



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.05.1999

COM(1999)235 final

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

**on the Stabilisation and Association process for countries of South-Eastern
Europe**

Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia,
former Yugoslav Republic of Macedonia and Albania

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1. Political context

Countries of South-Eastern Europe have, for the last decade, enjoyed a great deal of support from the international community in general and the European Union in particular. Despite this, they have continued to suffer from inter-ethnic tensions and conflict. There has been a lack of substantial political or economic development. Despite major efforts to stabilise individual countries and the region as a whole, the progress made has been fragile. This is clear from the degree to which it has been jeopardised by the current conflict in Kosovo. The region is now at a turning point. A new approach to peace and stability in the wider region, involving both the countries of the wider region and the European Union, is urgently needed. At this time of tremendous upheaval and uncertainty in the region, the EU has a responsibility to contribute to the resolution both of the immediate instability and, in the longer term, to the general stabilisation and development of the region. This responsibility has been recognised, most recently, by the European Council on 14 April, and by the General Affairs Councils on 8 and 26 April, and 27 May 1999. Fulfilling this responsibility will necessitate decisions on considerable amounts of further assistance, as well as on appropriate implementation mechanisms and legal bases.

The European Union faces an ever greater challenge. It needs to play an important proactive role in the region. It is presently responding to this challenge through the development of its existing Regional Approach to the countries of South-Eastern Europe. The further development of this Regional Approach into a Stabilisation and Association process, which will at a later stage become part of the future EU Common Strategy, will be central for the EU's political visibility and will also constitute an important element of the Stability Pact for South-Eastern Europe which was approved by the Council on 17 May. The Stability Pact will provide a framework, wider than the EU, in which all can contribute to lasting peace and stability, democracy and economic prosperity, in the region. It will help the process of integration into Euro-Atlantic structures.

The proposals in the present Communication for the development of a Stabilisation and Association process will also help the development of the EU Common Strategy towards the Western Balkans, which will constitute the framework for EU relations with the region in the coming years and will be the longer term perspective within which the prospects for proposed closer relations with the countries of the region should be seen. As at two other key stages in recent history – the emergence of independent states in Central and Eastern Europe in 1989-90 and the dissolution of the former Soviet Union in 1991 – the European Union is confronted with geopolitical challenges requiring the development of new policies, and instruments, towards a group of countries. On this occasion, it must respond by offering a perspective of integration, based on a progressive approach adapted to the situation of the specific countries.

The European Union has a particular interest in the region, because of its geographic proximity to Member States and candidate countries. This interest will be even higher following the future enlargements of the European Union, which will bring these countries even closer to our borders. Stabilization of the region would bring real benefits both to the region and to the EU. Instability is very costly for all concerned. The EU has spent enormous sums on repairing the results of instability - over 7bn € since 1991 (*details at Annex I*) without counting the cost of refugees within EU Member States or of other operations (UN, OSCE, NATO...) - a bill which is continuing to rise in the present circumstances. It is clearly more in the interest of the countries of the region, and of the European Union to which they will ultimately belong, that even a fraction of these sums should be spent instead on their political and economic development.

The present conflict in Kosovo has shown the potential political effects of instability on neighbouring states, with the risk of destabilisation of the former Yugoslav Republic of Macedonia, Albania and Montenegro. It has also had economic effects on countries of the region, such as Romania and Bulgaria. Those countries are already on track to EU membership, and this process will not be affected by developments in this region. It reveals, once again, the inextricably regional nature of problems in this zone, and reinforces the need for a regional approach to the problems. The countries of the wider region, both candidates and EU Member States, have a particular contribution to make as examples of the progress that can be made (e.g. in democratisation, multi-ethnicity, reform) and in the building of practical interdependence.

2. The existing EU Regional Approach

The changed wider political context necessitates a development of existing policy. But, even without it, it would be appropriate, three years after the elaboration of the Regional Approach, to make proposals for its further development. Recent events, and the accelerated pace of the development of other related strategies, mean that the enhancement of the Regional Approach should be more ambitious. It should respond to the challenges posed by the changed situation on the ground and the new political context. The Commission's proposals, in section 3 below, are therefore more than routine "conclusions" on the developments in the Regional Approach countries, but also respond to the changed nature of the situation and the challenges faced.

The Regional Approach provides a framework for the development of relations with five countries of the region - Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia, the former Yugoslav Republic of Macedonia, and Albania - with which the EC had not, in 1996, adopted directives for the negotiation of association agreements. These five states were, and remain, differentiated into two groups. The former Yugoslav Republic of Macedonia and Albania, which were not involved in the 1991-95 war and had more advanced bilateral relations with the EC, on the one hand, and the other three countries which are party to the Dayton / Paris peace agreements, compliance with which is an important factor in regional stability as well as relations with the EU, on the other.

The primary objectives of the Regional Approach, as established in 1996, were to underpin the successful implementation of the Dayton / Paris and Erdut peace agreements and the creation of an area of political stability and economic prosperity by:

- a) promoting and sustaining democracy and the rule of law (institution-building, reform of the state and public administration, reconstitution of civil society) and respect for human and minority rights (notably non-discrimination between citizens, and including the resettlement of refugees and displaced persons); and
- b) relaunching economic activity (rebuilding the economy, restoring and improving infrastructure, reorienting former war economies to civilian activities, and former command economies to market reforms).

