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Enlargement Strategy and Main Challenges 2012-2013

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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Enlargement Strategy and Main Challenges 2012-2013

1. INTRODUCTION

The enlargement policy of the EU has been pursued for more than four decades. Successive accessions have seen the number of members gradually increase from the original six to 27. Croatia is due to become the 28th member on 1 July 2013. Through its enlargement policy, the EU has, since its inception, responded to the legitimate aspiration of the peoples of our continent to be united in a common European endeavour. It has brought nations and cultures together, enriching and injecting the EU with diversity and dynamism. More than three quarters of the EU Member States are former 'enlargement' countries.

At a time when the EU faces major challenges and significant global uncertainty and gains new momentum for economic, financial and political integration, enlargement policy continues to contribute to peace, security and prosperity on our continent. Within a framework of strict but fair conditionality, the prospect of accession drives political and economic reforms, transforming societies and creating new opportunities for citizens and business. At the same time, enlargement reinforces the Union's political and economic strengths. By exercising leadership through its enlargement policy, the EU can reap the benefits of a stronger and more united continent, also demonstrating its continued capacity as a global actor.

The most recent enlargement to include the countries of Central and Eastern Europe not only united East and West after decades of artificial separation. It provided mutual benefits of deeper trade integration, a larger internal market, economies of scale and expanded investment and job opportunities. From the start of negotiations to actual accession, exports from the EU to the acceding countries more than tripled. It is estimated that one third of the already high growth of the acceding countries in the same period was due to the effect of enlargement.

Strengthening the rule of law and democratic governance is central to the enlargement process. The lessons learnt from previous enlargements highlight the importance of an increased focus on these areas and further improving the quality of the process. This underpins and further promotes stability in a region recently scarred by conflict and supports the creation of an environment in south-east Europe conducive to growth and attracting investment, increased regional cooperation and dealing with common challenges such as the fight against organised crime and corruption. It addresses issues of direct concern to citizens in both the EU and the enlargement countries of justice, security and fundamental rights. With the Council's endorsement in June of the Commission's proposed new approach to judiciary and fundamental rights and justice, freedom and security as part of the negotiating framework for Montenegro, the rule of law is firmly anchored at the heart of the accession process, laying the foundation also for future negotiations.

The present difficulties in the *Eurozone* have dominated the EU political agenda over the past year. Together with the recent global financial crisis this has highlighted the interdependence of national economies both within and beyond the EU. The challenges facing the Eurozone underline the importance of further consolidating economic and financial stability and fostering reforms and growth, also in the enlargement countries. The enhanced economic, financial and political integration resulting from this within the EU will also have to be taken

into account in the enlargement process. Strengthening the enlargement countries' resilience to crisis is a matter of joint interest. The enlargement process is a powerful tool to that end. A stronger, enlarged EU will be better placed to address these challenges. The dynamism of the Turkish economy for example, Turkey's geopolitical role, its contribution to energy security and its young population represent an opportunity for both Turkey and the EU in a context of an accession perspective.

Addressing risks of instability in the Western Balkans is manifestly in our joint interest, given the legacy of war and division which has plagued this region. The enlargement process supports the advocates of reform in the region, further entrenching its post-war democratic transition. It helps avoid the potentially far higher costs of dealing with the consequences of instability. Strengthening stability and democracy in south-east Europe is also an investment in deep and sustainable democracy in the EU's wider neighbourhood. The renewed consensus on enlargement, agreed by the European Council, remains the basis for the EU's enlargement policy. 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 current enlargement agenda covers the Western Balkans, Turkey and Iceland. The EU has consistently proclaimed the inclusiveness of its policy towards the Western Balkans, with successive European Councils confirming that the future of the whole region lies within the EU. The Stabilisation and Association process remains the common framework for the necessary preparations.

Maintaining the credibility of the enlargement process is crucial to its success. This applies in terms of ensuring far reaching reforms are pursued in enlargement countries so that they meet the established criteria, in particular the Copenhagen criteria. It also applies in terms of ensuring the support of Member states and their citizens. It is essential to foster understanding and informed debate on the impact of enlargement policy, particularly at a time when the EU faces major challenges. In this context the principle of own merits is key. The pace at which each country advances towards membership depends on its performance in meeting the necessary conditions. Enlargement is thus by definition a gradual process, based on solid and sustainable implementation of reforms by the countries concerned. The new approach to negotiations in the rule of law area introduces the need for solid track records of reform implementation to be developed throughout the negotiations process. Reforms need to be deeply entrenched, with the aim of irreversibility.

The imminent accession of Croatia, the start of accession negotiations with Montenegro in June and candidate status for Serbia in March show that the EU delivers on its commitments once the conditions are met. These positive developments also send a strong signal of the transformative power of enlargement and what is possible in an area riven by war just half a generation ago. They act as an incentive and encouragement to all the countries of the region to step up their own preparations for eventual EU membership.

There have been a number of positive developments in the enlargement countries over the past year. In addition to those concerning Croatia, Montenegro and Serbia, positive results have been achieved in the Republic of Macedonia, where the High Level Accession Dialogue has led to a sharper focus on reforms by the authorities. Dialogue between government and opposition in Albania has allowed the political stalemate to be largely overcome with the adoption of electoral and parliamentary reforms. Accession negotiations with Iceland are progressing well. Turkey has shown active support of the new positive agenda announced last year and launched by the Commission in May 2012.

At the same time, reforms are still pending in most countries. Human rights, good governance, the rule of law, including the fight against corruption and organised crime,

administrative capacity, unemployment, economic reform and social inclusion remain major challenges. There is often a need to take more responsibility for reforms and to muster the necessary political will to move forward. Strengthening freedom of expression and independence of the media remains a major challenge. The accession process remains at times negatively affected by bilateral issues.

The enlargement process is by its very nature inclusive and necessitates wide stakeholder participation. In the enlargement countries, broad political consensus and support of the population for the reforms required contributes significantly to the transformation necessary for progress on the EU path.

This Communication assesses the current state of the European Union's enlargement agenda. Based on the accompanying in-depth country analyses¹, it takes stock of what these countries have achieved preparing for membership, where they stand today, assesses their prospects for the coming years and in this regard makes a number of recommendations. As in previous years, a number of key challenges are given particular attention, as is the support provided by the EU to the enlargement countries, including through the Instrument for Pre-Accession Assistance.

2. KEY CHALLENGES

2.1. Putting the rule of law at the centre of enlargement policy

The experience of recent enlargements and the challenges faced by enlargement countries underline the importance of placing the rule of law even more at the heart of enlargement policy. A new approach to negotiations in the area of judiciary and fundamental rights and on justice, freedom and security was proposed in last year's strategy paper and endorsed by the Council. This approach has now been reflected in a negotiating framework adopted in June 2012 for negotiations with Montenegro, firmly anchoring the rule of law at the centre of the accession process and laying the foundations also for future negotiations.

Countries aspiring to join the Union must demonstrate their ability to strengthen the practical realisation of the values on which the Union is based at all stages of the accession process. They have to establish and promote from an early stage the proper functioning of the core institutions necessary for democratic governance and the rule of law, from the national Parliament through Government and the judicial system, including the courts and public prosecutor, and law enforcement agencies.

There are a number of key challenges facing most enlargement countries in these areas:

As regards the *judicial system*, countries must ensure that it is independent, impartial and accountable and capable of ensuring fair trials. Countries must also ensure that their judicial systems function efficiently, without excessive length of proceedings. In this respect, judicial reform strategies are now in place in most countries. Progress was made with strengthening the independence of State Judicial Councils and in some cases with new procedures for judicial appointments. However, numerous challenges remain, in particular to ensure stronger procedures for the appointment of judges and prosecutors, to find the right balance between judicial independence and accountability, including addressing the issue of judicial immunity, and to reduce in many cases excessive case backlogs. Enforcement of court decisions remains a challenge. In addition to legislative and administrative reforms, in many cases a change in judicial culture is needed towards an increased focus on delivering a service for citizens.

Summaries and conclusions of the country reports are included as an annex to the present Communication.

Corruption remains prevalent in most enlargement countries. Corruption undermines the rule of law, impacts negatively on the business environment and national budgets and affects citizens' everyday life in areas such as healthcare and education. The pervasiveness of corruption enables infiltration of organised crime groups into the public and private sector. Countries must ensure a strong framework for the prevention of corruption, in particular in terms of greater transparency in public bodies and the use of public funds. Law enforcement bodies need to be pro-active, well co-ordinated and effective so as to ensure corruption cases, including at high level, are properly investigated, prosecuted and sanctioned. In many enlargement countries further efforts are needed as regards the financing of political parties and election campaigns, the management of conflicts of interest, transparency in public procurement, access to information and the seizure and confiscation of assets. In some cases specialised prosecution services, have been set up and are working well. Much work lies ahead to build up the necessary track records. Building reliable statistics is needed to help monitor the success of anti-corruption policies.

The *fight against organised crime* remains a key priority and signifies a major problem in most enlargement countries. The cross border nature of many criminal activities requires strong cooperation between law enforcement and judicial bodies in the region, with EU Member States and internationally. Law enforcement bodies need to be provided with effective legal and investigative tools to properly fight and sanction organised crime. In particular, their capacity to conduct financial investigations needs to be improved. Progress is being made, but in most countries much more needs to be done to ensure proactive investigations, effective judicial follow-up and enhanced national and international cooperation. The Commission continues to support a regional prosecutors' network which will be assisted by seconded experts from Member States. Further operational cooperation with the relevant European agencies, in particular Europol should be pursued.

Public administration reform continues to be a key priority under the political criteria in most enlargement countries. As an essential part of democratic governance and the rule of law, it aims at enhanced transparency, accountability and effectiveness and greater focus on the needs of citizens and business. Adequate administrative procedures, including with respect to human resource and public financial management, including tax collection, and reliable and independent statistical systems are of fundamental importance for the functioning of the State and for implementing the reforms needed for EU integration. Countries need to increase their efforts to improve their public administrations at all levels on the basis of overall national strategies. Recognising the challenges faced by the enlargement countries, the Commission will strengthen its assessment and monitoring capability, identifying key gaps and providing help in planning, priority setting and implementation of reforms.

Civil, political, social and economic rights, as well as the rights of persons belonging to minorities are key issues in most enlargement countries. These *fundamental rights* are broadly guaranteed in law but issues concerning implementation persist in many cases. In some cases legislative gaps remain, for example as regards the scope of anti-discrimination legislation. National human rights institutions such as Ombudspersons often require significant strengthening, as does the law enforcement bodies' handling of issues such as hate crimes and gender based violence. General societal attitudes to vulnerable groups such as ethnic minorities, people with disabilities and lesbian, gay, bisexual and transgender persons remain a common problem.

The enlargement countries are characterised on the whole by pluralist media landscapes. In some countries there has been progress towards decriminalising libel. However, in a number of countries, *freedom of expression* remains a serious concern, with political interference, economic pressure, self-censorship and insufficient protection of journalists against

harassment or even violent attacks. In Turkey in particular, the legal framework does not yet sufficiently safeguard freedom of expression, while the high number of legal cases and investigations against journalists and undue pressure on the media raise serious concern.

In view of the challenges persisting in this area, the Commission plans to hold a follow-up in the first half of 2013 to the May 2011 'Speak Up!' conference. This event should bring together media and civil society stakeholders from the Western Balkans and Turkey in order to discuss the extent to which governments are addressing key priorities to reach European standards on freedom of expression. The Commission will continue to work closely with the European Parliament in this area. These issues will continue to be given prominence in the accession process.

Given the challenges faced and the longer-term nature of the reforms, the chapters judiciary and fundamental rights and justice, freedom and security will be tackled early in the negotiations to allow maximum time to establish the necessary legislation, institutions, and solid track records of implementation before the negotiations are closed. They will be opened on the basis of action plans to be adopted by the national authorities. The Commission will provide substantial guidance in its screening reports to support the elaboration of these action plans by the candidate country. An innovation is the introduction of interim benchmarks which will be set when negotiations are opened. Only once these are met will the Council lay down closing benchmarks.

In this way, negotiations will be conducted in a structured framework that takes into account the time needed for reforms to be properly implemented and for solid track records to be developed. The process will be accompanied by safeguards and corrective measures, to allow for example the updating of benchmarks and to ensure an overall balance in the progress of negotiations across chapters. The new approach also foresees greater transparency and inclusiveness in the negotiations and reform process, with candidates encouraged to develop their reform priorities through a process of consultation with relevant stakeholders to ensure maximum support for their implementation. The Commission will further focus its monitoring on progress achieved in these areas. IPA funds will continue to be targeted to support reform implementation.

Strengthening the rule of law and public administration is essential for enlargement countries to come closer to the EU and eventually to fully assume the obligations of membership. Even before accession negotiations begin, increased focus is being put on rule of law in the spirit of the new approach. Screening of the key rule of law chapters was initiated even before overall negotiations with Montenegro began. The other candidate countries, Republic of Macedonia and Serbia, were also invited to the explanatory screening sessions. The key priorities set out as conditions for the opening of accession negotiations with Albania are heavily focused on the rule of law. Rule of law issues are central to the various country specific initiatives launched by the Commission in the last year which are set out under part 3 of this Communication.

2.2. *Regional cooperation and reconciliation in the Western Balkans*

Regional cooperation and good neighbourly relations are essential elements of the Stabilisation and Association process and, as such, are closely monitored by the Commission at all stages of the accession process. Further progress has been achieved in this respect in the last year. Bilateral and multilateral contacts between leaders and politicians of the region have continued, also in sensitive areas such as war crimes, borders, refugee return, organised crime and police cooperation, and within regional fora such as the Energy Community, the European Common Aviation Area, the Central European Free Trade Area (CEFTA) and the Regional School of Public Administration. A new Secretary General of the Regional

Cooperation Council (RCC) was appointed. The Commission looks forward to the RCC further developing its role in regional cooperation as a platform for the promotion of issues of importance to the whole region and its EU perspective thus further mainstreaming regional cooperation in the countries' political agenda. Regional cooperation should be regionally owned and driven.

Disputes related to inter-ethnic or status issues, notably in Bosnia and Herzegovina and Kosovo*, continue to hinder the functioning of institutions, frustrating the reform process, sometimes with broader regional implications. Pursuing their EU path is the best way for the countries to address these problems. Difficult ethnic-related issues can be successfully addressed through dialogue and compromise, as demonstrated by the on-going implementation of the Ohrid Framework Agreement in the Republic of Macedonia. Differences over the status of Kosovo have continued to hamper the development of deeper relations with the EU. The issue of north Kosovo remains a major challenge. Progress on these issues will require all actors involved to work together in a constructive spirit.

New results were reached in the *Belgrade-Pristina dialogue* with agreements in the areas of regional cooperation and representation and integrated management of the border/boundary. The latter agreement is yet to be implemented. Serbia's interpretation of the agreement on regional cooperation and representation of Kosovo was eventually clarified and based on initial implementation is no longer hampering the inclusiveness of regional cooperation. Implementation of other agreements reached in the areas of freedom of movement, cadastre, civil registries, customs stamps and mutual acceptance of diplomas was uneven and have had so far limited impact on the ground. Further progress in this process must be achieved as a matter of urgency.

Voices calling for *reconciliation* are resonating more deeply among the population at large, laying stronger foundations to deal with war legacy issues such as war crimes, refugees and inter-ethnic tensions. Initiatives by NGOs and civil society such as the Youth Initiative for Human Rights, the Truth and Reconciliation Commission (RECOM), and the Igman Initiative play an important role in enhancing reconciliation among the citizens of the region and should be supported. Nonetheless, vigilance will still be required in the years to come to guard against nationalist reflexes. Governments and political leaders in particular need to do more to foster an environment conducive to dealing with the past. Those issues stemming from past conflicts, together with other open bilateral issues remain key challenges to stability in the Western Balkans and need to be urgently addressed. Resolving these issues will remove a major impediment to the Western Balkans' course towards the EU.

In terms of *war crimes*, completing the process of rendering justice for crimes committed during the wars in the former Yugoslavia is essential for lasting reconciliation. Cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has continued. This follows earlier decisive steps by the countries of the region providing a good basis for the ICTY to complete its work, even if some trials may continue past the previously indicated completion date of December 2014. With the work of the ICTY winding down, the governments concerned still face major challenges tackling impunity for war crimes within their own jurisdictions. With political will, increased focus of resources, further regional cooperation, and resolution of problems with the extradition of own nationals, the countries of the region can ensure justice is done for the thousands of victims of the wars. The issue of missing persons remains to be fully addressed. The Commission fully supports the on-going

This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

investigation under EULEX auspices into the alleged crimes, including human organ harvesting, committed in the period during and after the conflict in Kosovo addressed in the Marty report endorsed by the Parliamentary Assembly of the Council of Europe.

As regards *refugees*, a ministerial declaration of Serbia, Croatia, Bosnia and Herzegovina and Montenegro was signed in November 2011 in Belgrade renewing political commitment to bring to a close the Sarajevo process. A Regional Housing Programme was agreed and presented at an international Donors' Conference in April 2012, at which the EU and the international community pledged further substantial financial support. National authorities need to ensure implementation of this programme, which aims to facilitate sustainable return of the most vulnerable refugees to their places of origin or local integration in the place of refuge. This would allow the final reception centres housing refugees and internally displaced persons (IDPs) from the region to be closed and the formal deregistration of the current 74,000 remaining refugees completed. The Commission welcomes these developments and calls on the countries to work with vigour to resolve the remaining refugee and IDP issues.

Issues related to *minorities* remain a key challenge in the Western Balkans. Overall, sound and elaborate legal frameworks are in place to provide for the protection of minorities. At the same time, implementation in practice is often complicated, in particular where there are links to recent conflicts. A general culture of acceptance of minorities needs to be encouraged, through education, activation of broad public debates and awareness raising. There is a need to deal proactively with cases of hate crime and discrimination. The Roma remain particularly disadvantaged across the region. The Commission will continue to support measures in this regard, including under the Roma Decade. Countries should implement the operational conclusions they have subscribed to at the Roma seminars held by the Commission in 2011.

In the spirit of good neighbourly relations, open *bilateral issues* need to be addressed by the parties concerned as early as possible during the enlargement process, with determination, taking into account the overall EU interests. There has been little progress on such issues over the past year. The Commission urges parties to make every effort towards solving outstanding disputes in line with established principles and means, including referring issues as appropriate to the International Court of Justice or other existing or ad hoc dispute settlement bodies. Bilateral issues should not hold up the accession process. The Commission stands ready to facilitate the creation of the necessary political impetus in the search for solutions and to support related initiatives. The border arbitration agreement between Slovenia and Croatia, the implementation of which began in the course of 2012, paves the way for solving this bilateral issue and is a good example of the way forward. The Commission underlines the importance of Croatia's declaration on promoting European values in South-East Europe and in particular Croatia's commitment that bilateral issues should not obstruct the accession process of candidate countries. As regards the Republic of Macedonia, the Commission underlines that a negotiated and mutually acceptable solution, under the auspices of the UN, to the dispute over the name of the country remains essential. A solution needs to be found without further delay.

2.3. Economic and social challenges

Strengthening economic recovery in the enlargement countries

There is a mixed picture in terms of socio-economic developments in the enlargement countries. All enlargement countries have largely maintained overall macro-economic stability but fiscal risks have increased significantly in a number of them. The impact of the economic crisis is being felt throughout the region, with the Western Balkans falling back into recession in conditions of low levels of competitiveness, income and investment and of high and rising unemployment.

The growth performance of the Turkish economy can be attributed to a large extent to prudent macro-economic policies and to reforms initiated well before the global crisis. Nevertheless, to sustain growth and further strengthen the economy much remains to be done. The positive momentum in the Turkish economy provides an opportunity to engage in further structural reforms, particularly in the areas of education, infrastructure, and labour market policy.

Following the collapse of the banking system, the Icelandic economy contracted in total by 12%. Recovery, based on both exports and strong domestic demand, started in 2011 and continued this year. Stabilisation of the economy was achieved through decisive restructuring and strengthening of the banking sector, consolidation of public finances and a prudent policy mix, albeit under the shelter of capital controls whose removal remains a challenge.

After slight recovery in 2010 and 2011, the majority of economies of the Western Balkans contracted again in 2012, following negative developments in the European Union. Croatia, Bosnia-Herzegovina and Serbia are back in recession. Albania, Kosovo and the Republic of Macedonia are weathering the unfavourable conditions better. They continued growing as they have been able to sustain domestic demand and are less affected by reductions in trade. The financial sector has remained stable in all countries, although the quality of the loan portfolio has been further deteriorating.

The protracted depression has most visibly aggravated already difficult social conditions. Unemployment continued rising and is now on average 21% in the Western Balkans, but much higher in Bosnia and Herzegovina, Serbia, the Republic of Macedonia and Kosovo. The young are particularly affected. More worrying still, favourable results in poverty reduction from the pre-crisis period are being reversed. The emerging middle class especially has become more vulnerable, with depleted household financial buffers and savings. Various opinion polls suggest that people's dissatisfaction with the economic and social situation is growing as many can often no longer afford basic goods and services. These trends, coupled with weaker growth this year or even a new recession, suggest a need for a much more proactive policy response to alleviate deteriorating social conditions including unemployment and poverty for instance by encouraging investment, thus supporting job creation and by targeting better investments in the social sector.

There is awareness of the need of priority reforms and measures for growth and jobs. However, the political commitment to implement these reforms is often too weak. Revenue collection, budget planning and budget execution have not improved sufficiently over the years. Budget transfers remain ill targeted and do not contribute to improving the social situation. Labour markets remain largely unreformed and vocational education systems do not contribute to reductions in skills mismatch. As a result, workers often seek jobs abroad, which in the short term, benefits the economies through remittances and relief in unemployment; however, in the longer run it limits the potential for growth due to a smaller labour force and brain drain. On the microeconomic level, many countries have implemented reforms to facilitate company creation or have developed schemes to attract foreign investors, but the business environment remains hampered by the weak rule of law and the large informal sector.

The EU is committed to continue assisting the countries with policy advice and financial assistance and works closely with IFIs to channel favourable loans towards priority areas.

The Commission will continue associating enlargement countries with the Europe 2020 strategy. It will examine the possibility of more targeted use of SAA meetings to tackle the issues of competitiveness and employment. To that aim, and in line with the Europe 2020 approach, the enlargement countries are encouraged to consider national targets in the fields of employment, innovation, climate change, energy, education, poverty reduction and social

inclusion. In addition, from 2013 onwards, the Commission will gradually start a dialogue with enlargement countries on employment and social reform programmes, pursuing a comprehensive approach to employment and social policy. The Commission will also promote improved participation in EU programmes, so enlargement countries can work with the Member States in the areas of flagship initiatives of the Europe 2020.

Regional policy groups and the RCC made good progress in adapting the Europe 2020 process to the regional needs and realities. This year, ministers responsible for trade and investment committed to regularly benchmark policies in the areas of regional trade, private research, entrepreneurship and employment creation. The Commission will support these joint reform efforts and the regional monitoring approach, including with IPA funds.

Enhanced regional economic cooperation can contribute to moderating the effects of the crisis. Regional trade represents on average around 17% of all trade in the region. Flows among CEFTA countries have been less affected by the crisis and have recently been recovering faster than trade with the EU. However, trade is dominated by food and commodities, with higher value added goods making up only a small share of trade flows. CEFTA has engaged in the process of liberalisation of selected services, which can provide all parties with important benefits. Integration of energy and transport markets is making the region more competitive and is creating the conditions to attract investors to these areas.

The Western Balkans Investment Framework (WBIF) was created to bring together national donors and IFIs to develop a pipeline of projects in the countries. Under the WBIF, the Commission, bilateral donors and IFIs are supporting € 8 billion worth of investments in transport, energy, the environment, climate change, the social sector and private sector / SME development. The WBIF will play an increasingly important role to help prepare and support those investments most needed for boosting growth and jobs.

EU economic governance and enlargement countries

In view of the far reaching changes to the economic governance of the EU underway, it is important to continue to inform and further associate enlargement countries to this process, also considering their current high level of economic integration with the EU.

The European Commission has a number of instruments to keep enlargement countries informed about developments in EU economic policies. These include the regular bilateral political and economic dialogue as well as the multilateral economic dialogue between the Commission, EU Member States and Candidate Countries in the context of pre-accession fiscal surveillance.

The Commission will gradually adapt the economic surveillance of enlargement countries to the enhanced economic governance in the EU. To this end, the countries will be asked to strengthen their medium-term economic programmes, by putting more emphasis on the sustainability of their external position and on the main structural obstacles to growth, in line with the Europe 2020 strategy. More emphasis will also be given to further strengthening national fiscal frameworks, which need to comply with quality standards. The candidate countries will be asked to take strong political commitments to follow up on the agreed recommendations in the annual joint ECOFIN meeting. The joint ECOFIN and the preparations leading to this meeting as well as SAA fora will be used in addition to concentrating on economic and fiscal surveillance, to inform the candidate countries of other developments that are shaping EU economic governance, when appropriate.

Future explanatory screening meetings will also be used to familiarise countries with changes in obligations under economic and monetary union legislation, as well as the new financial supervision architecture. The Commission will examine the possibility of inviting to these

meetings candidate countries with which negotiations have not yet started. The Commission may also organise additional screening meetings in the course of accession negotiations where significant new *acquis* has been adopted.

3. MAINTAINING THE ENLARGEMENT AND REFORM MOMENTUM

The enlargement countries face many challenges especially in fields such as the rule of law, corruption, organised crime, the economy and social cohesion. In addition, in a context of economic stagnation, there are risks of a lurch towards populism and resistance to essential reforms. In the Western Balkans in particular it is crucial that the countries remain firmly on the path of reform, leaving the legacy of the past behind and investing in their European future. The EU shares an interest in the successful implementation of reforms. Enlargement is a joint endeavour. Maintaining the momentum for enlargement as well as for reforms are two sides of the same coin.

