



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.4.2005
COM(2005) 156 final

COMMUNICATION FROM THE COMMISSION

A European Future for Kosovo

COMMUNICATION FROM THE COMMISSION

A European Future for Kosovo

1. OBJECTIVE OF THIS COMMUNICATION

The European perspective of the Western Balkans, confirmed in the Thessaloniki Declaration of June 2003, is also open to Kosovo¹. Under the auspices of UN Security Council Resolution 1244, Kosovo needs to overcome its isolation and participate in the region's progress towards Europe.

This year is an important year for Kosovo. The United Nations will undertake a comprehensive review of the implementation of the Kosovo standards if conditions so warrant. This may open the door for the launch of the process leading to the settlement of Kosovo's future status.

The European Union is actively supporting the United Nations Mission in Kosovo and NATO (KFOR) and is working closely with the Provisional Institutions of Self-Government (PISG) to facilitate Kosovo's progress towards the creation of a democratic and multi-ethnic society in which all communities can live in peace and prosperity.

By making the European perspective of Kosovo more tangible, the Commission can make an important political contribution to resolving outstanding issues and ensuring the stability of the whole region. The Commission has developed instruments of proven effectiveness during the pre-accession and enlargement process. This experience should be used to help Kosovo achieve the future set out in the conclusions of the 21-22 February General Affairs Council², and to ensure that the same standards are applied across the region.

The General Affairs and External Relations Council of 21-22 February 2005 requested the European Commission, the HR/SG and the Presidency to examine with the United Nations and other relevant players what might be the future contribution of the European Union to the efforts of the international community in Kosovo to implement Resolution 1244, to the overall evaluation of the implementation of the standards, and to the later stages of the process. This Communication is a contribution to this examination, focusing on areas of Community competence under the Commission's remit.

This Communication concentrates primarily on the economic aspects of Kosovo's development, institution building, EC's assistance and the regional context. All these

¹ Kosovo is at present under the administration of UNMIK, pursuant to UNSC Resolution 1244 (1999).

² "The Council also emphasised that Kosovo would not return to the situation before 1999. Its future can only be conceived in the form of a multi-ethnic and democratic Kosovo which ensures effective protection for minorities, preserves the cultural and religious heritage of all its communities, and respects the right of refugees and displaced persons to return, contributing to the stability of the region and adhering to the values and standards of the EU."

factors are part of a broader context which includes the security environment, political legitimacy and reconciliation between communities. Without security and reconciliation investment will not come and Kosovo will remain dependent on assistance. The Commission stands ready to provide its contribution to these issues working alongside with other EU institutions.

2. THE EUROPEAN COMMISSION'S CONTRIBUTION TO THE OVERALL EU COMMITMENT TO KOSOVO

The European Union has been committed to Kosovo since the outset of the 1999 conflict, with a vast financial and political effort to build lasting peace and democracy. The Cologne European Council of June 1999 emphasised the EU's commitment to taking a leading role in the reconstruction of Kosovo. Immediately after the end of the conflict, the European Commission provided € 378 million in emergency humanitarian aid. It deployed a taskforce to implement the first reconstruction programmes; linking relief actions with longer-term development programmes implemented by the *European Agency for Reconstruction* (over € 1 billion to date) and contributed € 65 million in exceptional financial assistance to the Kosovo Consolidated Budget. The EU also committed itself to playing a part in the United Nations Interim Administration in Kosovo (UNMIK), establishing its Pillar IV and contributing over € 100 million to its administrative expenditure to date.

However, six years after the conflict, the territory's stability remains fragile. The calm demonstrated by the population following then Prime Minister Haradinaj's decision to cooperate with the International Criminal Tribunal for the Former Yugoslavia in March 2005 is proof of progress in Kosovo's democratic stability; however, it could still be disrupted by extremist actions. The Commission's political and technical capital needs to be remobilised to enhance the economic development and long-term European perspective of Kosovo.

3. THE LONG-TERM PERSPECTIVE: THE EUROPEAN FUTURE OF KOSOVO

Since the Thessaloniki European Council, the prospect of European integration has been at the centre of our policy both towards Kosovo and towards the Western Balkans as a whole under the Stabilisation and Association Process (SAP). It is important that as Kosovo's neighbours begin to move towards Europe, it is not left behind.

