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COMMUNICATION FROM THE COMMISSION

The Western Balkans on the road to the EU: consolidating stability and raising prosperity

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In June 2003, the Thessaloniki EU-Western Balkans summit confirmed the EU's support for the European perspective of the Western Balkan countries.¹ The summit endorsed the "Thessaloniki agenda", comprising measures drawn from the pre-accession process, and made a commitment to implement it jointly.

In June 2005 the European Council reaffirmed its commitment to implement the Thessaloniki agenda, noting that each country's progress towards European integration depends on its efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process (SAP).

Almost three years after the Thessaloniki summit, the Western Balkans region has further stabilised and advanced towards the European Union. The European perspective provides a powerful incentive for political and economic reform and has encouraged reconciliation among the peoples of the region. It is in the interest of the EU as a whole, as well as the countries concerned, that this process should be stepped up. This will help the EU to attain its own objectives without the risk of renewed instability in a directly adjacent region. Reinforcing the EU's policy for the region, especially in areas of mutual interest where there is a strong demand from the people of the region, such as Justice, Liberty and Security, education and trade, is the best means to strengthen the credibility of the process and to lessen political risks.

The coming months will bring major regional challenges, as the Kosovo status process goes ahead and other fundamental constitutional issues come to the forefront of public attention. At such a time, the encouragement provided by the fulfilment of the Thessaloniki agenda is particularly important. The Commission will continue to support stabilisation of the region, both through the Stabilisation and Association process and through its contribution to the Common Foreign and Security Policy and its support for ESDP operations in the region.

The Austrian Presidency is planning to hold a substantive discussion on the Western Balkans during the informal meeting of foreign ministers on 10-11 March in Salzburg. This will provide a useful occasion to reaffirm the EU's goals and to agree on ways and means to reinforce the EU's efforts in the region. The EU's objective is to promote stability, security and prosperity in the Western Balkans through the region's progressive integration into the European mainstream.

Ahead of the Salzburg meeting, this Communication assesses developments since Thessaloniki and sets out concrete measures to reinforce its policy and instruments in line with the Commission's strategy Paper on enlargement of November 2005. As the Council concluded in December, the Strategy Paper is a good basis for the discussion of enlargement issues in 2006. Member States are invited to endorse the measures set out in the present document and to ensure that the necessary support is provided to achieve the EU's objectives in the region.

¹ The countries covered by the Stabilisation and Association process, the EU's policy for the Western Balkans, are Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, and Serbia and Montenegro, including Kosovo as defined in UN Security Council Resolution 1244/99.

Three years after Thessaloniki

Progress achieved and challenges ahead

Over the last three years, the countries of the Western Balkans have made considerable progress in stabilisation and reconciliation, internal reform and regional cooperation. As a result, they have moved closer to the EU.

Important steps have been taken in recent months: opening of accession negotiations with Croatia, granting candidate status the former Yugoslav Republic of Macedonia, nearing conclusion of a Stabilisation and Association Agreement (SAA) with Albania, opening of SAA negotiations with Serbia and Montenegro and Bosnia and Herzegovina. The political process for reaching a decision on Kosovo's future status has begun. These developments show that the peoples and governments of the region are seeking a better future in the mainstream of European political and economic life. The European Union has demonstrated its commitment to supporting them in this approach. These commitments have remained firm throughout the last year.

The region faces major challenges in the coming period, especially the Kosovo status process and the constitutional arrangements of Serbia and Montenegro. Successful handling of these issues could open the way for rapid progress. Failure would have serious consequences for the countries concerned, for the region, and for European security. Possible constitutional reform in Bosnia and Herzegovina will be an additional challenge. The EU is committed to helping to address these constitutional and status issues in accordance with European and international standards, to help achieve greater reconciliation and political maturity in the region, as well as to move the countries on towards realising their European vocation. It will continue to strengthen and coordinate its presence on the ground.

The EU will play an active role in Kosovo's status process and has appointed a representative to support the UN Status Envoy. EU policies and leverage must be used in full to help reach a balanced and sustainable settlement which brings peace and stability not only to the parties directly involved, but to the region as a whole. The EU is also willing to play its part in the international presence that will be required once decisions on the status of Kosovo are taken. The Commission is lending its political and technical expertise to the status talks and it will have to shoulder a large share of the responsibility for implementing an outcome that promotes Kosovo's European perspective.

The region has moved forward in terms of achieving lasting macroeconomic stability and increasing its competitiveness but progress is uneven and much remains to be done.