The Commission is increasingly seeking innovative approaches to dealing with challenges arising in the enlargement countries and in the accession process. The criteria and conditions for membership remain the same. However, in many areas country-specific, tailor-made approaches to dealing with difficult situations, including blockages in the accession process, are necessary. This applies not only to the rule of law and public administration reform, but also as regards democratic strengthening, good governance and economic and social issues. Such initiatives are injecting momentum into reforms. They do not replace accession negotiations but form a bridge to them.

Building on the 2011 Strategy paper for Enlargement and the Council conclusions of December 2011, a positive agenda for EU-Turkey relations was launched in May 2012, with the aim of supporting the accession negotiation process, in line with the Negotiating Framework and the relevant Council conclusions. The agenda covers a broad range of areas of common interest including political reforms, foreign policy dialogue, alignment with the EU *acquis*, visas, mobility and migration, trade, energy, the fight against terrorism and participation of Turkey in EU programmes.

With the Republic of Macedonia, a High Level Accession Dialogue (HLAD) was launched in March 2012 in Skopje. The HLAD put EU integration to the forefront of the domestic agenda, giving it a new boost by ensuring a structured, high level discussion on the main reform challenges and opportunities. The key issues include freedom of expression, rule of law and ethnic relations, challenges for electoral reform, public administration reform, strengthening of the market economy and good neighbourly relations. The Government is making progress addressing the ambitious reform targets included in its roadmap defining the specific measures and time frame for their delivery.

In Albania, the Commission has worked closely with the government and opposition to help this country overcome political obstacles to further electoral and parliamentary reforms and to create an environment conducive to further progress, in particular in support of the EU agenda. This allowed for a revision of the action plan addressing the Commission Opinion's key priorities in a transparent and participatory process. With the EU agenda at the forefront of Government activity, concrete results are being achieved with the deliverables set out in the plan, including in the area of parliamentary and electoral reform, the rule of law and human rights.

With Bosnia and Herzegovina, a High Level Dialogue on the Accession Process (HLDAP) was launched in Brussels in June 2012. This initiative aims to help the country to move forward in the EU accession process by explaining the requirements and the methodology of accession negotiations and, concretely, what is expected from a country in the EU accession

process. It is meant to keep up the political momentum on the EU agenda despite the on-going political crisis. The June meeting resulted in joint conclusions and a Roadmap for EU integration aimed at meeting the conditions for the entry into force of the Stabilisation and Association Agreement (SAA) and for a credible EU membership application. This required a co-ordination mechanism between all competent levels of authority regarding EU matters, so that the country can speak in this respect with one voice. The Commission regrets that the results so far remain below expectations. The Structured Dialogue on Justice launched with Bosnia and Herzegovina in 2011 has positively impacted the implementation of the Justice Sector Reform Strategy 2009-2013.

The European Commission and Kosovo launched a Structured Dialogue on the Rule of Law in May 2012. This Dialogue is designed to help Kosovo address challenges in the field of the rule of law, which is a key concern for the Western Balkans as a whole. At this stage, the Commission will focus on the judiciary, the fight against organised crime and corruption.

The Commission will continue to pursue these and other initiatives with the aim of maintaining the momentum and transformative power of the accession process, and ensuring the responsiveness of enlargement policy.

4. PROGRESS IN THE ENLARGEMENT COUNTRIES AND THE WAY FORWARD 2012-13

4.1. *Western Balkans*

Croatia

In parallel to this Communication, the Commission has adopted a Communication on the main findings of the comprehensive monitoring report on Croatia's state of preparedness for EU membership. The Commission will continue to monitor the commitments made in the course of accession negotiations by Croatia until the date of accession, with a Communication on a final monitoring report foreseen for spring 2013.

Montenegro

On 29 June 2012, the European Council endorsed the decision of the Council, based on a Commission report, to open accession negotiations with Montenegro. Negotiations were opened at the first Inter-Governmental Conference the same day. The accession negotiations will be conducted in line with the negotiating framework adopted by the Council which integrates the new approach for the chapters on judiciary and fundamental rights and justice, freedom and security, thereby reinforcing the focus on the rule of law in the course of negotiations.

The opening of accession negotiations reflected Montenegro's continued progress on key reforms. Montenegro sufficiently meets the political criteria. The legislative and institutional framework and policies have been improved with a view to strengthening the functioning of the parliament, the judiciary, anti-corruption policy, human rights and protection of minorities. The on-going constitutional and public administration reforms have further advanced. Montenegro continued to implement its obligations under the Stabilisation and Association Agreement (SAA) smoothly. It has continued to play a constructive role in the region and to respect its international commitments.

Montenegro needs to invest more effort to further develop a track record in the area of rule of law with the aim of irreversible reform implementation, in particular with respect to organised crime and corruption cases, including at high level. Montenegro needs to complete the process of constitutional change in order to safeguard the independence of the judiciary. Accountability of the judiciary remains an issue of concern. Given the small size of the

Montenegrin administration, putting in place the necessary administrative capacity to implement the *acquis* will also be a cross-cutting challenge.

In line with the new approach and following the invitation of the European Council of December 2011, the Commission already initiated the screening of the chapters on judiciary and fundamental rights and on justice, freedom and security in spring 2012. Screening of the other chapters began in September 2012 and is expected to finish in summer 2013.

The Commission will continue to support Montenegro in implementing EU-related reforms.

Republic of Macedonia

The Republic of Macedonia was granted candidate status in 2005. In 2009, the Commission assessed that the country sufficiently met the political criteria and recommended the opening of negotiations. This recommendation was reiterated by the Commission in 2010 and 2011 and now in 2012. The Commission strongly believes that moving the accession process of this country to its next stage is necessary in order to consolidate the pace and sustainability of reforms, in particular as regards the rule of law, as well as to strengthen inter-ethnic relations. The region as a whole would benefit.

The country continues to fulfil its commitments under the Stabilisation and Association Agreement (SAA). The Commission maintains its proposal to move to the second stage of the association and encourages the Council to act on this without further delay, in line with the relevant provision of the SAA.

The country continues to sufficiently meet the political criteria. The government has put the EU agenda at the centre of its activity. The High Level Accession Dialogue (HLAD) with the Commission served as a catalyst for accelerating reforms and has contributed to substantial progress in a number of key policy areas. The government has submitted proposals to Parliament for improvement of the legislative framework for elections, and, in the area of freedom of expression, for the decriminalisation of defamation. The first government review of the implementation of the Ohrid Framework Agreement provides a useful tool for strengthening inter-community dialogue.

The reform momentum needs to be sustained in all areas of the political criteria in particular to ensure implementation. In particular, the rule of law, including as regards freedom of expression, needs to be strengthened. The roundtable process of dialogue between the government and the Association of Journalists should continue to be a useful forum for addressing key challenges relating to the media. Tension between communities following violent incidents in the first half of 2012 caused concern. The government responded with maturity to this challenge and needs to build on this to further strengthen inter-ethnic relations and reconciliation, also in light of the debate concerning the status of victims of the 2001 conflict.

As we approach the 20th anniversary of the entry of the Republic of Macedonia into the United Nations, the dispute over its name with Greece remains unresolved. A dialogue under the auspices of the UN has been on-going since the 1990s and it is complemented since 2009 by bilateral contacts, including at Prime Ministerial level. However, these processes have so far not yielded any results. In December, the International Court of Justice found that Greece had breached its Interim Accord with the country by objecting to its admission to NATO at the Bucharest Summit in 2008. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential. A solution needs to be found without further delay. Actions and statements which could negatively impact on good neighbourly relations should be avoided.

Serbia

The European Council of March 2012 granted Serbia the status of candidate country.

The stability and functioning of institutions was ensured in the lead up to as well as in the aftermath of elections held at presidential, parliamentary and local level and in Vojvodina. Despite a slowdown of legislative activity in the electoral context, some progress was noted in the implementation of reforms in most areas. Serbia maintained full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). Serbia is implementing smoothly its obligations under the Interim Agreement/Stabilisation and Association Agreement. Results were achieved in the dialogue with Pristina, but implementation of agreements reached was uneven. Two recent developments in this regard are Serbia's signature of the IBM technical protocol and clarification of Serbia's interpretation of the agreement on regional cooperation and representation of Kosovo which, based on initial implementation, is no longer hampering the inclusiveness of regional cooperation. Serbia's new leadership has underlined its commitment to implement all agreements already reached in the dialogue with Pristina as well as to begin tackling the broader political issues. Fulfilment of this commitment is key to moving to the next phase of Serbia's EU integration.

Serbia continues on its way to sufficiently fulfilling the political criteria and the conditions of the Stabilisation and Association process. Serbia needs however to pay particular attention to the rule of law, notably the judiciary where recent setbacks underline the need for renewed commitment to pursue reforms, and ensure its independence, impartiality and efficiency, also taking into account the recent rulings of the Constitutional Court and the need to restore the confidence of citizens following the shortcomings in the judicial reappointment process. Also in light of recent events, special attention must be paid to the rights of vulnerable groups and to the independence of key institutions such as the Central bank. Serbia should also continue to constructively engage in regional cooperation and strengthen relations with neighbouring countries. The momentum of reforms needs to be re-invigorated and further progress made towards a visible and sustainable improvement of relations with Kosovo.

With a view to recommending that negotiations for accession to the European Union should be opened with Serbia, and in line with the Council Conclusions of 5 December 2011, the Commission will present a report as soon as it will have assessed that Serbia has achieved the necessary degree of compliance with the membership criteria and the conditions of the Stabilisation and Association process, and in particular the key priority related to Kosovo, as set out in the Council conclusions. A visible and sustainable improvement in relations between Serbia and Kosovo is needed so that both can continue on their respective paths towards the EU, while avoiding that either can block the other in these efforts.

Albania

The political agreement of November 2011 between ruling majority and opposition marked the end of a long period of political stalemate stemming from the 2009 parliamentary elections. This agreement set out to address electoral and parliamentary reform and to create the political climate for joint reform efforts in other areas. As a result, political dialogue and cooperation has improved considerably allowing for progress in core reform areas. The Presidential elections were conducted in line with the Constitution, but the political process surrounding the elections was not as inclusive as expected. Despite a subsequent temporary slow-down in reforms, the political agreement is being implemented.

Albania has made good progress towards fulfilling the political criteria for membership of the EU, delivering a number of reforms against the twelve key priorities of the Commission's 2010 opinion. Overall, Albania has continued to implement the Stabilisation and Association

Agreement smoothly and to play a constructive role in the region. Albania has met four of the key priorities, namely those concerning the proper functioning of parliament, the adoption of pending laws requiring a reinforced majority, the appointment of the Ombudsman and the hearing and voting processes for key institutions and the modification of the legislative framework for elections.

Albania is well on its way towards meeting the two key priorities regarding public administration reform and improving the treatment of detainees. Good coordination of the EU integration process by government and effective cooperation by the opposition allowed moderate progress on the key priorities covering justice reform and the fight against corruption, by for example reforming the immunity system of public officials and judges and adopting the law on administrative courts. Progress was also achieved in the remaining key priorities concerning fighting organised crime, property reform, as well as anti-discrimination policies, notably women's rights, including some significant steps, notably an increase of seizures of criminal assets, the adoption of a comprehensive strategy on property reform, and amendments to the criminal code strengthening sanctions for domestic violence.

Albania needs to build on progress achieved and take concrete steps to accelerate the fight against corruption and the reform of the judiciary in order to ensure its independence, efficiency and accountability. Reforms in public administration and the judiciary need to be completed and the parliamentary rules of procedure revised. Further attention is needed to implement commitments in the area of human rights including the living conditions of the Roma community. Continuing political dialogue on reform remains necessary in view of ensuring the smooth functioning and further strengthening of the country's democratic institutions. Parliamentary elections in Summer 2013 will be an important test of the new electoral law and of continued cross-party commitment to reform. Maintaining the reform momentum, with particular focus on implementation of legislation and policies in the area of rule of law, will be essential.

Bosnia and Herzegovina

The establishment of the executive and legislative authorities was completed with the agreement on a State-level Government after sixteen months of political stalemate following the October 2010 general elections. The formation of the new Council of Ministers and the adoption of two key EU-related laws initially produced a shift of focus towards EU integration. This momentum was not maintained, however. The political consensus that had emerged was lost and progress on the EU agenda stalled. A reshuffle of State, Federation and Cantonal authorities has begun but remained blocked by political disputes and legal challenges. Bosnia and Herzegovina has made limited progress towards meeting the political criteria. There has been little progress in achieving more functional, coordinated and sustainable institutional structures. Substantial efforts are needed to reinforce the justice sector, in line with the priorities identified in the context of the EU-Bosnia and Herzegovina structured dialogue on justice. Efforts also need to be stepped up in the fight against corruption and organised crime and in pursuing public administration reform.

A shared vision among the political representatives on the overall direction and future of the country and its institutional set-up for a qualitative step forward on the country's EU path remains absent.

The need for an effective coordination mechanism between various levels of government for the transposition, implementation and enforcement of EU laws remains to be addressed as a matter of priority so that the country can speak with one voice on EU matters and make effective use of the EU's pre-accession assistance. To that effect, a High Level Dialogue on the Accession Process (HLDAP) was launched in Brussels on 27 June.

An internal roadmap on EU integration aimed at meeting the conditions for the entry into force of the Stabilisation and Association Agreement (SAA) and for a credible membership application, as defined by the relevant Council Conclusions, was agreed but the timeline for a political agreement to amend the Constitution to comply with the European Court of Human Rights (ECtHR) ruling on ethnic discrimination regarding representation in the institutions of the country (Sejdic-Finci case) by 31 August was not met. In August, three political parties submitted to the Parliamentary Assembly separate but uncoordinated proposals to amend the Constitution. The persistent delay in harmonising the Constitution with the ECtHR's Sejdic-Finci ruling remains an issue of serious concern. To fulfil the country's obligations under the IA/SAA, a credible process must be put in place for addressing the ECtHR decision and the implementation of the country's State Aid obligations is also required.

Bosnia and Herzegovina's governance continues to involve an international presence with an executive mandate. In May, the Peace Implementation Council Steering Board endorsed the decision of the Office of the High Representative to suspend supervision and close the office in Brcko on 31 August following the substantial progress achieved in the implementation of the Brcko Final Award. The Brcko office was subsequently closed on 31 August. The EU opened offices in Brcko, Mostar and reinforced the existing office in Banja Luka.

Following the decoupling of the European Union Special Representative (EUSR) mandate from the Office of the High Representative, the EU has, through its enhanced presence, taken the lead in a number of areas in assisting the authorities to implement the objectives of the EU agenda. In this regard, the EU will continue to strengthen its support for the country's institutions.

Significant further efforts are needed to meet the remaining requirements, to facilitate the transition from a country with an international system of governance and security towards a country with domestic institutions in full ownership of its political and legislative process- in line with the requirements for a country aspiring to become a member of the EU. Overarching these issues is the need for a stable political environment with the EU agenda at the heart of the political process. The political will to reach an agreement based on compromise is key to realising the EU aspirations of the country and its citizens.

Kosovo

In parallel to this Communication, the Commission has adopted a Communication on a Feasibility Study for a Stabilisation and Association Agreement with Kosovo.

4.2. Turkey

Turkey is a key country for the EU, considering its dynamic economy, its strategic location and its important regional role which contribute to the EU's foreign policy and energy security. Turkey is already integrated to a large extent into the EU through the Customs Union and has become a valuable component of Europe's competitiveness. Conversely, the EU remains the key anchor for Turkey's economic and political modernisation. Both sides would benefit from further development of these links.

The potential of the EU-Turkey relationship can be fully tapped only within the framework of an active and credible accession process. The accession process remains the most suitable framework for promoting EU-related reforms, developing dialogue on foreign and security policy issues, strengthening economic competitiveness and increasing cooperation in the field of energy and justice and home affairs. This process must respect the EU's commitments and the established conditionality.

In this context, a positive agenda in the relations with Turkey was launched by the Commission in May 2012 to revive the accession process after a period of stagnation and

bring fresh dynamism to the EU-Turkey relations. The positive agenda is not an alternative to the accession negotiations but rather a way of supporting them. It focuses efforts on areas of common interest such as legislative alignment, enhanced energy cooperation, visa, mobility and migration, Customs Union, foreign policy, political reform, counter terrorism and increased participation in people-to-people programmes. Six of the eight working groups, which have been established under the positive agenda to support alignment with the *acquis*, have come together for their first meeting. Turkey's active support to the positive agenda and its European perspective remains essential. It is in the interest of both the EU and Turkey that accession negotiations regain their momentum, not least to ensure the EU remains the benchmark for reforms in Turkey.

Moreover, the Council invited the Commission to establish a broader dialogue and cooperation framework between the EU and Turkey to address the full range of Justice and Home Affairs policy fields. The Council also invited the Commission to take steps towards visa liberalisation as a gradual and long term perspective, in parallel with the signature of the readmission agreement between Turkey and the EU. After it was initialled in June, it is now crucial that Turkey signs the readmission agreement to allow for implementation of the visa liberalisation roadmap to start.

Given Turkey's further development as potential energy hub and the common challenges it shares with the EU, the Commission and Turkey also decided to enhance their cooperation on a number of important energy issues.

The political dialogue with the EU on foreign and security policy intensified significantly. Developments in Turkey's and the EU's joint neighbourhood confirmed the important role and valuable contribution of Turkey to the EU's foreign policy and energy security. Turkey continued to play a positive role supporting reform movements in countries in North Africa and the Middle East. Cooperation on Syria is intense. Political dialogue meetings, including at Ministerial level, addressed foreign policy issues of common interest to the EU and Turkey, such as North Africa, the Middle East, Western Balkans Afghanistan/Pakistan and the Southern Caucasus.

The Turkish economy continues growing strongly but sizeable external imbalances and significant inflationary pressures remain the largest threats to macroeconomic stability. The high incidence of informal employment, segmented labour markets and the completion of the reform of trade union legislation remain a challenge. The Commission is examining ways to address Turkey's concerns under the Customs Union, including on the Free Trade Agreements concluded by the EU with third countries. At the same time it underlines the desirability to modernise the Customs Union and the need to resolve the irritants which impede trade between Turkey and the EU. The Commission has asked the World Bank to carry out an assessment of the functioning of the Customs Union – with the ultimate objective to modernise it.

The Commission will continue work to implement the positive agenda to lend new dynamism to the accession process and enable a more constructive relationship.

Concerns are growing regarding Turkey's lack of substantial progress towards fully meeting the political criteria. The situation regarding the respect of fundamental rights on the ground continues to be the source of serious preoccupation – despite recent improvements to various legal provisions in this area. There are recurring infringements of the right to liberty and security and to a fair trial, as well as of the freedom of expression, assembly and association, through the disproportionate application of the legislation on terrorism and organised crime. It is important that Turkey addresses all issues regarding the independence, impartiality and efficiency of the judiciary. Further restriction of the freedom of the media in practice and the

growing number of court cases against writers and journalists remain serious issues. As a consequence, self-censorship is increasingly widespread. The Commission welcomes the commitment of the Turkish government to present swiftly the fourth judicial reform package and calls for it to address all the core issues which are presently affecting the exercise of freedom of expression in practice.

In addition, the Kurdish issue remains a key challenge for Turkey's democracy and a political solution is urgently required. Overall, Turkey still needs to devote significant further efforts to reach the highest standards of democracy and human rights. The on-going work on a new Constitution provides an important opportunity in this respect.

Terrorist attacks by the PKK, which is on the EU list of terrorist organisations, intensified significantly, in particular over the past few months. Terrorist attacks were strongly and repeatedly condemned by the EU. The EU and Turkey maintain an active counter-terrorism dialogue, and the fight against terrorism is an important aspect of the positive agenda for Turkey.

Turkey has frozen its relations with the rotating *Presidency* of the Council of the EU during the second half of 2012, including by refusing to attend any meeting chaired by the Cyprus Presidency. The Commission reiterates its serious concerns with regard to Turkish statements and threats and calls for full respect of the role of the Presidency of the Council, which is a fundamental institutional feature of the EU provided for in the Treaty.

Talks under the auspices of the UN Secretary General to find a comprehensive settlement to the Cyprus issue reached a deadlock in spring 2012. A comprehensive settlement is in the interest of all sides since it would enhance stability in the Southeast Mediterranean, offer new economic opportunities to Member States and Turkey and give a strong boost to Turkey's EU accession negotiations. Turkey is therefore called upon to engage positively with all parties in order to facilitate a successful completion of the process.

The EU has also stressed all the sovereign rights of EU Member States which include entering into bilateral agreements, and exploring and exploiting their natural resources, in accordance with the EU *acquis* and international law, including the UN Convention on the Law of the Sea. In line with the repeated Council and Commission positions from previous years, the Commission reiterates that it is urgent that Turkey fulfils its obligation of fully implementing the Additional Protocol and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. It also urges the avoidance of any kind of threat, source of friction or action that could damage good neighbourly relations and the peaceful settlement of disputes. The EU will continue to follow up and review progress made on these issues in accordance with the relevant Council decisions.

Turkey needs to step up efforts to solve open bilateral issues, including border disputes, with its neighbours. A substantial number of formal complaints about violations of territorial waters and airspace by Turkey were made by Greece and Cyprus.

4.3. Iceland

Iceland's accession remains a matter of mutual benefit. The EU's common interests with Iceland are growing, including in the fields of renewable energy and climate change and in view of the strategic importance of the EU's Arctic policy. The EU will be enriched by Iceland's strong democratic credentials.

Accession negotiations with Iceland are progressing well, with an overall good level of alignment with the EU *acquis*, due to membership of the European Economic Area (EEA) and full participation in Schengen since 2001. More than half of the negotiating chapters have now been opened out of which 10 have been provisionally closed. EU accession remains an

issue of lively public debate in Iceland. The Commission will continue to provide support to communication activities in this regard and to people-to-people contacts. The Commission is confident that the EU will be able to present a package for the negotiations which takes Iceland's specificities and expectations into account, within the agreed framework for the accession negotiations, while fully safeguarding the principles and *acquis* of the Union. This will also allow, in due course, for a fully informed decision of the Icelandic people.

Iceland continues to meet the political criteria. It is a well-functioning democracy with strong institutions and deeply rooted traditions of representative democracy. The country's judicial system is of a high standard, and Iceland ensures the continuous strengthening of its already high level of protection on fundamental rights.

Following a deep and long recession, economic recovery has taken hold with good growth in 2011-12 and improvements of its macro-economic conditions.

Overall, Iceland's track record in implementing its EEA obligations remains largely satisfactory. Some shortfalls are to be noted in areas such as financial services, food safety and free movement of capital. Temporary restrictions to free capital movements adopted in the aftermath of the 2008 financial crisis remain in place. The EFTA Surveillance Authority (ESA) initiated proceedings against Iceland at the EFTA Court in a case concerning Icesave.

5. SUPPORTING AND ASSISTING THE ENLARGEMENT COUNTRIES

5.1. *Financial assistance*

The Commission supports the enlargement countries in their preparation for accession by providing financial and technical support through a dedicated financial instrument, the Instrument for Pre-Accession Assistance (IPA). For the period 2007-2013, IPA funds amounted to €11.6 billion. Key results have included increased capacity and reforms in the beneficiary countries in the areas of rule of law, justice and home affairs, public administration reform, fundamental rights and civil society development and dialogue. These contributed inter alia to the successful conclusion of Croatia's EU accession negotiations and the opening of accession negotiations with Montenegro in June 2012. Investments in economic, social and rural development are being supported, as is regional cooperation in the Western Balkans. Examples of specific project support include training to police in Montenegro in the field of organised crime and corruption, running a grant scheme supporting women's employment in Turkey and funding the rehabilitation of railways on European Corridor X in Croatia, providing an interface with the Serbian railway.

For the next multi-annual financial framework 2014-2020, the Commission has proposed a financial allocation of €14.1 billion under the new IPA II instrument, a similar level of funding in constant prices compared to the current financial framework.

The Commission made its proposal for the new IPA II regulation in December 2011 as part of the package of instruments for the next Multiannual Financial Framework. Improved strategic focus of pre-accession financial assistance through the establishment of stronger linkages with the priorities identified in the enlargement strategy as well as multi-annual planning are among the main innovations of IPA II. The improved strategic planning of IPA assistance will be reflected in the Common Strategic Framework and in single country (or multi-country) strategy papers spanning the full period of the next financial framework and covering more coherently a limited number of policy areas that will replace today's 'components'. To this end, a performance element will be introduced and clear assistance-related *targets* with realistic indicators will be set in the country and multi-country strategy papers. The performance element will make it possible to reward countries with good performance and will enhance the flexibility to re-allocate funds also in case of underperformance. Moreover,

under IPA II, both candidate countries and potential candidates will have access to the same types of support, which will be determined primarily by their needs and capacities as well as by their record of results in using pre-accession assistance.

At the level of operational programmes and like for other EU external instruments, *co-financing of sector strategies* agreed with the beneficiary countries will be reinforced, as opposed to financing of individual projects, thus increasing the share of assistance funded through support at sector level (including sector budget support for selected policy areas). More systematic *multi-annual programming* will also apply to the assistance for transition and institution-building (e.g. public administration reform; reform of justice systems etc.), hence supporting the effective implementation of the related sector strategies. The aim is to use EU funds to lever large-scale reforms in a way that delivers better value for money in preparing countries for membership than can be achieved through individual, isolated projects.

The two main objectives of IPA are to support the accession process and the socio-economic development of the beneficiaries.

Strengthening democratic institutions and the rule of law, public administration reform and good governance will remain a key focus of future pre-accession assistance in all beneficiary countries, as well as the fight against corruption and organised crime, development of civil society and promoting and protecting human rights and fundamental freedoms. As a corollary of the 'new approach' to chapters 23 and 24 and given the longer-term nature of reforms pursued in these areas and the need to build-up track-records of implementation before accession, IPA II assistance will address the requirements of the beneficiary countries in these domains from an early stage.

Assistance will also be provided to support economic and social development, regional cooperation and territorial cooperation (cross-border, trans-national and interregional cooperation actions). Support to economic and social development will address issues such as the development of physical capital; the improvement of connections with the EU and regional networks; fostering employment and developing human capital; social and economic inclusion.