The Regional Approach is based, in particular, on political and economic conditionality, established by the General Affairs Council on 29 April 1997, compliance with which¹ forms the basis for the development of bilateral relations with the EC in the field of trade (eligibility for autonomous trade preferences²), financial and economic assistance (under the OBNOVA / Reconstruction³ and PHARE⁴ programmes⁵) and contractual relations⁶.

¹ At six-monthly intervals since 1997, the Commission has prepared reports on compliance, on the basis of which the Council has adopted Conclusions.

² The autonomous trade preference regime, commonly referred to as the autonomous trade measures (ATMs) is found in Regulation 70/97 of 20.12.96 OJ L 16 of 18.1.97, last amended by Regulation 2863/98 of 30.12.98 OJ L 358 31.12.98. Albania is not covered by this instrument as its origin is the former EC-SFRY Cooperation Agreement, denounced in 1991 when the SFRY ceased to exist. Wine imports from the former Yugoslav Republic of Macedonia and from Slovenia are still covered by the regime since bilateral Wine Agreements have not yet been concluded with the EC.

³ Regulation 1628/96 of ... , as last amended by Regulation 851/98 of ...

⁴ Regulation (EEC) No. 3906/89, as amended by Regulation 3800/91 of 23.12.91 to include Albania, Regulation 1366/95 of 12.06.95 to include Croatia, Regulation 463/96 of 11.03.96 to include the former Yugoslav Republic of Macedonia, and Regulation 753/96 of 22.04.96 to include Bosnia and Herzegovina. In line with the Council Conclusions of 29 April 1997, PHARE assistance to Bosnia and Herzegovina is "limited to projects in direct support of the peace agreements, in particular the building of cross-entity links and refugee return". Croatia has been suspended from PHARE since August 1995

⁵ and PHARE-funded projects such as CAFAO, CAM-A and CAM-ES

⁶ Cooperation Agreement with Albania, in force since 1992; Cooperation Agreement with the former Yugoslav Republic of Macedonia, in force since 1998; Transport Agreement with the former Yugoslav Republic of Macedonia, in force since 1997.

It was, and remains, clear that most of these objectives cannot be achieved on a purely national basis – most of the countries of the region not only share the same aspirations for closer relations with the European Union, but they also face many of the same problems, and their economies are linked in various degrees of interdependence. The countries themselves and the European Union must therefore put more emphasis on cooperation, both bilateral, multilateral and regional. Assistance to them must also have a regional perspective, encouraging and requiring the countries concerned to work together, as well as with their neighbours in the wider region and with the EU, to further their economic development. In particular, the multilateral dimension of the existing approach must be enhanced, to avoid the risks of concentrating solely on a policy of selective bilateralism to the detriment of a truly regional strategy.

3. Further development of the Regional Approach

Developments both within and outside the region mean that there is a need to react in the short-term to the changing situation in the region. Such developments also require more long-term strategies aimed at the long-term stabilization of the countries of the Regional Approach and thus also of the wider region. Such a strategy would also underline that all countries in the region have the prospect of increasing rapprochement with the EU, in the perspective of full integration into European structures.

In view of the need to define a new approach to the changed general circumstances, and to overcome the failure of the countries to adequately respond to the incentives already offered (notably as regards the need to cooperate on a bilateral, multilateral or regional level), the Commission proposes a new, enhanced approach. This would entail the development of a *Stabilisation and Association process*, which would in effect offer higher incentives than before to the countries concerned. These stronger incentives would, of course, require compliance with more demanding conditions, both political and economic as well as increased emphasis on the need for regional cooperation.

The Commission therefore proposes the following content for the *Stabilisation and Association process*, combining both the development of existing instruments, and new initiatives aimed at an improvement of the situation:

- The development of *Stabilisation and Association Agreements*, a new kind of contractual relations, taking into account the individual situation of each country, with a perspective of EU membership on the basis of the Amsterdam Treaty and once the Copenhagen criteria have been met⁷
- The development of existing economic and trade relations with and within the region
- The development / partial reorientation of existing economic & financial assistance
- Increased assistance for democratization, civil society, education and institution-building
- The use of new opportunities for cooperation in various fields, including justice & home affairs (in particular following the entry into force of the Amsterdam Treaty)
- The development of political dialogue, including at regional level

Stabilisation and Association Agreements

At present, there are contractual relations, in the form of *Cooperation Agreements* with two of the five countries - the former Yugoslav Republic of Macedonia and Albania. The start of negotiations for contractual relations with the other states (usually interpreted as meaning *Cooperation Agreements* in a first stage), under the Regional Approach, depended on compliance with both general and specific political and economic conditions⁸.

Closer relations with the EU constitute a very important political and economic incentive for all of the countries. The perspective of contractual relations should be progressive in nature and should be seen as complementary to other stabilization efforts in the political, economic, diplomatic, humanitarian and even

⁷ Wording from Art. 7 of the Common Position adopted by the Council on the basis of Article 15 of the TEU concerning the launching of the Stability Pact of the EU on South-Eastern Europe

⁸ cf. Conclusions of the General Affairs Council of 29 April 1997

military fields. They should therefore be developed in order to fulfil their potential as an important political and economic incentive for stabilization and democratization within the region, on an individual basis, and within the framework of the Regional Approach⁹.

The European Union has been confronted with geopolitical challenges requiring the development of new instruments governing its bilateral relations with a group of countries on two other recent occasions. They were the emergence of independent states in Central and Eastern Europe in 1989-90 and with the dissolution of the former Soviet Union in 1991. On those occasions, it developed the concept of sui-generis categories of contractual relations - for the countries of Central and Eastern Europe, it developed the "Europe Agreements" (based on Article 238¹⁰, containing a specific reference to the perspective of accession) and, for the countries of the former Soviet Union, the concept of "Partnership and Cooperation Agreements"¹¹.