As progress is made on stabilisation and status issues are addressed, the Western Balkan countries will increasingly focus on the reforms needed to approach European standards. The economic and social agenda will come to the forefront, as weak economies, high unemployment and inadequate social cohesion are major problems throughout the area. EU policies for the region should focus more on equitable and sustained economic development and on extending the benefits of economic growth to vulnerable groups and communities by combating unemployment, social exclusion and discrimination and by promoting social dialogue.

The European/Accession Partnerships agreed in December 2005 for the Western Balkan countries define the priorities on which the countries should concentrate in the short and medium term. Progress on these, as well as satisfactory implementation of the SAAs, should

allow them to move up the steps set out in the Commission's Strategy Paper on enlargement of November 2005.

Implementation of the Thessaloniki Agenda

The commitments undertaken by the EU in the Thessaloniki agenda have mostly been achieved or are well on track. The Western Balkan countries have made considerable progress on their Thessaloniki commitments. Nonetheless further efforts to promote the Thessaloniki agenda are needed.

Political dialogue and cooperation in the area of Common Foreign and Security Policy (CFSP) have been enhanced:

- The *EU-Western Balkans political forum* has been established and annual meetings of foreign and justice and home affairs ministers have been held. Annual troika meetings at Political Director level have been held in the margins of the UN General Assembly. These meetings have largely achieved their aims. A stronger focus on concrete agendas and deliverables would improve their impact.
- The Western Balkan countries have been invited to *align with common positions, demarches and declarations* on CFSP issues since the beginning of 2004, which they have done in a large number of relevant cases.
- *Bilateral political dialogue* has been established with Bosnia and Herzegovina and Serbia and Montenegro, with annual troika meetings at ministerial level, thus completing the political dialogue already in place with Albania, Croatia and the former Yugoslav Republic of Macedonia.

The Thessaloniki provisions for enhanced EU support for institution building and for the opening of Community programmes and agencies to the Western Balkans have been implemented or are well on track. The same goes for a number of trade-related measures, Western Balkan countries' participation in the European Charter for Small Enterprises and additional financial assistance. Important steps have been taken in the area of regional cooperation. The state of play in these areas and the next steps are described below.

Regular economic dialogue has been established between the Commission and each of the Western Balkan countries. This is expected to be extended to Bosnia and Herzegovina in spring. A similar dialogue is conducted with Kosovo.

Progress in the area of Justice, Freedom and Security has been significant and includes action to combat organised crime, building up institutional capacity in the judiciaries, improved police and prosecutor cooperation, an Action Plan for drugs trafficking, measures for combating money laundering and illegal migration, as well as implementation of commitments made at the Ohrid Conference on border security and management. Many of the measures in this field have received Community support. However, efforts in this area need to be stepped up.

Joint Parliamentary Committees were established in 2004 between the EU and Croatia and the former Yugoslav Republic of Macedonia and have been meeting regularly. Regular interparliamentary meetings with Albania, Bosnia and Herzegovina, Serbia and Montenegro, and Kosovo are also held.

The EU has continued its active presence in peace-keeping missions and conflict prevention. It took over from NATO-led military operations in the former Yugoslav Republic of Macedonia and Bosnia and Herzegovina and has maintained Police Missions in both these

countries. EU Monitoring Missions have continued to operate in all countries except Croatia. Special Representatives of the EU SG/HR have been in place in Sarajevo and in Skopje and as of November 2005 a joint EUSR and Head of the Commission Delegation has been appointed for the former Yugoslav Republic of Macedonia.

The EU has been committed to Kosovo since the outset of the 1999 conflict, investing major political and financial efforts to build lasting peace and democracy, and to facilitate Kosovo's progress towards a democratic, multi-ethnic society. The EU has supported the United Nations Mission in Kosovo (UNMIK), also by establishing its economic Pillar IV and funding its administrative expenditure. It has worked closely with the Provisional Institutions of Self-Government. EU support for the development of Kosovo to date exceeds €1.6bn.

The Commission's annual reports, most recently the progress reports adopted on 9 November 2005, provide detailed assessments of both progress and delays in stabilising the region. In particular, greater effort is needed in the areas of refugee return, reconciliation through education, social development and culture. Full cooperation with the International Criminal Tribunal for the former Yugoslavia has yet to be achieved in some countries. Support for the International Criminal Court, to which all Western Balkan countries are parties, has not been in line with the relevant EU decisions in some cases.