Financial support will require enlargement countries to adopt comprehensive and sustainable policies and strategies in priority sectors such as justice and home affairs, public administration, private sector development, transport, energy, environment and climate change, social development, agriculture and rural development. An expected outcome of this process is to secure stronger local ownership and broad consensus on these strategies, improving IPA beneficiary countries' capacity to plan, implement and monitor their implementation and to integrate this into their broader preparations for EU membership.

5.2. *Benefits of closer integration before accession*

Considerable benefits are available today to citizens of enlargement countries, even before actual accession. Through participation in EU programmes, civil society and other initiatives, visa-free travel, and trade through the Stabilisation and Association Agreements, citizens are being brought closer to the EU.

Participation in EU programmes is available to most candidate countries and potential candidates, with a proposal to extend this possibility also to Kosovo made by the Commission in the course of 2012. Such participation familiarises these countries with EU policies and working methods and allows for progressive integration into EU networks. For example, increasing numbers of students are taking up the opportunity to participate in Erasmus or the

Erasmus Mundus programmes and scientists and researchers from the region are working together with EU counterparts through the 7th research framework.

Visa-free travel to the EU is one of the most visible benefits of closer EU integration for citizens of the enlargement countries. Iceland is already part of the Schengen area. In the Western Balkans, Croatian citizens have already enjoyed visa-free travel to the whole EU for some time. Citizens of the Republic of Macedonia, Montenegro and Serbia were granted visa-free travel to the Schengen Area in December 2009 and the same status was granted one year later to the citizens of Albania and Bosnia and Herzegovina.

These recent decisions were based on these countries fulfilling a number of requirements set out in the context of Commission-led visa liberalisation dialogues. The dialogues acted as a strong incentive for reforms towards reaching EU-standards in the justice and home affairs area, and in terms of strengthening the rule of law and combating transnational organised crime, corruption and illegal migration. In light of subsequent developments pointing to some abuse of the visa-free regime and asylum system, the Commission set up, as of January 2011, a post-visa liberalisation monitoring mechanism, which has led to strengthened controls on the ground. The number of unfounded asylum applications remains high in some EU Member States, which will require continued, targeted measures by each country in the region. More generally, new proposals to allow for temporary suspension of existing visa-free regimes with a third country in case of a sudden influx of persons have been adopted.

In January 2012 the Commission launched a visa liberalisation dialogue with Kosovo.

The EU and Turkey have intensified their cooperation on visa and migration issues. An EU-Turkey Readmission Agreement was initialled. Its swift signature and effective implementation are of crucial importance, also in view of further steps towards visa liberalisation as a gradual and long term perspective.

The EU continues to provide extensive support to civil society organisations (CSOs) in enlargement countries principally through the Civil Society Facility (CSF). This helps CSOs to strengthen their capacities and professionalism, encourages networking at all levels – EU, national regional - 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.

Civil society activities are essential for a mature democracy, the respect for human rights and the rule of law. A vibrant civil society contributes to enhancing political accountability, deepening understanding and inclusiveness of and support for accession related reforms and supporting reconciliation in societies divided by conflict. Montenegro has taken step to associate CSOs in the preparation of accession negotiations. In most enlargement countries, civil society has continued to develop. In some cases, a culture of acceptance of CSOs needs to be better nurtured, and a more enabling environment and the conditions for improved policy dialogue put in place. Issues surrounding funding remain, including in terms of government support and sustainability. While IPA support is addressing these issues under the CSF, changes foreseen under the Financial Regulation will allow the Commission to cooperate with larger CSOs in the region to provide smaller grants to local grass-roots organisations, thus allowing improved democratic control and issues of more direct concern for citizens to be addressed.

5.3. *Information and communication*

Enlargement policy and in particular the accession of new Member States needs public understanding and support in order to be successful and sustainable. This is challenging in an environment where, notably in the context of the on-going financial and sovereign debt crisis,

the role of public bodies, including the European Union, is increasingly questioned. The Commission believes that to respond to these challenges the enlargement process needs to be more transparent, coherent and credible for citizens and key stakeholders both in the Member States and in enlargement countries. As in other policy areas, the public expects to see tangible evidence of the effectiveness of EU enlargement and its transformational power for those countries concerned as well as the added value for the EU as a whole.

Even more so than in the past, all EU institutions will therefore have to provide information about the enlargement process, the countries involved and its implications for the EU, contributing to an informed public debate on enlargement. Unfounded myths or fears about the enlargement process need to be dispelled, while legitimate concerns of citizens will have to be answered.

Member States and enlargement countries have the main role in the information and communication efforts towards their citizens, with government messages for their national debates needing to complement communication from the EU institutions. Member States need to inform and explain to their national audiences the decisions they collectively take in EU bodies on enlargement issues. Political leaders in enlargement countries need to explain how the decisions they take on reforms are related not only to the accession process but are inherently valuable for the better functioning of the State. This can help to gain back support in countries where the gap has widened between government policy and citizens' views on EU enlargement. It can also build the broad public support for reform which is required to enable enlargement countries to meet the strict but fair conditions for EU membership.

6. CONCLUSIONS AND RECOMMENDATIONS

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

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1. Through its enlargement policy, the EU has, since its inception, responded to the legitimate aspiration of the peoples of our continent to be **united in a common European endeavour**. From an original six, the EU is due to welcome Croatia as its 28th member on 1 July 2013.
2. At a time when the EU faces major challenges and significant global uncertainty and gains new momentum for economic, financial and political integration, enlargement policy continues to contribute to **peace, security and prosperity** on our continent. The imminent accession of Croatia, the start of accession negotiations with Montenegro and candidate status for Serbia send a strong signal of the **transformative power** of enlargement and what is possible in an area riven by war just half a generation ago. Enlargement to southeast Europe helps avoid the far higher costs of dealing with the consequences of instability. It is an investment in sustainable democracy and demonstrates the EU's continued capacity as a global actor.
3. The challenges facing the Eurozone together with the recent global financial crisis have highlighted the interdependence of national economies both within and beyond the EU. They underline the importance of further **consolidating economic and financial stability** and fostering reforms and growth, also in the enlargement countries. The enlargement process is a powerful tool to that end.
4. Within a framework of strict but fair **conditionality** where the principle of own merits is key, the prospect of accession drives political and economic reforms, transforming societies, consolidating the rule of law and creating new opportunities

for citizens and business. At a time of economic stagnation, it mitigates the risk of resistance to essential reforms.

5. **The credibility** of the enlargement process is crucial to its success. Maintaining the momentum for enlargement as well as for reforms are two sides of the same coin. The renewed consensus on enlargement, agreed by the European Council, remains the basis for the EU's enlargement policy. Enlargement is by definition a gradual process, based on solid and sustainable implementation of reforms by the countries concerned. Enlargement policy has been adjusted based on the lessons learned from successive accessions to ensure the smooth integration of new Member States and to better address the needs of countries in transformation, particularly in the rule of law area.
6. **Strengthening the rule of law and democratic governance is central to the enlargement process.** With the Council's endorsement of the Commission's proposed new approach to negotiations on judiciary and fundamental rights and on justice, freedom and security, the rule of law, including common challenges such as the fight against organised crime and corruption, is firmly anchored at **the heart of enlargement policy**. Accession negotiations on these chapters will be opened early in the process and closed at the end to allow maximum time for solid track records to be developed with the aim of irreversibility of reforms. The Commission will continue to prioritise rule of law issues also well before accession negotiations begin, including through structured dialogues and sector support under IPA II.
7. In a number of countries, **freedom of expression** remains a serious concern. In view of the challenges that persist in this area, the Commission will continue to prioritise this issue in the accession process. The Commission plans to hold a follow-up in the first half of 2013 to the May 2011 'Speak Up!' conference. This event should bring together media and civil society stakeholders from the Western Balkans and Turkey. The results and follow-up of this conference will be taken into account in the Commission's monitoring and reporting. The Commission will continue to work closely with the European Parliament in this area.
8. In many areas country-specific approaches to dealing with difficult situations, including blockages in the accession process, are necessary. The Commission has launched inter alia a **positive agenda** with Turkey and a number of **high level and structural dialogues** in the Western Balkans. Such initiatives are already injecting momentum into reforms. They do not replace accession negotiations but form a bridge to them. The Commission is committed to this form of engagement and will continue to focus on key areas such as the rule of law, democratic governance and economic reforms.
9. **Regional cooperation** and good neighbourly relations are essential elements of the Stabilisation and Association process. Issues stemming from past conflicts, including war crimes, refugee return, the treatment of minorities and ensuring equal rights for all citizens remain key challenges to stability in the Western Balkans and need to be urgently addressed. Progress in regional fora and the inclusiveness of regional cooperation needs to be enhanced. Disputes related to inter-ethnic or status issues can be successfully addressed through dialogue and compromise.
10. In the spirit of **good neighbourly relations**, bilateral issues need to be addressed by the parties concerned as early as possible during the enlargement process, with determination, taking into account the interests of the EU as a whole. Bilateral issues should not hold up the accession process. The Commission urges parties to make

every effort towards solving outstanding disputes in line with established principles and means, including referring issues as appropriate to the International Court of Justice or other existing or ad hoc dispute settlement bodies. The context of accession negotiations can generate stronger political impetus for the resolution of disputes. The Commission stands ready to facilitate the search for solutions.

11. **Strengthening economic recovery** in the enlargement countries is paramount. Unemployment continued to rise and the majority of economies of the Western Balkans are contracting again. The Turkish economy continued to grow, albeit at a lower level than before. Recovery started in Iceland in 2011 and continued this year. The EU is committed to continue assisting the countries with policy advice and financial assistance. The Western Balkans Investment Framework will be used to help prepare and support, in close cooperation with the international financial institutions, those investments most needed for boosting growth and jobs. The Commission will also continue associating enlargement countries with the Europe 2020 strategy.
12. In view of the far reaching changes to the **economic governance of the EU** underway, the Commission will continue to inform and further associate enlargement countries to this process. It will gradually adapt in this respect the existing economic surveillance of enlargement countries and examine the possibility of more targeted use of SAA meetings to tackle the issues of competitiveness and employment.
13. In December 2011, the Commission made its proposal for the **new IPA II regulation** for the period of the multi-annual financial framework 2014-2020. IPA II aims to ensure a closer link with the priorities of the enlargement strategy, including strengthening democratic institutions and the rule of law and more focus on socio-economic development. It will provide for reinforced support to sector strategies, with increased flexibility and simplified procedures.
14. Considerable benefits are available today to citizens of enlargement countries with **trade through the SAAs, visa-free travel** and participation in **Community programmes**. In January 2012 the Commission launched a visa liberalisation dialogue with Kosovo. An EU-Turkey Readmission Agreement has been initialled. Its swift signature and effective implementation is now required, also in view of further steps towards visa liberalisation. At the same time, countries should reinforce measures to tackle abuse of visa-free travel.
15. Enlargement policy needs public understanding and support in order to be successful and sustainable. Member States and enlargement countries have the main role in the **information and communication** efforts towards their citizens. It is essential to foster understanding and informed debate on the impact of enlargement policy, particularly at a time when the EU is facing major challenges. The Commission for its part will continue to provide information about the enlargement process, contributing to an informed public debate on enlargement.
16. The enlargement process is by its very nature **inclusive** and necessitates wide stakeholder participation. In the enlargement countries, broad political consensus and support of the population for the reforms required contributes significantly to the transformation necessary for progress on the EU path. Also, the Commission will continue to provide support through the **Civil Society Facility**, with a greater focus on smaller grants to local grass-roots civil society organisations.

II

17. **Croatia:** In parallel to this Communication, the Commission has adopted a Communication on the main findings of the comprehensive monitoring report on Croatia's state of preparedness for EU membership. The Commission concludes that Croatia has continued to make progress in adopting and implementing EU legislation and is now completing its alignment with the *acquis*. The Commission has nonetheless highlighted areas where further efforts are still necessary and a limited number of issues where increased efforts are required in the coming months. This concerns in particular the areas of competition policy, judiciary and fundamental rights – especially judicial efficiency - and justice, freedom and security. It is essential that Croatia sharpens its focus to ensure that its preparations are completed on time and that this can be reflected in the Communication on a final monitoring report on Croatia's accession preparations to be presented by the Commission in spring 2013.
18. **Montenegro:** The political criteria continue to be sufficiently met. The opening of accession negotiations in June 2012 reflected its continued progress on key reforms. The screening process has begun and is expected to finish in summer 2013. The accession negotiations integrate the new approach for the chapters on judiciary and fundamental rights and justice, freedom and security, thereby reinforcing the focus on the rule of law. During the negotiations Montenegro will need to further develop a track record in this area with the aim of irreversible reform implementation, in particular with respect to the fight against organised crime and corruption, including at high-level.
19. **Republic of Macedonia:** The political criteria continue to be sufficiently met. The government has put the EU agenda at the centre of its activity. The High Level Accession Dialogue with the Commission served as a catalyst for accelerating reforms and has contributed to substantial progress in a number of key policy areas. The reform momentum needs to be sustained in all areas in particular to ensure implementation. Focus on the rule of law, including as regards freedom of expression, and on inter-ethnic relations and reconciliation needs to be maintained.
- The Commission recommends for a fourth time that accession negotiations be opened with the Republic of Macedonia. The Commission believes that moving the accession process of this country to its next stage is necessary in order to consolidate the pace and sustainability of reforms, mitigating the risk of any reversal in this process, as well as to strengthen inter-ethnic relations. It will also bolster the credibility of the EU and act as an encouragement to reform efforts elsewhere in the region.
- The Commission underlines that maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.
- A decision of the European Council to open accession negotiations would contribute to creating the conditions conducive to finding such a solution. In this respect, the Commission is ready to present without delay a proposal for a negotiating framework, which also takes into account the need to solve the name issue at an early stage of accession negotiations. In this regard, account will be taken of previous frameworks and notably the principles of the new approach endorsed by the Council in December 2011. The above approach requires intense political engagement from all sides in advance of the European Council.

20. **Serbia:** The European Council of March 2012 granted Serbia the status of candidate country. Serbia continues on its way to sufficiently fulfilling the political criteria and the conditions of the Stabilisation and Association process. Serbia needs however to pay particular attention to the rule of law, notably the judiciary where recent setbacks underline the need for renewed commitment to pursue reforms, and ensure its independence, impartiality and efficiency, also taking into account the recent rulings of the Constitutional Court. Also in light of recent events, special attention must be paid to the rights of vulnerable groups and to the independence of key institutions such as the Central Bank. Serbia should also continue to constructively engage in regional cooperation and strengthen relations with neighbouring countries. The momentum of reforms needs to be re-invigorated and further progress made towards a visible and sustainable improvement of relations with Kosovo. Two recent developments in this regard are Serbia's signature of the IBM technical protocol and clarification of Serbia's interpretation of the agreement on regional cooperation and representation of Kosovo, which, based on initial implementation, is no longer hampering the inclusiveness of regional cooperation.

In line with the Council Conclusions of 5 December 2011 as endorsed by the European Council of 9 December 2011 on the conditions for opening accession negotiations with Serbia, the Commission will present a report as soon as it will have assessed that Serbia has achieved the necessary degree of compliance with the membership criteria, in particular the key priority of taking steps towards a visible and sustainable improvement of relations with Kosovo. The Commission calls on Serbia to implement in good faith all agreements reached to date and to engage constructively on the full range of issues with the facilitation of the EU.

A visible and sustainable improvement in relations between Serbia and Kosovo is needed so that both can continue on their respective paths towards the EU, while avoiding that either can block the other in these efforts. This process should gradually result in the full normalisation of relations between Serbia and Kosovo with the prospect of both able to fully exercise their rights and fulfil their responsibilities within the EU. Addressing the problems in northern Kosovo, while respecting the territorial integrity of Kosovo and the particular needs of the local population, will be an essential element of this process.

The Commission underlines that the steps leading to the normalisation of relations between Belgrade and Pristina should also be addressed in the context of the framework for the conduct of future accession negotiations with Serbia.

The Commission underlines the importance of this comprehensive approach being pursued with determination by the parties with the full support of the EU.

21. **Albania:** Improved dialogue between government and opposition, especially after the November 2011 agreement, has allowed Albania to make good progress towards fulfilling the political criteria for membership of the EU. Albania has delivered on a number of substantial reforms against the 12 key priorities which were identified by the Commission in its 2010 Opinion and have to be met in view of opening accession negotiations with the European Union. Albania has met four of the key priorities, namely those concerning the proper functioning of parliament, the adoption of pending laws requiring reinforced majority, the appointment of the ombudsman and the hearing and voting processes for key institutions and the modification of the legislative framework for elections. Albania is well on its way towards meeting the two key priorities regarding public administration reform and improving the

treatment of detainees. Progress against the remaining key priorities included some significant steps, notably the adoption of the law on administrative courts, lifting of immunities for high-level public officials and judges, increase of seizures of criminal assets, the adoption of a comprehensive strategy on property reform, and amendments to the criminal code strengthening sanctions for domestic violence.

In view of this progress, the Commission recommends that the Council should grant Albania the status of a candidate country subject to completion of key measures in the areas of judicial and public administration reform and revision of the parliamentary rules of procedure. The Commission will report to the Council as soon as the necessary progress has been achieved. In its report, the Commission will also take into account the commitment demonstrated by Albania to fight corruption and organised crime, including by pro-active investigations and prosecutions of such cases.

In order for the Commission to recommend the opening of accession negotiations, it would need in particular to see sustained implementation of commitments already undertaken and completion of the remaining key priorities which have not been met in full. A particular focus is required on: conducting elections in line with European and international standards; strengthening the independence, efficiency and accountability of judicial institutions; determined efforts in the fight against corruption and organised crime, including pro-active investigations and prosecution; effective measures to reinforce the protection of human rights and antidiscrimination policies; and, implementation of property rights. The successful conduct of Parliamentary elections in 2013 will be a crucial test of cross-party commitment to the new electoral reform and a pre-condition for any recommendation to open negotiations. Sustainable political dialogue and continued efforts in all the areas covered by the key priorities will remain essential to implement reform and secure Albania's EU future.

22. **Bosnia and Herzegovina:** Limited progress has been made towards meeting the political criteria and achieving more functional, coordinated and sustainable institutional structures. Within the framework of the Stabilisation and Association Process, Bosnia and Herzegovina continued to engage constructively with the EU on a Structured Dialogue on Justice.

The High level Dialogue on the Accession Process launched in June is the key forum for engagement on requirements for the EU integration process. In this respect, the Commission regrets that the results so far remain below expectations. A shared vision among the political representatives on the overall direction and future of the country and its institutional set-up remains absent. Meeting the conditions for the entry into force of the SAA and for a credible EU membership application remains a matter of priority, as does the establishment of an effective coordination mechanism between various levels of government so that the country can speak with one voice on EU matters. The Commission will continue to engage with the authorities of the country. However, the country's leaders need to demonstrate the political will to reach consensus and to realise with concrete actions the EU aspirations of the country and its citizens.

Following the decoupling of the European Union Special Representative (EUSR) mandate from the Office of the High Representative, the EU has, through its enhanced presence, taken the lead in a number of areas to assist the authorities to

implement the objectives of the EU agenda. In this regard, the EU will continue to strengthen its support for the country's institutions.

23. **Kosovo:** In parallel to this Communication, the Commission has adopted a Communication on a Feasibility Study for a Stabilisation and Association Agreement with Kosovo. This study confirms that an SAA can be concluded between the EU and Kosovo in a situation where EU Member States maintain different views on status. The Commission will propose negotiating directives for an SAA once Kosovo has made progress in meeting a number of short term priorities. It is essential that Kosovo continues implementing in good faith all agreements reached between Belgrade and Pristina to date and that it engages constructively on the full range of issues with the facilitation of the EU.

A visible and sustainable improvement in relations between Kosovo and Serbia is needed so that both can continue on their respective paths towards the EU, while avoiding that either can block the other in these efforts. Addressing the problems in northern Kosovo, while respecting the particular needs of the local population, will be an essential element of this process.

24. **Turkey:** Turkey is a key country for the EU, considering its dynamic economy, its strategic location and its important regional role. The Commission underlines the importance of the on-going cooperation and dialogue on foreign policy issues of common interest to the EU and Turkey, such as North Africa, and the Middle East.

The potential of the EU-Turkey relationship can be fully tapped only within the framework of an active and credible accession process which respects the EU's commitments and the established conditionality. It is in the interest of both the EU and Turkey that accession negotiations regain their momentum, not least to ensure the EU remains the benchmark for reforms in Turkey. The Commission therefore believes it is important that, in line with established procedures and relevant Council conclusions, work resumes on negotiating chapters interrupted over a number of years due to the lack of consensus amongst Member States.

To revive the accession process and bring fresh dynamism to EU-Turkey relations, the Commission will continue to implement the positive agenda in the relations with Turkey launched in May 2012 and which is already delivering its first results. Turkey's active support to the positive agenda and its European perspective remains essential.

Concerns are growing regarding Turkey's lack of substantial progress towards fully meeting the political criteria. The situation regarding the respect for fundamental rights on the ground, including freedom of expression, continues to be a source of serious preoccupation – despite recent legislative improvements. It is important that Turkey addresses all issues regarding the independence, impartiality and efficiency of the judiciary. The Commission welcomes the commitment of the Turkish government to present swiftly the fourth judicial reform package and calls for it to address all the core issues which are presently affecting the exercise of freedom of expression in practice.

Turkey has frozen its relations with the rotating *Presidency* of the Council of the EU during the second half of 2012. The Commission reiterates its serious concerns with regard to Turkish statements and threats and calls for full respect of the role of the Presidency of the Council.

The EU has also stressed all the sovereign rights of EU Member States which include entering into bilateral agreements, and exploring and exploiting their natural resources, in accordance with the EU *acquis* and international law, including the UN Convention on the Law of the Sea. In line with the repeated Council and Commission positions from previous years, the Commission reiterates that it is urgent that Turkey fulfils its obligation of fully implementing the Additional Protocol and makes progress towards normalisation of bilateral relations with the Republic of Cyprus. This could provide new momentum to the accession process. In the absence of progress in these areas, the Commission recommends that the EU maintains its measures from 2006. It also urges the avoidance of any kind of threat, source of friction or action that could damage good neighbourly relations and the peaceful settlement of disputes.

Turkey is encouraged to increase in concrete terms its commitment and contribution to the talks under the good offices of the UN Secretary General to find a comprehensive settlement to the Cyprus issue.

25. As regards the **Cyprus issue**, the negotiations on a comprehensive settlement between the leaders of the Greek Cypriot and Turkish Cypriot communities under the auspices of the United Nations have reached a standstill. It is necessary to re-launch the negotiations with the aim of reaching a swift conclusion of the talks, building on the progress achieved to date. This will require creating a positive climate that will facilitate the completion of the process and preparing the public for the necessary compromises. The Commission stands ready to continue providing strong political support and technical advice on issues within EU competence.
26. **Iceland:** The EU's common interests with Iceland are growing, including in the fields of renewable energy and climate change and in view of the strategic importance of the EU's Arctic policy. Accession negotiations with Iceland are progressing well. EU accession remains an issue of lively public debate in Iceland. The Commission is confident that the EU will be able to present a package for the negotiations which takes Iceland's specificities into account and safeguards the principles and *acquis* of the EU, allowing also, in due course, for a fully informed decision of the Icelandic people.

ANNEX

Conclusions on Montenegro, the Republic of Macedonia, Serbia, Albania, Bosnia and Herzegovina, Turkey and Iceland

Montenegro

Montenegro sufficiently meets the **political criteria** for membership of the EU. The legislative and institutional framework and policies have been improved with a view to strengthening the functioning of the parliament, the judiciary, anti-corruption policy, human rights and protection of minorities. The on-going constitutional and public administration reforms have further advanced. The track record on law enforcement has developed further. Efforts need to be pursued in the area of rule of law, in particular to finalise the on-going constitutional reform aimed at strengthening judicial independence and to further develop the track record of implementation, notably in the fight against corruption and organised crime. Montenegro has continued to play a constructive role in the region, to respect its international commitments and the conditions of the Stabilisation and Association Process.

As regards *democracy and rule of law*, Montenegro achieved progress in strengthening the legislative and oversight role of the *parliament*, including on rule of law matters. Implementation of recently adopted legislation on elections has started, and the administrative and expert capacity of the parliament has been reinforced. Transparency has improved and stand-alone committees on European integration and on anti-corruption have been provided for. Efforts undertaken to enhance the parliament's legislative and oversight capacity need to be pursued.

The *government* policy-making has further improved. The structures for the accession negotiations are gradually being set up and include representatives of the civil society. The administrative capacity for the coordination of European integration, including financial assistance, needs to be further strengthened to meet the requirements of the accession negotiations. The overall capacity of ministries to produce high-quality legislation and impact assessments needs to be enhanced. As regards local government, further efforts are needed to implement recent legislation and to establish a transparent, efficient and accountable administration.

Montenegro has taken further steps to address the challenges of *public administration reform*. The legislative framework and the implementation of the recent legislation need to be improved, in a financially sustainable manner and with adequate verification mechanisms. The capacity of the Ombudsman has been reinforced but needs to be further enhanced.

Some progress has been made with regard to the *judicial system*. Implementation of recently adopted legislation has started. Progress has been made with regard to the publication of court rulings and the case backlog. The process of constitutional reform to strengthen the independence of the judiciary in line with European standards remains uncompleted. Further efforts are needed to ensure merit based appointments and career development, as well as to strengthen accountability and integrity safeguards within the judiciary.

Some progress has been made in the area of *anti-corruption*. Implementation of recently-adopted legislation in the key areas of political party financing, prevention of conflict of interest and public procurement has started. The capacity of the supervisory institutions, in particular the State Election Commission, the State Audit Institution and the Commission for the Prevention of Conflict of Interest, needs to be enhanced. Montenegro has further developed its track record of investigations, prosecutions and convictions in corruption cases., but their number remains low and there are still no seizure or confiscation of assets ordered

for corruption offences. Corruption remains widespread and continues to be a serious cause for concern, hindering law enforcement investigations of organised crime.