The *European Partnership* for Kosovo adopted in June 2004³ formulates actions to achieve implementation of the Standards. The Kosovo authorities have responded with an Action Plan that: 1) defines measures for implementation of the priority Standards and beyond; 2) assesses the cost for the Kosovo Government; and 3) identifies the assistance required for the comprehensive assessment of the Standards and, in the longer term, the European approximation agenda. This Action Plan should

³ Council Decision 2004/520/EC.

be regularly updated and its links to the budget clearly spelled out to become the key instrument guiding the Government's work programme.

The *Stabilisation and Association process Tracking Mechanism* (STM) offers a forum to discuss Kosovo's progress in implementing the European Partnership. The Commission intends to monitor progress on the implementation of the UN Standards to enhance the EU's overall awareness of the situation. The Commission intends to expand the technical sector groups within the STM to deepen expert discussions between the ministries and Commission services.

In its *annual reports on the Stabilisation and Association Process* in autumn 2005, the Commission will assess Kosovo's progress and revise the recommendations in the European Partnership.

To achieve the ultimate goal of the Stabilisation and Association process, which is integration into the European Union, the EU has to establish *contractual relations* with its partners. The possibility of negotiating a fully fledged Stabilisation and Association Agreement with Kosovo is not on the table at present. However, the Commission is committed to exploring creative ways to ensure that Kosovo can fully benefit from all EU instruments, and – depending on the outcome of status talks – in due course engage in contractual relations with the Union as appropriate.

4. ECONOMIC DEVELOPMENT

The medium and long-term stability of Kosovo depends on its economic development. Although progress has been made since 1999, Kosovo remains the poorest region in the Western Balkans. Its population of around 1.9 million has a very low GDP per capita of around € 1 000. According to 2003 data from the Statistical Office of Kosovo, the unemployment rate is around 50%. Kosovo's economy needs to grow at a rapid pace for an extended period to lift living standards, reduce poverty and unemployment. However, economic growth in Kosovo has fallen short of this requirement. The uncertainty over Kosovo's future status is undoubtedly a serious impediment to economic development; however, its economic problems cannot wait until resolution of the status question.

4.1. Reinvigorating Kosovo's growth

Kosovo's deeply rooted economic and social problems pose difficult challenges for UNMIK (notably Pillar IV) and the PISG. They need to work closely together to address economic priorities identified in the Kosovo Standards Implementation Plan and the European Partnership.

The Commission will provide policy advice, technical assistance and financial support where appropriate in order to:

- support the Government's preparation of a comprehensive *Development Plan for Kosovo* and for the establishment of a sustainable fiscal framework through a *Medium Term Expenditure Framework* crucial for consistent budgetary planning and to redress the unsustainable budget deficit. An MTEF should consolidate the financing needs of the line ministries and public undertakings (including

investments identified in the Public Investment Plan). It should be established in close cooperation with the IMF and the World Bank;

- further support the completion of the Kosovo Trust Agency's mandate to *privatise socially owned enterprises* so that assets can be put swiftly into productive use. The Commission will also support the incorporation and restructuring of *publicly owned enterprises*, in particular the public utilities. The recommendations produced by audits of these enterprises and the prompt completion of on-going investigations by OLAF/UN Office of Internal Oversight Services need to be ensured;
- support the creation of a more *enabling environment for the private sector*, in particular by *facilitating the development of small and medium-sized enterprises* (SMEs). Since 2003, Kosovo has committed itself to the principles of the European Charter for Small Enterprises, but its ability to implement the Charter is still hindered by budgetary and administrative constraints. More progress is needed in the development of SME finance; business support services; modern, fast and cheap business registration and licensing systems; entrepreneurship education; and a dedicated business advocacy infrastructure. These efforts would be helped by the adoption of a medium-term strategy for SMEs;
- help Kosovo to assess *public internal financial control and external audit policies* in accordance with international standards and EU-compliant best practice.
- continue to assist UNMIK and the provisional institutions to align legislation and procedures in the customs and taxation services with EU standards and best practice. Support the Ministry of Finance and Economy to build capacity in fiscal and revenue policy-making and improve tax collection, notably of VAT;
- continue providing assistance for the development of a *sustainable and coherent statistical system* with the support of EUROSTAT, notably by building the capacity of the Statistical Office of Kosovo to develop national accounts. The Commission will also closely follow the *first population and housing census in Kosovo*. In this endeavour, the authorities need to review carefully the timetable and preparatory steps for the census, to ensure that they are credible and carried out in full conformity with international standards. The Statistical Office's efforts to develop sustainable national accounts should not be undermined by increased focus on the census.

