrested the central bank governor in cooperation with EULEX. The government has cooperated with these investigations. Corruption remains prevalent in Kosovo and is a very serious problem. The legal framework remains incomplete and does not fully comply with European standards.

The constitution guarantees *human rights and the respect for and protection of minorities* and lists the main international agreements and instruments directly applicable in Kosovo. However, the institutional set-up and the lack of political will hamper the effective implementation of legal standards in this area. The process of integrating the Serb community is ongoing. The authorities need to do more to address key concerns such as access to property, missing persons, returns and education.

There has been some progress on *civil and political rights*. The government needs to do more as regards the *prevention of torture*, allegations of *ill-treatment* and excessive use of force by police and *prison* staff. Conditions in *prisons* are still a concern. There has been limited progress as regards *access to justice*.

Freedom of expression is still not guaranteed in practice. The independence and impartiality of the public broadcaster need strengthening. Journalists continue to receive threats in response to their reporting. They also face difficulties in accessing official documents. The legislation on *freedom of association* does not facilitate the sustainable development and funding of non-governmental organisations. The capacity of *civil society* to monitor and assess the government's performance is increasing. However, civil society is still weak and not systematically consulted by the municipalities and the government within the legislative process.

Economic and social rights are still not fully guaranteed. The legal framework for the protection of *women* has been strengthened. There has been some progress in the area of juvenile justice. However, the protection of *children's* rights remains weak. The

government needs to tackle child labour and child trafficking more effectively. The social integration and protection of vulnerable groups, in particular abandoned children, returnees and people with disabilities, needs to be improved. Kosovo has launched an *anti-discrimination* awareness- raising campaign with special emphasis on discrimination based on age and sexual orientation. The implementation of anti-discrimination legislation remains inadequate. The implementation of court orders guaranteeing the exercise of *property rights* has improved. However, the significant backlog of cases and other long-standing issues seriously hamper the re-possession of property.

There has been limited progress as regards *respect for and protection of minorities and cultural rights*. The Ministry of Culture has set up a directorate for cultural heritage. The reconstruction of religious sites has continued. Kosovo Police has taken over responsibility from KFOR for the protection of certain religious and cultural sites. However, the law on cultural heritage is not fully implemented. The monitoring council envisaged in the 2008 law on special protective zones is still to be established. The Ministry for Communities and Return increased its efforts to assist minority returns of *refugees* and *internally displaced persons*. The number of voluntary returnees is increasing across Kosovo.

In December 2009, Kosovo adopted an action plan for the implementation of the strategy for integration of Roma, Ashkali and Egyptian communities. The government has established the structures to implement this strategy. The process of relocating families from lead- contaminated areas in northern Kosovo has begun' allowing the closure of Cesmin Llug/Česmin Lug camp. This process needs to be completed as soon as possible. Living conditions for Roma, Ashkali and Egyptian communities and their access to education, health care and social protection are still issues of very serious concern. The participation of Kosovo in the Roma Decade needs to be consolidated.

Concerning *regional and international obligations*, during the reporting period Kosovo continued to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). More than ten years after the end of the armed conflict, there are estimated to be 1,800 missing persons. The authorities need to demonstrate greater efforts in this area. Kosovo attended the EU-Western Balkans High-Level Meeting in Sarajevo in June. However, Kosovo needs to adopt a constructive approach in order to ensure its effective participation in cooperation initiatives, such as the Regional Cooperation Council and the Central European Free Trade Agreement (CEFTA). Concerning CEFTA, Kosovo needs to be pragmatic and seek a constructive way forward to ensure the effective implementation of this agreement. The Kosovo customs stamps, which the Special Representative of the UN Secretary General has confirmed to be in compliance with UNSCR1244/99, have not been recognised by Serbia and Bosnia and Herzegovina. An acceptable and sustainable solution for the participation of both Kosovo and Serbia in key regional fora needs to be agreed as soon as possible. This is essential for inclusive and functioning regional cooperation.

The impact of the economic crisis on the economy of Kosovo has been limited. Real GDP continued growing mainly driven by public expenditure. There are growing risks to the sustainability of this growth profile. Unemployment remains very high. Inflation has been volatile, reflecting fluctuating food and fuel prices. Policy formulation and implementation continued to lack predictability. An agreement has been reached with the IMF on a programme with the aim to limit fiscal risks and revert to fiscal sustainability. Firms continue to face weak rule of law, the lack of a reliable electricity supply, poor

infrastructure and limited access to financing. These are barriers to effective business and economic development.

As regards the economic criteria, Kosovo has achieved limited progress towards establishing a functioning market economy. Considerable reforms and investments are needed to enable it to cope over the long term with competitive pressure and market forces within the Union.

A broad consensus on the fundamentals of market-oriented economic policies has been maintained. The use of the euro, the low levels of external debt and the narrow exports' base have limited the economy's exposure to external financial and demand shocks. The banking sector continued to expand and remained stable and profitable. The Privatisation Agency of Kosovo has continued the privatisation of socially owned enterprises. The first successful public private partnership project has been concluded and an international consortium has been selected to develop the Pristina International Airport under a concession for twenty years.

However, the policy mix is increasingly vulnerable as a result of strong government expenditure growth. In particular, the building of a new motorway weighs heavily on public finances. Deficiencies in policy formulation and implementation have increased the already high uncertainty in the economy. Economic statistics improved somewhat, but still remain inadequate. Unemployment remains very high particularly among the young. The current account deficit has widened due to strong domestic demand and an underdeveloped production base. The public electricity company has continued to receive substantial subsidies from the state budget for the import of electricity and loans for financing of its investment programme. The weak rule of law, uncertainty over property rights and high interest rates continue to impact negatively on the business environment and on economic development. The informal sector remains an important challenge.

Progress in aligning Kosovo's legislation and policies with European standards continues to be mixed. The legal framework has been developed further in the areas of customs, taxation, and free movement of goods, statistics, migration, education and anti-terrorism. Approximation is at an early stage as regards competition, intellectual property, environment, agriculture and food safety, integrated border management, asylum, and money-laundering and personal data protection. Alignment with European standards remains limited in the areas of employment and social policies, financial control, drug-trafficking, trafficking in human beings and organised crime.

In the area of the EU internal market there has been some progress, in developing the legal framework for *free movement of goods, including consumers' protection*. However, the overall legal framework needs to be reinforced. Alignment with European standards in the areas of *free movement of persons*, as well as *freedom to provide services* and *the right of establishment* is limited. The area of *free movement of capital* is already well advanced. However, further efforts are necessary as regards effective regulation.

Legal provisions for *customs* are generally compatible with European standards and efforts to fight corruption have been undertaken. Efforts to tackle smuggling need to be enhanced. Customs controls need to be strengthened in northern Kosovo. Administrative capacity has improved, but remains insufficient. There have been positive developments as regards legislation and capacity-building in the area of *taxation*. Further efforts are necessary to ensure the effective implementation of the laws in force, to enforce payment of taxes, to widen the tax base and, as a consequence, to reduce the sizeable informal

economy. The backlog of cases against decisions of the Customs Service and the Tax Administration has increased.

In the area of *competition*, there has been no progress on anti-trust policy or state aids rules. Administrative capacity has improved but the implementation of competition policy is overall at an early stage. Cooperation among the institutions involved in competition issues needs to be strengthened. The Competition Commission needs to be more closely involved in large privatisation and restructuring initiatives.

Kosovo is still to adopt a new procurement law. The government has undertaken efforts in this regard. The implementation in practice of the existing law gives rise to concerns. The role of public procurement officers needs to be strengthened with a view to reinforce monitoring of the implementation of procurement contracts. Independence and professionalism in the public procurement system need to be enhanced. The authorities need to do more to tackle corruption in this area. Kosovo's provisions on concessions diverge significantly from European standards.

Key legislation still needs to be put in place on *intellectual property rights*. Significant efforts are needed on enforcement and awareness-raising. Kosovo's intellectual property rights regime is at an early stage and implementation is very weak.

There has been limited progress in alignment in the areas of *employment and public health*. Poor administrative capacity and an inadequate legal framework are issues of concern. Social protection and inclusion in Kosovo, as well as *social dialogue*, need to be improved. The legal framework in the area of *education* has been brought closer to European standards; increased administrative capacity is necessary to implement the reforms. Kosovo has developed a five- year *research* programme expected to improve capacities in this sector. This area has been made a priority.

As regards sectoral policies, development and *SMEs* need to be promoted more effectively and different strategies affecting this area should be better co-ordinated. Efforts should be stepped up in the areas of *agriculture* and food safety, in particular as regards the implementation of adopted legislation and upgrading agrifood establishments. A number of *environment* laws have been adopted. However, implementation of EU environment standards is still at an early stage.

The *transport* infrastructure remains underdeveloped. Kosovo has embarked on a road- building programme that does not reflect planned traffic flows, and the size of the programme crowds out investments in other modes of transport, particularly railways. Alignment with European standards in the area of aviation has improved. In December 2009, Kosovo adopted the aviation security and quality control programmes.

In the *energy* sector, there are major challenges with respect to enforcing electricity payments and managing an unsustainable growth in power demand. In April, Kosovo adopted an energy strategy covering the period 2009-2018. In October 2010, after considerable delay, the package of key laws in this area (on energy, on electricity and on the energy regulator) was adopted.

There has been limited progress in the area of *information society and media*. The independence and resources of the Telecommunications Regulatory Authority needs to be strengthened and the independence of the Independent Media Council guaranteed in the current revision of the IMC law. A long-term solution needs to be found for the funding of the public service broadcaster.

There has been some progress as regards *financial control*. However, Kosovo is still at an early stage in introducing international standards. The lack of financial

independence of the Office of the Auditor-General is still a concern. In July, Kosovo adopted the law on official *statistics*. However, administrative capacity remains weak and further efforts are needed to improve sectoral statistics and, in particular, business and macro-economic statistics.

Progress has been mixed in the area of justice, freedom and security. Kosovo has made some progress as regards *integrated border management*. Kosovo has taken over responsibilities from KFOR for managing the border with Albania. However, considerable efforts are needed to ensure management of borders in line with EU standards. The north remains a particular challenge. EULEX has intensified its activities at gates 1 and 31. Kosovo has achieved limited progress in the area of *asylum*. The number of asylum requests has considerably increased, but overall has remained low. Most asylum-seekers leaving Kosovo for other destinations did so without adequate control by the Kosovo authorities.

There has been progress on alignment with European standards on *migration*. Kosovo has adopted a readmission law, which is broadly in line with EU requirements. Kosovo has signed a number of bilateral readmission agreements. The authorities have continued to deal efficiently with readmission requests from European countries. This needs to continue. A revised strategy for integration of repatriated persons has been adopted as well as an action plan for its implementation.

Money-laundering remains an issue of serious concern. Kosovo has adopted a law against money-laundering and financing of terrorism. Cooperation between the Customs Service and the Financial Intelligence Centre has improved. The Centre has also improved its cooperation with banks. However, Kosovo is still at an early stage in adopting and implementing European standards in this area. Capacity to investigate and prosecute money-laundering cases is still weak. Kosovo authorities do not have sufficient capacity to assume responsibility for the management of money-laundering cases. Overall, limited progress has been made in addressing economic and financial crime.

There has been limited progress in preventing *drug-trafficking*. Security of storage rooms for seized drugs has been upgraded. The authorities have conducted a number of successful operations. However, seizures, arrests and prosecutions remain at a low level. Efforts in tackling drug-trafficking are still at an early stage.

Kosovo has made some progress in *policing*. Public order has been maintained. The enthronement ceremony of the patriarch of the Serbian Orthodox Church took place in a peaceful atmosphere. The new organisational structure of the Kosovo Police has been approved, including job descriptions for senior management. The strategy and action plan on small and light arms control and collection have been adopted. The collection of illegal weapons has increased. However, the Kosovo Police needs to build an intelligence-led policing capability in order to tackle serious crime more effectively.

There has been limited progress in tackling *organised crime*. Kosovo has adopted a strategy on crime prevention. Special prosecutors have been appointed to deal with organised crime. A series of bilateral agreements with third countries have been signed in this area. However, Kosovo needs to put in place an effective witness protection framework. There have been no high-level convictions. There have been cases of intimidation of judges and prosecutors. Organised crime continues to be a very serious concern. The authorities need to step up their efforts to tackle organised crime operating in Western Balkans and Europe, notably through investigations, arrests, confiscation of assets and convictions. Kosovo needs to deliver concrete results in this area. There has

been limited progress as regards *trafficking of human beings*. There have been a number of arrests in a case of smuggling of human beings. Kosovo has adopted international standards of care for victims of trafficking. However, the number of detected cases and identified victims of trafficking remains low and does not fully reflect the scale of the phenomenon. The level of punishment of perpetrators is not always adequate. The capacity of Kosovo institutions to investigate, prosecute and convict trafficking in human beings needs to be strengthened. As regards the anti-*terrorism* measures, some progress has been made. The capacity of the counter-terrorism unit within the Kosovo Police has been enhanced.

Kosovo has made limited progress in *personal data protection*. A law on the protection of personal data has been adopted. The data protection supervisory authority is yet to be established. Individuals in Kosovo are not sufficiently informed about their rights regarding protection of their personal data. Progress in this area is key for Kosovo's international cooperation in the area of justice and home affairs.

Turkey

Turkey continues to sufficiently fulfil the political criteria. The recent constitutional reforms created the conditions for progress in a number of areas, such as the judiciary and fundamental rights. They now need to be implemented in line with European standards. The democratic opening, aimed notably at addressing the Kurdish issue, did not yet meet the expectations.

The package of constitutional amendments approved in a referendum on 12 September is a step in the right direction. It addresses a number of priorities of the Accession Partnership in the area of the judiciary, fundamental rights and public administration. However, the drafting and adoption of the constitutional reforms was not preceded by a consultation process involving political parties and civil society at large. Implementation of the package, in line with European standards and in a transparent and inclusive way, will be key. Significant efforts are still needed on fundamental rights. The quantity of legal actions against journalists and undue pressure on the media undermine freedom of the press in practice. The democratic opening, announced by the government in August 2009 to address notably the Kurdish issue, was only partly followed through by the government. The decision of the Constitutional Court to close down the Democratic Society Party (DTP) and a surge in PKK terrorist attacks also undermined this policy.

As regards *democracy and the rule of law* in Turkey, the investigation of the alleged criminal network Ergenekon continued. This investigation and the probe into several other coup plans remains an opportunity for Turkey to strengthen confidence in the proper functioning of its democratic institutions and the rule of law. However, there are concerns as regards judicial guarantees for all suspects. Turkey still needs to align its legislation as regards procedure and grounds for closures of political parties with European standards.

As regards, *public administration reform*, some progress has been made with the adoption of the constitutional amendments, in particular towards the establishment of an Ombudsman institution, protection of personal data and access to information. Further efforts are needed in particular on reforming the civil service.

Progress has been made as regards the *civilian oversight of security forces*. The constitutional package limits the competence of military courts and opens the decisions of the Supreme Military Council to judicial review. However, senior members of the

Armed Forces have continued to make statements beyond their remit, in particular on judicial issues. No progress was made in terms of parliamentary oversight over the defence budget.

In the area of the *judiciary* progress was achieved in the implementation of the judicial reform strategy. The adoption of the constitutional amendments on the composition of the High Council of Judges and Prosecutors is a positive step. However, the Minister of Justice still chairs the High Council and has the last word on investigations. During the preparation and adoption process of the implementing legislation, the establishment of an effective dialogue with all stakeholders will be needed. This would contribute to an implementation of these reforms in line with European standards, in a transparent and inclusive way.

Progress has been made as regards the development of a comprehensive anti-corruption Strategy and Action Plan. However, corruption remains prevalent in many areas. Turkey needs to develop a track record of investigations, indictments and convictions.

Concerning *human rights and the protection of minorities*, some progress has been made, in particular with respects to freedom of assembly and women's, children's and cultural rights. However, significant efforts are still needed in particular concerning freedom of expression and freedom of religion.

As regards the *observance of international human rights law*, the human rights institutions need to be brought fully in line with the UN principles.

The positive trend on the prevention of torture and ill-treatment continues. Some high profile cases of human rights violations have resulted in convictions. However, disproportionate use of force by law enforcement authorities continues to be reported and is of concern.

The implementation of the prison reform programme continues. However, the high proportion of prisoners in pre-trial detention remains one of the most significant problems. Health services in prison need to be improved.

Turkish law does not sufficiently guarantee *freedom of expression* in line with the ECHR and the ECtHR case law. The high number of cases initiated against journalists is of concern. Undue political pressures on the media and legal uncertainties affect the exercise of freedom of the press in practice. The frequent website bans are a source of concern.

As regards freedom of assembly, there has been some progress. Demonstrations which had stirred unrest in the past, such as the Newroz celebrations (the Kurdish new year) or 1 May, took place peacefully this year and were well coordinated with the authorities. However, some demonstrations in the Southeast related to the Kurdish issue continued to be marked by excessive use of force by security forces.

The legal framework on *freedom of association* is broadly in line with EU standards. However, the authorities exercise excessive controls and continue to launch closure cases against LGBT associations.

As regards *freedom of religion*, freedom of worship continues to be generally respected. The implementation of the law on foundations has been continuing, albeit with some delays and procedural problems. The dialogue with the Alevi and non-Muslims continued but has not yet produced results. Members of minority religions continue to be subject to threats by extremists. A legal framework in line with the ECHR has yet to be

established, so that all non-Muslim religious communities and Alevi community can function without undue constraints, including the training of clergy.

The legal framework guaranteeing *women's rights* and gender equality is broadly in place. This framework has been strengthened through the constitutional amendment permitting the adoption of positive discrimination measures for women. However, sustained further efforts are needed to turn this legal framework into a political, social and economic reality. Ensuring women's rights and gender equality in practice remain key challenges for Turkey. Honour killings, early and forced marriages and domestic violence remain serious problems. Legislation needs to be implemented consistently across the country. Further education and awareness raising efforts on women's rights and gender equality are needed.

There has been progress with regards to *children's rights*. Turkey aligned its legal framework on juvenile justice with international standards. The gender gap in primary education continued to decrease, but persists in certain parts of the country. Drop-outs of children from schools remain a source of concern. Efforts need to be further strengthened in all areas including education, child labour, health, administrative capacity and coordination, and to build an effective juvenile justice system throughout the country.

The Constitutional amendments broaden *trade union rights* in Turkey, notably for the public service. However, there are restrictive provisions in the current legal framework which are not in line with EU standards and ILO Conventions. Lack of consensus between social partners and government is an obstacle to the adoption of new legislation.

Turkey's approach to *respect for and protection of minorities and cultural rights* remains restrictive. Full respect for and protection of language, culture and fundamental rights, in accordance with European standards have yet to be fully achieved. Turkey needs to make further efforts to enhance tolerance and promote inclusiveness vis-à-vis minorities.

Some positive steps were taken to strengthen cultural rights, in particular in relation to Turkey's broadcasting policy in languages other than Turkish. However, restrictions remain, particularly on the use of such languages in political life, education and contacts with public services.

The issue of *Roma* has become more publicly debated and concrete measures to address some of their concerns are underway. However, in the absence of a comprehensive policy to advance social inclusion of Roma, the latter still frequently face discriminatory treatment in access to education, housing, health services and public services.

As concerns the *East and Southeast*, the government's democratic opening fell short of expectations as few measures have been put into practice. It is important that efforts addressing the Kurdish issue are sustained through broad consultation. The anti-terror legislation needs to be amended to avoid undue restrictions on the exercise of fundamental rights. The existence of numerous landmines continues to raise concerns. The village guard system still needs to be phased out.

There was a surge of PKK terrorist attacks since June, which claimed many lives. The PKK is on the EU list of terrorist organisations. Turkey and the EU enhanced dialogue on counter- terrorism.

Compensation of *internally displaced persons* (IDPs) has continued. However, implementation is not effective. The government has not developed an overall national strategy to address the IDP issue and needs to step up efforts to address IDPs' needs. The legal framework for refugees and asylum seekers and the implementation of circulars

regarding procedures for applications need to be strengthened. Further improvements of the general conditions in foreigners' detention centres are important.

With regard to *regional issues and international obligations*, Turkey continued to express public support for the negotiations between the leaders of the two communities under the good offices of the UN Secretary-General to find a comprehensive settlement of the *Cyprus problem*. However, despite repeated calls by the Council and the Commission, Turkey still has not complied with its obligations as outlined in the declaration of the European Community and its Member States of 21 September 2005 and in the Council conclusions, including the December 2006 and December 2009 conclusions. It does not meet its obligation of full, non-discriminatory implementation of the Additional Protocol to the Association Agreement and has not removed all obstacles to the free movement of goods, including restrictions on direct transport links with Cyprus. There is no progress towards normalisation of bilateral relations with the Republic of Cyprus.

As regards *relations with Greece*, there is renewed impetus to improve bilateral relations. This has yielded some positive results in the area of trade, education, transport, energy, culture and environment. Bilateral exploratory talks have intensified. A considerable number of formal complaints were made by Greece about continued violations of its airspace by Turkey, including flights over Greek islands. Greece also made complaints about violations of its territorial waters.

The EU and Turkey held a dialogue on areas of common concern in the *Western Balkans*. Turkey took a number of initiatives in the region, including tripartite talks with Serbia and Bosnia and Herzegovina. Relations with Bulgaria remain positive.

The Turkish economy was hit hard by the global financial crisis, but quickly recouped its losses, as it started growing across the board at robust rates since the second quarter of 2009. The government budget and the central bank have successfully provided substantial support for aggregate demand, particularly via a significant easing of the fiscal and monetary stance. High growth rates are accompanied by rapidly widening trade and current account deficits, falling unemployment – though still higher than pre-crisis levels – and rising inflationary pressures. The exiting strategy from crisis-related intervention policies focuses on achieving strong, sustained and balanced growth. The design of a fiscal rule has been completed and has the potential of considerably improving the fiscal performance over time. However, its adoption by the Parliament has been delayed. Progress with respect to structural reform was mixed, but lower real interest rates and stronger economic fundamentals should provide scope for an acceleration of structural reforms.

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

In the aftermath of the crisis, consensus on economic policy essentials has been preserved. The anti-crisis measures have cushioned the economic downturn although they have increased Turkey's fiscal deficit and debt stock. They are being phased out gradually. A timely, targeted and well anchored withdrawal of the stimuli remains a challenge in order to maximise the benefits from previous years of fiscal consolidation and overall medium-term fiscal sustainability, and to achieve strong, sustained and balanced growth. Privatisation has advanced, albeit at a slower pace due to the global

economic environment. The financial sector has shown remarkable strength thanks to earlier reforms. Investment picked up strongly and some limited progress was made in upgrading the country's human and physical capital. Turkey was able to partly diversify its trade towards new markets, thereby alleviating to a certain extent the impact of the crisis. Trade and economic integration with the EU remained high.