Progress has been made in the area of the *fight against organised crime*. The track record has continued to develop, but needs to advance further. Tackling organised crime through all means of the legal system present particular challenges for the country. Regional and international cooperation was reinforced through the signature of agreements and joint operations. Still, the results achieved, including the administrative capacities and interagency cooperation in the field of organised crime have to be pro-actively consolidated, particularly in the field of financial investigations, while the legal framework needs to be completed. A national criminal intelligence system still remains to be established. Its lack hampers the effectiveness of the law enforcement bodies, which has to be enhanced. Prosecutor's leading role in investigations still needs to be strengthened. Increased efforts are required in the fight against money laundering and trafficking in human beings, including to identify and reintegrate victims.

Montenegro continued to improve the existing legal and institutional framework for the protection of *human rights and protection of minorities*. The authorities, including at the highest level, showed a more positive attitude towards human rights. The completion of the relevant legislative and institutional framework need to continue, and the administrative and financial capacities in this field need to be strengthened, including those of the state prosecutor and of the Ombudsman.

Good progress was made in improving the legal and administrative framework for *civil and political rights* in Montenegro, and enforcing them. The Ombudsman's power to act against ill-treatment needs to be enhanced, and living conditions in prisons require improvement. Efforts to investigate and prosecute old cases of violence against journalists need to be stepped up.

Montenegro has made progress on *social and economic rights*, by consolidating the relevant legal and institutional framework. The more positive attitude of the authorities has contributed to the promotion of these rights, but additional financial allocations, and skilled human resources, need to be deployed to enforce them. The handling of violations of social and economic rights needs to improve.

Montenegro made progress in the *protection of minorities and cultural rights*. The adoption of the Strategy to improve the situation of the Roma, Ashkali and Egyptian population and the relevant Action Plan are positive developments to this end, but the inclusion of the Roma, Ashkali and Egyptians needs to be improved, in particular through the implementation of the relevant policy documents, as they still face discrimination. Progress in granting legal status to displaced persons has continued, but there are still gaps in access to economic and social rights for these people.

Regarding *regional issues and international obligations*, Montenegro continues to satisfy the Stabilisation and Association Process conditionality on cooperation with the ICTY and regional cooperation. Certain bilateral issues with neighbouring countries are still unsolved, especially in the area of border demarcation.

Significant progress has been made as regards the Sarajevo Declaration Process. Bosnia and Herzegovina, Croatia, Montenegro and Serbia continued to cooperate on finding sustainable solutions for the refugees who were displaced as a result of the armed conflicts in the 1990s. The four countries signed a ministerial declaration and agreed on a Regional Housing Programme assisting some 27,000 households or 74,000 individuals. At an international donors' conference held in Sarajevo in April 2012 some €265 million was pledged in support

of the programme. Good cooperation needs to continue on all outstanding issues in the process.

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. Montenegro needs to align with the EU position.

After a moderate recovery in 2011, the **economy** of Montenegro decelerated in the first half of 2012. Domestic demand remains subdued due to weak credit growth and still large private sector debt overhang. In the absence of standard monetary policy tools² the economic policy has continued to be oriented towards reinforcing economic and financial stability through the pursuit of fiscal consolidation and structural reforms. However, contingent liabilities from state guarantees have become a significant risk for the stability of public finances. Unemployment remains high while shortcomings concerning the rule of law, human resources and infrastructure persist.

As regards the **economic criteria**, Montenegro has made some further progress towards a functioning market economy. However, the unfinished restructuring of the metal industry, widespread liquidity problems and weak labour market conditions still impede an efficient allocation of resources. The country should be able to cope with competitive pressures and market forces within the Union over the medium term, provided that it continues to address current weaknesses through appropriate macroeconomic policies and structural reforms.

Macroeconomic stability has been broadly maintained. The banking sector is still recovering, with deposits gradually flowing back into the system. Further improvements have been made in market entry procedures and bankruptcy recovery. The efficiency of civil enforcement of claims has improved. Liberalisation of telecom and energy industries has facilitated the opening of their respective markets and their regulators have become more assertive. Participation in EU research programmes has been more active. Montenegro remains highly integrated in the EU and CEFTA markets.

However, large external imbalances persist. Labour market performance remains weak with very high unemployment rates. Inflationary pressures have been increasing. The deleveraging of the financial sector continues, causing liquidity problems and the subsequent accumulation of tax and other payment arrears in the economy. The stability of public finances has been furthermore challenged by pressures arising from contingent liabilities and unpaid contributions. The public debt continued to increase. The difficult economic situation of the aluminium producer needs to be addressed. While the country needs to attract further investments to develop its infrastructures, weaknesses in the rule of law and a large informal sector continue to hamper the business environment.

Montenegro has made some progress in improving its **ability to take on the obligations of membership**. Good progress has been made in the areas of public procurement, transport policy, statistics and science and research. Progress has been limited in other areas such as free movement of workers, free movement of capital, company law, food safety, veterinary and phytosanitary policy, taxation, enterprise and industrial policy, environment and climate change, and financial and budgetary provisions. Montenegro's limited administrative capacity represents a challenge in a number of areas and needs to be strengthened in view of the accession negotiations and to ensure effective implementation of the *acquis*. Overall, Montenegro continued to smoothly implement the obligations under the Stabilisation and Association Agreement (SAA). Some gaps remain as regards State aids, where further efforts towards alignment are needed.

2 Montenegro unilaterally uses the euro as the sole legal tender.

Montenegro has made some progress in the area of *free movement of goods*. Additional efforts, better coordination and stronger ownership are needed to further align with the *acquis*. Overall, preparations in the area of free movement of goods are relatively advanced.

Little progress has been made in the field of *freedom of movement for workers*, where alignment with the *acquis* is still at an early stage. Some progress can be reported on the *right of establishment and freedom to provide services*. Montenegro made good progress towards aligning the new law on postal services with the *acquis*. On the right of establishment, legislative reforms need to be implemented. Considerable efforts are still needed regarding the alignment of legislation with the Services Directive, on mutual recognition of professional qualifications and as regards inter-institutional cooperation. Preparations in this area are moderately advanced.

Little progress can be reported on *free movement of capital* although preparations are on track. Full alignment with the *acquis*, as regards payment systems and strengthening administrative capacity, mainly in the area of fight against money laundering, will need to be further pursued. As regards combating money laundering and financing of terrorism, preparations are at a relatively early stage. Major efforts are required to enforce legislation, enhance inter-agency coordination and establish a track record on fight against money laundering and financial crime. Overall, preparations in this area are on track.

Good progress has been achieved in the area of *public procurement*. Implementation of the new legislation remains a concern. The legislative framework for concessions remains to be aligned with the *acquis*. The role, powers and competences of the future inspection services need to be clarified and sufficient staff provided. Little progress can be reported in the field of *company law*. New amendments to the Law on accounting and auditing, establishing an independent public oversight body for auditors and a related quality control system, are yet to be adopted. Some progress can be reported on *intellectual property*. Further efforts are needed to align with the *acquis* in this area and to implement it effectively. Overall, preparations in each of these areas are moderately advanced.

Some progress has been made in the area of *competition policy*. Further efforts are needed to align Montenegro's legislation with the *acquis* and to ensure operational independence of the competition authority. Special attention needs to be given to enforcement of State aid rules, particularly in the areas of State aid to the sensitive sectors. Overall, preparations in the field of competition policy are moderately advanced.

There has been some progress in the field of *financial services*. Progress has been made in adopting legislation on public disclosure of information and data by banks, on calculation of large exposures and on UCITS. Substantial efforts are needed to align with and implement the existing *acquis* in the areas covered by this chapter. Overall, the level of alignment remains moderately advanced.

There has been some progress in the field of *information society and media*. However, independence of the regulatory bodies has been undermined by amendments to the legislation. Overall, preparations are moderately advanced.

Progress has been made in the area of *agriculture and rural development*. Efforts are needed to develop an appropriate legal framework to meet the objectives of the national action plan towards accreditation for the management of rural development funds. There has been limited progress in the area of *food safety, veterinary and phytosanitary policy*. Efforts are needed in all fields, in particular with regard to further alignment with the *acquis*, the reinforcement of control capacity in the veterinary field, and the assessment of hygiene standards in food and feed establishments. Some progress has been made in the field of *fisheries*. Efforts are needed

with regard to alignment of legislation with the fisheries *acquis* and implementation of EU standards, in particular in the areas of resource management, inspection and control, market policy, structural and State aid policy. Alignment with the *acquis* in each of these areas remains at an early stage.

There has been good progress in the area of *transport*, in particular as regards road, rail and maritime transport, but there is a need to ensure effective implementation of the *acquis*. Further progress remains to be made in the rail transport sector concerning inter-operability, setting up an accident investigation body, as well as the independence of the rail regulator. Overall, preparations in this area are advanced. Some progress can be reported in the area of *energy*. Additional implementing legislation for the internal energy market remains to be adopted. Montenegro still needs to adopt the necessary acts concerning oil stocks reserves, as well as the 10 year work programmes on development of renewable energy sources (RES). Alignment with the *acquis* is at an early stage in this area.

Little progress was made in the area of *taxation*, with developments consisting primarily in the establishment of new departments within the tax administration. Further efforts are needed to develop an overall business and IT strategy. Overall, in the area of taxation, Montenegro's alignment with the *acquis* is at an early stage.

There was some progress in the area of *economic and monetary policy*. Substantial efforts still have to be made to complete alignment with the *acquis*, in particular regarding the Central Bank independence, monetary financing and privileged access of public-sector to financial institutions. The capacity for economic policy formulation and coordination needs to be further strengthened. Montenegro's present use of the euro, decided by the Montenegrin authorities in exceptional circumstances, is fully distinct from euro-area membership. Overall, the level of alignment in the area of economic and monetary policy is moderately advanced at this stage. Good progress can be reported in the area of *statistics*. Nonetheless, Montenegro still has to make serious and sustained efforts to align with the *acquis* as regards agricultural, business and macroeconomic statistics. Preparations in this area are moderately advanced.

Some progress has been made in the area of *social policy and employment*. Further efforts are needed in the area of health and safety at work. The capacity of the Public Employment Service needs to be strengthened, along with activation approaches in order to address low activity and employment rates and the mismatch between the skills available and needs. Measures and policies for poverty reduction and for Roma inclusion need to be strengthened. The situation of public finance continues to adversely affect reforms in the social area. Increased efforts are needed to implement the planned reforms in the area of pensions. Overall, Montenegro has started to address its priorities in this area.

Little progress has been made in the area of *enterprise and industrial policy*. Various strategies and institutions exist. Further efforts are needed to ensure the development and the implementation of this policy.

Some progress has been achieved in the area of *Trans-European Networks*. As regards transport networks infrastructure, significant work remains to be done on improving road and rail links. Gas interconnections with neighbouring countries need to be developed and the national transmission systems upgraded. Overall, preparations in this area are still at an early stage. Some progress has been made in the area of *regional policy and coordination of structural instruments*, in particular with regard to the institutional framework and programming. Montenegro needs to strengthen administrative capacity in the established IPA structures and adequately prepare them for the future. Overall, preparations in this area have started.

Montenegro has made some progress in the area of the *judiciary and fundamental rights*. Implementation of recently adopted legislation has started. Progress has been made with regard to the publication of court rulings and the case backlog. The constitutional reform aimed at strengthening judicial independence has not been completed yet. A single, country-wide recruitment system and a system to monitor the length of trials need to be set up, the court network rationalised and the reliability of judicial statistics improved. Further efforts are needed to ensure merit based appointments and career development, as well as to strengthen accountability and integrity safeguards within the judiciary. Montenegro has strengthened its anti-corruption legal framework and further developed its track record of investigations, prosecutions and convictions in corruption cases, but greater efforts are needed in this respect. Corruption remains widespread and continues to be a serious cause for concern, allowing also for the infiltration of organized crime groups into the public and private sectors. The number of final convictions remains low and there are still no corruption cases in which seizure or confiscation of assets were ordered.

The existing legal and institutional framework for the protection of fundamental rights has been further strengthened. The decriminalisation of defamation contributed to improving the media environment in the country. The process of granting legal status to the displaced persons has further advanced. Social inclusion of Roma, Ashkali and Egyptians has to continue, in particular through the implementation of the relevant policy documents. Shortcomings persist in the protection of human rights by judicial and law enforcement authorities. Efforts to investigate and prosecute old cases of violence against journalists need to be stepped up. Further sustained efforts will be needed to align with the EU *acquis* and international standards in this field. Overall, preparations in this area are moderately advanced.

Montenegro has made some progress in the area of *justice, freedom and security*. Alignment with the *acquis* in the field of migration, asylum and visa has started. The construction of the centre for foreigners and the one for asylum seekers is being finalised. Implementation of the integrated border management strategy and action plan is on track. In the area of police cooperation and the fight against organised crime, the country has continued to extend its international and regional network, and to reinforce its legal framework and administrative capacities. Joint investigative operations with other countries of the region, as well as with EU Member States, Interpol and Europol, resulted in an increase of the number of indictments, arrests and convictions in the field of organised crime. The policy and legal frameworks in this area have improved. Further sustained efforts will be needed to align with the *acquis* in this chapter, especially in the fields of asylum, visa, external borders and Schengen, the fight against organised crime, and to develop a solid track record of investigations, convictions and drugs seizures. The capacity to implement the legal framework in judicial cooperation in civil and criminal matters has to be reinforced. Increased efforts are required in the fight against money laundering and in addressing trafficking in human beings. The country is moderately advanced in this area.

Good progress has been made in the alignment with the *acquis* in the area of *science and research*. Further efforts are necessary to strengthen research and innovation capacity at national level and facilitate integration into the European Research Area. The level of investment in research needs to be further increased in particular from the private sector and by stimulating public and private investment in scientific research activities. Overall, preparations are on track in this area. Some progress has been made in the area of *education and culture*. Higher education reform and modernisation of the vocational education and training system need to be further addressed. Implementation of educational reforms remains a challenge. Overall, preparations are moderately advanced in this area.

Montenegro has made little progress in the area of *environment and climate change*. There are first signs of improvement with the adoption of legislation on waste management, air quality and chemicals and with regard to the administrative capacity and efforts undertaken towards alignment with the climate *acquis*. Further attention is needed in the areas of water quality and waste management. The effective implementation of the Environmental Impact Assessment and Strategic Environmental Assessment *acquis* needs to be ensured. Considerable efforts are required to align with and implement environment and climate *acquis*, as well as to strengthen administrative capacity and inter-institutional cooperation. Environment and climate change considerations need to be more systemically taken into account in other policy fields and planning documents. The lack of political priority and adequate financing as well as limited awareness of environmental and climate requirements are hampering progress in this field. Preparations in this area are still at an early stage.

Some progress has been made in the fields of *consumer and health protection*. Legal alignment needs to continue in the area of consumer protection. Preparations in these areas are moderately on track. Some progress has been achieved in *customs* legislation. A new law on customs tariff further aligns the national legislation with the Common Customs Tariff. In the areas of administrative and operational capacity, the implementation of existing procedures and working methods needs to be stepped up. Preparations for possible accession to the Convention on a Common Transit Procedure need to be enhanced. Overall, preparations in the field of customs union are moderately advanced.

Some progress has been made in the area of *external relations*. Montenegro has become member of the WTO. Some progress has also been made in the field of *foreign, security and defence policy*. Montenegro has aligned itself with all EU declarations and Council Decisions and has continued to actively contribute to regional stability. Preparations in these areas are moderately advanced.

Montenegro has made uneven progress in the field of *financial control*. While the legal framework for public internal financial control (PIFC) is in place, practical implementation is lagging behind, particularly at local level. Montenegro needs to strengthen managerial accountability arrangements in the context of the public administration reform. Financial independence of the State Audit Institution should be guaranteed in practice. Preparations in the area of financial control are at an early stage. Limited progress has been made as regards *financial and budgetary provisions*. In due course, a coordinating body needs to be set up to steer pre-accession preparations in the own resources field. The administrative framework for the application of the own resources rules needs to be established. Overall preparations are at an early stage in this area.

Republic of Macedonia

Republic of Macedonia continues to sufficiently meet the **political criteria**. The country continues to fulfil its commitments under the Stabilisation and Association Agreement. The government has put the EU agenda at the centre of its activity. The High Level Accession Dialogue (HLAD) with the Commission served as a catalyst for accelerating reforms and has contributed to substantial progress in a number of key policy areas. The government has adopted proposals for improvement of the legislative framework for elections and, in the area of freedom of expression, for the decriminalisation of defamation. The first government review of the implementation of the Ohrid Framework Agreement provides a tool for strengthening inter-community dialogue. The reform momentum needs to be sustained in all areas of the political criteria in particular to ensure implementation. The Parliament is considering the related legislation. Focus on the rule of law, including as regards freedom of expression and on inter-ethnic relations and

reconciliation needs to be maintained. An inclusive approach with civil society needs to be taken forward.

The Ohrid Framework Agreement (OFA) continues to be an essential element for *democracy and the rule of law* in the country. The *government* has launched a review of the implementation of OFA since 2001, with the aim of building a consensus on the results achieved and the challenges ahead. Tension between communities following violent incidents in the first half of 2012 caused concern. The government has responded with maturity to this challenge and needs to build on this to further strengthen inter-ethnic relations and reconciliation, including on the status of victims of the 2001 conflict. There has been some further progress on wider implementation of the Law on Languages.

The functioning of the *parliament* has improved and political dialogue has been maintained, in particular as regards EU integration. The implementation of the Rulebook of Procedure has gone forward, including with respect to key demands of the Opposition. The Parliament is considering the related government proposals for improving the electoral framework. On-going efforts will be necessary to fully address the recommendations of OSCE/ODIHR.

Cooperation within the government coalition has continued and has been successful in putting the accession process at the centre of the political agenda. The government has effectively coordinated the implementation of the HLAD on the basis of its own Roadmap. In the field of local government, progress on decentralization needs to be accelerated, in particular as regards the financial framework.

As regards *public administration*, there was some progress. Services to citizens were improved and e-government is being gradually introduced. Consultations on major reforms to the framework for administration are on-going. Additional efforts are needed in order to guarantee transparency, professionalism and independence of the public administration. In particular, respect for the principles of merit-based recruitments and promotions needs to be ensured.

As regards the *judiciary*, legislative and institutional safeguards are in place, but further efforts are needed to guarantee independence and impartiality in practice. Progress has been made, notably in reducing the backlog of cases. Further efforts are needed to create clear and transparent grounds for proportionate dismissal procedures and to improve significantly the implementation of merit-based judicial appointment and career development. The Academy for Judges and Prosecutors should be further supported in its key role in the development of a professional and highly-skilled judiciary and prosecution service.

In the area of *anti-corruption policy*, the legislative framework is in place and capacity has been strengthened slightly, but greater efforts are needed as regards implementation of existing laws. Steps have been taken to improve verification capacities and enforcement powers of the authorities. However, there has been little visible progress in terms of end-results. A track record of handling high-level corruption cases has yet to be established. A more proactive and coordinated approach by supervisory bodies and enforcement agencies is needed. Collection and analysis of statistical data should be improved to focus efforts where they are most needed. Corruption remains prevalent in many areas and continues to be a serious problem.

There was some progress as regards the *fight against organised crime*, in particular through the issuance of over 100 international arrest warrants and good cooperation through Interpol and with Europol. The Law on Interception of Communications was amended, strengthening the efficiency and transparency of this special investigative measure. Further efforts are needed to strengthen the capacities of the law enforcement agencies and to enhance inter-

agency cooperation and information exchange. The country is advanced in the field of police cooperation and fighting organised crime.

The legal and institutional framework for *human rights and the protection of minorities* is broadly in place. *Civil and political rights* are broadly respected and some further progress was made. The roundtable dialogue with journalists has proved an important forum to address key challenges in the area of the media. The government adopted proposals to decriminalize defamation through the adoption of a civil Law on Liability for Insult and Defamation. The Criminal Code needs to be revised in line with this approach. The Broadcasting Council has begun to enforce legal provisions against concentration of ownership and conflict of interest with the political sphere. The Broadcasting Council needs to demonstrate it is following a non-discriminatory and transparent approach. There remain widespread concerns about lack of pluralism and self-censorship. Continued efforts are necessary to address related challenges such as the transparency of government advertising and the labour rights of journalists.

Some progress can be reported in the strengthening of *social and economic rights*. The Economic and Social Council has met regularly. The Commission for Protection against Discrimination is engaged in processing complaints although its resources are limited. The Law on anti-discrimination needs to be fully aligned with the *acquis*, notably as regards discrimination on grounds of sexual orientation. There is a need for better protection of rights of women, including from vulnerable groups, as well as further efforts to increase their participation in the labour market and in political life. Social integration of people with disabilities still remains weak.

Overall, some progress was achieved in the area of *cultural rights and minorities*. A review of the Ohrid Framework Agreement has been launched which includes recommendations for addressing the on-going challenges. The review and concrete ethnic cooperation need to be followed up. Fostering trust between ethnic communities will be of key importance. Concerning the Roma, several activities were taken, notably to address the issue of persons without documents and to integrate Roma refugees. Implementation of existing strategies and inter-institutional cooperation needs to be significantly strengthened.

Regarding *regional issues and international obligations*, the country continued to cooperate fully with the International Criminal Tribunal for the former Yugoslavia (ICTY). There are no remaining cases or appeals pending in The Hague. Of the four cases that the ICTY transferred back to the national authorities in 2008, one was dismissed in 2011 by the domestic court system and three were dismissed in 2012, in line with the request of the Public Prosecution and on the basis of the Amnesty Law.

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 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). It took over the Chairmanship-in-Office of the SEECP in June 2012. The seat of the Secretariat of South-Eastern European Health Network (SEEHN) was established in Skopje. The country continued to contribute to the EU ALTHEA mission in Bosnia and Herzegovina.

Republic of Macedonia has maintained an overall constructive role as regards bilateral relations with neighbouring Member States and other enlargement countries. Relations with partners in the Western Balkans were further developed. Relations with Greece remained affected by the name issue. The International Court of Justice adopted a judgment

concerning the Interim Agreement with Greece. The country has kept engaged in talks under the auspices of the UN and in direct contacts with Greece. The talks under the UN auspices for a negotiated and mutually acceptable solution should be pursued with increased vigour, as should direct bilateral meetings and contacts. Actions and statements which could negatively impact on good neighbourly relations should be avoided.

The **economy** of the country continued growing at a decelerated pace in 2011, but declined in the first half of 2012. Growth was based on resilient domestic demand, while external demand has been declining. Structural reforms have continued, but overall at a slow and gradual pace. There has been some further progress in simplifying business registration, accelerating judiciary procedures and deepening financial intermediation. However, little has been achieved in addressing the very high unemployment, which is mostly structural and affects mostly the young and poorly educated.

As regards the **economic criteria**, Republic of Macedonia continues to be well advanced. In some areas, it has made further progress towards becoming a functioning market economy. The country 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. Fiscal policy kept spending largely in line with revenue growth. Privatisation is mainly completed. Price and trade liberalisation has been largely accomplished. Some further progress has been achieved in facilitating market entry and in simplifying the regulatory framework. The judiciary procedures accelerated with the average duration of bankruptcy procedures further reduced. Property registration is practically accomplished. The financial sector so far weathered the financial market turbulences rather well and maintained its trend towards increased intermediation and market deepening. Gradual progress in the education sector has continued. Increased FDI helped to diversify the country's export structure.

However, the quality of fiscal governance has deteriorated further; medium-term planning and public expenditure management has worsened, and the transparency and reliability of public sector accounts declined. Furthermore, the short-term orientation on spending with low growth enhancing effects has continued. Public sector debt has increased significantly. Unemployment remained very high. The functioning of the labour market is impeded by structural weaknesses. The level of education and qualification of the human capital is low. Similarly, the physical capital needs modernisation and deepening. Despite gradual improvements, the functioning of the market economy continues to be impeded by institutional and judiciary weaknesses. Some regulatory and supervisory agencies still lack the necessary resources and leverage to fulfil their functions effectively. The capacity and efficiency of public administration in providing services to businesses requires improvement. The informal sector remains an important challenge.

Republic of Macedonia has made further progress in improving its **ability to take on the obligations of membership**, in particular in the areas of free movement of goods, competition, food safety and veterinary policy and Trans-European networks. Further efforts are needed in other areas such as the environment, social policy and employment and regional policy and coordination of structural instruments. Overall, the country has achieved a good level of alignment with the *acquis* at this stage of the accession process. It has also continued to implement smoothly its obligations under the Stabilisation and Association Agreement (SAA) and the Commission has proposed to pass to the second stage of the Association.

Good progress was achieved in the area of *free movement of goods*, especially in the area of standardisation and metrology. Preparations in the area of free movement of goods are advanced. Some progress has been made in the area of *freedom of movement for workers*. Some progress can be reported in the area of the *right of establishment and freedom to provide services*, particularly as regards postal services. However, further efforts are needed as regards the implementation of the services directive and mutual recognition of professional qualifications. Overall, the country is moderately advanced in this area. There was some progress in the area of *free movement of capital*. Further liberalization of capital movements and payments is subject to the transition to the second stage of the SAA, which is under consideration by the Council. Preparations in this area are on track.

Some progress was made in the area of *public procurement*, where the level of alignment is advanced with the exception of remedies and defence procurement. The administrative capacity in the field of remedies and concessions remains weak. Good progress was made in the area of *company law*, in particular in the field of audit. Chartered auditors' qualifications obtained abroad have yet to be recognised. Overall, preparations in this area are moderately advanced. Some progress was made in the area of *intellectual property*, where the legislative framework and the administrative capacity were further improved. However, more efforts are needed in the field of implementation and enforcement. Overall, alignment in this field is moderately advanced.

Good progress was made in the area of *competition policy* with improvement of the enforcement record. Preparations in this area are advanced. The resource endowment of the competition authority needs to be further strengthened. Concerning *financial services*, progress was made in the areas of banking, insurance and securities markets and investment services. Alignment with key *acquis* in the area of financial market infrastructure remains to be achieved. Overall, alignment with the *acquis* in this area is moderately advanced.

Progress can be reported in the field of *information society and media*. Alignment with the *acquis* continued and key competitive safeguards have started to be enforced. In the area of audiovisual policy, the activities of the Broadcasting Council increased, but a non-discriminatory approach needs to be ensured. Preparations in this area are moderately advanced.

