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

Enlargement Strategy and Main Challenges 2007-2008

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1. INTRODUCTION

Enlargement is one of the EU's most powerful policy tools. It serves the EU's strategic interests in stability, security, and conflict prevention. It has helped to increase prosperity and growth opportunities and to secure vital transport and energy routes. The present enlargement agenda covers the Western Balkans and Turkey, which have been given the perspective of becoming EU members once they fulfil the necessary conditions.

The year ahead will be a crucial one in consolidating the transition process in the Western Balkans. The countries themselves will take over responsibility from the Stability Pact for promoting regional cooperation, which plays a key role in reconciliation and the establishment of good neighbourly relations. Accession negotiations with Croatia are advancing well and are entering a decisive phase. This demonstrates to the region as a whole that the perspective of EU membership is a reality. In the year ahead the Stabilisation and Association Agreements, linking partners in the region more closely to the EU, with a view to accession, are expected to near completion.

At the same time, the region itself faces major problems, beginning with the need to reach a status settlement for Kosovo. Serbia's European course, state-building in Bosnia and Herzegovina with local ownership, and better governance in the former Yugoslav Republic of Macedonia, Albania and Montenegro will be high on the agenda. A number of these countries face important challenges with regard to governance and the fulfilment of well-established conditions linked to the Stabilisation and Association Process. The EU will need to be ready to provide its support during the year ahead, and to respond to developments by making full use of its policy instruments.

Following Parliamentary and Presidential elections, it is important for Turkey to press ahead with key reforms which are needed to consolidate fundamental rights and freedoms. Accession negotiations with Turkey need to continue, at a pace that reflects the pace of reforms in the country itself as well as Turkey's fulfilment of the relevant conditions.

Against this background, the consistent implementation of the renewed consensus defined by the December 2006 European Council is more important than ever. This consensus is based on the principles of consolidation of commitments, fair and rigorous conditionality and better communication with the public, combined with the EU's capacity to integrate new members. The pace at which a candidate or potential candidate approaches the EU reflects the pace of its political and economic reforms as well as its capacity to fully assume the rights and obligations of membership. The Commission is improving the quality of the enlargement process by tackling public administration and judicial reform and the fight against corruption at an early stage, by making full use of benchmarks, and by bringing more transparency into the process. The Commission is preparing the first impact studies, analysing the effect of a candidate's accession in specific policy areas.

The legal basis for enlargement is Article 49 of the Treaty on European Union¹, which reads: "*any European State which respects the principles referred to in Article 6(1) may apply to become a member of the Union (...)*"².

The December 2006 European Council concluded that "enlargement has been a success story for the European Union and Europe as a whole. It has helped to overcome the division of Europe and contributed to peace and stability throughout the continent. It has inspired reforms and has consolidated common principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law as well as the market economy. The wider internal market and economic cooperation have increased prosperity and competitiveness, enabling the enlarged Union to respond better to the challenges of globalisation. Enlargement has also enhanced the EU's weight in the world and made it a stronger international partner."

The twelve Member States that joined in the fifth enlargement display a good level of compliance with EU law. This shows the value of rigorous reform efforts combined with EU peer pressure and disciplines. Thanks to sound preparations, the EU continues to operate smoothly after enlargement.

Member States in all parts of the EU have benefited from higher levels of economic growth. Slovenia adopted the euro in January 2007; Cyprus and Malta will do so in 2008. Careful preparations by the countries concerned and the Commission, combined with rising trade and investment flows have helped the new Member States to progressively converge with EU average living standards. Between 1998 and 2006, the GDP of the twelve Member States that joined in the fifth enlargement has grown by an annual average of 4.3% as compared to 2.2% in the 15 old Member States³. Trade between the old and the new members increased remarkably in the last decade. Exports and imports between the ten Member States that joined in 2004 and the 15 old Member States have quadrupled between 1995 and 2006, while overall trade between them doubled in that period. The inclusion in the internal market of twelve dynamic economies of more than 100 million consumers with rising purchasing power increases the Union's competitiveness and its weight in the world economy. Ten months after accession, Bulgaria and Romania are generating further economic growth and investments. 2007 growth forecasts for Romania and Bulgaria are much higher than the expected EU average growth rate. The Commission took safeguard measures at the end of 2006 to address certain shortcomings for both countries. In June, the Commission issued its first reports on the Cooperation and Verification Mechanism in the area of justice and home affairs as well as on the safeguards⁴. The Commission will review progress in this area and report in early 2008.

As regards the Cyprus issue, the leaders of the Greek Cypriot and Turkish Cypriot communities need to step up their efforts to relaunch negotiations on a comprehensive settlement under UN auspices. The Commission is implementing the instrument of financial support for encouraging the economic development of the Turkish Cypriot community,

¹ A new treaty was agreed in the October 2007 European Council.

² Article 6(1) reads "*The Union is founded on the principles of liberty, democracy, respect for human rights, and fundamental freedoms, and the rule of law, principles which are common to the Member States*".

³ Based on Eurostat data.

⁴ Reports on Bulgaria's and Romania's progress on accompanying measures following Accession COM(2007) 377 and COM(2007) 378, 27.6.2007.

⁴ Reports on Bulgaria's and Romania's progress on accompanying measures following Accession COM(2007) 377 and COM(2007) 378, 27.6.2007.

facilitating future re-unification of the island. Enhanced use of the Green Line Regulation, which allows for the movement of persons and goods throughout Cyprus, will serve the interests of both communities. The regulation on direct trade with the northern part of Cyprus, proposed by the Commission to further reduce the isolation of the Turkish Cypriot community, remains to be adopted by the Council.

In the countries engaged in the present enlargement agenda – the Western Balkans and Turkey, the pull of the EU is contributing to stability and encouraging important political and economic reforms. However, these still face a number of major challenges. It is crucial to maintain the visibility and credibility of their accession prospects, as well as rallying support for enlargement in the Member States.

The Commission will continue to further improve the quality of the enlargement process. Enlargement policy will put more emphasis on the fundamental issues of state-building, good governance, administrative and judicial reform, rule of law, reconciliation, compliance with International Criminal Tribunal for the Former Yugoslavia (ICTY), and civil society development. People-to-people contacts need to be promoted; in particular it is time to initiate a dialogue on visa liberalisation for citizens of the Western Balkan countries. The development of regional cooperation in the Western Balkan should be continued, especially local ownership of initiatives in this area.

In all enlargement countries, the EU will continue to make full use of its pre-accession instruments for addressing key challenges. The track record of implementation of commitments, notably under the association agreements, is of particular importance for moving from one stage to the next on the roadmap towards EU integration and is monitored with rigour. The Commission sets out in this document a number of measures to raise awareness about EU laws and policies and to prepare the next steps in the enlargement process.

The Commission is adjusting pre-accession policy tools to current challenges of enlargement policy. Since January 2007, it is using a new financial instrument, the Instrument for Pre-Accession Assistance (IPA). In programming IPA assistance, a tighter focus on reform priorities will reflect each partner's stage in the transition process. The Commission is now proposing a revision of Accession and European Partnerships, which will serve as key references in setting priorities. It is also proposing a revised Multi-annual Indicative Financial Framework for IPA, covering the period 2009-2011. It will introduce a facility to further the development of civil society, notably through capacity-building and exchange projects. It will give added emphasis to programmes which support state-building, good governance, institutional reform and administrative capacity.

Maximum leverage of grant support to private sector development and infrastructure investment will be sought through intensified cooperation with the European Investment Bank (EIB), as well as the European Bank for Reconstruction and Development (EBRD) and other International Financial Institutions (IFIs). The Commission will ensure closer coordination with other donors across the range of their activities and encourage them to be active in priority fields identified in this communication. Implementation will also be streamlined following the transfer of responsibilities from the European Agency for Reconstruction to Commission delegations and offices.

Member States are best placed to lead in communicating to the public that enlargement is in the EU's interest. The Commission will continue to play its part, by promoting a better flow of

factual information on enlargement issues. Building on the EU's existing strategy, the present communication analyses the key challenges on the road towards EU integration. It outlines an approach to adjust the enlargement policy instruments and ensure a tighter focus on areas in urgent need of progress, also taking into account lessons learned from the previous enlargements.

2. PRESENT CHALLENGES IN THE ENLARGEMENT COUNTRIES

The countries of the Western Balkans and Turkey have been given the perspective of becoming EU members once they fulfil the established conditions. Given the present state of preparations in these countries, their accessions are likely to occur in the medium to long term. The focus is now on thorough preparations to ensure that countries engaged in the enlargement process tackle fundamental governance and economic issues, as well as issues related to EU laws and policies.

2.1. The Western Balkans

EU engagement with the countries of the Western Balkans through the Stabilisation and Association Process, leading to eventual membership, has made a crucial contribution to the progress achieved in recent years by the countries of the region.

Stability has been maintained and reconstruction after the wars of the 1990s is almost completed. Democratically-elected governments are in place throughout the region. Economic growth has picked up, macro-economic stability has improved and living standards have risen. Important reforms are underway to strengthen the rule of law and modernise economic and social structures. Regional cooperation has grown, including in the areas of trade, energy, transport and environment. The Western Balkan countries are assuming increasing ownership in regional initiatives.

All countries of the Western Balkans have been moving forward towards the EU, albeit at different speeds. Croatia is engaged in accession negotiations with the EU, and the former Yugoslav Republic of Macedonia has obtained candidate status. The EU is in the course of completing Stabilisation and Association Agreements with the countries of the region and economic integration with the EU is well advanced. The Western Balkan countries have now signed visa facilitation and readmission agreements with the EU.

These achievements now need to be consolidated and made irreversible. Further major challenges need to be addressed. In a number of countries, the overall reform process has slowed down. State-building, as well as better governance, remain priority concerns in much of the Western Balkans. The situation in Kosovo⁵ continues to necessitate a significant international presence. The present status of Kosovo is not sustainable; it needs to be settled without further delay to permit Kosovo's political and economic development and to ensure regional stability. In Bosnia and Herzegovina, nationalist rhetoric by key political leaders is challenging the arrangements established by the Dayton/Paris peace agreement and has stalled reforms. Much needed reforms of the police and of the constitutional framework have failed to make progress. Bosnia and Herzegovina has yet to assume full ownership of its governance, which currently necessitates a significant international presence. In some other countries the constitutional framework needs to be completed or fully implemented.

⁵ Under UN Security Council Resolution 1244.

More dialogue and a greater spirit of tolerance are needed throughout the Western Balkans, not least on ethnic-related issues. In Kosovo, relations between Albanians and Serbs remain strained. In addition, Kosovo Serbs have by and large not participated in the institutions and administration. The functioning of Bosnia and Herzegovina's state institutions continues to be compromised by ethnic divisions. In Serbia, despite the victory of democratic forces in the parliamentary elections and the formation of a reform-oriented government, extremist parties and nationalist rhetoric remain strong and affect negatively the overall political climate. Democratic forces are fragile. In the former Yugoslav Republic of Macedonia, frequent tension and insufficient cooperation between political actors has affected the normal functioning of institutions and slowed down reforms. The dispute between the government and an opposition party about a constitutional matter led to that party boycotting parliament. The highly confrontational political climate in Albania and the lengthy process of adoption of a constitution in Montenegro point to other challenges in building modern democracies. Croatia needs to make further efforts to promote tolerance towards minorities.

Significant progress has been made in cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY), a key condition of the Stabilisation and Association Process. Croatia and the former Yugoslav Republic of Macedonia maintain full cooperation with the Tribunal. Montenegro's cooperation with the Tribunal is satisfactory. Progress made in this area by Serbia allowed for the resumption and technical completion of negotiations for a Stabilisation and Association Agreement (SAA). Bosnia and Herzegovina has also made progress in cooperation with ICTY. However, Serbia and Bosnia and Herzegovina still need to achieve full cooperation with the Tribunal, leading to the arrest of the remaining indictees. Kosovo has made some progress in cooperating with ICTY but the intimidation of witnesses in Kosovo remains a source of concern.

Limited progress has been made on refugee return. Many refugees and internally displaced persons are living under very difficult circumstances. Some progress has also been recorded in improving representation of minority groups in the public services. However, the Roma continue to be the most vulnerable minority in the region. All countries need to encourage a spirit of tolerance towards minorities and take appropriate measures to protect persons who may be subject to discrimination, hostility or violence. This is essential to achieve reconciliation and lasting stability.

The enforcement of the rule of law, notably through judicial reform, and the fight against corruption and organised crime are top priorities. Most countries have taken steps to improve the organisation and performance of their justice systems. Efforts are underway to intensify the fight against organised crime and have yielded first results. Legislation and institutions are being developed to fight corruption; in several countries investigations are underway and a number of prosecutions have been brought. However, justice systems still require considerable improvement across the region. Wide-ranging reforms need to be conducted in a sustained manner to ensure the independence, efficiency and accountability of the justice system. Corruption remains widespread and is deeply rooted in society. In all Western Balkan countries, measures taken are not commensurate with the magnitude of the problem. Strong political will is needed to root out corruption and prosecute offenders, including in high-profile cases. Organised crime remains a serious concern. Criminal networks extend to various socio-economic sectors and into politics. They often benefit from insufficient transparency in public procurement, investment planning and privatisations. The region is a place of origin and transit for human trafficking, as well as for drug smuggling. Considerable and sustained efforts are needed in this area.

Administrative capacity is a crucial aspect in fulfilling the Copenhagen membership criterion on the ability to take on the obligations of membership, as was stated by the European Council in Madrid in 1995. Public administration reform is being pursued across the region with some positive results such as framework strategies and legislation. Croatia has shown that it has considerable administrative capacity for implementing the Stabilisation and Association Agreement (SAA). Serbia also has considerable administrative capacity for implementing a SAA. They now need to build on this capacity and modernise it to align with the EU laws and policies. Administrative capacity elsewhere remains weak and affects implementation of reform and EU alignment; additional efforts are needed in this respect. Stronger commitment is needed in each country to establish a civil service that is efficient, stable and accountable, both at central and local level. In several countries the recruitment, promotion and dismissal of civil servants are not based on objective and transparent criteria. Ethical standards in the civil service need to be strengthened. Reforms of the police and security services remain to be implemented in Bosnia and Herzegovina and other countries.

Civil society is an essential element of European public life. Western Balkan countries have made efforts to adopt legislation and strategies that are more favourable to civil society development. Some first steps have been taken towards more participatory democracy. However, civil society remains weak in the region. Wars and ethnic strife have done major damage to the social fabric of the region. Local NGOs need training to adapt to present conditions. Further efforts are required to deepen the freedom of association, to put in place regulatory frameworks and public incentives for the development of civil society organisations.

Overall, economic growth has remained relatively high in the region and average wages increased. Inflation figures are modest and stable. Prudent fiscal and monetary policies have been implemented in most countries of the region. Financial systems further developed. Public finance management systems improved. Steps have been taken to improve the business climate. All Western Balkan countries are further restructuring and opening up their economies. The degree of economic integration with the EU is already high and growing. Stabilisation and Association Agreements and the new Central European Free Trade Agreement (CEFTA) agreement create together a framework conducive to trade and investments in the Balkans, as was the case in Central and Eastern Europe in the 1990s. Several countries have ambitious plans to upgrade physical infrastructure and modernise social security systems.

Raising competitiveness, reducing the high levels of unemployment and fostering human development and infrastructures are major challenges throughout the region. Significant fiscal risks persist and external imbalances are sizeable in a number of countries. Progress in job creation is uneven, while some countries in the region register unemployment rates of above 35% and the gap between available and necessary labour skills is increasing. Labour markets continue to lack an appropriate combination of flexibility and security for workers and employers and taxes on wages for registered companies are relatively high. Rural economies need further diversification. Fiscal consolidation and enterprise restructuring need to be pursued further. The countries' privatisation plans need to be implemented. Investments and SME growth need to be further stimulated, including through improved access to finance. Governments need to further improve the business environment and stimulate employment. They need to reduce red tape, strengthen the rule of law, ensure reliable land registration and transparent procedures for privatisation. In some countries, the legal framework ensuring the proper functioning of markets needs to be completed and enforced. Tax regimes need simplifying. This will stimulate economic activity and reduce the high levels of informality in

the economy. In addition, measures are needed to facilitate access to finance and the use of e-technology.

Turkey

Since the December 1999 European Council granted candidate status to Turkey, the country has achieved major changes. The European perspective proved one of the main incentives for reforms of the political and legal system as well as the economy in Turkey. The death penalty was abolished, the functions and composition of the National Security Council were changed to increase civilian control over the military, and a series of constitutional amendments enhanced democratic freedoms. Progress was made in areas such as women's and children's rights, and the fight against torture, with a further overall decline of reported cases of torture and ill-treatment.

In economic terms, after the serious financial crisis of 2001, sound macroeconomic policies and structural reforms designed to ensure long-term sustainability of the economy allowed for a fast recovery of the economy and an improved investment climate. This resulted in high GDP growth, which reached 6.1% in 2006. Inflation dropped since 2001 and the Turkish lira remained strong. However, Turkey's development is still influenced to a significant extent by international financial trends. Since the establishment of the Customs Union in 1995, the value of trade with the European Union has tripled in current prices. This reflects a strong demand for EU products and services combined with good performance of the Turkish export industry. In addition, the level of foreign direct investment reached a new record of € 16 billion in 2006, that is 4.9% of the Turkish GDP, originating mainly in the European Union.

These reforms and the strategic importance of the EU's relationship with Turkey led to the start of accession negotiations in October 2005. A core principle of this process is that the pace of the negotiations depends on the pace of the reforms in Turkey.

The implementation of reforms has been uneven and has slowed down since 2005. In the past year, Turkey went through a constitutional crisis concerning the election of the President of the Republic, which led to early parliamentary elections. The military made public statements beyond its remit. However, in the run up to the elections open debates took place on a number of traditionally sensitive issues and a vibrant civil society proclaimed its attachment to democracy and the secular state. The elections for the Grand National Assembly were held in full respect of democratic standards and of the rule of law. The new Parliament is representative of the country's political diversity. The President of the Republic was elected in accordance with constitutional rules and democracy prevailed in civil-military relations. The government has begun work on a new constitution.

Turkey now needs to renew the momentum of political reforms. Significant further efforts are needed in particular on freedom of expression, and the rights of non-Muslim religious communities. Further progress is needed in particular on the fight against corruption, judicial reform, trade union rights and women's and children's rights, and the accountability of the public administration needs to be strengthened. In the South-East, Turkey needs also to create the conditions for the predominantly Kurdish population there to enjoy full rights and freedoms. The Commission will continue monitoring closely the process of political reform, including civilian oversight of the security forces.