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The Stabilisation and Association process, as enhanced by the Thessaloniki agenda, has proved an effective policy framework for EU action in the Western Balkans. As part of the enlargement process, it will remain the framework for the European course of these countries all the way to their future accession. However, its implementation in a number of areas needs further work, in the light of recent experience and the challenges ahead. These areas and the suggested next steps are set out below.

Removing obstacles to trade and investment; promoting economic and social development

Development of trade and investment critically depends on political stability, the overall economic climate and progress in reforms in each country and in the region as a whole. Macroeconomic stability needs to be pursued further, in particular fiscal and monetary policies aiming at securing an environment conducive to sustained growth. Structural reforms need to be pursued vigorously in order to improve the functioning of markets and competitiveness. In particular, countries have to advance in restructuring and privatisation of state-owned enterprises, establishment of functioning institutions and judiciary, and further reform of the labour markets. It is improvements in this broader framework that mostly matter. Despite significant progress, the reform process in the region needs greater impetus.

Stabilisation and Association Agreements and Autonomous Trade Measures

Stabilisation and Association Agreements (SAAs) establishing free trade with the EU, are currently in various stages of negotiation with Albania, Serbia and Montenegro, as well as Bosnia and Herzegovina. They are already in place with Croatia and the former Yugoslav Republic of Macedonia. SAAs constitute powerful engines for trade integration, domestic reform and rapprochement to the EU, not least through their clauses which encourage legislative approximation and the building up of administrative capacity.

The Autonomous Trade Measures applied to the whole of the Western Balkans allow duty free access to the EU market for practically all products originating from the region. These

trade preferences have proved successful, contributing to the average annual increase of 8% in the Western Balkans' exports to the EU (2000-2004). They were recently renewed until the end of 2010.²

The Autonomous Trade Measures, together with the relevant provisions of the SAAs and other trade arrangements, provide a favourable framework for the development of trade between the EU and the region, thus stimulating foreign direct investment in the region and economic development in general.

However, to take full advantage of this framework, countries need to further restructure their economies, become more competitive and enhance their administrative capacity. Alignment on the main trade-related areas of the *acquis*, especially on customs and industrial, sanitary, phytosanitary and veterinary standards, as required under the European Partnerships, will play a key role in this respect. The Commission will continue to provide technical assistance to the region in this domain.

Diagonal cumulation

In Thessaloniki, the Commission was invited to prepare the extension of pan-European diagonal cumulation of origin to the countries of the region in a manner consistent with all relevant Community policies and dependent on their administrative capacity. Pan-Euro cumulation is now being extended to the Barcelona process countries, thus creating the "pan-Euro-Med" cumulation. Inclusion of the Western Balkans into this new system is the EU's strategic aim.

Given the delay in the new system which would result from including new parties at this time, the Commission is currently preparing a zone of diagonal cumulation of origin between the EU and those countries in the Western Balkans which have a free trade agreement with the EU, currently Croatia and the former Yugoslav Republic of Macedonia. Given the number of parties concerned and the high level of regional integration, this initiative should soon start to deliver benefits. In a second stage, the Western Balkans could accede to the Pan-Euro-Med-System of diagonal cumulation as soon as this new system proves operational, and in accordance with the principles and procedures that apply to other non-EU participants in the system.

Regional trade integration

Regional trade integration is very important for the Western Balkans and a key element of the EU's policy for the region.

Considerable progress has been made in developing trade within the Western Balkans region. The network of bilateral Free Trade Agreements (FTAs) established under the Stability Pact has been completed. As a result of this, *inter alia*, mutual trade has increased substantially. However, intraregional trade is still lower than its potential and, in some cases, implementation of the bilateral agreements has not been satisfactory. The Commission is ready to work together with the countries of the Western Balkan in order to identify any obstacles to the smooth implementation of these agreements, as well as to find ways to overcome them.

At their meeting in Sofia in June 2005, South-East European trade ministers began a process to integrate the existing network of bilateral free trade agreements into a single regional FTA,

² Council Regulation (EC) No 1946/2005, 14.11.2005, OJ L 312/2005.

to be concluded by mid-2006 with entry into force in 2007. They also agreed to implement a programme to reduce or eliminate non-tariff barriers and to work towards further harmonising regulations for trade in services. The Commission supports these initiatives and will continue to provide advice and technical assistance to allow intraregional integration to develop in full harmony with the movement towards European integration.

WTO accession

The Commission strongly supports the accession of Bosnia and Herzegovina, Montenegro and Serbia to the World Trade Organisation (WTO). WTO membership is an important step in the economic reform process of any country. The Commission will continue to provide technical assistance to that end.