4.2. Working towards the full integration of Kosovo into the regional economy

Under UNSCR 1244, Kosovo's participation in regional fora and negotiation of international agreements falls under UNMIK authority, on behalf of the PISG. However, the line ministries need to participate in these initiatives to ensure that the Kosovo Government is fully capable of fulfilling its obligations under the Constitutional Framework for Self-Government.

Trade. The Commission will continue to help Kosovo to make best use of the EC's *Autonomous Trade Measures*⁴, notably by supporting trade and customs policies, sanitary and phytosanitary requirements, and structural reforms to improve the export base. In due course, the Commission may reconsider the conditions applying to the import of textiles originating in Kosovo.

The Commission will continue to support UNMIK in its pledge to negotiate and implement bilateral free trade agreements with interested neighbours – taking due account of fiscal constraints – within the framework of the *Stability Pact's Memorandum of Trade Liberalisation and Facilitation in South Eastern Europe*. This will allow Kosovo to benefit from regional trade liberalisation.

Environment. The Commission will encourage Kosovo's participation in existing *environmental regional initiatives* such as the Regional Environmental Reconstruction Programme for South East Europe (REREP) and the Environmental Compliance and Enforcement Network for Accession (ECENA).

Energy. Because of its geographical position in the heart of the Balkans and its large coal deposits, Kosovo can potentially play an important part in the development of the *Regional Energy Market*. State-of-the-art clean coal technology to produce electricity could use Kosovo's comparative advantage. The expected electricity supply gap in the region makes development prospects in this area promising – subject to a comprehensive environmental impact assessment. The Commission will help the Ministry of Energy to develop a strategy that builds on its comparative advantages.

The Commission has facilitated the inclusion of UNMIK, representing Kosovo, in the Treaty establishing the Energy Community for South East Europe to be concluded this year. The Commission will seek to ensure that Kosovo is represented in all bodies playing a role in energy market reform and regulating functions which affect Kosovo.

Transport. Regional initiatives such as the *implementation of the MoU on the Development of the South East Europe Core Regional Transport Network*, to which UNMIK is a signatory on behalf of Kosovo, include transport development in Kosovo.

Aviation. The European Commission has associated Kosovo to the recently launched initiative extending the *Single European Sky and the European Common Aviation Area to the Western Balkans*.

Telecoms. The electronic communications sector plays an important part in general economic development. Kosovo will be closely involved in regional initiatives to prepare for adoption of the electronic communications *acquis*.

In order to monitor progress, the Commission will establish a regular dialogue on economic matters with the Kosovo authorities in the framework of the SAP Tracking Mechanism meetings.

⁴ Council Regulation (EC) No 2007/2000.

5. BUILDING INSTITUTIONAL CAPACITY

The European perspective must become an integral part of all policies in Kosovo. An important step forward was the establishment of a *European Integration Processes Office* in the Prime Minister's Office, with EU support. This Office is working closely with the UNMIK European Integration Office and the Office of the Strategy Coordinator under the SRSG. The plans for the establishment of a *European Integration Committee* within the Kosovo Assembly are a positive development.

5.1. Working with the institutions to bring them towards European standards

A major challenge for Kosovo will be to build fully functioning administrations capable of providing for the needs of citizens. Public administration reform is needed across the board.

The EU is assisting the Provisional Government to enhance the responsibility and accountability of the ministries in its current spheres of competence. In 2005, the Commission will contribute to the implementation of the Kosovo Capacity Assessment Project. From 2006 onwards, twinning arrangements will allow experts from EU Member States to work as advisers to the institutions.

Progress in the area of justice, freedom and security is crucial for the respect of rule of law, human rights and rights of minorities, and economic development. It affects Kosovo's progress in a multitude of areas. Fighting organised crime and corruption is vital. Pending further clarification of UNMIK's plans for future transfers in the areas of economic development (including customs), police and justice, the Commission has earmarked funds to assist local institutions to prepare to manage new tasks in these areas.

