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

Enlargement Strategy and Main Challenges 2010-2011

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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Enlargement Strategy and Main Challenges 2010-2011

1. INTRODUCTION

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

Negotiations with Croatia have entered their final stage, demonstrating to all enlargement countries that accession can become a reality, provided the necessary conditions are fulfilled. Serbia has applied for membership. The Commission today issues its opinions on applications from Montenegro and Albania. Iceland began accession negotiations in July. New chapters have been opened in the negotiations with Turkey and the country has embarked on a thorough revision of its constitution, moving closer to European standards. Visa liberalisation for the Western Balkans has progressed. There have been significant break-throughs in long-standing bilateral differences between Slovenia and Croatia and a dialogue is under preparation between Serbia and Kosovo¹. Post-conflict reconciliation among peoples has advanced and the countries themselves have started to take greater responsibility for regional cooperation.

However, many challenges persist. In some enlargement countries the reform momentum has slowed down. All need to focus on good governance, improving the rule of law, speeding up economic reform and improving their capacity to adopt and implement the *acquis*. Upholding freedom of expression is a concern in most countries. Several complex problems remain to be solved, including the governance of Bosnia-Herzegovina and the name question concerning the former Yugoslav Republic of Macedonia. Open bilateral issues remain and differences over Kosovo's status have held up regional cooperation. As regards the Cyprus issue, negotiations on a comprehensive settlement have progressed but have not yet been concluded.

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

¹ Under UNSCR 1244/99.

place and pulling our weight on the world stage. The Commission's 2011 Work Programme includes a number of initiatives with these goals in mind.

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

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

Closer integration through the enlargement process helps the EU to achieve its objectives in a number of areas which are key to economic recovery and sustainable growth, including energy, transport, the protection of the environment and efforts to address climate change. The countries of the Western Balkans are entirely surrounded by Member States. Turkey adjoins the European Union by land and sea. The construction of trans-European transport corridors, the diversification of energy sources, the mitigation of and adaptation to climate change and the reduction of trans-boundary air and water pollution are among the EU's goals whose achievement requires the full commitment of the enlargement countries.

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

Making Europe a safer place is high on the EU's agenda as defined in the Stockholm Programme. Enlargement countries are required to take over the *acquis* of the Union and to demonstrate their capacity to implement it fully. For this reason, the Commission has redoubled efforts to support enlargement countries to prevent and tackle organised crime and

corruption and to strengthen their law enforcement capabilities. EU prosecutors, judges and other experts in law enforcement, border management and migration now assist counter-parts in the enlargement countries to share their expertise and to check on progress. The fulfilment of the benchmarks, which determines the pace at which a candidate country advances towards EU membership in accession negotiations, requires a convincing track record in administering justice in an independent and effective manner.

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

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

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

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

success of further enlargement, the EU will be able better to address the many other challenges which it faces.

2. KEY CHALLENGES

2.1. Overcoming the economic crisis

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

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

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

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

Achieving sustainable growth rates and real convergence will require further structural reforms and prudent fiscal policies. Domestic sources of growth need to be more effectively exploited in order to improve productive capacity, job creation and competitiveness. Higher volumes of domestic and foreign investment are now needed in greenfield projects, particularly in export-oriented activities. This will contribute to raising output and productivity, in turn leading to higher employment and more sustainable trade balances. It will also help in addressing the region's pressing social problems.

To increase foreign and domestic investment, governments need to improve the business environment. This means increasing the efficiency of public administration and the independence of judiciary, removing informal barriers to trade and strengthening the rule of

law. A functional regional market within the Central European Free Trade Agreement (CEFTA) and continued *acquis* alignment are important to attract investment. The planned liberalisation of trade in agricultural products and services across the region and the opening of public procurement markets will further increase the region's growth potential.

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

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

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

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

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

Enlargement countries have started to take up initiatives in regional groups, where they can jointly evaluate progress and set region-specific targets. The Small Business Act for Europe, a set of measures to improve the business environment for SMEs, is an example of such an initiative. The Commission will propose to the Regional Cooperation Council that it sets up platforms for dialogue and peer review in other areas in line with Europe 2020 priorities. When programming IPA assistance, the Commission will take into account the priorities of the Europe 2020 strategy.

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

2.2. Social inclusion

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

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

2.3. Strengthening the rule of law and public administration

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

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

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

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

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

A professional and non-politicised civil service is essential for the rule of law and improving governance. Public administration reform is a priority in enlargement countries most of which are in various stages of state-building. In order to be sustainable, reforms need to be embedded within existing state structures and take account of the specific social and governance context. The Commission will continue to support public governance reforms in enlargement countries, in close cooperation with SIGMA³.

2.4. *Freedom of expression and media*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Slovenia and Croatia signed and ratified a Border Arbitration Agreement which paves the way for a final settlement. This agreement shows that bilateral issues can be solved in the spirit of good neighbourliness. The former Yugoslav Republic of Macedonia and Kosovo completed the demarcation of their border. However, a number of other bilateral issues, in particular regarding borders, remain unresolved, as does the name issue between Greece and the former Yugoslav Republic of Macedonia.

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

3. PRE-ACCESSION INSTRUMENTS SERVING ENLARGEMENT POLICY

Financial Assistance – strategic approach

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

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

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

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

Other areas that will continue to be included in the MIPDs as priorities will be those linked to regional development, human resource development and rural development, particularly for candidate countries. By learning how to manage pre-accession aid effectively and in line with the principles of sound financial management, the governments of the enlargement countries can prepare themselves for the management of EU funds as future Member States.

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

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

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

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

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

Financial assistance under IPA for regional cooperation aims to ensure regional stability, increase intra-regional trade flows, and support regional cooperation initiatives and structures in the Western Balkans, including the Regional Cooperation Council and the Regional School

for Public Administration. The Regional Cooperation Council has an important role in monitoring whether IPA and other donor funding reflects regional cooperation priorities.

Participation in EU Programmes and Agencies

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

Information and communication

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

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

Civil society development

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

A culture of acceptance and appreciation of the role played by civil society need to be in place to allow civil society organisations to engage in an effective policy dialogue. Public

consultation on policy initiatives and draft laws should become the general principle. The access of civil society to government support is frequently hindered by a lack of transparency and poorly developed allocation criteria.