Tenders under assistance instruments

In accordance with a commitment made in Thessaloniki, EC assistance regulations and rules have been amended to allow operators from the Western Balkans to participate in tenders conducted under the pre-accession instruments.³ Similar provisions are included in the Commission's proposals for the new pre-accession financial instrument (IPA) and the European Neighbourhood and Partnership Instrument (ENPI), which will cover Community assistance to the Union's eastern and Mediterranean neighbours.⁴

Small- and Medium-sized Enterprises

Creating favourable conditions for Small- and Medium-sized Enterprises is paramount for sustained growth of the Western Balkan economies. Reform efforts should pay special attention to this area.

The Western Balkan countries joined the European Charter for Small Enterprises on the occasion of the Thessaloniki summit. The countries of the region have been reaping the benefits of the Charter, though not all to the same extent.

In the "Belgrade Declaration", adopted in October 2005, the Western Balkan countries call on the Commission to continue the Charter process beyond the three-year horizon of the Thessaloniki agenda. In response, the Commission, in close cooperation with the Austrian presidency, the OECD and with the European Training Foundation, will restart the process in 2006 for another three years at least.

The Commission supports the European Fund for South-East Europe (EFSE), which was established in December 2005 by international and national donors and aims to provide additional development finance, notably to the small and micro-enterprise sector and to private households via local financial institutions. The Commission plans to contribute approx. €60m to the Fund in 2006.

Lisbon Agenda

The Lisbon Agenda aims at making the EU economy more competitive and knowledge based, promoting sustainable development and social cohesion. Its objectives are also relevant for the Western Balkans. The region should be involved gradually to achieving these objectives,

³ Council Regulation (EC) No 769/2004, 21 April 2004, OJ L 123/2004.

⁴ COM(2004) 627 and 628 final, 29.9.2004 (Articles 16 and 21, respectively)

taking into account the level of development of the economies and their stage of rapprochement to the EU. The Lisbon objectives will not constitute additional criteria or economic objectives, but the Commission will ensure that its policies towards the region also reflect Lisbon activities that can be considered priorities under the European/Accession Partnerships. The Western Balkan countries should thus start taking into account the Union's Lisbon objectives in their reforms.

Social policy and employment

Promoting social inclusion and integration, notably by focusing on vulnerable groups and areas most affected by economic, social and ethnic unrest, is a priority for the Western Balkans. The Commission encourages the development of social dialogue in the region, particularly to ensure the consultation of social partners in the process of economic transformation. The Commission organised a forum on social inclusion in Tirana in June 2005 (together with the UNDP) and a high-level conference on social dialogue in Skopje in October 2005. The Austrian Presidency and the Commission will organise an informal meeting of labour ministers and social partners of the Western Balkan countries in June 2006 in Geneva. The Commission will further support efforts in this area.

Country reviews on employment policy carried-out under the Stability Pact-led "Bucharest Process", as well as labour market reviews prepared with the European Training Foundation are important for increasing the countries' strategic expertise and capacity. The Commission will build on these to develop its pre-accession co-operation in the field of employment.

Visa policy and measures relating to the facilitation of movement of persons

In Thessaloniki, the EU recalled the importance the peoples and governments in the Western Balkans attach to the perspective of liberalisation of the visa regime. The Union noted that progress was dependent on these countries implementing major reforms in areas such as strengthening the rule of law, combating organised crime, corruption and illegal migration, and strengthening their administrative capacity in border control and security of documents. The Commission has discussed with each of the Western Balkan countries the requirements for taking these issues forward in concrete terms. These discussions confirmed that the necessary reforms would require substantial efforts by the countries in question. Lifting the visa obligation is a long-term issue.

Meanwhile, it should be possible to facilitate visa issuing procedures, which will make travel from the Western Balkans to the EU/Schengen area easier.⁵ The Member States and the Commission agreed in December 2005 on a common approach to visa facilitation, as foreseen by the Hague Programme adopted in November 2004. A case by case approach will be applied. The special relationship the EU has with certain countries, notably their status as candidates or potential candidates for accession, will be taken into account.

In this context, the Commission plans to start exploratory talks in the Western Balkans, starting with the former Yugoslav Republic of Macedonia in early 2006, in view of presenting to the EU Council draft negotiation mandates for Western Balkan countries in the course of the year.

⁵ Croatia is already on the visa free list.

Progress in negotiations on visa facilitation will be linked to negotiations on readmission agreements with the European Community and to progress in reforms in relevant areas. The Commission also plans to present, in spring 2006, a proposal aiming *inter alia* at simplifying and speeding up visa issuing procedures at local consulates.