However, external imbalances and financing needs have been growing significantly on the back of resuming growth and although access to external finance remained unproblematic. Inflationary pressures increased considerably, chiefly because of pressures stemming from energy inputs and buoyant economic activity. Making more progress with fiscal transparency, strengthening the inflation targeting framework and preserving financial stability remain key conditions in order to minimize the risks of a boom-bust scenario. The unemployment rate remains higher than its pre-crisis levels and demographic factors are expected to keep unemployment high in coming years. The low capacity to create new jobs is clearly linked to a skills-mismatch between labour demand and supply, as well as excessive labour market regulation. There are obstacles to market exit and bankruptcy proceedings are relatively cumbersome. The crisis has further complicated the access of SMEs to finance. The legal environment, and in particular court procedures, continue to pose practical challenges and create obstacles to a better business environment. The current product market regulation and the persisting lack of transparency on the allocation of state aids are not conducive to improving the business climate. The informal economy remains an important challenge.

Turkey continued improving its ability to take on the obligations of membership. Progress, at times uneven, was made in most areas. Alignment is advanced in certain areas, such as the 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. Efforts need to continue to pursue alignment in areas such as environment, company law, public procurement and right of establishment and freedom to provide services. As regards the Customs Union, alignment needs to be completed. A number of longstanding trade irritants remain unresolved, such as conformity assessments checks, import and export licensing requirements, IPR effective enforcement, requirements for the registration of new pharmaceutical products and tax discriminatory treatment. It is essential that Turkey fully implements the Customs Union and removes a large number of obstacles affecting EU products that are in free circulation. For most areas it is crucial that Turkey improves its administrative capacity to cope with the *acquis*.

With regards to *free movement of goods* legislative alignment is quite advanced, but limited progress can be reported. Technical barriers to trade continue to exist hampering free circulation of goods and new barriers have been added. Little progress has been made in the area of *freedom of movement for workers*, for which alignment is at an early stage. Alignment in the areas *right of establishment and the freedom to provide services* is at an early stage. Very limited progress can be reported as regards mutual recognition of professional qualifications. No progress has been recorded in the fields of services and establishment. On *free movement of capital* progress was made, in particular on alignment with the *acquis* in the area of the fight against money laundering. The legal framework against financing of terrorism is still incomplete. Turkey made no progress on capital movement and payments or on payment systems.

Some progress can be reported in the area of *public procurement*, in particular on the institutional set-up and administrative capacity. The alignment strategy needs to be

adopted and Turkey needs to further align its legislation, particularly on utilities, concessions and public-private partnerships. On *company law* limited progress can be noted. The new Commercial Code has not been adopted. Administrative capacity needs further strengthening and the legal and institutional framework for auditing is not yet in place. Alignment on *intellectual property law* is relatively advanced. Turkey's agreement to establish an Intellectual Property Rights (IPR) Dialogue with the Commission addresses a key element of the accession negotiations. However, the adoption of necessary IPR legislation, including on deterrent criminal sanctions, is pending. Coordination and cooperation on IPR needs to be improved.

On *competition policy*, alignment in the field of anti-trust is at a high level. Turkey enforces the competition rules effectively. In the area of state aid, the adoption of a State aid law establishing a monitoring authority is an important step forward. Now, this monitoring authority needs to become operational as soon as possible.

There has been some progress on *financial services*, as supervisory authorities introduced further prudential measures. Overall, Turkey's alignment with the *acquis* remains partial. With regard to *information society and the media* in the area of electronic communication and information technologies significant work has been achieved by the Telecommunications regulator as regards implementing regulations. In the area of audiovisual policy some progress can be reported. However, several obstacles to market development remain in place. The legislation on electronic communications, information society services and audiovisual policy require further adjustments.

On *agriculture and rural development* there has been limited progress. Agriculture support policies showed only minor transition towards the Common Agricultural Policy (CAP). Initial steps have been taken for the development of an Integrated Administration and Control System. However, Turkey failed to fully remove technical barriers to trade in bovine products. Slippage in the timetable for accreditation of the IPARD structures also represents a shortcoming. Further progress is required on agricultural statistics, farm accountancy data network, quality policy and organic farming. Regarding *food safety, veterinary and phytosanitary policy* progress has been achieved, notably through the adoption of key framework legislation. The new alignment strategy should facilitate transposition and implementation of the relevant *acquis*. Concerning *fisheries*, some progress has been made on resource and fleet management, inspection and control and implementation of international agreements. Further progress needs to be made on legislative alignment, administrative structures and market policy, structural action and state aid.

Some progress has been achieved in alignment of the *transport sector*. Legislative alignment has reached an advanced level in the aviation, maritime and road sectors. No progress has been made regarding rail market opening and safety. The lack of communications between air traffic control centres in Turkey and the Republic of Cyprus continues to seriously compromise air safety. In the maritime sector, no progress has been made on becoming a party to international conventions. Administrative and implementation capacity remains limited.

In the *energy* sector, there has been good progress in alignment on electricity, renewable energy and energy efficiency, as well as on security of supply. Further efforts are needed in the fields of natural gas, nuclear energy, nuclear safety, radiation protection and state aid.

On *taxation*, there has been some progress on alignment, particularly towards eliminating discriminatory practices on tobacco. However, the increases in excise duty on alcoholic beverages contradict the action plan agreed with the Commission, a key requirement for making further progress in the accession negotiations. Efforts for reinforcing the tax administration, combating informal economy and increasing voluntary compliance were pursued. Hardly any progress can be reported on direct and indirect taxation.

On *economic and monetary policy*, the preparations are well on track. Efforts are needed for further alignment. This concerns in particular the full independence of the Central Bank and the prohibition of privileged access of the public sector to financial institutions.

There has been good progress in the area of *statistics*, in which the overall level of alignment is advanced. Turk Stat further improved the coordination of the statistical system. Good progress has been made on the business register and on sector statistics. Further alignment is needed in national accounts and in agriculture statistics.

Turkey made some progress in aligning to the *acquis* in the field of *social policy and employment*. The Constitutional amendment package brings significant improvements in the area of social dialogue in the public sector and paves the way for positive discrimination towards women, children, elderly and disabled people. However, overall alignment remains limited and the administrative capacity needs strengthening. A reform to achieve full trade union rights in line with EU standards and ILO conventions is still pending. There are a number of concerns regarding undeclared work, low female employment rates, enforcement of the health and safety legislation. A general policy framework to combat poverty is also lacking.

Further progress was made in the area of *enterprise and industrial policy*, in which the level of alignment is sufficient. This progress relates to the Industrial Strategy and Action Plan, wider availability of enterprise and industrial policy instruments and adoption of sectoral strategies and roadmaps. Limited improvements can be reported on the business environment and continuing efforts on monitoring and evaluation.

Progress was made on *trans-European networks*. In particular, Turkey reached an advanced stage in negotiations for the future Trans-European Network for Transport. Some progress can be reported on energy networks.

Progress, albeit uneven, was made in the field of *regional policy and co-ordination of structural instruments*. In particular, the legislative and institutional framework for implementation of IPA components III and IV has been finalised. The involvement of sub-national stakeholders in preparing the project pipeline improved. At national level there is still a need to improve the administrative capacity of the institutions involved in the implementation of the pre-accession funds in order to achieve a more efficient use of pre-thereby also preparing Turkey for the use of structural funds.

Overall, there has been progress in the area of the *judiciary*. The adoption of the constitutional amendments on the composition of the High Council of Judges and Prosecutors is a positive step. This is also true for the limitation of the competence of military courts. During the preparation and adoption process of the enacting legislation, the establishment of an effective dialogue with all stakeholders and the civil society at large will be needed. The implementation of these reforms in line with European standards will be key. With respect to *anti-corruption*, progress was made as regards the development of a comprehensive anti-corruption strategy and an action plan. The development of a body to oversee and monitor their implementation also progressed.

However, effective implementation is necessary and Turkey needs to develop a track record of investigation, indictments, and convictions.

Progress, albeit uneven, was made in the area of *justice, freedom and security*. Substantial progress was made towards finalising negotiations on an EU-Turkey readmission agreement. There is a necessity for clear institutional arrangements and sufficient resources on migration and asylum. Some progress can be reported in the area of drugs and customs cooperation. Limited progress can be reported in the area of external borders and Schengen and organised crime and terrorism. Little progress has taken place in the area of visa policy. No progress to be reported on judicial cooperation in criminal and civil matters. Overall, urgent adoption of draft legislation and ratification of signed international agreements is key.

Turkey is well prepared in the area of *science and research* and good progress has been achieved towards integration into the European Research Area. Overall, Turkey's participation and success rate in Framework Programmes are on the rise. Further efforts are required to maintain these rates all through the 7th Framework Programme for Research and Technological Development (FP7).

For *education and culture* there has been some progress, in particular in the area of *education*. The overall school enrolment continued to increase with slight gender-related improvements and Turkey continued to improve its performance against the EU common benchmarks. There has been some progress in the area of culture but no progress on legislative alignment.

Regarding *environment*, progress was made on further alignment. Turkey has made good progress on waste management whereas limited progress can be reported on horizontal legislation, air and water quality, industrial pollution, chemicals and administrative capacity. However, Turkey has made very limited progress as regards climate change and no progress in the area of nature protection. Turkey made progress on administrative capacity by putting in place coordinating mechanisms. Investments need to be increased.

Some progress was made on aligning to the *acquis* on *consumer and health protection*. However, administrative capacity needs to be increased. More efforts are necessary on consumer protection, to strengthen the consumer movement and to ensure due enforcement. Coordination and cooperation between stakeholders remain weak. There is good progress at the level of alignment as concerns public health. However, enforcement remains insufficient.

On *customs*, the level of alignment is high, both with regards to legislation and administrative capacity. However, duty free shops at entry points and requirements for importers of products in free circulation in the EU to submit information on origin prior to customs clearance contradict the *acquis*. Legislation on free zones, surveillance and tariff quotas still need alignment. Further efforts are required to improve risk-based controls and simplified procedures in order to facilitate legitimate trade and reduce physical controls. Commitments to enforce effectively intellectual property rights and the fight against counterfeit goods need to be respected.

Turkey has achieved a high level of alignment in the area of *external relations*. However, further work remains to be done in many areas, in particular on the general system of preferences with regard to its geographical coverage.

Alignment with the EU's *common foreign and security policy* has continued. Turkey has sought dialogue and consultation with the EU on foreign policy issues. It did not align with the EU in the UN Security Council for additional sanctions against Iran. Turkey

made efforts to improve further relations with neighbouring countries such as Iraq, including the Kurdish regional government, and Syria. Relations with Israel significantly deteriorated following the Gaza flotilla incident. The protocols signed with Armenia to normalise relations are still not ratified.

Turkey is contributing substantially to the Common Security and Defence Policy (CSDP) and seeking greater involvement in CSDP activities. The issue of EU-NATO cooperation involving all EU Member States beyond the 'Berlin plus arrangements' remains to be resolved. Turkey has not aligned with the EU position on membership of the Wassenaar Arrangement.

Limited progress can be reported in the area of *financial control*, which already shows a fairly advanced level of alignment. Legislation implementing the PFMC Law is in place, whilst the PIFC policy paper and action plan require revision. The revised law on the Turkish Court of Accounts, bringing external audit into line with relevant international standards, has not yet been adopted. The Turkish AFCOS has not yet evolved into an operational network. Permanent structures are required for contacts with the Commission on the protection of the euro against counterfeiting. Turkey's alignment with the basic principles and institutions of the *acquis* in the area of *financial and budgetary* provisions is well advanced, although preparedness in the area of the own resources *acquis* is at an early stage.

Iceland

The first progress report on Iceland confirms the assessment of the Commission's Opinion of February 2010 that Iceland meets the political criteria. Iceland is a functioning democracy with strong institutions and deeply rooted traditions of representative democracy. The country's judicial system is well established and the judiciary is of a high standard. As regards human rights and the protection of minorities, Iceland continues to safeguard fundamental rights and to ensure a high level of cooperation with international mechanisms for the protection of human rights.

However, the Opinion also identified a number of shortcomings. The report confirms that Iceland has taken some measures to address them.

As far as the political criteria is concerned, the coalition government remained stable over the reporting period despite the difficult economic background and diverging views among the Icelandic political forces and population on the prospect of EU accession. However, support for the accession process has increased at the end of the reporting period with a majority in favour of conducting accession negotiations.

Some progress has been achieved in identifying those responsible actors for the collapse of the Icelandic banking system and in addressing its political and administrative consequences. This is a notable feature of the functioning of Icelandic democratic institutions. The report of the independent Special Investigation Commission, published in April 2010, led to a number of recommendations to stabilize the financial system and to increase its supervision. In parallel, the Office of the Special Prosecutor continued to conduct a number of investigations in the aftermath of the financial crisis.

Good progress was made to further improve the legal framework related to conflict of interests and the financing of political parties. The Judiciary Act was amended to change the rules on the appointment of judges with the aim of further strengthening the independence of the *judiciary*. Implementation of the Special Investigation Commission recommendations, the amended framework on conflict of interests as well as the revised

procedures on judicial appointments is underway. The impact of these measures will need to be reviewed at a later stage.

Both *government* and *parliament* have continued to function well. The government took steps to further strengthen the public *administration*. The negotiating committees in charge of coordinating the overall accession process work smoothly.

The Council of Europe Framework Convention for the Protection of National Minorities remains to be ratified.

The economy of Iceland went into a deep and long recession and prospects for even a mild recovery remain uncertain. Unemployment has increased and public finances have suffered a marked deterioration with higher fiscal deficits and a significant rise in the already high public debt. On the other hand, inflation has been gradually and steadily coming down. A prudent macroeconomic policy mix focuses on exchange rate stabilisation and fiscal consolidation. A still dysfunctional financial sector and widespread private sector balance sheet imbalances as well as a very high external debt represent key challenges. The IMF programme has been on track.

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

The policy response has by and large been appropriate and supportive to re-establish a higher degree of macroeconomic stability, although prospects for a swift resumption of economic growth remain uncertain. Fiscal consolidation continued; fiscal deficits have started to decline and public debt has been restructured with a view to smoothing its profile and reducing exchange rate risks. Inflation has come down and key policy interest rates have been gradually lowered. A higher trade surplus has supported a slight appreciation of the domestic currency. Foreign exchange reserves have increased, however this was achieved largely on the basis of official external financing. The labour market remained flexible and participation rates relatively high. The country enjoys good basic infrastructure, abundant natural resources, and a well-educated population.

However, the economy is still struggling with the effects of the financial meltdown. Public finances remain confronted with the challenge to implement severe spending cuts and suffer from significant contingent liabilities related to financial sector distress, with a gross general government debt level of almost 90% of GDP. Despite real wage adjustments, unemployment has risen markedly. The reconstruction of the banking sector has progressed, but banks are still suffering from weak asset quality which undermines their ability to finance the economy. Widespread private sector balance sheet imbalances pose threats to financial stability. In addition, Supreme Court rulings declaring foreign exchange indexed loans illegal created uncertainty, notably on the treatment of corporate sector loans. This could further erode the financial situation of domestic banks as they would have to shoulder the additional burden instead of borrowers. The process of corporate sector debt restructuring has progressed slowly and the debt overhang is limiting the scope for new investment, holding back the recovery.

Investment in large infrastructure projects is currently still under review because of political discussions and lack of funding. The business environment remained hampered by capital controls, relatively high interest rates and difficult access to financing, especially for SMEs.

In this first progress report, Iceland's ability to assume the obligations of membership was assessed in light of its participation in the European Economic Area (EEA) and taking into account the exemptions granted under the EEA. The overall level of preparedness to meet EU *acquis* requirements remains good, in particular due to Iceland's participation in the European Economic Area.

The Icesave dispute remains unresolved. The bill authorizing a state guarantee on the loans granted by the governments of the UK and the Netherlands for the compensation they provided to their citizens holding saving accounts in Icesave was rejected by referendum in March 2010. The EFTA Surveillance Authority (ESA) send a letter of formal notice to the Iceland government in May 2010, hereby taking the first step in an infringement procedure against Iceland arguing that Iceland acted in breach of the Deposit Guarantee Scheme Directive by leaving the depositors in Icesave's Dutch and UK branches without the minimum guarantee. The European Commission shares the legal analysis of ESA. Negotiation efforts between the representatives of the three governments did not yield a result yet.

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

However, efforts to further align with the EU *acquis*, in particular in areas not covered by the EEA, and to ensure its implementation and enforcement need to continue. It should also be noted that the following areas are likely to pose challenges in the accession process: financial services, agriculture and rural development, fisheries, free movement of capital as well as environment.

The government's efforts to address the fallout of the economic and financial crisis led to significant budgetary cuts. Attention is needed to ensure that resources remain available for the necessary preparations associated with the process of EU accession.

Iceland continues to be largely in line with the *acquis* in the area of *free movement of goods*. However, some elements are not yet fully in place as far as horizontal measures and the old approach product legislation are concerned.

A satisfactory level of alignment has been reached in the field of *free movement of workers*. Preparations for the coordination of social security systems remain to be completed. Legislation on the *right of establishment and freedom to provide services* is broadly in line with the exception of the services and postal directives.

Iceland applies the *acquis* on *free movement on capital*, with some exceptions. In close cooperation with the IMF, the Icelandic authorities have committed to gradually remove restrictions on capital movements and payments. Nevertheless, capital flow restrictions were meanwhile extended until August 2011; the maximum amount of foreign currency that can be bought for travel was reduced. Significant and sustained efforts are still needed to remove the existing restrictions on capital movements, including foreign investment in fisheries.

Iceland has implemented the main body of the *acquis* on *public procurement* and overall alignment is very good. However, the administrative capacity remains to be further enhanced to ensure proper implementation of public procurement policies.

Good progress was made on *company law*. However, full alignment with accounting standards is not achieved. Iceland continues to be largely in line with the *acquis* in the field of *intellectual property law* but a comprehensive enforcement policy is needed.

Iceland has reached a high level of alignment regarding the *competition acquis* and the relevant administrative structures are in place. The state aid measures taken in response to the financial crisis remain to be assessed.

Full implementation of the *acquis* on *financial services*, together with a reinforced supervisory framework, remains to be ensured. Implementation is not complete in some key areas including insurance and securities markets.

Iceland has already reached a high level of alignment and applies a substantial part of the *acquis* in the field of the *information society and media*. However, the provisions of the telecom reform, the audiovisual media services directive and the policies derived from the recent adoption of the European Digital Agenda remain to be implemented.

Preparations in the field of *agriculture and rural development* have not started yet. The establishment of structures to address changes in the administration, in particular the setting-up of an EU-compliant paying agency and an integrated administration and control system (IACS) remains to be addressed.

Some progress has been made on *food safety, veterinary and phytosanitary policy*, in particular in transposing the legislation on general food safety. However, efforts are required to strengthen the administrative and laboratories' capacities. Substantial differences from the EU system remain as regards the hygiene package, plant protection products, novel food and genetically modified food.

No new development can be reported in aligning with the EU common *fisheries* policy. Particular attention needs to be paid to the internal market *acquis* regarding the right of establishment, the freedom to provide services as well as the free movement of capital in the fisheries production and processing sectors where the restrictions in place are not in line with the *acquis*. Mechanisms for implementing and controlling Community support measures have yet to be set up.

On *transport*, the restrictions to foreign investment in air and maritime transport remain in force. Iceland has already reached a high level of alignment and applies a substantial part of the *acquis* in the field of *energy*. Alignment with the *acquis* in the areas of oil stocks, independence of regulatory authority and energy efficiency is moderately advanced.

No legislative developments can be reported in the area of *taxation*. Iceland has already achieved a good level of administrative capacity. Nevertheless, liaison offices and IT interconnectivity are still to be established.

Iceland is already highly in line with the *acquis* in *economic and monetary policy*. However, several shortcomings still exist, in particular regarding full independence of the central bank and the prohibition of monetary financing of the public sector.

As regards *statistics*, the availability of statistical data in line with EU methodology needs to be improved in particular in business, macroeconomic and agriculture statistics. The implementation of major planned statistical operations such as the farm structure survey and the population and housing census is not guaranteed as human and financial resources have been further cut down.

Iceland already implements substantial parts of the *acquis* related to *social policy and employment*. However, a comprehensive employment strategy remains to be elaborated.

Against the difficult economic background, preparations in the area of *enterprise and industrial policy* are well on track. Better access to finance for SMEs is an issue. Alignment with EU standards on *trans-European networks* is high.

As regards *regional policy and coordination of structural instruments*, Iceland is at an early stage of preparations for the implementation of the cohesion policy instruments. An appropriate needs analysis, including the identification of the institutions responsible for the implementation of the cohesion policy, remains to be performed.

Iceland's *judiciary* is of a high standard and Iceland provides for a high level of protection on *fundamental rights*. Iceland has taken some measures to address the shortcomings identified in the February 2010 Opinion in particular as regards the procedure of judicial appointments and conflict of interest. However, implementation of these recommendations needs to be further assessed. The legislation on citizens' rights and data protection is not yet in line with the *acquis*.

Iceland applies the Schengen Agreement and has reached an advanced level of alignment with the *acquis* in the field of *justice, freedom and security*. The legislation in some areas remains to be brought fully in line with the *acquis* and relevant international instruments need to be signed or ratified.

Iceland is well advanced for EU accession and integration into the European Research Area. Alignment with EU standards in the field of *education and culture* is high. Iceland continued to participate actively in the Open Method of Coordination in education as well as in community programmes including Lifelong Learning, Youth in Action and Erasmus Mundus programmes.

Environmental policy in Iceland is, to a large extent, aligned with the EU *acquis* through the EEA agreement and further progress can be reported in the areas of air quality and sustainable development. However, compliance with the climate change as well as the nature protection *acquis* in particular as regards protection of whales, seals and wild birds as well as conservation of natural habitats and of wild fauna and flora remains to be achieved. The ratification of key multilateral environmental agreements is pending.

Iceland has already implemented a significant part of the *acquis* in the field of *consumer and health protection*. However, the transposition of new *acquis* in the area of consumer protection remains to be completed and the processing of RAPEX notifications needs further streamlining.

The *customs* legislation of Iceland is, to a large extent, in line with the *acquis*. Significant further approximation is needed in duty-free legislation and practices. Interconnectivity with the EU IT systems remains to be ensured.

Some progress has been made in the field of *external relations*. Iceland started preparations to assess its obligations relating to the need to amend or renounce its international agreements; it also began preparations related to the common commercial policy. Measures remain to be taken to ensure that Iceland's Official Development Assistance does not decline further. Iceland has made good progress and reached an overall good level of alignment in the area of *foreign, security and defence policy*.

As regards *financial control*, a gap assessment needs to be carried out in the areas of financial management and control systems and internal and external audit to take into account internationally accepted standards in force in the EU. Preparations regarding the protection of the EU's financial interests remain to be enhanced. There has been some progress in the area of *financial and budgetary provisions* as Iceland has started to identify the required alignment with the *acquis*.

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SERBIA 2010 PROGRESS REPORT

Accompanying the

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Enlargement Strategy and Main Challenges 2010-2011

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and Parliament on progress made by the countries of the Western Balkans region.