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

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

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

4.1. Steering the Western Balkans towards EU membership

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

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

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

Croatia

Croatia has made steady progress towards meeting the criteria for membership since starting accession negotiations in October 2005. Croatia meets the Copenhagen political criteria. As regards the economic criteria, Croatia is a functioning market economy. It should be able to cope with competitive pressures and market forces within the Union, provided that it

implements its comprehensive reform programme with determination in order to reduce structural weaknesses.

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

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

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

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

The former Yugoslav Republic of Macedonia

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

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

The Council has not yet taken a position on the Commission's recommendation from October 2009 to open accession negotiations.

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

Montenegro

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

Albania

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

Bosnia and Herzegovina

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

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

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

Serbia

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

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

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

Kosovo

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

In December 2009, the Council welcomed the Commission's Communication 'Kosovo - Fulfilling its European Perspective'⁴. The Council invited the Commission to take the necessary measures to support Kosovo's progress towards the EU, in line with the European perspective of the region to report back on progress in this regard. The Council underlined the

⁴ COM(2009) 534 final, 14.10.2009.

importance to measures related to trade and visas, without prejudice to Member States' positions on status.

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

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

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

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

4.2. Furthering accession negotiations with Turkey

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

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

Regarding fundamental rights, freedom of expression and of the media needs to be strengthened in Turkey both in law and in practice. A number of shortcomings remain in the exercise of the freedom of religion. Progress is also needed regarding, women's rights and gender equality and ensuring full trade union rights. The 'democratic opening' aimed notably at addressing the Kurdish issue has produced only limited results. The security situation in the

South-East has worsened, with a resurgence of attacks by the terrorist organisation PKK/Kongra-Gel. Some progress has been made in the fight against corruption.

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

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

Turkey has continued to express public support for the negotiations under UN auspices between the leaders of the Greek Cypriot and Turkish Cypriot communities to reach a comprehensive settlement of the Cyprus problem. However, there has been no progress towards normalisation of bilateral relations with the Republic of Cyprus. Turkey has not fully implemented the Additional Protocol to the Association Agreement and has not removed all obstacles to the free movement of goods, including restrictions on direct transport links with Cyprus. It is urgent that Turkey fulfils its obligation of full non-discriminatory implementation of the Additional Protocol and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. The EU will continue to follow up and review progress made on issues covered by the Declaration of 21 September 2005, in accordance with the Council Conclusions, including the December 2006 and December 2009 conclusions. In the absence of progress, the Commission recommends that the EU maintains its measures from 2006, which will have a continuous effect on overall progress in the negotiations.

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

4.3. Launching the accession process with Iceland

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

Good progress was made to further improve the legal framework related to conflict of interests and the financing of political parties. The rules on the appointment of judges were amended with the aim of further strengthening the independence of the judiciary. The Important steps of economic stabilisation have been taken. Progress has been made in

consolidating public finances and restoring the financial system. The IMF programme is on track. However, economic uncertainties and challenges remain. Iceland will need to address existing obligations, such as those identified by the EFTA Surveillance Authority (ESA) under the European Economic Area Agreement. Substantial efforts are needed to ensure that citizens in Iceland are properly informed about what EU membership entails.

5. CONCLUSIONS AND RECOMMENDATIONS

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

1. Enlargement reinforces peace and stability in Europe. It is in the **EU's strategic interest** to take the enlargement process forward on the basis of the agreed principles and conditions and the renewed consensus on enlargement approved by the European Council in December 2006. The firm political commitment of all stakeholders is required to make a success of enlargement. Enlargement must remain credible for all involved. Aspirant countries need to be well prepared through rigorous conditionality and to have a clear and tangible European perspective, once conditions are met.
2. The enlargement process helps the EU to **better achieve its policy objectives** in a number of areas, which are key to economic recovery and sustainable growth, including regulatory convergence and the internal market, energy, transport, the protection of the environment and efforts to limit climate change as well as making the EU a safer place.
3. The Commission will further strengthen the monitoring of macro-economic policies of the enlargement countries, also taking into account new developments in EU economic governance. The Commission **expects** the enlargement countries to pursue EU-related reforms, and to improve the business environment, thereby helping to overcome the economic crisis and to achieve sustainable growth. The Commission will associate enlargement countries with initiatives taken at the EU level to meet the goals of the **Europe 2020 strategy**. It invites the enlargement countries to reflect the 2020 targets in their national political priorities, to engage in regional policy groups with the aim of reviewing regularly the results of these reforms and to set region-specific targets, where appropriate.
4. The Commission **encourages** the enlargement countries to work on improving conditions for vulnerable groups, including the social and economic inclusion of Roma. The Commission is committed to support them in this endeavour.
5. The Commission will give continued priority to judiciary and public administration reform, the fight against organised crime and corruption and further intensify the **rule of law dialogue** with enlargement countries. Most enlargement countries need to make substantial progress to consolidate the rule of law and, in particular, to establish credible track-records in the fight against organised crime and corruption.
6. **Freedom of expression** and of the media remains a concern in most enlargement countries and the problems identified must be addressed as a matter of priority. Progress in this area is essential and will be closely monitored by the Commission. The Commission will continue to support civil society organisations and make full use of its civil society facility.