To respond to the present, changed, circumstances in the region, as well as the Conclusions of the General Affairs Council of 26 April 1999 and the proposed wording of the Stability Pact, the Commission therefore considers it appropriate that **a new Stabilisation and Association process should be launched, an element of which would be a new category of agreement - Stabilisation and Association Agreements** - for which Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia, the former Yugoslav Republic of Macedonia and Albania would, in principle, be eligible.

These Agreements would be tailor-made, differentiated to take account of the specific situation of the country concerned. The **main objectives** would be:

- To draw the region closer to the perspective of full integration into EU structures,
- To support the consolidation of democracy, rule of law, economic development and reform, adequate administrative structures, and regional cooperation,
- To establish a formalized framework for political dialogue, both at bilateral and regional level,
- To promote economic relations, trade, investment, enterprise policy, transport and development, and cooperation in the customs area, with the perspective of closer integration into the world trading system, including the possibility of establishing a free trade area or areas, when sufficient progress has been made in economic reform,
- To provide a basis for cooperation in the field of justice and home affairs,
- To provide a basis for economic, social, civil, educational, scientific, technological, energy, environmental and cultural cooperation (including a plan to safeguard the cultural heritage of these regions), underpinned by "association-orientated" assistance programmes which would also be designed to facilitate approximation of legislation in accordance with relevant EC *acquis*.

These Stabilisation and Association Agreements (SAAs) would bring **a new dimension** to relations with the region, replacing the prospect of a Cooperation Agreement for those countries which had not already reached that stage, and, for those that already have a Cooperation Agreement, providing a new, more advanced relationship.

The **conditions for the start of negotiations** on such Agreements would remain those set out in the Council Conclusions of 29 April 1997 on the opening of negotiations for contractual relations. Obviously, **to conclude such an enhanced relationship** with the EU, a country would also have to have attained the high level of political and economic development required to meet the increased reciprocal and mutual obligations of the relevant *acquis*. In addition, taking into account the context of the Stabilisation and

⁹ Wording from Para 21 of the draft Stability Pact for SouthEastern Europe, as approved by Council on 17 May

¹⁰ Now article 310 of the TEU

¹¹ based for example, in the case of Moldova, on Articles 44(2), 47(2) last sentence, 55, 57c(2), 71, 80(2), 93, 94, 133, and 308 of the TEU

Association process, the Stability Pact and the future EU Common Strategy, there would be increased emphasis on progress in developing *regional* cooperation.

As regards the **possible start of negotiations with the individual countries** for Stability and Association Agreements, more details are provided in section 4 *infra*, in the conclusions on the individual countries. The Commission will report first on the feasibility of the opening of such negotiations in the case of the former Yugoslav Republic of Macedonia and then on the case of Albania. In the light of recommendations made by the Commission in its reports on the feasibility of the opening of negotiations for such Agreements, appropriate negotiating directives might be developed. Given its positive record to date, and its compliance with the relevant conditions, it is likely that negotiations will first be opened with the former Yugoslav Republic of Macedonia. It would not yet be appropriate to consider the opening of negotiations with Bosnia and Herzegovina or Croatia as the relevant conditions have not yet been fulfilled. But the Commission could prepare technical reports on the feasibility of the opening of such negotiations at a later stage. The Federal Republic of Yugoslavia has the same general perspectives as the other states once it respects the relevant conditions. At present, it disregards the most fundamental of these.

Democratization, Civil Society and institution-building

Efforts to promote economic development, as described below, will be greatly facilitated by the stability of the underlying political structures, the maintenance of the rule of law, the effectiveness of public administration, and the viability of civil society. EU action has been, and remains, directed at these objectives. It includes such elements as support for free and fair elections and good parliamentary practice; legislative reform and voter education; independent media; rule of law through technical assistance for judicial, police and customs reform; civic education; anti-corruption programmes (drawing on experiences in the customs field in Albania and Bosnia and Herzegovina), training (including higher education) and development for over-stretched and under-resourced public administrations (which will in turn contribute to stabilization, development and the effective implementation of assistance programmes); and support for civil society organizations and initiatives. Particular emphasis will be given, through civil society organisations, to the post-conflict rebuilding of consensus, to conflict-resolution and to the lightening of the psychological burden consequent to war. It could be appropriate to take into account the regional dimension in channelling financial resources to local community-based organisations while at the same time pursuing common overall objectives for the development of democracy in the region.

Justice and Home Affairs

Initiatives in the field of justice and home affairs could be considered - not only as a part of Stabilisation and Association Agreements, as mentioned above, but more generally. Assistance could be provided, by both the Community and Member States, for institution-building increasing the efficiency of law enforcement, border controls, the fight against organised crime and corruption¹², including by means of "twinning". Co-ordinated support could also be provided in the context of migration through the development of relevant legal instruments, particularly in the area of readmission.

Trade

The existing system of autonomous trade preferences for the countries which emerged from former Yugoslavia (for which only Bosnia and Herzegovina and Croatia are presently eligible) will remain important until contractual relations are established with Bosnia and Herzegovina, Croatia and the Federal Republic of Yugoslavia. In future, the Commission intends to split the existing system of autonomous trade preferences into separate trade preferences for Bosnia and Herzegovina and Croatia in order to ensure a

¹² within the framework of a Community Customs Assistance Mission, in the light of the achievements of CAFAO in Bosnia and Herzegovina and CAM-A in Albania

transparent and equitable share of these preferences¹³ between these countries, and to prepare possible future negotiations for an agreement. In accordance with the Council Conclusions of 9 November 1995, and in anticipation of a "Stabilisation and Association Agreement", the Commission will present, in the near future, a formal proposal for the upgrading of the bilateral trade regime with Albania towards a preferential regime similar to what is afforded to other countries of the region¹⁴.