In response to a series of PKK armed attacks that caused multiple casualties, parliament adopted in October 2007 a motion authorising the government to intervene militarily in the

northern part of Iraq. The EU Presidency reiterated on 22 October the Union's total condemnation of PKK terrorist violence in Turkey. It further stated that "the international community, in particular all the main stakeholders in the region, must support Turkey's efforts to protect its population and fight terrorism, while respecting the rule of law, preserving the international and regional peace and stability and refraining from taking any disproportionate military action".

Further structural economic reforms and fiscal consolidation are needed to address remaining risks to macroeconomic stability. Major challenges include structural weaknesses and rigidities in the labour market, the quality of skills of the labour force, low employment rates especially for women, a large informal sector and reforms in the social security system and in the energy sector. The diversification of the rural economy remains limited. The vulnerability of the Roma needs to be addressed. Turkey still needs to develop a comprehensive approach to economic and social development in the Southeast.

Good neighbourly relations remain key. Turkey is also expected to ensure full, non discriminatory implementation of the Additional Protocol to the Association Agreement.

3. THE ENLARGEMENT STRATEGY: ADDRESSING THE PRESENT AGENDA

3.1. The renewed enlargement consensus

The EU enlargement process contributes to peace and stability, reforms, and the promotion of European values. The effectiveness of conditionality in driving reforms depends on maintaining a credible prospect of eventual integration into the Union. This needs to be even more visible to the people of the countries concerned. The prospect of membership has never been more important than today to help the countries to overcome crisis, state weaknesses and challenges to democracy.

Rigorous conditionality at all stages of the enlargement process helps consolidating reforms in all candidate and potential candidate countries and preparing future Member States to fulfil their obligations upon accession. Each country's progress towards the European Union depends on its individual efforts to comply with the Copenhagen criteria and, for the Western Balkans, with the conditionality of the Stabilisation and Association Process.

Full attention is paid to the EU's integration capacity at key stages of the accession process. Improvements in the quality of the enlargement process, decided at the December 2006 European Council, ensure that the progress of candidates and potential candidates towards EU membership is determined by their success in addressing key requirements. Benchmarks for opening and closing negotiation chapters, impact studies at key stages of the enlargement process on key policies of the EU, and linkages with political reform play an increasing role in that process.

3.2. Focusing on core issues

The challenges identified above warrant greater focus on key reform priorities which relate to state-building, governance, and socio-economic reforms. The Commission is now proposing revised Accession Partnerships and European Partnerships that mirror those priorities. The partnerships guide the countries in their European course and establish priorities for pre-accession financial support. They will give higher priority from an early stage to basic governance issues, including institution building, judicial and administrative reform and the

prevention of organised crime and corruption. Greater emphasis will be placed on such difficult issues, in particular in the context of the political and economic dialogues. More cooperation is needed between Western Balkan countries, EU institutions and agencies, and the Member States to fight trans-national crime. Issues related to the implementation of the EU laws and policies need to be sequenced according to the countries' capacities and depending on progress achieved in undertaking basic reforms.

The pre-accession fiscal surveillance mechanism which is, since 2006, also in place for potential candidate countries, will continue to support economic reform in all candidate and potential candidate countries.

Regional cooperation and good neighbourly relations remain key to European integration. Progress in these areas strengthens confidence and brings concrete benefits through regional stability, better cross border links, and improved infrastructure. These also bring economic benefits in terms of faster growth and increased foreign direct investment.

Mutual knowledge and understanding require further development of civil society and of dialogue between the citizens of EU Member States and the enlargement countries. Since 2005, the Commission has granted financial support to dialogue projects with and between the Western Balkan countries, as well as with Turkey. Support for civil society is key to mutual understanding and to strengthening the fabric of democracy across society. The Commission will now take additional measures to promote civil society development and dialogue using the Instrument for Pre-Accession Assistance (IPA).

3.3. Furthering the accession negotiations

Accession negotiations with Croatia and Turkey opened in October 2005, upon unanimous decision of the Member States, following a series of major political and legal reforms. The negotiation process brings both countries closer to the EU and serves its strategic interests. Negotiations are conducted on the basis of the rigorous frameworks agreed by the Council. They advance hand in hand with progress in political and economic reform as well as in transposing and implementing EU legislation.

The December 2006 European Council took decisions regarding the conduct and quality of the accession process. Significant steps have been taken to implement the European Council conclusions. The Commission has made full use of the possibility to propose benchmarks to determine the conditions for opening and closing of chapter negotiations in the light of progress on the ground. It is issuing its first impact studies as key chapters come to the fore in the negotiations. In the Autumn, the Commission will issue an impact study on the Croatia's future entry into the EU's road *cabotage* sector. Subject to progress in negotiations, further impact studies will be presented in the coming year, covering free movement of workers in relation to Croatia, and energy supply in relation to Turkey. The Union is engaged in intense political and economic dialogues, the results of which are fed into the negotiation process. In this context, particular attention is paid to settling outstanding bilateral issues between candidates and Member States, as well as to developing good neighbourly relations. Issues related to the judiciary and fundamental rights are addressed in detail in a specific negotiation chapter. It should be recalled that negotiations may be suspended in the event of a serious and persistent breach of the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law on which the Union is founded.

Croatia's progress towards membership sends a strong signal to other Western Balkan countries on their own membership prospects, once they fulfil the necessary conditions. Croatia's accession process contributes to addressing bilateral and regional issues and fosters reconciliation. It serves the EU's strategic interests in security and conflict prevention in a region which is bordered by Member States.

The current stage of the accession negotiations in the specific EU policy chapters requires tackling technical issues related to alignment. The Commission has submitted to the Council all screening reports for Croatia. Attention is now shifting to the fulfilment by Croatia of the benchmarks for opening the relevant chapters. Provided that benchmarks are met, substantial progress in accession negotiations with Croatia is possible in the coming year. Croatia still needs to make further progress in judicial and administrative reforms, minority rights, and refugee return as well as restructuring in heavy industries.

Turkey's continued commitment to reform holds major strategic importance for the EU's own security and stability. Turkey is a unique interface between the West and the Muslim world. This has been brought out clearly by the Alliance of Civilisations initiative to foster dialogue under UN auspices. Turkey's accession to the EU, based on profound democratic transformation, is followed with interest in the Middle East and the wider Muslim world. Turkey also supports the Middle East peace process as well as a dialogue with Iran on the nuclear issue. It holds important security assets and has provided them in a number of EU and NATO missions, from the Western Balkans to the Democratic Republic of Congo, and from Darfur to Afghanistan. Turkey has the potential of becoming a major energy route between the EU and the world's biggest oil and gas sources, and thus a key actor for the security of Europe's energy supply. Its alignment with EU policies will bring particular benefits in areas such as migration control and environment. Turkey consistently records high and steady economic growth and is among the EU's leading trade and investment partners.

Such strategic considerations have been present since the origins of the relationship between the EU and Turkey, in 1959. Turkey's EU membership prospect dates back to 1963, when it signed an association agreement with the European Economic Community. This agreement explicitly envisages accession, both in its preamble and in Article 28. This reflects Turkey's major strategic role from the early foundations of the European Union. Turkey is now the only country with which the EU has established a customs union, agreed in 1995. It received the status of a candidate country in 1999. The shared objective of the negotiations is accession, as agreed by all Member States in October 2005. The negotiations with Turkey are an open-ended process, the outcome of which cannot be guaranteed beforehand. Progress in the negotiation proceeds hand in hand with progress in implementing reforms and in aligning with EU laws and policies.

It is essential that the European Union honours its commitments and keeps the negotiation process on track and that chapters are opened as soon as the technical conditions are met, in line with the Negotiating Framework of October 2005 and the Council decision of 11 December 2006. The screening process with Turkey has reached its final phase, and the Commission will have submitted most reports to the Council by the end of this year. Turkey needs to engage the necessary efforts to meet the opening benchmarks defined by the Council for most chapters. Turkey's renewed momentum in the political reform process will have a direct impact on the pace of the accession negotiations. Provided that benchmarks are met, progress is possible in accession negotiations with Turkey in the coming year.

Good neighbourly relations remain key. In line with the Declaration of the EU of 21 September 2005 and the Council conclusions of 11 December 2006, Turkey needs to fulfil its obligation of full non-discriminatory implementation of the Additional Protocol to the Ankara agreement and to remove all obstacles to the free movement of goods, including restrictions on the means of transport vis-à-vis the Republic of Cyprus. Turkey is also expected to make progress towards normalisation of bilateral relations with the Republic of Cyprus.

3.4. Enhancing the European perspective of the Western Balkans and promoting regional cooperation

All the Western Balkan countries share a perspective of eventual EU membership. The future of the Western Balkans is within the European Union. The Stabilisation and Association Process and the 2003 Thessaloniki agenda continue to form the framework of EU policy towards this region. Regional cooperation brings tangible benefits for citizens in the Western Balkans and helps to promote reform and reconciliation.

The EU will continue to apply strict conditionality for the progress of the Western Balkan countries towards the EU. A satisfactory track record, particularly in implementing obligations under the Stabilisation and Association Agreements (SAA), including trade-related provisions, is an essential element on the way towards eventual membership. Solid institutions are crucial to implementation of provisions under the SAA, and to the smooth functioning of the various joint institutions.

The Commission continues to support all Western Balkan countries on their European course, as they make progress along the road-map put forward in 2005. It will give full priority to Kosovo's stability and EU perspective.

The May 2007 summit of the South-East Europe Cooperation Process (SEECP) in Zagreb heralded a move towards regional ownership of the process of regional cooperation. The Stability Pact has largely accomplished its mission and will be replaced by a new Regional Cooperation Council (RCC) linked to the SEECP. A Secretary-general of the RCC was appointed, and Sarajevo was designated as the seat of its secretariat. Under the Bulgarian Chairmanship in office, the host country agreement was signed with Bosnia and Herzegovina and the Secretariat is being set up. It is expected that the last meeting of the Stability Pact Regional Table and the first meeting of the RCC will be held in Sofia in early 2008, when the Special Coordinator of the Stability Pact will hand over to the RCC Secretary-general. The new structures need to become operational swiftly, in particular the secretariat and its Brussels liaison office. The SEECP and the RCC will provide a general umbrella for regional cooperation. The Commission will participate in the RCC and encourages all parties concerned to play an active role. Building on the relevant experience of the Stability Pact, the Commission intends to co-operate with SEECP and RCC on the implementation of the implementation of the EC Disaster Risk Reduction Initiative, as well as the Disaster Prevention and Preparedness Initiative (DPPI) launched under the Stability Pact. The Commission also intends to further associate the Western Balkans countries with work related to the Community Civil Protection Mechanism dealing with emergency situations such as floods, forest fires or earthquakes.

In July the new Central European Free Trade Agreement (CEFTA) entered into force. Ratification by all signatories has recently been completed and this regional free trade area is now effective throughout the region. The European Commission intends to support CEFTA, both through technical assistance and through initial three-year funding of the CEFTA

secretariat. All countries cooperate in the framework of the European Charter for Small Enterprises. The implementation of the Energy Community Treaty has advanced. Ratification of the European Common Aviation Area is underway. Remaining signatories now need to proceed with ratifying these instruments. These agreements allow early integration into the EU internal market for energy and aviation. Detailed roadmaps and action plans on electricity and gas have been drawn up.

In order to raise awareness of the EU laws and policies, the Commission's TAIEX⁶ office will organise technical information sessions in the potential candidate countries for the benefit of stakeholders in government, business and society. The Regional School of Public Administration will contribute to the strengthening of administrative capacity in the Western Balkans. EU funds have been mobilised to transform the existing network into a school based in the Western Balkan region.

The citizens of the Western Balkans need to feel tangible improvements resulting from their countries' European integration. This is essential for them to assume ownership of reconciliation and of necessary reforms. People-to-people contacts should be maximised between the Member States and the countries in the region, and across the region itself.

Easier travel to the European Union is an issue of utmost importance to the peoples and governments of the Western Balkans. In Thessaloniki, the EU recognised this fact and committed to steps for achieving this goal. Steps towards liberalising travel need to take into account the internal security and migration interests of the EU. A visa-free regime has been in place with Croatia for many years. The Commission recently negotiated visa facilitation agreements together with readmission agreements with the other countries of the region. These were signed in September and are expected to be approved by the Council shortly, so that they can enter into force on 1 January 2008. The agreements will improve substantially the conditions for obtaining visas for travel to the EU. It is important that Member States ensure their proper implementation.

The facilitation agreements are an important step towards full liberalisation of the visa regime. The Commission considers that it is now time to gradually move towards visa liberalisation with the Western Balkan countries through further concrete steps. To that end the Commission proposes to open a dialogue with each of the countries concerned with a view to establishing a road-map on the conditions to be met. These would cover effective implementation of readmission agreements, as well as progress on key areas such as border management, document security, or the fight against organised crime. Such road-maps will allow the countries concerned to better focus their reform efforts, while also reinforcing the visibility of the EU's commitment to the peoples of the region.

Measures aimed at improving people-to-people contacts also include the expansion of education cooperation and mobility opportunities for undergraduate and graduate students under the Tempus and Erasmus-Mundus and Tempus programmes. A further 100 students from the region may undertake postgraduate studies in EU in 2007/2008. From 2008, up to 500 undergraduate students will benefit annually from exchange programmes between the EU Member States and the region. The Commission will explore, together with the Member States and other bilateral donors, possibilities for further scholarship opportunities. Pre-accession financial support will also be provided for participation of Western Balkan young

⁶ Technical Assistance and Information Exchange.

people, youth organisation, cultural operators, civil society organisations and researchers into EU programmes. The Commission will encourage initiatives and projects related to the 2008 European Year for Inter-cultural Dialogue. Under the Commission's new civil society facility, measures will be taken to support networking and exchange between civil society groups and their counterparts in the region and at European level.

Active involvement of parliaments is key to countries' progress on the way to the EU. Parliamentary cooperation has further grown both within the Western Balkans and with the EU. In cooperation with the European Parliament, the Commission will encourage activities focusing on European integration.

3.5. Strengthening support for reforms

On 1 January, the Instrument for Pre-Accession Assistance (IPA) was introduced. The aim is to provide a coherent framework for assistance to the candidate and potential candidate countries. The Community will continue to support these countries in their efforts to strengthen democratic institutions and the rule of law, to reform public administration and to establish functioning market economies. Support will take the form of institution-building and cross-border cooperation projects, as well as, subject to the countries' level of preparations, support to regional, human resources and rural development measures.

Progress has been made in preparing a smooth transition in aid implementation from the European Agency for Reconstruction (EAR) to Commission delegations and offices in Belgrade, Podgorica, Pristina and Skopje. The process will be completed by the end of 2008. The Agency has been instrumental in delivering reconstruction assistance to the countries after conflict. With the introduction of IPA, beneficiary authorities have more ownership in the programming of pre-accession assistance. They need to prepare themselves to take over responsibility for the management of the EU funds.

Kosovo merits particular attention. Its important external financing needs will have to be largely shouldered by donors. The EU and the Member States will need to take the lead in the international community in line with the EU's crucial role in a post-status Kosovo.

IPA will help beneficiaries strengthen their capacities through institution building, good governance, SME development. Special attention will be given to administrative and judicial reform and the rule of law. Efforts will also be made to enhance the partners' public finance management as well as their capacity to make full use of pre-accession support. TAIEX offers rapid-response assistance from public sector officials to enlargement countries' public institutions. Building on results from SIGMA⁷ and TAIEX, twinning between public administrations will provide medium-term support for governance, in addition to the traditional twinning projects related to EU laws or policies.

The Commission will establish a new financing facility under IPA to promote civil society development and dialogue. National and multi-beneficiary projects will be programmed in a coordinated manner to stimulate civil society development in each country. The goal will be to strengthen civil society bodies and their role in the political process, enhance the capacity of civil society organisations to develop cross-border projects and networks, and familiarise civil society representatives and opinion leaders with EU affairs. The facility will enhance the

⁷ SIGMA - Support for Improvement in Governance and Management – OECD programme supported by the Commission in the enlargement context.

capacity of local civil society organisations for civic mobilisation, advocacy, project development and management to encourage networking, and will support their dialogue with corresponding bodies in the EU. Sectors covered will include human rights, gender equality, social inclusion, health, environment, business advocacy and representation, and consumer protection. The facility will promote cooperation and transfer of know-how between business, trade union, and professional organisations in the partner countries and the corresponding EU-level organisations. A visitors' programme will be set up to familiarise with EU affairs key opinion makers active in national and local politics, religion, journalism, trade union, business associations, and to bring them together with their EU counterparts.

Closer donor coordination is an important element of the new IPA Regulation, notably in view of budgetary limitations. The Commission will coordinate closely IPA support with that of International Financial Institutions and of other donors in order to address basic needs in terms of economic and social development. The Commission is setting up an Infrastructure Facility, funded by IPA as from 2008, that will help prepare infrastructure projects. Sectors covered will include transport, energy and environment infrastructure, but also investments in the social sector, such as health, education, housing, and refugees. Other initiatives include the European Fund for South East Europe (EFSE), geared towards private sector development, and the energy efficiency facility. In this way, IPA support will seek to achieve the most cost-effective mix of grants and loans. This concerted effort will notably involve the EIB, as well as the EBRD and other international financial institutions such as the World Bank and the Bank of the Council of Europe.

3.6. Ensuring public support for enlargement

Communication is a cornerstone of the EU's enlargement strategy. The benefits and challenges of enlargement need to be better communicated to the public. EU public opinion on future enlargement is influenced by perceptions of past enlargements. It is essential to listen to citizens, address their concerns, and provide further information. The EU needs to present further factual information about enlargement so that the public can see both the benefits and the challenges clearly.

The EU faces challenges to communicate enlargement both in the Member States and in the candidate and potential candidate countries.

In the Member States, the main challenges are to provide facts on the fifth enlargement, in particular its impact in terms of economic success and strengthening the EU's global role and to highlight the benefits and challenges of the current enlargement process. EU institutions and Member States need to provide the EU public with information about the candidate and potential candidate countries and explain how enlargement works as a gradual and carefully managed process. We need to promote debate at all levels of society on issues related to enlargement.