7. **Regional cooperation** is an essential element of the Stabilisation and Association process. The Western Balkans have made important progress in regional cooperation, which should not be undermined by divergences over Kosovo. The Regional Cooperation Council needs to focus on the implementation of its results-oriented strategy.
8. Substantial progress has been made towards **visa liberalisation**. The visa obligation for citizens from the former Yugoslav Republic of Macedonia, Montenegro and Serbia was lifted. Visa requirements will shortly be lifted for Bosnia and Herzegovina and Albania, on the basis of clear evidence that they too have met the benchmarks. Further efforts are needed by the countries concerned to inform their citizens about the scope and limits of the visa-free regime, to monitor closely its implementation and, where required, take adequate corrective measures.
9. **Bilateral issues** need to be solved by the parties concerned, in a good neighbourly spirit and taking into account overall EU interests. They should not hold up the accession process. The EU stands ready to facilitate the search for solutions and to support related initiatives. The time has come for the region to overcome the legacy of the conflicts of the past, building on recent positive momentum regarding reconciliation. Good neighbourly relations remain key.
10. The Commission recalls that negotiating chapters for which technical preparations have been completed should be opened or provisionally closed on the basis of the *acquis* concerned, in line with the Negotiating Frameworks, and subject to measures agreed by the Council. It is in the EU's interest to open discussions on difficult chapters early in the negotiations, including the chapter on judiciary and fundamental rights, which requires the establishment of **convincing and credible track records** and hence is likely to be among the last chapters to be closed.
11. Pre-accession **assistance** forms an integral part of the enlargement strategy and is designed to help meet the priorities identified in the partnerships and progress reports. Beneficiary countries need to strengthen their capacity to use EU funds effectively.
12. The Commission **invites** Member States to work with the EU institutions to strengthen understanding and support for the enlargement process and to explain how it can help us achieve our common objectives. The Commission is committed to improving the flow of objective information about the enlargement process, presented in user-friendly form, through the different media of communication now available.
13. **Croatia** has made good progress towards meeting the criteria for membership and the accession negotiations have reached the final phase. Full cooperation with the International Criminal Tribunal for the former Yugoslavia remains a requirement for Croatia's progress throughout the accession process, in line with the Negotiating Framework. The Commission considers that negotiations should be concluded once Croatia has met outstanding closing benchmarks, in particular in the field of judiciary and fundamental rights, including the fight against corruption, thus removing the need for the EU to consider a cooperation and verification mechanism after accession. The Commission will closely monitor Croatia's progress in the field of

judiciary and fundamental rights and take stock of the situation in the first quarter of 2011.

14. **Turkey** has continued its political reform process, in particular through the reform of its constitution. Further results are needed regarding fundamental rights, the 'democratic opening' and the involvement of all stakeholders in the reform process. Assuring freedom of expression in practice is particularly challenging. Accession negotiations advanced, albeit rather slowly. By advancing in the fulfilment of benchmarks and of the requirements specified in the Negotiating Framework, Turkey will be able to accelerate the pace of negotiations. It is now urgent that Turkey fulfils its obligation of full non-discriminatory implementation of the Additional Protocol to the Association Agreement and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. The EU will continue to follow up and review progress made on issues covered by the Declaration of 21 September 2005, in accordance with the Council Conclusions, including the conclusions of December 2006 and December 2009. In the absence of progress, the Commission recommends that the EU maintains its measures from 2006, which will have a continuous effect on overall progress in the negotiations.
15. As regards the **Cyprus issue**, the leaders of the Greek Cypriot and of the Turkish Cypriot communities are continuing negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission supports their efforts and provides technical advice on issues within EU competence. It calls on both leaders to strengthen their efforts to bring the settlement talks to a successful conclusion as soon as possible and reiterates its call on Turkey to contribute in concrete terms to such a comprehensive settlement of the Cyprus issue.
16. The accession process with **Iceland** has been launched. Following the Commission's recommendation in its Opinion of February 2010 and the decision of the June European Council, accession negotiations were opened in July 2010 and the screening of the EU acquis with Iceland is about to start. Iceland will need to address existing obligations, such as those identified by the EFTA Surveillance Authority (ESA) under the EEA Agreement. Substantial efforts are needed to ensure that citizens in Iceland are properly informed about what EU membership entails.
17. **The former Yugoslav Republic of Macedonia** continues to sufficiently fulfil the political criteria. Further progress has been made in key reform areas, although at an uneven pace. Efforts are needed in particular as regards judiciary and public administration reforms. The Commission **reiterates its recommendation** that negotiations for accession to the European Union should be opened with the former Yugoslav Republic of Macedonia. Maintaining good neighbourly relations, including a negotiated and mutually accepted solution to the name issue, under the auspices of the UN, is essential.
18. In its Opinions adopted today the Commission **recommends** that accession negotiations should be opened with **Montenegro** and **Albania** once these countries have achieved the necessary degree of compliance with the membership criteria set out by the 1993 Copenhagen European Council. In particular, Montenegro and Albania need to meet the specific key priorities set out in each Opinion. The Commission **recommends** that the Council grant the status of candidate country to Montenegro. It urges Albania to make further efforts to build on the progress made to

date. The Commission's progress report on both countries in the 2011 enlargement package will focus in particular on the implementation of the key priorities which need to be addressed with a view to the opening of accession negotiations.

19. **Serbia** applied for EU membership in December 2009 and in October 2010 the Council invited the Commission to submit its Opinion. Serbia has continued to implement its political reform agenda and to build a track record in implementing the Interim Agreement. It is well placed to fulfil the requirements under the SAA. Serbia has taken important steps towards reconciliation in the region. Additional efforts are required regarding judicial and public administration reform as well as the fight against organised crime and corruption. Serbia has continued its cooperation with the International Criminal Tribunal for the former Yugoslavia. However, the two remaining ICTY fugitives are still at large. Full cooperation with the Tribunal remains an essential condition for membership of the EU, as set out in the Council conclusions of 25 October 2010. Serbia needs to demonstrate a more constructive attitude towards Kosovo's participation in regional trade and cooperation. Cooperation with the EULEX rule of law mission with respect to the north of Kosovo needs to be strengthened.
20. Following the UN General Assembly Resolution, the EU will facilitate a process of dialogue between Belgrade and Pristina to promote cooperation, achieve progress on the path to the EU and improve the lives of people.
21. The decentralisation process in **Kosovo** has advanced significantly and cooperation with EULEX has increased. The government has improved its capacity to implement Kosovo's European agenda and reform policy. However, major challenges remain as regards the rule of law, including the reform of public administration and the judiciary, as well as tackling corruption, organised crime and money-laundering. Dialogue and reconciliation between communities and the protection and integration of minorities, particularly the Kosovo Serbs, are still areas of concern. The authorities need to ensure a constructive approach towards Kosovo's participation in regional cooperation fora, in order to keep pace with regional developments.