Some progress was achieved in the field of *agriculture and rural development*, where preparations remain moderately advanced. There have been further advances in setting up the Integrated Administration and Control System. Alignment with the *acquis* requires continuing efforts. Administrative capacity remains a concern throughout the sector.

There was good progress in the area of *food safety and veterinary policy*, in particular with respect to the strengthening of institutions, and implementation of animal disease eradication programmes. Little progress was observed in the *phytosanitary* area, where administrative capacity and co-ordination among competent authorities has not improved. Preparations, overall, in the area of food safety, veterinary and phytosanitary policy remain moderately advanced.

Little progress can be reported in the area of *transport policy*. Some progress on road transport *acquis* alignment can be reported, but not in road safety which remains a concern. The railway legislation needs further alignment with the *acquis*. A legal amendment to close the railway market for competition until EU accession reversed already achieved alignment with *acquis*. The Accident Investigation Committee for rail needs to become operational in order to act as an independent body. Some progress was made in the *energy* sector, in particular in the enacting of implementing legislation deriving from the 2011 Energy Law.

Some progress in renewable energy was also made. Full liberalisation of the electricity and natural gas market is yet to be achieved. Preparations in these areas are moderately advanced.

Progress has been limited in the field of *taxation*. Efforts are still required to harmonise the national legislation with the *acquis*, to reinforce the fight against tax fraud and tax evasion and to address IT and staffing capacity. Overall, preparations in the area of taxation are moderately advanced.

Preparations in the field of *economic and monetary policy* are advanced and little further progress was made. Preparations in the field are advanced. In the field of *statistics*, progress was achieved as regards harmonisation of sectoral statistics and in transmission of data. Overall, preparations in the field of statistics are moderately advanced.

Little progress was made in the area of *social policy and employment*. Unemployment and poverty rates are high, while women labour market participation remains low. Some progress has been achieved in the field of social dialogue but the role of social partners needs to be further strengthened. The UN Convention on the Rights of Persons with Disabilities and the Optional Protocol to the Convention were ratified. Progress in inclusion of Roma, people with disabilities and other socially excluded people is slow. A mechanism for prevention and protection against discrimination is in place but not fully operational. The overall administrative capacity needs to be significantly strengthened. Overall, preparations in this area are not very advanced.

Some progress can be reported in the field of *enterprise and industrial policy*. Various strategies and measures were adopted, showing strong commitment to improving the business environment. However, implementation remains scattered across a number of uncoordinated and poorly funded bodies. The measures are yet to be made fully effective.

In the area of *Trans-European networks* progress was made. The development of the transport, energy and telecommunications networks is continuing and the country is actively participating in the South East Europe Transport Observatory and the Energy Community. A contract was awarded and work begun on construction related to Corridor X, partly financed by IPA Component III. Preparations in this area are moderately advanced.

Limited progress can be reported in the area of *regional policy and coordination of structural instruments*. Management of IPA programmes needs to be improved in order to ensure full and timely absorption of EU funds. Additional efforts are needed to address deficiencies in management and control systems. In particular, staffing and qualifications within the operating structures and the Central Financing and Contracting Department of the Ministry of Finance need to be substantially strengthened. Preparations in this area are moderately advanced.

Some progress has been made in the field of the *judiciary and fundamental rights*, notably in reducing the backlogs of court cases. Further improvements are needed as regards merit-based judicial appointments, precise and predictable dismissal grounds and correct use of statistical tools. In the area of anti-corruption policy, the legislative framework is in place and capacity has been strengthened slightly but greater efforts are needed to develop a track record of investigations, prosecutions and convictions. As regards fundamental rights, some progress was made in the area of freedom of expression, notably towards the decriminalization of defamation. The relevant institutions need to become more effective in promoting and safeguarding fundamental rights in practice. The Ohrid Framework Agreement remains an essential element for democracy and rule of law in the country. Preparations in the field of the judiciary and fundamental rights are moderately advanced.

Progress has been made in the area of *justice, freedom and security*, notably on external borders and customs cooperation, as well as on interception of communications. Further efforts are needed to improve the efficiency of the asylum procedure, ensure rigorously merit-based recruitment to the police, step up the fight against organised crime and improve seizure of drugs. Overall, preparations in this area are advanced.

Little progress can be reported in the area of *science and research*. The general participation rate in EU framework programmes continued to be good. Preparations for the national programme for science, research and development activity and for the strategy on innovation have advanced, but the documents remain to be adopted. In this area, the country partially meets its targets.

There was some progress in the areas of *education, training, youth and culture*. The country continued to improve its performance in relation to the Education and Training 2020 common benchmarks. Preparatory measures for the Lifelong Learning and Youth in Action programmes restarted. Investments are yet to be equitably applied to all parts of the country and the multi-cultural society. In the area of education and culture the country is moderately advanced.

Limited progress was made in the *environment and climate change* chapter. Further progress was made in transposing the *acquis* into national legislation, in particular in the waste management, air quality and chemicals sectors. Significant efforts are needed in order to implement the national legislation, especially in the areas of water management, industrial pollution control, nature protection and climate change. Overall, preparations in the field of environment are moderately advanced while in the field of climate change remain at an early stage.

There has been some progress in the area of *consumer and health protection*, particularly with regard to legal and institutional framework. Further progress remains hampered by the limited financial resources and weak operational structures, particularly in the field of consumer protection. Overall, preparations in this area are moderately advanced.

There was progress in the area of *customs union*, in particular on administrative and operational capacity. Inter-agency cooperation, the fight against corruption in the customs administration, and the capacity to tackle cross-border crime continued to improve. Preparations in the area of customs union are well on track.

Some progress was made in the area of *external relations*, notably as regards the common commercial policy. However, the country's institutional capacity is still not sufficient for it to participate fully in EU commercial, development and humanitarian policies. Preparations in the area of external relations are moderately advanced.

Continued progress has been made in the area of *foreign, security and defence policy*. The country has maintained its high level of alignment with EU declarations and Council decisions and has continued its participation in civil and military and crisis management operations. Preparations in the area of foreign, security and defence policy are well advanced.

Concerning *financial control*, there was some progress, notably in regards to external audit and protection of the euro against counterfeiting. However, the country remains at an early stage of the practical implementation of public internal financial control. Overall, preparations in this chapter are at an early stage. There was no particular progress concerning *financial and budgetary provisions*. The institutions in place to fulfil the administrative framework for the correct calculation, forecasting, collection, payment, monitoring and reporting of the own resources framework will need to be strengthened. Preparations in this area are at an early stage.

Serbia

Serbia is well on its way to sufficiently fulfilling the **political criteria** and the conditions of the Stabilisation and Association Process. The stability and functioning of institutions was ensured in the lead up to as well as in the aftermath of elections held at presidential, parliamentary and municipal level, and in Vojvodina. Despite a slowdown of legislative activity in the electoral context, some progress was noted in the implementation of reforms in most areas. Serbia maintained its full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). Results were achieved in the dialogue with Pristina, but the implementation of agreements was uneven. Serbia's interpretation of the agreement on regional cooperation and representation of Kosovo was eventually clarified and, subject to continued implementation, no longer hampers the inclusiveness of regional cooperation. Serbia's new leadership has underlined its commitment to implement all agreements already reached in the dialogue with Pristina as well as to begin tackling the broader political issues. Fulfilment of this commitment is key to moving to the next phase of Serbia's EU integration.

Democracy and the rule of law have been further consolidated. The elections were qualified as 'competitive, held in a conducive environment and professionally organised' by international observation bodies. Electoral operations in Kosovo for the parliamentary and presidential elections were facilitated by the OSCE and took place in an orderly manner. In line with UNSCR 1244/99, local elections were not held in Kosovo, contrary to past practice. The 2011 legislation on parliamentary mandates and the financing of political parties was implemented. A certain lack of transparency in the proceedings of the State Electoral Commission and in the administration of the new single voters' registry was however noted. The government needs to follow up the recommendations of the OSCE/ODIHR election observation mission.

Legislative activity of *parliament* has been reduced due to the election cycle, but other parliamentary activities continued normally. Further reforms are still needed to ensure that the constitutional provisions, notably on the judiciary, are fully in line with European standards. The *government* preserved its stability and completed a full term in office. A new coalition government was formed in July 2012. The new government maintained the country's strong strategic orientation towards EU integration. Both the new president and the new government have pledged to pursue the EU agenda of reforms and to closely cooperate together to achieve corresponding progress. The government needs to improve consultation of stakeholders in policy formulation and develop its monitoring of the implementation of new legislation.

Public administration reform is proceeding at a slow pace and is hampered by insufficient political commitment. The legislative framework needs to be completed and fully aligned with international standards. Implementation of the existing laws and public administration reform strategy needs to be improved. Merit-based recruitment and promotion systems should be developed and implemented. The follow-up of the recommendations of independent regulatory bodies needs to be stepped up.

There was little progress in the area of *civilian oversight of security forces*. A specific parliamentary committee was set up but parliamentary oversight remained overall limited. Following a ruling by the Constitutional Court, the legal framework for monitoring of communications by security and intelligence services needs to be clarified.

Regarding the *judiciary*, little progress was made, mostly in enforcing new legislation aimed at improving the efficiency of the judicial system. The review of reappointments of judges and prosecutors did not correct the existing shortcomings and was overturned by the Constitutional Court who ordered the reinstatement of all judges and prosecutors that had appealed their non-reappointment. Cases returned by the Constitutional Court will need to be

processed diligently and in accordance with the Constitutional Court's decisions. A system of professional evaluation, effective disciplinary rules and stronger integrity safeguards remains to be established. In order to restore the confidence of the citizens, the authorities will need to consider additional measures to strengthen the independence, impartiality, competence, accountability and efficiency of the judiciary, in particular: transparent criteria for appointments of judges and prosecutors; initial and in-service training under the Judicial Academy's responsibility, together with appraisal of serving judges and prosecutors, including of the newly appointed ones in 2009; integrity safeguards; court rationalisation. To meet these challenges, a new strategy on judicial reform is needed, together with an action plan to implement the strategy, based on a functional review of the judiciary.

Implementation of legal framework of the *fight against corruption* has continued. The Anti-Corruption Agency's operations increased, mostly in relation to the financing of political parties. However, corruption remains prevalent in many areas and continues to be a serious problem. A new Anti-Corruption Strategy and Action Plan are still awaited. The implementation of the legal framework and the efficiency of anti-corruption institutions need to be significantly improved. Further efforts are needed to adopt a more proactive approach to investigating and prosecuting corruption and the judiciary needs to gradually build up a solid track record of convictions, including high-level cases, particularly in cases of misuse of public funds. Stronger political direction and more effective inter-agency coordination are needed to significantly improve performance in combating corruption.

In the *fight against organised crime*, the legal framework is generally adequate and continued to be implemented. Improved inter-agency coordination and regional and international cooperation has led to concrete results against organised crime groups. Organised crime remains a serious concern in Serbia, in particular regarding money laundering and drug smuggling. The track record of investigations and convictions needs to be built up further.

Human rights continue to be generally well respected and further progress has been made in the areas of *human rights and the protection of minorities*. The legislative and institutional framework for the *observance of human rights* is in place. Further efforts in the implementation of the international instruments are required.

There has been some progress on *civil and political rights*. Freedom of assembly and association are constitutionally guaranteed and in general respected, but the Pride parade was again banned in October 2012. The governmental Office for Co-operation with Civil Society has been very active. The legal framework for freedom of expression is in place but violence and threats against journalists remain of concern. The implementation of the media strategy needs to be speeded up. Freedom of thought, conscience and religion is in general respected but the registration process for religious communities continues to lack transparency and consistency. The National Mechanism for Prevention of Torture commenced its work but needs further strengthening. Although one new facility was opened, overcrowding in the prison system remains a serious concern. On access to justice, an effective system of free legal aid still needs to be developed.

The legal framework for the protection of *social and economic rights* is in place. Further measures to fight all forms of discrimination are needed as well as efficient mechanisms to improve the protection of women and children against any form of violence. The most discriminated groups are the Roma, persons with disabilities and sexual minorities. A proactive approach towards the better inclusion of the LGBT population and a greater understanding across society is needed. The social dialogue needs to be improved and a solution brought to the issue of social partners' representativeness criteria. Regarding property rights, implementation of the 2011 law on restitution has started.

The legal framework providing for the *protection of minorities* is in place and generally respected. Some positive steps were taken to improve the situation of minorities, including the Roma. Regular financial reporting by the national minority councils has been introduced. Additional efforts are needed to ensure an effective implementation of the minority legislation throughout Serbia and address identified shortcomings. Serbia needs to do more to support the socio-economic development in the areas of Sandzak and Presevo, Bujanovac and Medvedja. The Roma, as well as refugee and IDP population continue to face a difficult situation.

Regarding *regional issues and international obligations*, Serbia continued to cooperate fully with the International Criminal Tribunal for the former Yugoslavia. Serbia continued to provide smooth and swift access to documents and witnesses, in support of the ongoing or planned ICTY trials. Domestic processing of war crimes continued and regional cooperation and exchange of information intensified. However, Serbia needs to further intensify its investigations into the networks of aid to the former ICTY fugitives in order to achieve visible results.

Serbia's policy regarding the International Criminal Court continues to be in line with the EU's guiding principles and the EU Common Positions on the integrity of the Rome Statute. Serbia does not have any bilateral immunity agreement.

Significant progress has been made as regards the Sarajevo Declaration Process. Bosnia and Herzegovina, Croatia, Montenegro and Serbia continued to cooperate on finding sustainable solutions for the refugees who were displaced as a result of the armed conflicts in the 1990s. The four countries signed a ministerial declaration and agreed on a Regional Housing Programme assisting some 27,000 households or 74,000 individuals. At an international donors' conference held in Sarajevo in April 2012 some €265 million was pledged in support of the programme. Good cooperation needs to continue on all outstanding issues in the process.

Serbia still needs to achieve further progress towards a visible and sustainable improvement of relations with Kosovo, the key priority set out in the Commission Opinion on Serbia's membership application. New results were achieved in the dialogue with Pristina, with agreements on regional cooperation and representation of Kosovo and on integrated management of the border/boundary. Serbia's interpretation of the agreement on regional cooperation and the representation of Kosovo was eventually clarified soon after the formation of a new government and, subject to continued implementation, no longer hampers the inclusiveness of regional cooperation. Serbia also eventually signed the IBM technical protocol in September 2012 which has yet to be implemented. Implementation of other agreements reached in the areas of freedom of movement, cadastre, civil registries, customs stamps and mutual acceptance of diplomas has overall moved forward. Following the elections and a new leadership in Serbia taking up office, Serbia needs to continue to engage constructively in the next phase of the dialogue in order to achieve further progress towards a visible and sustainable improvement of relations with Kosovo.

Serbia maintained a good level of relations with its neighbours and active involvement in regional cooperation, notably with its chairmanships of the South East Europe Cooperation Process (SEECP), the Migration, Asylum, Refugees Regional Initiative (MARRI), the Adriatic-Ionian Initiative (AII) and the Black Sea Economic Cooperation (BSEC). It continues to play an active part also in the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA).

The **economy** of Serbia continued to grow in 2011 by 1.6% but recovery weakened significantly in the second half of the year before turning into contraction in the first half of 2012. Unemployment soared at 25%. The budget deficit reached 5% in 2011 and was even

higher in the first semester of 2012. Serbia entered into a precautionary Stand-By Arrangement with the International Monetary Fund in September 2011 but the completion of the first review has been postponed because the 2012 budget deviated from the agreed fiscal programme. Economic reforms have mostly stalled in the pre-election period. The independence of the central bank has been seriously challenged by the adoption of amendments to the Law on the National Bank of Serbia in August. The IMF conducted a fact-finding mission in September 2012 but talks have not restarted yet on a stand-by agreement.

As regards the **economic criteria**, there was no further progress in the reporting period towards establishing a functioning market economy. Serbia needs to make significant efforts in restructuring its economy so as to cope in the medium-term with the competitive pressures and market forces within the Union.

The consensus on the market economy fundamentals has been broadly preserved but needs to be reinvigorated. Short-term external financing risks are dampened by the still ample foreign exchange reserves and the favourable external debt structure, with a strong prevalence of long-term debt. Trade integration with the EU remained high. The banking sector is well-capitalised and liquid. The central bank stepped up its supervision of the banking sector. Some steps have been taken in speeding-up and facilitating market entry. Some limited steps have also been taken in order to improve the business environment notably in the areas of company law and SME policy.

However, high budget deficits have constrained the effectiveness of the macroeconomic policy mix and the main burden of adjustment fell on the monetary policy which continues to be restricted by the high degree of euroisation of the economy. Labour market conditions deteriorated sharply with rising unemployment. Sustainable employment creation represents a major challenge. Lax fiscal policy and increasing government debt are rapidly limiting fiscal space to cushion further shocks. There is a need of urgent and decisive consolidation measures, backed by systemic reforms of the public sector, in order to restore public finance sustainability. Delays in structural reforms are also constraining the scope for growth-enhancing policy responses. Special attention is needed to further improve the business environment. The development of a dynamic private sector has not made progress and state interference in the economy remains very high. Privatisation and restructuring of publicly-owned companies advanced very slowly and, in some cases, earlier privatisations have even been reversed. Legal predictability remains weak and unclear property rights continue to hamper economic activities. The informal sector remains an important challenge.

Regarding Serbia's **ability to take on the obligations of membership**, Serbia continued aligning its legislation to the requirements of the EU legislation, albeit at a slower pace as activities of both government and parliament were reduced during the election year. Good progress has been registered in company law, intellectual property rights, statistics and customs union. Further efforts are needed in particular in the areas of judiciary and fundamental rights, justice, freedom and security, agriculture and rural development, environment and climate change as well as in financial control. The Interim Agreement (IA) of the Stabilisation and Association Agreement (SAA) has continued to be smoothly implemented without any outstanding issues. Serbia continues to build a positive track record in relation to the obligations under the SAA/IA.

Some progress was made in the area of *free movement of goods*, where preparations are moderately advanced. EU standards continue to be implemented and the Serbian accreditation body became a full member of the European cooperation for Accreditation. Market surveillance remains highly fragmented and inspection controls continue to impose an unnecessarily high administrative burden on business. Implementation of the legislation,

administrative capacity and coordination among institutions need to be enhanced. There has been some progress in the area of *freedom of movement of workers*, where preparations are moderately advanced. Coordination of social security systems needs to be improved and preparations for participation in the European Employment Services network stepped up.

There was little progress in the area of *right of establishment and freedom to provide services*, while there was some progress in the area of *free movement of capital*, including in the fight against money laundering. Further efforts are needed to align the legislation for short term capital operations, real estate and payment systems with the *acquis*, and to step up the fight against money laundering. Overall, alignment in these areas is moderately advanced.

In the field of *public procurement*, some progress was made notably in the area of public private partnerships. Serbia needs to keep up steady efforts to implement its legislative framework on public procurement, and in particular to avoid irregularities in the use of the negotiated procedure. Effective coordination between the main stakeholders, including audit and judicial institutions, needs to be ensured. The enforcement record and administrative capacities of the Budgetary Inspection of the Ministry of Finance in charge of supervision of public procurement needs to be substantially strengthened. Alignment in this area is moderately advanced.

Good progress was made in the area of *company law*, where alignment is well advanced, with the entry into force of a new law in February 2012 and the adoption of several amendments to this law. For corporate accounting and auditing, efforts should be stepped up as concerns independent public oversight, quality assurance and investigations. Serbia made good progress in aligning with the EU *intellectual property rights acquis* and with the implementation of its Intellectual Property Rights (IPR) strategy 2011-2015. A formal coordination and cooperation mechanism between the institutions in charge of IPR protection still needs to be established. Alignment in this area is advanced.

Some progress was made in the area of *competition policy*, where alignment is moderately advanced. The competition authority strengthened its capacity and the State aid authority developed its enforcement record, but the *ex-ante* notifications of State aid measures need to be improved. In both the anti-trust and mergers as well as State aid fields, additional advocacy measures are needed. Serbia made some progress in the area of *financial services*, where steps were taken towards implementation of the Basel II requirements. Serbian legislation must be further aligned with the *acquis* and effectively implemented in the medium term. Alignment in this area is moderately advanced.

There was little progress in the area of *information society and media*, where alignment is moderately advanced. The general authorisation regime for telecom providers came into force in full and some key competitive safeguards were introduced. The switchover from analogue to digital broadcasting has begun. The telecoms regulators' financial independence has yet to be improved and Serbia's legislative framework has yet to be aligned with the *acquis*.

There has been progress in the field of *agriculture and rural development* including with regard to agricultural statistics. Structures and resources for the implementation of rural development under IPARD have advanced well, but additional capacity building is still essential. Overall, in this area alignment remains at an early stage. Some progress was made in the area of *food safety, veterinary and phytosanitary policy*, where preparations are moderately advanced. Further strengthening of the administrative capacity of the institutions involved in controlling food chain safety, in particular of the veterinary, phytosanitary and national reference laboratories is needed. Efforts are needed regarding the upgrading of food and feed establishments, the management of animal by-products and genetically modified organisms. Some progress can be reported on *fisheries*. The collection of market data needs to

be improved and a national catch certification scheme for imports and exports of fishery products needs to be established. Preparations in this area are moderately advanced.

Some progress can be reported in the area of *transport policy*, particularly in road, inland waterways and air transport. Laws on Railways and Railway Safety and Interoperability need to be adopted. Attention needs to be paid to fair market access; further efforts need to be made in separation of infrastructure manager and railway operator, as well as a properly defined regulator. Further strengthening of the capacity is needed, in particular for enforcement and inspection. Overall, Serbia's alignment in this area is moderately advanced.

Little progress can be reported in the area of *energy*. Further efforts are needed to achieve real market opening, unbundling and cost reflective tariffs. Framework legislation on rational use of energy as well as legislation on commodity reserves remain to be adopted. The role and independence of the energy agency and of the nuclear regulator need to be strengthened. As a matter of urgency, Serbia needs to address the issue of the inclusion of Kosovo in the regional electricity transit mechanism, as referred to in the Reasoned Opinion of the Energy Community. Overall, preparations in this area are moderately advanced.

Some progress can be noted in the area of *taxation* with the implementation of the corporate Serbian Tax Administration strategy. Modernisation needs to continue. Tackling the grey economy remains a challenge. Substantial efforts are required to improve the IT system, the communication with taxpayers and to further align the legislation on excise duties. Overall, preparations in this area are moderately advanced. No progress can be reported in the area of *economic and monetary policy*, where alignment is moderately advanced. Recent amendments to the law on the central bank jeopardise its independence and thus constitute a significant step back in the alignment to the *acquis*. The capacity for economic policy formulation and coordination needs to be further improved. Good progress can be reported in the area of *statistics*, where Serbia is moderately advanced. The population and housing census was carried out according to plans. The capacity of the Statistical Office will have to be reinforced over the next years in order to allow for the comprehensive implementation of the statistical *acquis*.

Some progress can be reported in the area of *social policy and employment* especially in the fields of employment policy, health and safety at work and social inclusion. However, employment policies in general are affected by adverse economic developments and limited budget allocations and need to be enhanced. Increased efforts are also needed to restructure and reform social protection and regain sustainability. Overall, Serbia has started to address its priorities in this area.

Progress was made in the area of *enterprise and industrial policy*, where preparations are on track. Serbia implements the Small Business Act in an appropriate manner.

Serbia has made some progress in the area of *trans-European networks*, where preparations are moderately advanced. It is continuing to develop its transport and energy networks and to participate actively in the work of the South East Europe Transport Observatory and the Energy Community. Major challenges remain in terms of financing the new interconnections of energy and transport networks. Progress was noted in the area of *regional policy and coordination of structural instruments*, where preparations are advancing. Serbia has completed the preparatory stages for the decentralised management of IPA for four Components. Adequate implementation capacity needs to be further ensured. Programming needs to be improved, especially in terms of preparing a solid project pipeline based on relevant strategies.

There has been little progress regarding the *judiciary and fundamental rights*. The review of reappointments of judges and prosecutors did not correct the existing shortcomings and was overturned by the Constitutional Court who ordered the reinstatement of all judges and prosecutors that had appealed their non-reappointment. A new strategy for judicial reform is needed based on a functional review. Implementation of the legal framework to fight corruption has continued. However, a new Anti-Corruption Strategy and Action Plan are still pending. Stronger political direction, more effective inter-agency coordination and a proactive approach in investigating and prosecuting corruption are needed. Regarding fundamental rights, the legislation is in place and broadly respected. Freedom of expression is in general guaranteed but the implementation of the media strategy needs to be speeded up. Discrimination based on ethnicity, gender, and sexual orientation remains widespread and further measures to fight all forms of discrimination are needed. A proactive approach towards the better inclusion of the LGBT population and a greater understanding across society is needed. Some positive steps were taken to improve the situation of minorities, including the Roma, but additional efforts are needed to achieve consistent implementation of the legislation across Serbia. Overall, Serbia has started to address its priorities in this area.

Serbia made some progress in the area of *justice, freedom and security*. Serbia is actively involved in international police and judicial cooperation and law enforcement agencies generally have sufficient capacity to carry out standard investigations. Additional efforts are needed to increase capacities to carry out complex investigations and to strengthen coordination between law enforcement agencies and the judiciary. A track record of proactive investigations and final convictions in organised crime cases needs to be built up. Overall, preparations in this area are moderately advanced.

Little progress was registered in the area of *science and research*. Both public and private investments in research remain low and Serbia generally needs to reinforce its national research capacity. Overall, preparations in this area are well on track. Little progress can be reported in the area of *education and culture*, where alignment is moderately advanced. There was progress in making the education system more socially inclusive, as well as in introducing quality assurance standards in elementary education. Better implementation of higher education reforms remains a challenge and reforms in the vocational education and training sector still need to be speeded up. Financial management and financial control still need strengthening with a view of Serbia's participation in the future Education, Youth and Sport programme.