Special measures have been taken to promote exchanges of researchers and students. A directive which makes it easier for students from third countries to obtain residence permits in the European Union was adopted in December 2004, and a directive with equivalent rules for researchers was adopted in October 2005.

Pending transposition of the directive on researchers into the national legislation of Member States, a Council Recommendation was adopted encouraging the Member States to apply certain parts of the directive in advance of final transposition. Another Recommendation aimed at facilitating short stays within the Schengen area of researchers was adopted by the Council in September 2005. This recommendation encourages Member States already now to grant researchers multiple-entry visas for the duration of the research project they are involved in, and to waive visa fees.

The Commission has made a proposal for the establishment of a local border traffic regime at the external borders of the Member States. Under this regime, residents of border regions, including along EU borders with Western Balkan countries, could be authorised to cross the border with a local border traffic permit, without requiring a visa. Formal adoption of the proposal (by the European Parliament and the Council) is expected by February 2006.⁶

Familiarising people and institutions with the European agenda

Participation in Community programmes and agencies

Further to the Thessaloniki Agenda and to an ensuing Commission Communication,⁷ the legal basis for participation by individuals or institutions of Western Balkan countries in *Community programmes* has now been put in place; the framework agreements concluded by the EU with each country entered into force in mid-2005.

Involvement in Community programmes can give Western Balkan countries a firm foothold in the EU and facilitate the exchange of know-how and good practices. As from 2007, when most Community programmes are to be renewed or overhauled, the Western Balkan countries will have the opportunity to further involve themselves in common projects in areas such as environment, energy and transport, research, culture and media, etc.

Community programmes are primarily internal programmes for the benefit of EU citizens and institutions; their extension to a partner country is subject to a number of requirements, including a financial contribution and administrative capacities on their side. Therefore, countries must each assess their own needs carefully and select those programmes which best match their priorities and would bring real value added, as reflected in particular by the European partnerships. Implementation should be gradual and be supported by adequate preparation.

⁶ Commission proposal for a Draft Regulation of the European Parliament and of the Council laying down rules on local border traffic at the external land borders of the Member States and amending the Schengen Convention [COM (2005)56, 23.2.2005].

⁷ Communication of the Commission "Preparing for the participation of the Western Balkan countries in Community programmes and agencies" [COM 748(2003), 3.12.2003]

The Commission has also followed up its proposals to involve the Western Balkans in the activities of Community agencies. Alongside ongoing networking into the main activities of the European Environment Agency, it will support countries' work programmes as of 2006 with a selection of Community agencies.⁸

Education and research

Cooperation with Western Balkan countries in the areas of *education and research* has been significant in recent years, with a substantial Commission contribution under several programmes: Tempus (higher education), Erasmus Mundus (scholarships for students), Youth, 6th Research Framework programme (FP6) and Joint Research Centre (JRC) activities, as well as through the work of the European Training Foundation (ETF). The Tempus programme, with a budget of €83m for the period 2001–2005 in the Western Balkans, has funded scholarships and mobility grants involving up to 250 students and more than 1000 teachers and education staff each year for studies or training in the EU or elsewhere in the region. In 2003-2004, around 2200 young people from the region participated in the Youth programme, more than twice as many as during the preceding three years⁹.

An Action Plan on RTD elaborated following the Thessaloniki summit among Member States, candidate and Western Balkan countries, identified how research could contribute to economic development and enhance integration and was instrumental in integrating better the Western Balkans in the European Research Area. From 2002 until 2005, around 120 participations (research units and institutions) from the Western Balkan countries have been recorded in 51 projects under the FP6.

On its side, the Joint Research Centre has trained in the past years some hundreds experts from the Western Balkans in workshops and courses and has started including Western Balkan organisations within its European research networks and projects.

Responding to expectations in the region for more effort in these sectors, notably in the number of scholarships, the Commission will start consultations on a new set of orientations for the period 2006-2010 and intends to discuss them at the EU/Western Balkan Meeting of Ministers of Science and Education on 17 March 2006. This Conference will also be a good opportunity for Member States to provide information on their bilateral programmes and possibly commit themselves to intensifying their already significant effort.

The Commission will review its actions under Tempus and Erasmus Mundus and expand opportunities for mobility of teachers and both undergraduate and graduate students as from 2007. As a first step, a special window will be made available in 2006 in Erasmus Mundus to allow up to 100 students from the region to undertake postgraduate studies in EU high profile master's courses. The Commission will also propose a new scholarship scheme for undergraduate students within the post-2006 Tempus programme. With regard to the post-2006 successor Community programmes to the current Socrates and Leonardo da Vinci, gradual involvement will be encouraged, tailored to the needs and constraints of each country, including the advanced administrative capacity required for these programmes. The Commission will also create new opportunities under the Youth programme. The ETF will continue to support Western Balkan partner countries in promoting reform of their education and training systems.