This progress report largely follows the same structure as in previous years. The report:

- Briefly describes the relations between Serbia and the Union;
- analyses the situation in Serbia in terms of the political criteria for membership;
- analyses the situation in Serbia on the basis of the economic criteria for membership;
- reviews Serbia's capacity to implement European standards, that is, to gradually approximate its legislation and policies with those of the *acquis*, in line with the Stabilisation and Association Agreement and the European Partnership priorities.

The period covered by this report is from mid-September 2009 to early October 2010. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures that are under preparation or are awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Serbia, the EU Member States, European Parliament reports¹ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Serbia in its separate communication on enlargement² based on the technical analysis contained in this report.

¹ The reporter for Serbia is Mr Jelko Kacin.

² Enlargement Strategy and Main Challenges 2010-2011 (COM(2010) 660 of 9.11.2010).

1.2. Context

Serbia is a potential candidate for EU membership. On 29 April 2008, Serbia signed a Stabilisation and Association Agreement (SAA) and an Interim Agreement on trade-related measures with the EU. The Interim Agreement entered into force on 1 February 2010. On 14 June 2010, the Council agreed to launch the ratification process for the SAA.

On 22 December 2009, the Serbian President and Prime Minister handed over the country's application for EU membership. The accompanying Government Memorandum highlighted that the application reflected an overall social consensus on the European orientation of Serbia and its aspiration to EU membership.

1.3. Relations between the EU and Serbia

Serbia is participating in the Stabilisation and Association Process. The Stabilisation and Association Agreement (SAA) provides a framework of mutual commitments on a wide range of political, trade and economic issues. The SAA was signed, along with the Interim Agreement, in April 2008. EU ministers agreed to submit the SAA to their parliaments for ratification and the EU agreed to implement the Interim Agreement on trade and trade-related matters as soon as the Council decided that Serbia was fully cooperating with the International Criminal Tribunal for the former Yugoslavia (ICTY). Serbia started on 1 January 2009 to implement the Interim Agreement. Following ICTY Prosecutor Brammertz's report to the UNSC in December, the Council decided to start implementing the Interim Agreement. The Interim Agreement entered into force on 1 February 2010. At the 14 June 2010 Foreign Affairs Council, Ministers agreed to submit the Stabilisation and Association Agreement to their parliaments for ratification and took note that Serbia had applied for EU membership on 22 December 2009.

The EU is providing guidance to the Serbian authorities on reform priorities as part of the European Partnership. The Serbian government has continued to implement a national programme for integration into the EU and has used quarterly reporting as a monitoring mechanism. Progress made on reform priorities as part of the European integration process is encouraged and monitored by the Interim Committee and its structure of sub-committees and the Enhanced Permanent Dialogue (EPD). An EPD plenary meeting was held in July 2010. Several sub-EPD meetings took place during the reporting period, covering all sectors of the SAA that are not included in the Interim Agreement, such as energy, the environment, social policy, justice, freedom and security. A political dialogue at ministerial level took place in Brussels in January 2010. Economic dialogue took place in a bilateral meeting with the Commission and Serbian senior officials in November 2009. Moreover, the multilateral economic dialogue between the Commission, EU Member States and potential candidate countries in the context of the pre-accession fiscal surveillance took place in an expert meeting in June 2010.

The first meeting of the Interim Committee took place in March 2010 in Belgrade. Subsequently, a number of sub-committees also met, including on the internal market, competition, transit traffic, trade, customs, taxation, agriculture and fisheries. Serbia has continued to build a positive track record in implementing the Interim Agreement.

Visa liberalisation for Serbian citizens travelling to the Schengen area was granted by the Council, after consultation with the European Parliament, as of 19 December

2009. It applies to holders of biometric passports travelling to the Schengen area. This decision was based on substantial progress in the areas of justice, freedom and security and fulfilment of the specific conditions set out in the roadmap for visa liberalisation.

As a potential candidate for EU membership, Serbia aligned itself with 51 CFSP declarations out of a total of 74 relevant declarations adopted by the EU during the reporting period (69%).

Serbia receives pre-accession financial assistance under the Instrument for Pre-accession Assistance (IPA). IPA is implemented by the EU Delegation in Belgrade. A decentralised implementation system (DIS) for managing aid remains a short-term objective for Serbia. Under the adopted roadmap, management units in line ministries have been established. Preparation for DIS has continued at a slow pace. However, further extensive efforts including on staff, are necessary in order to put Serbia in a position to take over responsibility for implementation of all IPA components and for future management of Structural and Cohesion Funds.

Serbia's national IPA allocation for 2010 totalled €197.9 million. Financial assistance focuses on areas such as strengthening the rule of law, human rights, education, transport and environmental protection. Serbia participates in the IPA multi-beneficiary programmes including in an IPA crisis response package developed in 2008. The package is fully operational in 2010. Serbia has continued to take part in cross-border cooperation with neighbouring countries across a range of areas such as infrastructure, environmental issues, cultural exchanges, research, job creation, security and crime prevention. The first €50 million instalment under the IPA 2009 budget support initiative was disbursed in December 2009. The purpose of the budgetary support is to ease the social and economic consequences of the current economic downturn in Serbia, and help Serbia to pursue the pace of EU integration-related reforms. An Agreement on Macro Financial Assistance was signed in July 2010 between the EU and Serbia.

Concerning EU programmes, the EU has co-financed Serbia's participation in the Seventh Research Framework Programme, the Culture, Fiscals 2013, Customs 2013 Programmes as well as the Programme for Employment and Social Solidarity (PROGRESS).

2. POLITICAL CRITERIA

This section examines progress made by Serbia towards meeting the Copenhagen criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and compliance with international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia (ICTY).

2.1. Democracy and the rule of law

Constitution

There has been some progress in implementing the November 2006 Constitution, which is a key priority of the European Partnership. In November 2009 the Serbian parliament adopted a Decision endorsing the draft Statute of Vojvodina, and the law determining the competencies of Vojvodina. The Statute was proclaimed in the

Provincial Assembly of Vojvodina in December 2009 and came into force in January 2010. However, as regards Vojvodina, the laws on public property and on its own resources required by the Constitution have not yet been adopted. This impedes the effective exercise of the new competencies.

Overall, implementation of the new constitutional framework is well advanced. However, the laws regulating public property and Vojvodina's own resources are still to be adopted.

Parliament

In February 2010, parliament adopted the Law on the National Assembly, required by the Constitution. The law establishes parliamentary budgetary autonomy through a separate budget as opposed to the previous practice of government-decided allocations. It also provides for procedural innovations, in particular the establishment of a parliamentary collegium which formalises the earlier *ad hoc* practice of consultations between the Speaker and the heads of political groups in the parliament. New parliamentary rules of procedure were also adopted.

The new rules of procedure consolidate the existing instruments of control over the executive and further clarify the legislative procedures. However, some provisions related to parliament's relations with other state bodies and institutions have been criticised by the Ombudsman and by the Commissioner for Free Access to Public Information as an attempt to interfere on the functioning of the independent regulatory bodies.

The current legislature has continued to be active in adopting legislation. However, the quality of the legislative output has been affected by the practice of lawmaking by urgent procedure. This continued to be used frequently and for major systemic pieces of legislation. Public consultation on content and impact of draft laws has remained insufficient.

The new rules of procedure provide for a reduction of the number of standing parliamentary committees from 30 to 19. However, this provision remains to enter into force for the next legislature. The functioning of the committees remains largely reactive and their effectiveness varies significantly. There is a lack of adequate expert and support staff to assist the committees. Parliament has continued with regular hearings of the government. However these remain formalistic rather than substantive in nature. Inflammatory and offensive language has continued, with sanctions being applied in some cases.

The electoral framework legislation has been partially revised. Parliament adopted the law on the single voter register in December 2009. This legislation regulates in a coherent and consolidated way the establishment and management of the permanent central register of voters, including Serbian citizens residing abroad. The register will take the form of an electronic database managed by the Ministry for Public Administration and Local Self- Government. However, the Law on the State Electoral Commission has not been adopted. Constitutional and legal provisions which do not meet European standards remain in force. These relate to political party control over the mandates of the MPs and parties' ability to arbitrarily appoint MPs instead of following the order of candidates from electoral lists.

Overall, further steps were taken to improve the functioning of parliament through the adoption of a new Law on the National Assembly and new rules of procedure.

However, efforts are necessary to further improve the quality of the legislative output. The electoral framework legislation needs to be brought fully into line with European standards.

Government

The government remained stable and continued to demonstrate a high degree of consensus on EU integration as a strategic priority. The government continued to implement provisions of the Interim Agreement of the SAA in line with the agreed liberalisation schedule and took additional measures in the areas of competition and state aid. The European Integration Council, chaired by the Prime Minister and involving civil society representatives, met once, giving its full political support to government European integration efforts.

The government adopted a Decision, in January 2010, activating the Coordinating Body for accession to the EU chaired by the Prime Minister. The Coordinating Body met once during the reporting period. The Serbian European Integration Office has continued to function well and was exempted from the overall cuts in numbers of employees.

The government has been drafting a number of bills aimed at further alignment of national legislation with European standards. However, the quality of the legislation was uneven and continued to be affected by inadequate impact assessment of proposed acts. The government lacks coherent rules and practices for public consultations. Effective implementation and monitoring of the adopted legislation still need to be improved.

There was no public condemnation from the government in reaction to repeated threats against the State Secretary for Human and Minority Rights for his defence of rights of vulnerable groups.

Ministries abided to a varying degree by the opinions and recommendations of independent regulatory bodies, including the State Audit Institution.

As regards local self-government, decentralisation has continued and a number of competencies have been transferred to the local level. However, this was done without ensuring sufficient capacity and resources at local level. There has been insufficient consultation with local authorities in the decision-making process relating to the development of new legislation or amendments to existing laws that have implications at the local level. The law required by the Constitution to restore public property at municipal level has not been adopted. In April 2010, the Constitutional Court ruled that the provisions of the law on local elections establishing blank resignations and allowing political parties to arbitrarily allocate seats are not in line with the Constitution.

Overall, the government continued to be stable, and the consensus on strategic priorities, including EU integration, was maintained. However, both the preparation and implementation of new legislation need to become more effective.

Public administration

There has been some progress in public administration reform.

The law on administrative disputes, which regulates judicial scrutiny of administrative acts and the work of the Administrative Court, was adopted in December 2009. As part of an arrangement with the International Monetary Fund (IMF) to reduce the fiscal deficit, a law was adopted on reducing the number of employees in the administration by 10%. The overall level of staff effectively employed in the field of European integration has been maintained. Changes to the law

on civil servants from December 2009 introduced quarterly appraisal of the work of civil servants instead of an annual appraisal. The Law on Ratification of the Agreement Establishing the Regional School of Public Administration was adopted in June 2010.

However, the legislative framework remains incomplete. The law on administrative procedures has not been adopted yet. The law on administrative disputes is not fully in line with European standards. Further efforts are needed to introduce a merit-based career system and effective human resources management. The capacity of the public administration in certain sectors is weak and coordination is not fully ensured. In view of an intensification of the EU integration process in the coming years, Serbia needs to further strengthen capacity on EU integration, in particular the central coordination between the General Secretariat, the Serbian EU Integration Office and in Ministry of Finance.

The various Ombudsman's Offices at both state and provincial level were very active. They reported an increase in the numbers of complaints, showing increased trust in the institution. In addition to dealing with individual cases, they proposed amendments to legislation, issued a number of opinions and recommendations, visited various institutions and organised activities aimed at promoting and protecting human and minority rights. Cooperation with local ombudsman's offices was also enhanced. In June 2010, the state Ombudsman opened a local field office in Southern Serbia. In Vojvodina, the Ombudsman and his two deputies were elected but the Vojvodina Ombudsman passed away in July and a new one was appointed in October 2010.

The Office of the Commissioner for Information of Public Importance and Personal Data Protection has stepped up its activities. Changes to the law on free access to information of public importance as of May 2010 introduced a mechanism for the enforcement of the Commissioner's decisions. They empower the Commissioner to impose fines on persons responsible for breaches of the law. However, the office still lacks permanent premises and suffers from staff shortages.

Concerning other independent regulatory institutions, the State Audit Institution has expanded in terms of both staff and office space. However, it has only performed a partial audit of the 2008 state accounts. The Competition Protection Commission, the Public Procurement Office and the Commission for the Protection of Bidders' Rights had difficulties in carrying out their duties owing to lack of resources and, in some cases, delays in the implementation of the relevant legislation.

Overall, the capacity of the public administration is good but reform in this area is advancing at a slow and uneven pace. Further improvement of the legislative framework and a stronger commitment to respect the mandate of independent regulatory bodies and provide them with adequate resources are needed.

Civilian oversight of the security forces

Parliament adopted six new legal acts in October 2009, completing the legislative framework for defence reform. These comprised the national security strategy, the defence strategy, the law regulating the military intelligence and military security agencies, the law on the military, labour and material obligations, the law on civilian service and the law on the use of the army and other defence forces in multinational operations outside Serbia. The law on civilian service replaced the previous government decree and regulated the constitutionally guaranteed right to conscientious objection. This also fulfilled one of Serbia's obligations under its Council of Europe

post-accession commitments. A section for cooperation with the EU was established in 2010 as part of the overall restructuring of the Ministry of Defence.

Parliamentary oversight of the security forces remains weak, however, as the legislature is not proactive and lacks capacity. The head of the parliamentary committee for security and defence was dismissed in March 2010 on abuse of office grounds. The committee has limited resources to deal with its wide scope of work, which covers internal affairs, defence and security.

The State Ombudsman carried out the first inspection of the state security agency in February 2010 to review the legality of measures with implications for human and minority rights. The overall assessment was that, in performing its functions that have an impact on human and minority rights, the agency abides by the legal order.

Overall, there was further progress towards completing the legislation providing for civilian oversight of security forces and implementing constitutionally guaranteed rights. However, civilian oversight, including the work of the relevant parliamentary committee, needs to be reinforced.

Judicial system

Serbia made little progress towards further bringing its judicial system into line with European standards, which is a key priority of the European Partnership.

The Law on the Judicial Academy was adopted in December 2009 and the Academy established as the body responsible for the vocational training and continued professional development of judges, prosecutors and judicial staff. New Court Rules of Procedure were adopted in December 2009. They regulate the work of courts and the internal organisation of the new court network. A new Law on Expert Witnesses was adopted in June 2010.

The reappointment procedure for all judges and prosecutors was carried out under the lead of the Ministry of Justice in the second half of 2009 and took effect as of January 2010. The overall number of judges and prosecutors was reduced by 20–25%. More than 800 judges were not reappointed, out of previously around 3.000 judges and misdemeanour judges.

A new structure of the court network was implemented as of January 2010. The 138 municipal courts were reorganised into 34 basic courts. In addition, there are 26 higher courts, 4 courts of appeal and the Supreme Court of Cassation. The organisation of the prosecution service was changed accordingly. The service was divided into basic, higher and appellate prosecution offices. Special departments exist for war crimes and for organised crime. The new Administrative Court became operational in January 2010. In July 2010, the appointment of members of the Constitutional Court was completed.

However, major aspects of the recent reforms are a matter of serious concern. The reappointment procedure for judges and prosecutors was carried out in a non-transparent way, putting at risk the principle of the independence of the judiciary. The bodies responsible for this exercise, the High Judicial Council and the State Prosecutorial Council, acted in a transitory composition, which neglected adequate representation of the profession and created a high risk of political influence. In addition, not all members had been appointed to either of the councils. Objective criteria for reappointment, which had been developed in close cooperation with the Council of Europe's Venice Commission, were not applied. Judges and prosecutors

were not heard during the procedure and did not receive adequate explanations for the decisions. First-time candidates (876 judges and 88 deputy prosecutors) were appointed without conducting interviews or applying merit-based criteria. The overall number of judges and prosecutors was not calculated in a reliable way and adjusted several times after the re- appointment had already been carried out. The right to appeal for non re-appointed judges was limited to recourse to the Constitutional Court, which does not have the capacity to fully review the decisions. Out of more than 1,500 appeals, only one case has been dealt with. In this case, the Constitutional Court, for procedural reasons, annulled the initial decision.

The High Judicial Council and the State Prosecutorial Council have not yet been elected in their permanent composition. New court presidents have not been appointed. The respective legal deadlines expired in July and March 2010. The planned new Criminal Procedure Code, the new Civil Procedure Code, the law on enforcement of judgments and the law on notaries have not been adopted.

The large backlog of pending cases remains a matter of concern, in particular as the recent reforms impacted negatively on the overall efficiency of the judicial system. The reduction of the number of judges and prosecutors was not based on a proper needs assessment. Under the new court system, courts which were closed continue to function as court units, in which civil cases are heard. This means that judges and judicial staff have to travel between courts and court units requiring significant resources and creating security concerns. A uniform system for organising the work of the court seats and the new court units has not been established. Case registration and the IT system connecting all courts and court units and allowing access to files are not fully operational.

The Constitutional court faces a backlog of some 7,000 pending cases, including the appeals filed by judges and prosecutors who have not been reappointed. The setting up of the Judicial Academy still is at an early stage and vocational trainings have not yet started.

Progress on domestic cases of war crimes continued to be slow. There are 20 ongoing court cases and investigations against 103 individuals.

Overall, Serbia's judicial system only partially meets its priorities. There are serious concerns over the way recent reforms were implemented, in particular the reappointment of judges and prosecutors.

Anti-corruption policy

Serbia made some progress in the fight against corruption. Implementation of the outstanding GRECO recommendations of June 2006 continued. Amendments to the Law on Civil Servants and the Law on Free Access to Information introduced the obligation for civil servants to report corruption and provided a certain protection from retaliatory measures. Also the access to information was improved. As regards the processing of corruption cases, there is good cooperation between the police and the state prosecution.

The new Anti-Corruption Agency started its work in January 2010. It is competent for preventive measures and the supervision of conflict of interest cases and funding of political parties. It received asset declarations from around 16,000 of the 18,000 officials who were required to submit such a declaration. The Agency maintains an asset register on its website. In March 2010, the Agency issued rules on the content of

records and financial reports of political parties. It maintained the earlier deadline of 15 April for parties to submit their annual reports and all parliamentary parties abided by the deadline.

The Anti-Corruption Council continued its advisory activities and raised public awareness of several high-profile cases.

However, implementation of the Action Plan was slow. There has been little progress in the investigation and prosecution of corruption cases, with the number of final convictions remaining low, in particular in high level cases.

The Anti-Corruption Agency is not yet fully staffed and lacks permanent premises and technical equipment. It still has to establish a track record of its capability to efficiently assess the correctness and completeness of asset declarations of public officials. In this respect, the Agency has little competencies on its own and remains dependent on the cooperation of other state bodies and the effectiveness of law enforcement authorities.

New legislation rendering the financing of political parties more transparent and providing for better control of expenditure has not yet been adopted. The existing legislation has significant shortcomings and does not provide the Anti-Corruption Agency with sufficient investigative and sanctioning powers to monitor party funding effectively, in particular during election campaigns.

Following efforts by the Anti-Corruption Agency to enforce the ban for officials to hold more than one public function, the relevant law was changed in July 2010 to partly suspend this ban. This raises concerns over the respect for decisions of the Agency and political will to support its work. The constitutionality of this suspension is subject to a case in the Constitutional Court.

Public procurement, privatisation procedures and public expenditure continue to be areas of serious concern, as independent supervision is not yet ensured. The setting up of the State Audit Institution remains slow and the first audit report produced covered only a small part of the state budget. Effective legal protection of whistleblowers is still missing, despite the newly introduced reporting obligation for civil servants. Protection is only applicable in cases where whistleblowers disclose information that is not classified. There is a lack of practical guidance on protective measures. Corruption within the police remains a matter of concern.

Overall, the institutional framework to fight corruption is in place with the Anti-Corruption Agency starting its work in January 2010. However, corruption remains prevalent in many areas and continues to be a serious problem. The legislative framework still shows shortcomings, in particular with regard to supervision of political party funding and the protection of whistleblowers. The Anti-Corruption Agency needs to be strengthened. Implementation of existing laws needs to be improved. Further efforts are needed to better process corruption cases, from investigation to final convictions.

2.2. Human rights and the protection of minorities

Observance of international human rights law

Concerning the *ratification of human rights instruments*, Serbia has signed and ratified all significant international instruments.

The *European Court of Human Rights (ECtHR)* delivered since October 2009 45 judgments finding that Serbia had violated the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR). Over the same period, a total of 1364 new applications were made to the ECtHR. The largest number of judgments refers to the violation of the right to a fair trial due to the length of the procedure. As of September 2010, there were over 3,000 eligible cases pending before the ECtHR regarding Serbia.

There has been some progress in the *promotion and enforcement of human rights*. Several state bodies contributed to awareness-raising on human rights by organising various activities addressing issues relating to different human and minority rights. The Judicial Academy provided regular training on human rights standards for relevant professionals such as police officers, judges and prosecutors. However, the enforcement of the relevant ratified international agreements needs to improve. The State Secretary for human rights resigned in September 2010.

Overall, the legal framework for human rights protection is in place and generally respected. However, further efforts in education on international human rights standards and their implementation are needed.

Civil and political rights

There has been little progress in further improving the *prevention of torture, ill-treatment and the fight against impunity*. Police detention procedures are still of great concern, as well as the lack of internal and independent external oversight mechanism.

Additional efforts aimed at preventing any further cases of torture and ill-treatment are needed. The Deputy Ombudsman in charge of the protection of persons deprived of their liberty is operational but still not fully effective.

The obligation to establish a National Preventive Mechanism in accordance with the Optional Protocol to the Convention against torture and other cruel, inhuman and degrading treatment or punishment, has not yet been fulfilled.

The parliamentary commission provided for by the law on enforcement of criminal sanctions of 2006 has not yet been set up.

Access to justice is generally ensured, but there has been no further progress as legislation and funding for a more effective system of free legal aid is still missing.

Serbia made little progress in the reform of its *prison system*. A strategy to prevent overcrowding was adopted in July 2010. In order to address drug abuse, five ‘drug-free’ units were established. Efforts to provide training and adequate medical services to prisoners continued. However, poor conditions in prisons and in police detention facilities are of concern. Prisons remain significantly overcrowded with a prison population of over 11,000 for a capacity of 6,000 persons. This led to several protests and riots in prisons in 2010. Decisive action is needed to develop an efficient probation system and to introduce alternative sanctions on a broader scale. The availability and use of illicit drugs by prisoners and shortcomings in the provision of medical services remain of concern.

The general constitutional and legal framework for the protection of *freedom of expression* is in place and generally respected. However, incidents involving death threats, attacks and hate speech, in particular against journalists, have continued. The response of the police and prosecution has improved. However, further efforts are needed to ensure adequate follow-up by the courts. There is still no progress in the

investigation of the murders of journalists which took place during the 1990s and in 2001, and of the attempted murder of a journalist in 2007.

The legal framework generally allows the *media* to operate freely. In July 2010, acting on motions by the State Ombudsman and other organisations, the Constitutional Court ruled as unconstitutional several amendments to the Public Information Law, adopted in August 2009. The Court struck down the provision restricting the right of domestic legal persons to establish a public outlet, as well as the provisions which introduced heavy fines and other penalties.