The Commission is taking forward the initiatives outlined in its October 2009 Communication on Kosovo, in line with the December 2009 Council conclusions. The Commission welcomes the recent progress Kosovo made in adopting the legislation on readmission, in devising an Action Plan on reintegration of returnees underpinned with earmarked resources. Subject to its continued implementation, the Commission is committed to **launch a visa liberalisation dialogue** shortly. The Commission is assisting Kosovo to put into place the conditions needed for a possible trade agreement with the EU. Once Kosovo meets the relevant requirements, the Commission will **propose** negotiating directives for a **trade agreement**. The Commission will propose the opening to Kosovo's participation of relevant **Union programmes**, such as Europe for Citizens and Culture. The Commission will **propose** negotiating directives for a framework agreement to this effect.

22. **Bosnia and Herzegovina** needs to form a government committed to the country's EU future and to speed up relevant reforms. Initial steps should be taken, as a matter of urgency, by Bosnia and Herzegovina to align its Constitution with the European Convention of Human Rights and to improve the functioning of its institutions. The country must be in a position to adopt, implement and enforce the laws and rules of

the EU. Regarding international obligations, making progress towards meeting the objectives and conditions which have been set for the closure of the Office of the High Representative (OHR) remains essential. The EU, through a reinforced EU presence, will assist Bosnia and Herzegovina in implementing the objectives of the EU agenda.

23. Overall, the 2010 progress reports indicate that the EU's enlargement process is moving forward at a pace which is largely determined by the proven capacity of the aspirant countries to take on the obligations of membership. This requires **durable reforms** as well as legislative and institutional adaptations which are credible and convincing. As the countries concerned meet the standards which have been set, including notably those linked to democracy, the rule of law and fundamental rights and freedoms, the EU is committed to working with them to advance to the next steps in the process.

ANNEX 1

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

Montenegro

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

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

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

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

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

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

- Improve the legislative framework for elections in line with the recommendations of the OSCE-ODIHR and the Venice Commission; strengthen the Parliament's legislative and oversight role.
- Complete essential steps in public administration reform including amendments to the law on general administrative procedure and the law on civil servants and state employees and

the strengthening of the Human Resources Management Authority and the State Audit Institution, with a view to enhancing professionalism and de-politicisation of public administration and to strengthening a transparent, merit-based approach to appointments and promotions.

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

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

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

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

Albania

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

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

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

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

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

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

- Ensure the proper functioning of Parliament on the basis of a constructive and sustained political dialogue among all political parties.
- Adopt pending laws requiring a reinforced majority in Parliament.
- Appoint the Ombudsman, and ensure an orderly hearing and voting process in Parliament for constitutional and high court appointments.
- Modify the legislative framework for elections in line with OSCE-ODIHR recommendations.
- Ensure elections are conducted in line with European and international standards.

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

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

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

ANNEX 2

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

Croatia

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

Democracy and the rule of law have been further strengthened. The *government* and the *parliament* have continued to function effectively. However, the capacity of the parliament to scrutinise the legislative process needs enhancing. Judicial reform has continued but significant challenges remain, especially relating to judicial efficiency, independence and accountability.

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

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

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

Some progress has been made in the area of *human rights and the protection of minorities*. Human rights protection is ensured overall but certain important challenges remain in terms of

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

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

There has been limited progress with regard to *women's rights* and gender equality. The position of women in the labour market has not significantly changed and the level of female unemployment remains high. The Ombudsman for Children has become more active in promoting and protecting *children rights*. However, this body lacks appropriate resources to carry out fully its mandate.

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

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

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

There has been some progress regarding *refugees*. Refugees continued to return to Croatia. Provision of housing care to former occupancy and tenancy rights holders has continued. A revised action plan has been adopted for accelerated implementation of the government's delayed 2009 housing care plans, with the aim of full implementation in 2011. Some progress was made with the reconstruction of damaged houses. The substantial backlog of appeals

against rejected applications for reconstruction assistance was reduced. Implementation of the decision on validating pension rights has continued. However, progress towards meeting the 2009 housing targets has been slow. Several thousand applications for housing care remain to be fully processed and housing units made available to returning refugees. A high number of appeals for housing reconstruction remain pending. Efforts to create the necessary conditions for the permanent return of refugees need to be made.

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

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

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

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

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

However, structural reforms generally advanced at a very slow pace, not least with respect to privatisation and the restructuring of loss-making enterprises. The labour market remained highly rigid, with low employment and participation rates which declined further during the recession. In the fiscal area, the authorities made limited efforts to contain the rising deficit and to increase the efficiency of public spending. Social transfer payments remained high and

not well-targeted and a large number of state-owned enterprises continued to receive State support through direct and indirect subsidies and guarantees. For achieving medium-term fiscal sustainability, it remains a key challenge to improve the budgetary process and discipline and to enhance the efficiency of public spending. The investment climate continued to suffer from a heavy regulatory burden and numerous para-fiscal taxes.

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

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

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

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

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

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

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

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

Act needs to be completed. The National Restructuring Plans for the steel industry also need updating.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Croatia has made good progress on *judiciary and fundamental rights*. Reform of the judiciary has continued with the adoption of new legislation strengthening judicial independence and a further reduction of the case backlog. However, judicial reform remains a major undertaking and significant challenges remain, especially relating to judicial efficiency, independence and accountability. Anti-corruption efforts have been stepped up with some positive results but corruption remains prevalent in many areas. A track record of effective investigation, prosecution and court rulings remains to be established, especially for high level corruption. Preventive measures such as improved transparency of public spending need to be strengthened. Protection of fundamental rights has been strengthened but need to be improved in practice, especially for minorities and refugees.

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

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

Good progress has been made in the *environment* chapter as regards both alignment and implementation of the legislation. Legislative alignment in the field of water quality and also, to a certain extent, climate change needs to be completed. Implementation of the horizontal

acquis and cooperation with non-governmental organisations active in the field of environment needs to be improved. Overall, Croatia's preparations are nearing completion. Croatia needs to continue strengthening administrative capacity, especially at local level.

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

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

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

Croatia has made further progress in the area of *foreign, security and defence policy*. It has continued to participate in several EU military and civilian missions. Overall, Croatia has reached a high level of alignment. Croatia needs to continue strengthening implementation and enforcement of arms control, including the transparency of arms-related information.