The upgrading of relations by means of a Stabilisation and Association Agreement will have trade implications as regards the reciprocal obligations which would be involved. Trade relations with these countries will be strengthened by their accession to the WTO.

Economic and Financial Assistance

Economic and political development should go hand in hand. Within the countries of the region, sound macro-economies will need strong and democratically based institutions; and balanced prosperity will in turn reinforce their political systems. The removal of economic barriers between the countries of the region will enable closer political relationships to take root. The Commission, in close cooperation with international financial institutions (IFIs), will continue to monitor macro-economic developments and deepen its macro-economic dialogue with these countries. Financial assistance will be focussed on helping to build strong, stable market-based economies that are well integrated with their neighbours and with the European and global economies. In view of the needs of transition and reconstruction and of increasing infrastructure linkages, considerable investment will be needed. Attention must therefore be given to creating the right climate for private investment flows, in order to fill the gap between public sector capacity and funding.

In 1999, financial assistance from the Community budget to the countries of the Regional Approach will be almost 700m¹⁵ (see *Annex 1*). A considerable amount of further assistance will no doubt be required, to underpin the EU contribution to the implementation of the Stability Pact and the EU Common Strategy, as well as for the impact of the Kosovo crisis and the eventual cost of reconstruction. The Budgetary Authority will be required, in due course, to take the necessary decisions, on the basis of proposals from the Commission. The EU cannot commit itself to the implementation of ambitious programmes without, however, also having the necessary mechanisms and means in place to enable the flexible, well co-ordinated, and efficient use of all Community assistance instruments in a manner adapted to the circumstances. The Commission will propose a legal base for the implementation of assistance to the region as a whole, taking into account the articulation with the PHARE programme, and is examining the question of appropriate implementation mechanisms / structures, including for the channelling of aid from other donors. Legal bases could be created / modified to facilitate the implementation of all Community financial assistance programmes for reconstruction (including of environmental damage) and regional co-operation (the crossborder / regional use of some of which is presently not feasible due to the fact that not all potential partners are eligible for the underlying PHARE programme).

The EU is itself a model for overcoming conflict and promoting reconciliation through close co-operation to achieve common goals, while respecting national sovereignty and territorial integrity. States aspiring to closer relations with the EU should behave in a similar manner, and EC financial assistance and the development of bilateral relations should be targeted on the regional economy and the need to promote interdependence, as has not always been the case. The provision of EC and bilateral assistance (with the exception of assistance for humanitarian purposes, democratisation and human rights) to the region and to individual countries should take into account the readiness of the countries to co-operate with each other e.g. by the possible establishment of mutual trade preferences or free trade areas and customs

¹³ This will not apply for arrangements for wine which would still be global in nature, applying to Bosnia and Herzegovina, Croatia and the former Yugoslav Republic of Macedonia. FRY would, obviously, only receive its "share" of the general preferences once it met the eligibility criteria for the trade preferences.

¹⁴ For which a WTO-waiver will be requested

unions¹⁵. Co-operation between states should also, increasingly, be a prerequisite for the establishment of closer links with the EU, and for assistance. A percentage of assistance under multi-beneficiary programmes could be reserved for multi-country or cross-border political or economic co-operation initiatives (with other countries of the region, with neighbouring candidate countries and with EU Member States). The focus could be on the development of exchanges, the creation of common projects and institutions, and the building and further development of regional strengths.

On a macroeconomic level, the Commission, in co-operation with the International Financial Institutions (IFIs), will continue to monitor closely macro-economic developments. As well as grant-based assistance, the Commission, as in the past, will consider, on an exceptional basis, balance of payments support for those countries of the region (and adjacent countries) which are eligible for such support. Bilateral assistance could also include debt relief, or cancellation, especially for the countries that have been particularly hard-hit by recent costly and destabilising developments. The Commission and the World Bank have created a coordination mechanism to ensure that the regional dimension of Kosovo reconstruction is fully taken into account, and will coordinate donor mobilisation, economic analysis, conditions of support and implementation on the spot.

Political dialogue

As indicated above, the Stabilisation and Association Agreements will include the development of political dialogue on a multilateral / regional level. Attention must also be paid to this issue, in the framework of the Stabilisation and Association process, for those countries that are not yet eligible for such Agreements. This should be in addition to bilateral political dialogue. Such dialogue should be developed at various levels (from official to ministerial) and in various formats (Presidency / Commission or the new Troika), and should whenever possible be held in a regional / sub-regional format, thereby also providing opportunities for the countries to meet to discuss issues of common and regional interest. Political Declarations, as in June 1998 for Bosnia and Herzegovina, could also be envisaged, as well as the creation of mechanisms for technical discussions, as in the EU / BiH Consultative Task Force.