Freedom of assembly is guaranteed by the Constitution and in general respected. Police response to acts of violence has improved. The acting state prosecutor filed a motion to the Ministry of the Interior to prohibit organised gatherings of extremist organisations of football fans following the murder of a French citizen in September 2009. The police took additional measures to prevent sport-related incidents and some matches were closed to the public. The police also prevented a rally by members and supporters of a neo-Nazi group in December 2009. The Belgrade Pride Parade took place in October 2010 thus representing a step forward in promoting constitutionally guaranteed fundamental rights. However, violent clashes occurred between the police and rioters protesting against the Parade. Rioters also targeted state institutions as well as ruling parties' premises. The response of the police was adequate and a large number of perpetrators were arrested.

Freedom of association is guaranteed by the Constitution and respected. The process of re- registration of existing political organisations and registration of new ones was completed in January 2010. 72 parties were registered, including 42 parties representing national minorities. 501 organisations that failed to abide by the new criteria were deleted from the register. Motions were filed by the state prosecution for the banning of two extreme right- wing organisations. The Constitutional Court started to process a motion filed by the acting state prosecutor in October 2009 to ban 14 sports fans organisations. This was on the grounds that their activities sought to violently overthrowing the constitutional order, violated human and minority rights and were an incitement to racial, ethnic and religious hatred.

Civil society organisations continued to be active in the social, economic and political life of Serbia and remain important in promoting democratic values. The Office for Cooperation with Civil Society was established by the government in April 2010. However, the Office is still not operational and cooperation between state authorities and civil society is still uneven. Legislation implementing the law on citizen's associations to prevent possible abuses regarding financing from the state budget is not yet adopted. Human rights defenders continued to be subject to harassment, verbal threats and physical attacks.

Constitutional guarantees providing for *freedom of religion* are in place and generally respected. In practice, the inter-faith situation has improved and fewer religiously motivated incidents were recorded. In February 2010, the long outstanding case concerning Jehovah's witnesses was settled and this organisation was registered. However, the 2009 annual report of the State Ombudsman identified an insufficient level of transparency and consistency in the registration process as the main obstacle to some smaller religious groups exercising their rights. Several cases, including the outstanding case of the Montenegrin Orthodox Church, are pending before the courts.

Overall, the constitutional framework providing for respect for civil and political rights is largely in place. However, full implementation and enforcement remain to be ensured. Relevant legislation remains to be brought more closely into line with European standards. Further action by the authorities in combating violence of all types is needed.

Economic and social rights

There has been some progress on economic and social rights.

Concerning *women's rights*, the law on gender equality, aimed at improving the position of women, was adopted in December 2009. Different projects and activities were carried out by Vojvodina provincial bodies and NGOs with a view to implementing Vojvodina's strategy for protection against domestic violence and other forms of gender-based violence. However, the action plan for the implementation of the National Strategy to improve the position of women and promote gender equality is still pending. In practice, women remain discriminated against, particularly in the labour market. Those facing the most discrimination are disabled women, single mothers, older women and those living in rural areas. There has been an increase in domestic violence. This situation remains insufficiently reported and the institutions responsible often fail to respond adequately to gender-based violence. The rules on legal protection of women during court proceedings are not sufficiently applied in practice.

In relation to *children's rights* there has been progress in strengthening the system for protecting children suffering from abuse and negligence. In May, the Ministry of Education adopted rules of procedure on violence in educational institutions aimed at replacing the separate protocols existing signed on this issue with relevant ministries. Various training programmes were implemented. Some aim at police officers, others at raising awareness among pupils in elementary schools. Two new shelters for street children were opened in Novi Sad and Nis. The parliamentary working group for children's rights, established last year with the aim of enhancing the role of parliament in improving the position of children, continues its activities. It regularly assesses all legislation, reports and other documents that affect children's rights.

However, in practice, there is a lack of follow up by state bodies of the requests for protection of pupils' rights in educational institutions. The rate of school attendance, particularly by Roma girls, is still of concern. There has been some progress towards inclusive education, but implementing legislation remains to be adopted. Amendments to the Family Law prohibiting corporal punishment are still pending. The revision of the national action plan for children, to include the protection of children from pornography and other forms of exploitation, is still awaited. Violence against children continues to be of great concern. Different measures available for the protection of children during court proceedings are not sufficiently implemented.

As regards *socially vulnerable persons and persons with disabilities*, the law on vocational rehabilitation and employment of disabled persons entered into force in May 2010. The process of de-institutionalisation for parentless children has continued. Initiatives have been taken to prevent institutionalisation, for example by promoting day care centres. However, both capacity and resources need to be strengthened.

In the area of *labour rights and trade unions*, the general agreement with the trade unions and the employers' associations continues to be suspended due to the economic crisis. In the private sector, the number of employees not receiving full wages or not

having social contributions regularly paid has been increasing. Social dialogue remains weak and consultation of social partners irregular. The Economic and Social Council is still not playing an active role in strengthening the social dialogue and remains rather marginalised, also including in the consultation process for legislation falling under its remit. Local councils still exist only in a small number of municipalities, and their role remains marginal.

The legislative framework prohibiting any kind of *discrimination* and establishing a mechanism for protection against discrimination is in place. The equality protection commissioner mandated to ensure full implementation of the law on the prohibition of discrimination was elected by parliament in May 2010 but is not fully operational yet. In practice, discrimination continues, particularly against the Roma, the LGBT community, women, national minorities, and persons with disabilities. These groups, but also human rights defenders and journalists, are exposed to hate speech and threats that are rarely followed up by the authorities.

With regard to *property rights*, the implementation of the law regulating private ownership of urban construction land adopted in September 2009 has been slow and inefficient. There has been little conversion of the right of usage into ownership of construction land. The issue of ownership over land acquired through the privatisation process has not been solved. The legal situation in this respect remains unclear. The announced legislation on restitution has not yet been adopted.

Overall, the legal framework for the protection of social and economic rights is broadly in place. However, the protection of women and children against all forms of violence needs to be ensured. Further measures fighting all kinds of discrimination remain to be introduced. Further efforts are required to clarify property rights.

Respect for and protection of minorities, cultural rights

Good progress has been made in the protection of minorities. The first direct elections for the National Minority Councils were held on 6 June 2010. The Councils have to be consulted on legislation relating to minority languages, education, culture and media. Councils were elected for 19 national minorities. Four national minorities formed and elected their councils for the first time. Both the number of registered voters and the turnout were relatively high. Elections were assessed by the OSCE as meeting international standards. Some irregularities and difficulties were reported, including during the registration process, although these did not significantly affect the overall results of the elections. The Councils are yet to become operational. Difficulties were experienced in the formation of the Bosniak National Minority Council which remains to be formally constituted.

In October 2009, the Republican Council for National Minorities held a session, due to a change in its composition. However, it has only met once. Information and education in minority languages remains to be improved and the relevant legal framework clarified. This is particularly the case for the Bosniak, Bulgarian, Bunjevci and Vlach minorities.

The inter-ethnic situation in *Vojvodina* continued to improve. The implementation of the new Statute and of the law on determination of competencies is ongoing. The adoption of new laws on public property and on provincial own resources is still pending. The overall number of inter-ethnic incidents has on the whole been decreasing. The provincial authorities continued organising regional youth camps to

promote tolerance. Regular cooperation and coordination has been established with the state authorities, in particular the Ministry of the Interior, and joint visits to vulnerable communities have been organised. Investigations by the police into inter-ethnic incidents has improved, as well as police sensitivity in treating them as ethnically motivated acts as opposed to the previous practice of classifying them as ordinary incidents. Their legal follow up has however been insufficient. The prosecution continued to dismiss them as criminal acts and referred them instead to misdemeanour courts. The 2009 annual report of the Provincial Ombudsman noted that out of 730 complaints received, 25 (3.42%) related to rights of national minorities.

The situation in *southern Serbia* was on the whole stable but tense. In October 2009, bilingual branches of the faculties of law and of economics were opened in Medvedja. The establishment of the task force intended to follow up the feasibility study on the development of higher education in Presevo and Bujanovac has been stalled. No sustainable solution has been found yet to the issue of the recognition of diplomas issued by the University of Pristina. The Albanian National Minority Council was established following direct elections. Tensions between Albanian political parties preceded these elections. The Council is however not yet fully active, since the parties have not been able to agree on distribution of posts. Some parties continue with the boycott of the council. An agreement was signed on the inclusion of Serbs in the local government in Bujanovac. A decision was made on opening additional vacancies in State institutions, which will allow for integration of Albanians in public administration. This decision remains to be implemented.

Clashes both between ethnic groups and within the Muslim community in *Sandžak* have continued. Tensions persist in particular between the two existing Islamic organisations. In September 2010, incidents occurred in Novi Pazar during a protest over a land dispute between the local Islamic organisation and the municipal authorities. The Bosniak National Minority Council, which members have been elected in June 2010, is not yet registered and fully functional due to a number of open issues related to its constitution.

There are approximately 83,000 *refugees* and 205,000 *internally displaced persons* (IDPs) in Serbia, according to the United Nations High Commissioner for Refugees. The number of collective centres has decreased. Changes were made to the law on refugees enabling refugees to buy out their apartments when these had been built from donations. The programme to support municipalities that prepared local action plans for the improvement of the status of refugees and IDPs who opt for local integration has continued. An additional 81 municipalities have received donations for the implementation of their plans. However, the situation of refugees and IDPs remains very difficult. Further improvement is needed to address the housing situation. Many refugees and IDPs are unemployed and live in poverty. The national strategy on refugees needs to be revised.

There has been some improvement in the position of the *Roma* population. Some affirmative action measures have been undertaken in the education sector with the goal of enhancing the status of Roma. Actions aimed at raising public awareness for Roma inclusion have been conducted on different occasions such as international Roma day. Action plans for the improvement of the status of Roma have been adopted in a number of municipalities. An additional 15 health mediators and 179 pedagogic assistants have been employed during reporting period.

However, the Roma minority continues to face discrimination. Most Roma people live in extreme poverty and illegal settlements. Problems with access to personal documents persist for Roma people living in illegal settlements without a registered address or who are homeless. A simplified procedure for recognition of legal subjectivity and subsequent registration in citizens' registries has not been introduced yet. This adversely affects the exercise of their social and economic rights. Relocation of illegal Roma settlements is often conducted inadequately, resulting in breaches of basic human rights. The Roma population, especially Roma women, are discriminated in the labour market and only 5% of the Roma population have a permanent job. Roma women and children are frequently subject to exploitation and family violence, which often passes unreported.

Overall, the legal framework on the respect for and protection of minorities in Serbia is in place. The National Minority Council elections were on the whole successfully organised. Some improvements were recorded towards addressing the issue of the status of refugees and IDPs. However, the National Minority Councils are yet to become operational. The number of IDPs remains high and their situation critical. The majority of the Roma population lives in extreme poverty and continues to face discrimination in particular as regards access to education, social protection, health care, employment and adequate housing.

2.3. Regional issues and international obligations

There are no outstanding issues in connection with Serbia's compliance with the *Dayton/Paris peace agreement*. Serbia has demonstrated a constructive approach in connection with developments in Bosnia and Herzegovina.

The Prosecutor of the *International Criminal Tribunal for the former Yugoslavia (ICTY)* noted in his latest report to the UN Security Council that Serbia's responses to the Office of the Prosecutor's requests for access to documents, archives and witnesses have been timely and adequate and that no requests remain outstanding. He also stressed the professionalism and commitment of the operational services working on the search for fugitives. The report however recommended that Serbia review the strategies employed to apprehend the remaining fugitives, Ratko Mladić and Goran Hadžić. The need for an increase in Serbia's operational capacities and the adoption of a more rigorous and multi-disciplinary approach to arresting the fugitives was also highlighted by the ICTY report. Full cooperation with the ICTY remains an essential condition for membership of the EU, in line with the Council conclusions of 25 October 2010.

The status of the former State Union Law on the freezing of assets of ICTY fugitives, which was adopted in 2006, has not yet been clarified. In practice, the freezing of assets has been implemented on the basis of a decision made in 2005 by the war crimes chamber of the Belgrade District Court. The legal basis for this decision was the Criminal Procedure Code.

Good cooperation with EULEX has been established in relation to *war crimes* in Kosovo.³ The investigative capacity of the police in war crimes was hampered by the lack of expert staff such as military analysts and intelligence officers. This adversely

³ Under UNSCR 1244/99.

affected the quality of the work of relevant services. Problems of extradition and recognition of sentences with some countries of the region continued to exist.

Serbia's policy regarding the *International Criminal Court* continues to be in line with the

EU's guiding principles and the EU Common Positions on the integrity of the Rome Statute.

The Serbian government has continued to contest Kosovo's declaration of independence. The case before the International Court of Justice (ICJ), initiated by Serbia, came to an end in July 2010 with the issuing of an advisory opinion. The Court concluded that the declaration of independence of Kosovo adopted on 17 February 2008 did not violate general international law and the UN Security Council Resolution 1244 (1999). The Serbian parliament consequently adopted by an overwhelming majority a decision reiterating Belgrade's policy of non-recognition of Kosovo and supporting the government's initiative to have the issue referred to the UN General Assembly. Serbia has also maintained its opposition to the participation of Kosovo in regional meetings and initiatives other than under the UNMIK umbrella.

The UN General Assembly adopted on 9 September a joint resolution tabled by Serbia and co-sponsored by the EU as a follow-up to the ICJ advisory opinion on Kosovo. The resolution acknowledged the content of the ICJ advisory opinion and welcomed the readiness of the European Union to facilitate a process of dialogue between the parties; the process of dialogue in itself would be a factor for peace, security and stability in the region, and that dialogue would be to promote cooperation, achieve progress on the path to the European Union and improve the lives of the people.

In Kosovo, Serbia maintained parallel structures and organised parallel municipal by-elections. Serbia also discouraged Serb participation in the municipal elections organised by the Kosovo authorities in November 2009. Serbian officials visiting Kosovo continued to give prior notification to UNMIK and EULEX for the purpose of obtaining security escorts. Serbia failed to play a constructive role in the return of Kosovo Serb and Kosovo Albanian judges and prosecutors back to Mitrovica District Court, which remains staffed only by EULEX personnel. The Serbian government protested against the disconnection and dismantling of the Serbian mobile phone transmitters in Kosovo which had operated without a licence.

The policy on Kosovo has also affected Serbia's bilateral relations with its neighbours. The Serbian government still does not accept the Kosovo customs stamps notified by UNMIK, blocking Kosovo's exports to Serbia and hampering transit of Kosovo goods for export to the EU by EU hauliers.

In August 2010, a total of 14,631 persons were still missing as a result of the conflicts in the region. Of these, 10,402 cases were related to the conflict in Bosnia and Herzegovina; 2,392 to the conflict in Croatia and 1,837 to the conflict in Kosovo according to figures provided by the Red Cross (ICRC). The process for solving these cases has been very slow. Solving these remaining cases within a reasonable time limit is essential for the reconciliation process. The working group set up between Belgrade and Pristina met three times under ICRC auspices, but progress on resolving cases has slowed because of the lack of information on gravesite locations. In 2010, the Serbian Commission for Missing Persons received for the first time copies of documents from the archives of the Serbian Ministry of Defence in response to detailed requests for information submitted by the ICRC on persons who went missing in Kosovo in 1998

and 1999. The Serbian Police also provided the ICRC-chaired working group with new information from its own archives. The Belgrade-Pristina working group met in May 2010 and discussed a newly discovered location on the territory of Serbia that is suspected of being a mass grave. The Serbian war crimes prosecution proposed opening an investigation into this matter. The Commission on Missing Persons – a bilateral forum set-up between Belgrade and Zagreb to deal with the issue – meets only irregularly.

Fresh impetus was given to the *Sarajevo declaration process* following the Ministerial meeting held in Belgrade in March 2010, at Serbia's initiative. This brought together Bosnia and Herzegovina, Croatia, Montenegro and Serbia, all of which agreed to work together in order to clarify refugee statistics. The countries also committed themselves to work towards solutions to a number of outstanding issues by the end of the year. However, there are a number of difficult issues, in particular that of occupancy and tenancy rights, which still need to be tackled with the objective of finding mutually acceptable solutions. The Sarajevo Process was initially launched through the Sarajevo Declaration of January 31, 2005. Bosnia and Herzegovina, Croatia, Montenegro and Serbia cooperate within this process to find solutions for refugees and other persons who were displaced as a result of the armed conflicts in ex-Yugoslavia between 1991 and 1995.

Regional cooperation and good neighbourly relations form an essential part of Serbia's process of moving towards the European Union. The Serbian government has declared regional cooperation one of its priorities. Serbia continued to be an active participant in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Area Agreement (CEFTA), the Energy Community Treaty (ECT) and the European Common Aviation Area Agreement (ECAA). Serbia participated in the technical negotiations for the Transport Community Treaty, the signing of which has been delayed over differing positions on Kosovo. Serbia held the Chairmanship of CEFTA in 2010. Serbia has been actively participating in the preparations for the forthcoming Danube Strategy. Serbia participated in the EU-Western Balkans High-Level Meeting that took place in June 2010 in Sarajevo. However, regional cooperation was affected by a lack of agreement between Serbia and Kosovo on the latter's participation in various regional meetings. An acceptable and sustainable solution for the participation of both Serbia and Kosovo in regional fora needs to be agreed as soon as possible. This is essential for inclusive and functioning regional cooperation.

Trilateral meetings took place in 2009 between Turkey, Serbia and Bosnia and Herzegovina. In April 2010, the heads of state of Serbia and Turkey, and the Chair of the Presidency of Bosnia and Herzegovina signed a Declaration in Istanbul endorsing the territorial integrity, sovereignty and legal personality of Bosnia and Herzegovina.

President Tadić, together with the Chair of the Presidency of Bosnia and Herzegovina and the Presidents of Croatia and Montenegro, attended the May 2010 summit of the Igman Initiative in Sarajevo. This year marked the 10th anniversary of this initiative involving more than 140 NGOs from the region which is aimed at promoting and facilitating local and regional cooperation.

Bilateral relations with other enlargement countries developed further. Judicial cooperation in penal matters has improved between Bosnia and Herzegovina, Croatia and Serbia. Serbia signed an agreement with Bosnia and Herzegovina in February on

mutual recognition and enforcement of court rulings in criminal matters. The new agreements introduce the possibility of forced transfers of convicted persons to serve imprisonment. The convicted person could, according to the previous agreements, not be transferred from a country where he had a citizenship without giving his consent. The new bilateral agreements put an end to this possibility to escape imprisonment, in particular for persons with dual nationality.

There was good progress in relations with *Albania*. In March 2010, the Albanian Minister of Foreign Affairs visited Belgrade for the first visit of this kind in five years. On this occasion, an agreement on cooperation in fighting organised crime, international drug trafficking and international terrorism was signed. As a follow-up to this visit, in April 2010 Albania abolished visas for Serbian citizens.

Relations with *Bosnia and Herzegovina* have improved. The Serbian parliament adopted in March 2010 a Declaration condemning the crime in Srebrenica and referring to the International Court of Justice ruling on Srebrenica. The preamble to this Declaration also restates the commitment to respect the territorial integrity and sovereignty of Bosnia and Herzegovina. President Tadić attended in July 2010 the Srebrenica commemoration. The Speaker of the Bosnia and Herzegovina House of Peoples met the President of Serbia in Belgrade in June. A new ambassador from Bosnia and Herzegovina was accredited after the post had been vacant for three years. In March 2010 the Serbian parliament ratified the agreement on determination of border crossings with Bosnia and Herzegovina. The Inter-State Cooperation Council for the border between the two countries met in May 2010 for the first time after four years. The Economic Cooperation Agreement between Bosnia and Herzegovina and Serbia entered into force in April. Amendments to the agreement on mutual legal assistance in criminal matters were signed in February 2010. A bilateral agreement on police cooperation in areas such as organised crime and terrorism was signed, as was an agreement on culture and sport. However, border demarcation remains an open issue. Republika Srpska continues to cooperate closely with Serbia on the basis of the Special Parallel Relations Agreement and the related Protocol on Cooperation.

Relations with *Croatia* have gained a fresh impetus. Following the election of President Josipović in Croatia, the two Presidents and other senior officials met several times, both bilaterally and in the margins of regional and international events. A Serbian parliamentary delegation visited Zagreb in February 2010 and a return visit was made by the Croatian parliament in June 2010. The Croatian President visited Serbia in July 2010. The inter-state border commission met in April 2010 for the first time in seven years. A Police Cooperation Agreement entered into force in May 2010. A defence cooperation agreement and an agreement on inland water navigation were signed. An agreement for the extradition of citizens suspected or convicted of serious crimes was signed in June 2010. However, outstanding issues remain. In December 2009, the Serbian government lodged a counter-suit against Croatia in the ICJ on the grounds of genocide allegations. The issue of missing persons is still problematic.

Relations with the *former Yugoslav Republic of Macedonia* are overall good. The President of Serbia visited Skopje in June 2010. The Serbian authorities maintained their policy of non- recognition of the border demarcation agreement between the former Yugoslav Republic of Macedonia and Kosovo. In September the countries signed a bilateral agreement to facilitate traffic over the local border crossing points. Unresolved issues concerning relations between the Orthodox churches in the two countries remain.

There were mixed trends in relations with *Montenegro*. The Serbian President visited Montenegro in July 2010. An agreement on cooperation in the military sector was signed by the two Ministers of Defence in April 2010. The Serbian government protested over the establishment of diplomatic relations between Montenegro and Kosovo and temporarily recalled its ambassador from Podgorica in January 2010. The ambassador returned in February 2010. There were also outstanding issues in connection with the finalisation of the distribution of assets and liabilities, citizenship rights, and the fight against organised crime. Agreements on judicial cooperation and extraditions were ratified by Serbia in May 2010, but do not provide for the extradition of own nationals.

There was significant progress in relations with *Turkey*. The new format of regular trilateral meetings at the level of Ministers of Foreign Affairs with Turkey and Bosnia and Herzegovina was launched in 2009 and several meetings took place. The summit of the Presidents of Serbia, Turkey and of the Bosnia and Herzegovina Presidency took place in Istanbul in April 2010. The Turkish Prime Minister visited Serbia in July 2010. The Serbia- Turkey free trade agreement entered into force in September 2010.

Relations with *Romania, Bulgaria and Hungary* are good. In April 2010 the Bulgarian Prime Minister visited Belgrade. The Serbian and Bulgarian Interior Ministers signed an agreement on the establishment of a joint contact centre for police and customs cooperation. High-level meetings with Hungary took place at bilateral level and in the new trilateral format of cooperation with Hungary and Croatia. In June 2010 the Romanian Minister of Foreign Affairs visited Belgrade. The two countries also maintain a high level of cooperation between their police departments.

Overall, Serbia's international obligations are broadly complied with. Despite the active on- going cooperation of Serbia with ICTY, the two remaining fugitives are still at large. Domestic processing of war crimes cases continued. Regional cooperation has improved and Serbia made significant progress in its bilateral relations with other enlargement countries, particularly Croatia and Bosnia and Herzegovina, while continuing to have good relations with neighbouring EU member states. Regional cooperation was affected by a lack of agreement between Serbia and Kosovo on the latter's participation in regional meetings. An acceptable and sustainable solution for the participation of both Serbia and Kosovo in regional fora needs to be agreed as soon as possible. This is essential for inclusive and functioning regional cooperation.