Some progress has been achieved in the area of *environment* in which alignment with the *acquis* and the ratification of international environmental conventions continued. Significant further efforts are needed in order to implement the national legislation, especially in the areas of water management, industrial pollution control and risk management, nature protection and air quality. The strengthening of the administrative capacity should remain a priority. Little progress was achieved in the field of *climate change*. Considerable efforts are required on awareness-raising on opportunities and challenges of climate action, setting a more strategic approach for the country, aligning with and implementing EU climate *acquis*, as well as strengthening administrative capacity and inter-institutional cooperation. Overall, Serbia has started to address its priorities in these areas.

There has been some progress in the area of *consumer and health protection*, where preparations are moderately advanced. Efforts need to focus on implementing the existing legislative framework and further aligning with the *acquis*. Institutional coordination between the relevant actors and administrative capacity in both areas of consumer protection and public health need to be strengthened.

Serbia made good progress in the area of the *Customs Union*, with the adoption of new laws and sustained efforts to improve the administrative capacity, in particular in the audit and post-clearance sector. Serbia also needs to ensure the proper application of the EU *acquis* at the administrative border/boundary line with Kosovo. Customs related security legislation needs to be implemented and the Customs Declaration Processing System renewed or upgraded. Overall, preparations in the area of the customs union are well on track.

Some progress has been made in the field of *external relations*, where preparations are moderately advanced. Accession to the WTO is pending the finalisation of bilateral negotiations. In the area of *foreign, security and defence policy*, Serbia significantly improved its alignment with EU CFSP declarations and showed continued commitment to participate in EU civil and military crisis management operations. Preparations in this area are well on track.

Some progress was made in the area of *financial control*, particularly as regards external audit. Substantial efforts are needed to develop public sector financial management and control based on the underlying concept of managerial accountability. There has been no progress in the area of *financial and budgetary provisions*. The necessary administrative infrastructure, including coordination and organisational and procedural links between various institutions involved in the own resources system will need to be developed in due time. Overall, preparations in these areas are at an early stage.

Albania

The political agreement of November 2011 between ruling majority and opposition marked the end of the political stalemate stemming from the 2009 parliamentary elections. This agreement set out to address electoral and parliamentary reform and to create the political climate for joint reform efforts in other areas. As a result, political dialogue and cooperation has improved considerably allowing for progress in core reform areas including electoral reform. The presidential elections were conducted in line with the Constitution, but the political process surrounding them did not build on the positive cross-party dialogue launched in November. Despite some confrontational rhetoric between the government and the opposition, the political agreement continued to be implemented. Overall, Albania has made good progress towards fulfilling the **political criteria** for membership of the EU and delivering a number of reforms against the key priorities of the Commission's 2010 Opinion³. Good progress was achieved in key political reform areas such as the proper functioning of parliament, the adoption of pending laws requiring a reinforced majority, the appointment of the Ombudsman and the hearing and voting process in Parliament for high court appointments, as well as the modification of the legislative framework for elections, leading to the fulfilment of the four key priorities concerned. Albania is well on its way towards meeting the two key priorities regarding public administration reform and improving the treatment of detainees.

As regards the other six key priorities, there was moderate progress regarding the reform of the judiciary and the fight against corruption, with for example reform of the immunity system of public officials and judges and adoption of the law on administrative courts, and uneven progress on anti-discrimination policies including the protection of minorities and

The key priorities concern the following areas: the proper functioning of parliament; adopting reinforced majority laws; appointment procedures and appointments for key institutions; electoral reform; the conduct of elections; public administration reform; rule of law and judicial reform; fighting corruption; fighting organised crime; addressing property issues; reinforcing human rights and implementing anti-discrimination policies; improving the treatment of detainees and applying recommendations of the Ombudsman. For the full text of the key priorities, see COM(2010) 680.

improving the living conditions of the Roma community. Progress concerning the fight against organised crime, as well as on property reform and women's rights, included some significant steps, notably an increase of seizures of criminal assets, the adoption of a comprehensive strategy on property reform, and amendments to the criminal code strengthening sanctions for domestic violence.

In all the areas covered by the key priorities not fully met significant additional efforts will be needed to ensure sustainable implementation of commitments already undertaken and further tangible results, notably in the context of implementation. In order to keep the current reform momentum and consolidate its achievements to date, Albania would need in particular to focus on consensually adopting the revised rules of procedure for parliament and the amendments to the Laws on the High Court and on Civil Service. Ensuring sustainability of the political dialogue is essential for the functioning of democratic institutions and for Albania's EU path. As regards *democracy and rule of law*, improved political dialogue in parliament and a more constructive atmosphere during committee and plenary meetings allowed for good progress in a number of areas, despite some short periods of confrontational political rhetoric and temporary slowdown of reforms.

The functioning of *parliament* and political dialogue has considerably improved as a result of the November 2011 political agreement. This allowed significant progress to be made through adoption of all pending laws requiring reinforced majority, the appointment of an Ombudsman by consensus, the conduct of a hearing and voting process for the presidential nomination of a judge to the High Court, and adoption of amendments to the electoral code (covering four key priorities of the Opinion). It is now essential that revised parliamentary rules of procedure are adopted. On 11 June 2012, a new president was elected in the fourth round of the election with the votes of the ruling majority only. Although in line with the Constitution, the presidential election did not meet all expectations for inclusiveness and put a strain on the consolidation of political dialogue and cooperation. This contributed to a temporary slowdown in reform efforts in core areas requiring political consensus, which was overcome shortly thereafter.

There has been some progress with regard to the work of *government*. This includes good progress on coordinating the EU integration process through the revision of the action plan to address the Opinion's key priorities, which was conducted in a transparent and participatory manner. Good cooperation between the opposition chair of the Parliamentary Committee on European Integration and the Minister of European Integration on the country's EU reform challenges continued, including joint participation at the May 2012 EU-Albania SA Council. Legislative drafting capacity and the planning process for aligning legislation with the *acquis* need to be further improved, notably through the effective implementation of the Council of Ministers decision on the NPISAA⁴. As regards local government, the decentralisation of state responsibilities has not been matched by appropriate transfers in administrative and financial resources from central to local level. The existence of two separate local government associations is not conducive to improving the institutional relations between central and local government in view of a successful and transparent decentralisation process.

There has been progress in *public administration* reform, a key priority of the Opinion, mainly through the adoption of the Laws on Administrative Courts and on the Organisation and Functioning of Public Administration as well as through the appointment of the Ombudsman. It is now essential to adopt the amendments to the Civil Service Law. Implementation of adopted legislation and administrative acts needs to be strengthened. The legislative and institutional framework for the public administration is still marked by

deficiencies that need to be addressed with a view to strengthening professionalism, de-politicisation, meritocracy, transparency and accountability.

As regards the *judiciary*, moderate progress has been made in completing judicial reform, which is a key priority of the Opinion. The judicial reform strategy and the relevant action plan of March 2012 started to be implemented. The Law on Administrative Courts and the Law on the National Judicial Conference have been adopted. The new private bailiff system is operational. However, important legislation to strengthen the accountability, the independence and the efficiency of the judiciary still awaits finalisation, adoption and implementation. In this respect, it is now essential that amendments to the Law on the High Court are adopted. Court organisation, transparency and case backlogs, as well as the status of the judicial administration, continue to raise concern for the efficiency of the judiciary, as does budget allocation. The proceedings to shed light on the events of the 21 January 2011 need to be completed through a credible judicial process. Good progress is reported in the fight against corruption in the judiciary, through the limitation of the immunity of judges. Albania needs to further accelerate the implementation of the judicial reform strategy in order to ensure the independence, efficiency and accountability of its judicial institutions.

Moderate progress was made in the field of *anti-corruption* policy, which is a key priority of the Opinion, notably through the limitation of constitutional immunity of high-level public officials and judges. Some efforts were made to improve inter-institutional cooperation, exchange of information and the prosecution of generally low and medium-level cases. However, the absence of a proactive approach and lack of resources and equipment continue to obstruct effective investigations. There is no adequate track record of investigations, prosecution and convictions at all levels. Corruption is prevalent in many areas and continues to be a particularly serious problem.

There has been some progress as regards the *fight against organised crime*, which is a key priority of the Opinion. Progress is to be noted in particular with regard to the increase of seizures of criminal assets, on inter-institutional cooperation in investigation of financial crime, on money laundering, and in the fight against trafficking in human beings. Cooperation with EU member states is advancing well, and a secure communication link has been set up to facilitate exchange of information with Europol. Threat assessment and proactive investigations should be promoted in order to further develop a track record of investigations, prosecutions and convictions at all levels. Organised crime remains a major challenge in Albania.

There has been moderate progress in the field of ***human rights and the protection of minorities***.

There has been progress towards meeting the key priority that calls for improving the treatment of detainees, strengthening the judicial follow-up of cases of ill-treatment and application of the Ombudsman's recommendations. Measures have been taken to improve conditions of detention and strengthen cooperation with the Ombudsman. Some cases of ill-treatment are still reported and police do not systematically follow proper procedures for arrest and custody. Living standards in prisons still vary. There are plans for establishing a special medical institution for mentally ill detainees, but the need for additional specialised care and improving treatment remains. Delays in court proceedings and the as yet insufficient resources of the Probation Service continue to lead to over-use of pre-trial detention.

Progress towards meeting the key priority that calls for reinforcing the protection of human rights, notably for women, children and Roma and effective implementation of anti-discrimination policies has been uneven. Amendments to the Criminal Code on domestic violence are a positive step. Implementation of policies for child protection needs to be

strengthened. There is a need to adopt legislative measures for persons with disabilities and to review legislation in view of addressing potentially discriminatory provisions against LGBT persons. The Commissioner for Protection from Discrimination has worked on raising awareness but additional efforts are needed to establish a track record of cases brought to final completion. There is still discrimination against certain vulnerable groups, such as LGBT persons and Roma. Inter-ethnic relations remain good but no measures have been taken to address weaknesses in the overall legislative and institutional framework in the field of minorities. Implementation of policy tools for Roma inclusion and access of this community to social protection and services are still insufficient, leading to marginalisation. Policies in the field of human rights are largely supported by civil society and donors. It is important for Albania to prioritise policies in these areas in order to ensure sustainability.

Some progress was achieved in the area of *property rights*, notably through the adoption of a new law on the registration of immovable property and of a cross-cutting strategy and action plan for reform in the field of property rights, a key priority of the Opinion. Efficient coordination and monitoring is necessary to ensure the implementation of the strategy and consistency between legislation in force and future initiatives. Consultations with stakeholders need to continue in this respect. The first registration of properties has not yet been completed. Compensation and restitution claims by former owners are met at a very slow rate.

Regarding *regional issues and international obligations*, Albania continued to play a constructive role in contributing to the stability of the region by consolidating positive relations with neighbours and regional partners. The country has cooperated fully with EULEX and in May 2012, Parliament adopted a special law allowing EULEX investigators to carry out inquiries on Albanian territory. In the framework of its MARRI (the Migration, Asylum, Refugees regional Initiative) presidency, an agreement entered into force between Albania, Montenegro and Republic of Macedonia to ease border crossing procedures between the countries. Nationals of these countries are now able to travel between them with biometric identity cards for a period of up to three months.

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. Albania needs to align with the EU position.

Albania 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 country holds the chairmanship of CEFTA and of the Council of Europe Council of Ministers.

Albania maintained macroeconomic stability. GDP growth, driven mainly by domestic demand, decelerated but remained positive at 3.1% in 2011. Economic activity has been stagnant in the first quarter of 2012 amid weather related power disruptions. Underperforming revenue and higher expenditure led to a rise in the government deficit and consequently higher public debt. Structural reforms lost steam in part due to the fragile domestic political dialogue. Monetary policy remained sound and kept inflation within the target range. Weak enforceability of contracts and the rule of law, inadequate levels of infrastructure and human capital, as well as the informal economy continue to hamper economic development.

As regards the **economic criteria**, Albania made some further progress towards becoming a functioning market economy. Albania should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it accelerates and deepens structural reforms, including by reinforcing the legal system and strengthening physical and human capital.

Broad agreement on the key essentials of a market economy was maintained despite the often polarised political context. The Albanian economy continued to grow, albeit at a slower pace and despite the persistent unfavourable economic conditions in its main trading partners. Monetary policy has successfully helped to keep inflation stable and anchor inflationary expectations. Labour market performance slightly improved. State involvement in the economy and the level of subsidies have remained limited. The banking sector is well-capitalised and liquid. Some progress was made to further facilitate market entry.

However, the fiscal deficit increased in 2011, leading to a further rise in the relatively high public debt which continues to show a short-term bias. The persistently high current account deficit is a source of vulnerability. Unemployment continues to be persistently high. Implementation of bankruptcy procedures is incomplete. Weaknesses in the rule of law hinder the enforceability of contracts while pending issues in the area of property rights hamper investment and business environment in general. The informal sector and weak tax collection remain a challenge. The high and increasing level of non-performing loans in the banking system is an issue of concern. Investment in human capital and infrastructure remain inadequate. The lack of diversification of the production base in terms of sectors and export markets leaves the economy vulnerable to external shocks.

Albania has made moderate progress in improving its **ability to take on the obligations of membership**, in particular in the areas of competition, taxation, statistics, justice, freedom and security, education and culture and customs union. Progress has been limited in other areas such as freedom of movement for workers, public procurement, intellectual property law, food safety, fisheries, energy, and environment and climate change. Overall, Albania has generally continued to implement smoothly its obligations under the Stabilisation and Association Agreement (SAA). Still, there is a need to ensure the timely implementation of commitments, in particular as regards intellectual and industrial property rights. Furthermore, sustained efforts are needed to strengthen administrative capacity for the implementation and enforcement of legislation.

In the area of *free movement of goods*, there has been progress as regards standardisation. Work needs to continue on legislative approximation with the *acquis*. An adequate market surveillance inspectorate is not yet in place. Preparations in this area are moderately advanced.

There has been little progress in the area of *freedom of movement for workers*. Some preparations have been made for future participation in EURES and coordination of social security systems. Further efforts are required to align the legislation on access to the labour market with the *acquis*. Overall, preparations in this area are not very advanced. There has been some progress in the area of *establishment and freedom to provide services*, particularly as regards the mutual recognition of professional qualifications. Preparations for alignment with the Services Directive remain at an early stage. The Albanian postal legislation is not yet in line with the *acquis*. Preparations in this field are moderately advanced. There has been progress in the area of *free movement of capital* as regards legislative measures through the adoption of amendments to the Criminal Code and the Law on Banks. Further efforts are needed regarding the approximation of the Law on Payment Systems with the *acquis*. Preparations regarding free movement of capital are moderately advanced.

There has been little progress in approximating the legislative framework on *public procurement* and concessions to the *acquis*. The division of responsibilities among all public procurement institutions remains poorly defined and their administrative capacity and independence remain insufficient. Preparations in this field are moderately advanced. There has been some progress in the area of *company law*, where preparations are moderately

advanced. Albania approved the Corporate Governance Code, further aligning its legislation with the *acquis*. Further legislative approximation is needed on reporting and documentation requirements in case of mergers and divisions and in corporate accounting and auditing. Progress has been limited in the field of *intellectual property law*, where preparations are not very advanced. Substantial shortcomings remain as regards effective enforcement of intellectual and industrial property rights which impinge on Albania's commitments under the SAA. Some progress can be reported in the area of *competition*. Legislative alignment with the *acquis* on antitrust and merger control advanced and the regional State aid map was adopted. The administrative capacity and the operational independence of the State aid and competition authorities need to be adequately safeguarded. Preparations in the field of competition are on track.

There has been some progress in the field of *financial services*, where preparations are moderately advanced. The banking legislation was further approximated to the *acquis* and the investment market was further developed. Additional efforts are needed in the areas of insurance and occupational pensions, financial market infrastructure and the securities market and investment services. Administrative capacity in the banking and non-banking sector remains insufficient. There was little progress in the field of *information society and media*, where preparations are not very advanced. While a number of pro-competitive regulatory measures were taken in the electronic communications, concerns remain about the overall reform and liberalisation of the sector, legal uncertainties and, the capacity and independence of the telecoms regulator. Adoption of the Law on Audio-visual Media Services has been further delayed. In spite of some progress as regards the independence of media, concerns remain particularly regarding the independence of the regulator. Effective implementation of the digital switchover strategy needs to be ensured.

Progress was uneven in alignment with the *acquis* in the area of *agriculture and rural development*, in particular with regard to the setting up of rural development institutions. Efforts are needed regarding capacity building in rural development, the setting up of a land cadastre and the development of strategies in the fields of agriculture and land use. Overall, Albania has started to address its priorities in this area. Progress has been limited in the areas of *food safety, veterinary and phytosanitary policy*. Efforts are needed to improve the definition of competence, responsibilities and communication regarding risk management, the registration of movements of animals, the control of animal diseases, and the upgrading of food and feed establishments. Preparations in these areas remain at an early stage. There has been limited progress in the area of *fisheries*, where preparations are not very advanced. There is still a need for increased resources and technical capacities for monitoring, control and surveillance of the competent services, including the Inter-institutional Maritime Operational Centre. The division of tasks with regard to reporting and communication among directorates at the Ministry of Environment, Forests and Water Administration is not sufficiently defined.

There has been little progress on *transport policy*, mainly concerning cabotage in the maritime sector. Further efforts are required on alignment with the *acquis* and to implement legislation effectively. Administrative and technical capacity remains weak across the different modes of transport, particularly in the case of aviation and road safety. Rail infrastructure maintenance is a concern and needs more resources. There has been little progress in the *energy* sector. Lack of diversification hinders security of electricity supply. Energy market reforms require further efforts to ensure the viability of the sector. The administrative capacity and independence of the Energy Regulatory Entity require further strengthening. Overall, preparations in the field of transport and in the field of energy are not very advanced.

There was some progress in aligning legislation on indirect *taxation* with the *acquis* as well as in strengthening the capacity of the Tax Administration for investigation and internal audit. Further efforts are required in the fields of direct taxation, tax collection, VAT refund and IT. Preparations in this area are moderately advanced. Albania has made no progress in legislative alignment with the *acquis* in the field of *economic and monetary policy*; preparations in this field are not yet sufficient. Little progress has been made in the preparation of the economic policy document. There are insufficient capacities for policy formulation. Some progress has been made in the area of *statistics*. INSTAT conducted a population and housing census in October 2011. Sectoral statistics require substantial improvement and sufficient resources need to be secured for the forthcoming agricultural census. The independence and administrative capacity of INSTAT has to be secured. Overall, preparations in the field of statistics are moderately advanced.

There has been little progress in the field of *social policy and employment* where preparations are not very advanced. The labour market continues to be shaped by high informality, low participation of women, and relatively high youth unemployment. Social inclusion of persons with disabilities and the Roma minority remain insufficient. Sustainability of funding needs to be addressed to ensure successful implementation of social assistance and protection reforms. Implementation of policies in this area continues to be a challenge. There was some progress in the area of *enterprise and industrial policy*, where preparations are moderately advanced. Some measures were taken to facilitate access to financing for SMEs and to improve the regulatory framework for doing business. Market exit procedures remain slow.

There was some progress in the area of *Trans-European networks*. Rail transport remains underdeveloped and substantial investment is needed to maintain and upgrade overall transport infrastructure. Concerning energy networks, further efforts are required to complete electricity interconnection lines with neighbouring countries and to start developing a strategy for the introduction of natural gas. Overall, preparations are not very advanced. There was some progress in the area of *regional policy and coordination of structural instruments*, where preparations are still at an early stage. Considerable efforts are needed to establish the necessary institutional and administrative capacity at central and local levels and to develop a pipeline of mature and quality projects.

There has been some progress in implementing policies on the *judiciary and fundamental rights*, notably through efforts to address the relevant key priorities set out in the Commission Opinion. Yet, significant gaps in the legislative framework remain, in particular as regards judicial reform. Consistent implementation of legislative and policy tools remains a challenge in all areas under this chapter. Albania's alignment with European standards and the *acquis* in the field of the judiciary and fundamental rights is not very advanced.

There was some progress in the area of *justice, freedom and security*, particularly in border management, international cooperation and the fight against organised crime. Efforts need to be stepped up in the coordination between law enforcement institutions and in building a solid track record of investigations, prosecutions and convictions. Overall, preparations in this field are advancing.

There was little progress in the area of *science and research*, where preparations are not very advanced. Further efforts are required at national level to strengthen the research and innovation capacity and increase the country's competitiveness. The level of investment in research remains very low and the human capital-building requires strengthening.

Good progress can be reported in the fields of *education and culture* in aligning with European standards, particularly in the area of higher education and in the development of vocational and educational training (VET). Further efforts are required to improve

transparency in private higher education institutions. In 2012, Albania started to participate in the Culture programme. Overall, preparations in this area are moderately advanced.

While there has been some progress in alignment with the *acquis* in the field of *environment*, there was very little progress in the field of *climate change*. Further efforts are urgently needed to align, implement and enforce legislation. Public awareness and consultation on legislative initiatives or public investments remain weak. There is a need for greater political commitment and coordinated action in these sectors. Substantial investment is needed while current resources allocated remain limited. Environment needs to be better integrated into other policy areas, such as transport and energy. Concerning climate change, substantial efforts are required on awareness-raising, setting a more strategic approach for the country, aligning with and implementing the *acquis*, as well as strengthening administrative capacities and inter-institutional cooperation. Preparations in the area of the environment are still at an early stage, whereas preparations in the area of climate change remain at a very early stage.

There has been some progress in the areas of *consumer and health protection*. Implementation and enforcement of legislation remain very weak. The market surveillance system is not yet in place. Low awareness in the health protection system, both amongst professionals and the public, is hampering transparency and enforcement. The health sector remains underfinanced. Preparations in these areas are not very advanced. There was progress in legislative approximation in the field of *customs union*, where preparations are moderately advanced. Shortcomings remain in the overall administrative and operational capacity, including the compatibility of IT systems with EU requirements. Further efforts are required on customs valuation and trade facilitation.

Progress was moderate in the area of *external relations*. Albania has continued its good cooperation within the WTO and CEFTA. The administrative capacities of the institutions involved in trade policy remain to be improved. In the field of *foreign, security and defence policy* the country continued to align with the EU common security and defence policy positions and has shown continued political commitment regarding its participation in civil and military and crisis management operations. The online registry of weapons and ammunition under the management of the State Police has yet to be finalised. Overall, preparations in this field remain on track.

There was little progress in the area of *financial control* where preparations are still not very advanced. Shortcomings remain as regards implementation of the PIFC legal framework and the principle of managerial accountability. External audits need to be improved in line with the INTOSAI standards.

In the field of *financial and budgetary provisions* there has been no particular progress. Sound coordination structures and implementing rules will need to be established in due course for the administration of the own resources system. Overall, preparations in this area are at an early stage.

Bosnia and Herzegovina

The establishment of the executive and legislative authorities was completed with the agreement on a State-level Government after sixteen months of political stalemate following the October 2010 general elections. The formation of the new Council of Ministers and the adoption of two key EU-related laws initially produced a shift of focus towards EU integration. This momentum was not maintained, however. The political consensus that had emerged was lost and progress on the EU agenda stalled. A reshuffle of State, Federation and Cantonal authorities has begun but remained blocked by political disputes and legal challenges. A shared vision among the political representatives on the overall direction and

future of the country and its institutional set-up for a qualitative step forward on the country's EU path remains absent.

Following the decoupling of the European Union Special Representative's (EUSR) mandate from the Office of the High Representative, the enhanced presence of the Head of EU Delegation /EUSR in Bosnia and Herzegovina has taken the lead in a number of areas in assisting the authorities to implement the objectives of the EU agenda in key areas.

Overall, Bosnia and Herzegovina has made limited progress in addressing the **political criteria**. A High Level Dialogue on the Accession Process (HLDAP) was launched in Brussels in June with representatives of the authorities and of the political parties of Bosnia and Herzegovina to explain EU accession requirements. The participants agreed to an internal roadmap on EU integration to enable the entry into force of the SAA and to submit a credible membership application, as defined by the relevant Council Conclusions. The first timeline set in the June Roadmap for submission of an agreed proposal to comply with the European Court of Human Rights judgement in the Sejdic-Finci case, was not met. The need for an effective coordination mechanism between various levels of government for the transposition, implementation and enforcement of EU laws remains to be addressed as a matter of priority so as to enable the country to speak with one voice on EU issues and make an effective use of the EU's pre-accession assistance.

In the areas of *democracy and the rule of law*, after the general elections of October 2010, a State-level Government was established in February. The State-level and Federation authorities began to be reshuffled in June, but the outcome of this process remains uncertain due to political disputes and on-going legal challenges. Strengthening the functionality and coordination mechanisms of the institutions remains an issue to be addressed as a matter of priority. The harmonisation of the *Constitution* with the European Convention on Human Rights (ECHR) remains outstanding. A proposal, based on political consensus, amending the Constitution to ensure compliance with the European Convention on Human Rights (Sejdic-Finci case) remains to be submitted to the Parliamentary Assembly.

The *Parliamentary Assembly* has made some progress in adopting EU-related legislation, in particular by adopting the State Aid Law and the Law on Household and Population Census. The establishment of the State Aid Council, compliance with EU principles on public undertakings and a comprehensive State aid inventory remain to be addressed as a matter of priority to comply with IA/SAA obligations. Delays in establishing the State-level Government and with the on-going reshuffle of governments at all levels hampered the effectiveness of legislative activities. Cooperation between the Entity Parliaments, the State-level Parliamentary Assembly and the State-level Council of Ministers regarding EU-related matters, needs to improve.

Little progress was made in improving the functionality and efficiency of all levels of the *government*, which continued to be affected by fragmented, uncoordinated policy-making. The 2012 State-level budget was adopted in May and this was followed by the break-up of the governing coalition. Formulation of foreign policy remained subject to different positions within the Presidency of Bosnia and Herzegovina on some issues.

Little progress has been made in the area of *public administration* reform. The action plan under the public administration reform strategy was revised, providing a framework for reform over the next five years. Coordination between the various administrations at all levels remains weak and the public administration reform process lacks the necessary political support. The issue of financial sustainability of public administration at all levels needs to be addressed. A State-level Ombudsman is in place but the reduction of funding for its activities impacted negatively on its effectiveness. Fragmentation and politicisation continued to

hamper the establishment of a professional, accountable, transparent and efficient civil service based on merit and competence.