4. General Conclusions

The EU, on the basis of its experience to date of the Regional Approach, is ready for a long-term and substantial commitment to the stabilisation of the region. This stabilisation effort will, in the first place, focus on the five countries, while also having a broader regional approach covering the wider region. The Regional Approach, its scope, instruments and conditionality, remain basically valid. In the light of the forthcoming EU Common Strategy towards the region, as well as the proposal for a Stability Pact for South-Eastern Europe, and most particularly the changed circumstances in the region, it should, however, be substantially developed. For this reason, the Commission has proposed the creation of a Stabilisation and Association process, the main feature of which will be the offer to the five countries – in return for compliance with the relevant conditions – of a new kind of contractual relations: Stabilisation and Association Agreements. Other elements would include increased and reoriented assistance, increased support for democratisation, development of trade and political dialogue, and cooperation in new fields.

While developing policies towards the region, and particularly in relation to the post-conflict situation in Kosovo, the articulation of the relationship between these policies towards the region – the existing Regional Approach and future Common Strategy, as well as the proposed Stability Pact - and those of other actors (UN, Council of Europe, OSCE, WEU and NATO, relevant international financial institutions) needs to be considered carefully.

If this strategy is to be successful, the peoples and governments of the region must also participate and make determined efforts e.g. the pursuit of WTO accession, the possible development of free trade areas between themselves and within the region, and with increased regional cooperation on a bilateral and a

¹⁵ While avoiding the creation of RS / FRY and FBiH / Croatia structures to the detriment of BiH as a whole

multilateral level, as well as respect for the conditionality set out in the existing Regional Approach. The Regional Approach, and indeed any set of policies adopted by the EU or the international community in general, can only do so much. The future of the region lies in the hands of its peoples and governments.

Country Specific Conclusions

The Commission will continue to prepare regular reports on compliance by the countries concerned with the conditionality of the Stabilisation and Association *process*, the next report on which will be in November 1999. As regards the totality of bilateral relations with the countries of the Stabilisation and Association process, the Commission would, at present, draw the following operational conclusions¹⁶ in respect of the individual countries:

Bosnia and Herzegovina

Negotiations on a Stabilisation and Association Agreement with Bosnia and Herzegovina will be opened when it has met the relevant conditions. At the appropriate time, the Commission will prepare a technical report on the feasibility of the opening of negotiations for such an agreement. In the context of bilateral relations with BiH, and the future opening of negotiations, political and economic dialogue might be intensified. The Consultative Task Force could also play an important role. Opportunities to enhance co-operation in specific areas should be considered, and communication and dialogue should be promoted, including at a regional level.

Bosnia and Herzegovina should continue, at this time, to benefit from the **autonomous trade preferences** extended by the European Community and will continue to benefit from **PHARE** assistance related to reconstruction and institution-building needs, as well as in support of the peace agreements, although it will only benefit from full "traditional" PHARE once the relevant conditions have been met by the authorities, at State and Entity level. It is hoped that sufficient progress might be made by the end of the next reporting period, in November 1999.

Croatia

Negotiations with Croatia on a **Stabilisation and Association Agreement** will be opened when it has met the relevant conditions. At the appropriate time, the Commission will prepare a technical report on the feasibility of the opening of negotiations for such an agreement. In the context of bilateral relations, and the future opening of negotiations, communication and exchanges of views might be intensified, including in a more structured framework e.g. political dialogue and a technical consultative task force.

Croatia should continue, at this time, to benefit from the **autonomous trade preferences** extended by the European Community. In order to lift the suspension of **PHARE**, further progress towards democracy will be necessary, *inter alia*, in the fields of media reform, electoral reform, and refugee return, in accordance with the 29 April 1997 conditions. It is hoped that progress on these might be made by the end of the next reporting period, in November 1999. The EC has, nonetheless, already given assistance in other fields (humanitarian, support for democratisation including independent media, and refugee-return related reconstruction) and will continue to do so. Additional assistance will be targeted on areas relevant to the development of democracy, economic regeneration of refugee return areas and education (including e.g. Tempus and European Training Foundation).

Federal Republic of Yugoslavia

In the light of the continuing conflict in Kosovo and the obvious non-fulfilment of relevant conditions, it is not appropriate to discuss the eligibility of the FRY for the **autonomous trade preferences** or **PHARE**, or the opening of negotiations for a **Stabilisation and Association Agreement**. The FRY will be eligible for such instruments once the relevant conditions are fulfilled. In the interim, the FRY

¹⁶ Based on the general assessment of developments in each of the countries (contained in Annex 2 of the present Communication) as well as the more detailed factual report on compliance, since October 1998, with Regional Approach conditionality (contained in the Commission Staff Working Paper on that subject: SEC(99)714 of 17.5.99)

will continue to receive humanitarian and democratisation assistance and to benefit from OBNOVA / Reconstruction assistance (which is, in the main, geographically limited to Kosovo and Montenegro - assistance to Serbia is limited to support for the independent media), with particular emphasis on the return of refugees / internally displaced persons.

As a result of the continuing conflict in Kosovo, existing measures against the FRY / Serbia are to be strengthened in line with the Council Conclusions of 26 April 1999, which also decided on an oil embargo. These include an arms embargo; a visa ban (already extended to cover those responsible for the suppression of independent media) a supply ban on equipment which could be used for terrorism or police repression; a moratorium on export credit; a freeze on Serbian / FRY Government funds held abroad; a prohibition on new investment; a flight-ban on FRY-registered airlines. The main forms of bilateral relations with the European Community apply to the state (FRY) as a whole. As these instruments cannot therefore be used for the benefit of **Montenegro**, continuing assistance to that republic will be by means of other Community instruments. Budgetary assistance for costs related to internally displaced persons from Kosovo is being provided.