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

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

The former Yugoslav Republic of Macedonia

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

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

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

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

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

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

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

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

The semi-open ward of Idrizovo prison, where conditions were degrading and inhumane, was closed down. However, the strategy to address the remaining serious shortcomings in prison conditions is progressing slowly. Oversight of law enforcement agencies remains incomplete. With regard to freedom of expression there are growing concerns about political interference in the media and undue pressure on journalists. The involvement of civil society in the policy development process remains limited.

The Ombudsman continued to be the main focal point for the protection and promotion of human rights. His workload increased over the reporting period. However, the proportion of recommendations accepted by public bodies decreased. The authority and the resources of the Ombudsman need to be strengthened.

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

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

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

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

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

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

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

institutional weaknesses, but deficiencies in the rule of law continue to have a negative bearing on the business climate.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia continues to be well advanced. In some areas, it has made further progress towards becoming a functioning market economy, notably by reducing barriers to market entry and exit and improving the capacity of the courts to handle economy-related cases. It should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it vigorously implements its reform programme in order to reduce significant structural weaknesses.

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

As a result of widening fiscal deficits, public sector debt increased. The quality of public spending deteriorated, partly due to a decrease of medium-term oriented capital spending. Unemployment remained very high. FDI inflows continued to decelerate from an already low level. The functioning of the market economy remained hampered by institutional weaknesses, lack of stability in the administration and weaknesses in the rule of law. Lack of consultations with stakeholders prior to government decisions hampers the predictability of the business environment. The judiciary is still a bottleneck and regulatory and supervisory agencies sometimes continue to lack the necessary independence and resources to fulfil their functions effectively. The degree of legal certainty remains low, which has a negative bearing on the country's attractiveness for foreign investment. The informal sector remains an important challenge.

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

There has been good progress in the area of *free movement of goods*. Part of the horizontal and sector *acquis* has been transposed. The administrative capacity of the market surveillance authorities is insufficient to ensure the enforcement of technical legislation. Little progress can be reported in the area of *freedom of movement of workers*. There was some progress in the area of *right of establishment and freedom to provide services*, more particularly in the area of postal services. The preparations for mutual recognition of professional qualifications

are at an early stage. There was overall progress in the area of *free movement of capital*. Restrictions remain on short-term capital movements and on cross-border payment transfers. The legislative framework, the administrative capacity and the enforcement record in combating money laundering are moderately advanced.

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

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

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

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

Progress has been achieved in the field of *agriculture and rural development*. The rural development policy is gradually being aligned with EU requirements. While AFSARD and IPARD operational structures have been strengthened, the capacity of other administrative bodies in the sector needs to be improved. Alignment with the *acquis* requires further sustained efforts. There has been some progress in the area of *food safety, veterinary and phytosanitary policy*, in particular with respect to legislative preparedness and implementation by food business operators. Administrative capacity needs to be strengthened, in particular as regards the effectiveness of monitoring and control systems.

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

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

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

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

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

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

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

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

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

In the area of *justice, freedom and security*, good progress can be reported on asylum, visa policy, external borders and Schengen. The increase in asylum seekers in the EU that arose in the first period of implementation of the visa-free regime was addressed. However, a new rise in asylum applications was registered in August and September. The authorities need to continue addressing this issue and informing citizens about the rights and obligations stemming from visa-free travel. The implementation of police reform has continued and international police cooperation has improved. However, the role of the Ministry for the Interior in authorising interception orders needs to be addressed, as does the effectiveness of the external oversight mechanism.

Some progress can be reported in the area of *science and research*. The rate of participation in the Seventh EU Research Framework Programme has increased. Some progress has been made in alignment to the *acquis* in the areas of *education, training, youth and culture*. However, management of the Lifelong Learning and Youth in Action programmes remains poor.

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

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

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

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

Bosnia and Herzegovina

Bosnia and Herzegovina has made limited progress in addressing the **political criteria**. Some progress related to the rule of law, notably in areas such as border management and migration policy, was made through reforms aimed at meeting visa liberalisation requirements. Important steps were also taken to promote regional reconciliation and cooperation, notably in terms of refugee return. Nevertheless, overall implementation of reforms was insufficient and the domestic political climate during the pre-electoral period was dominated by nationalistic rhetoric. The lack of a shared vision by political leaders on the direction of the country is blocking key EU-related reforms and impeding further progress towards the EU.

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

Court of Human Rights (ECtHR) judgment in the *Sejdić-Finci vs. Bosnia and Herzegovina* case, remain a fundamental issue of concern.

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

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

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

Little progress has been made in the area of *public administration*, where the reform strategy is being implemented, albeit slowly. Coordination between the various administrations remains weak. Sustained efforts remain necessary to prevent political interference and to limit the role played by political affiliation in appointments. Progress towards the establishment of a professional, accountable, transparent and efficient civil service based on merit and competence also needs further attention. A single State-level Ombudsman is functioning, but budgetary constraints hamper its effectiveness and need to be addressed.

Bosnia and Herzegovina has made limited progress in improving the *judicial system*. New legislation has been adopted on the criminal procedures code, but little has been achieved to reduce the backlog of cases. Implementation of the Justice Sector Reform Strategy and the War Crimes Strategy remained minimal. The complexity of the legal framework, the fragmentation of the judicial system and the absence of a single budget continue to delay progress towards an independent judiciary. Mandates of international judges and prosecutors dealing with war crimes were extended by the High Representative, following the inability of the authorities to reach an agreement. Prosecution of war crimes by the State Court has continued to be satisfactory, but needs to improve in the Entities and Cantons.

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

Bosnia and Herzegovina has achieved limited progress in tackling *corruption*, which remains a serious problem and is prevalent in many areas. The implementation of the anti-corruption strategy and action plan started. The agency responsible for monitoring its implementation has been established and an acting director has been appointed. Some progress has been made in meeting the recommendations formulated by the Group of States against Corruption (GRECO). The judicial follow-up of corruption cases remained slow and only a limited number of high-level cases led to prosecution. Insufficient implementation of legislation and problems of coordination between entities remain issues of concern. Bosnia and Herzegovina needs strengthened commitment and determined action against corruption.