In the candidate and potential candidate countries, the main challenges are to emphasise the Union's commitment to their European perspective and to explain the conditions for progress of each country towards the EU, each being judged on its own merits. People need to see that progress towards the EU depends on the pace of reforms in each country. The faster and more effective the reform process within the countries, the more rapid will be their progress on the road to membership and all its benefits. The EU needs to support the governments of these countries in their efforts to explain the nature of the EU and to demonstrate how their citizens benefit from closer relations with the EU while preparing for membership. Citizens need to

know more about benefits such as pre-accession financial assistance and technical advice, visa facilitation, scholarships.

To help communicate enlargement more effectively, the Commission invites the governments of the Member States and the candidate and potential candidate countries to draw up communication plans. These plans should target opinion formers in politics, the media, academics, business community, social partners, youth. The Commission's new facility to promote civil society development and dialogue will also contribute to this effort.

Member states must take the lead in explaining and defending the policies they have agreed, promoting dialogue and explaining the benefits of enlargement. Members of the European Parliament and of national parliaments, as well as regional and local authorities and civil society, also have a crucial role to play. These actors, who are closest to the public, have a key role in generating informed debate about enlargement.

The Commission will complement these efforts by communicating the EU's enlargement policy, including pre-accession support. It will tackle myths by providing facts. It will make full use of its representations in the Member States and its delegations in the enlargement countries. The Commission will seek to engage in a dialogue on enlargement with key opinion formers and will build on experience gained in 2007 from a number of successful communication projects, in particular those with chambers of commerce and with student organisations.

4. CONCLUSIONS AND RECOMMENDATIONS

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

- 1) Enlargement has contributed to peace, democracy and stability throughout the continent and brought concrete benefits in terms of increased trade, investment and economic growth. The Union is now more competitive and better able to respond to the challenges of globalisation. Enlargement has enhanced the EU's weight in the world.
- 2) The EU enlargement process is carefully managed in line with the renewed consensus defined by the December 2006 European Council. This consensus is based on the principles of consolidation of commitments, fair and rigorous conditionality and better communication with the public, combined with the EU's capacity to integrate new members. The present enlargement agenda covers the Western Balkans and Turkey, which have been given the prospect of EU membership once they fulfil the conditions.
- 3) The Commission has taken steps to improve the quality of the enlargement process. Difficult reform issues are now being addressed at an early stage. Feedback is ensured between the political and economic dialogues and the enlargement process. In the accession negotiations, full use is now made of benchmarks as conditions for opening and closing chapters. The Commission is promoting greater transparency, for example by making screening reports publicly available, and is preparing the first impact studies. Each country progresses from one stage to the next in its course towards the EU, when it has fulfilled the necessary conditions, in accordance with the 2005 road-map for the Western Balkans.

- 4) The enlargement countries still face major challenges. It is crucial to maintain the visibility and credibility of their accession prospects. Each country will be judged on its own merits. More remains to be done to address fundamental issues, such as state-building, rule of law, reconciliation, administrative and judicial reform, and to fight corruption and organised crime. Good neighbourly relations remain key.
- 5) Accession negotiations with Croatia are advancing well and are entering a decisive phase. This demonstrates to the region as a whole that the European perspective is real. Croatia still needs to make further progress particularly in judicial and administrative reform, minority rights, and refugee return, as well as in restructuring of steel and shipbuilding industries.
- 6) Turkey has introduced major reforms since becoming a candidate country in 1999. In the past year, Turkey went through a constitutional crisis which led to early parliamentary elections. These were free and fair, and the new parliament is representative of the country's political diversity. The President of the Republic was elected in accordance with constitutional rules, and democracy prevailed in civil-military relations. Turkey now needs to renew the momentum of its political reforms. Significant further efforts are needed without delay in particular on freedom of expression (article 301 of the Penal Code and other relevant legislation) and the rights of non-Muslim religious communities. Further improvements are also needed in particular on judicial reform, in the fight against corruption, strengthened rights for women, children and trade unions, cultural rights, as well as on civilian oversight of the security forces.

Turkey has not fulfilled its obligation of full non-discriminatory implementation of the Additional Protocol to the Association Agreement nor made progress towards normalisation of bilateral relations with the Republic of Cyprus. The Commission will continue reporting in its forthcoming annual reports, in accordance with the 11 December 2006 Council Conclusions endorsed by the European Council.

- 7) Clarity needs to be reached as rapidly as possible on the status of Kosovo. EU unity is essential in this respect. The Commission fully supports the work of the Troika. There is a need for a sustainable solution that will ensure a democratic and multi-ethnic Kosovo and contribute to regional stability.
- 8) The former Yugoslav Republic of Macedonia has made progress but it still needs to accelerate the pace of reforms in key areas. Albania and Montenegro have made progress in a number of areas but still face major challenges. Bosnia and Herzegovina has yet to assume full ownership of its governance and needs to move ahead in reforms, in particular of the police. Serbia has shown that it has the administrative capacity to make substantial progress towards realising its European perspective. This was proven by its efficient conduct of the technical negotiations on the Stabilisation and Association Agreement. However, to sign the SAA, Serbia still has to achieve full cooperation with the ICTY. The region as a whole needs to move forward in building modern democracies and developing a political culture of dialogue and tolerance.

Accordingly:

- (a) The Commission expects substantial progress in accession negotiations with Croatia in the course of the year ahead, leading to a significant number of chapters being opened and to several chapters being provisionally closed, provided that the country maintains the necessary reform momentum and meets benchmarks.
- (b) The Commission expects progress in the accession negotiations with Turkey in the course of the year. Chapters for which technical preparations have been completed should be opened in accordance with established procedures.

The pace of negotiations depends on the results of the reforms in Turkey. Turkey's progress could gather momentum if it succeeds in meeting opening benchmarks.

The Commission has proposed to the Council that revision of freedom of expression provisions in the Turkish Penal Code (article 301 and other relevant articles) should be a benchmark for opening the key chapter on judiciary and fundamental rights.

Turkey should fulfil the commitments related to full non-discriminatory implementation of the Additional Protocol to the Association Agreement in accordance with the Council conclusions of 11 December 2006, and until Turkey does so, eight chapters will not be opened.

- (c) The EU stands ready to provide further support for stability in Kosovo and in the region, and to respond to developments by making full use of its policy instruments.
- (d) Provided the conditions are fulfilled, the Stabilisation and Association Agreements can be completed with all Western Balkan countries in 2008, with agreements either signed or in force.
- (e) The Western Balkan countries will take over responsibility for regional cooperation with the transition from the Stability Pact to the new Regional Co-operation Council within the framework of the South-East Europe Cooperation Process. The EU will continue to support local ownership of initiatives in regional cooperation.
- (f) Priority attention will be given to promoting people-to-people contacts between the Western Balkans and the EU. The Commission will initiate a dialogue on visa liberalisation for citizens of the Western Balkan countries as the next step following visa facilitation and readmission agreements.
- (g) Early in 2008, the Commission will adopt a communication which will take stock of developments and point the way forward in following up on the Thessaloniki agenda and the Salzburg Communication on promoting the course of the Western Balkans towards the EU.
- (h) The Commission is now proposing revised Accession and European Partnerships that set out updated reform priorities. Fundamental issues related to state-building, governance and administrative and judicial reform need to be tackled at an early stage.

- (i) These priorities will be reflected in programming financial assistance under the new Instrument for Pre-Accession Assistance (IPA). The Commission will also establish under IPA a financing facility to promote dialogue and civil society development, notably through capacity-building and exchange projects. It will ensure closer coordination with other donors, and intensify cooperation with the EIB, as well as with the EBRD and other international financial institutions.
- (j) It remains essential to ensure public support for enlargement. It is important to listen to citizens and to respond to their concerns through the provision of clear and factual information. Communicating enlargement is a shared responsibility. It needs active involvement of the Member States. The Commission will continue to play its part together with the European Parliament, national, regional and local authorities and civil society.

ANNEX

Conclusions on Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Kosovo⁸, Turkey

Albania

As regards **political criteria**, Albania has made some progress on democracy and the rule of law. Albania has continued to play a positive role in maintaining regional stability. However, democratic culture and in particular constructive dialogue between parties need to be developed to enable the political system to function effectively and transparently. The parliament needs to make considerable further progress in pushing forward reform. The fight against corruption and organised crime represents a major challenge.

Some progress has been made on **democracy and the rule of law**. Albania's *parliament* fulfilled its constitutional role in the election of a new president. However, political parties' lack of will to co-operate continued to hold back reforms, particularly in the electoral and judicial fields. Albania has made some progress in strengthening its *government* structures to implement its EU commitments and to address its development needs. Co-ordination and capacity remain weak and strategic planning needs improvement. There has been less turn-over in Albania's *public administration*. However, major efforts are needed to ensure efficiency and impartiality, including by fully implementing the civil service law. The authority of the Department of Public Administration needs to be strengthened. There remain widespread weaknesses in human resources management in the public administration.

There has been limited progress on reforming the *judicial system*. The procedures for evaluating judges have improved, the court system rationalised and the execution of judgements somewhat accelerated. However, the judiciary has continued to function poorly due to corruption and shortfalls in independence, transparency and efficiency. Legislation planned to address these issues is delayed.

The government is taking a more strategic approach to the *fight against corruption*, which is a key European Partnership priority. Legislation has improved in the field of public procurement. Anti-corruption investigations led to the arrest of a number of high-level officials. However, corruption is widespread and constitutes a very serious problem. Much work is still needed on all aspects of the issue, including judicial accountability and transparency of political party funding.

Some progress has been achieved regarding **human rights and the protection of minorities**. Albania has now abolished the death penalty in all circumstances. A new law targets instigators of blood feuds. Formal instructions to prosecutors and judicial police have underlined the need to respect human rights in criminal proceedings. Detention standards remain poor. Some improvements have been made to conditions in detention facilities and most pre-trial detainees have been transferred to new dedicated sections in prisons. However, prisons remain overcrowded. Considerably better enforcement of human rights rules and systematic prosecution of abusers are still required. Legislation on provision of free legal aid remains inadequate.

⁸ Under UN Security Council Resolution 1244.

Albania has made some progress on *freedom of expression*, a key European Partnership priority. An action plan to develop new broadcasting legislation was agreed. The public radio and television steering committee now includes civil society representatives. The framework for competition in the sector strengthened. However, government decisions on media licensing and tax enforcement led to accusations of bias. More consensual and co-ordinated reform is necessary, in particular on broadcasting and transparency of media ownership. Better implementation of existing legislation is required.

There is a favourable legal framework for civil society organisations. However, civil society groups remain weak. They are not sufficiently involved in policy-making and lack resources, organisational capacity, advocacy skills and regional links.

There has been some progress on strengthening *women's rights*. New legislation addressed domestic violence and allowed the creation of a ministry section specifically for gender equality issues. However, the protection of women against all forms of violence still remains insufficient. Legislation needs to be strengthened and fully implemented. There has been some progress on *children's rights*. Juvenile justice, child rights monitoring and primary education have been strengthened. Further progress is hindered by delays in key legislation, especially on birth registration, and by lack of resources. Social services have somewhat improved, with increased resources for people. However, measures to support *socially vulnerable people and people with disabilities* remain limited. Better co-ordination of government agencies could improve results.

There has been progress on strengthening *property rights*, a key European Partnership priority. The government has adopted a strategy which links the processes of initial registration of real estate, restitution, compensation and legalisation of informally constructed buildings. Better management of restitution and compensation has somewhat accelerated the processing of claims, but it remains slow. Proper co-ordination of registration, restitution, compensation and legalisation and further acceleration of the handling of related claims are needed.

Albania took some measures to fulfil its commitments on the protection of *minorities*, notably to support the use of minority languages and traditional place names. Further improvement is hindered by the lack of sound data on the size and situation of minorities. Some steps have been taken to improve the situation of *Roma* people, but the impact of these measures has been limited. The Roma minority still faces very difficult living conditions and discrimination, especially in the areas of education, social protection, health care, housing and employment.

Regarding regional *issues and international obligations*, Albania has continued to foster good relations with other Western Balkan and neighbouring EU countries, both multilaterally and bilaterally. The country continues to participate actively in regional co-operation including the South East Europe Cooperation Process (SEEC) and the Regional Cooperation Council (RCC), as well as the amended Central European Free Trade Agreement (CEFTA). Albania has maintained its constructive stance on the Kosovo status process. This has contributed to stability in the region. As regards the International Criminal Court, the bilateral immunity agreement with the United States is not in line with the relevant EU common position and guiding principles.

Albania's **economy** has continued to expand strongly. Overall macroeconomic stability has been maintained, but external deficits widened further, mainly due to the crisis in the energy

sector. Inadequate implementation of the rule of law continues to impede the smooth functioning of the market economy and affects the business climate. Poor infrastructure and unreliable energy supply continued to hinder economic development.

As regards **economic criteria**, Albania has made progress towards establishing a functioning market economy. Major reforms are still needed to enable it to cope over the long term with competitive pressures and market forces within the Union.

Political consensus on the essentials of economic policy has generally been maintained. Macroeconomic stability was largely maintained. Economic growth continued to be strong despite energy shortages. Monetary policy remained credible, ensuring very low inflation. The level of registered unemployment, though still high, continued to decline. Fiscal revenue performance was broadly in line with targets and budget implementation improved. Public finance reforms have further advanced but fiscal risks remain. In general, the macroeconomic policy mix was broadly adequate. Following significant delays in 2006, privatisation gained new momentum in 2007. The privately-owned banking sector is growing and generally sound. Credit expansion remained strong. The regulatory framework for banking supervision is well developed. Trade integration with the EU remained fairly high.

However, external deficits widened further, mainly due to difficulties in the energy sector. Some progress was made as regards the enforcement of court rulings and the establishment of property rights, but the shortcomings in the judicial system and law implementation affect the business climate. While company registration procedures have started to improve, administrative inefficiencies hamper market entry and exit. Some progress has been achieved in the area of supervising financial actors other than banks, but there remains scope for strengthening it, in particular regarding the pension industry. Structural unemployment persists. Shortages of qualified staff and poor infrastructure hold back the development of a private sector that can make a sustained contribution to the country's development. The large informal sector, fuelled by persistent weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment.

Albania has made progress in aligning its legislation, policies and capacity with **European standards** and is implementing its Interim Agreement trade commitments. In some areas, such as customs, competition and fighting organised crime, progress made in previous years has been sustained. In other areas, such as energy, transport and intellectual property rights, progress has remained limited. Pushing forward reform in areas such as veterinary and phytosanitary control is vital to making full use of the Stabilisation and Association Agreement (SAA). Administrative capacity for the non-trade-related provisions of the SAA and effective implementation of laws present a challenge in terms of achieving a sustained track record of SAA implementation.

There has been progress in some **internal market** fields, but further efforts are needed to fulfil Albania's SAA obligations. Progress in adopting standards and in accreditation has been good. Capacity for metrology and market surveillance is being strengthened, but legislative improvements are needed. On **consumer protection** improvements are needed in the handling of complaints and the settlement of disputes. Uncertainties related to property rights discourage *establishment*. Certain restrictions on *capital movement* remain in place.

Progress was made on *customs* computerisation. This helped Albania to implement trade-related provisions of the SAA more effectively. Customs revenue continued to rise. Albania

implemented the tariff reductions provided for in the Interim Agreement. However, improvements in infrastructure and alignment with EU practices are required. The administration of *taxation* has been rationalised and progress has been made on computerisation and on handling of taxpayers' appeals. However, tax collection remains low. A comprehensive tax collection and control strategy and further alignment with EU legislation and practices are needed.

There has been progress in the area of *competition*. The Competition Authority (ACA) was strengthened. It assessed several merger notifications and imposed fines for violation of competition rules. However, further efforts are needed to provide training to ACA staff. Albania has made progress towards its SAA obligations regarding state aid. The State Aid Department has been given independence from the Ministry of Economy as regards reporting. The State Aid Department continued to assess and update the inventory of state aid schemes.

New *public procurement* legislation which is more in line with EU standards has been approved. The Public Procurement Agency is being strengthened but its administrative capacity requires further upgrading to ensure it can implement the new legislation properly. The impartiality of the review procedures needs to be guaranteed. Regarding *intellectual property rights (IPR)*, the copyright office has become operational and Albania ratified international instruments on registration of industrial designs. However, IPR enforcement remains weak. Both the Directorate General for Patents and Trademarks and the copyright office lack adequate resources and expertise. New industrial property legislation in line with European standards is required. Considerable further efforts are required to fulfil Interim Agreement obligations on IPR.

There has been some progress concerning European standards on *employment and social policies*. Programmes have been put in place to foster the employment of vulnerable groups and the institutional and regulatory framework has been improved with the adoption of a law on labour inspection. However, the capacity of the labour inspectorate remains limited and occupational health and safety remains poor. Deficient information and administrative systems hamper the diagnosis of the social development and employment situation and the development of appropriate employment and social inclusion strategies. Some progress has been made concerning European standards on *education*. Budget provisions for education have been markedly increased. Implementation of the national strategies for pre-university education and vocational training has started and a new law on higher education has been approved.

Progress can be reported on some *sectoral policies*. Regarding *industry and SMEs*, a National Registration Centre has been established to facilitate business registration. A strategy to promote SME competitiveness was approved. An updated action plan to address the informal economy and to remove administrative barriers to investment is in place. Export guarantee funds have been established. An updated action plan to remove administrative barriers to investment is in place. However, further progress is needed on tackling the informal economy and improving the business environment. Progress on *agriculture* has been limited. Some incentives to increase production have been introduced, but the competitiveness of the farming sector remains low. Compliance with EU *veterinary and phytosanitary* standards, required to benefit from SAA and Interim Agreement trade concessions, remains poor. There has been some progress in the area of *fisheries* control and inspection, although over-exploitation and illegal fishing continue.

Regarding *environment*, some progress has been made on horizontal legislation, but implementation remains weak. Further efforts are required in the areas of waste management and water quality. Administrative capacity needs to be strengthened in order to implement already transposed legislation. Progress in the field of *transport* has been limited. Albania ratified the European Common Aviation Area Agreement and is working towards the implementation of its first transitional phase. Albania is actively participating in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory, particularly by approving the second rolling five year Multi-Annual Plan 2007-2011 (MAP). Substantial improvements are required as regards the safety of maritime transport.

In the *energy* sector, Albania has not been able to ensure security of electricity supply. Considerable efforts are required to meet the requirements of the Energy Community Treaty (ECT). Being a party to the ECT, Albania is obliged to implement the relevant EU legislation, in particular on energy, as from July 2007. Despite some progress, including new legislation on hydroelectric generation concessions and a limited increase in bill collection, the energy sector remains in a critical state. This is hampering the social and economic development of the country.