Former Yugoslav Republic of Macedonia

Due to the positive record achieved so far, as well as the country's compliance with the relevant conditions, and in accordance with the Conclusions of the General Affairs Council on 8 and 26 April 1999, the Commission will present a report on the feasibility of the opening of negotiations for a **Stabilisation and Association Agreement** with this country. Taking into account discussions in the Council, the Commission could make recommendations for negotiating directives. In the interim, the **Cooperation Agreement** and the Agreement in the Field of Transport will continue to be implemented, and relations will intensify in that framework and in the framework of the Political Dialogue, with modification of the terms of reference of the working party on customs and taxation to cover statistical matters, as a follow up to the March 1999 Cooperation Council.

The country will continue to benefit from Community assistance, notably in the framework of **PHARE**. The eligibility of the former Yugoslav Republic of Macedonia for additional PHARE multi-beneficiary programmes will be determined on a case-by-case basis, taking into account their consistence with and value-added to the National Programme. Budgetary assistance for refugee-related expenses will also be provided.

Albania

In accordance with the Conclusions of the General Affairs Council on 26 April 1999, the Commission is prepared to report in due course on the feasibility of the opening of negotiations for a **Stabilisation and Association Agreement** with Albania. Taking into account discussions in the Council, the Commission could make recommendations for negotiating directives. In the interim, **contractual relations** with the Community, based on the 1992 Cooperation Agreement and the connected Declaration on Political Dialogue, will be continued, and new working parties (on infrastructure and agriculture) established. A formal proposal for a bilateral trade regime. In accordance with General Affairs Council conclusions of 9 November 1998, will be presented shortly, with a view to upgrading the bilateral **trade regime** towards regional standards.

PHARE and other Community assistance will be continued with a view to achieving further progress in stabilisation, recovery, economic reform and democratisation in this country as well as to enhancing regional co-operation. The EU will continue, in particular, to support the re-establishment of a viable Albanian police in co-operation with the strengthened WEU Mission and, to enhance its Customs Assistance Mission, on the basis of the amended Customs Code. Budgetary assistance for refugee-related expenses is being provided. Balance of payment support adopted recently will be implemented without delay, and macro-economic developments will be monitored closely by the Commission and the IFIs.

Annex 1

Overall EC Assistance to Kosovo's neighbouring countries 1991-99 (Mio €) ⁽¹⁾ (Commitments)							
	ALBANIA (2)	BOSNIA (3)	CROATIA	FRY	FYROM	MULTI-COUNTRY	TOTAL
TYPE OF EC ASSISTANCE							
PHARE + OBNOVA	616.4	754.5	49.6	41.7	236.7	9.8	1708.6
HUMANITARIAN AID							
(ECHO)	41.2	1032.1	290.8	262.8	45.7	236.1	1908.7
FOOD SECURITY							
(DGVIII)	16.5	-	-	-	-	-	16.5
BALANCE OF PAYMENT							
SUPPORT (DG II)	20.0	60.0	-	-	40.0	-	120.0
EIB	46.0	-	-	-	-	-	46.0
OTHER ACTIONS (4)	122.8	221.2	9.3	17.5	2.0	12.3	385.1
TOTAL EC ASSISTANCE	862.9	2067.8	349.7	322.0	324.4	258.2	4184.9
Member States assistance (1990-97)	712.8	507.9	1165.9	712.4	178.2	-	3277.2
GRAND TOTAL	1575.7	2575.7	1515.6	1034.4	502.5	258.2	7462.1
EBRD	68.0	70.0	511.0		143.0		792.0

(1) As of end-April 1999, except for EIB and EBRD figures which include assistance from 1991 to 1998, and Member States' assistance which covers 1990-1997

(2) Grant macro-financial assistances to Albania decided in 1992 and 1994 are included in Phare financing.

(3) Out of the 60 Meuros of balance of payment support, the 15 Meuros grant programmed for 1999 will be financed by Obnova.

The total amount under Phare+Obnova line has thus been reduced by 15 to avoid double-counting.

(4) Other actions mainly include food aid to Albania provided by FEOGA (120 Meuros) and demining and other actions in Bosnia (200 Meuros).

n.a. = not available

Overall EC Assistance to Kosovo's neighbouring countries in 1999 (Mio €) ⁽¹⁾ (Commitments)							
	ALBANIA	BOSNIA	CROATIA	FRY	FYROM	MULTI-COUNTRY	TOTAL
TYPE OF EC ASSISTANCE							
PHARE + OBNOVA	118,5	146,0	15,0	23,5	68,7	2,8	374,5
HUMANITARIAN AID (ECHO)	7,0	56,4	5,0	7,6	-	182,0	258,0
FOOD SECURITY (DGVIII)	5,7	-	-	-	-	-	5,7
BALANCE OF PAYMENT SUPPORT (DG II)	20,0	60,0	-	-	-	-	80,0
EIB	n.a.	n.a.	-	-	-	-	0,0
OTHER ACTIONS		10,0	1,4	0,5	0,5	2,0	14,4
TOTAL EC ASSISTANCE	151,2	272,4	21,4	31,6	69,2	186,8	732,6

(1) Indicative allocations.

n.a. = not available

Annex 2

Developments in the countries of the Regional Approach since 1996, in particular regarding compliance, since October 1998, with Regional Approach conditionality criteria

The degree of political progress in each country, as described in the following paragraphs, has been influenced by its willingness to put the development of relations with the EU but also with its neighbours in the region above national(ist) interests. As is evident, certain countries, in certain fields, have not yet demonstrated a commitment to the European future to which they lay claim. This commitment demands respect for democratic principles and the ideal of cooperation between states. Progress, particularly in respect of the objectives of the Regional Approach has been patchy, depending on the willingness of the countries concerned to make the necessary efforts. For example, the level of democratization has increased in all but Serbia, although respect for minority rights differs depending on the national context. Implementation of the peace agreements has been patchy, particularly insofar as refugee return and cooperation with the ICTY is concerned. Some progress has been made in bilateral relations, but not in regional cooperation per se.