The *Technical Assistance Information Exchange Office* (TAIEX) will help the Provisional Government to increase its capacity to draft legislation in conformity with EU standards and assist in its implementation and enforcement. The Commission will also fund the establishment of a regional School for Higher Education on Public Administration Reform, giving civil servants in Kosovo the chance to benefit from training schemes with their counterparts elsewhere in the region.

Furthermore, the development of free, independent and professional media is a key element for democratisation. Compliance with European standards on media will be followed by the European Commission in cooperation with the Council of Europe.

5.2. Supporting the United Nations Mission in Kosovo

The European Union will continue its strong political and financial support to UNMIK, notably through its funding of Pillar IV. The clarification of the role and the tasks of this pillar between the European Commission and UNMIK, with the endorsement of UN Headquarters, will help to improve its performance. This mandate will provide the SRSG with a clear chain of command over the operations of the Pillar under UNSCR1244. That will increase the effectiveness of Pillar IV and help it to work with other UNMIK pillars and the Kosovo government.

5.3. The EU's future presence in Kosovo

Since the establishment of an enhanced EU presence in Kosovo in 2004, the Head of the Liaison Office of the European Commission and the Personal Representative of the HR/SG have been working closely together with the European Agency for Reconstruction and EU Member States.

The General Affairs Council of 21-22 February has invited the SG/HR and the Commission to reflect on the EU's future contribution in the medium term. Within the framework of these reflections, the Commission is concerned to ensure that the future international presence is streamlined and integrated, that it does not substitute for local actors, and that it will facilitate Kosovo's progress in the Stabilisation and Association process. These reflections need to include the financial implications for the Community budget.

6. FINANCIAL ASSISTANCE

Kosovo has considerable assistance needs in both institution-building and finance, particularly in the area of infrastructure maintenance and investment. Given its weak fiscal position, Kosovo will need to continue relying on donor support into the medium term. If the Commission is to meet its political aspirations, it will have to ensure a matching flow of funds. Kosovo will benefit from an additional € 114 million of *Community Assistance for Reconstruction, Development and Stabilisation* (CARDS) assistance in 2005-2006. This assistance currently focuses on institution-building, particularly for implementation of the Kosovo Standards.

As of 2007, the *Pre-Accession Instrument Regulation* (IPA) will succeed the CARDS Regulation. The IPA regulation is designed to support the progress of the region towards accession. This instrument will allow for flexibility to respond to the evolving needs. The Commission will also have at its disposal other RELEX instruments to respond to future developments.

Technical assistance and institution-building are important but they are insufficient to foster economic development in themselves. Basic investment in infrastructure is also needed.

The Commission is ready to examine the possibility of granting exceptional *budget assistance* to Kosovo, in co-ordination with the IMF, the World Bank and bilateral donors. This assistance will depend on a needs assessment based on a reliable Medium Term Expenditure Framework and on progress in structural reforms.

In close cooperation with UNMIK Pillar IV and the PISG, the Commission will undertake activities aimed at stimulating investment in Kosovo, by mobilising IFIs - most notably the European Investment Bank – as well as donors and international investors. The EU Member States and the Multilateral Investment Guarantee Agency could also help to build investor confidence through the provision of *investment guarantee schemes*.

Improved *donor coordination* will be essential. The Provisional Institutions should move from an approach based on stand-alone projects to one that considers the

public sector as a whole, allowing a longer time-horizon for design studies and the appraisal of viability, risk and sustainability. The Provisional Government should take the lead in dialogue with donors to ensure the involvement of beneficiary partners and institutions, as well as due consideration of absorption capacities. Conditionality on specific performance benchmarks and reforms will play a more important role in the future.

7. KOSOVO AND THE REGION: WALKING TOGETHER TOWARDS EUROPE

The close links between Kosovo's stability and that of neighbouring countries make its future key to the overall success of EU policy in the Balkans. Kosovo must become a constructive partner in the Western Balkans that does not jeopardise either the security or the prosperity of the region. The EU's commitment and assistance to Kosovo must be matched by a deep commitment of the Provisional Institutions of Self-Government to good governance and establishing adequate administrative co-operation with neighbours to reduce threats to public safety and to legitimate cross-border economic activities in the region.