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

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

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

There has been little progress in the area of *economic and social rights*. They are protected by the existing legal framework, but fragmentation remains and implementation continued to be poor. A comprehensive state-level anti-discrimination law is in place but its scope remains limited. The protection of *women* against all forms of violence needs to improve, as does the social protection of *children*. The predominantly rights based system of social benefits has adverse affects on the conditions of *vulnerable groups*, including the mentally disabled. Social dialogue and the exercise of labour rights are hampered by the lack of recognition of State-level social partners and a fragmented legislative framework.

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

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

birth registration continues to hinder their access to basic social and economic rights. Further steps are needed in order to improve the implementation of the Law on national minorities.

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

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

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

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

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

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

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

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

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

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

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

On the whole, the implementation of the Interim Agreement (IA) has been uneven. The country is in breach of the IA due to non-compliance with the ECHR regarding the right of equal treatment without discrimination⁷ and the failure to establish a state aid authority. Further strengthening of administrative capacity is required in order to achieve a satisfactory track record of SAA implementation.

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

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

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

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

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

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

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

Bosnia and Herzegovina's preparations in the field of *environment* and climate change remain at an early stage. A harmonised legal framework for environmental protection and a State Environmental Agency need to be established. Bosnia and Herzegovina has made uneven progress in the *transport sector*. There have been some developments regarding the trans-European transport networks, rail and inland waterways sectors, but progress has been limited in the road sector. The upgrading of transport infrastructure remains an outstanding issue. Preparations in the field of *energy* are not very advanced. As a party to the Energy Community Treaty, Bosnia and Herzegovina needs to implement the relevant EU energy legislation. To guarantee the security of electricity supply a fully functioning national transmission company needs to be ensured and a comprehensive energy strategy adopted.

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

Some progress can be reported in the area of *financial control*. Internal audit is being introduced, but the Financial Management and Control systems need further development. The independence of external audit remains to be ensured. Some progress has been made in the area of *statistics* with regard to classifications and registers. However, the State-level law on the population and household census was not adopted. Statistics on national accounts, on

business and on agriculture need to be improved. Co-operation between the country's statistical institutions at state and entity level remains insufficient.

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

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

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

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

Serbia

Serbia has made progress towards meeting the **political criteria**. Serbia applied for EU membership in December 2009. The Interim Agreement entered into force in February 2010 and Serbia has further progressed in complying with the Stabilisation and Association Agreement (SAA) requirements. The ratification process of the SAA was launched in June 2010. Judicial reform has continued but there were serious shortcomings in the re-appointment procedure of judges and prosecutors. Despite the active on-going cooperation of Serbia with the International Criminal Tribunal for the former Yugoslavia (ICTY), the two remaining ICTY fugitives, Ratko Mladić and Goran Hadžić, are still at large.

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

to the European Union and improve the lives of the people. Determined efforts are needed by all parties for the inclusive and effective functioning of regional fora.

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

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

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

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

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

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

Progress in the fight against *corruption* continued with the Anti-Corruption Agency starting its work in January 2010. A majority of public officials submitted asset declarations to the new Agency as required. However, corruption remains prevalent in many areas and continues to be a serious problem. In the absence of a new law, control of the funding of political parties and financing of election campaigns remains weak. The Anti-Corruption Agency still has to establish a track record of verifying asset declarations and carrying out its role effectively. The number of final convictions, especially in high level cases, remains low. Public procurement, privatisation and public expenditure remain areas of concern. Protection of whistleblowers needs to be improved.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following a severe recession in the wake of the global crisis, Serbia's **economy** gradually recouped stability as a result of an adjustment programme agreed with the IMF and also supported by the EU and the World Bank. As of the first half of 2010, economic activity has been picking up but recovery remains slow and fragile. Public finances continued to deteriorate despite a number of fiscal adjustment measures put in place to contain the budgetary slippage. Adoption by government of amendments to the budget system law and the pension law was an important step towards improving the quality of public finances. Other structural reforms, especially privatisation and enterprise restructuring, have been again delayed due to protracted unfavourable market conditions.

As regards the **economic criteria**, further progress towards establishing a functioning market economy has been limited. Serbia needs to make more efforts in restructuring its economy so

as to cope in the medium-term with the competitive pressures and market forces within the European Union.

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

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

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

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

Serbia is moderately advanced towards meeting EU standards in the areas of *movement of persons, services, right of establishment and company law*. A number of acts are still pending approval. In the area of *free movement of capital*, Serbia remains moderately advanced. Non-residents are free to make direct investments with certain restrictions. Serbia needs to continue its efforts to meet the gradual liberalisation requirements laid down in the SAA.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Some progress has been achieved to prevent *money laundering*. An action plan was adopted and a coordination body established. Efforts to improve national and international cooperation in the investigation and processing of offences continued. However, practical results have remained weak. The Administration for Prevention of Money Laundering lacks capacity to systematically identify suspicious cases. Reporting needs to be improved, in particular outside

the banking sector. The judiciary and law enforcement services lack the necessary expertise in money laundering cases and financial investigations. Final convictions remain rare.

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

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

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

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

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

Kosovo

Kosovo has made progress as regards the **political criteria**. It has strengthened its commitment to the European agenda and policy reform and established a Ministry for European Integration. The government has ensured the successful conduct of the Stabilisation and Association Process (SAP) dialogue with the European Union. The authorities now need to step up the pace of reform. The capacity of the public administration remains weak and the judiciary is not functioning effectively. Rule of law remains a serious concern. Cooperation with the EU rule of law mission (EULEX) has improved and the authorities have launched a number of anti-corruption operations with EULEX support. These efforts need to continue and cover organised crime, drugs and money-laundering. Elections have been called following the resignation of the President of Kosovo.

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

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

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

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

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

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

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

Kosovo has made progress as regards reform of the *judicial system*. Major judicial reform has been launched by adoption of four reform laws on courts, on prosecution, on the Kosovo Judicial Council and on the Kosovo Prosecutorial Council. The law on courts introduces a new salary system, which significantly improves the situation of judges. The vetting of judges and prosecutors has also been completed. Over 340 judges and prosecutors have been appointed by the President to positions at all levels of the judiciary. This includes the appointment of local members of the Kosovo Judicial Council who have elected the Council's president. After passing the bar exam, the first prospective judges and prosecutors have

graduated from the Kosovo Judicial Institute in December 2009. However, there have been cases of political interference in the judicial system, notably in the reappointment process of judges and prosecutors. There is still a significant backlog of cases, particularly in civil matters, including property rights. Kosovo institutions need to attach sufficient importance to support investigations and judicial follow-up of war crimes. Plans to implement the reform of judiciary need to be prepared and resources allocated. Kosovo is still at an early stage in addressing priorities in the area of justice.