Bosnia and Herzegovina is a special case in the Balkans. It is in a triple transition process: from the status of federate republic of the Socialist Federative Republic of Yugoslavia to the status of independent republic; from a socialist economy to a market economy; from a civil war between three ethnic groups to a peace within a "single Republic made up of two Entities". At the end of the war, Bosnia-Herzegovina (BiH) had lost 23% of its pre-war population; GDP and per capita income had dropped by three quarters, industrial production by more than 90% and more than 1.2 million of its inhabitants had fled abroad, around 750,000 to EU countries. Since 1996, reforms have been slow due to the special political structure of the country and the nationalist political formations which dominated the political scene until the last elections. The September 1998 elections indicated a first partial drift from the main nationalist parties. The implementation of Dayton can be considered a success as far as its military dimension is concerned. On the civil side, much progress has been made (handing over of some war criminals to the Hague Tribunal, adoption of common symbols, establishment of common institutions, economic reconstruction). Nevertheless, the return of minority refugees, the functioning of the common institutions and judicial reform are not completely satisfactory. On the other hand, in the period 1996-1998, real growth of the economy has been of the order of an average 40% per year at State level, although the political obstruction to the peace process by the RS led this entity to two years of economic stagnation, until the appointment of PM Dodik (beginning 1998). The rapid improvement was from a very low base, and income levels and the provision of social services are among the lowest in Europe. The main problem of Bosnia-Herzegovina has been the lack of consolidated statehood. This is due to the attitude of BiH leaders, who still do not fully rely on cooperation within the common institutions, but also to the complexity of the institutional framework. In early 1999, there were signs of improvement in certain policy areas, especially privatization, investment legislation, customs legislation and the financial sector. Some important steps forward continue to be made in market economy reform although more efforts for proper implementation are still needed. The main risk remains poverty and social disruption, especially in the RS. Concerning democratization and respect for human rights, there has been some progress in certain fields, but recent political developments in the RS and in Kosovo have hampered, for the time being, further qualitative general improvement. Progress is still needed in cooperation between the different ethnic groups, although some positive developments occurred, particularly in the field of party politics. Co-operation from some local authorities in the RS has, very recently, improved. Interesting progress also occurred in the media and further improvement is expected in forthcoming months. Regional cooperation continues at varying levels, but the

undue influence of Zagreb and Belgrade remains quite strong. The implementation of the Dayton / Paris Agreements is progressing slowly, for different reasons.

Croatia has demonstrated its readiness to make some efforts with a view to post-war stabilization and normalization. It has shown its openness to enhanced cooperation with the International Community. Integration in European and Euro-Atlantic structures is a priority in Croatian politics. There were some achievements with regard to the acceptance of the relevant international and national legal frameworks for the respect of the rule of law. Progress has occurred in civil society, with an interesting evolution of popular opinion from nationalistic considerations, upon which Croatian political life was founded, to a more mature pluralistic system. The development of the Croatian economy proceeded well until 1998 when the consequences of the failure to introduce structural reforms began to show. Significant improvements have occurred in regional cooperation as well as in the formal integration of Eastern Slavonia. The delicate issue of the return of refugees has required strong international pressure, and serious difficulties remain in the implementation of Croatia's commitments. Nevertheless, the large gap remaining between formal commitments and their implementation prevents Croatia from reaching the required standards of democratization. Despite the declared intentions of the Government, the overall scenario seems to have stalled in recent months. In fact, progress since October 1998 in compliance with the different sets of conditions is still selective. Real implementation of international commitments is still unsuccessful, despite continuing international insistence. Democratization and respect for human rights remain the main areas of concern, notably with reference to reform of the electoral law and democratization of media, where no progress can be reported. Further substantial progress is also expected as far as respect for minorities and their rights is concerned. Cooperation with neighbouring countries has continued in a rather satisfactory way and Croatia has proved willing to resolve the outstanding questions by diplomatic means. Problems remain, however, as regard relations with the Federation of Bosnia and Herzegovina. Despite rather good results in the past and a satisfactory legal framework, concern is rising regarding the increasingly worsening economic situation. As far as compliance with Dayton and Erdut obligations is concerned, positive steps have occurred in refugee return, although the process is still rather slow. Normalization of war-damaged areas continues although further effective efforts are still required, notably in the implementation of the Programme for the Reestablishment of Trust.