7.1. Fostering regional initiatives

Through the CARDS Regional Programme, the EU supports regional initiatives in a wide range of areas. From 2005 onwards, the Commission will promote the organisation of regional events in Kosovo, and will encourage partners from the EU and Western Balkans to integrate Kosovo fully into other regional initiatives. The first example in 2005 will be the organisation of the regional co-ordination meeting of the *European Charter for Small Enterprises* in Pristina on 27-29 April.

7.2. Bringing Europe closer to the people of Kosovo

Kosovo needs to be taken out of its enclave, to ensure that its people are an integral part of the European family. Kosovo civil society needs to have wide contacts with its counterparts in the rest of Europe. Member States could play a key role in achieving this, not least through *increasing consular capacity to deal with visa applications* so that decisions on visa issuance are taken more quickly.

Kosovo has the youngest population in Europe. Its youth is its main asset, in terms of economic development as well as reconciliation, but best use of that asset depends on greater assistance for education reforms. The Commission has opened an office of the TEMPUS higher education programme in Pristina and encourages students of Kosovo to apply for *Eramus Mundus* Master Courses in the EU.

7.3. Fostering returns of internally displaced people and sustainability of minorities

Ethnically motivated violence is wholly unacceptable. The riots of March 2004 should never be repeated. The creation of a stable, secure and multi-ethnic society in Kosovo is at the heart of the EU's political conditionality. Many more steps need to be taken before Kosovo succeeds in creating a society which fully respects people of all ethnic backgrounds. The UNMIK Office of Returns and Communities needs to ensure the development of a sustainable returns process and a better environment for all the communities of Kosovo, in close coordination with the newly established

Ministry of Returns and Communities, the Provisional Institutions of Self-Government, and other major stakeholders such as the UNHCR and international donors. The Commission is also working in close cooperation with the Council of Europe to assist the authorities of Kosovo to *restore cultural and religious monuments*.

7.4. Relations with Belgrade

The European Union has made it clear that open and constructive direct dialogue between Belgrade and Pristina is the only way forward. The 'direct dialogue' was launched in October 2003, and the first meeting of the Working Groups on Energy and on Missing Persons took place in early March 2004. However, the violent events that followed put a stop to this positive start. These meetings will now begin again, and the EU will provide a chairperson for the Working Group on Energy.

The EU has consistently encouraged all communities to participate fully in the PISG as the best way to ensure that their legitimate concerns are addressed. Kosovo Serb leaders could provide constructive input on the reform of local self-government and on security and free movement. They also need to play a positive role in re-opening dialogue and engaging Belgrade in Kosovo's future.

The EU has reassured Belgrade that its own integration aspirations will not be delayed by the resolution of Kosovo's status. Indeed, constructive engagement on Kosovo would ease its own path towards the European Union. Both Belgrade and Pristina need to take advantage of the great opportunity provided by the European perspective they share, to find grounds for dialogue and cooperation.

8. CONCLUSIONS

With this Communication, the Commission commits itself to: 1) providing attention to the specific situation and particular needs of Kosovo to progress within the Stabilisation and Association process; 2) further mobilising Commission resources and expertise to be more forward-looking in supporting Kosovo's development and reform needs; and 3) actively engaging in high-level consultations with the main international actors to build a coordinated policy approach for Kosovo.

The Commission intends to contribute to the implementation of UNSCR1244 by supporting the PISG to manage Kosovo's public affairs efficiently and accountably. Furthermore, the Commission will be working closely with the SG/HR and the Presidency, as requested by the General Affairs Council of 21-22 February. It will continue to contribute - in the framework of the relevant bodies that will lead the status discussions - to ensuring that Kosovo's European perspective becomes a manageable reality.

In order to provide renewed impetus to the EU's involvement in Kosovo and successfully implement the actions described in this Communication, the EC budget will need to provide adequate financial resources, and the Member States will need to enhance their bilateral efforts. The Commission invites the UN to endorse the agreed mandate for UNMIK Pillar IV.

The Commission will continue helping Kosovo to make progress towards its European aspirations, provided the political leaders of Kosovo demonstrate a clear commitment to the respect of democratic principles, human rights, protection of minorities, rule of law, market economic reform and values on which the European Union is based⁵. Ultimately, Kosovo's future is in the hands of its people. They should spare no effort to ensure the implementation of the Standards, which are essential prerequisites for making their goal of European integration a reality.

⁵ As expressed in the SAP conditionality outlined for the Western Balkans in the General Affairs Council of April 1997.