3. ECONOMIC CRITERIA

In examining economic developments in Serbia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

3.1. The existence of a functioning market economy

Economic policy essentials

In January 2010, the government submitted to the European Commission its economic and fiscal programme for the period 2010-12. The programme sets out a revised macroeconomic and fiscal policy framework for the medium term based on the

supplementary budget for 2009 and the 2010 budget that were both adopted by parliament in December 2009. *Overall*, the programme is an appropriate medium-term policy document, presenting a realistic macro- fiscal scenario that is broadly consistent with the country's reform agenda.

Serbia's macroeconomic policy has been anchored by the economic programme supported by the International Monetary Fund (IMF) under the Stand-By Arrangement (SBA) since early 2009. Pursuant to the SBA requirements, a number of fiscal measures were implemented throughout 2009 and in early 2010. Notwithstanding a number of adjustments, including an upward revision of fiscal deficits in 2009 and 2010, the SBA has been on track. The government made significant strides towards enhancing fiscal responsibility by adopting amendments to the budget system law and a new pension bill. However, comprehensive structural reforms that would gear the economy towards a more sustainable path will need to be further pursued and implemented.

Overall, macroeconomic stability was broadly preserved against the backdrop of the global crisis owing to the adoption of timely measures in agreement with the IMF. There is consensus on the fundamentals of a market economy. Medium-term fiscal and structural reforms will have to be implemented without delay to enhance the resilience of the economy.

Macroeconomic stability

In 2009, Serbia's GDP shrank by 3% in real terms as a consequence of the global economic crisis, interrupting a period of steady growth with an annual average rate of 6% recorded between 2005 and 2008. The 2009 average per capita GDP in purchasing power standards stood at 37% of the EU-27 average, up marginally from the year before. The recovery has been under way since early 2010 but the pick-up in economic activity has been slower than expected, prompting the IMF and the national authorities to revise downwards their initial GDP growth projection from 2% to 1.5%. While economic growth in the past was driven by domestic demand, it has been recently fuelled more by export expansion. This shift remains to be sustained, based on the strengthening industrial production. While in 2009 industrial output was some 12% lower than the year before, with manufacturing recording the sharpest fall, the negative trend has reversed in 2010. *Overall*, the Serbian economy continues to be affected by the global economic crisis while recovery has been slow and fragile. In 2009, international trade and financial transactions were significantly affected by the global economic and financial crisis. At 5.8% of GDP, the current account deficit was considerably lower compared to levels of 10-18% in previous years. This was mainly due to a sharp decline in imports as well as an increase in net inflows of remittances. As imports fell faster than exports the merchandise trade deficit also narrowed as compared to past levels of above 20%. However, at 15.5% of GDP it remained substantial. In 2010, as the international economic environment improved, Serbia's external position stayed solid. In the period to September, the trade deficit was narrowing compared to last year on the back of vigorous export growth as exports of intermediate goods soared following the revived industrial activity in the EU, Serbia's main trade partner. Annual import growth turned positive in May following a marked pick-up in imports of energy, partly due to the higher international oil prices, and intermediate goods against the backdrop of a gradual recovery in domestic production while investment activity was subdued.

Financial and capital flows remained modest. In 2009, foreign direct investment (FDI) fell by a quarter compared to a year earlier, to €1.37 billion, accounting for 4.3% of GDP. At the same time, long-term borrowing by the corporate sector at €600 billion was only a quarter of the 2008 level while short-term borrowing at €200 million was down by almost 60% on the year before. Notwithstanding the slowly recovering economic activity as of 2010, foreign currency inflows have remained subdued. Over the eight months to September, FDI and other investments were substantially lower than a year ago. The capital and financial account increased as a consequence of domestic commercial banks resorting to additional long-term borrowing while hefty repayments by corporate sector of the pre-crisis foreign loans and an outflow of cash and deposits have been taking place. Still, total foreign exchange reserves remained largely stable during 2010 at over €11 billion, i.e. more than a third of GDP or sufficient to cover some 10 months' worth of imports. Serbia's foreign debt has been increasing since 2009 while capital inflows have been largely insufficient to cover the current account deficit. By end-July 2010, gross external debt had risen by around €0.5 billion since the beginning of the year, to €23.3 billion, i.e. close to 80% of projected GDP. *Overall*, the Serbian economy saw a substantial external adjustment in 2009 reflected in a considerably narrower current account deficit as well as a lower merchandise trade deficit compared to past levels. In parallel, foreign exchange reserves were built up and are now maintained at a comfortable level. External debt is, however, high and growing indebtedness remains an issue of concern.

The unemployment rate in 2009 increased to 16.1%. 2009 saw significant wage moderation owing also to the nominal freezing of salaries in the public sector, with nominal wages increasing by 6.9% on average compared to 17.9% a year earlier. Moreover, real wage growth slowed to only 0.3% per annum, which was substantially lower than in 2007 (19.5%) and 2008 (3.9%). While economic activity has been picking up gradually, the situation on the labour market has worsened in 2010. In the first half of the year, employment continued to fall in annual terms, with the number of employed persons dropping to historic lows at 1.85 million. According to the national labour force survey of April 2010, the unemployment rate soared to 19.2%. The poor labour market performance has further undermined the social conditions. Wage growth has remained broadly constrained during 2010. In the period from January to July, the average net wage increased compared to the same period last year, by 6.7% in nominal and 2.5% in real terms. *Overall*, under the impact of the economic crisis labour market conditions deteriorated as employment fell and unemployment approached 20%. Salaries remained almost unchanged in real terms.

The current monetary policy framework has been in place since January 2009 when the National Bank of Serbia (NBS) committed itself to price stability based on consumer price index (CPI) inflation instead of core inflation. The NBS's target was to keep annual CPI inflation between 6% and 10% throughout 2009. At end-December 2009, CPI inflation stood at 6.6%, largely in line with the projections, bringing the yearly average inflation rate of 8.1% well within the target band. In 2009, inflation was largely fuelled by an increase in administered prices of oil derivatives and communal services. For the end of 2010, the NBS set the inflation target band at between 4% and 8%, where the main contribution to overall price growth would come from the rise in regulated prices and excise duties. Disinflation was on track in the first half of the year. However, inflationary tensions were rekindled by rising food prices and the dinar depreciation. The renewed pressures were also based on the expected strengthening of

domestic demand in line with the gradual pick-up of economic activity and higher bank lending. The acceleration of inflation prompted the NBS to discontinue the course of a gradual relaxation of monetary conditions. Since the second half of 2009, the key reference interest rate was cut in a number of consecutive steps from its October 2008 peak at 17.75% to 10% by end-December 2009, and further to 8% by early May. Following the two latest rate hikes, the interest rate currently stands at 9%. *Overall*, disinflation has remained the key policy objective, but price developments need to be monitored carefully as further inflationary pressures might be generated by the increases in regulated prices of energy, gas and oil as well as the pass-through effect of the depreciating dinar.

Since late 2009, the NBS has been actively engaged in preserving exchange rate stability. As the pace of the dinar depreciation in December 2009 was deemed to undermine the process of economic stabilisation, the NBS started intervening again in the interbank foreign currency market. After two interventions at the end of the year, the operations became more frequent in 2010, especially from mid-May when the pressure on the exchange rate again intensified. Despite the NBS's interventions, the dinar continued to slide, rising to RSD106.2 per euro at end-September, i.e. losing about 10% of its value since the beginning of the year. By then, the NBS had sold more than €2 billion in total with the aim of buffering extreme daily fluctuations in the dinar's value. *Overall*, the dinar has been on a depreciating trend since December 2009. In line with the policy of preventing excessive volatility of the exchange rate, the NBS's interventions on the interbank market were considerable in the first half of 2010 and have, in practice, somewhat overshadowed its inflation targeting policy.

The year 2009 saw a shift in the fiscal stance as the expansionary policy of 2007 and 2008 became constrained by the SBA programme requirements. *Ad hoc* short-term measures were introduced to mitigate the sharp deterioration of public finances during the economic recession, resulting in two 2009 budget revisions. The consolidated fiscal deficit in 2009 widened to 4.1% of GDP from 2.4% of GDP a year earlier. A set of emergency expenditure measures only partly compensated for the sizeable revenue shortfall. The fiscal adjustment came largely from restricted hiring in the public sector and a nominal freeze on public sector wages and pensions. Capital expenditures were again reduced in comparison with a year earlier. Extensive lay-offs in the private sector and salary freezes in the public sector translated into a shortfall in personal income tax revenue. Furthermore, VAT plunged due to restrained domestic demand. Because of the drop in imports and also the lowering of tariffs following the start of implementation of the trade agreement under the SAA, customs revenues were much lower compared to past years. Conversely, excise taxes increased as a consequence of the hike in excise duties on diesel and gasoline. During 2010, public finances remained under pressure as the fiscal policy allowed automatic stabilisers to operate. In agreement with the IMF, Serbia announced a supplementary budget to allow for a higher budget deficit in 2010. At 4.8% of GDP, the deficit would be the highest in the past decade, but driven by lower-than-planned public revenue rather than growing public expenditure. However, in the period to September public spending was contained largely through a significant cut in capital expenditure, while current expenditure, accounting for the bulk of total outlays, was in line with the plan against the freeze of public administration salaries and pensions. As of 2009, public debt has been increasing steadily and stood at close to €11 billion, i.e. some 36% of GDP, at end-August. With the aim to strengthen fiscal discipline, Serbia adopted the

amendments to the budget system law. These amendments introduce a set of quantitative fiscal rules to underpin fiscal consolidation over the medium term. Furthermore, improved procedures as well as the setting-up of a fiscal council are deemed to anchor fiscal responsibility. However Serbia still needs to adopt the new pension law which, for the purpose of strengthening public finances in the long run, includes an extension of working period and age for assuming pension rights as well as adjustments to the indexation mechanism. *Overall*, given the adverse impacts of the economic crisis and despite the *ad hoc* fiscal adjustments, the 2009 budget deficit was substantially higher than in previous years. The corrective short-term measures will need to be backed up by full-fledged systemic reforms, such as reform of the pension and healthcare systems, to improve fiscal sustainability in the medium to long term.

Expansionary fiscal policy and the increasing gap between savings and investment of the private sector, which fuelled external imbalances in the years prior to the 2009 economic downturn exacerbated the economy's vulnerabilities to adverse shocks such as a global recession. The negative effects of the last crisis have been partly cushioned by the economic measures implemented under the IMF SBA programme. However, the macroeconomic policy mix has proven rather limited in responding to the crisis. Effectiveness of monetary policy has been restricted given the high degree of euroisation and the NBS effectively pursuing dual objectives, i.e. smoothing the exchange rate depreciation while being committed to inflation targeting. Moreover, counter-cyclical fiscal policies, which would have been necessary in the period of low economic activity, could not be implemented. This was due to the pre-crisis fiscal expansion and the low capital market integration. To broadly preserve the stability of its economy, Serbia had to apply budget tightening measures, including expenditure cuts, which tend to operate pro-cyclically in such circumstances. *Overall*, the economic policy mix in place has proven limited in facing the crisis. However, the accompanying policies and measures agreed with the IMF under the SBA programme have provided an adequate response towards the most pressing negative macroeconomic effects.

Interplay of market forces

The price liberalisation process slowed down in 2009, with the share of administrative prices still representing about a quarter in the CPI inflation basket. The market formation of prices was challenged in mid-2010 as the state intervened following the shortage of basic food items such as dairy and cooking oil. The share of the private sector remained small, accounting for 55-60% of total output and about 60% of the total number of employees. Finalisation of the process of privatisation and/or liquidation of socially and state-owned enterprises remains one of the key priorities of the European partnership for Serbia.

Privatisation of the socially owned companies continued in 2009 but at a slower pace as only 95 such companies were sold. Privatisation proceeds amounted to about €81 million. By the end of 2009, the total number of companies privatised through tenders and auctions, since the start of the process in 2002, had risen to over 2,300, with privatisation revenue totalling about €2.6 billion. The least attractive companies remain unsold. The number of privatisations annulled — due to non-compliance with the contracted obligations — rose to almost one quarter of the firms initially scheduled for privatisation. The government extended the deadline for finalising privatisation of the socially owned companies to 30 June 2011. *Overall*, progress in selling socially

owned companies was limited, while the number of revoked privatisation deals increased.

Given the economic circumstances in 2009, privatisation of the large state-owned companies was delayed. As the situation in the global markets gradually improved, the government announced privatisation strategies for a number of companies. A few were slated for sale by the end of 2010. Privatisation of the pharmaceutical company Galenika failed, however, and has been postponed. The initial procedures were launched for the telecoms incumbent Telekom but the tender had not been called by the end of September, as planned. As regards the sale of the national air carrier JAT Airways, the government decided to establish a new national airline company that will take over the assets and some of the staff. The debt estimated at €146 million (€25 million in 2009 alone) would be left to the old company, which will remain in state ownership. To facilitate the sale of the remaining state-share in the oil company NIS, the government distributed free shares to the population in mid-2010 and announced further distributions (Belgrade Airport, Telekom, the electricity operator EPS). Privatisation of about 500 utilities in the local communities is outstanding. Their restructuring and reorganisation has not yet begun and the strategy for privatising them remains undefined. *Overall*, limited progress was made in finalising the privatisation process. Privatisation of socially owned companies has advanced but in the meantime a number of privatisation deals have also been cancelled. State-owned companies have not initiated the restructuring.

Market entry and exit

In 2009, some progress was made in facilitating market entry. The number of registered companies stood at 113,000 in May 2010, up from 106,000 in April 2009. At the same time, about 225,000 entrepreneurs were registered with the Serbian Business Registry Agency, i.e. around 5,000 more than a year earlier. The one-stop-shop system for registering a company has been in place since May 2009. It now takes on average 5 instead of 23 days to register and has been estimated to significantly lower administration cost for companies. The Agency has also further extended the number of registers, including the Registry for Financial Statements, which will do away with the past practice of multiple submissions of these statements to various state bodies. Nevertheless, further efforts are needed to improve the conditions for starting-up a business, particularly in the area of construction permits, where implementation of the new Law on planning and construction from 2009 has been very slow. With regard to market exit, a new Bankruptcy Law came into effect in January 2010 but the number of pending cases remains very high. *Overall*, there has been some progress, particularly regarding the registration of new companies and submission of the financial statements of those already operating. However, excessive red tape and complex legislation remain in place and continue to hamper the business environment.

Legal system

Some progress was observed in adopting new legislation in line with the *acquis*. However, preparation and implementation of the laws are sometimes slow and uneven. Also, legal enforcement is weak due to technical and personnel shortcomings in the courts and administrative bodies. Inconsistent implementation of laws and very lengthy procedures, which frequently exceed the deadlines set by law, hinder investment. *Overall*, weaknesses in the rule of law and prevalent corruption continued

to limit legal predictability and undermined trust in the legal system among economic operators, in particular as regards effective enforcement of property rights.

Financial sector development

The number of banks decreased from 34 to 33 after the merger of two state-owned banks in September 2010. There are now 3 majority state-owned banks, holding a 2.6% market share. Foreign ownership has risen to almost 75% of the total banking sector and currently 21 out of 33 banks operating in Serbia are owned by foreign entities. Subsidiaries of Austrian, Greek and Italian banks are within the top five banks in terms of assets and together control almost 60% of the market. Domestic private banks are small with only one of them among the top 10 banks.

Serbia's financial sector has been relatively unscathed by the international financial crisis. In line with the agreement reached in March 2009 ('Vienna Initiative'), the parent commercial banks having subsidiaries in Serbia maintained their exposure in the Serbian market at the pre-crisis level and effectively increased their capital adequacy ratios in 2009. Given the positive results of the economic stabilisation programme, it was agreed that exposure commitments could be reduced as of April 2010, from 100% to 80% of the end-2008 exposure as a first step towards phasing-out of the initiative. Deposits, of which 70% are in foreign currency, represent almost 60% of the total liabilities of the banking sector. Similarly, loans account for some 60% of banking sector assets. Over three quarters of loans are denominated in foreign currency or are foreign-currency linked, predominantly in euros. More than half of the loans are granted to the corporate sector (mainly to trade and industry — around 20% each) while about a third is for households. Since the crisis credit growth for the private sector has decelerated substantially and the government has put in place a support scheme to subsidise commercial bank loans to companies and households.

Capitalisation of the banking sector is high. The average capital adequacy ratio stands at 21% while all systemic banks maintain it above the prescribed minimum of 12%. However, the asset quality of the banking sector has worsened, with a rise in bad loans since 2009. The gross non-performing loans ratio peaked at 17.5% by the second half of 2010. A systemic liquidity crisis is unlikely as liquid assets accounted for over 36% of total assets at end-June. The NBS can release ample amounts of liquidity by further relaxing relatively high reserve requirements, which were introduced with the aim to limit rapid credit growth prior to the crisis. The high capital and reserve requirements have been partly responsible for the generally low profitability of the Serbian banking sector by regional standards. Stress tests for 31 banks carried out in 2010 concluded that banks are sufficiently resilient to further adverse shocks but remain vulnerable to credit risk. The weak performance of the corporate sector in the face of the slow economic recovery may raise defaults in the servicing of loans. Furthermore, there is some exchange rate risk on the borrowers' side given the high degree of euroisation of Serbia's economy. *Overall*, financial intermediation growth has slowed down against the backdrop of the economic downturn. The banking sector remained generally sound and profitable, but a close watch needs to be kept for possible deterioration in the repayment capacity of borrowers due to the relatively high share of bad loans and considerable exposure to exchange rate risk.

At the end of 2009, there were 26 insurance companies operating in Serbia, up from 24 a year earlier. 19 insurance companies are in majority foreign ownership while 7 rely on predominantly domestic capital. The recession has impacted the performance

of the sector, with premium income having risen only by 2.6% on the year in 2009. The insurance sector's share of capital in the total financial sector dropped to 3.9%. *Overall*, progress in development of the non-banking financial sector slowed down and consequently its size in financial intermediation remained limited.

3.2. The capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

The overall economic climate deteriorated in the face of the global crisis but the authorities have succeeded in broadly maintaining macroeconomic stability to support the continued transition to a market economy. In particular, the monetary authorities applied timely and adequate measures to restore trust in the banking system. On the fiscal side, the corrective short-term measures will need to be backed up by full-fledged systemic reforms to ensure fiscal sustainability in the medium to long term. The adoption of the fiscal responsibility legislation is an important step, which paves the way towards bolstering fiscal discipline. Pension reform will also contribute will also contribute to the long-term sustainability of public finances. However, the weak corporate governance and the deficiencies in competition continue to be barriers to business. *Overall*, in the more challenging environment the previously identified handicaps have become more acute. Market mechanisms remained hampered by distortions, legal uncertainty, heavy state involvement in production, and insufficient competition.

Human and physical capital

Some progress was observed following the accelerated reform of the education system, which is poised to better meet labour market demand. Nevertheless, the gap between demand for and supply of skilled workforce identified in previous reports continues to be a drag on FDI and the development of new segments of the economy. The attitude towards lifelong learning and mobility has been improving, albeit at a rather slow pace. Public education expenditure accounted for 3.3% of GDP in 2009, lower than the planned 3.9%. *Overall*, the economy continues to suffer from a shortage of skilled labour while supply has been only gradually adjusting to market needs.

In 2009, investment activity was constrained and the private investment rate dropped to 20% of GDP. Net FDI fell by almost 25% on the year before, to €1.37 billion, bringing the cumulative inflow since 2000 to €12.2 billion. The three sectors receiving most FDI were financial intermediation, manufacturing, and transport and telecommunication. However, a large share of FDI was destined to the non-tradable sectors of the economy, which contributed to the increasing external imbalances. In 2009, domestic investment dwindled. The funds of the National Investment Plan were slashed to €210 million, a third of the 2008 amount, and were used for various projects related to the development of communal and road infrastructure in the 40 least developed municipalities but also in support of industrial hubs (such as Kragujevac) along Corridor X, as well as for construction of social housing. For 2010, the National Investment Plan was further reduced to about €100 million. *Overall*, domestic investment has been declining as local sources have been scarce and FDI has also lost momentum given the globally unfavourable economic conditions.

Sectoral and enterprise structure

The restructuring process has advanced only slowly. The shift of economic activity towards the service sector has stabilised, with services contributing more than 60% of GDP. The public companies still generate a large part of Serbia's output. However, their performance has been undermined considerably by the crisis, with the erosion of capital and the accumulated loss rising to €3 billion, i.e. more than a quarter of their total capital at end-2009. The private companies account for a smaller share of production but the bulk of foreign trade. Around 75% of Serbia's export is undertaken by companies in predominantly foreign ownership. Small and medium-sized enterprises contribute for just over 51% of the total value-added and slightly more than 57% of the overall employment. The informal sector, fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organised crime, remains large. It reduces the tax base and the efficiency of economic policies. *Overall*, structural adjustment of the economy has been lagging on the back of the slow reform process, which has been hampered by the economic crisis. The informal sector remains an important challenge.

State influence on competitiveness

State subsidies were relatively high at around 2.2% of GDP in 2009 following a nominal increase of almost a quarter compared to 2008. The amount of subsidies could be underreported as the state schemes as well as the individual state aid are not systematically referred for prior approval. The legislation on state aid control from July 2009 needs to be effectively enforced by the recently established State aid authority, but an appropriate monitoring mechanism is still missing. The state-controlled monopolistic structures remain in place. *Overall*, the state continues to influence substantially on competitiveness through its legal and financial mechanisms.

Economic integration with the EU

The EU has remained Serbia's main trading partner, accounting for 58% of the country's total exports and 57% of the total imports. The negative trade gap which Serbia had with the EU was declining steadily in the period to August 2010. Serbia also continued to improve a trade surplus with the countries in the region. The CEFTA countries account for 16% of Serbia's trade.

Export price competitiveness improved in 2009. Real gross wage growth at 0.2% was considerably smaller than average labour productivity growth, which translated into a 3% fall in real unit labour costs. In real effective terms, the dinar lost 3% of its value, despite consumer prices growing faster on the domestic market than abroad on average. In the first half of 2010, the real effective exchange rate of the dinar weakened further by some 7%. Against the background of subdued wage growth and increasing unemployment, unit labour costs continued to drop in real terms. *Overall*, trade integration with the EU remained high and export competitiveness continued to improve.

4. EUROPEAN STANDARDS

This section examines Serbia's capacity gradually to approximate its legislation and policies to the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Agreement and the

European Partnership priorities. It also analyses Serbia's administrative capacity. In each sector, the Commission's assessment covers progress achieved during the reporting period, and summarises the country's overall level of preparations.

4.1. Internal market

4.1.1. Free movement of goods

Progress can be reported in the field of the free movement of goods.

Legislation aligning with the New Approach Directives on safety of machinery, electromagnetic compatibility and low voltage equipment was adopted. The Ministry of Economic Affairs and Regional Development continued to play a central role in coordinating the establishment and improvement of the horizontal legislation, the quality infrastructure institutions and the transposition of the *acquis* on free movement of goods. Its capacity in this area has been strengthened with additional human resources.