Work towards fulfilling Albania's SAA commitments on *information society and media* is lagging behind. Market liberalisation in the areas of electronic communications and information technologies remains at an early stage. The regulatory framework is not yet in line with the *acquis* and the telecommunications regulator needs to develop its capacity. Regarding *financial control*, a new law on internal audit was adopted. An appropriate inspection service remains to be developed. Progress has been reasonable in the field of *statistics*. Most major statistical classifications are in place and comply with EU standards.

In the field of *justice, freedom and security* progress has been made in some areas. Further improvement is needed overall. Technology for *visa* issuing and for security of diplomatic and service passports has been improved. An EU-Albania visa facilitation agreement was signed. Biometric passports in line with EU standards need to be issued. Further amendments are required to the Law on foreigners for it to reach EU standards.

New infrastructure, extension of IT links and better inter-agency and cross-border police co-operation have improved *border control*. An integrated border management strategy has been adopted by the government. Border crossing point infrastructure nonetheless remains below EU standards. Laws on *asylum* comply with international standards but no coherent asylum strategy is yet in place and implementation remains weak. A unit to oversee the implementation of the national *migration* strategy was established. Migration checks at borders are now somewhat more effective, but there is still considerable room for improvement. Albania has signed a readmission protocol with Austria under the 2006 EC-Albania Readmission Agreement. However, more effective data management and better co-operation with neighbouring countries are needed. Border police staffing needs to be more stable, in particular to implement the EC-Albania Readmission Agreement properly.

The banking system is better used to fight *money laundering*; most public administration salaries are now paid through banks. Handling of stolen goods is now a criminal offence. A joint investigation unit links the Ministries of Interior and Finance, the General Prosecution Office and the State Intelligence Service. However, concrete results in the fight against money laundering remain poor. Legislation, investigative resources and expertise, technological support and inter-institutional co-operation need to be improved.

Greater use is being made of cross-service anti-*narcotics* task forces. Co-operation with foreign partners is improving. Proper storage infrastructure for seized drugs is being built. However, drug trafficking remains a serious concern. Significant quantities of *drugs* were seized but were still low compared with the amounts which are estimated to be trafficked through Albania. More determination and improved co-operation between the police and the judiciary is required to prosecute suspected drug traffickers and corrupt officials on appropriate charges. Detection measures and equipment at borders need to be improved.

A new state *police* law has been adopted which should help de-politicise the police. The South East Europe Police Co-operation Convention, now ratified, and a strategic agreement with Europol provide for intensified international co-operation. However, police staff have been reduced without due attention to maintaining the capacity and continuity of key units. Success in investigation and prosecution remains hampered by poor communication between police and prosecutors. Police management and internal control structures need to be strengthened.

Organised crime remains a very serious problem. A number of high-profile organised crime arrests were made. Police response to serious crimes has improved. New tactical and investigative equipment has been introduced. Co-operation with Interpol has improved, allowing a number of international arrest warrants to be executed. However, many international arrest requests have not yet been acted upon. Efforts against organised crime remain hampered by corruption and weak witness protection. IT problems hinder the use of criminal intelligence. Although co-operation with neighbouring countries on vehicle theft has improved, domestic inter-agency co-operation is poor, reducing efficiency.

Albania has continued to investigate and prosecute *trafficking in human beings* vigorously. Border controls have become somewhat more effective and international co-operation has improved. However, Albania is still a significant transit country and levels of sex trafficking within the country have risen. Few victims are willing to testify against traffickers, due to weak witness protection. Poor co-ordination hampers implementation of the national anti-trafficking strategy.

Counter-*terrorism* structures in the police and the intelligence service now co-operate better. Co-operation with international actors has been good. Albania adopted an export control law for military equipment which is in line with the *acquis*. However, equipment and training for counter-terrorist analysts and investigators remain insufficient.

The law on *protection of personal data* is being revised to bring it into line with European standards. However, an independent data protection supervisory authority with sufficient powers resources is not yet in place.

Bosnia and Herzegovina

As regards the **political criteria**, Bosnia and Herzegovina's progress has slowed down. Complex institutional arrangements, disregard for the Dayton/Paris peace agreement and nationalist rhetoric have undermined the country's reform agenda. Key European Partnership priorities remain to be addressed. Bosnia and Herzegovina's political leaders failed to achieve police reform. Lack of progress on this and other important issues is delaying the conclusion of the Stabilisation and Association Agreement (SAA).

Limited progress has been made in the area of *democracy and the rule of law*. Bosnia and Herzegovina's system of governance continues to involve significant international presence. The Office of the High Representative/EU Special Representative (OHR) has been working closely with the European Commission to bring Bosnia and Herzegovina closer to the EU. However, the authorities of Bosnia and Herzegovina have not demonstrated the capacity to take further political ownership and responsibility. Urgent measures are needed to ensure effective functioning of the state level institutions. The Peace Implementation Council decided to postpone the closure of OHR to 30 June 2008 and to review the situation in February 2008.

The elections in October 2006 were generally in line with international standards. The government of Republika Srpska was formed in November, but the state-level *government* and that of the Federation of Bosnia and Herzegovina needed more than four months to be constituted. Some progress has been made in improving the technical and human resources of the State-level *parliamentary* assembly, but important committees such as the committee for European integration require further strengthening. No progress has been made in improving state-entity co-ordination. Overall performance of the executive and legislative institutions has remained poor. Discussions on *constitutional* reform have stalled.

Some progress has been made in the area of *public administration* but significant further efforts are needed. The public administration reform co-ordinator's office has been strengthened and initial steps have been taken to implement the public administration reform strategy, which is a key European Partnership priority. An EU supported public administration reform fund has been set up. The civil service agencies have improved their efficiency and there have been further steps towards equipping the state-level ministries and institutions, especially in terms of staffing and office space. Sustained efforts are necessary to ensure the proper implementation of the national strategy for the public administration and to progress towards an efficient, professional, stable, transparent and accountable civil service.

As regards the *judicial system*, Bosnia and Herzegovina has made progress in reducing its dependence on the international community through the replacement of international judges and prosecutors by local ones. However, the fragmentation of the judicial system and disparities in the legal framework continue to hamper the operation of the judiciary. The independence and efficiency of the judicial system need to be further enhanced. The state level war crime chamber continued to function effectively. However, criminals need to be prosecuted more vigorously at entity-level.

Bosnia and Herzegovina has achieved little progress in the *fight against corruption*, which remains widespread and constitutes a serious problem. The National Anti-Corruption Strategy has not been properly implemented. More determined action against corruption is necessary.

Little progress has been made in relation to *human rights and protection of minorities*. Overall implementation of international *human rights conventions* needs to improve; full compatibility of Bosnia and Herzegovina's legislation with the European Convention of Human Rights is yet to be achieved. There is also room for improvement as regards the prevention of *ill-treatment* by law enforcement bodies and the fight against impunity, as well as access to justice and equality before the law. Further efforts are necessary to address the functioning of the *prisons system* in general, including the poor living conditions of inmates. *Religious* intolerance remains an issue. In the field of *freedom of expression* and media, the Federation public broadcasting law has not been adopted; this is necessary to meet a key European Partnership priority. Bosnia and Herzegovina has made progress in addressing the

backlog of human rights-related cases, but court rulings have not always been properly implemented.

Bosnia and Herzegovina's legal framework includes provisions to protect the rights of *women, children* and *socially vulnerable people*, but implementation is poor overall. There is no comprehensive *anti-discrimination* law. There has been no progress on the registration of the *trade-union* confederation. The complex system of government and the fragmentation of legislation across the country continue to hamper social dialogue. Some progress has been made as regards the support provided by the authorities to *civil society* development, even though the sector remains weak overall.

In the area of protection of *minorities* further efforts are necessary to combat intolerance and ethnic discrimination, as well as to improve the implementation of legislation concerning minorities. The state-level Council of National Minorities and corresponding entity-level bodies are not operational. Many refugees and internally displaced persons do not benefit from basic pension and health provisions. Socio-economic integration of returnees remains a problem. The *Roma minority* still faces very difficult living conditions and discrimination, especially in the areas of education, social protection, health care, housing and employment. Concrete action is required to implement the national strategy for the Roma.

Some progress has been achieved in relation to ***regional issues and international obligations***. Bosnia and Herzegovina participates actively in regional co-operation and has given its support to the South East Europe Co-operation Process (SEEC) and the Regional Co-operation Council (RCC). It has concluded a number of regional agreements, including the amended Central European Free Trade Agreement (CEFTA), which now require proper implementation. Bosnia and Herzegovina's co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has improved and is now at a generally satisfactory level. However, full co-operation with the ICTY remains necessary to sign the SAA and meet a key European Partnership priority. While Bosnia and Herzegovina has met most of the Council of Europe post-accession requirements, their implementation is lagging behind. As regards the International Criminal Court, the bilateral immunity agreement with the United States is not in line with the relevant EU common position and guiding principles.

On the whole Bosnia and Herzegovina's relations with its neighbours have been good, although certain strains have appeared in particular in relation to the ruling of the International Court of Justice on Bosnia and Herzegovina's lawsuit against Serbia and Montenegro for genocide. Little progress has been made in addressing the outstanding trade and border-related matters.

Bosnia and Herzegovina's **economy** has continued to expand rapidly. Overall macroeconomic stability has been maintained, but threats to fiscal sustainability persist. The persistence of very high unemployment remains a major cause of concern. The deterioration of the overall political climate in the country was reflected in a slow-down in structural reform and in the business environment. Country-wide economic integration across entities has still to be fully achieved.

As regards **economic criteria**, Bosnia and Herzegovina has made little progress towards establishing a functioning market economy. Major reforms are needed to enable it to cope over the long term with competitive pressure and market forces within the Union.

Economic growth remained high and accelerated, while the external balance improved markedly in 2006. The currency board arrangement continued to underpin macroeconomic stability and inflation receded to the low levels recorded before the introduction of the VAT in January 2006. The introduction of VAT has increased fiscal revenue in 2006. The Federation took steps to replicate the January 2007 reform of direct taxation in the Republika Srpska, which simplified the tax system and reduced the fiscal burden. Privatisation progressed in Republika Srpska, led by major sales in the telecommunication and oil sectors. Foreign direct investment (FDI) increased significantly in 2007 and helped finance the external deficit. The financial sector developed rapidly while price competitiveness was to a large extent preserved.

However, the overall political climate and weak domestic consensus on the fundamentals of economic policy led to a slow-down of reforms both at entity and other levels of government. The lack of coherence and consensus in the implementation of reforms was manifest in particular in the Federation where the privatisation and restructuring of publicly-owned enterprises slowed down. Despite robust economic growth, unemployment remains very high. Public spending, and in particular social spending, rose significantly, weakening the quality of fiscal adjustment and adding to fiscal risks. Significant structural rigidities hamper the functioning of the labour market. The restructuring of state-owned enterprises advanced slowly and progress in the liberalisation of network industries was limited. The business environment is still affected by significant administrative inefficiencies, weak enforcement of creditor and property rights and sizeable intervention of the state in the productive sector. The large informal sector, fuelled by weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment.

Overall, Bosnia and Herzegovina has made limited progress in aligning its legislation and policies with **European standards**. In areas such as competition, transport, energy visa management and asylum, some progress has been made. In other areas, such as social policies and employment, little has been achieved. Bosnia and Herzegovina's administration conducted the SAA negotiations in a professional and efficient manner; however, the country's overall administrative capacity needs strengthening.

Regarding the *internal market*, some developments have taken place in the area of *free movement of goods*. Preparations in the field of standardisation, certification and market surveillance have advanced, though slowly. A lack of conformity assessment bodies and procedures continues to hinder export capacity. The establishment of a market surveillance structure based on appropriate product legislation and the phasing out of pre-market controls remain pending.

Limited progress has been made as regards *services, right of establishment and company law*. Registering businesses and obtaining licenses remain burdensome. Banking supervision has not been brought to the State level and remains an Entity responsibility.

No significant further development has taken place in the area of *free movement of capital*, but Bosnia and Herzegovina's preparations in this area are on track. Limited additional progress has been made in relation to *customs rules*. Issues which deserve particular attention are rules of origin, valuation and free zones. As for *taxation*, VAT collection has been higher than expected, but no system for the reallocation of the collected revenue to the Entities and the Brčko District has been agreed. Some action has been taken regarding harmonization of direct taxation.

As regards *competition*, Bosnia and Herzegovina is progressing steadily in the area of anti-trust control. Some progress has also been made with regard to state aid through the establishment of a preliminary state aid inventory. However, an adequate regulatory framework for state aid is still missing. Some developments have taken place in the field of *public procurement*, in particular as regards improved operation of the Public Procurement Agency and the Procurement Review Body. Little progress has been made regarding the enforcement of *intellectual property rights*.

No progress has been made as regards the European standards on *social policies* and few developments have occurred in meeting the European standards on employment policies. Social and employment legislation and policies remain extremely fragmented. The institutional set-up of the country continues to be a serious handicap to the development of the necessary co-ordinated approaches. Some progress has been made with the European standards in the field of *education*, notably through the adoption of a higher education law supporting the participation in the Bologna process. Efforts are needed to increase co-ordination between the authorities involved in education at all levels of government. Separation of children in schools along ethnic lines remains an issue.

Little additional progress has been made towards ensuring the existence of a real internal market within Bosnia and Herzegovina, which is a key European Partnership priority. In this context, the State laws on obligations, leasing and pharmaceutical products have not been adopted.

As far as *sectoral policies* are concerned, no significant developments can be reported in the area of *industry and small and medium enterprises (SME)*. The industry policy strategy and the SME Development strategy have not been adopted.

Little progress has been made in the field of *agriculture*. Policy is still being developed at Entity level and co-ordination is insufficient. The development of a comprehensive agricultural strategy is delayed, although some steps have been taken to establish the necessary State-level legal framework. Implementation of the food safety, veterinary and phytosanitary legislation is poor, mainly due to inadequate human and financial resources and weak co-ordination between State and Entity services. Bosnia and Herzegovina's preparations in the field of *environment* remain at an early stage. A State-level environmental law to create the framework for a nationwide, harmonised environmental protection has not been adopted and the state environment agency has not been set up.

Sustained, albeit slow, progress continues regarding Bosnia and Herzegovina's involvement in developing the trans-European *transport* network as it is actively participating in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO). Bosnia and Herzegovina is working towards the implementation of the first transitional phase the European Common Aviation Area Agreement (ECAA).

Little additional progress has been made in the field of *energy*. As a party to the Energy Community Treaty, Bosnia and Herzegovina needs to implement the relevant EU energy legislation, in particular that related to the gas sector. In the electricity sector, transmission has been unbundled, and the independent system operator (ISO) and the transmission company (Transco) are in place. Some problems persist with the transfer of liabilities between ISO and Transco with an adverse impact in the operation of the system. Reforms in the gas sector are particularly delayed. A country-wide energy strategy has not yet been developed.

As regards *information society and media*, some progress has been made in terms of liberalisation of the telecommunication sector and approximation of audiovisual legislation with the *acquis* by the Communications Regulatory Agency. No progress has been made on public broadcasting and the establishment of a State-level information agency. Some limited progress has been made in the area of *financial control*.

In the field of *statistics*, the co-operation agreement between the country's statistics institutions at State and Entity level has not been properly implemented. Significant efforts are necessary to establish an effective, EU-compliant statistical system in Bosnia and Herzegovina.

In the area of *justice, freedom and security*, some progress has been made in the fields of *visa administration, border management, asylum and migration*. The lifting of visa requirements for all EU citizens has been confirmed. The readmission and visa facilitation agreements at EU-level have been signed. Further progress has been made in establishing a functioning asylum system. There have been better results in preventing illegal migration, even though there is still considerable room for improvement as regards overall border management. Biometric passports in line with EU standards need to be issued.

Some progress has been made on fighting *money laundering*. The Financial Intelligence Unit is better staffed and enforcement has improved. Money laundering remains a serious problem which requires sustained efforts. Some steps have been taken as regards the fight against *drugs* through the establishment of an office for the prevention of the abuse of narcotics. A State-level drug policy in line with EU standards remains to be developed.

Some progress has been made with regard to the operation of the *police*. Implementation of tools such as computer-based investigations, criminal analysis systems and forensics has continued. A strategic agreement with Europol has been concluded. However, lack of progress on police reform undermines prospects for a unified and more effective police.

Bosnia and Herzegovina has made little additional progress as regards the fight against *organised crime and trafficking in human beings* which remain matters of concern. The implementation of the strategy to combat organised crime has been insufficient. The legal framework to fight organised crime is in place, but law implementation needs to improve. The State Investigation and Protection Agency has conducted more investigations and made more arrests. It now needs to reach its full capacity, notably in terms of staff. The 2005-2007 national action plan for combating trafficking in human beings has been implemented, but no follow-up strategy has been prepared. Inconsistencies between state- and entity-level legislation continue to hinder prosecution of serious crimes. Bosnia and Herzegovina has continued its efforts to counter *terrorism*, but resources remain insufficient. The State agency for *data protection* has not yet been established.

Croatia

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

Democracy and the rule of law have been further strengthened. Both Government and Parliament have continued to function without significant difficulties. However, there is

considerable scope for further improvement in the judiciary, in the public administration and in the fight against corruption. Significant improvements in these areas are essential to create a solid basis for full implementation of the *acquis*.

Progress on *public administration* reform has been limited. A policy paper covering the underlying principles for the revision of the Law on General Administrative Procedures was adopted, as were two further implementing regulations for the Civil Service Law. Some improvements in civil service training and in human resources management have been made. However, an overall strategic framework for reform, as well as the adoption of regulations necessary for implementation of the Civil Service Law have been further delayed. The administrative system remains inefficient. Widespread weaknesses in human resources management remain. The civil service also continues to suffer from high staff turnover and a lack of qualified personnel as well as undue political influence at all levels. Further sustained efforts are needed.

Some progress has been made on implementing the strategy to reform the *judicial system*. Legislative and organisational steps have been taken to improve the functioning of the judiciary. Further progress has been made in reducing the case backlog. However, these improvements are as yet insufficient. Little progress has been made with regard to improving the accountability, impartiality, professionalism and competence of the judiciary. The case backlog remains large. Little progress has been made on the rationalisation of the court network. Despite some progress, war crimes proceedings in Croatia need to be further improved. Bias against Serb defendants still needs to be fully addressed, as does witness protection. Reform is moving forward but considerable efforts are needed to overcome the weaknesses of the judicial system.