Within the Federal Republic of Yugoslavia, the picture is mixed, with contrasting developments in Serbia and Montenegro. There has been no progress in democratisation or reform in **Serbia / Federal Republic of Yugoslavia (FRY)**. The suppression of the rights of the population since 1989 in Kosovo has finally erupted into open conflict which has had effects in neighbouring states. In general, there has been a contradiction in FRY / Serbia between the theoretical respect for democratic principles, as enshrined in the Constitution, laws, and obligations arising from signature of various international treaties and conventions, and the practical implementation of these principles. Even before the recent declaration of a State of War, there was a clear and continuing lack of respect for democratic principles, particularly for media and academic freedoms, as well as administrative and judicial proceedings. While the Constitution and laws of the FRY and Serbia provide for extensive human and minority rights, different minority groupings - the Kosovar Albanians, the Croat and Hungarian minorities, and the Sandzak Muslims - have experienced varying degrees of difficulty in the respect for and implementation of these laws, the most glaring example of which has been recent events in Kosovo. Inter alia, the Gonzalez recommendations remain unimplemented, and with the declaration of a State of War in March 1999 and the acceleration of massive deportations accompanied by unspeakable atrocities, even the trappings of democracy are now disregarded. Kosovo is now completely lawless. Economic reforms have been sporadic, with

reduction of wartime hyperinflation being progressively undone by looser monetary and fiscal policies in advance of the 1997 elections and subsequent pressure on scarce financial resources due to growing external and fiscal deficits, accelerating inflation in late 1998 and a continuing failure to privatise. In the last year, policy on Kosovo has had serious consequences for the economy, both in terms of the cost of the war and, now, NATO airstrikes on the military-industrial base and physical infrastructure. Prior to the escalation of the Kosovo crisis which has led to a deterioration in relations with neighbours and the breaking off of diplomatic relations with certain other states, FRY had made some progress in regional co-operation, most notably as regards the normalisation of its relations with Croatia, but the issue of SFRY succession, and the division of SFRY debts and assets remains unresolved, with implications for FRY participation in international organisations and fora. In contrast, developments in **Montenegro** have been more positive. The replacement, after free and fair elections, of the pro-Milosevic regime of Bulatovic by a coalition led by President Djukanovic has resulted in a positive impulsion towards reform and democratisation, supported by the European Union. This has led to a marked exacerbation of difficulties in relations, in almost all fields and at all levels, between Belgrade and Podgorica, but has continued despite increasing pressure and threats from the federal level, and the presence of considerable numbers of refugees and displaced persons. Economic reform is taking place, though slowly, notably regarding privatisation. Montenegro was given a specific exemption, in January, from the existing ban on flights to the EC by FRY-registered carriers.

During the last three years, the **former Yugoslav Republic of Macedonia** has been a stabilizing factor in the region. The former Yugoslav Republic of Macedonia has confirmed its political maturity and its commitment to democratic principles, with a smooth and peaceful political transition taking place, after free and fair elections. Since the new Government arrived, some substantial measures have been taken to reinforce the respect for and protection of minorities, in particular the Albanian minority, the symbol of which was the release of the Tetovo and Gostivar Mayors. But even before that, political parties representing the interests of the Albanian minority have always been in the Government. The country has proven its commitment to regional cooperation. Its determination to have good relations and to resolve pending issues with neighbours resulted recently in the signing of the Joint Declaration with Bulgaria that solved the language issue between the two countries. Beyond political relations, the country has also developed important economic and trade relations with the countries of the region (Agreements with Slovenia, Croatia, Bosnia and Herzegovina and FRY have been signed). The country's cooperation with the international community in seeking a peaceful solution to the Kosovo crisis was enhanced, with its acceptance of the deployment of NATO troops as well as refugees from Kosovo. Human rights and rule of law are protected by a comprehensive set of legal protections, even if more attention may be paid to freedom of expression. Between 1996 and 1999, the economic reforms and the stabilization policy pursued by the Governments in line with IMF recommendations enabled the country to achieve macroeconomic stability, though since the end of 1998 the IMF programme has been off-track because the second tranche of the three-year loan under the Enhanced Structural Adjustment Facility (ESAF) was linked to the privatisation of twelve large industrial conglomerates, on which no agreement has yet been reached. The inflation and budgetary situations have been kept under control. Unemployment, however, has remained high since 1996. Market economy reform is ongoing, with the reform of the legal and regulatory framework, the privatization process and the reform of the banking sector still deserving particular attention. The former Yugoslav Republic of Macedonia, therefore, has not only respected the principles of the EU's regional approach, but has played an exemplary role throughout the three last years that was instrumental in achieving the objectives of this EU policy.

The 1996 crisis in **Albania**, provoked by the breakdown of the pyramid schemes in late 1996 and previous irregularities during parliamentary elections in May 1996 was contained by a coordinated international response. A government of national reconciliation was established, followed by general elections in June/July 1997 and the temporary deployment of a international protection force. A new government under PM Nano (July 1997 to October 1998) was able to achieve notable macro-economic stabilization and the first steps were taken in the winding up of the pyramid schemes and in public administration reform. Albania continued however to suffer from a lack of public order and widespread crime and corruption as a result of this and from the continuous boycott of Parliament by the Democratic Party. While freedom of expression and other basic rights were ensured, Albania remained confronted with structural problems which pre-date the crisis (poor infrastructure; weak state institutions). The fragility of the country was highlighted on several occasions, inter alia by the renewed riots in September 1998. The new government of PM Majko (since October 1998) shows a more serious commitment to face the structural problems of the country but is obviously confronted with the prevailing traditions in the Albanian society. The adoption of a constitution in November 1998 was a milestone for democracy and the rule of law. But tangible results in law enforcement presuppose an effective strengthening of both the security forces and the judiciary. Talks outside Parliament with the Democratic Party have somewhat reduced political confrontation but normality seems still not within reach. Macro-economic stabilization has been confirmed but remains vulnerable in the light of the refugee problem and the continuing lack of public order while structural economic reforms (privatization, financial sector) still need to be tackled. All Albanian governments have pursued a moderate policy of self-restraint with respect to the situation of ethnic Albanians in neighbouring countries. The traditional low level of regional cooperation did not change with the exception of an increased economic and technical cooperation with the former Yugoslav Republic of Macedonia.