Cooperation between the ministry and the Serbian Standardisation Institute, the Serbian Accreditation Board and the Directorate for Measures and Precious Metals has further improved.

As regards standardisation, the change of status of the Serbian Standardisation Institute (ISS) from an independent non-profit organisation to a public institution came into force in January 2010. During the reporting period the ISS further increased the number of adopted European standards (ENs), to a total of 8.986. The ISS is no longer responsible for type approval of vehicles, as the Traffic Safety Agency developed the capacity to take over this task. However, the chairman and members of the supervisory board have not yet been appointed.

In the area of conformity assessment and accreditation, the number of accredited conformity assessment bodies (CABs) rose to 413. Implementing legislation to the law on technical requirements for products and conformity assessment of products has been adopted.

There has been good progress on accreditation. The Law on Accreditation, fully aligned with the new legislative framework (765/2008), was adopted. The Serbian Accreditation Board extended the scope of its activities. It continued to provide training and seminars for assessors and its own staff and carried out awareness-raising activities. However, the chairman and the members of the supervisory board have not yet been appointed. The administrative capacity of the Board needs to be strengthened.

In the area of metrology, progress was made with the adoption of the new law in May 2010 and implementing legislation. The Directorate for Measures and Precious Metals has been restructured to implement the new law, and the government appointed the Metrological Council. The Directorate has been participating in the activities of international and European metrology organisations. However, further efforts are needed to continue aligning with the *acquis*, notably by implementing the already existing legislation and improving the limited capacity of the Directorate.

There has been progress on market surveillance. Implementing legislation in the area of general product safety and the Market Surveillance Strategy for the period 2010-2014 was adopted. The rapid exchange system providing information on dangerous products similar to RAPEX, NEPRO, was established. However, new legislation in this area, fully implementing the 2008 horizontal *acquis* on marketing of

harmonised products, remains to be adopted. The capacity of the market inspectorate needs to be strengthened, not least through training. Coordination between the different market surveillance authorities needs to be established, including the development of a common database.

There has been good progress in the field of consumer protection. The Law on Consumer Protection was adopted, transposing 14 relevant EU directives. A Consumer Protection Centre was established within the Ministry of Trade and Services aimed at solving the complaints brought by consumers, notably on contract warranty. Further steps have been taken towards establishing regional advisory centres for consumer protection which are to be devolved to non-governmental organisations. Training activities for professional staff have continued. The administrative capacity of the consumer protection department within the ministry has been improved, but the level of human resources remains insufficient. Public awareness-raising activities have increased. Consumer protection organisations have started improving their coordination.

The Law on Electronic Trade is in place. However, capacities for monitoring its implementation need to be further developed. The role of the ministry's Council for Consumer Protection remains limited. Consumer organisations are still weak and lack adequate resources. This continues to hamper their overall effectiveness. Public awareness-raising activities need to be further developed.

Overall, Serbia is moderately advanced on free movement of goods in meeting the requirements of the SAA in this area. A new legal framework for market surveillance still needs to be adopted. The administrative capacity and cooperation between the Ministries and other State institutions need to be further strengthened. Further efforts are required to continue transposition of the product-specific *acquis* into Serbian legislation.

4.1.2. Movement of persons, services and right of establishment

There has been little progress on movement of persons. With regard to the *coordination of social security* schemes, agreements on social insurance with Cyprus and Turkey were ratified. The Agreement on social security with Bosnia and Herzegovina was amended to further regulate the pension issues between the two countries.

Little progress was achieved in the provision of services. Preparations for transposing the Services Directive are at an early stage.

There has been little progress on *financial services*. Serbia prepared a roadmap for implementation of the Basel II framework. However, new legislation on banking, securities and insurance needs to be adopted. Serbia needs to further align with the Financial Services Directives. Serbia has yet to sign memoranda of understanding with all home supervisory authorities of foreign banks operating on its territory.

The National Bank of Serbia is responsible for supervision of the banking, insurance and voluntary pension fund sectors and is actively using its supervisory powers. The Securities Commission, responsible for supervising the capital market, is not sufficiently independent and does not operate fully in line with international standards. The supervisory capacity, in particular regarding employment and staff training, needs to be further strengthened to comply with the Capital Requirements Directive and requirements for risk-based supervision.

There was progress in the area of *postal services*. The law on postal services was further brought into line with the *acquis*. The parliament appointed the members of the Agency for Postal Services Council. It became operational as an independent regulatory body for postal services and the government adopted its financial plan. However, the administrative capacity in this area needs to be strengthened.

No progress has been made in the area of the right of establishment. As regards the recognition of professional qualifications and recognition of foreign degrees further efforts are needed.

Little progress has been made on company law. The One-Stop-Shop system is in its second phase and has shortened the time to set up a business to two days. Companies can submit an application for registration electronically. However, the e-Registration system has yet to become fully operational. The Company Registration Law and Securities Law need to be amended.

Some progress was made in the field of *accounting and auditing*. Amendments to the Accounting and Auditing Law, which are further aligned with the EU Accounting directives, were adopted. These amendments brought the statutory register and register of financial reporting to a single institution, the Business Registry Agency. However, strategy and action plan on upgrading corporate financial reporting remain to be fully aligned with the *acquis*.

Overall, preparations in the area of movement of persons, services and right of establishment are moderately advanced. A number of legal acts still need to be adopted.

4.1.3. Free movement of capital

Little progress was made on free movement of capital.

Serbian legislation provides for the free movement of credit related to commercial transactions or to the provision of services as well as to financial loans and credit with maturity longer than a year. While simplifying procedures for foreign payments, Serbia retains restrictions on short-term capital movements. Under the current law on foreign exchange, non-residents are free to make direct investments with restrictions in the arms sector and in some other areas laid down by the law. Under the law, foreigners may acquire real estate, subject to reciprocity, with the exception of agricultural land. EU investors are still having problems, due to the unclear legal status of the acquired real estate and incomplete process of property restitution, along with the very large number of permits required and the numerous granting agencies and authorities involved in the process. The implementation of the legislation on urban planning and construction remains slow.

Overall, Serbia is still moderately advanced in the area of capital movements. With certain restrictions, non-residents are free to make direct investments. Serbia needs to continue its efforts to meet the gradual liberalisation requirements laid down in the SAA.

4.1.4. Customs and taxation

Serbia has made good progress in the area of customs. The new Customs Law has been adopted and is largely harmonised with the *acquis*. The amended customs tariff nomenclature is fully in line with the 2010 EU Combined Nomenclature.

The Government adopted in September 2010 the Amendments to the Decree on Harmonised Custom Tariff Nomenclature for 2010. The amended decree has allowed Serbia to catch up with the liberalisation schedule for processed agricultural products (PAPs) and fishery products foreseen for 2010 in the Interim Agreement.

The administrative capacity of the Serbian customs administration has been further strengthened, notably by improved post-clearance controls and by the roll-out of an upgraded risk analysis system. Progress was also made through the conclusion of several agreements on international cooperation, where the customs also improved information sharing with other national institutions. In terms of trade facilitation, the customs administration formalised procedures for exchange of pre-arrival information with neighbouring countries.

Implementation of the integrated border management strategy and action plan continued. Serbia obtained the status of informal observer under the Customs Transit Convention. The country also participated in regular activities under the Customs 2013 Programme. Fight against corruption in customs was stepped up, which resulted in a higher number of disciplinary procedures based on internal controls. Two new free zones and one new customs house were opened. However, the IT infrastructure needs upgrading, in particular since the customs central IT system is reaching the limits of its capacity. The strategic planning process, both with regard to business and IT, should be reinforced.

Overall, Serbia is already well on the way to meeting the EU *acquis* and remains committed to reforms in the area of customs. The obligations stemming from the Interim Agreement were well respected. Further efforts are needed as regards legislative alignment, and administrative capacity, including preparing for IT interconnectivity and interoperability with EU IT systems.

In the area of taxation, some progress has been registered. The parliament adopted amendments to the law on company profits tax and the law on income tax, in line with the EU *acquis*. In July, the Serbian Parliament adopted amendments to the Law on Tax Procedures and Tax Administration. Implementing legislation by which the Large Taxpayer Centre will cover larger number of tax payers was adopted in July which should result in higher collection of revenues. Implementing legislation on tax identification number of legal entities aimed at simplifying procedure and cutting unnecessary paperwork in line with the comprehensive regulatory reform was also adopted in July. Laws on avoidance of double taxation were ratified for a number of EU Member States. However, discriminatory excise duties on imported spirits need to be brought into line with the same duties on local production in order to comply with the relevant provision of the Interim Agreement.

The administrative capacity of the Serbian tax administration continued to improve as a result of intensive training efforts. In April 2010 the administration opened a new Contact Centre as an integrated and centralised information point for taxpayers. Some new organisational units, such as groups for strategy and coordination, for risk management and for internal audit, were created in December 2009. New management tools were developed and the overall business strategy was adopted in June 2010. At the end of 2009 a single taxpayers' register was completed, as the basis for the future new information system. However, despite good results in enforcement by the tax police, the general collection capacity of the administration improved only slightly. The share of the 'grey' economy remains high and cumbersome procedures for tax collection remain in place.

Overall, in the area of taxation, Serbia is well on the way to meeting the EU standards. The enforcement capacity of the tax administration and tax collection has improved, although further progress is required in this respect. In addition, the problem of the informal economy remains yet to be tackled. Serbia needs to take follow-up action to ensure that its tax legislation complies with the Code of Conduct for business taxation.

4.1.5. Competition

Some progress can be reported in the area of anti-trust.

Implementing legislation pursuant to the law on competition protection was adopted, further aligning Serbia with the Interim Agreement (IA) requirements. This covers notably market definition, merger notifications, individual and block exemptions for restrictive agreements fines and leniency program. The Commission for the Protection of Competition (CPC) has continued its activity and has adopted decisions on mergers and abuse of dominant positions further improving its track record. It has also adopted guidelines for implementing legislation. The services of the Commission for the Protection of Competition were restructured, notably by establishing separate divisions for economic analysis and legal affairs. The CPC's capacity to carry out economic analysis has been strengthened. A number of cooperation agreements were signed with sector-specific regulators as well as with competition authorities of some EU Member States and neighbouring countries. The president and members of the Council of the Commission for the Protection of Competition were elected by the Serbian Parliament in October 2010.

However, the law on competition protection has been undermined by the adoption of some conflicting horizontal legislation notably on mandatory car insurance. The financial plan of the CPC for 2010 has not yet been adopted by the Government. The CPC's capacity to carry out economic analysis and to deal with procedural matters remains to be further strengthened in order to fully implement with the IA requirements. Moreover, the CPC needs to improve its expertise and knowledge in procedural matters. The capacity of the judiciary to deal with substantive issues of competition remains weak and significant efforts are needed in this respect. A solid enforcement record remains to be demonstrated.

There has been some progress in the area of state aid. A State aid authority was established in December 2009, as required by the SAA, and became operational in April 2010. The Commission is supported by the Permanent Secretariat of the State Aid Control as an independent department within the Finance Ministry. In July 2010 the Commission for State Aid Control adopted the State aid inventory for 2009. However, the administrative capacity of the State aid authority secretariat needs to be substantially strengthened. Serbia needs to continue its efforts to establish a track record in enforcing State aid decisions.

Overall, Serbia remains moderately advanced in meeting the Interim Agreement requirements in the area of competition. However, the capacity and the expertise of the Commission for the Protection of Competition and of the judiciary have to be strengthened.

4.1.6. Public procurement

Little progress has been made in the area of public procurement. The Public Procurement Office (PPO) published a number of decision templates and models of

tendering documentation, with the aim of assisting the contracting authorities. The PPO carried out training seminars for various stakeholders throughout the country and further promoted and serviced the public procurement web portal. The members of the Commission for the Protection of Bidders' Rights were appointed in October 2010.

However, the substantial delays in the establishment of the new Commission for the Protection of Bidders' Rights have undermined the overall development of the public procurement framework. In addition, shortcomings in the existing legislative framework, including the lack of an appropriate regulatory framework on concessions, still remain to be addressed. The weak administrative capacity of public procurement bodies, in particular the public procurement unit in the Ministry of Finance, the PPO and the review body, has persisted. The financial resources of these bodies remain scarce. The coordination mechanisms among the main stakeholders in the public procurement system, especially with a view to reducing the scope for corruption, remain weak. The certification of public procurement officials has not yet started. The strategy for upgrading the public procurement system in Serbia remains at early stage. As a result, inefficiencies in the use of public money persist, as detected by the Supreme Audit Institution in its 2008 budget audit report.

Overall, Serbia's preparations for establishing an effective and fully independent public procurement system with streamlined award procedures are still moderately advanced. Significant efforts remain necessary to strengthen the capacity to implement the EU *acquis* in this field.

4.1.7. Intellectual property law

Progress has been made in the area of intellectual property rights. The Intellectual Property Office (IPO), which plays the role of national coordinator for intellectual property rights, has set up an in-house education and information centre. However, the financial sustainability of the IPO has been a source of concern. Discussions on the long term financial sustainability of the IPO have been ongoing but no solution has yet been found. The national intellectual property rights strategy needs to be finalised.

A new law on copyright and related rights was adopted in December 2009 and was followed by implementing legislation. It establishes a Commission on Copyright and Related Rights empowered to decide on the tariffs if no agreement is reached between the associations for collective management of copyrights. However, the members of the Commission have not yet been appointed by the Government. The law on optical discs remains to be adopted.

Progress was made in relation to industrial property rights. As of October 2010, Serbia has become member of the European Patent Organisation. In line with the Interim Agreement, some international conventions including the European Patent Convention as well as the International Union for the Protection of New Varieties of Plants Convention were ratified. Legislation on industrial design, on topography of integrated circuits and on indications of geographical origin has been adopted, in line with the Interim Agreement. The new law on trademarks introduces an administrative procedure for appealing against IPO decisions. A newly adopted Strategy for Scientific and Technological Development fosters a number of innovative activities, and provides an indirect impetus to raise the number of patent applications. However, the law on patents has not yet been adopted.

Some progress was made in the field of enforcement. Serbia has set up specialised units (high-tech crime prosecutor, police cyber unit, specialised customs unit, tax unit and tax police) aimed at enforcing the legislation in this area. The length of investigations has been shortened. The frequency of checks by tax inspectors has risen, whereas the number of cases brought for prosecution has dropped, pointing to better compliance overall with the law. Seizures by market inspectors have further improved. The customs administration has continued to make progress in enforcing intellectual property rights. It fully updated an electronic database of customs offences in the field of intellectual property rights and introduced electronic handling of requests for protection of Intellectual Property Rights. A Memorandum of Understanding has been signed between the Intellectual Property Office and the Judicial Academy to provide specialised training.

However, specialisation of judges and court panels in this area needs to be ensured. Inadequate storage space for counterfeited and pirated goods that infringe copyright and related rights or other industrial property rights continues to be a problem.

Overall, Serbia's preparations in the area of intellectual property law remain moderately advanced. Further efforts are needed in terms of alignment with the *acquis*. Concerning enforcement, better co-ordination among relevant agencies is required, as well as substantial investment in specialised judicial training.

4.1.8. Employment and social policies, public health policy

Some progress has been made on employment policy. Implementing legislation concerning the law on employment and unemployment insurance and the law on vocational rehabilitation and employment of disabled persons was adopted. In September 2009 the action plan for implementation of the youth employment policy for 2009-2011 entered into force. In February 2010, the government adopted the national action plan for employment for 2010, which defines priorities, goals, programmes and measures of employment policy. The plan is the main instrument of an active employment policy aimed at boosting investment in human resources, supporting social inclusion in the labour market and creating new jobs. In August 2010, the national employment action plan for 2011 was adopted to provide continuity in implementation of the employment strategy. The general budget cuts in response to the economic crisis did not affect the budget allocated to active labour market policies. The government also continued with start-up loans aimed at generating new jobs.

The national employment service has reallocated its human resources to keep administrative capacity unchanged for its main functions. A centre for professional rehabilitation and employment of disabled persons has been established, as well as a Fund for employment of young persons. From January until September 2010 the number of employed persons with disabilities increased. Coordination and cooperation between the ministry and the national employment service has improved and regular monthly meetings have been established. The Republican Health Insurance Fund has completed a database on all insurers, and established a system for social security registration with the national employment service, thus simplifying the registration procedure.

All these measures have been used to counter the impact of the economic crisis and maintain the level of employment but have not brought the desired results. Only a limited share of unemployed people could be addressed, whilst in the aftermath of the

global financial and economic crisis unemployment continued to rise and the employment rate dropped to 50%. The situation of young jobseekers and of long-term unemployed is of particular concern. The economy continues to suffer from skills mismatch. Serbia has to face considerable labour market challenges and the policy response is insufficient to deal with the scale of the problem.

Regarding social policies, there have been no changes to the Labour Law since the amendments made in July 2009.

Some progress has been made in the area of *health and safety at work*. Activities related to implementation of integrated inspection control have intensified. Under this approach, one inspector will be competent to carry out inspection of workplaces concerning compliance with both the labour law and occupational health and safety regulations. In the legislative area, several Rulebooks were adopted with the aim of transposing EU Directives on health and safety at work into national law. A rulebook on risk assessment was amended. The Occupational Safety and Health Strategy Action Plan were adopted. An action plan for 2010-2014 for the labour inspectorate has been drawn up. However, despite an improvement, the number of accidents at work remains high.

As regards *social dialogue*, amendments to the law on peaceful settlement of work disputes were adopted. This enlarged the list of disputes that can be treated under this law and prescribed conditions for appointing an arbitrator. The amended law regulating the work of the Agency for Peaceful Settlement of Labour Disputes was passed by parliament. However, social dialogue is weakened by the unresolved issue of representativeness of the social partners and a burden of mistrust among the social partners. Moreover, the input of social partners into the decision-making process and the drafting of legislation remains limited due to both the government's lack of strategic approach in the consultation process and to the limited capacities of the social partners. The functioning of the Economic and Social Council at central as well as at municipal levels still needs to be improved. Bipartite social dialogue is still rather weak.

Regarding *social inclusion*, after having established the team for social inclusion in 2009, the government continued with establishment in early 2010 of the working group on social inclusion, made up of representatives from all institutions in charge of defining, implementing and monitoring social inclusion. However, with the economic crisis, poverty has risen: the rate of those living below the absolute poverty level rose from 6.1% in 2008 to 6.9% in 2009, while the rate of those living below the relative poverty level rose from 13.2% in 2008 to 13.6% in 2009. As the number of those living close to this relative poverty level is quite high, further deterioration of the economic situation may increase these rates. Fighting poverty and social exclusion, not least of vulnerable categories of the population, with particular reference to the Roma population, Roma refugees, IDPs and some pensioners, remains a key challenge. The deepening disparity between regions is a matter of concern.

Concerning *discrimination*, an important step forward was appointment of the Anti-Discrimination Commissioner in early 2010. The Commissioner has a wide range of duties related to dissemination of information on discrimination, providing legal support to the victims of discrimination and monitoring the implementation of laws which may have discriminatory elements, including the right to initiate amendments or new laws related to this topic. However, further efforts are needed to ensure that the Commissioner becomes operational. A comprehensive approach in the field of the anti-discrimination policies remains to be ensured. Vulnerable groups, such

as Roma, persons and children with disabilities and the LGBT population, remain the most exposed to discrimination.

As regards *gender equality*, the law on gender equality was adopted and has been in force from December 2009. In August 2010, the Government adopted an action plan for implementation of the national strategy aimed at improving position of women and gender equality. Harmonisation with EU legislation has also been carried out. Institutional structures have been established, and despite the general context of budget cuts and a staff freeze, the number of staff dealing with this policy was maintained. However, women and in particular disabled women, single mothers, older women and those living in rural areas still continue to face discrimination in the labour market. Women are under-represented in decision-making positions.

In the area of *social protection*, the amendments to the law on financial support to families with children were adopted in December 2009. In May 2010, the rulebook on the work of centres for social care was adopted. However, the pension system continues to record a high deficit despite pension reforms conducted in recent years. Many older people are exposed to poverty, including those not covered by the pension system.

There has been progress in the area of public health. The National Health Council of Serbia prepared the strategic 'Health Protection Development Plan' for 2010-2015, which is pending adoption by the Parliament. In the fields of *blood and tissues and cells*, the Directorate for Biomedicine was established within the Ministry of Health, and a coordinator for organ, tissue and cell transplantation has been designated at the Clinical Centre in Serbia. Furthermore, an awareness-raising campaign on transplantation has been launched. The legislation on biomedicine and transfusion is being implemented. Some progress can be reported in the field of *tobacco*. The law on protection from exposure to second-hand tobacco smoke has been adopted. However, pictorial health warnings remain to be introduced on cigarette packages.

The law on drugs and medical devices was adopted in April 2010. Activities related to *mental health, cancer prevention, communicable diseases and alcohol* continued. The Serbian Institute of Mental Health was designated as a WHO Collaborating Centre for mental health care and workforce development. Good cooperation with the European Centre for Disease Prevention and Control continues. However, efforts towards de-institutionalisation and community-based institutions need to continue. The administrative capacity of the Ministry of Health and of the Institute for Public Health needs to be strengthened. Further efforts are needed to implement adopted strategies.

Overall, preparations are continuing towards meeting European Standards in the areas of employment and social policy. However, declining employment rates and increasing unemployment are a source of concern, in particular with regard to young people and the most vulnerable groups.

4.1.9. Education and research

Some progress has been made in the field of education. Serbia has started reforms in primary and secondary levels of education and is continuing Bologna reforms in higher education. With the help of the European Training Fund, it is starting the process of reforming its vocational education and training system.

Several laws in the field of education and training were adopted in 2010. In April a new law on pre-school education aimed at improving the quality and access to

education was adopted. In May a Law on Pupils' and Students' Standards has been adopted, based on the principle of social inclusion. Amendments to the Law on Higher Education were adopted in June 2010 by the Parliament.

Primary and secondary school curricula have been revised and were implemented in September 2010 in the first year of secondary level. As regard higher education, the European Credit Transfer and Accumulation System (ECTS) has been fully implemented in all higher education institutions. The three-cycle system is in place and preparation of doctoral studies under Bologna guidelines is starting. In the vocational education and training (VET) sector, the Council for Vocational Education and Adult Education has been established; it is a tripartite body with key functions including links with business, national qualification framework and curricula.

Wide consultations with youth and social partners have been initiated with a view to developing a Youth Law. Another 12 Youth Offices have been opened as part of the strategy for quality leisure time and personal development of young people.

However, an overall strategy covering all levels of education, including lifelong learning, needs to be developed. A national qualification framework remains to be adopted. Adult education is weak and needs a reform of contents, methods and infrastructure. The process of accreditation of universities and programmes has not been completed. Adjusting the education system to the labour market needs further improvement. Planned investment in the education sector has been cut from 3.9% to 3.3% of GDP.