Some first results are appearing in the *fight against corruption*. The anti-corruption programme 2006-2008 is being implemented. The legal framework to combat corruption has been further improved. The Office for the Fight against Corruption and Organised Crime (USKOK) has become more active and is involved in the investigation of some important corruption cases. However, corruption remains widespread. There is a need for greater efforts to prevent, detect and prosecute corruption. No indictment or verdict has been issued in any high-level corruption case. The concept of conflict of interest is little understood. Implementation of the anti-corruption programme lacks strong co-ordination and efficient non-partisan monitoring.

Some progress has been made in the area of *human rights and the protection of minorities*. Legal provisions on human rights protection are in general adequate, but a number of important challenges remain in terms of implementation.

Some progress has been made with regard to the implementation of the Constitutional Law on National Minorities (CLNM). A recruitment plan for 2007 for *minorities* in the State administration was adopted and funding for minorities further increased. There have been fewer reports of ethnically-motivated attacks against the Serb minority and the Orthodox Church. Greater attention is being paid to the Roma minority.

However, serious problems remain for minorities. Croatia needs to encourage a spirit of tolerance towards the Serb minority and take appropriate measures to protect those who may still be subject to threats or acts of discrimination, hostility or violence. Serbs face particular difficulties in the area of employment. The *Roma minority* still faces difficult living conditions and discrimination, especially in the areas of education, social protection, health

care, housing and employment. Legal provisions and programmes need to be implemented with more determination, especially in the area of employment. A comprehensive strategy and action plan on all forms of discrimination has not yet been adopted.

Progress on *refugee return* has been limited. Reconstruction of housing has continued. However, implementation of housing care programmes for former tenancy rights holders remains extremely weak. Implementation in the urban areas is little changed, with no more than 2% of cases resolved. Moreover, no progress has been made on validating pension rights. Efforts to create the economic and social conditions necessary for the sustainability of refugee return need to be accelerated.

Access to justice is still hampered by the limits of the existing system of legal aid, as well as by high lawyers' fees and weaknesses in the judicial system. There continues to be room for improvement in *prison conditions*. There is a shortage of prison staff and capacity. Overcrowding continues.

Freedom of expression including freedom and pluralism of the media continue to be provided for in Croatia. However, occasional political pressure on the media remains.

Plans aimed at improving *women's and children's rights* have raised awareness. However, further improvements in implementation need to be made. The protection of women against all forms of violence needs to be further improved. Implementation measures regarding the protection of children's rights have to be accelerated.

As regards *regional issues and international obligations*, full co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has continued and overall compliance with the Dayton/Paris and Erdut agreements has been ensured. Impartial prosecution of cases transferred from ICTY to Croatian jurisdiction as well as of domestically initiated cases needs to be ensured.

There has been continued general progress in the area of regional co-operation. Croatia's chairmanship of the South-East Europe Co-operation Process (SEECP) was successful, allowing good progress to be made in the transition from the Stability Pact to a more regionally owned framework with a strengthened SEECP and the new Regional Co-operation Council. Croatia ratified the new Central European Free Trade Agreement (CEFTA).

Little progress has been made more generally towards finding definitive solutions to various open bilateral issues between Croatia and its neighbours, particularly as regards borders. The informal agreement between the Prime Ministers of Croatia and Slovenia to request third party involvement on open border issues constitutes progress and needs to be followed up. In December 2006 the Croatian Parliament decided that the Croatian ecological and fishing protection zone would be applied to EU Member States as from 1 January 2008. This decision deviates from the political agreement reached between the countries concerned in June 2004, referred to in the European Council conclusions of 16-17 June 2004; this issue needs to be resolved. Efforts are needed to further develop co-operation and good neighbourly relations.

Croatia's **economy** registered strong and accelerated growth. Macroeconomic stability, including low inflation, was maintained. However, external imbalances may affect macroeconomic stability. Fiscal consolidation continued and needs to be further pursued. Structural reforms as well as privatisation moved forward slowly. The overall business

environment improved but inefficiencies in public administration and the judiciary continued to hamper private sector development.

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

Broad political consensus on the fundamentals of a market economy has been maintained. Stability-oriented macroeconomic policies have contributed to low inflation, exchange rate stability and a significant reduction of the general government deficit. Economic performance remained strong and private investment picked up further. Employment rose and unemployment, though still high, declined. The business environment improved and some important privatisation deals were prepared or concluded. The government's capacity to design medium-term economic policy frameworks was further strengthened. New prudential regulations led to a stronger recapitalisation of banks, conducive to financial sector stability. Further progress was made in enhancing competition in the telecommunication sector. Reforms of the loss-making railway system continued. Croatia's economy is well integrated with the EU.

However, economic policy coordination remained weak. Rising external imbalances imply potential risks to macroeconomic stability and the need for stronger fiscal consolidation. The benign economic environment and strong revenues were not fully used to reduce the budget deficits, but led to an expansion of spending instead. Subsidies to loss-making enterprises and a high level of current spending continued to slow down structural change and to put a strain on public finances. Progress on the restructuring of the enterprise sector was uneven and state intervention remained significant. Private sector initiative was hampered by inefficiencies in public administration and the judiciary, partly undermining market entry and exit procedures and the enforcement of property and creditor rights. Labour mobility remained limited. In order to improve prospects for sustained growth and real convergence, Croatia needs to reinforce and deepen structural reforms.

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

Some progress has been made on alignment of legislation on the *free movement of goods*. However, many elements of the *acquis* are not yet in place. Considerable efforts are still required to align legislation and to implement and enforce it effectively.

As regards EU rules on the *free movement of workers* there has been some progress but increased efforts will be needed to align legislation and to enforce and implement it effectively.

Some progress has been made on the *right of establishment and the freedom to provide services*. Overall alignment is reasonable, although considerable efforts are still required in some areas.

Croatia made some progress on the *free movement of capital*. Overall alignment is reasonable. However further efforts are needed, especially as regards fighting money laundering and procedures for acquisition of real estate by EU nationals.

Croatia has made some limited progress in the area of *public procurement*. However, administrative capacity remains inadequate at all levels of the procurement system. Very considerable efforts are needed to design an overall strategy for alignment and to strengthen the institutional set-up.

As regards *company law* some progress can be reported. Alignment with the *acquis* is on track and a reasonable timetable and detailed plan for further work are in place.

Good progress has been made on *intellectual property law*, both on legislative transposition and on enforcement. Alignment with the *acquis* is well on track, but continued efforts are required, particularly on enforcement.

In the field of *competition policy*, Croatia has continued to make some progress. However, there is a need for further legislative alignment and for strengthening administrative capacity, particularly at the Competition Agency. Alignment with the *acquis* in this chapter is underway, but considerable efforts are still required, in particular on restructuring of the steel sector and of the shipyards in difficulty.

Croatia has made some progress on *financial services* and alignment with the *acquis* is well underway. However, increased efforts are required, particularly to strengthen banking supervision and the Financial Sector Supervisory Authority in the non-banking sector.

Some progress has been made in the area of *information society and media*. However, further efforts are needed for effective liberalisation of the telecoms market, including introduction of a new primary law and further strengthening of the Agency. Overall, Croatia has reached a good level of alignment with the *acquis* in this chapter.

Croatia has continued to make progress in *agriculture and rural development*. Preparations are well advanced with regard to quality policy and organic farming. Good progress has been achieved on rural development, although preparations need to be intensified with IPARD. Considerable efforts are required for the establishment of administrative structures to ensure the correct implementation of the Common Agricultural Policy.

Concerning *fisheries*, Croatia has made some progress. Gaps remain in the areas of fleet management, inspection and control, structural actions and state aid.

Good progress has been made as regards *food safety, veterinary and phytosanitary policy*, in particular with the adoption of framework and secondary legislation. Considerable further efforts are however required, including to strengthen administrative capacity and to adopt and implement a food safety strategy.

As regards *transport*, Croatia has continued to make good progress on alignment, in particular in the areas of rail and maritime transport. It is working towards the implementation of the first transitional phase of the European Common Aviation Area. It is actively participating in

the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO). Considerable efforts are still needed however, including to ensure adequate administrative capacity for most transport sectors.

There has been good progress on *energy*. However, continued efforts are needed on alignment with the *acquis*, especially in the area of energy efficiency and building enforcement capacity. As a party to the Energy Community Treaty, Croatia needs to implement the relevant EU energy legislation as from July 2007.

There has been very limited progress on *taxation*. Alignment of tax legislation is far from complete and the de facto discrimination in excise duty on cigarettes needs to be removed. Substantial efforts are required to strengthen administrative capacity, in particular regarding IT interconnectivity.

There has been significant progress in the area of *economic and monetary policy*. Overall alignment with the *acquis* is well advanced. However, further efforts are needed, especially to ensure full independence of the Central Bank.

Good progress has been made on *statistics* and the basic legal framework is to a large extent aligned. However, continued efforts are necessary, especially in terms of strengthening administrative capacity.

Some progress has been made concerning the *acquis* on *social policy and employment*. Increased efforts are needed to complete alignment and especially to strengthen administrative and enforcement capacity.

On *enterprise and industrial policy* Croatia has made good but uneven progress. A reasonable level of alignment has been achieved. In sectors such as shipbuilding, progress has been limited.

Good progress has been made in aligning with the *acquis* on *Trans European Networks*.

There has also been some progress on *regional policy and co-ordination of structural instruments*. However, continued efforts are needed to set up the administrative structures necessary for the management of EU funding.

As regards the *judiciary and fundamental rights* some progress has been made. Reform of the judiciary is moving forward but significant challenges remain, especially to improve judicial efficiency. Some progress has been made in the fight against corruption, with further legislative strengthening and first results in some important cases handled by USKOK. However, corruption remains widespread and efforts need to be intensified and sustained. Measures are generally in place to guarantee fundamental rights. However, further efforts are required, especially as regards implementation of minority rights, including refugee return.

In the area of *justice, freedom and security* Croatia has made progress, particularly on border management, migration and asylum. However, the integrated border management action plan remains to be implemented and equipment upgraded. Considerable efforts are needed to ensure administrative and enforcement capacity, particularly in terms of inter-agency co-operation as well as to prevent corruption and to fight organised crime.

Good progress has been made in the chapter *science and research* and *education and culture*. In both cases, a good overall level of alignment has been reached.

As regards the *environment* good progress has been made, especially in the areas of horizontal legislation, air quality, waste management and chemicals. Administrative capacity needs significant strengthening, especially at local level. A comprehensive plan in this regard as well as financial resources to implement and enforce the *acquis* needs to be developed.

There has been good progress in the area of *consumer and health protection*. A good level of legal alignment has already been achieved. However, continued efforts are required to align legislation in a number of areas and to implement and enforce it effectively.

Croatia has made further progress in the area of the *Customs union*, and legislation is well aligned with the *acquis*. However, preparations to improve administrative capacity and develop IT systems are still at an early stage, in particular with regard to IT interconnectivity.

Progress has continued in the area of *external relations*.

Progress has also continued as regards *Foreign, Security and Defence Policy*, and a good level of alignment has been reached. However, implementation and enforcement of arms control needs to be strengthened.

There has been some progress on *financial control*, notably as regards public internal financial control. Continued efforts are needed, however. In the case of protection of the EU's financial interests, the anti-fraud co-ordination service needs to become fully operational.

There has been some progress on *financial and budgetary provisions*.

The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia has made some progress in addressing the **political criteria**. However, frequent tension and problems in achieving constructive dialogue between major political actors undermined the effective functioning of the political institutions and led to a slowdown in reforms. The short-term priorities of the European Partnership have been partially fulfilled.

The implementation of the Ohrid Framework Agreement continues to contribute to the consolidation of **democracy and the rule of law**. However, further efforts are needed to fully implement the agreement and to consolidate confidence between the political parties representing the different ethnic communities. A consensual approach and readiness to compromise are necessary and the spirit of the agreement should be more consistently upheld. The boycott of Parliament by one of the major opposition parties as well as the poor quality of cooperation between the President and the Prime Minister hindered the effective functioning of the political institutions. The recent clash in parliament and the attack on journalists are a grave cause for concern and should be thoroughly investigated.

As regards *public administration reform*, the law on civil servants is being gradually implemented. Decentralisation has been steadily pursued and the second phase which relates to fiscal decentralisation has begun. Public bodies are co-operating better with the Ombudsman. Preparations are underway for the implementation of the police law. However, the full and effective implementation of the police reform – a key European Partnership priority - remains a serious challenge. Public administration remains weak and inefficient and civil service legislation is little used. Arbitrary dismissals of officials at all levels took place without transparency and disrupted the functioning of the administration. Significant further efforts are needed to create a stable and professional civil service.

Some progress has been made in implementing the strategy on reform of the *judicial system*, a key European Partnership priority. One of the five newly established specialised court departments on organised crime is fully operational. The academy for the training of judges and prosecutors has begun operations and new IT systems are being introduced. Moreover, the implementation of the laws on litigation procedure and enforcement are starting to increase judicial efficiency. However, the overall impact of the reforms has so far been limited. The political deadlock over the remaining appointments to the Judicial Council has reduced the Council's capacity to strengthen the independence and impartiality of the judiciary. It has also delayed key aspects of the reform, such as the setting up of the administrative court. The laws on the public prosecution remain to be adopted and courts' budgets are insufficient. Further efforts are needed to ensure full independence, efficiency and accountability of the judiciary. A track record of implementation of the recent reforms needs to be established.

Implementation of the new legal and institutional framework for the *fight against corruption* has yielded some results. There have been a number of high level prosecutions and convictions. Co-operation between law enforcement agencies is improving. However, corruption is widespread and constitutes a very serious problem. A comprehensive approach across all sectors and the full implementation of anti-corruption legislation are required.

Overall, *human rights and the protection of minorities*, including inter-ethnic relations have improved. Further steps have been taken to implement the Ohrid Framework Agreement, such as the adoption of a strategy on equitable representation of ethnic communities in the administration. However, trust between ethnic communities needs to be further developed, in particular by addressing the socio-economic difficulties facing all minorities. There has been little progress concerning the situation of the *Roma* minority, which continues to face very difficult living conditions and discrimination especially in the areas of education, social protection, health care, housing and employment.

Measures have been taken against *ill treatment* of detainees, notably in co-operation between the Ombudsman and the Ministry of Interior. Interception of communications is now subject to a legislative framework. As regards *freedom of religion*, a new law has been adopted which allows registration of religious institutions. As regards *women's rights*, some further steps have been taken towards creating equal opportunities. However, the protection of women against all forms of violence needs to be strengthened. Implementation of measures to protect children's rights should be accelerated. Inclusive social dialogue needs to be developed.

Regarding *regional issues and international obligations*, the former Yugoslav Republic of Macedonia has continued to participate actively in regional co-operation and given its support to the South East Europe Co-operation Process (SEECP), the Regional Co-operation Council and the amended Central European Free Trade Agreement (CEFTA). The country has maintained full co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY). A law on co-operation with the ICTY has been enacted. Better functioning of the judicial institutions remains essential to prepare for handling the files to be returned to the national jurisdiction by the ICTY. The country has maintained a constructive position throughout the Kosovo status process. As regards the International Criminal Court, the bilateral immunity agreement with the United States is not in line with the relevant EU common position and guiding principles.

The former Yugoslav Republic of Macedonia has fostered good relations with countries in the Western Balkans. Renewed efforts are needed, with a constructive approach, to find a

negotiated and mutually acceptable solution on the name issue with Greece, under the auspices of the UN, within the framework of UN Security Council Resolutions 817/93 and 845/93, thereby contributing to regional co-operation and good neighbourly relations. Actions which could negatively affect good neighbourly relations should be avoided.

The **economy** of the former Yugoslav Republic of Macedonia registered a markedly accelerated growth. Macroeconomic stability has been maintained and structural reforms have further progressed, but the persistence of very high unemployment remains a major cause of concern. Institutional weaknesses and deficiencies in the rule of law still hamper the smooth functioning of the market economy and affect the business climate.

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

The country has maintained a broad consensus on the essentials of economic policies. As a result of an appropriate policy mix, macroeconomic stability and predictability have been maintained. The country's growth performance has improved although there remains scope for more robust growth. Inflation has remained low. The current account was close to balance. However, unemployment has remained particularly high. FDI remained relatively low, after a substantial privatisation related inflow in 2006. The authorities intervened more actively in the economy, by lowering the tax burden, improving revenue collection and increasing expenditures. However, overall, fiscal accounts were maintained close to balance. Tax collection rates increased due to higher revenues and better collection rates. The relatively low level of public sector debt has been reduced further, which also led to a further lowering of the country's external vulnerability. Price and trade liberalisation are largely completed, and the privatisation of state property has continued. Bankruptcy procedures have been shortened and property registration has been accelerated. Financial intermediation has increased and supervision of the financial sector has been strengthened. Furthermore, measures have been taken to improve the quality of human capital and to modernise the country's infrastructure. Economic integration with the EU is well advanced.

However, the functioning of the market economy is still hampered by institutional weaknesses. The judiciary continues to be a bottleneck and regulatory and supervisory agencies sometimes lack the necessary independence and resources to fulfil their functions effectively. The degree of legal certainty is still low and administrative inefficiencies impede the proper functioning of the public administration and hamper the business environment. Labour markets are still functioning poorly. The large informal sector, fuelled by persistent weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment.

The former Yugoslav Republic of Macedonia has made further efforts to improve its **ability to assume the obligations of membership**. There was some progress in the fulfilment of the short term priorities of the European partnership. The country still faces major shortcomings in implementing and effectively enforcing legislation. Adequate human and financial resources to fully implement the SAA are lacking. Large scale replacement of qualified staff following political changes hampered efforts to improve administrative capacity.

In the area of *free movement of goods*, there was some progress in strengthening administrative capacity and on alignment of legislation with the *acquis*, which remains, however, at an early stage. The same is true in the areas of *free movement of workers* and *right of establishment and freedom to provide services*. Progress in the area of *free movement of capital* has been very limited. Legislative alignment is lagging behind and administrative capacity to implement anti-money laundering legislation is not adequate.

There has been progress in the area of *public procurement*, where alignment of legislation with the *acquis* is moving forward. However, administrative capacity at the level of contracting authorities is not sufficiently developed. Substantial progress has been made in the area of *company law*, where alignment is now moderately advanced. On *intellectual property law*, there has been some progress especially with regard to alignment of legislation in the area of *industrial property rights* and interception of counterfeit goods at the border. However, administrative capacity is still insufficient to achieve proper enforcement and strong political will is needed to crack down on piracy.