Limited progress has been achieved in the area of *judicial system* reform. A constructive attitude towards the need for a comprehensive reform emerged within the framework of the Structured Dialogue on Justice, based on domestic ownership, including in the implementation of the Justice Sector Reform Strategy and of the National War Crimes Strategy. Further measures were introduced to reduce the backlog of cases, particularly of utility bills cases, but the overall backlog, including of war crime cases, remains very high. The harmonised application of criminal laws throughout the country as well as the fragmented organisation and budgets of the judiciary remain issues to be addressed.

Bosnia and Herzegovina has made limited progress in tackling *corruption*, which remains a serious problem and is prevalent in many areas throughout the public and private sector. A legal framework is in place but the political will to tackle the issue and to improve institutional capacity remains weak. The implementation of the strategy and action plan needs to be stepped up. The rulebook for the Anti-Corruption Agency was adopted but it is not fully operational. 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 stronger political commitment and more determined action against corruption. There was little progress in the *fight against organised crime*. Bosnia and Herzegovina remains a source country for arms and ammunition for criminal groups in the EU. Organised crime activities are further linked to the transit of drugs on international trafficking routes.

Respect for *human rights and protection of minorities* is broadly ensured. Bosnia and Herzegovina has ratified all major international human rights conventions but implementation remains uneven.

Civil and political rights are broadly respected. Some progress has been made in improving prison conditions. The new psychiatric facility in Sokolac is not operational yet. A comprehensive reform of the prison system remains outstanding. Adoption of the Framework law on free legal aid is still pending. Some progress has been made as regards access to justice but the legal and institutional framework in the country remains fragmented. The State and the Entity Constitutions provide for freedom of expression, freedom of assembly and freedom of thought, conscience and religion. The Press Council has continued to work closely with judicial institutions and journalist associations to improve the quality of reporting and awareness-raising among citizens of their legal rights. Cases of intimidation and threats against journalists and editors continued. Political pressure on media and the polarisation of media along political and ethnic lines remain of concern. Attempts to undermine the independence of the Communication Regulatory Agency (CRA) and of the public service broadcasters have increased. The appointments of the Director-General and the Board Members of the CRA are still pending. Regarding civil society, mechanisms for cooperation at all levels and transparency in funding allocations remain to be improved. An international Meeting for Peace involving the main inter-religious leaders took place in Sarajevo in September.

Economic and social rights are broadly respected. Some progress has been made to combat violence against women and in the area of early childhood development. The implementation of women's and children's rights remains uneven. Little progress was achieved to make schools more inclusive. *De facto* ethnic-based separation and discrimination in some public schools remain a cause of concern. Ethnically based and divided education systems remain an obstacle to sustainable returns. A State-level anti-discrimination law is in place but little

progress has been made to ensure its effective implementation. Discrimination against lesbian, gay, bisexual and transgender persons remains widespread. The system of social benefits remains based on status instead of needs, which has an adverse impact on the situation of vulnerable groups, including persons with disabilities. Social dialogue and the exercise of labour rights continued to be hampered by the lack of recognition of State-level social partners and a fragmented legislative framework.

Respect for and protection of minorities⁵ and cultural rights are broadly ensured. The National Minority Councils' influence over policy making remained limited, partly due to the lack of political and financial support. Some progress was made in implementing the Roma action plan on housing. Efforts need to be stepped up to ensure effective implementation of the action plans on health, employment and education and to improve resources and sustainability with regard to the implementation of all four action plans. A number of Roma children are not registered at birth and therefore cannot enrol in school and have no health insurance. The Roma minority continues to face very difficult living conditions and discrimination. As regards refugees and internally displaced persons, some progress was made in the area of housing for the implementation of the revised strategy on Annex 7 to the Dayton/Paris Peace Agreement (DPA). Discrimination with regard to access to employment, healthcare and pension rights continues to hamper the sustainability of return and of local integration. Transparent procedures for allocating funds to support return based on need are not fully in place yet.

Regarding *regional issues and international obligations*, implementation of the DPA has continued. Cooperation with the International Criminal Tribunal for the former Yugoslavia is generally satisfactory in most areas.

Cooperation between the courts and prosecutors from Bosnia and Herzegovina, Croatia and Serbia continued. Implementation of bilateral agreements on the mutual recognition and enforcement of court rulings in criminal matters is on-going. The prosecution of war crimes cases continued to be hampered by legal obstacles to extradition in the Criminal Procedural Code. The finalisation of the Protocol on sharing information and evidence in war crimes cases between the Prosecutor's Office of Bosnia and Herzegovina and the War Crimes Prosecutor's Office of Serbia remains outstanding.

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.

Significant progress has been made as regards the Sarajevo Declaration Process. Bosnia and Herzegovina, Croatia, Montenegro and Serbia continued to cooperate on finding sustainable solutions for the refugees who were displaced as a result of the armed conflicts in the 1990s. The four countries signed a ministerial declaration and agreed on a Regional Housing Programme assisting some 27,000 households or 74,000 individuals. At an international donors' conference held in Sarajevo in April some €265 million was pledged in support of the programme. Good cooperation needs to continue on all outstanding issues in the process.

Bosnia and Herzegovina 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 but border and property

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.

issues remain to be fully resolved. A number of meetings have taken place to address the implications for bilateral relations of Croatia's EU accession in July 2013. In this context, discussions have continued with regard to the outstanding issues on border management, with limited progress. The agreement on free transit through the port of Ploče, in Croatia, and the Neum corridor, in Bosnia and Herzegovina, as well as the local border traffic agreement should be aligned with the EU *acquis*. In view of Croatia's accession, border, trade and transit-related issues remain to be addressed as a matter of urgency.

The **economy** of Bosnia and Herzegovina grew by 1.3% in 2011, supported by reviving domestic demand and – to a lesser extent – still growing external demand. The recovery process was reversed in early 2012 as a consequence of the worsened economic environment. Unemployment remained at very high levels. Some fiscal consolidation took place as a result of increased revenues and some expenditure cuts. However, the quality of public finances remained low and the fiscal sustainability was severely hampered by the protracted adoption of the State-level budget and of a medium-term fiscal strategy. The weakened consensus on economic and fiscal policy essentials had a negative impact on reforms at the country level. A new two-year IMF Stand-By Arrangement has been agreed to support the country's efforts to counter the effects of the worsening external environment and tackle external and domestic vulnerabilities.

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.

Financial and monetary stability was preserved, while inflation moderated. The currency board arrangement continued to enjoy a high degree of credibility. Credit growth continued – although marginally decelerating –, thus allowing for domestic demand recovery. Trade activities have increased further and the level of trade integration with the EU and countries in the region remained high. Some limited improvements in the business environment can be reported, in particular regarding accelerated business registration.

However, the delays in the adoption of the 2011 and 2012 State-level budgets and the Global Frameworks for Fiscal Policies 2012-2014 and 2013-2015 severely hampered the sustainability and credibility of fiscal policy in Bosnia and Herzegovina. The quality of public finances remained low with high shares of current expenditures to GDP. The repercussions of the worsened external environment are increasingly affecting public finances since 2012, with both the government borrowing and the debt rapidly increasing. This borrowing is to a certain extent crowding out private investors. External imbalances, in particular the foreign trade gap and the current account deficit, have been rising. Privatisation, restructuring of public enterprises and the liberalisation of network industries did not advance. The productive capacity and the competitiveness of the economy remained weak as domestic sources of growth were not adequately exploited. Labour market conditions remained poor and structural rigidities such as the high rates of social contributions and poorly targeted social transfers continued to hamper job creation. Unemployment continued to be very high and the participation rate is very low. The business environment is affected by administrative inefficiencies and the weak rule of law. The informal sector remains an important challenge.

Bosnia and Herzegovina made limited progress in aligning its legislation and policies with **European standards**. Some progress was noted in the areas of free movement of goods, competition, intellectual property, research and a number of justice, freedom and security-related matters. Particular efforts remain necessary on free movement of persons and services, capital, customs and taxation, public procurement, employment and social policies, education,

culture, industry and SMEs, agriculture and fisheries, food safety, veterinary and phytosanitary sectors, environment and climate change, transport, energy, information society and media, financial control and statistics. On the whole, the implementation of the Interim Agreement (IA) remained uneven. The country remains in breach of the IA due to non-compliance with the ECHR and the insufficient implementation of the obligations on State aid. The State Aid Law was adopted but the establishment of the State Aid Council, compliance with EU principles on public undertakings and the inventory of aid schemes remain outstanding. The implementation of the Law on Population Census needs to be stepped up.

Bosnia and Herzegovina made some progress in *internal market* areas. Regarding *free movement of goods*, some progress was made in standardisation, accreditation, market surveillance and consumer protection. Substantial efforts remain necessary to align the legal framework to EU legislation, improve administrative capacity and achieve a single economic space. A public-private dialogue on the industrial market remains to be established.

In the area of *movement of persons, services and right of establishment* little progress was made. Both Entities are implementing new charts of accounts for financial institutions which are harmonised between them and the inter-entity banking supervision remained satisfactory. Further simplification of company registration and alignment of the legislative framework for postal services will be essential.

There was no progress in the area of *free movement of capital*. Further alignment with the *acquis* as well as country-wide harmonisation of legislation is needed. Little progress can be reported on *customs* and *taxation*. Shortcomings remain as regards alignment of legislation and overall administrative and operational capacity. Further efforts are required to provide better services to taxpayers, to ensure trade facilitation and to ensure effective implementation and enforcement of legislation, including on intellectual property.

Bosnia and Herzegovina made some progress with the adoption of the State-level State Aid Law and enforcement of *competition* rules. There was no progress in the area of *public procurement*, particularly regarding full alignment of the Public Procurement legislation. Progress continued in the area of *intellectual property rights*.

There was little progress on *employment and social policies*. Legislative approximation remains to be intensified and strategic documents to be adopted and implemented. The Social Inclusion Strategy at State-level remains to be adopted. Framework laws and strategies are in place in the field of *education* but implementation is pending. Some progress was made on *culture*. Progress in the field of *research* and preparations for the Innovation Union continued. Negotiations to join the *World Trade Organisation* further advanced.

Bosnia and Herzegovina made little progress towards meeting European standards on a number of *sectoral policies*. Regarding *industry and small and medium sized enterprises* (SMEs), a country development strategy including industrial policy elements and the new SME strategy remain to be adopted. There was little progress in the areas of *agriculture* and rural development, food safety, veterinary and phytosanitary policy, and *fisheries*. A clear division of competences, closer coordination between the State and Entities in aligning with the *acquis* in these fields and the upgrading of establishments remain essential. The lack of progress has a negative impact on trade in agricultural products, in particular with the EU.

Bosnia and Herzegovina's preparations in the field of the *environment* remained at an early stage. A harmonised legal framework for environmental protection and adequate institutional capacities remain to be established. The administrative capacity is weak and the horizontal and vertical communication between the different authorities requires strengthening.

Regarding *climate change*, the adoption of a national climate strategy, the alignment with the *acquis* and awareness-raising remain issues to be addressed.

Bosnia and Herzegovina made little progress in the *transport* sector, but there were some positive developments regarding the trans-European transport networks and air transport. The Law on Transport of Dangerous Goods remains to be fully aligned with the EU *acquis*. The upgrading of transport infrastructure remains an issue to be addressed. Preparations in the field of *energy* remain at an early stage. As 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 country-wide functioning national transmission company needs to be in place and a comprehensive energy strategy adopted.

There was little progress on *information society and media*. Harmonisation of the legal framework for public broadcasting remains incomplete. The continuing challenges to the independence of the Communications Regulatory Authority and of the public service broadcasters, political pressure on the media and the slow pace of implementation of the public broadcasting reform remain causes for serious concern.

Little progress can be reported in the area of *financial control*. Legislation remains to be adopted and implemented and the coordination board of the Central Harmonisation Units needs to reassume its role. Internal audit capacities as well as the independence of the external audit institutions need to be strengthened. Some progress was made in the area of *statistics*. Sectoral statistics such as national accounts, business and agricultural statistics need to be improved. Cooperation between the country's statistical institutions at State and Entity-level and other relevant State-level agencies needs to be intensified, also in view of the implementation of the Law on Population and Household Census.

Some progress has been achieved in the different areas related to ***justice, freedom and security***. In the area of *visa policy*, priorities continued to be addressed. The visa facilitation agreement between the EU and Bosnia and Herzegovina and the readmission agreement have continued to be implemented smoothly. Visa-free travel to the Schengen area entered into force in December 2010 for citizens of Bosnia and Herzegovina holding biometric passports. In the framework of the Post-Visa Liberalisation Monitoring Mechanism, Bosnia and Herzegovina adopted targeted measures to improve the management of the migratory outflow. The implementation of some reforms adopted as a part of the visa liberalisation roadmap remains outstanding. In particular, the establishment of a functioning system for electronic data exchange amongst law enforcement agencies and prosecutor's offices throughout Bosnia and Herzegovina and the establishment of a fully functional anti-corruption agency, with adequate staff and financial resources, need to be addressed as a matter of urgency.

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 continued to improve. Infrastructure at some border crossing points requires further upgrades. The issue of unauthorised Border Crossing Points with both Montenegro and Serbia remains to be addressed. Some progress has been made in the fight against *money laundering*. The implementation of the strategy and action plan for the prevention of money laundering remains limited. There has been little progress in the fight against *drugs*. The absence of effective judicial follow up hampers the fight against drug trafficking, which remains a serious problem.

Efforts by Bosnia and Herzegovina to increase capacity and effectiveness of the *police* continued. The fragmentation of Bosnia and Herzegovina's police forces continues to undermine efficiency, cooperation and information exchange. The *fight against organised crime* remains insufficient due to the lack of effective coordination between law enforcement

agencies. Organised crime remains a serious concern that affects the rule of law and the business environment. Efforts to fight *trafficking in human beings* need to be intensified and identification of victims improved. Bosnia and Herzegovina made some progress in fighting terrorism. The Joint Task Force to fight terrorism was re-established but the implementation of the strategy for preventing and combating terrorism remains weak.

Preparations for the *protection of personal data* have continued, but law enforcement and the independence of the supervisory agency need to be strengthened. Well-functioning personal data protection is crucial in order for Bosnia and Herzegovina to conclude agreements with Europol and Eurojust.

Turkey

The positive agenda was launched in May to support and to complement the accession negotiations, through enhanced cooperation in a number of areas of joint interest: political reforms, alignment with the *acquis*, dialogue on foreign policy, visa, mobility and migration, trade, energy, counter terrorism and participation in Community programs. Six of eight working groups, which have been established to encourage alignment with the *acquis*, had their first meeting.

Work on a new constitution started via a relatively democratic and participatory process. However, concerns are growing regarding Turkey's lack of substantial progress towards fully meeting the political criteria. The situation regarding the respect for fundamental rights continues to be the source of serious preoccupation. This stems, in particular, from the wide application of the legal framework on terrorism and organised crime, which leads to recurring infringements of the right to liberty and security, of the right to a fair trial and of the freedom of expression, assembly and association. While debates continue on topics perceived as sensitive, such as the Armenian issue or the role of the military, restrictions on freedom of the media in practice and numerous court cases against writers and journalists remain serious issues. As a consequence, self-censorship is widespread.

Regarding *democracy and the rule of law*, positive steps have been taken in terms of participative work on a new Constitution, but overall there was a recurrent lack of consultation in the legislative process. Offering a chance to strengthen confidence in the proper functioning of Turkey's democratic institutions and the rule of law, investigations into alleged coup plans have been overshadowed by real concerns about their wide scope and the shortcomings in judicial proceedings. The Kurdish issue remains a key challenge for Turkey's democracy; the 2009 democratic opening, aimed at addressing amongst others the Kurdish issue, was not followed through. Local government in the South-East suffered from the detention of numerous local politicians. There was a significant increase in PKK terrorist attacks

Regarding *public administration* reform, progress has been made in legislative reform. The establishment of an Ombudsman institution is an important step in safeguarding the rights of citizens and ensuring accountability of the public administration. Increased political support is needed for public administration reform and there was no progress on administrative decentralisation.

The *civilian oversight of the security forces* was further consolidated. The introduction of parliamentary oversight of the defence budget was a positive development, but remained limited in scope. The General Staff generally refrained from exerting direct or indirect pressure on political issues. Several symbolic steps have been taken toward further democratisation of civil-military relations. Further reforms, particularly of the military justice system and civilian oversight of the Gendarmerie are needed.

Some progress has been made in the area of the *judiciary* following the adoption of the third judicial reform package, which introduces a number of improvements into the Turkish criminal justice system, including the easing of restrictions on the media to report on criminal investigations and the deletion of the provision allowing the prosecutor to ban publications. A number of detainees were released from remand detention following the entry into force of the legal changes. However, legal reforms failed to address core shortcomings which are the main reasons for continuing condemnations of Turkey by the European Court of Human Rights. The incidence and length of pre-trial detention continue to be a serious concern. Further steps are needed on the independence, impartiality and efficiency of the judiciary, including the criminal justice system and the large backlog of pending serious criminal cases. Further steps are also needed to increase the participation rate of women in the judiciary. The judicial reform strategy needs to be revised with the participation of all stakeholders, including the Turkish legal community and civil society.

Limited progress was made on *fighting corruption*, with some developments on incriminations and transparency in the financing of political parties. Transparency of political financing needs to be increased. The broad scope of immunities remains a shortcoming in this area. A track record of investigations, indictments or convictions related to corruption cases remains to be established. There are concerns about impartiality in the processing of anti-corruption cases. The implementation of the National Anti-Corruption Strategy requires greater political engagement.

Uneven progress has been achieved in the *fight against organised crime*. While Turkey is a party to the main international conventions, the lack of a data protection law continues to limit police cooperation at international level and hinders the conclusion of an operational cooperation agreement with Europol. The assignment of a police liaison officer to Europol would contribute to improving bilateral cooperation. No significant progress was noted in the area of addressing trafficking in human beings.

Concerning *human rights and the protection of minorities*, significant efforts are needed in most areas, in particular freedom of expression, freedom of association and assembly and freedom of religion.

Although some progress was made regarding the *observance of international human rights law*, important reforms to strengthen human rights structures remain outstanding and the number of criminal proceedings launched against human rights defenders is a matter of concern.

The downward trend in *torture and ill-treatment* in places of detention continued. However, excessive use of force continues to be a matter of concern, and there has been little progress on tackling *impunity*. There is a significant backlog of judicial proceedings, with priority given to counter-allegations lodged by the security forces.

As regards *prisons*, the continued increase in the prison population is leading to serious overcrowding, with a significant impact on sanitation and other physical conditions. Detention conditions, in particular for juveniles, continue to be a serious concern. An overhaul of the complaints system in prisons is overdue. Medical services for inmates, as well as the conditions for the detention of juveniles, are matters requiring special efforts.

Limited progress has been made on *access to justice*. The scope and quality of legal aid is inadequate. There is no effective monitoring mechanism that would remedy long-standing problems.

With regard to *freedom of expression*, following the adoption of the third judicial reform package a number of journalists were released pending trial, restrictions on the media to

report on criminal investigations were eased and the seizure of written work before publication was prohibited. However, the increase in violations of freedom of expression raises serious concerns, and freedom of the media continued to be further restricted in practice. The legal framework, especially as regards organised crime and terrorism, and its interpretation by the courts, leads to abuses. Combined with a high concentration of the media in industrial conglomerates with interests going far beyond the free circulation of information and ideas, this has led to widespread self-censorship. Frequent website bans are a cause for serious concern and there is a need to revise the law on internet.

As regards *freedom of assembly and association*, while 1 May demonstrations and activities such as the ‘Armenian Genocide Commemoration Day’ took place in a peaceful atmosphere, cases of violence and disproportionate use of force by the security forces occurred during demonstrations that had not received prior authorization. This concerned especially, but not only, demonstrations in relation to the Kurdish issue. The constitutional right to freedom of assembly and association is at times interpreted in an overly-restrictive manner. The law on demonstrations and meetings needs to be revised, allegations regarding the use of excessive force by the security forces need to be investigated and prosecuted where appropriate. Fundraising rules remain restrictive and discretionary. There was no development regarding legislation on political parties.

There was limited progress on *freedom of thought, conscience and religion*. Some progress on conscientious objection in terms of application of the case law of the European Court of Human Rights (ECtHR) was registered. Dialogue with the non-Muslim religious communities continued. However, persons professing faith in minority religions or indeed no faith were subject to threats from extremists. A legal framework in line with the ECHR has yet to be established, so that all non-Muslim religious communities and the Alevi community can function without undue constraints.

In legal terms, there has been progress regarding the respect for *women’s rights and gender equality*. The government established an action plan to address issues raised in the European Parliament report ‘A 2020 perspective for women in Turkey’. The Law on the Protection of Family and Prevention of Violence against Women aims at protecting family members and those in relationships outside marriage from violence. The procedures foreseen in cases of urgency are generally positive, as was the inclusive consultation exercise undertaken by the authorities with civil society. Also, substantial efforts are needed to turn this new law, together with the already existing legislation into political, social and economic reality. Legislation needs to be implemented consistently across the country. There is need for more involvement and participation of women in employment, policy making and politics. A law on caesarean sections was adopted with insufficient preparation and consultation with civil society. The debate that preceded this law and a similar debate on abortion were characterized by a polarizing stance. The issue of early and forced marriages remains a serious concern.

With respect to *children’s rights*, efforts are needed in all areas, including education, combatting child labour, health, administrative capacity and coordination. In general, more preventive and rehabilitative measures need to be taken for juveniles. Detention of children does not take place in appropriate conditions and additional juvenile courts need to be established in line with the legislation in force.

As regards *socially vulnerable persons and/or persons with disabilities* further measures are still required in order to increase the participation of those persons in social and economic life.

Further efforts are required in the fight against *discrimination*. Comprehensive anti-discrimination legislation is lacking and substantial efforts by the government are still needed

to effectively protect vulnerable population, including women, children, lesbian, gay, bisexual and transgender individuals from societal abuse, discrimination and violence.

There was limited progress in the areas of *labour and trade unions rights*. The legislation on civil servants' trade unions rights has been amended but is still not in line with the EU and ILO standards. Collective actions by trade unions suffer numerous restrictions.

As regards *property rights*, there has been progress with the adoption of legislation amending the 2008 Law on foundations. Implementation continues. However, the existing legislation still does not cover fused foundations, i.e. foundations whose management has been taken over by the Directorate General for Foundations, or properties confiscated from Alevi foundations. The on-going cases, some of which were initiated by the government, against the Mor Gabriel Syriac Orthodox monastery raise concerns. Turkey needs to ensure full respect of the property rights of all non-Muslim religious communities and others.

Turkey's approach to *minorities* remains restrictive, although for the first time representatives of minority groups, not limited to those minorities officially recognised by Turkey, were invited to parliament to express their views on a new Constitution. Full respect for and protection of language, culture and fundamental rights in accordance with European standards has yet to be achieved. Turkey needs to take a comprehensive approach and make further efforts to enhance tolerance, security and promote inclusiveness vis-à-vis minorities. Existing legislation needs to be revised, comprehensive legislation to combat discrimination needs to be introduced and protection mechanisms or specific bodies to combat racism, xenophobia, anti-Semitism and intolerance need to be established. Relevant Covenants and Conventions should be applied.

Turkey made progress on *cultural rights*, and fewer restrictions on the use of Kurdish in prisons during visits and exchanges of letters were reported. However, legislation still restricts the use of languages other than Turkish, including the Constitution and the Political Parties Law. Also, the judiciary took a number of restrictive decisions on the use of languages other than Turkish, including the use of Kurdish in court cases concerning Kurdish politicians and human rights defenders.

There has been some progress, but a systematic approach is needed to tackle the problems of *Roma*. A comprehensive strategy needs to be established and the issue needs to be reflected and mainstreamed in main policy documents. There is lack of quantitative data on the situation of Roma, which prevents informed policy making.

As regards the *East and Southeast*, there was a considerable debate on the Kurdish issue but no progress towards a solution. Terrorist attacks intensified as did military operations. All terrorist attacks were condemned by the EU. The detention of elected politicians and human rights defenders raises concerns. In incidents such as the Uludere killings of civilians, calls on the authorities for effective and swift investigation and a transparent public inquiry have not been met. The truth about extra-judicial killings and torture in the south-east in the 1980s and 1990s has yet to be established in line with the due process of law. The statute of limitations deadline will soon bring an end to judicial investigations on past crimes, without result. Landmines and the village guard system are still causes for concern.

The process of compensating *internally displaced persons (IDP)* has continued but the effectiveness of the system has yet to be assessed. As regards *refugees and asylum-seekers*, some improvements can be reported in detention conditions in the removal centres. However, there is still no national strategy to better address IDPs needs or a comprehensive legal framework for refugees and asylum seekers. Further improvements are needed in detention and deportation practices.

With regard to *regional issues and international obligations*, Turkey reiterated its 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 to the *Cyprus problem*. Despite repeated calls by the Council and the Commission, Turkey has still not complied with 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, 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 2010 conclusions. There is no progress towards normalisation of bilateral relations with the Republic of Cyprus. Moreover, Turkey decided to freeze its relations with the Cyprus EU Presidency during the second half of 2012, including abstaining from meetings chaired by the Cyprus EU Presidency. The European Council expressed its serious concerns with regard to Turkish statements and threats and called for full respect of the role of the Presidency of the Council, which is a fundamental institutional feature of the EU provided for in the Treaty. Turkey continued to issue statements objecting to drilling operations carried out by the Republic of Cyprus and expressing threats of retaliation against oil companies that would participate in the Cypriot explorations. The EU stressed the sovereign rights of all EU Member States, which include, inter alia, entering into bilateral agreements, and to explore and exploit their natural resources, in accordance with the EU *acquis* and international law, including the UN Convention on the Law of the Sea.

After the last round of exploratory talks in July 2011, discussions are on-going between Greece and Turkey to set a date for the next round. A substantial number of formal complaints were made by Greece and Cyprus about continued violations of their territorial waters and airspace, including flights over Greek islands.