Good progress has been made in the field of culture. Serbia's participation in the EU's Culture Programme has been increasing steadily. The UNESCO Convention for the Safeguarding of the Intangible Cultural Heritage and the Council of Europe Framework Convention on the Value of Cultural Heritage for Society have been ratified.

Good progress was registered in the area of science and research. Serbian research entities have continued to successfully bid for research projects under the 7th EU Research Framework Programme (FP7). Serbia has improved its administrative capacity to implement the FP7 Memorandum of Understanding by appointing additional contact points and observers in the FP7 management committees. Interministerial cooperation has been strengthened in relation to Serbia's participation in the Competitiveness and Innovation Programme (CIP). Negotiations to associate Serbia with the 7th Euratom Research Framework Programme (2007-2011) are ongoing. In February 2010, Serbia and the Joint Research Centre (JRC) concluded a memorandum of understanding on scientific and technological cooperation which will provide additional research opportunities.

With respect to future integration into the European Research Area (ERA), Serbia adopted a national strategy for scientific and technological development 2010-2015 in February 2010 and has appointed observers in most ERA governance bodies. In March 2010, further legislation was adopted, particularly with respect to issues such as innovation, scientific and research activities and intellectual property rights. This addresses the brain drain and reforms the Serbian Academy of Sciences. In May 2010 a bill was adopted allocating €400 million to fund research at national level over the four coming years. However, both public and private investment in research remains low (less than 0.5% of GDP) and Serbia generally needs to reinforce its national research capacity.

Overall, Serbia is moderately advanced towards meeting European standards in the area of *education*. However, an overall strategy involving all levels of education, including lifelong learning, remains to be developed. The implementation of the recent reforms should be monitored closely. Further efforts are needed in the field of vocational education and training. Further efforts are needed to facilitate Serbia's integration into the European Research Area and to strengthen its national research capacity.

4.1.10. WTO issues

Negotiations for Serbia's accession to the World Trade Organisation (WTO) are nearing their end, the bilateral track of negotiations being already completed with most WTO partners. Progress has also been made on the multilateral track. However, finalisation of the process will depend on the pace of remaining bilateral negotiations and internal reforms. Serbia is well placed to meet its objective of joining the WTO.

4.2. Sectoral Policies

4.2.1. Industry and SMEs

Little progress was made in the SME sector.

Serbia continued previous efforts to move from the phase of policy formulation and the identification of strategic objectives to policy implementation in support of innovative companies, start-ups, provision of business services and information dissemination.

The action plan for 2009 was successfully implemented — with some activities however postponed due to lack of financial resources. The action plan for 2010 was adopted and is currently being implemented. The SME Business Council, with 80 SME representatives, was established in March 2010 and steps to link it up with other private initiatives have been taken. The transformation of the SME Agency into the National Agency for Regional Development has been finalised. Financial support continued with start-up loans, investments in underdeveloped areas, programmes for innovation and clusters.

Serbia continued its participation in the Entrepreneurship and Innovation Programme and joined the Information Communication Technologies policy Support Programme in 2010, thus becoming a member of two out of the three operational programmes under the EU's Competitiveness and Innovation Programme. Serbia also continued being active in the Enterprise Europe Network.

In the reporting period Serbia continued implementing several measures to improve SME's access to finance and more specifically the support of start-ups. However, developments in the area of SMEs were affected by the shift of the focus of the ministry in charge of SMEs to regional development and also by a significant cut in human resources in its SME department. Reduced administrative capacity raises concern for the implementation of the national strategy for SME development 2008–2013 and for the implementation of the Small Business Act. The level of cooperation between the ministry in charge of policy and the agency in charge of implementation needs to be improved.

Serbia has made little progress in developing and implementing a modern industrial policy. The industrial strategy remains to be adopted.

Overall, Serbia's preparations in the area of industry and SMEs are well advanced. However, reduced administrative capacity may adversely affect the good level that the SME policy has attained.

4.2.2. Agriculture and fisheries

Progress can be reported in the area of agriculture and rural development, food safety, veterinary and phytosanitary policy.

In the area of agriculture and rural development, legislation on farm advisory systems has been adopted. The Directorate for Agrarian Payments, which is planned to serve as a future Instrument for Pre-Accession Assistance for Rural Development (IPARD) agency, has been established. An action plan for IPARD programming and the establishment of the operating structures have been developed and a regular reporting mechanism on its implementation has been initiated. Two new regional rural centres have been established within the national rural development network, bringing their number to 16 country-wide.

However, implementation of the law on agriculture and rural development remains to be completed. The national strategy for agriculture and rural development, the national programme for agriculture and the national programme for rural development have not yet been adopted. The managing authority remains to be appointed. The Directorate for Agrarian Payments remains to be fully staffed. An interministerial mechanism for coordinating rural development policies has yet to be established.

Progress has been made in the wine sector. Implementing legislation for the vineyard register has been adopted. The University of Belgrade, Faculty of Agriculture, Department for Viticulture, has been appointed as the control organisation responsible for the 'System of Designation for Wine with Geographical Indication'. However, the vineyard register remains to be established. The procedure for the authorisation of the oenology laboratories has not started. Implementing legislation regulating import conditions and marketing and quality matters remains to be adopted.

Some progress has taken place on quality policy. The law on indications of geographical origin was adopted, further aligning with the EU *acquis* and reinforcing implementation of the requirements of the Interim Agreement on the protection of geographical indications registered in the Union.

Some progress has been made on organic farming. A National Action Plan for the development of organic farming has been adopted. A new law on organic farming was adopted with entry into force foreseen in 2011. It establishes the Directorate for National Reference Laboratories as the competent authority for organic farming. However, the Accreditation Body of Serbia needs to be internationally accredited in order to allow for the new law to enter into force in January 2011.

Little progress has taken place in the area of food safety. Implementing legislation relevant for allowing export to European Union was adopted. However, the implementation of the law on food safety needs to improve. Substantial implementing legislation needs to be enacted and enforced. The principle of risk analysis is not yet applied and an adequate database system needs to be set up for this purpose. The Hazard Analysis and Critical Control Points Plans need to be better implemented by operators and associated official controls. Inspections and controls at the external

border need to be further upgraded. The ministry needs to improve capacities to take on its new competences on food safety.

Little progress can be reported as regards upgrading of agri-food establishments. The instruction on hygiene requirements and official controls of products and establishments being approved for exports of milk and dairy products and exports of fish and fishery products to the EU was adopted following the Food and Veterinary Office mission's recommendations. However, a national programme for upgrading the establishments remains to be adopted.

Progress has been made in the veterinary area. The amendments to the law on veterinary matters were adopted. They further align the legislation with the EU *acquis* on border issues and simplify the current system of import licences. The law on medicine was adopted, establishing limits on residue levels. Implementing legislation was adopted among other things on conducting border veterinary controls, eradication of a number of diseases and animal welfare. In the field of animal welfare, two European conventions on pets and protection of vertebrate animals were ratified.

However, further amendments to the import licensing system will be necessary as the current system is not compatible with the *acquis*. The implementing legislation on border controls is not enforced and veterinary inspections and controls at external borders have not been upgraded. Enforcement of legislation in relation to registration and control of all cattle markets needs to be improved. Awareness of the legal framework for animal identification and registration needs to be raised and IT infrastructure needs to be upgraded. The Veterinary Directorate's capacities for database operation need to be strengthened. The Veterinary Inspectors need continuous training on the new principles introduced by legislation.

Progress has been made concerning official control laboratories. The Directorate for National Reference Laboratories has been established and is partly operational. The legal competence of the National Reference Laboratories has been extended to animal health. However, the administrative capacity of the Directorate remains to be further improved. . The national reference laboratories are not operational. The administrative competence with regard to seeds needs to be clarified. The funding and charging policy for laboratory tests at the border is not unified.

As regards genetically modified organisms (GMOs), the law banning imports of genetically modified reproductive material needs to be amended to be aligned with the *acquis* and WTO requirements.

Some progress has taken place in the phytosanitary area. The law on recognition of plant varieties was adopted. The International Convention for the Protection of new Varieties of Plants was ratified. Implementing legislation has been adopted on control of potato bacterial diseases. Implementing legislation for the law on plant nutrition products and for the Law on Plant Health has been adopted. A rulebook on maximum residue levels of plant protection products in food has been published. Implementing legislation has been adopted in the area of plant breeders' rights. However, further implementing legislation needs to be adopted especially for the Law on Plant Protection Products. The procedure for registration of new plant protection products is not harmonised with the EU *acquis*. There is no official pesticide residues monitoring programme meeting the EU requirements in place. The strategy and action plan for the introduction of a plant passport scheme are not yet adopted. Control at external borders has not been upgraded.

Progress has taken place in the area of fisheries. Implementation of the new legal framework has almost been completed. The distribution of competences between the ministries has been clarified. Serbia has been included in the list of countries allowed to export fishery products to the EU.

Overall, Serbia is advancing well in the areas of agriculture and rural development, food safety, veterinary and phytosanitary policy towards meeting European Standards. The legal framework continues to improve. However, implementation and enforcement of the legislation need to be upgraded, especially in the food safety area. Administrative capacity is weak and needs to be more efficiently allocated. Inspection services need further training. Recruitment of qualified staff needs to take place in the newly established bodies.

4.2.3. Environment

Good progress can be reported in the area of the environment.

As regards horizontal legislation the National Programme for Environmental Protection (NPEP) 2010–2019 was adopted. The financing projections outlined in the NPEP are based on a low-cost scenario and on increased user charges, which will require considerable liberalisation of current tariff policies. The Serbian Environmental Protection Agency continues to maintain a good level of cooperation with the European Environment Agency.

In the area of air quality, progress can be reported. Implementing legislation to the law on air quality was adopted. However, implementing legislation on emission limit values and emission measurements at large point sources remains to be adopted.

Progress can be reported on waste management. A regulation on establishing the plan for the reduction of packaging waste for the period from 2010 until 2014 has been adopted, following the adoption of laws on waste management. In addition, the National Waste Management Strategy (NWMS) was adopted. The NWMS provides guidance on the implementation of waste legislation. It establishes systems for the management of specific waste streams. However, the procedures for setting product charges, as well as criteria and procedures for the Environmental Fund to finance waste recovery and recycling activities need to be further established. Waste management plans at regional and local levels have to be developed.

There has been progress on water quality. A new law on water was adopted. Water management is to be financed by the national and the Vojvodina provincial budget, as well as by water fees, concession fees and other funds. Dissuasive water pollution fees are to be paid to the Environmental Protection Fund and to be used for the construction of waste water treatment plants. However, there is still no system to monitor nitrate concentrations in and contamination of groundwater. The wastewater treatment infrastructure throughout the country needs upgrading. The Water Directorate within the Ministry of Agriculture, Forestry and Water Management remains to be strengthened. The administrative capacity of the water directorate was reduced.

Progress can be reported on nature protection. Serbia adopted the law on wild game and hunting in March 2010, aligning further with the *acquis* and international obligations under the Bonn Convention on Conservation of Migratory Species of Wild Animals. Serbia adopted the new law on forests, which provides for a framework to protect the forest against atmospheric pollution and fire. However, the strategy on biodiversity remains to be adopted.

On industrial pollution control and risk management there has been some progress. The process of implementing the International Plant Protection Convention has started with the first applications received from existing installations in the cement industry as well as from a new installation for pesticide production. The list of installations which will have to comply with the *acquis* before 2015 is being revised.

Good progress can be reported on chemicals. The Chemicals Agency, a regulatory and implementation body dealing with biocidal products and chemicals became operational.

Concerning climate change, good progress can be reported even if a number of important implementation steps remain. The National Strategy for Incorporation of Serbia into the Clean Development Mechanism under the Kyoto Protocol was adopted by the Government in February 2010 for agriculture, forestry and waste management sectors. The first National Communication under the UNFCCC and greenhouse gas inventory is under development and is expected to be finalised in 2010. Serbia also associated itself with the Copenhagen Accord. A national ozone office was established within the Ministry of Environment and Spatial Planning responsible for the phasing out of ozone depleting substances. There has been an improvement in human resources working on climate change but further increase in staff is still needed.

As regards noise, there has been no progress in implementation of the legislation.

As regards administrative capacity there was little progress. Further training was provided to the environmental protection inspectorates. The Environmental Protection Agency remains fully operational and its performance is improving. The Environmental Protection Fund continues to be active. However, it still lacks the capacity to ensure proper implementation of the integrated monitoring strategy. Budgetary resources for environmental protection remain low. The institutional capacity needs to be strengthened, especially at local level. Better coordination with the central level as well as further enforcement remain necessary.

Overall, Serbia is moderately advanced in the area of environmental protection towards fulfilling the European standards. The capacity to implement and enforce legislation remains to be strengthened.

4.2.4. Transport policy

Serbia has made some progress in the area of transport.

In the area of trans-European transport networks, there has been some progress. Serbia participated in the update of the Multiannual Plan 2010-2014 of the South East Europe Transport Observatory (SEETO). A new road route was introduced in the Core Network within Serbia. A General Master Plan covering infrastructure projects for all modes of transport up to 2027 was adopted. The action plan for 2010 for the implementation of the national transport strategy was adopted. Regarding the implementation of the action plan for construction of Corridor X, works on some road sections have continued. However, the implementation of the action plan is at an early stage, with the company responsible for Corridor X being restructured.

There has been some progress in the area of road transport. Serbia has allowed unrestricted transit traffic for EU carriers to comply with its obligation under the Interim Agreement. The European Agreement concerning the International Carriage of Dangerous Goods by Road has been ratified. The agreement with Montenegro on transport of passengers and goods in international road transport was ratified. The law

on road safety entered into force in December 2009. The number of road accidents has been reduced over the reporting period. The amendments to the law on international road transport have further aligned national legislation with the *acquis* by introducing the certificate of professional competence for managers. Implementing legislation on driving and rest periods, digital tachographs and technical conditions of vehicles has been adopted. The Agency for Road Safety has been established and became operational in September 2010.

However the legislation on transport of dangerous goods, on transport of passengers and on carriage of goods remains to be adopted. An interministerial coordination body needs to be established for road safety and the implementing legislation needs to be adopted. The implementation of digital tachographs has been delayed due to the lack of administrative capacity.

In rail transport, there has been little progress. Regarding restructuring of the railway sector, the methodologies for determining the public service obligation and for calculating access charges for railway infrastructure were adopted. Implementing legislation on the public service obligations and compensations has been adopted. Serbia has ratified the Bilateral Agreement with Montenegro for border control in railway traffic.. However the conditions for full market opening are not in place to allow gradual market opening. The law on railways has not yet been amended. No Network Statement has yet been published. The separation of accounts between infrastructure and services within the infrastructure manager has not yet taken place. The Directorate for Railways is still not exercising its role as regulatory body.

Little progress has taken place in combined transport. Serbia has ratified the Agreement with Hungary on combined transport and logistical services and the agreement has started to be implemented.

Good progress was made in inland waterways. Serbia has adopted six international conventions of the International Maritime Organisation. Serbia has also ratified the bilateral agreement with Croatia on navigation on inland waterways and their technical maintenance. The Law on Navigation and Ports on Inland Waterways has been adopted. However, river information systems need to be set up.

Good progress has taken place in air transport. The provisions of the European Common Aviation Area (ECAA) Agreement in relation to market access have been applied and the market has been opened to new carriers. The law on civil aviation aimed at implementing the first transitional phase of the ECAA has been adopted, addressing a number of previously outstanding issues in the field of aviation safety, ground handling, and aviation security. On air traffic management, Serbia organised with Montenegro their respective airspace into a functional airspace block. However, Serbia still needs to make further efforts to complete regulatory alignment with the single European sky within the Implementation of Single European Sky in South-East Europe (ISIS) Programme. Legislation of the single European sky, in particular the regulations on provision of air navigation services, organisation and use of airspace, interoperability of the European Air Traffic Management network and the flexible use of airspace regulation need to be adopted. Separation of responsibilities for inspection and audits as well as establishment of an independent air accident investigation has not yet been done. The security control system remains to be overseen by an independent body. The administrative capacity of the ministry has not been reinforced.

Overall, Serbia is moderately advanced in the area of transport. It has continued to comply with the obligations of the Interim Agreement and SAA. Market access provisions of the ECAA Agreement are now applied. Framework legislation has been adopted for inland waterways and air transport. However, framework legislation remains to be adopted for railways. Reform of the railway sector needs to be stepped up. Administrative capacity needs to be strengthened for the implementation of the adopted legislation.

4.2.5. Energy

Some progress can be reported in the energy sector. The programme for implementing the current Energy Sector Development Strategy 2007-2012 was revised in April 2010.

There has been little progress in security of supply, with no developments as regards oil stocks. At an estimated 45 days, they remain far below European requirements (90 days), and oil stocks legislation remains to be adopted. There has been an increase in gas reserves. Construction of the underground gas storage facility in Banatski Dvor has been completed with a view to securing gas supplies in the event of unexpected cuts from current sources. A joint venture for the storage facility was established with Gazprom (51%) in October 2009. The contract for the establishment of a joint company for the construction of the South Stream gas pipeline through Serbia was signed in October 2009. In March 2010 a Joint Statement for the development of the Nis-Dimitrovgrad gas interconnector with Bulgaria was signed.

However, the financing of the project needs to be secured. Natural gas interconnections between Serbia and other countries in the region remain limited and there is no physical possibility for diversification of gas supply sources.

As regards electricity interconnections, the 400 KV overhead lines between Nis and Leskovac have been completed. The section from Leskovac to the border with the Former Yugoslav Republic of Macedonia is still under construction as well as the new line with Romania. As a result of the agreement on cooperation in the energy sector with Russia, a contract was signed for the sale of the Serbian oil company NIS to the Russian Gazprom Neft. However, following a complaint from the Kosovan Transmission System Operator, the Secretariat of the Energy Community launched a dispute settlement procedure taking the preliminary view that Serbia “failed to fulfil its obligation under the Energy Community Treaty”.

Serbia made little progress in the context of the internal energy market. In the electricity sector, transmission costs have been separated from other costs. The electricity transmission system operator has, to a large extent, become financially sustainable. Formal opening-up of the electricity and gas markets to non-household consumers has been completed. The Energy Regulatory Agency (AERS) has been working well, in line with Energy Community Treaty requirements.

However, several competencies foreseen under the Energy Community Treaty have not been granted to the regulator. Tariffs are not yet cost-reflective. Amendments to the Energy Law, concerning the supply function in both the electricity and gas sectors and extension of the legal responsibilities of the AERS, remain to be adopted. The separation of distribution and supply in the electricity sector still has to be completed. The deadlines set by the Energy Treaty have not been met. Further efforts are needed to achieve unbundling and real market opening together with a pricing

policy offering a sustainable tariff reflecting costs. In the gas sector, the legal unbundling of Srbijagas remains to be achieved along with proper implementation of the Regulation on conditions for access to the natural gas transmission networks.

There has been little progress in energy efficiency and renewable energy. The national energy efficiency action plan was adopted in July 2010. The government adopted implementing legislation on renewable energy in November 2009, namely on privileged producers of electricity, including incentive measures (feed-in tariffs) for electricity produced from renewable energy sources. However the main elements of the *acquis* on renewable energy remain to be transposed. Serbia does not have a legislative framework on energy efficiency in place. The law on rational use of energy remains to be adopted.

Serbia has made some progress in the areas of nuclear safety and radiation protection especially concerning the decommissioning programme of the “RA” research reactor at Vinca. Decommissioning of the Vinča research reactor, preparation for the repatriation of spent nuclear fuel to the Russian Federation and management of radioactive waste on-site are progressing well although not fully in line with the planned time schedule. The Serbian Radiation Protection and Nuclear Safety Agency (SRPNA) were established in December 2009 and became operational in the second half of 2010. The Director of the Agency was appointed in July 2010.

However, legislation and working procedures in the nuclear area need be revised in order to comply with the EU *acquis*. Working procedures, appropriate staffing and technical means have to be established to enable the SRPNA to work properly. Responsibility for inspection and the operating budget for the Agency need to be clearly defined. Serbia still needs to ratify the Convention on Nuclear Safety and the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

Overall, Serbia is moderately advanced in the implementation of the SAA and of the European standards in the energy sector. Further efforts are needed to achieve unbundling and real market opening together with a pricing policy offering a sustainable tariff reflecting costs. The implementation of the internal market requires transparency and non-discriminatory access rules. To this end, the current Energy Law needs to be amended and put in line with the electricity and gas *acquis*, and the role and independence of the AERS needs to be strengthened. Further efforts need to be made to strengthen the nuclear regulator.

4.2.6. Information society and media

Some progress can be reported on electronic communications and information technologies. The law on electronic communications was adopted by the parliament in June 2010. The law aims at approximating the Serbian legislation to the 2002 and partly the 2009 EU regulatory framework on electronic communications. The new strategy for electronic communications was adopted in September 2010. The Regulatory Agency has adopted rules on costs for radio station licence issuance and on radio frequency usage fees. It has also adopted a decision on designation of universal service operators and adopted rules on number portability in public mobile telecommunication networks which will enter into force in 2011. However, few competitive safeguards have yet been introduced and tariffs are not rebalanced. Market competitiveness is still limited.

The process of privatising the incumbent operator in the fixed telephony market has been launched. In February 2010 a second national fixed telephony licence was awarded for an initial period of 10 years but with the agreement not to allow similar new licences until the end of 2011, thereby keeping competition in the sector limited despite the adoption of the primary law.

Concerning administrative capacity, both the Regulatory Agency and the ministry need to be strengthened. In particular, the regulator needs expertise to ensure the implementation of the new law on electronic communications. The board members of the regulatory authority remain to be appointed.

There has been some progress on information society services. A law regulating e-commerce and implementing legislation regarding the law on electronic documents have been adopted. Concerning electronic signatures, two more certification service providers were certified. The government adopted in October 2009 the strategy for e-government development and the action plan for its implementation from 2009 to 2013 as well as the national broadband strategy and action plan. A 10 year strategy for development of the information society in Serbia was adopted in July 2010. A number of planning decisions regarding the transition from analogue to digital terrestrial broadcasting were adopted and several international agreements were ratified.

However, implementing rules remain to be adopted to ensure that the switchover process takes place as indicated in the 2009 digital switchover strategy.

As regards audiovisual policy, implementation of the law on public information and its amendments has continued, producing some positive effects such as greater responsibility for distribution companies, founders of media outlets and editors-in-chief as well as increased accountability for breaking the presumption of innocence and violating the rights of minors. However, some provisions of the law include excessive fines for the violation of professional standards and for non-registration of media outlets.

Preparations for a comprehensive media strategy are ongoing. Media legislation remains to be aligned with the Audiovisual Media Services Directive.

Overall, preparations in the area of information society and media have continued. The legislative framework has been strengthened, but implementation remains slow and inadequate market and regulatory developments in the electronic communications sector are of particular concern. Preparations in the field of information society services are moderately advanced. In the audiovisual area, media legislation needs to be aligned with the *acquis*, and a number of provisions of the law on public information continue to raise concerns.