Progress can be reported in the area of *competition* including state aid policy. The legislation is now mostly in line with the *acquis*, and the capacity and the independence of the competition authority have been strengthened. Further efforts are needed in order to increase public awareness of the benefits of competition policy and understanding of the state aid control system among state aid providers. The law on technological industrial development zones must be amended to bring it into line with the *acquis*.

There was some progress in the area of *financial services*. However, the legislation needs further improvement, in particular as regards the insurance and securities sector. The problem of uninsured vehicles requires further attention. Administrative capacity and the guarantees of operational independence of non-financial sector supervisors are insufficient.

Progress has been made in aligning the legislation with the *acquis* and in strengthening competition in the area of *information society and media*. However, in the field of electronic communications, the country is still in breach of its obligations under the Stabilisation and Association Agreement. In all sectors, implementation and enforcement of the legislation remains weak, while the independence of the regulators is not sufficiently ensured.

In the area of *agriculture and rural development* there has been some progress in policy development, but alignment is still at an early stage. Progress in the area of *food safety, veterinary and phytosanitary policy* has been modest. Administrative capacity, in terms of both number and competence of staff, is not adequate to ensure proper implementation of the *acquis*.

Progress has been made in the alignment with *transport policy*. The former Yugoslav Republic of Macedonia has ratified the European Common Aviation Area. It is actively participating in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO). However, administrative capacity in all sectors remains weak. There has been some progress in alignment of the internal *energy* market and renewable energy legislation. As a party to the Energy Community Treaty, the country needs to implement the relevant EU energy legislation. Administrative capacity to enforce energy efficiency and radiation protection regulations is not sufficient. The independence of the energy regulator should be strengthened.

In the area of *taxation*, indirect tax legislation is well aligned but there are significant discrepancies regarding direct taxation. Progress was made in strengthening administrative capacity. However further efforts to ensure effective implementation and enforcement of the legislation are necessary.

Progress with alignment in the area of *economic and monetary policy* has been limited. However, preparations in this area are on track. In the area of *statistics*, significant steps have been taken in priority areas. However, more efforts are needed to strengthen administrative capacity.

As regards the *acquis* on *social policy and employment*, some progress has been made as regards the development of strategies. However, because of insufficient political determination and administrative capacity, actual progress in implementing these policies remains limited. There has been progress in certain areas of *enterprise and industrial policy*, notably as regards support to small enterprises. As regards Trans-European networks, the country participates in the regional initiatives and alignment is well advanced. Upgrading of infrastructure remains a major challenge. Progress can be reported in the area of *regional policy and co-ordination of structural instruments*. However, substantial efforts are still needed to establish the necessary institutional and administrative capacity at central and local levels.

Some progress has been made in the area of *judiciary and fundamental rights*. The authorities have made further efforts to fight corruption, and this has started to show results. However, ensuring the independence and efficiency of the judiciary remains a major challenge. The approach to tackling corruption is not yet comprehensive. In this area, enactment of legislation is satisfactory, but further implementation and specific allocation of resources is necessary and will require continued political commitment.

In the area of *justice, freedom and security*, the basic legislation is in place, and the implementing legislation has been largely adopted. Further efforts are needed to ensure an active return policy, and bring the asylum procedures in line with European standards. There was uneven progress in the area of police co-operation and fight against organised crime, which remains a serious concern. Seizures of large quantities of drugs were recorded. There was insufficient progress in the area of human trafficking. An integrated intelligence system for inter-agency use in combating organised crime is not yet in place. Inter-agency co-operation needs to be strengthened also with respect to the fight against terrorism.

In several areas, the authorities strengthened their operational capacity, although mainly at central level. At local level, administrative capacity remains generally weak. In the area of border management and Schengen, there is a need for communication networks, technical equipment and training. Good progress was made with the introduction of biometric passports. Overall, a track record of implementation and enforcement still needs to be developed, in particular as regards the fight against organised crime and corruption, which remains a serious concern. The former Yugoslav Republic of Macedonia is not yet sufficiently prepared to implement the *acquis* on justice, freedom and security.

In the field of *science and research* there was little progress in alignment and the capacity of the scientific institutions remains weak. The country adopted policy measures which enhanced alignment in the area of *education and culture*. However, the resources to implement the policy reforms are not sufficient. The country should continue its preparations with a view to future participation in the community programmes Lifelong Learning and

Youth in Action. Progress has been made on developing the legislative framework in the field of *environment*, but implementation of the legislation remains in an early stage, especially in areas which require major investment. Administrative capacity and financial resources are still inadequate. On *consumer and health protection*, some progress has been made, regarding both legislative alignment and building institutional capacity for consumer protection and healthcare. More human and financial resources are needed to allow full implementation of legislation, strategies and action plans.

Progress has been substantial in the area of *customs union*. As regards administrative capacity, significant progress has been made in fighting illegal trade and corruption and in collecting revenues. Overall, the Customs Administration needs to continue its modernisation efforts.

There has been some progress in the areas of *external relations* and of *foreign, security and defence policy*. However, the institutional and administrative capacity is not yet sufficient to enable the country to participate fully in the EU policies in these areas.

Progress in the area of *financial control* has been limited to the public internal financial control. The administrative capacity of the responsible institutions remains inadequate to meet the obligations arising from the *acquis*. There has been no particular progress in the area of *financial and budgetary provisions*. Appropriate coordination structures, implementing rules and administrative strengthening will need to be established in due course.

Montenegro

As regards **political criteria**, Montenegro has made some progress. It has addressed further key priorities of the European Partnerships, but significant results remain to be produced in particular in relation to administrative capacity and anti-corruption. Montenegro has made good progress in establishing the necessary legal framework and institutions following independence. In October 2007, parliament adopted a constitution broadly in line with European standards. Efforts to build broader consensus on basic features of state building need to continue.

Some progress was made in the area of *democracy and rule of law*. Montenegro has continued making progress in administrative and legal reform. Montenegro has made some progress in addressing the key priorities of the European Partnership and in strengthening its administrative capacity. However results have been rather limited so far as and Montenegro has not yet established a sustained track record of reforms. Judicial reform is just beginning.

The *parliament* and the *government* adapted to the requirements of independence. They continued improving their efficiency. The parliament has started implementing the rules of procedure adopted in 2006, better streamlining its work, and strengthening its administrative capacity. The control functions of the parliament have improved. The parliamentary committee for European Integration has been slightly strengthened but it still lacks efficiency and focus. The overall capacity of the parliament needs to be improved. The government was reorganised and the strengthening of new institutions continued, with a focus on defence reform, foreign affairs and justice home affairs. However the government's efficiency, in particular as regards implementation of legislation, needs to be further enhanced.

The *public administration* reform continued but the public administration remains weak and inefficient. Further efforts will be needed to ensure impartiality of public administration and strengthen its capacity. Coordination on European matters has improved. Preparations for the

implementation of the SAA have continued. Personnel including new staff in key government bodies and other agencies need to be well-trained in order to tackle not only coordination tasks but also the implementation of all priorities of the European Partnership and SAA obligations.

Some progress in the reform of the *judicial system* has been achieved. The constitution enhances the judiciary's independence by establishing a new body, the Judicial Council, in charge of the appointment and dismissal of judges. The government adopted a Judicial Reform Strategy for the period 2007-2012. The training of judges and prosecutors has been strengthened. However, legislation now needs to be adopted to ensure the independence and accountability of judges and prosecutors. Parliament still has undue influence on the appointment and promotion of prosecutors. The pre-trial procedure concerning the deportation and disappearance of more than 80 Bosnian civilians in 1992 is still ongoing, which raises concerns about the length of the case. The efficiency of the judiciary is not satisfactory and the significant backlog in both civil and criminal cases was only slightly reduced.

Corruption is widespread and constitutes a very serious problem. The adoption of the first Report of the National Commission established to address corruption can be considered a step, however enforcement remains a problem. The funding of political parties and election campaigns lacks transparency. Loopholes in the legislation on conflict of interests for public officials persist. In the areas of construction and land use planning, privatisation, concessions and public procurement, there is a significant risk of corruption. The situation calls for urgent action in order to achieve results in the fight against corruption, especially in the area of high-level corruption. International cooperation capabilities in the area of the judiciary and police cooperation need to be enhanced.

As regards *human rights and protection of minorities*, there has been progress in establishing the necessary framework following independence. In May 2007, Montenegro was admitted to the Council of Europe. In the constitution, it recognises the supremacy of international human rights law. There are commitments on the retroactive application of human rights legislation, but their exact legal status needs to be clarified. Legislation and practice in the field of social rights are largely in line with the provisions of the revised European Social Charter. Some progress has been achieved on improving women's and children's rights. However, the protection of women against all forms of violence needs to be strengthened. Restitution of nationalised property has continued, but there are still numerous complaints on the manner of implementation. The work of the Ombudsman in defending human rights and exercising its watch-dog function over the public administration has to be strengthened.

In May 2007 Montenegro acceded to the Framework Convention for the Protection of National Minorities as well as to the European Charter on Regional and Minority Languages. The complex issue of the definition of the minorities and the minority protection is only partly covered by the 2006 Law on the Rights of National Minorities. The constitution provides a solid legal basis for the protection of minority rights. The conditions of refugees and displaced persons, including Roma, give cause for serious concern. In particular the Roma population continues to face very difficult living conditions and discrimination, especially in the areas of education, social protection, health care, housing and employment.

Civil society remains fragile and tensions between government bodies and non-governmental organisations persist.

Concerning *regional issues and international obligations*, the country continues to participate actively in regional co-operation. Co-operation with ICTY continues to be satisfactory. Montenegro has continued taking up international obligations since independence. In January 2007, Montenegro became a member of key international financial institutions. Negotiations for the accession to World Trade Organisation are progressing smoothly. Montenegro is committed to regional cooperation in South-East Europe and became a member of the South-East Europe Cooperation Process (SEECP) in May 2007 and participates in the Regional Co-operation Council (RCC). It has ratified the amended Central European Free Trade Agreement (CEFTA) and has good relations with its neighbours. Most issues with Serbia following independence were settled.

In October 2006, Montenegro notified its ratification of the Rome Statute of the International Criminal Court. However, the bilateral immunity agreement signed in April with the United States is not in line with the relevant EU common position and guiding principles.

Montenegro's **economy** has continued to expand rapidly and macroeconomic stability has improved, though risks subsist, in particular from the large current account deficit, at present largely compensated by important FDI inflows. Though structural reforms were pursued, weak institutional capacities and deficiencies in the rule of law continue to hamper the proper functioning of the market economy.

As regards **economic criteria**, Montenegro has made further progress towards establishing a functioning market economy, though at a slower pace. Major reforms are needed to enable it to cope over the long term with competitive pressure and market forces within the Union.

Macroeconomic stability overall improved. The rapid economic growth helped create jobs while inflation remained subdued. Large inflows of foreign investment supported economic activity. A prudent fiscal consolidation policy stance was pursued, resulting in a continued budget surplus. The reform of the pension system continued. There was a rapid growth in the activities of financial intermediaries. New mechanisms to enhance the transparency of the privatisation process have been established. New legislation on company insolvency facilitated market exit. Subsidies remained limited to some post privatisation arrangements. Reform of the utilities continued. Trade openness and the alignment process with WTO rules supported further economic integration with the EU.

However, there are some risks to macroeconomic stability, in particular from the large external deficit. Energy price increases led to a debate within the country, including within the government, about the Montenegrin energy policy and the planned privatisation of energy suppliers. Growth of industrial production has been very modest. It is still expensive and time-consuming to obtain business licenses and enforce contracts. More needs to be done to improve the financial services sector, including revision and implementation of the banking law, the establishment of an insurance supervisory agency and supervision of leasing companies. Moreover, the very high growth of consumer credit and of asset prices signal widening macroeconomic and financial imbalances. Though unemployment declined, it remained high. At the same time, increasing labour costs continued to erode the country's competitiveness. The large informal sector, fuelled by persistent weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment.

The country has made some progress in alignment with **European standards** and in strengthening its administrative capacity, leading to the signature of the Stabilisation and

Association Agreement with the EU. Good progress was achieved in areas such as customs and taxation, competition, public procurement, free movement of capital, and agriculture, whereas it remained limited in social and employment policies, energy, environment as well as justice, freedom and security. The process of approximation of legislation and checking of the compatibility of new legislation with the EU legislation needs to be strengthened. The overall administrative capacity of the country remains weak.

Regarding *internal market*, the institutional framework addressing *free movement of goods* was improved but not yet completed. Human and physical resources are not up to European standards and alignment of consumer protection law is at an early stage.

Montenegro is pursuing a liberal policy towards *movement of services* but financial supervision needs to be considerably reinforced. The legal framework regulating financial sector presents deficiencies in corporate governance and risk management. There was little progress on the *right of establishment*; there are still excessive administrative barriers to business creation and the licensing system is restrictive. Preparations for implementing the SAA are on track in the area of *free movement of capital*.

Customs legislation is now largely in line with SAA commitments. Further alignment is needed on rules of origin, transit procedures, customs valuation and the fight against corruption and smuggling. Montenegro has adopted legislation providing for the closing of duty-free shops at land borders by the end of 2007. Implementation of this measure needs to be closely monitored. Customs fees have been reduced and brought in line with WTO requirements. Some progress was registered in the area of direct *taxation* but alignment is still lagging behind in companies and indirect taxation. There is considerable room to improve administrative capacity.

Overall preparations in the area of *competition* are advancing. Montenegro needs to further improve its legislative framework and establish independent competition and state aid authorities.

There has been progress on *public procurement* system, but capacity and organisation need to be strengthened, in order to efficiently support and monitor the sector.

Overall, progress still need to be made in *intellectual property rights* protection, especially given the weak institutional capacity, poor level of enforcement, high level of piracy and counterfeiting, and the low level of awareness among public bodies and stakeholders.

Concerning the European standards on *social policies*, legislation and strategies are necessary to enhance the protection of vulnerable groups. Compliance with European standards on *employment policies* need to be stepped up, in particular with respect to labour legislation and vocational training. Some progress was achieved in relation with tripartite social dialogue in the framework of the Economic and Social Council, but its mandate and rules on representation need to be clarified.

Progress has been made in the field of *education*, notably in terms of the legal framework, and first attempts to devolve the highly centralised education system. Efforts are needed to involve civil society and increase the availability of training.

Concerning *sectoral policies*, Montenegro has made little progress in implementing the European Partnership priorities in the area of *industry and SME*. A strategic assessment is

needed on where competitive advantages and restructuring needs lie as well as about necessary developments in labour legislation, energy and environmental policies, administrative simplification and transparency.

Progress in the area of *agriculture* and food safety as well as *veterinary and phytosanitary issues* should be stepped up. In the area of *fisheries*, inspection and control capacity need to be strengthened.

Some progress has been achieved in terms of alignment with the EU *environmental* standards and further harmonisation is on track. However, further efforts are needed for improving implementation and enforcement. Strengthening of administrative capacity requires particular attention.

Montenegro has made progress in the area of *transport*. It is working towards the implementation of the first transitional phase of the European Common Aviation Area. It is actively participating in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO). However, the new national transport development strategy remains to be adopted by the government. Also in this area, the administrative capacity requires further strengthening.

Some progress can be reported in the *energy* sector but it remained uneven. There are still significant gaps in the energy infrastructure and legal and institutional framework. Electricity supply remains a serious problem. Further efforts will be needed to finalise and adopt the energy strategy and complete reforms in the sector. As a party to the Energy Community Treaty, Montenegro needs to implement the relevant EU energy legislation.

There has been some progress in the area of *information society and media*. Legislative measures are needed to effectively liberalise the electronic communications market and to align with the *acquis* on information society services. While the broadcasting agency has become fully operational and has an independent status, its capacity needs to be strengthened. Montenegro has not yet ratified the UNESCO Convention on cultural diversity and has not signed and ratified the European Convention on Transfrontier Television. Preparations in this area are at an early stage.

Regarding *financial control*, PIFC and external audit are in the early stages of development and the independence of the State Audit Institution remains to be strengthened by adequate means.

There has been limited progress in *statistics*. Capacity remains weak and there are still major shortcomings in the coordination and resources of the statistical infrastructure. The development of reliable official statistics needs to become a priority.

In the area of *justice, freedom and security*, Montenegro has started to create the necessary legal and institutional framework but much more needs to be done. The *visa* facilitation and readmission agreements between Montenegro and the European Community have been signed. Montenegro has still to upgrade its implementation capacities concerning its own visa following independence and gradually introduce EU standards. Biometric passports in line with EU standards need to be issued. Little progress has been noted in the areas of *border police, asylum and migration* and further efforts are needed.

Money laundering remains an area of serious concern. Police capacities are limited and there is not yet a proper monitoring of financial transactions beyond the banking system, especially in relation to real estate and foreign investment. Some progress can be reported in the fight against *drugs* smuggling, but it remains a serious concern.

There has been progress in the area of *police* reorganisation. However, there is a need to further strengthen the professional capacity of the police, specialised training, and development of intelligence and risk analysis tools. In the fight against *organised crime*, Montenegro is still lagging behind. Organised crime continues to pose a serious problem and major efforts are needed to address it. Legislative reforms are ongoing in the area of combating the *trafficking of human beings*. Montenegro remains mainly a country of destination and transit.

The situation in the area of *data protection* is a matter of serious concern. The Law on Personal Data Protection has not yet been adopted. Current legislation does not fulfil the relevant European Partnership priority and there is still no independent supervisory authority in place.

Serbia

Serbia has made some progress in addressing **political criteria** in line with the European Partnership. Parliamentary elections took place in January 2007 and were conducted in accordance with international standards. However, the ensuing period highlighted sharp divisions among political parties. This led to a slow-down in the overall pace of reform. The Kosovo issue has continued to dominate the political agenda. Nationalist rhetoric remains strong and has negatively affected the political climate. Following several months of uncertainty a new reform-oriented government was formed in May 2007. It achieved early positive results on cooperation with the ICTY, which enabled the Commission to finalise negotiations on a Stabilisation and Association Agreement (SAA). Serbia has still to meet its international obligation to fully cooperate with the ICTY before the SAA can be signed.