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

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

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

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

Economic and social rights are still not fully guaranteed. The legal framework for the protection of *women* has been strengthened. There has been some progress in the area of juvenile justice. However, the protection of *children's* rights remains weak. The government needs to tackle child labour and child trafficking more effectively. The social integration and protection of vulnerable groups, in particular abandoned children, returnees and people with disabilities, needs to be improved. Kosovo has launched an *anti-discrimination* awareness-raising campaign with special emphasis on discrimination based on age and sexual orientation. The implementation of anti-discrimination legislation remains inadequate. The implementation of court orders guaranteeing the exercise of *property rights* has improved.

However, the significant backlog of cases and other long-standing issues seriously hamper the re-possession of property.

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

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

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

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

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

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

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

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

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

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

In the area of *competition*, there has been no progress on anti-trust policy or state aids rules. Administrative capacity has improved but the implementation of competition policy is overall at an early stage. Cooperation among the institutions involved in competition issues needs to

be strengthened. The Competition Commission needs to be more closely involved in large privatisation and restructuring initiatives.

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

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

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

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

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

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

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

There has been some progress as regards *financial control*. However, Kosovo is still at an early stage in introducing international standards. The lack of financial independence of the Office of the Auditor-General is still a concern. In July, Kosovo adopted the law on

official *statistics*. However, administrative capacity remains weak and further efforts are needed to improve sectoral statistics and, in particular, business and macro-economic statistics.

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

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

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

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

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

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

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

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

Turkey

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Muslim religious communities and Alevi community can function without undue constraints, including the training of clergy.

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

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

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

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

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

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

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

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

Compensation of *internally displaced persons* (IDPs) has continued. However, implementation is not effective. The government has not developed an overall national strategy to address the IDP issue and needs to step up efforts to address IDPs' needs. The legal framework for refugees and asylum seekers and the implementation of circulars regarding procedures for applications need to be strengthened. Further improvements of the general conditions in foreigners' detention centres is important.

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

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

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

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

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

In the aftermath of the crisis, consensus on economic policy essentials has been preserved. The anti-crisis measures have cushioned the economic downturn although they have increased Turkey's fiscal deficit and debt stock. They are being phased out gradually. A timely, targeted and well anchored withdrawal of the stimuli remains a challenge in order to maximise the

benefits from previous years of fiscal consolidation and overall medium-term fiscal sustainability, and to achieve strong, sustained and balanced growth. Privatisation has advanced, albeit at a slower pace due to the global economic environment. The financial sector has shown remarkable strength thanks to earlier reforms. Investment picked up strongly and some limited progress was made in upgrading the country's human and physical capital. Turkey was able to partly diversify its trade towards new markets, thereby alleviating to a certain extent the impact of the crisis. Trade and economic integration with the EU remained high.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

corruption strategy and an action plan. The development of a body to oversee and monitor their implementation also progressed. However, effective implementation is necessary and Turkey needs to develop a track record of investigation, indictments, and convictions.

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

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

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

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

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

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

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

Alignment with the EU's *common foreign and security policy* has continued. Turkey has sought dialogue and consultation with the EU on foreign policy issues. It did not align with

the EU in the UN Security Council for additional sanctions against Iran. Turkey made efforts to improve further relations with neighbouring countries such as Iraq, including the Kurdish regional government, and Syria. Relations with Israel significantly deteriorated following the Gaza flotilla incident. The protocols signed with Armenia to normalise relations are still not ratified.

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

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

Iceland

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

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

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

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

Good progress was made to further improve the legal framework related to conflict of interests and the financing of political parties. The Judiciary Act was amended to change the rules on the appointment of judges with the aim of further strengthening the independence of

the *judiciary*. Implementation of the Special Investigation Commission recommendations, the amended framework on conflict of interests as well as the revised procedures on judicial appointments is underway. The impact of these measures will need to be reviewed at a later stage.

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

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

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

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

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

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

Investment in large infrastructure projects is currently still under review because of political discussions and lack of funding. The business environment remained hampered by capital controls, relatively high interest rates and difficult access to financing, especially for SMEs.

In this first progress report, Iceland's **ability to assume the obligations of membership** was assessed in light of its participation in the European Economic Area (EEA) and taking into account the exemptions granted under the EEA. The overall level of preparedness to meet EU *acquis* requirements remains good, in particular due to Iceland's participation in the European Economic Area.

The Icesave dispute remains unresolved. The bill authorizing a state guarantee on the loans granted by the governments of the UK and the Netherlands for the compensation they provided to their citizens holding saving accounts in Icesave was rejected by referendum in March 2010. The EFTA Surveillance Authority (ESA) send a letter of formal notice to the Iceland government in May 2010, hereby taking the first step in an infringement procedure against Iceland arguing that Iceland acted in breach of the Deposit Guarantee Scheme Directive by leaving the depositors in Icesave's Dutch and UK branches without the minimum guarantee. The European Commission shares the legal analysis of ESA. Negotiation efforts between the representatives of the three governments did not yield a result yet.

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

However, efforts to further align with the EU *acquis*, in particular in areas not covered by the EEA, and to ensure its implementation and enforcement need to continue. It should also be noted that the following areas are likely to pose challenges in the accession process: financial services, agriculture and rural development, fisheries, free movement of capital as well as environment.

The government's efforts to address the fallout of the economic and financial crisis led to significant budgetary cuts. Attention is needed to ensure that resources remain available for the necessary preparations associated with the process of EU accession.

Iceland continues to be largely in line with the *acquis* in the area of *free movement of goods*. However, some elements are not yet fully in place as far as horizontal measures and the old approach product legislation are concerned.