⁸ Actions under the PHARE and CARDS 2005 programmes

⁹ On an annual average basis.

As regards research, the EU plans to continue and strengthen its actions in favour of the Western Balkans research community under the 7th Framework Programme (2007-2013). Existing fruitful cooperation between the JRC and Western Balkans countries will be continued. The Commission will also examine how to enable the research community in the region to tap this potential and might provide support for building capacities of centres of excellence in the region. To further integrate the region into the European Research Area, the Commission is considering establishing a 'Steering Platform' which would identify concrete needs and means to satisfy them.

Preparing the administrations for European integration

Developing the Western Balkan countries' administrative and judicial capacity, while ensuring early alignment with Community legislation, is of paramount importance.

Twinning projects involve the long-term secondment of Member State experts and advisors to the target countries' administrations to assist efforts to increase administrative and institutional capacity. Such projects for the Western Balkans have expanded from 25 in the period 2000-2002 to 40 new projects in 2003-2005. Extension of the twinning instrument to Kosovo is presently under consideration.

The Technical Assistance Information Exchange Instrument (TAIEX) began operations in the region in 2004 and, by the end of 2005, it had organised over 300 assistance actions, targeting over 6000 officials from central state administrations, business associations, judiciary or parliamentary administrations. Following a first phase consisting of multi-country introductory seminars on EU legislation in Brussels, a more demand-driven approach is now being implemented in the region itself, reaching a wider audience.

Preparatory work by the Commission for the establishment of a regional School for Higher Education in Public Administration Reform, as provided for in the Thessaloniki Agenda, has been making progress. The first actual training under this scheme should take place before the end of 2006.

The EU will continue its customs and fiscal assistance programmes (CAFAO) and will start reflecting on medium and long term alternatives to these which would enhance the ownership of the local administrations.

Supporting free, independent and professional media

The development of free, independent and professional media is a key element to sustaining stability and functioning democracies in the Western Balkans. Increasing awareness of European media standards in the region and accelerating necessary reforms in the media sector are important priorities.

The Commission, in cooperation with the Council of Europe, launched a regional initiative on media reform in 2004, bringing together representatives of governments, broadcasting regulatory authorities, public broadcasters and other stakeholders. Three regional events have taken place so far (in Belgrade and Skopje in 2004, and in Sarajevo in 2005). Within this initiative, the Western Balkan countries signed Protocols of Cooperation between their broadcasting regulatory bodies and their public broadcasters. The Commission will pursue this regional initiative in 2006, providing support to the countries in their efforts to advance towards European standards.

Regional cooperation

Significant progress can be recorded in regional cooperation.¹⁰ Countries are increasingly aware that regional cooperation is not only a key part of the EU's conditionality, but it serves their own interest and has already produced tangible results. The complementarity of regional cooperation with the European integration process has been better understood.

Since the Thessaloniki Summit, the regional cooperation agenda has moved forward, with the valuable contribution of the Stability Pact and other regional initiatives. Cooperation is now underpinned by a number of centres hosted in the region, which reflect enhanced ownership - the Transport Observatory in Belgrade, the Sava River Commission in Zagreb, the Energy Secretariat in Vienna, the Regional Centre of the Migration, Asylum, Refugees Regional Initiative (MARRI) in Skopje, etc.

It is now important to pursue implementation of what has been initiated, to focus on concrete results and to meet a number of challenges which lie ahead. More specifically:

- *Return of refugees* has long been an important matter for a regional focus; it has now moved into a new phase through the Sarajevo Declaration of January 2005 by which Bosnia and Herzegovina, Croatia and Serbia and Montenegro, supported by the Commission and other international stakeholders, committed themselves to joining forces to resolve this issue before the end of 2006.
- In the area of *justice, freedom and security*, many initiatives have been pursued in the fight against organised crime and in border management. Key challenges for the coming period include: further improvement of the trans-border cooperation capacity of the police and customs services, support for the SECI Regional centre for combating trans-border crime and build-up of operational regional prosecutor cooperation in organised crime cases and corruption-related crimes. The regional project on asylum, migration and visa policies, recently finalised, should now be followed up with the requisite measures at national level.
- *Parliamentary cooperation* has been substantially improved with the newly established Conference of the Committee on European Integration of the Western Balkan Parliaments and the Cetinje Parliamentary Forum. Developing a common strategy for SEE parliaments, focused on EU integration, is the next step, to provide a parliamentary dimension to a comprehensive framework giving political guidance to the cooperation activities.
- *Energy* counts for one of the most encouraging developments, as the “Athens process” culminated with the signature of the Energy Community Treaty on 25 October 2005 between the EU and partners in the region, creating the basis for a single regulatory energy space. Subject to ratification, the Treaty could enter into force in the first half of 2006, making it possible to move on to implementation. The EU will increasingly focus on ensuring interconnections of international energy networks, including pipelines, in the region.
- Cooperation in land *transport* is moving forward on the basis of the Memorandum of Understanding on the development of the South East European Core Regional Transport network signed in June 2004. An agreement on a European Common Aviation Area was initialled by the countries of the region and the European

¹⁰ Regional cooperation in trade is addressed above.

Commission in December 2005 and procedures for its signature will be launched shortly.

- Regional environmental cooperation has been established, with the Commission playing a key role in the development of the Regional Environmental Reconstruction Programme, which provides a framework for environmental actions to be pursued at regional level. All the countries of the region are involved in this process, as well as in the Environment Compliance and Enforcement Network for Accession (ECENA).
- The Commission contributes to the *protection and preservation of the cultural heritage* in the Western Balkans through the programme for Cultural and Natural Heritage in South-East Europe that it runs jointly with the Council of Europe. More than 160 monuments and sites will be restored or rehabilitated under this scheme. In Kosovo, the Commission is financing the restoration of religious sites damaged during the violent events of March 2004.

The European Union's engagement in regional cooperation will intensify in the future, because of the close connection of regional cooperation with European integration. The region as a whole is gradually being associated with key European policies such as trade, justice, freedom and security (see above), transport, energy and cross-border cooperation. The Commission is already making a decisive contribution in several areas and is standing ready for enhanced involvement, in the first place in areas where regional cooperation contributes directly to and is indispensable for the European integration agenda.

Over the last six years, profound changes have taken place in the region, not least with regard to its progress towards the EU. The time has now come to move towards full local ownership of regional co-operation and to revisit the role of the *Stability Pact*. A gradual transition should ensure that key functions of the Stability Pact are transferred, with clear priority-setting and a streamlining of arrangements. An increased role could be envisaged for the South-East Europe Cooperation Process (SEECP), which the Thessaloniki Summit recognised as the voice of the region. To take on this role the SEECP needs an overhaul. The Commission is closely cooperating with the Pact and other stake-holders in view of decisions to be taken at the May 2006 Regional Table.

Financial assistance

EU financial assistance to the Western Balkan countries under the CARDS programme aims to support their efforts to enhance political and economic reform and development, on their path towards EU membership. As a candidate country, Croatia has benefited since 2005 from pre-accession assistance under the Phare, ISPA and SAPARD programmes. The European Investment Bank provides loans for infrastructure projects. The European and Accession Partnerships are the main guidance for assistance under the CARDS and pre-accession instruments.

Community assistance to the region is significant. For the period 2000-2006 grants to the region total around €5.4bn. The EIB is providing loans of some €2.0bn. In per capita terms, and as a share of beneficiary countries' GDP, this assistance is among the highest received by any of the EU's partners. Although assistance to the region was frontloaded at the beginning of this decade in order to cope with post-conflict reconstruction and rehabilitation, present levels of support continue to be high. With reform in Kosovo a priority, the Commission has reallocated an additional €25m to it, for implementation in 2006. Over the period 2000-2006 the EC has also provided exceptional macro-financial assistance to all countries of the region, except Croatia, totalling €873 m.

The new Instrument for Pre-Accession (IPA), which will replace the existing pre-accession instruments and CARDS from 2007 onwards, will cover assistance to candidate and potential candidate countries. It will thus simplify the transition of a country from one status to another, when this is decided by the Council. The instrument's components which finance transition and institution building as well as regional and cross-border cooperation will be open to potential candidate and candidate countries. The remaining three components (financing regional and human resources and rural development) are pre-cursors to the Community structural funds, require a high degree of financial administration capacity adapted to the EU system and are, therefore, reserved for candidate countries. Transition to the status of candidate country will open access to the three 'structural' components of IPA, although this will not automatically mean an increase in the level of support to the country in question.