Democracy and the rule of law in Serbia have still to be further strengthened. There has been some progress in implementing the new *constitution* which entered into force in November 2006. A constitutional law has been adopted, however several provisions, in particular, on the judiciary still need to be implemented in line with European standards.

The work of the *parliament* has been hindered by the political situation. The first sitting of the parliament after its inauguration was adjourned for almost three months due to the protracted negotiations to form a government. Delays in the formation of the government and sharp political divisions have had a negative impact on parliamentary activities.

In the months following the parliamentary elections, there was little activity from the caretaker government. The new *government* placed emphasis in its programme on European integration, but the results have been mixed. In August 2007 the government adopted an action plan on harmonisation with the *acquis* in an attempt to accelerate the reform process. The Serbian administration participated in SAA negotiations in a professional manner and this helped to improve coherence among the various Ministries and agencies. Policy co-ordination, however, needs to be further improved. As regards local governance, the legal framework has still to be fully developed.

Capacity in the area of *public administration* is in general good. The state Ombudsman was appointed and the government now needs to take all necessary measures to ensure the full functioning of the Ombudsman's office. Regulatory bodies need to be strengthened to ensure the necessary oversight and enforcement of legal obligations. Reforms need to be continued in order to build, at both governmental and sub-national levels, an impartial, accountable and efficient civil service, based on professional career development criteria.

Civilian oversight of the military, a key Partnership priority, has improved, and the emphasis in this area needs to be on ensuring the effectiveness of parliamentary control and financial oversight. More generally, a new revised legislative framework in the field of defence, required by the constitution, is still pending and a number of laws have to be adopted.

Judicial reform, which is also a key Partnership priority, is lagging behind and a new legal framework is pending. At present, the constitution and the constitutional law leave room for political influence over judicial appointments. Appellate and administrative courts have not yet been established and the constitutional court has not been operational since October 2006. Further legal and management measures need to be undertaken to ensure the independence and efficiency of the judiciary.

Measures that have been taken in the *fight against corruption* include the adoption of an action plan to implement the national strategy against corruption. There have been some successful prosecutions for corruption-related offences. However, corruption is widespread and constitutes a serious problem. An anti-corruption agency needs to be established and the anti-corruption plan has still to be fully implemented. A more systemic approach is needed to fight corruption, including financial control, transparent public procurement procedures and effective parliamentary oversight.

The overall conditions for respect of *human rights and the protection of minorities* have improved and Serbia is relatively well advanced in meeting its obligations. The new constitution contains several provisions on human and minority rights, but a track record of judicial enforcement needs to be developed, including constitutional appeal. The new constitution prohibits discrimination but a comprehensive anti-discrimination law has not yet been adopted. Progress has been achieved on improving women's and children's rights. However, their protection against all forms of violence needs to be strengthened and a gender equality law remains to be adopted. Problems relating to property restitution have not yet been resolved.

There have been improvements in *minority* representation in public services and the use of minority languages. However legislation necessary to regulate the election of national councils and their duties has not been adopted. The inter-ethnic situation in Vojvodina has continued to improve. The situation in South Serbia has remained stable but tense. There have been improvements in the work of the multi-ethnic police force. However tensions persist within the ethnic Albanian community and in their relations with the Serbian population. The situation in Sandžak has deteriorated, and there has been a deepening of religious divisions within the Muslim community and outbreaks of violence.

Steps have been taken to strengthen the coordination of activities with a view to improving the situation of the *Roma* population. However, the Roma people continue to face very difficult living conditions and discrimination, especially in the areas of education, social protection, health care, housing and employment. Many Roma continue to experience difficulties in obtaining personal documents which in turn hinders access to basic services.

As regards *regional issues and international obligations*, Serbia has played a positive role in improving regional co-operation, including notably the South East Europe Co-operation Process (SEECP), the Regional Co-operation Council (RCC) and the amended Central European Free Trade Agreement (CEFTA). However, Serbia needs to show a more constructive approach towards the participation of Kosovo under UNSCR 1244 in regional cooperation and other fora. In general bilateral relations with neighbouring countries are good.

The new government, in its programme, gave a clear commitment to fulfil its international obligations. The Serbian authorities subsequently improved co-operation with the ICTY, leading to the arrest of two indictees and their transfer to The Hague. A National Security Council was established, chaired by the President of the Republic, and is responsible for co-ordinating the work of military and civilian security services. The National Council for Co-operation with ICTY was also reinstated. However, Serbia has not yet achieved full co-operation with the ICTY that should lead to the arrest of the remaining fugitives. Full cooperation remains a condition for the signature of the Stabilisation and Association Agreement.

In February 2007, the International Court of Justice found that acts of genocide had been committed in Srebrenica. The Court ruled, in its case of Bosnia and Herzegovina versus Serbia and Montenegro, that Serbia had not committed genocide in violation of its obligations under the relevant convention. However, the Court found that Serbia had failed to take all measures necessary to prevent the Srebrenica genocide and to bring the perpetrators to justice.

Serbia participated in discussions under the auspices of the UN Secretary General's Envoy for Kosovo on the future status of Kosovo. Serbia however rejected its recommendations and has maintained that Kosovo should remain an integral part of the country, whilst offering substantial autonomy. The Serbian authorities are currently participating in political talks under the aegis of the international Troika of the EU, US and Russia on the future status of Kosovo. Serbia has continued to discourage Kosovo Serbs from participating in the provisional institutions of self-government and elections in Kosovo. Serbia called on Kosovo Serbs not to participate in elections to the Kosovo provisional assembly and municipalities.

Serbia's **economy** has continued to grow strongly but progress in macroeconomic stabilisation was mixed. The reversal of fiscal consolidation added to fiscal and macroeconomic risks. Much needed structural reforms continued slowly and the high level of unemployment remained a major challenge.

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

The authorities have to a large extent maintained the main elements of a sound economic policy. The economy continued to expand strongly. The inflow of foreign capital remained significant. Declining inflation contributed to a stable environment for economic actors. The budget remained in surplus and investment activity has improved markedly.

The privatisation of state-owned banks is well advanced and competition among banks is strong. The new government has shown limited willingness to revive the process of privatising state-owned companies. The SME sector has grown in importance. Foreign trade and investment continued to grow and economic integration with the EU has advanced.

However, despite strong economic performance, unemployment remains very high. Further progress in privatisation is needed and a competitive and dynamic private sector has not yet been fully established. Fiscal policy turned expansionary in the second half of 2006 and in 2007. Public sector wages increased substantially. This contributed to a sizeable increase in expenditures as a percentage of GDP in 2007 and added to external imbalances and inflationary pressures. The lack of flexibility in the labour market and high social security contributions remain an obstacle for job creation. Investment has been hampered by excessive bureaucratic requirements and complex legislation. Commercial courts continued to suffer from limited capacity and expertise. The large informal sector, fuelled by weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment

As regards **European Standards**, SAA negotiations have shown that Serbia has the administrative capacity to progress towards the EU. Serbia will be well placed to implement a future SAA if this capacity is properly utilised.

Serbia has made some progress in addressing Partnership priorities in the areas of the **internal market**. In the field of *free movement of goods*, Serbia established a new accreditation body and made progress in the publication of national standards, however the administrative capacity and legislative framework has still to be further developed. Serbia has advanced towards the goal of membership of the *WTO*. In the fields of *customs and taxation* there have been administrative and legislative improvements. Serbia amended legislation on excise duties and harmonised its customs tariff law to the Combined Nomenclature of the EU. However, enforcement capacities are still limited. Some progress was made in the area of *competition* following the establishment of the commission for the protection of competition. The independence of the commission needs to be ensured. There has been little progress, however, in the area of state aid control and an independent state aid authority has not yet been established. There has been little progress in the area of *public procurement* and efforts are still needed both in terms of amending legislation and strengthening administrative capacity. Some progress has been made in the area of *intellectual property rights* especially due to the clarification of the status of the intellectual property rights institute which ended a year-long institutional stalemate. There has been little progress in *employment*, while work had continued in the area of *social policies* through the development of the legal framework for health and safety at work. There has been little progress in the area of *education* and efforts are needed to increase administrative capacity, coordination between responsible institutions and links with the labour market.

Serbia has shown progress in approximating with European standards on a number **sectoral policies**. In the area of *industry and SME* Serbia is fully committed to the process of the European Charter for Small Enterprises. Serbia's preparations are progressing well in the area of *agriculture*. However, efforts need to be maintained and expanded into a number of more specific areas such as veterinary and phytosanitary issues and food safety. Progress has been made on improving the quality and reliability of *statistics* on labour market and business activities, whilst further progress is needed on agriculture statistics and strengthening administrative capacity.

Some progress has been made in meeting European Partnership priorities in the area of *transport*. Serbia is working towards the implementation of the first transitional phase of the European Common Aviation Area Agreement. However, it does not apply this agreement in practice. Serbia is actively participating in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory. Further efforts are required in

the areas of road, rail and combined transport and a national strategy is required for the entire transport sector. There have been some improvements in the *energy* sector, notably in liberalising the internal energy market. Energy policy is still however at an early stage of development and particular emphasis will have to be placed on improving energy efficiency, renewable energy, and radiation protection. As a member of the Energy Community Treaty, Serbia needs to implement the relevant EU energy legislation.

There has been little progress in the area of *information society and media*. The national Broadcasting Agency needs to improve overall transparency and accountability. There has been little progress in adopting legislation on *environment* in line with the European Partnership. Efforts have been made to develop inspection bodies but they do not have sufficient capacity to ensure the consistent enforcement of environment legislation.

Serbia is not sufficiently advanced in the area of *financial control* and there have been few developments in the reporting period. A number of steps need to be taken to establish a comprehensive and effective system of public internal financial control.

There has been some progress in the field of *justice, freedom and security*. *Visa* facilitation and readmission agreements have been concluded between the European Union and Serbia and the law on travel documents has been adopted. However, the current visa regime is not in full compliance with European standards. Also, biometric passports in line with EU standards need to be issued. The Law on Foreigners has not yet been adopted. There have been some improvements in the area of *border control* including the handover of state borders from the Serbian military to the Ministry of Interior. Further efforts are needed to develop an integrated border management system. There have been improved results in tackling *illegal migration* but there has been little progress in the area of *asylum*.

Money laundering constitutes a serious problem in Serbia. Implementation of the new legislative framework has been slow and legislation and a strategy on prevention of money laundering and financing terrorism have still to be adopted. Effective measures to enforce and audit declarations of assets are not in place. Co-operation between relevant state authorities remains to be improved.

Legislation in the area on the fight against *drugs* is largely in line with international conventions and Serbian enforcement authorities have made some progress in combating drug smuggling, with the limited resources at their disposal. Geographically placed on a Balkan transit route, Serbia is a transit point for various kinds of drugs. There has been little progress in addressing the problem of drug abuse in the country and in adopting a national strategy.

The Law on *Police* is in the process of being implemented and most regulations have now been adopted. Further efforts are needed to strengthen the overall administrative and professional capacity of the police force and to increase transparency.

Some progress has been made in fighting *organised crime* and important cases have been brought to a conclusion, including the convictions and sentencing of those found guilty of the murder of former Prime Minister Djindjic. However, organised crime continues to pose a serious problem for Serbia and more concerted efforts are needed. The action plan to implement the national strategy on fighting organised crime has not been adopted and the specialised police services lack the necessary capacity to fully carry out their duties. Provisions for the confiscation of proceeds of crime have not been adequately implemented and further legislation on seizure of assets is required.

Progress has been made in combating *trafficking human beings* through improved regional co-operation and the adoption of a national strategy. Serbia has been recognised as a source, transit and destination country. Serbia is still at an early stage in developing a comprehensive approach to combating terrorism. A special department has been established in the criminal police services. The ratification of a number of international conventions is still pending. There has been little progress in the area of *protection personal data* and current legislation is not in line with European standards.

Kosovo under UNSCR 1244

As regards **political criteria**, Kosovo has made progress in addressing some key partnership priorities. The provisional institutions of self-government (PISG) have fulfilled their core roles in their areas of competence. However, the United Nations Interim Administration Mission in Kosovo (UNMIK) still bears ultimate legislative and executive responsibility. Relations between Kosovo Albanians and Kosovo Serbs remained strained. Strengthening the rule of law, anti-corruption policy, the fight against organised crime and enhancing the dialogue between the communities are Kosovo's major political challenges.

Regarding *democracy and the rule of law*, overall stability is being maintained, despite delays in the status settlement process and a number of incidents. Further progress was made in the transfer of responsibilities to the PISG. However, the status issue has continued to dominate Kosovo's politics. Kosovo's political leaders participated in the process of determining Kosovo's status and co-operated with the international community and the EU planning teams in preparations for status implementation in line with the Special Envoy of the UN Secretary General's package⁹. They are currently participating in political talks under the aegis of the international Troika of the EU, US and Russia on the future status of Kosovo. In general, Kosovo Serbs do not participate in the PISG. The authorities exercise limited control over certain areas where parallel institutions, including parallel courts which apply Serbian law, continue to function. This is particularly the case in the northern municipalities. Kosovo institutions require strengthening at all levels.

The *assembly* has participated more actively in the legislative process with an improved administrative and law making capacity. For the first time, the assembly based its work on an annual work programme. However, the assembly's law-making and administrative capacities need further strengthening.

The coalition *government* has remained stable. The central co-ordination capacity of the prime minister's office has improved. The government is giving high priority to European integration matters. It actively participated in meetings in the framework of the Stabilisation and Association Process Tracking Mechanism (STM). The government increased its outreach activities to ethnic minorities and in particular Kosovo Serbs. One Kosovo Serb minister was appointed. Municipalities have better observed budgetary constraints. However, co-operation between government departments and between central and municipal authorities remained difficult. The government's target for minority representation in the administration has not yet been met.

The efficiency of the *public administration* improved. The government has approved a public administration reform action plan. The independent oversight board is now working to ensure

⁹ S/2007/168/Add.1.

a professional, impartial and accountable civil service. However, Kosovo's central and local public administration remains weak and inefficient. Civil servants are still vulnerable to political influence. The reform needs to be put into practice.

The *judicial system* remains weak and unstable, but initial legislative steps towards establishing the necessary structures have been taken and now need to be implemented. The Ministry of Justice and the Kosovo Judicial Council are building up capacities to exercise the powers transferred to them by UNMIK. Both adopted reform strategies. The ministry adopted an operational plan for 2007. The Special Prosecutor's Office became operational. However, the judicial system remains weak and vulnerable operating in a complex legal environment in which there is considerable uncertainty. There is a considerable backlog of cases, including cases related to the March 2004 riots.

The *Anti-corruption Agency* became operational in February 2007. Under the anti-corruption law and action plan politicians and senior civil servants declared their assets. However, corruption is widespread and constitutes a very serious problem.

In the area of ***human rights and the protection of minorities***, little progress was achieved. Whilst institutional and legal framework to protect freedom of expression improved, undue pressures on the media persist, seriously limiting open public debate. Minorities and other vulnerable groups face restrictions in exercising their freedom of assembly and association. Religious freedom is not fully respected, attacks on religious sites have persisted and investigations are not always conclusive. The legal aid system is not yet fully functional. Some progress was made in improving the penitentiary system, but infrastructure and security standards need further upgrading.

Awareness of *women's rights* in society remains low. Legislation on gender equality needs to be further developed and implementation stepped-up. Women need to be further protected against all forms of violence. *Children's rights* are not fully respected and protection mechanisms are inadequate. The infant mortality rate in Kosovo is still high. The integration and protection of *socially vulnerable groups* is not fully guaranteed. Anti-discrimination legislation has been developed in line with EU standards but little progress was achieved in its implementation. *Property rights* are not always guaranteed and are subject to ambiguities and legal uncertainties. The enforcement of decisions and judgements is weak.

Very little progress has been achieved in relation to *returnees, refugees and internally displaced people*. The integration and protection of returnees and internally displaced persons is not fully guaranteed.

The *rights of minorities* in Kosovo are guaranteed by law, but restricted in practice because of security concerns. The government leaders have made efforts to reach out to the minority communities, but these need to be enhanced and followed up by concrete actions. Minorities show increasing confidence in the institution of the ombudsman. However, the enjoyment of minority rights is restricted in light of the overall situation. The Roma, Ashkali and Egyptian communities still face very difficult living conditions and discrimination, especially in the areas of education, social protection, health care, housing and employment. There is still no comprehensive integration strategy for the Roma, Ashkali and Egyptian communities.

Concerning ***regional issues and international obligations***, Kosovo participates actively and constructively, to the extent its present status permits, in regional co-operation initiatives. The Central Europe Free Trade Area Agreement (CEFTA) was signed. Kosovo participates in the

South East Europe Transport Observatory (SEETO). Kosovo continues to implement the provisions arising from the Energy Community Treaty and the European Common Aviation Area Agreement.

As regards co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY), some progress was achieved but witness intimidation continues to be a problem.

Kosovo's **economic development** continues to be seriously impeded by political uncertainties, insufficient rule of law, limited production capacity and weak infrastructure. The very high level of unemployment remains a major cause of concern. Economic policies remained broadly sound and some reforms were pursued but economic growth was again modest and external balances remained precarious.

As regards **economic criteria**, Kosovo has made limited progress towards establishing a functioning market economy. Further considerable reform efforts must be pursued to enable it to cope over the long term with competitive pressure and market forces within the Union.

Overall, economic policies remained broadly sound and market-oriented. Inflation was low and the price level of domestic goods and services fell. Budget implementation in 2006 and the first half of 2007 led to a significant surplus. This was largely due to an extraordinary and larger than expected increase in revenues as well as to the fact that the government investment spending fell short of budgeted figures. Kosovo did not assume any public external debt. Privatisation of formerly socially owned enterprises accelerated significantly although much remains to be done. The incorporation of publicly-owned enterprises is close to completion but restructuring needs to continue. The financial sector further expanded and consolidated in a context of increased foreign ownership.

However, growth was relatively modest and unemployment very high. Inadequate implementation of the rule of law, status-related uncertainties and fiscal risks continued to affect the functioning of market mechanisms and the business climate. Economic policy co-ordination remained weak, making it difficult to ensure a policy consensus and to respect policy commitments. The external accounts remained precarious, as the trade deficit widened further. Kosovo still lacks export capacity and competitiveness. The development of a viable private sector was hampered by limited access to finance, legal uncertainty, insufficient skills and training, the weak technology base and the poor state of the transport, energy and communication infrastructure. Financial intermediation continued to be hampered by high interest rate spreads. The large informal sector, fuelled by persistent weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment.