4.2.7. Financial control

Progress has been made in the area of public internal financial control (PIFC). A Central Harmonisation Unit (CHU) was established in the Ministry of Finance in March 2010. Budget inspection was fully separated from the CHU function. A certification scheme for internal auditors has been developed by the CHU, and a committee for the examination and certification of internal auditors in the public sector was established by the Minister of Finance. The Budget System Law was amended to improve alignment with international standards.

However, Serbia needs to continue with the establishment of internal audit units in budget- user organisations and auditors require further training. Managerial

accountability and development of financial management and control are still at early stages. Centralised budget inspection needs to be further developed.

With regard to external audit, in May 2010 the Law on the State Audit Institution (SAI) was amended primarily to allow easier recruitment of audit staff and better salary conditions. The SAI performed a partial audit of the 2008 state accounts and reported to parliament in November 2009. However, the SAI is not yet fully operational and further audit staff needs to be recruited.

Overall, there has been progress in this area, but Serbia is still at an early stage in the implementation of PIFC and external audit.

4.2.8. Statistics

There has been some progress on statistical infrastructure. Cooperation and coordination between the Statistical Office and other producers of official statistics have improved, in particular with the Ministry of Agriculture. A Statistical Council, bringing together representatives from various ministries, has been created. Legislation on statistics, on the agricultural census, the population census and the classification of economic activities, were adopted in December 2009. The Statistical Office was reorganised in April 2010 following a 10% staff cut. However, further budgetary as well as staff resources required for the statistical production remains to be ensured.

Good progress was made on classifications and registers. A substantial effort has been made to develop the statistical business register on which two regulations were adopted in July. There has been some progress towards harmonising the Serbian regional statistical classification with the EU NUTS⁴ Regulation, but a formal agreement still has to be reached with Eurostat.

There has been good progress on sector statistics. Preparations for the census on population and housing are well advanced. Special efforts have been made to involve the Roma population in the census. Preparations are being made for an agricultural census. A pilot agricultural census was conducted in December 2009. National accounts have been further developed. A labour cost survey has been carried out for the first time. Business and Energy statistics have been further developed. However, the budget for the population census is not yet allocated.

Overall, Serbia has made good progress in statistics and is moderately advanced towards meeting the requirements of the European standards. Preparations for the population census are well advanced but its funding remains to be ensured. Further progress is needed in several statistical domains and notably concerning strengthening of the capacity of the Statistical Office.

4.3. Justice, freedom and security

4.3.1. Visa, border management, asylum and migration

Serbia has made progress in the area of visa policy and the wider framework of the visa liberalisation dialogue.

⁴ Nomenclature of Territorial Units for Statistics.

Visa-free travel to the Schengen area entered into force in December 2009 for Serbian citizens holding biometric passports, after Serbia had fulfilled the requirements of the visa liberalisation roadmap. In the first months of the visa-free travel regime with the Schengen countries, increased numbers of asylum seekers from Serbia had been registered in Belgium and Sweden. After the readmission of Serbian citizens, who had filed unfounded asylum applications, and preventive action taken by the Serbian authorities, the numbers have declined. However, a new rise in asylum applications was registered in August and September. The authorities need to continue informing citizens about the rights and obligations stemming from visa-free travel. Allegations of bogus changes of residence of Kosovo residents to Serbia, facilitated by corrupt behaviour of officials, are being investigated by the Serbian authorities.

New visa stickers have been issued since June 2010. The visa-free regime with several former Soviet republics was suspended in July 2010. Serbia maintained a visa-free regime for the citizens of all EU Member States and citizens of Croatia, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Montenegro.

However, the current list of countries the citizens of which require visas to travel to Serbia is not fully in conformity with the EU *acquis*. Challenges persist for diplomatic missions and consular posts in issuing visas due to limited access to central databases as well as a lack of qualified staff. The validity of old passports has been extended until the end of 2010 due to the limited capacity for issuing new passports.

Overall, Serbia is moderately advanced in aligning its visa policy with European standards there has been some progress in the area of border management. The coordination body for implementing the Integrated Border Management strategy has been established in June 2010. Serbia has continued to improve the infrastructure and equipment at border crossing points and to strengthen security checks on persons, documents and goods. Installation of the TETRA system has progressed, but has not yet been completed. Border police cooperation has continued, with joint patrols with Bosnia and Herzegovina, Hungary and Montenegro. Efforts to further increase the risk analysis capacity of the border police have continued. Serbia has been involved in joint operations and has regular data exchange with Frontex and participates in Western Balkans Risk Analysis Network. The implementation of the working arrangement is satisfactory.

However, border police, customs and phytosanitary services are still lacking operational coordination and cooperation with regional counterparts needs to be improved. Disparities in infrastructure between border crossing points persist, with control of the borders with the Former Yugoslav Republic of Macedonia, Montenegro, Bosnia and Herzegovina and Croatia still showing important weaknesses. Not all border crossings are fully connected to the central database of the Interior Ministry and to the Interpol system (I-24/7). Surveillance and control at the Administrative Boundary Line with Kosovo need to be further strengthened and cooperation and exchange of information with EULEX/Kosovo police improved. Border police is not yet fully staffed and its risk analysis capacity needs to be further strengthened.

Overall, Serbia started to address its priorities regarding border control. Further efforts are needed to eliminate the disparities between individual border crossing points and to improve control at the borders with the former Yugoslav Republic of Macedonia, Montenegro, Bosnia and Herzegovina and Croatia and in particular at the Administrative Boundary Line with Kosovo.

Little progress has been achieved in the area of asylum. In the period from October 2009 to August 2010, 114 asylum claims have been filed. One final decision granting asylum has been taken. The government adopted a list of safe countries for asylum seekers. Subsidiary protection status has been granted in some cases. Reception of asylum seekers, under the competence of the Commissariat for Refugees as a coordination body for integration of asylum seekers, is well organised and functioning.

However, the Asylum Office, the first instance body for asylum claims, has not been established. Claims continue to be processed by the section for asylum in the Border police, which is understaffed. A high percentage of cases are closed before the decision is taken as the applicants leave Serbian territory or disappear. Extension of reception capacities for asylum seekers is currently not planned.

Overall, Serbia's asylum system continues to be moderately advanced.

Serbia has made some progress in migration management. Implementation of the readmission agreement between Serbia and the European Union has continued without significant problems. Implementing protocols with Italy, Hungary, Norway and Switzerland have been ratified; a further two, with Austria and Malta, have been signed.

However, effective implementation of the migration management strategy is lacking due to poor capacity and insufficient coordination of the responsible bodies. An action plan has not yet been adopted. Conditions in reception centres have not improved due to a lack of funding. There are concerns in relation to the standardised entry, exchange and protection of data collected in conformity with the law on foreigners. While a central database on foreigners is still missing, most of the competent authorities are keeping individual registers. Reintegration of returnees needs to be improved.

Irregular migrants (the majority coming from Afghanistan and the Middle East) continue to transit through Serbia, following the main routes from Turkey. They increasingly affect neighbouring EU Member States. From October 2009 to August 2010, charges were filed against some 3400 foreign citizens for illegally entering Serbia. A significant number of persons indicating their intent to file an asylum request at the border never do so, but disappear after entering Serbia in order to stay as irregular migrants or travel further.

Overall, migration management in Serbia continues to be moderately advanced.

4.3.2. Money laundering

Some progress has been made in the area of anti-money laundering. An action plan for the implementation of the strategy has been adopted in October 2009 and a coordination body established. The Administration for Prevention of Money Laundering, which acts as the financial intelligence unit, has held further training events for its staff and carried out awareness-raising activities for reporting entities. Efforts to improve national and international cooperation in the investigation and processing of offences continued. In June 2010, Serbia acquired observer status in the Eurasian group on combating money laundering and financing of terrorism.

However, practical results in the fight against money laundering have remained weak. Cooperation between competent authorities has continued to show shortcomings. The Administration for Prevention of Money Laundering lacks capacity to systematically identify suspicious cases. Guidelines for the identification of

suspicious transactions have not yet been adopted. Reporting remains poor, in particular outside the banking sector, with the real estate sector and currency exchange offices being of most concern. An effective system for monitoring and analysing cash transactions is not in place. The judiciary and law enforcement services lack expertise in handling money laundering cases and financial investigations. Final convictions in money laundering cases remain rare.

Overall, Serbia has started to address its priorities in fighting money laundering, which nevertheless continues to be a cause of concern.

4.3.3. Drugs

Good progress can be reported in the area of fighting drugs. Serbian law enforcement agencies have continued investigations into illegal production, trade and smuggling of drugs and improved international cooperation. The Serbian intelligence agency (BIA) has contributed to the seizure of some 2.7 tonnes of cocaine coming from South America by US and other authorities. Several drug-producing laboratories have been dismantled in Serbia. Between October 2009 and August 2010, Serbian authorities seized some 1,150 kg of drugs, out of which some 930 kg of marihuana and 155 kg of heroin. Operational cooperation between customs services at regional and international level has improved.

The Ministry of Health has continued its awareness-raising activities. Efforts were taken to reduce drug consumption in prisons, including the establishment of five 'drug-free' units, where special measures are taken to prevent drug abuse by inmates.

However, Serbia remains on one of the main Balkan trafficking routes for heroin and synthetic drugs to the EU, and also became more important as a transit country for cannabis. Criminal groups from Serbia are involved in smuggling cocaine from South America to Europe.

A new law on drugs has not yet been adopted. Little progress can be reported in implementing the national strategy and action plan to fight drugs. The National Commission for implementation of the drug strategy has not been established. This adversely affects cooperation and coordination on both the preventive and repressive sides. Serious weaknesses continue to exist in surveillance of the borders with the former Yugoslav Republic of Macedonia, Montenegro, Bosnia and Herzegovina and Croatia as well as the Administrative Boundary Line with Kosovo, which is of particular concern in view of the level of drug trafficking activity in Kosovo. Police and border police are not yet fully connected to the central database on drugs.

A large quantity of seized drugs has still not been destroyed due to alleged environmental concerns. Cooperation with the European Monitoring Centre for Drugs and Drug Addiction needs to be improved.

Overall, preparations in fighting drugs are moderately advanced. Serbia's contributions to the dismantling of international drug trafficking groups and the seizure of important amounts of illegal drugs show clear commitment and operational capacity. However, drug trafficking from and through Serbia remains of concern.

4.3.4. Police

Serbia has made some progress in the area of police reform. Capacity building has continued primarily within specialised services of the criminal police such as the services for combating organised crime, financial investigations and high-tech crime.

Some measures have been taken to improve the methodology and standards of police work, including an information booklet explaining the regulatory framework. Training and education have continued on best practice in police work and on work in communities and with minorities.

Cooperation between various police structures, as well as regional and international cooperation, have improved further, leading to good results in particular in combating drugs trafficking and organised crime. In June 2010, Serbia signed a non-binding roadmap with Europol on the preparations for the conclusion of an operational agreement. Enhanced efforts are necessary to meet the challenges of the roadmap, particularly in areas related to the protection of personal data and classified data.

However, at the level of the Interior Ministry, there is no effective strategic planning and human resource management remains weak. This adversely affects prioritising and budgeting. Intelligence-led policing and the criminal intelligence system need to be improved. The lack of openness and transparency of recruitment procedures and career development within the police remains of concern.

Understaffing and inadequate working conditions for some police services need to be addressed. Further steps have been slow towards developing an efficient internal control system ensuring proactive investigations and monitoring of the legality and conformity with standards of police conduct. Between October 2009 and August 2010, 316 criminal charges were filed against police officers. Security of police officers needs to be improved in the light of the increased number of incidents and attacks on police officers.

The work of the large number of private security agencies remains unregulated, representing a serious security challenge. Illegal firearms and explosives continued to be widespread and subject to trafficking throughout the region.

Overall, the police system remains moderately advanced. The Serbian police have shown investigative capacities, but further sustained efforts are needed.

4.3.5. Fighting organised crime and terrorism

Good progress has been made in fighting organised crime. The action plan to fight organised crime has been adopted in September 2009 and implementation has started. Investigative capacities and the use of special investigative techniques have been further strengthened. Specialised training of the relevant police services has continued. The work of the unit for financial investigations within the organised crime service has continued under the leadership of the Special Organised Crime Prosecutor. Confiscation of assets started in a more systematic way and confiscations were carried out in a number of cases.

Cooperation between relevant agencies has improved within the country, in the region and internationally, leading to good results in a number of high-profile investigations against organised crime groups. In these cases, a number of suspects have been arrested and illegally acquired assets confiscated. In October 2010, an agreement establishing a regional office in Belgrade for improving cooperation in the fight against organised crime was signed with Albania, Bosnia and Herzegovina, Croatia, Montenegro and the Former Yugoslav Republic of Macedonia.

Cooperation with Eurojust improved and Serbia established additional contact points. A meeting with Eurojust representatives took place in May 2010 in order to

prepare negotiations for a cooperation agreement. Protection of personal data and of classified data is key for successful conclusion of such an agreement.

However, a new and substantially revised Criminal Procedure Code has still not been adopted. The Commission for Inter-ministerial Coordination in the field of Justice and Home Affairs has shown little activity. The capacity of the specialised police services to conduct proactive investigations and engage in intelligence-led policing remains limited due to understaffing and lack of analytical expertise. The number of final convictions remains low.

The lack of adequate control and surveillance of the administrative boundary line with Kosovo continues to be problematic in an area which is vulnerable to organised crime activities. Cooperation, implementation of the police protocol and exchange of relevant information with EULEX need to be further improved. A uniform database on organised crime cases is still missing. Inter-service cooperation, including between the tax administration, customs and the Administration for the Prevention of Money Laundering, needs further improvement. Witness protection needs to be improved. The limited capacities of the agency for the management of seized assets and the fast auctioning of seized assets in the absence of a conviction or any risk of immediate deterioration raise some concerns.

Overall, Serbia has started to address its priorities in fighting organised crime. Recent results in investigating organised crime activities at national and international level and in the confiscation of illegally acquired assets are encouraging, but need to be followed up by transparent, impartial and effective proceedings in the judiciary. The capacities of the law enforcement agencies to use modern investigative techniques, in particular in the area of financial investigations, need to be further strengthened.

Serbia has made some progress in fighting trafficking of human beings. Procedures to identify victims have been adopted and the number of identified victims has continued to increase, while the regional trend points towards a decrease in trafficking of human beings. Law enforcement authorities remained active and regional and international cooperation improved further. From October 2009 to August 2010, 94 victims of human trafficking have been identified, with women representing the majority. These victims, mostly of Serbian origin, had been trafficked for sexual abuse, begging, forced marriages, and labour exploitation. Awareness-raising activities have continued.

However, ratification of the European Convention on Action against Trafficking in Human Beings has not been followed by further measures to guarantee its effective implementation. The strategic framework, which includes the strategy and action plan for fighting trafficking in human beings, but also the migration management, the irregular migration and the organised crime strategies, needs to be amended to allow a better policy response to emerging trends and improved cooperation between the police, prosecution and courts. As far as the protection of victims is concerned, more needs to be done to provide them with comprehensive assistance and reintegration. Although some emergency funds have been secured for two shelters run by NGOs, overall funding for NGOs active in the field of prevention and support to victims and for the government's protection agency remains unsatisfactory. NGOs continue to rely heavily on international donor funds.

Overall, Serbia is moderately advanced in fighting trafficking in human beings.

Serbia has made some progress in the fight against terrorism. The law regulating the military intelligence and military security agencies was adopted in October 2009, providing for better cooperation between agencies in the fight against terrorism. Implementation of the amended law on the prevention of money laundering and the financing of terrorism has started. Capacities of the law enforcement authorities in this area are generally good.

However, following the ratification of the relevant Council of Europe Conventions, no prevention policies or legislative and institutional changes were adopted for further alignment with these provisions. A specific list of terrorist suspects has not yet been established.

Overall, Serbia is moderately advanced in fighting terrorism.

4.3.6. Protection of personal data

There has been little progress on protection of personal data. The Strategy for the Protection of Personal Data has been adopted in August 2010. The office of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection, which acts *inter alia* as supervisory authority for the protection of personal data, was allocated additional staff.

However, the Law on the Protection of Personal Data is not fully in line with EU standards and not all necessary implementing legislation has yet been adopted. The office of the Commissioner for Information of Public Importance and Personal Data Protection continues to lack financial and human resources. This raises concerns over its capacity to adequately carry out its supervisory tasks.

Overall, the protection of personal data in Serbia remains moderately advanced. Personal data protection is a key precondition for Serbia to conclude an agreement with Eurojust and an operational agreement with Europol.

INSTRUCTIONS FOR ASSOCIATES

The Review of International Affairs is a quarterly published in January, April, July and October every year.

The periodical publishes evaluated articles and conference and book reviews in the field of international relations, foreign policy, international public law and international economics.

In writing all contributions for *The Review of International Affairs* authors are kindly asked to respect the following rules.

Instructions for Writing Articles

1. Author contributions (articles) should not be longer than 10 single-spaced pages (single) in *Word* format (up to 28000 characters with spaces).
2. Articles should be written in *Times New Roman* font, font size 12, with page numbers on the right side of the bottom of the page.
3. The title of the article should be written in capital letters, in **Bold**, font size 14. The title is separated from the text with – *spacing before 18 pt*. Below the title is given the author's forename, middle name and surname (including his title, possibly), the name of the institutions he works for as well as its seat. These data are given in *Italic*.

Example:

Prof. Dragana Marko Mitrović, Ph.D., Faculty of Political Science, Belgrade

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5. The *Abstract* should contain not more than 100 words, presenting the most significant hypotheses the work is based upon. Below the *Abstract* the author puts up to 12 *Key Words*. Both the *Abstract* and *Key Words* are given below the title of the article and they should be separated from the rest of the text by applying the option *Paragraph-Indentation*.
6. The *Summary* written in the language of the paper (e.g. Serbian) should be placed after the text. The author should give a concise contents of the paper and the most significant hypothesis his work is based upon.
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The author's full forename and surname, the title of the monograph (*in Italic*), publisher, place of publishing, year of publishing, p. if one page of the quotation in English is cited, pp. if several pages are quoted. In case several pages are quoted En Dash is applied with no space before and after the numbers (for example 22–50).

When the proceedings in English are quoted and they were edited by more than one editor, then there should be put (eds) in brackets with no full stop after the names of the editors. If there is only one editor then (ed.) is put, including a full stop inside the brackets.

Examples:

John Gillingham, *European Integration 1950–2003*, Cambridge University Press, Cambridge, 2003, p. 221.

Duško Lopandić (ed.), *Regional initiatives in Southeast Europe: multilateral cooperation programs in the Balkans*, Institute of International Politics and Economics, Belgrade, 2001, pp. 24–32.

Theodor Winkler, Brana Marković, Predrag Simić & Ognjen Pribićević (eds), *European Integration and the Balkans*, Center for South Eastern European Studies, Belgrade & Geneva Centre for the Democratic Control of the Armed Forces, Geneva, 2002, pp. 234–7.

b) *Articles in Scientific Journals*

The author's full forename and surname, the title of the paper (with quotation marks), the title of the journal (*in Italic*), the number of the volume, the number of the publication, pp. from–to. The numbers of pages are separated by En Dash (–), with no space. If some data are incomplete it should be clearly stated.

Examples:

Michael Levi, “The Organisation of Serious Crimes”, in: Mike Maguire, Rod Morgan & Robert Reiner (eds), *The Oxford Handbook of Criminology*, Oxford University Press, Oxford, 2003, pp. 878–84. (pp. 878–9 or p. 878).

Robert J. Bunker & John. R. Sullivan, “Cartel Evolution: Potentials and Consequences”, *Transnational Organized Crime*, vol. 4, no. 2, Summer 1998, pp. 55–76.

c) *Articles in Daily Newspapers and Journals*

There should be given the author's name (or his initials, if they are the only ones given), the title of the article – with quotation marks, the title of the newspapers or the journal (*in Italic*), date – in Arabic numerals, the number of the page/pages.

Example:

John Gapper, "Investor votes should count", *The Financial Times*, 17 April 2006, p. 9.

d) *Document quotation*

There should be given the title of the document (with quotation marks), the article, item or paragraph the author refers to, the title of the journal or official gazette containing the document (*in Italic*), the number of the volume, the number of the publication, the place of publishing and year of publishing.

Example:

"Resolution 1244 (1999)", Security Council of the United Nations, 10 June 1999.

e) *Quotation of sources from the Internet*

It should contain the author's name, the title of the contribution or article, a full Internet Website that enables to access the source of quotation by typing the mentioned site, the date of accession to the Web page, page number (if there is one and if presented in PDF format).

Example:

Maureen Lewis, *Who is Paying for Health Care in Eastern Europe and Central Asia?*, IBRD & World Bank, Washington D.C, 2000, Internet, [http://Inweb18.worldbank.org/eca/eca.nsf/Attachments/Who+is+Paying+for+Health+Care+in+Eastern+Europe+and+Central+Asia/\\$File/Who+is+Paying+text.pdf](http://Inweb18.worldbank.org/eca/eca.nsf/Attachments/Who+is+Paying+for+Health+Care+in+Eastern+Europe+and+Central+Asia/$File/Who+is+Paying+text.pdf), 14/09/2004, p. 3.

f) *Repeating of the previously quoted sources*

Ibid. or ibidem is applied only if quoting the previous source in the text, with the page number, and in case the new quotation belongs to the same source (e.g. *ibid.*, p. 11)

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13. The article may contain tables or some other supplements (such as maps, graphs, and the like). It is necessary to give their number and full title (e.g. *Table 1: Human Development Index among EU members* or *Figure 2: State-Building or Sovereignty Strategy*). If the supplement is taken over from the contribution of some other author or a document its source should necessarily be given.

Instructions for Writing Book and Conference Reviews

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2. The bibliographic details should be given at the beginning of the review in accordance with the rules prescribed for monographs in footnotes, and with the total number of pages given at the end (e.g. p. 345).

3. Book and conference reviews must not contain footnotes, while all possible remarks should be put in brackets.
4. The author may also write subtitles of the book or conference review in capital letters – font size 14, although this is subject to changes on the part of the editorial staff.
5. Font size, font and justification of the text should be in conformity with the previously mentioned suggestions on writing of articles.
6. The name of the author of the review is given at the end; it should be in *Italic*, while the whole surname should be written in capital letters (e.g. *Žaklina NOVIČIĆ*).

* * * * *

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BOOKS:

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Serbia in Contemporary Geostrategic Surroundings, Proceedings from International Conference, editor Nevenka Jeftić, 2010, pp. 468.

Srđan Korać, *Integritet nadnacionalnog službenika Evropske unije*, broširano, 2010, 206 str.

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Srbija i regionalna saradnja, zbornik radova, Dragan Đukanović i Sandro Knezović (priređivači), 2010, 340 str.

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Ivona Lađevac, Svetlana Đurđević-Lukić, Ana Jović-Lazić, *Međunarodno prisustvo na Kosovu i Metohiji od 1999. do 2009. godine*, 2010, 308 str.

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Duško Dimitrijević and Miroslav Antevski (eds.) *Proceedings, Serbia and European Union*, 2010, pp. 248.

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Vodič kroz pravo Evropske unije, zbornik radova, (prir.), Blagoje Babić, 2009, 768 str.