Assistance in the areas of infrastructure, regional development and labour and social policies will also be available to potential candidates through the institution-building component. Such aid will initially be managed centrally by the Commission. In addition to IPA, other instruments (e.g. the Stability Instrument) may be required to address security challenges in the region. Additional macro-financial assistance may also be required in exceptional cases. An operation in favour of Kosovo is likely to prove necessary.

The Commission remains committed to supporting the Western Balkans with adequate funds. The EU must ensure that its policy priorities for the Western Balkans are backed by commensurate support under the next Financial Perspectives.

While the Western Balkans move from reconstruction to economic development and integration, support in the form of lending by international financial institutions (EIB, EBRD, World Bank, IMF, etc.), takes on a bigger role. For example, the decision to increase the European Investment Bank's external lending mandate (from €1.6 to more than €3bn) is an important signal. The Commission will continue to seek close coordination with other bilateral and international donors to enhance synergies, as in its joint lead with the World Bank on the coordination of infrastructure projects.

Civil society dialogue

In the light of experience from the most recent enlargement, the European Council in December 2004 decided that the EU would engage in an intensive political and cultural dialogue with candidate countries, involving civil society. In June 2005, the Commission adopted a Communication containing proposals to promote this civil society dialogue with Turkey and Croatia, involving in particular social partners and NGOs;¹¹ a related project for Croatia will be financed by the Phare 2006 programme.

The Commission now proposes to extend civil society dialogue to all Western Balkan countries. In addition to the proposals presented in its Communication for candidate countries, the Commission will put particular focus on dialogue between Western Balkan societies. A special effort should be undertaken to encourage civil society development in each country and a culture of civil society consultation.

¹¹ COM(2005)290 final, 29.6.2005.

Conclusions

The Council and Parliament are invited to take note of the following conclusions. The stability, security and increasing prosperity of the Western Balkans are a high priority for the European Union. Reconfirming their European perspective will be particularly important in the context of the Kosovo status process and when other constitutional issues in the region are being addressed.

The joint agenda agreed between the EU and the countries of the Western Balkans at the 2003 Thessaloniki Summit has largely been implemented, and further progress is forthcoming. Further efforts to promote its objectives will bring additional benefits. The economic and social agenda and reforms for approaching European standards are now particularly important.

- As means to promote trade, investment and economic and social development:
- Stabilisation and Association Agreements are being negotiated with Serbia and Montenegro and Bosnia and Herzegovina, and such negotiations are nearing conclusion with Albania. The Autonomous Trade Measures have been extended to 2010.
- The Commission will prepare a zone of diagonal cumulation of origin between the EU and the countries of region that have free trade agreements with it, while inclusion in the Pan-Euro-Med System remains the EU's strategic aim as a second step.
- The Commission supports rapid conclusion of a regional Free Trade Agreement and will provide advice and technical assistance to that end.
- The Commission will prepare for the implementation of the Energy Community Treaty, scheduled to enter into force in the first half of 2006.
- The process under the European Charter for Small Enterprises will be restarted, and the Commission will contribute financially to the European Fund for South-East Europe.
- The objectives of the Lisbon Agenda will be reflected in the EU's policies for the region and the countries are encouraged to take these into account in their reforms and action plans.
- The Commission will continue to support activities promoting social inclusion and integration and social dialogue
- The Commission will put forward initiatives for visa facilitation in 2006. Measures facilitating travel by researchers and students, as well as local border traffic along EU borders with the Western Balkan countries are about to be implemented.
- Scholarships provided to undergraduate and graduate students and researchers from the region through a number of EU-financed programmes and institutions will further increase. Western Balkan citizens and institutions should be encouraged to step up their participation in Community programmes and in activities of Community agencies. They should in particular take advantage of new opportunities arising in 2007 with the renewal of many of these programmes.

- Support for institution building through twinning and the Technical Assistance and Information Exchange Instrument will be strengthened. A new regional School for Higher Education in Public Administration should start its training activity in 2006.
- The countries of the Western Balkans should acquire greater ownership of regional cooperation. There should be a progressive transfer of the responsibilities of the Stability Pact to bodies based in the region. Priority areas for the coming period are trade, refugee return, parliamentary cooperation, energy, transport, environment, the area of justice, freedom and security, and the protection and preservation of cultural heritage.
- The EU should ensure that its policy priorities for the Western Balkans are matched by commensurate support under the next Financial Perspectives. Under the new Instrument for Pre-accession Assistance, support for infrastructure, regional development and labour and social policies will be available also to potential candidates through the institution-building component of IPA.
- Civil society dialogue in which the Commission has engaged with candidate countries will be extended to the whole of the Western Balkans.