Kosovo has made further progress in approximating its legislation and policies with **European standards**. In some areas, such as customs and free movement of goods, progress made in previous years has been sustained. However, little progress has been made on the effective implementation and enforcement of legislation. More efforts are needed to create the administrative capacity that will ensure further approximation and implementation of European standards, in particular in fighting organised crime, protecting the external borders and boundary, taxation and energy.

Some progress was achieved in implementing the European Partnership priorities in the area of the EU **internal market**, but Kosovo is still at a very early stage in its efforts to comply with European standards. Some progress has been made regarding *free movement of goods*,

particularly in putting in place necessary legislation and horizontal infrastructure. As regards horizontal measures and standardisation, there was little progress. The legal framework for the *freedom to provide services and the right of establishment* is still fragmented. Regarding *free movement of capital*, the transfer of Serbian dinars to the areas predominantly inhabited by Kosovo Serbs needs to be more transparent.

Good progress can be reported in the field of *customs*. The customs service has increased its capacity and the customs compliance unit, intelligence unit and investigations sector have been strengthened and are now operational. Little progress was achieved in the field of *taxation*. Tax administration is ineffective. The capacity of the administration to enforce tax legislation is still weak. In the area of *competition*, few developments can be reported. In the field of *public procurement*, a law amending the 2004 public procurement law was promulgated. However, further efforts are needed to improve the compliance of Kosovo's procurement activities with European standards. Little progress can be reported in the area of *intellectual property law*. Counterfeiting and piracy remain widespread.

No particular progress can be reported in European standards on *social policy and employment policies*. There is no comprehensive employment strategy and the Labour Inspectorate remains without adequate capacity to monitor the implementation of essential labour legislation. Concerning European standards on *education and research*, some progress has been made in the field of education, but the capacities of the education and training system are still very rudimentary and efforts are needed to set standards and unify the higher education system.

As regards the development of *sectoral policies*, some progress can be reported in the field of *industry and SMEs* to allow faster and cheaper business start-up. However, preparations in this area are still at an early stage.

There has been little progress in the area of *agriculture, veterinary, phytosanitary and fisheries*.

Some progress was made in the field of *environment*. A number of important laws have been adopted and most of the water and waste public utilities have been consolidated and incorporated. However, the water and waste public utilities face problems with revenue collection. Most administrative structures are still fragile and need to be strengthened to allow Kosovo to meet the environmental challenges it is facing. The population's awareness of environmental issues remains very poor.

Some progress was made in the field of *transport* generally. UNMIK signed the Agreement on the European Common Aviation Areas on behalf of Kosovo. It is actively participating in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO). However progress in the railway sector is limited. In the area of *energy*, Kosovo is bound to apply the relevant EU energy legislation as a member of the Energy Community Treaty. The remaining challenges in this area are, however, very significant. The institutional and legislative capacity of the relevant administrative structures remains weak. Reliable supply of electricity is not ensured. This affects rural and remote areas in particular. Revenue collection remains a challenge.

There has been little progress in the area of *information society and media*. Effective liberalisation and enhancement of competition in the electronic communications market remain to be achieved. Progress was made in media reform, but the stable and sustainable

funding of the public service broadcaster, the independent media commission and the minority media fund needs to be addressed.

There has been some progress in the field of *financial control*. Little progress can be reported in the field of *statistics*. The statistical infrastructure and the management capacity at the statistical office remain weak.

As regards *justice, freedom and security*, uneven progress was made in approximating Kosovo's legislation and practices with European standards. Kosovo does not have a *visa* regime. Work towards introducing biometric passports in line with EU standards is necessary. While UNMIK retains the ultimate responsibility for *border and boundary management* and KFOR continues to be in charge of the green border, the Kosovo Police Service border and boundary police is in charge of managing the flow of persons through Kosovo. Agreements on cooperation and mutual support have been signed between the border and boundary police, the customs service, the veterinary and food agency as well as the Ministry of Culture, Youth and Sport. However, controls on the movement of persons into and out of Kosovo do not always correspond with European standards.

There is no law on *asylum*. There are no shelters and housing facilities for the accommodation of asylum seekers. Very few persons apply for asylum in Kosovo. Concerning *readmission*, the PISG have to enhance preparations for increasing returns in line with European standards; there are no specific laws, strategies or action plans, and no budgetary provisions yet.

Responsibilities in the field of fighting *money laundering* have only been partly transferred to the PISG. Uneven progress can be reported in combating money laundering. Investigations on a number of cases were concluded, but no court sentences have yet been handed down. The wide range of actors dealing with money laundering and the lack of a clear distribution of competencies hinders investigations and prosecution of money laundering offences. The lack of specialised prosecutors to deal with money laundering and economic crimes remains a major challenge.

Kosovo is one of the main traffic routes for *drugs* to Western Europe. Some progress has been made in adopting new legislation and in strengthening relevant administrative structures. The seizure of narcotics has increased. However, there is no strategy to prevent and combat the illegal transport and use of drugs. Drug trafficking remains a serious concern.

Some progress can be reported in the field of *police*. The Kosovo Police Service generally carries out its tasks in a professional and competent manner, particularly as regards minor crimes. Investigations in cases of serious crime, however, are still ineffective. Inter-agency and international co-operation are not always satisfactory. There is no law on the police. Police detention facilities do not meet international standards. There are no uniform procedures and associated forms of police detention. Kosovo still lacks a crime reduction strategy at both central and regional levels.

The fight against *organised crime*, including the fight against trafficking in human beings, remains a major challenge. The number of cases of organised crime investigated increased substantially in the first half of 2007. Relevant administrative structures were strengthened, but remain ineffective due to a lack of skills and equipment. The legislative framework to tackle organised crime is still incomplete, particularly in the area of witness protection, undercover agents, confiscation of assets, the anti-mafia law and the law on organised crime itself. There is still no weapons collection strategy. Kosovo is still a destination and transit

area for victims of *trafficking in human beings*. No special legislation on trafficking in human being exists.

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

Turkey

Turkey continues to sufficiently fulfil the Copenhagen **political criteria**. Following the constitutional crisis in spring, early parliamentary elections were held in full respect of democratic standards and of the rule of law. However, limited progress was achieved on political reforms in 2007. Significant further efforts are needed in particular on freedom of expression, on civilian control of the military, and on the rights of non-Muslim religious communities. Further progress is also needed on the fight against corruption, the judicial reform, trade union rights, and women's and children's rights.

As regards **democracy and the rule of law**, parliamentary elections were free and fair, turnout was high and the new *Parliament* is now more representative of the country's political diversity. The election of the President by Parliament in August took place in accordance with the Constitution. A new government was formed and presented an EU-oriented reform agenda.

There has been some progress in legislative reform of the *public administration* and civil service.

As regards *civilian oversight of the security forces*, the outcome of the spring 2007 constitutional crisis reaffirmed the primacy of the democratic process. Nonetheless, the military has taken public positions on issues going beyond its remit and full civilian supervision of the military and parliamentary oversight of defence expenditures still needs to be established.

Some progress has been made in improving the efficiency of the *judiciary*. Training of judges, prosecutors and court staff, as well as modernisation have continued. Concerns remain regarding the independence and impartiality of the judiciary.

There has been little progress in the *fight against corruption*. Corruption is widespread. The continuing absence of an overall anti-corruption strategy, action plan and coordination mechanism is a cause for concern.

Concerning **human rights and the protection of minorities**, Turkey has made progress on the ratification of international human rights instruments and in carrying out European Court of Human Rights (ECtHR) judgements. However, further efforts are needed. The institutional framework for human rights needs to be upgraded.

The Turkish legal framework includes a comprehensive set of safeguards against *torture and ill-treatment*. The downward trend in the number of reported cases of torture and ill-treatment continued. However, cases still occur especially before detention starts. Turkey needs to investigate more thoroughly allegations that there have been human rights violations by members of the security forces.

As concerns *freedom of expression*, prosecutions of journalists, intellectuals and human rights activists for the expression of non-violent opinions increased in 2007. This has led to cases of self-censorship. Article 301 and other provisions of the Turkish Criminal Code that restrict freedom of expression need to be brought into line with the European Convention for Human Rights and case law of the ECtHR.

As regards *freedom of religion*, a legal framework has yet to be established in line with the ECHR so that all religious communities can function without undue constraints. There was no progress on the difficulties encountered by non-Muslim religious communities and by the Alevis. The authorities need to make more strenuous efforts to prevent discrimination, intolerance and related acts of violence.

Public attention to gender issues has continued to increase, and more action has been taken to improve *women's rights*. In particular, progress has been achieved on protecting women from violence. However these efforts need to be further strengthened. The legal framework is in place but it needs to be fully implemented.

On *children's rights* there has been progress in several areas, including registration of children at birth and education. However, further efforts are needed in these areas, as well as to prevent violence against children and to improve the overall implementation of the relevant legislation.

On *trade unions' rights*, Turkey has not ensured that full trade union rights are respected in line with EU standards and the relevant International Labour Organisation (ILO) Conventions, in particular as regards the right to organise, to strike and the right to bargain collectively. New legislation is needed to strengthen trade union rights.

The situation in Turkey with regard to *minority rights* remains unchanged. There has been no progress on alignment of Turkish practices with European standards. Restrictions on the exercise of *cultural rights* continue, in particular as regards the use of languages other than Turkish in broadcasting, in political life and when accessing public services. There are no opportunities to learn Kurdish in the public or private schooling systems. The Roma experience discriminatory treatment in access to adequate housing, education, social protection, health and employment. Forced evictions remain a serious problem.

As concerns the *East and Southeast*, a comprehensive approach is needed to the economic and social difficulties facing the region, and to creating the conditions for the predominantly Kurdish population to enjoy full rights and freedoms. Compensation of *internally displaced persons* (IDPs) has continued and measures were taken to improve the implementation of the relevant law. However, the government lacks an overall national strategy to address the IDP issue, including return.

There has been a further increase of *terrorist attacks* by the PKK, which is on the EU list of terrorist organisations.

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

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

The Turkish **economy** continued to grow rapidly, with high inflows of foreign investment. The monetary and fiscal policy mix was broadly adequate. Inflationary pressures, growing external imbalances and weaker fiscal discipline in 2007 may affect macroeconomic stability. Structural reforms have slowed down and labour market rigidities hamper job creation.

As regards **economic criteria**, Turkey can be regarded as 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 implements its comprehensive reform programme to address structural weaknesses.

Economic growth remained robust, in large part due to higher exports, and business confidence was strong. The new government expressed strong commitment to fiscal consolidation and structural reform. A strong lira and fiscal discipline have reduced the public debt, despite high borrowing costs and some financial market turbulence. The central bank has been conducting a cautious and responsible monetary policy. FDI grew sharply, notably in the form of purchases of Turkish companies by foreign entities, and has played a greater role in reducing risks related to macroeconomic imbalances.

However, tax relief and higher infrastructure spending led to fiscal loosening in 2007. Corrective measures are needed to reach the budget target in 2007. Inflationary pressures have increased – in particular due to food and services prices and wages - and in the absence of major policy changes the inflation target for end 2007, set by the government and the central bank, might not be met.

A large part of the widening current account deficit is still financed by short-term capital inflows. The fiscal pressure on labour remains very high and deters job creation in the formal sector. Structural rigidities in the labour market hamper job creation, and hamper an increase in employment of women.

The pace of privatisation has slowed down. Human capital remained to a large extent ill-adapted to the needs of a rapidly growing and developing economy, in particular in export-oriented sectors. Regional disparities remain high. The lack of transparency in state aid remains detrimental to effective economic policy making. Planned reforms in the social security system and in the energy sector have been postponed. The large informal sector, fuelled by weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment.

Turkey improved its **ability to take on the obligations of membership**. Progress was made in most areas, in particular in the chapters on free movement of goods, financial services, trans-European Networks, and science and research. Alignment is advanced in certain areas, such as free movement of goods, intellectual property rights, anti-trust policy, energy, statistics, enterprise and industrial policy, consumer and health protection, and science and research. However, alignment needs to be pursued, in particular in areas such as, free movement of services, state aid, agriculture, fisheries, food safety, veterinary and phytosanitary policies, and environment. A number of obligations by Turkey under its

Customs Union with the EU remain unfulfilled. Turkey's administrative capacities to cope with the *acquis* need further improvement.

With regard to *free movement of goods*, the level of alignment is generally advanced, with the exception of notification procedures and mutual recognition. Turkey made progress in most areas such as accreditation, standardisation, conformity assessment, and market surveillance. However, certain technical barriers to trade continue to persist. Progress on the *right of establishment and the freedom to provide services* was very limited; the level of alignment remained low. As regards the *free movement of capital*, Turkey made progress on capital movements and the prevention of money laundering. Good progress was made on *financial services*, in particular in banking, insurance and occupational pensions, as well as some progress on securities markets and investment services.

In the area of *public procurement*, progress was limited. The administrative capacity improved. However, responsibilities for policy making and implementation remain fragmented. On *company law*, Turkey made little progress. The draft commercial code was not adopted. With regard to *intellectual property law*, alignment is well advanced. Some further progress took place. However, implementation and enforcement need substantial strengthening. With regard to *information society and media*, Turkey made some progress. Market liberalisation in the electronic communications and information technologies continued.

Progress in the field of *competition* was achieved as regards anti-trust; alignment is well advanced. However, there was no progress concerning the adoption of the state aid legislation and the establishment of the state aid monitoring authority. Finalising the National Restructuring Programme for the steel industry remains a priority. Turkey has not reported state aid schemes to the Commission.

In the area of *agriculture and rural development*, alignment remained limited. Some progress was made on organic farming. Initial progress was made in drafting a rural development programme and with the adoption of implementing legislation to make use of Community funding. However, preparations for operational structures are lagging behind considerably. Turkey has not removed technical barriers to trade of beef meat and live bovine animals. In *fisheries*, progress was achieved on resource and fleet management. However, Turkey made no progress with regard to legislative alignment. In both agriculture and fisheries, implementing capacities are at an early stage. Little progress was made concerning *food safety, veterinary and phytosanitary policy*. Effective control of animal diseases, in particular foot and mouth disease, remained a major cause for concern. Alignment is at an early stage.

Some progress was made in *transport policy*. Alignment in the road, air and maritime sectors continued. However, Turkey made no progress in the railway sector. It refuses to bring its bilateral air service agreements with Member States in line with Community Law. The lack of communication between air control centres in Turkey and the Republic of Cyprus compromises air safety. In the area of *Trans European Networks* good progress was made. The transport infrastructure needs assessment. With regard to infrastructure, significant progress was made on the Turkey- Greece gas interconnector which is near to completion. Turkey's participation in the Nabucco pipeline remains key to the success of the project. In the field of *energy*, there was some progress. A framework law on energy efficiency was adopted. However, Turkey did not address the need for ambitious targets on renewable energy. Overall, legislative alignment is moderately advancing.

On *taxation* there was some progress. However, Turkey did not address the scope and rates of VAT, the structure and rates of excise duties, nor direct taxation. Discriminatory taxation of alcoholic and tobacco products continued.

In *statistics* progress was made, in particular on infrastructure, classifications, and sector statistics. Overall, alignment is well advanced. However, alignment is incomplete as regards registers, agricultural statistics and economic and monetary statistics.

Some progress was made in the area of *economic and monetary policy*. Overall alignment in this area is well advanced. However, cooperation amongst policy making bodies needs to be enhanced. Concerning the *acquis* on *employment and social policy*, Turkey made little progress in aligning with the *acquis*. Social dialogue needs to be enhanced and the informal sector curbed.

Progress was made on *enterprise and industrial policy*: the Investment Support and Promotion Agency became operational, a tourism strategy was adopted. Overall, Turkey has a high level of alignment. Good progress was achieved in aligning with EU policies on *science and research*. However, the number of researchers and private sector involvement in research both remain limited. Progress was made in the field of *education and culture*, notably through participation in Community programmes. Turkey has reached a good overall level of alignment in these areas.

Progress has been made on *regional policy and coordination of structural instruments*, particularly in designating implementing structures for the regional development components of the new Community Instrument for Pre-Accession Assistance (IPA). However, overall alignment remained limited. Administrative capacity at central level is lagging behind. At regional level, the process of establishing structures for the implementation of regional policy measures stalled.

As regards the *judiciary*, some progress can be reported, in particular, on training and in the use of IT technology in case management; further efforts are needed to strengthen the independence of the judiciary, in particular as regards the composition of the High Council of Judges and Prosecutors. As regards the fight against corruption, little progress was made. There is no overall strategy or action plan.

With regard to *fundamental rights*, there was little progress in legislation and in practice. Considerable further efforts are needed in this area.

Concerning *justice, freedom and security*, Turkey continued making progress, particularly in fighting organised crime, drug trafficking and human trafficking. However, considerable and sustained efforts are required in areas such as police cooperation, asylum, migration and external borders.

On *environment*, Turkey made substantial progress in strengthening the administrative capacity at central level. However, there was little progress on horizontal legislation, air quality, chemicals, noise and waste. Turkey made no progress in the area of industrial pollution and risk management. The overall level of alignment remained low.

As regards *consumer protection*, alignment is in an advanced stage. Some progress was made, however implementation is lagging behind. The consumer movement in Turkey remained

weak. Turkey made some progress in the area of *health* protection. Alignment is also moderately advanced. The administrative capacity started to improve.

As regards the *customs Union*, Turkey has reached a high level of alignment. However, alignment is not complete with regard to free trade zones, customs duty relief, the fight against counterfeit goods, and post clearance. Turkey's duty free shops at arrival points are not in line with the *acquis*. Turkey has also reached an advanced level of alignment in the area of *external relations* but has not aligned fully with EU positions in the WTO and in the OECD.

Turkey's close alignment with EU Common Foreign and Security Policy continued. Turkey maintained its efforts to promote regional stability in line with EU policies. Turkey's desire to continue contributing to ESDP is welcome. However, Turkey objects to the inclusion of the Republic of Cyprus and Malta in EU-NATO cooperation. Turkey has not aligned with the EU position on membership of certain suppliers' groups. Turkey has not signed the International Criminal Court statute. Turkey has kept its land border with Armenia closed.

Preparations on *financial control* are well advanced. Some additional implementing legislation was issued. However, adoption of the revised law of the Turkish Court of Accounts is pending. Turkey has not updated public internal financial control policy and legislation. Preparations for permanent structures to cooperate with the European Anti-Fraud Office are at an early stage. With regard to *financial and budgetary provisions*, there were no particular developments.