As regards *regional cooperation*, Turkey remains involved in regional initiatives, including the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council (RCC). Turkey supports the European integration of all countries in the region and has intensified contacts with the Western Balkans, expressing a firm commitment to promoting peace and stability. Relations with the neighbouring EU Member State Bulgaria remained positive.

The **economy** of Turkey continued growing strongly, thus reaping the rewards of the stability and growth oriented policies implemented in most of the previous decade. Since mid-2011, the pace of growth has been falling gradually in line with the slowdown in domestic demand, accompanied by an improvement in the trade and current account balances. However, the still sizeable external imbalances and significant inflationary pressures continue to pose a threat to macroeconomic stability.

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 accelerates the implementation of its comprehensive structural reform programme.

In 2011, the Turkish economy grew by 8.5%, only slightly down from 9.2% in 2010. Growth was largely driven by domestic demand, in particular stemming from the private sector. A major growth deceleration was observed in the first half of 2012, to 3.1% year-on-year. The slowdown in domestic demand is accompanied by an improvement in the trade and current account deficits, albeit from very high levels (10% of GDP in 2011). The robust economic expansion also allowed strong employment growth and a drop in unemployment from about 11% in mid-2011 to less than 9% a year later. Monetary policy has become [more instrumental](#) and has been successful in curbing the growth of credit, and reducing the current account

deficit. The budget performed better than expected in 2011, and public debt fell to about 39% of GDP by mid-2012. Reforms and increased spending on education have generated some positive impact on educational attainment and schooling rates. Trade and economic integration with the EU remained high.

At the same time, the soft landing scenario is challenged by bouts of financial uncertainty and the global risk sentiment and more may need to be done to better coordinate the policy mix. The current account deficit is still sizeable. Inflation has been falling, but remains high. These imbalances signal competitiveness problems and a lack of domestic savings, and call for further structural reforms. No efforts were made to increase fiscal transparency and better anchor fiscal policy, which would also contribute to enhance Turkey's credibility in the markets. Market exit remains costly and long and bankruptcy proceedings are still relatively cumbersome. To improve business competitiveness, the law on State Aid should be fully implemented. While there were some improvements in the country's human capital, improvements on physical capital have been modest.

Turkey continued to improve its **ability to take on the obligations of membership**. Progress was made in most areas, in particular on company law, statistics, science and research and Customs Union *acquis*. Efforts need to continue towards further alignment in most fields. The administrative capacity to cope with the *acquis* in terms of effectiveness and efficiency needs to be strengthened. Enforcement capacity also needs to be strengthened in certain areas. Efforts on the alignment were monitored by the bodies set up under the Association Agreement and by the working groups established in the context of the positive agenda.

Some progress was made in the area of *free movement of goods*. Turkey introduced the mutual recognition principle into its legal order for the non-harmonised area. Turkey has become a full member of CEN and CENELEC. However, technical barriers to trade continue to exist and prevent free movement of goods in some areas in violation of Turkey's obligations under the Customs Union. The alignment in this area is advanced. There has been little progress in the area of *freedom of movement for workers*. Turkey increased its capacity with a view to future participation in the EURES and coordination of social security systems. Preparations in this area have been launched. Very little progress can be reported on the *right of establishment and freedom to provide services* and further efforts are needed in this area. Overall, alignment is at an early stage. There has been limited progress on *free movement of capital*. Restrictions on capital movements remain in place in a number of sectors. Enforcement capacity against money laundering and financing of terrorism needs to be improved. Further efforts are needed as regards alignment with the *acquis* and the relevant FATF recommendations. Preparations in this area remain at an early stage.

Limited progress can be reported in the area of *public procurement*. The institutions are in place and administrative capacity has improved. The draft alignment strategy, comprising a time-bound action plan, needs to be adopted. Turkey needs to repeal derogations that are not in line with the *acquis* and align further its legislation, particularly on utilities, concessions and public-private partnerships. The organisation of the remedies system remains to be reviewed. Preparations in this area are moderately advanced. Good progress was made on *company law*. The legal and institutional framework improved with the establishment of the Turkish Accounting and Auditing Standards Authority. However, the capacity of the commercial judiciary and business organisations need strengthening in order to deal with the new Turkish Commercial Code. Overall, Turkey is advanced in this area. Some progress can be reported in the area of *intellectual property law*. Updated laws in line with the *acquis* need to be adopted. Increasing the capacity of the judiciary and of the customs administration towards more effective IPR enforcement is crucial. Combating counterfeit goods also needs to be improved. Closer coordination and cooperation among IPR stakeholders and public bodies

is essential, as much as general awareness campaigns on the risks of IPR infringements. Turkey only partly addresses the priorities in this area.

Limited progress can be reported on *competition policy*. Turkey enforced antitrust and merger rules effectively. However, recent legal developments raise concerns as to the Competition Authority's ability to continue carrying out its operations independently. No progress has been made in the area of State aid, while a number of existing State aid practices conflict with Customs Union rules. The State Aid Law remains ineffective in the absence of implementing legislation. Alignment is advanced in the area of mergers. In the field of State aid, the country is not yet sufficiently prepared.

There has been some progress in the area of *financial services*. Basel II standards have become obligatory for the banking sector. More efforts are needed, particularly in the areas of securities markets and investment services, and in the insurance sector. Preparations in this area are well on track. Progress can be reported in the area of *information society and media*. However, alignment with the EU framework on electronic communications remains limited, in particular on authorisation and market access. Continued efforts are required for further alignment of legislation on information society services. The provisions of internet content that might potentially limit the freedom of expression and a too broad interpretation of certain legal provisions, especially as regards sanctions against broadcasters, raise concerns. Preparations in this area are moderately advanced.

Limited progress has been made on alignment in the area of *agriculture and rural development*. The capacities relating to agricultural statistics and farm accountancy data network have increased. Implementation of the pre-accession rural development programme has improved but intensive efforts are required to ensure adequate absorption of the funds. The de facto import ban on live cattle, beef meat and derivative products has not been fully lifted and there remain no strategies in place for the reorientation of agricultural support, nor for agricultural statistics. Preparations in this area are not very advanced. Some progress has been made in the field of *food safety, veterinary and phytosanitary policy*. Further efforts are required to advance towards full alignment with the *acquis*. Significant efforts are needed on upgrading the agri-food establishments to EU standards, control of animal movements, animal health, especially fight against foot and mouth disease, and on animal by-products. Preparations in this area are at an early stage. Some progress can be reported on *fisheries*, in particular on administrative capacity, resource and fleet management, inspection and control, and international agreements. However, additional efforts are needed on legislative alignment, structural action, market policy and State aid. Alignment in this area is not very advanced.

There is some progress in alignment of the *transport* sector, which is, overall, moderately advanced. Turkey needs to align to the recent EU legislative packages in maritime and rail transport. Further efforts are needed in the areas of human resources and technical capacity to apply the *acquis*, especially in the areas of dangerous goods and emergency response preparedness in maritime transport. The lack of communication between air traffic control centres in Turkey and the Republic of Cyprus is seriously compromising air safety.

Some progress can be reported in the *energy* sector, especially as regards renewable energy and energy efficiency. Further efforts are needed in the areas of natural gas, nuclear safety and radiation protection, including responsible management of spent fuel and radioactive waste. Competition remains limited in the gas sector. The functioning of the cost-based pricing mechanism in the electricity market needs to be improved whereas it remains to be established in the gas markets. The independence and institutional capacity of the regulatory authority need strengthening. Overall, Turkey is at a moderately advanced stage of alignment.

On *taxation*, limited progress has been made on legislative alignment. There have been positive steps towards eliminating discriminatory practices in the taxation of tobacco and on administrative cooperation and operational capacity. However, discrepancies with the *acquis* continue to exist. Further efforts are needed regarding excise duties on spirits to comply with the Action Plan in reducing the differentials between imported and domestic products. Gradual elimination of discriminatory practices is key to further progress. No progress can be reported on direct taxation. Overall, alignment in this area is moderately advanced.

There has been some progress on *economic and monetary policy*. The Central Bank actively employed different instruments to ensure price and financial stability, albeit with mixed results. Alignment with the *acquis* remains incomplete, particularly regarding the full independence of the Central Bank and the prohibition of privileged access of the public sector to financial institutions. The capacity for economic policy formulation and coordination is adequate. Overall, Turkey's level of preparedness is advanced.

Good progress has been made in the area of *statistics*, particularly in classifications and registers, in population statistics and in other sectoral statistics. Further progress is needed, especially in national accounts, business statistics and in agriculture statistics. There is a good overall level of alignment with the *acquis*.

Some progress, but uneven, has been achieved in the field of *social policy and employment*, in particular by improving administrative capacity, extending social security coverage and adopting new legislation on health and safety at work, and trade union legislation for public servants. However, trade union rights for workers and public servants still fall short of meeting the EU and ILO standards. Further efforts are needed to put in place a clear policy framework on poverty reduction, reduce labour market segmentation, combat undeclared work and increase employment rates of women and people with disabilities. Overall, legal alignment is moderately advanced.

Turkey has made progress in the area of *enterprise and industrial policy* principles and instruments and in the adoption of sectoral strategies. Turkey has a sufficient level of alignment in this area.

Turkey has made some progress in the area of *Trans-European networks*, where alignment is advanced. Some progress can be reported on transport and electricity energy networks. Continued efforts are needed for gas interconnections and the implementation of the Southern Gas Corridor.

Some progress was made in the field of *regional policy and coordination of structural instruments*. The institutional framework for implementing of IPA regional development and human resources development components has been strengthened and the Operating Structures for the Regional Competitiveness, Environment and Human Resources Development operational programmes have obtained accreditation for the tendering, contracting and financial management functions. However, there is still a need for further strengthening of the administrative capacity of the IPA institutions. Preparations in this area are not very advanced.

Some progress has been made in the area of the *judiciary* following the adoption of the third judicial reform package, which introduces a number of improvements into the Turkish criminal justice system. However, further efforts are needed with regard to the independence, impartiality and efficiency of the judiciary, including the criminal justice system and the large backlog of serious criminal cases. The participation rate of women in the judiciary needs to be improved. Limited progress was made on anti-corruption, with some developments on incriminations and transparency in the financing of political parties. The implementation of

the National Anti-Corruption Strategy requires greater political engagement. The situation regarding the respect for *fundamental rights* continues to be the source of serious preoccupation, notably stemming from the wide application of the legal framework on terrorism and organised crime, which leads to recurring infringements of the right to liberty and security, of the right to a fair trial and of the freedom of expression, assembly and association.

Limited progress can be reported in the area of *justice, freedom and security*. Turkey is successfully providing humanitarian assistance to the Syrian refugees; however, its asylum system is far from the EU standards. Turkey needs to increase its capacity to prevent irregular migration. After having been initialled in June the swift conclusion and the effective implementation of the EU-Turkey Readmission Agreement as well as the full implementation of the existing readmission obligations are of crucial importance. Adoption of the Law on Foreigners and International Protection as well as reforms in border management also continue to be a priority. Only limited progress could be reported in aligning the visa legislation. The lack of adequate data protection legislation prevents progress. Reforms are needed in the area of fight against terrorism and organised crime. Overall, alignment is at an early stage in this area.

Good progress has been made in the field of *science and research*. Turkey took steps to further reinforce its capacity and its integration into the European Research Area. Turkey's participation and success rate in the EU Research Framework Programme (FP7) have increased but further efforts are needed to strengthen the quality of submissions and improve the quality of researchers. Overall, Turkey is well prepared in this area.

Some progress was made in the area of *education and culture*. Popular interest in EU Programmes continued to grow. Turkey extended its compulsory education from 8 to 12 years. There has been little progress in the area of culture, and no progress on legislative alignment. Overall, Turkey is moderately advanced in this area.

Uneven progress was made towards further alignment in the area of *environment and climate change*. Turkey has made good progress on water, there was some progress in waste management and industrial pollution and limited progress on air quality and nature protection. There was hardly any progress on horizontal environment legislation and no progress on nature protection and chemicals. Special attention is to be paid to the sustainability of existing protected areas and potential Natura 2000 sites. Regarding climate change, a more ambitious and coordinated climate policy still needs to be established and implemented, both domestically and internationally. No further progress was made on administrative capacity. The environmental agenda of the Ministry of Environment and Urbanization needs strengthening, as well as coordination and cooperation between relevant authorities at all levels. Preparations in this area are at an early stage.

Some progress can be reported on *consumer and health protection*. Key legislation related to consumer protection is still to be adopted and the consumer movement remains weak. Turkey has established new administrative structures in the area of public health. Their functioning needs to be monitored closely. Overall, preparations in this area are on track.

Good progress was made in the field of *customs union*. The EU-Turkey Customs Union has enabled Turkey to reach a high level of alignment with the *acquis* in this area. Further alignment is needed on duty relief, free zones, surveillance, tariff quotas and IPR. Preparations in the area of customs IT systems need to continue. Additional efforts are required to improve risk-based controls and simplified procedures to facilitate legitimate trade while ensuring security and safety. Some progress was made on *external relations*. Further alignment is required in areas such as the general system of preferences and control of dual-

use goods. Intensive use of safeguard measures is a cause of concern. Overall, the level of alignment in this area remains high.

The political dialogue with the EU on *foreign and security policy* intensified significantly, also given Turkey's influential regional role in supporting security, economic transition and democratic reform, including with regard to recent developments in Northern Africa. Turkey strongly and repeatedly condemned the Syrian regime's violence against civilians, maintained an open border policy with Syria and is providing humanitarian assistance to nearly 100,000 fleeing Syrians. During the reporting period, Turkish alignment with CFSP declarations continued to be low when compared to earlier periods. No progress was made in the normalisation of relations with Armenia. Diplomatic relations with Israel remained downgraded. Overall, preparations in the area of foreign, security and defence policy are moderately advanced.

Some progress can be reported in the area of *financial control*, in particular as concerns the protection of the euro. Additional efforts are still required, especially as regards the scope of the forthcoming revision of the policy paper on public internal financial control, reinforcement of internal audit function in the public administration and reinforcement of the Turkish Anti-Fraud Coordination Service. Recent amendments to the Law on the Court of Accounts jeopardise previous developments in the area of external audit. Overall, preparations in this area are moderately advanced.

There has been no particular progress in the area of *financial and budgetary provisions*, where preparations are at an early stage. Sound coordination structures, administrative capacity and implementing rules will need to be established in due course.

Iceland

Iceland continues to meet the **political criteria**. Iceland is a well-functioning democracy with strong institutions and deeply rooted traditions of representative democracy. The country's judicial system is of a high standard, and Iceland ensures the continuous strengthening of its already high level of protection on fundamental rights.

The constitutional council's proposals on the reform of the Constitution are currently being reviewed by the parliament. Following the conclusions of the Special Investigation Committee (SIC), a number of measures were taken with a view to increasing the efficiency of the public administration. Presidential elections were held in June 2012, with the incumbent President reelected for a fifth term in office.

The Office of the Special Prosecutor continued working efficiently on cases relating to the 2008 banking crisis. In April 2012, the Court of Impeachment found the former Prime Minister at the time of the financial crisis guilty of one of four charges against him, namely that he had failed to hold dedicated Cabinet meetings ahead of the crisis. No sentence was passed.

Progress can be reported in further strengthening the anti-corruption framework. As regards conflicts of interest, a code of conduct for central government staff was established in spring 2012. Codes of conduct for civil servants in general and for political advisors still need to be established.

Iceland continued to safeguard fundamental rights, including economic and social rights. The UN Convention on the Rights of Persons with Disabilities, the Council of Europe Convention on preventing and combating violence against women and domestic violence and the Council of Europe Framework Convention for the Protection of National Minorities still need to be ratified.

Following a long and severe recession, the Icelandic **economy** started to recover in 2011 and grew by 2.6% in 2011, and expanded at a similar rate in the first half of 2012. The authorities proceeded with domestic debt restructuring, financial sector stabilisation and fiscal consolidation. A second post-crisis international bond of US\$ 1 billion was sold to foreign investors in May 2012 at a rate of 6%. Iceland regained investment grade by all three major rating agencies. Yet, weak financial and non-financial sectors' balance sheets still imply considerable risks to economic and financial stability. The removal of capital restrictions remains a key policy challenge.

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 should be able to cope with competitive pressures and market forces within the Union over the medium term, provided that it continues to address current structural weaknesses through appropriate macroeconomic policies and structural reforms.

The policy mix with a strong focus on exchange rate stabilisation, fiscal consolidation, and domestic debt restructuring has been supportive in re-establishing a higher degree of macroeconomic stability. Monetary policy has been tightened in reaction to rising inflation and exchange rate stability has been broadly preserved. Fiscal consolidation continued with additional revenue and spending measures in the 2011 and 2012 budgets. Measures were taken to reduce general government refinancing risks and to strengthen local government finances. A trade surplus and a roughly balanced underlying current account were maintained. A fall in the unemployment rate and recent growth of employment suggest that labour market conditions have improved somewhat. The country enjoys good basic infrastructure, abundant natural resources, and a flexible labour market with high participation rates.

However, macro-financial vulnerabilities remain significant. Annual inflation stayed above the target and inflation expectations are high. Preserving exchange rate stability remains challenging. Fiscal risks persist. Public and private debt levels remain high even after debt restructuring and private. Households and businesses are still faced with significant problems. Banks' asset quality is subject to large uncertainties and defaults continue to be widespread. Unemployment is still around 7%, which is close to unprecedented levels for the country. It particularly affects youth and includes a high share of long-term unemployed. Macroeconomic stabilisation occurs in a situation of temporary protection through capital account restrictions, which will have to be lifted. Growth, investment and development are hampered by high barriers to market entry in certain sectors. The industrial structure remains little diversified.

Iceland's **ability to take on the obligations of membership** continued to be assessed also taking into account Iceland's participation in the European Economic Area (EEA). The overall level of preparedness to meet *acquis* requirements remains good, in particular due to Iceland's participation in the European Economic Area.

The Icesave dispute remains unresolved, despite progress having been made. In December 2011 the EFTA Surveillance Authority (ESA) filed a case against Iceland with the EFTA Court, seeking a declaration that Iceland failed to comply with the Directive on deposit guarantee schemes and with Article 4 of the EEA Agreement regarding non-discrimination. Iceland rejected these claims and contended that they should be dismissed. A number of EU and EFTA member states sent written observations to the Court. The European Commission has intervened before the EFTA Court in support of the EFTA Surveillance Authority. Meanwhile, the first two partial payments from the commercial winding-up of *Landsbanki Íslands hf* to priority creditors were made in December 2011 and May 2012.

The accession negotiations have progressed further. During the reporting period, 14 chapters were opened, of which eight were provisionally closed. More than half of all negotiating chapters (i.e. 18) have now been opened, of which 10 have been provisionally closed.

Overall, preparations to take on the obligations of membership continued, in areas partly covered by the EEA as well as in chapters not covered by the EEA. Iceland remains largely in line with and applies a substantial part of the *acquis* in fields covered by the EEA, such as free movement of goods, freedom of movement of workers, the right of establishment and freedom to provide services, public procurement, company law, intellectual property law, competition, and information society and media.

The progress report confirms a number of challenges in the following areas: financial services; agriculture and rural development; environment; fisheries; free movement of capital; food safety; veterinary and phytosanitary policy; taxation; and customs.

From the point of view of administrative capacity, continued attention should be paid to ensuring that human and financial resources are available for the necessary preparations associated with the process of EU accession.

Iceland continues to be highly aligned with the *acquis* on *free movement of goods*. Further efforts are necessary as regards horizontal measures and product legislation under the ‘Old and New Approach’ as well as administrative capacity, including in the area of market surveillance.

Iceland maintains a high level of alignment with the *acquis* in the area of *free movement of workers*. Good progress can be reported on coordination of social security systems. Iceland will need to extend the social security coordination rules also to legally resident third-country nationals and continue preparations for setting up an electronic data exchange system.

Legislation on the *right of establishment and freedom to provide services* is highly aligned with the *acquis*. Alignment with the Third Postal Directive has yet to be achieved and existing restrictions in the fisheries sector need to be lifted.

Iceland applies parts of the *acquis* on *free movement of capital*. Exceptions remain, notably in connection with Iceland’s investment restrictions and extensive capital controls.

In the field of *public procurement* Iceland is well advanced. The level of alignment and implementation in this area remains satisfactory, with the exception of the Remedies and Defence Procurement Directives.

Iceland has already reached a high level of alignment and applies a substantial part of the *acquis* in the field of *company law*. Full alignment with the *acquis* on company law and with accounting and auditing standards still needs to be achieved.

Iceland maintains a high level of alignment with the *acquis* on *intellectual property law* and has the administrative capacity necessary to implement it. Full alignment with the Enforcement Directive has yet to be achieved.

Regarding *competition policy* Iceland has reached a high level of alignment with the *acquis*. Iceland’s State aid measures taken in response to the financial crisis have been in line the relevant *acquis*.

Alignment in the area of *financial services* is good. Despite progress being made, work needs to continue to align with the new *acquis* as well as to ensure effective enforcement and adequate supervision. The Icesave dispute remains unresolved. The ESA case against Iceland is pending before the EFTA court.

Iceland has already reached a high level of alignment and applies a substantial part of the *acquis* in the field of *information society and media*. Several gaps in transposition in the field of audiovisual policy and information society services need to be addressed.

Preparations have commenced in the area of *agriculture and rural development*, where Iceland's policy is overall not in line with the *acquis*. A strategy and planning schedule of measures to be taken to ensure compliance with the EU agriculture and rural development requirements has been adopted. The appropriate administrative structures to implement all aspects of the common agricultural policy needs to be set up.

Iceland's legislation and administrative framework is partially in line with the *acquis* on *food safety, veterinary and phytosanitary policy*. Some progress was made in the areas of general food safety, and food safety rules. Gaps in legislation in the areas of animal and plant health, genetically modified organisms, novel foods and animal products that are not intended for human consumption need to be addressed.

Iceland continues to apply a *fisheries* management system which has similar objectives to those pursued in the EU, but some rules differ substantially. The existing restrictions in the fisheries sector on freedom of establishment, services and capital movements are not in line with the *acquis*.

Iceland already has a good level of alignment in the *transport* field. Progress can be reported as regards road safety rules. Transposition of the relevant EU legislation on air and road transport needs to be completed.

Legislation on *energy* continues to be partly in line. Further efforts are needed to align with *acquis* on oil stocks, energy efficiency and the internal energy market as well as strengthen the independence and administrative capacity of the regulatory authority.

In the field of *taxation*, Iceland remains partially aligned with the *acquis* and continues to have a good level of administrative capacity. Further efforts for achieving IT interconnectivity and interoperability with EU IT systems for taxation are needed.

On *economic and monetary policy*, Iceland has a good level of alignment with the *acquis*. Existing gaps with the *acquis* on monetary policy remain to be addressed, including the strengthening of the independence of the Central Bank and the prohibition of monetary financing of the public sector.

Iceland partially applies the *acquis* on *statistics*. A large part of the register-based population and housing census was carried out. The allocation of sufficient resources to the Statistical Office needs to be further addressed.

Iceland continued to apply and implement a substantial part of the *acquis* on *social policy and employment*. Preparations for participation in the European Social Fund have commenced and a comprehensive employment strategy is being drafted. Legal alignment remains to be completed in the areas of anti-discrimination and equal opportunities.

Iceland's state of preparation in the area of *enterprise and industrial policy* remains at a high level. Access to SME finance is still affected by the financial crisis.

Iceland maintains a good level of alignment with the EU standards on *Trans-European networks*.

A comprehensive action plan and related timetable has been adopted on how to meet the EU requirements in the area of *regional policy and coordination of structural instruments*. Iceland needs to identify the future Managing Authority and prepare the strategy and programming documents required by Cohesion Policy.

Iceland continues to have high standards in the area of *judiciary and fundamental rights* and its anti-corruption policy framework was further reinforced. Iceland also continues to strengthen its high level of protection on fundamental rights. Legislation on citizen's rights and data protection is not yet in line with the *acquis*.

Iceland continues to apply the Schengen Agreement and is well advanced in aligning with the *acquis* in the area of *justice, freedom and security*. Further efforts are still needed to align with the *acquis* in areas including migration, asylum and judicial cooperation.

Iceland continued to participate actively in the EU Framework Programme in the field of *science and research*. Preparations for EU accession and integration into the European Research Area are well advanced.

Iceland has achieved a high level of alignment in the field of *education and culture* and continued to participate in several EU programmes on education and culture.

The legislative and administrative framework on *environment and climate change* remains to a large extent in line with the *acquis* and has been further strengthened. Full compliance with the *acquis* on nature protection, water quality and climate change has not been achieved. Iceland needs to ratify the Espoo and Rotterdam Conventions.

Iceland has already achieved a high level of alignment and applies a substantial part of the *acquis* on *consumer and health protection*. Further progress can be reported in the field of public health. Additional efforts are necessary to close remaining gaps in aligning with the *acquis* on consumer protection.

Iceland applies to a large extent the *acquis* in the area of customs union. Preparations for effective implementation of the EU legislation upon accession have been initiated. The gaps regarding aligning with the EU Customs Union *acquis* have yet to be closed, including in the areas of customs tariff, general customs rules, rules of origin, procedures with economic impact, security rules and abolition of customs fees. Preparations to develop interconnectivity with the EU-related IT systems need to continue.

As regards *external relations*, Iceland is highly aligned with the *acquis*. Progress can be reported as Iceland and the EU have agreed to hold regular trade policy consultations.

Iceland maintains a high level of alignment in the area of *foreign, security and defence policy*. Iceland's emphasis on Arctic policy underlines its commitment to play an active role in regional organisations in Northern Europe.

Iceland's *financial control* system is partly in line with international standards and EU best practices. Work needs to continue on preparing the Public Internal Financial Control policy paper, as well as on establishing internal audit, ensuring compliance with INTOSAI standards in the area of external audit and the protection of the EU's financial interests.

Iceland continues to have a good level of alignment with the underlying policy areas linked to *financial and budgetary provisions*. Administrative preparations need to be enhanced to set up the own resources system. A coordination structure still needs to be formally established.