A satisfactory level of alignment has been reached in the field of *free movement of workers*. Preparations for the coordination of social security systems remain to be completed. Legislation on the *right of establishment and freedom to provide services* is broadly in line with the exception of the services and postal directives.

Iceland applies the *acquis* on *free movement on capital*, with some exceptions. In close cooperation with the IMF, the Icelandic authorities have committed to gradually remove restrictions on capital movements and payments. Nevertheless, capital flow restrictions were meanwhile extended until August 2011; the maximum amount of foreign currency that can be

bought for travel was reduced. Significant and sustained efforts are still needed to remove the existing restrictions on capital movements, including foreign investment in fisheries.

Iceland has implemented the main body of the *acquis* on *public procurement* and overall alignment is very good. However, the administrative capacity remains to be further enhanced to ensure proper implementation of public procurement policies.

Good progress was made on *company law*. However, full alignment with accounting standards is not achieved. Iceland continues to be largely in line with the *acquis* in the field of *intellectual property law* but a comprehensive enforcement policy is needed.

Iceland has reached a high level of alignment regarding the *competition acquis* and the relevant administrative structures are in place. The state aid measures taken in response to the financial crisis remain to be assessed.

Full implementation of the *acquis* on *financial services*, together with a reinforced supervisory framework, remains to be ensured. Implementation is not complete in some key areas including insurance and securities markets.

Iceland has already reached a high level of alignment and applies a substantial part of the *acquis* in the field of the *information society and media*. However, the provisions of the telecom reform, the audiovisual media services directive and the policies derived from the recent adoption of the European Digital Agenda remain to be implemented.

Preparations in the field of *agriculture and rural development* have not started yet. The establishment of structures to address changes in the administration, in particular the setting-up of an EU-compliant paying agency and an integrated administration and control system (IACS) remains to be addressed.

Some progress has been made on *food safety, veterinary and phytosanitary policy*, in particular in transposing the legislation on general food safety. However, efforts are required to strengthen the administrative and laboratories' capacities. Substantial differences from the EU system remain as regards the hygiene package, plant protection products, novel food and genetically modified food.

No new development can be reported in aligning with the EU common *fisheries* policy. Particular attention needs to be paid to the internal market *acquis* regarding the right of establishment, the freedom to provide services as well as the free movement of capital in the fisheries production and processing sectors where the restrictions in place are not in line with the *acquis*. Mechanisms for implementing and controlling Community support measures have yet to be set up.

On *transport*, the restrictions to foreign investment in air and maritime transport remain in force. Iceland has already reached a high level of alignment and applies a substantial part of the *acquis* in the field of *energy*. Alignment with the *acquis* in the areas of oil stocks, independence of regulatory authority and energy efficiency is moderately advanced.

No legislative developments can be reported in the area of *taxation*. Iceland has already achieved a good level of administrative capacity. Nevertheless, liaison offices and IT interconnectivity are still to be established.

Iceland is already highly in line with the *acquis* in *economic and monetary policy*. However, several shortcomings still exist, in particular regarding full independence of the central bank and the prohibition of monetary financing of the public sector.

As regards *statistics*, the availability of statistical data in line with EU methodology needs to be improved in particular in business, macroeconomic and agriculture statistics. The implementation of major planned statistical operations such as the farm structure survey and the population and housing census is not guaranteed as human and financial resources have been further cut down.

Iceland already implements substantial parts of the *acquis* related to *social policy and employment*. However, a comprehensive employment strategy remains to be elaborated.

Against the difficult economic background, preparations in the area of *enterprise and industrial policy* are well on track. Better access to finance for SMEs is an issue. Alignment with EU standards on *trans-European networks* is high.

As regards *regional policy and coordination of structural instruments*, Iceland is at an early stage of preparations for the implementation of the cohesion policy instruments. An appropriate needs analysis, including the identification of the institutions responsible for the implementation of the cohesion policy, remains to be performed.

Iceland's *judiciary* is of a high standard and Iceland provides for a high level of protection on *fundamental rights*. Iceland has taken some measures to address the shortcomings identified in the February 2010 Opinion in particular as regards the procedure of judicial appointments and conflict of interest. However, implementation of these recommendations needs to be further assessed. The legislation on citizens' rights and data protection is not yet in line with the *acquis*.

Iceland applies the Schengen Agreement and has reached an advanced level of alignment with the *acquis* in the field of *justice, freedom and security*. The legislation in some areas remains to be brought fully in line with the *acquis* and relevant international instruments need to be signed or ratified.

Iceland is well advanced for EU accession and integration into the European *Research Area*. Alignment with EU standards in the field of *education and culture* is high. Iceland continued to participate actively in the Open Method of Coordination in education as well as in community programmes including Lifelong Learning, Youth in Action and Erasmus Mundus programmes.

Environmental policy in Iceland is, to a large extent, aligned with the EU *acquis* through the EEA agreement and further progress can be reported in the areas of air quality and sustainable development. However, compliance with the climate change as well as the nature protection *acquis* in particular as regards protection of whales, seals and wild birds as well as conservation of natural habitats and of wild fauna and flora remains to be achieved. The ratification of key multilateral environmental agreements is pending.

Iceland has already implemented a significant part of the *acquis* in the field of *consumer and health protection*. However, the transposition of new *acquis* in the area of consumer protection remains to be completed and the processing of RAPEX notifications needs further streamlining.

The *customs* legislation of Iceland is, to a large extent, in line with the *acquis*. Significant further approximation is needed in duty-free legislation and practices. Interconnectivity with the EU IT systems remains to be ensured.

Some progress has been made in the field of *external relations*. Iceland started preparations to assess its obligations relating to the need to amend or renounce its international agreements; it also began preparations related to the common commercial policy. Measures remain to be taken to ensure that Iceland's Official Development Assistance does not decline further. Iceland has made good progress and reached an overall good level of alignment in the area of *foreign, security and defence policy*.

As regards *financial control*, a gap assessment needs to be carried out in the areas of financial management and control systems and internal and external audit to take into account internationally accepted standards in force in the EU. Preparations regarding the protection of the EU's financial interests remain to be enhanced. There has been some progress in the area of *financial and budgetary provisions* as Iceland has started to identify the required alignment with the *acquis*.