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## 1. THE EU'S ENLARGEMENT POLICY

Enlargement is one of the EU's most powerful policy tools. The pull of the EU has helped transform Central and Eastern Europe from communist regimes to modern, well-functioning democracies. More recently, it has inspired tremendous reforms in Turkey, Croatia and the Western Balkans. All European citizens benefit from having neighbours that are stable democracies and prosperous market economies. It is vitally important for the EU to ensure a carefully managed enlargement process that extends peace, stability, prosperity, democracy, human rights and the rule of law across Europe.

After generations of division and conflict, the EU is peacefully creating a united Europe. Ten new members joined in 2004, and the EU signed an accession treaty with Bulgaria and Romania in April 2005. In October 2005, the Union opened accession negotiations with Turkey and Croatia, and negotiations on a Stabilisation and Association Agreement with Serbia and Montenegro. Each of these events was justified by the countries' progress in meeting the relevant conditions.

The Western Balkans is a particular challenge for the EU. Enlargement policy needs to demonstrate its power of transformation in a region where states are weak and societies divided. A convincing political perspective for eventual integration into the EU is crucial to keep their reforms on track. But it is equally clear that these countries can join only once they have met the criteria in full.

Enlargement policy is defined by Article 49 of the Treaty on European Union, which states that any European State which respects the EU's fundamental democratic principles may apply to become a member of the Union.<sup>1</sup> The EU has set political and economic criteria for membership, as well as criteria related to the obligations of membership and the administrative capacity to implement and enforce the EU's laws and policies.<sup>2</sup> The three basic principles of the Commission's approach to enlargement are consolidation, conditionality and communication.

### *Consolidating the EU's commitments on enlargement*

Enlargement has always been an essential part of the European project. The EU cannot abandon its responsibilities to ensure security, stability and prosperity on its own continent and further afield. The current enlargement agenda is the Balkans and Turkey, according to the decisions of the EU's heads of state and government. The European perspective has driven the significant progress achieved by these countries in recent years, but the reform process is still fragile. Important challenges lie ahead, such as the resolution of Kosovo's status, in which the EU will play a central role.

The Commission is convinced that a carefully managed accession process contributes positively to the European project. A well-functioning Union is in the interests of both present and future members. The Union's capacity to absorb new members, while maintaining the momentum of European integration, is an important consideration in the general interest of both the Union and the candidate countries.<sup>3</sup>

There is no further enlargement with a large group of countries at the same time in view. Accession negotiations with Turkey are a long-term process. The Western Balkans contains smaller countries at different stages on their road towards the EU. Future enlargements will go

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<sup>1</sup> Articles 49 and 6 of the Treaty on European Union.

<sup>2</sup> As stated in the conclusions to the European Councils at Copenhagen in 1993 and Madrid in 1995.

<sup>3</sup> As set out by the European Council at Copenhagen in June 1993.

at the pace dictated by each country's performance in meeting the rigorous standards, to ensure the smooth absorption of new members.

The pace of enlargement has to take into consideration the EU's absorption capacity. Enlargement is about sharing a project based on common principles, policies and institutions. The Union has to ensure it can maintain its capacity to act and decide according to a fair balance within its institutions; respect budgetary limits; and implement common policies that function well and achieve their objectives.

For over three decades, the EU has successfully absorbed a very diverse set of countries. By developing its policies and institutions, the Union has managed to respond positively to new circumstances – such as the fall of dictatorships, the collapse of communism, and the rise of globalisation. Enlargement has proved to be a successful instrument in this process.

### ***Applying fair and rigorous conditionality***

The EU must remain rigorous in demanding fulfilment of its criteria, but fair in duly rewarding progress. Aspirant countries can only proceed from one stage of the process to the next once they have met the conditions for that stage. Moreover, the Commission is prepared to recommend the suspension of progress in case of a serious and persistent breach of the EU's fundamental principles, or if a country fails to meet essential requirements at any stage. Such requirements include cooperating with the International Criminal Tribunal for the former Yugoslavia (ICTY).

The EU will remain firm in demanding that aspiring members fulfil all the requirements before they join. The Commission will assist the countries and monitor their progress to ensure proper implementation and enforcement.

In both the Balkans and Turkey, the effectiveness of conditionality in driving reforms depends on maintaining a credible political perspective for eventual integration into the Union. Aspirant countries can best sustain public support for bold and often painful reforms when the EU supports them, works with them, and keeps its own promises.

The perspective of moving to the next stage in relations with the Union is a powerful incentive for countries to transform themselves and to adopt EU standards and values. The journey towards membership has value in itself, even in cases where accession is many years away. This journey is often difficult, so it is essential for the EU to stay engaged throughout the process, and committed to the outcome. This paper outlines below a road-map for realising the European perspective of the Western Balkan countries, setting out the stages and the conditions attached to each stage.

### ***Communicating enlargement policy***

Broad public support is essential to sustain the enlargement policy. The Commission is aware of the concerns of EU citizens about European integration in general, and enlargement in particular. The EU needs to communicate better the objectives and challenges of the accession process and how it deals with the countries. This is particularly important in a context of public concern about the challenges of globalisation and the debate about the future of Europe. The Union has to respond directly to the concerns of its citizens. In particular, it needs to offer a clear strategy for future accessions that is based on objective conditions and realistic commitments. Better communication about previous enlargements is vital to ensure support for future accessions.

The latest enlargement was a remarkable success. Before 1 May 2004, the largest enlargement in the EU's history was widely predicted to provoke major problems, such as institutional deadlock and massive flows of migrant workers. But in fact the adjustments have been limited and manageable. Twenty-five Member States are participating fully in the institutions. The

EU citizens working outside their home countries have made a positive economic contribution in the Member States which have opened their labour markets.

Meanwhile, the new Member States have brought in economic dynamism, helping to maintain and create jobs across the whole EU. Increased trade and investment have boosted the Single Market. All European citizens are benefiting from the application of European standards, for example in environmental protection, in the new Member States.

However, this success has not been communicated well. This requires a co-ordinated joint response. Member States must bear their responsibility to explain and defend the policies they have agreed unanimously. The Commission will complement this effort by using a wide variety of routes to communicate its enlargement policy and counter misconceptions with evidence. It will seek to engage in a dialogue with key actors in politics, the media, academia, business and social partners in order to promote a better informed debate about both past and future enlargements. A vital part of the Commission's communications strategy is the civil society dialogue, which aims to reinforce links between civil society in the EU and candidate countries in order to improve mutual understanding, address concerns, and encourage a high-quality debate.<sup>4</sup>

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This paper first deals with the candidate countries, Croatia and Turkey, and then the Western Balkan potential candidate countries.<sup>5</sup> Detailed Progress Reports on each country are published alongside this paper. However, the analysis on the former Yugoslav Republic of Macedonia is included in the Opinion on the application from this country for EU membership, also delivered on 9 November.

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<sup>4</sup> See Commission Communication on Civil Society Dialogue between the EU and the Candidate Countries (COM (2005) 290).

<sup>5</sup> The Commission reported on 25 October 2005 on its monitoring of Bulgaria's and Romania's progress (see the Commission Communication COM (2005) 534)

## **2. TURKEY AND CROATIA**

### **2.1. Progress made by Turkey**

Political transition is ongoing in Turkey and the country continues to sufficiently fulfil the Copenhagen political criteria. Important legislative reforms have now entered into force and should lead to structural changes in the legal system, particularly in the judiciary. However, the pace of change has slowed in 2005 and implementation of the reforms remains uneven. Although human rights violations are diminishing, they continue to occur and there is an urgent need both to implement legislation already in force and, with respect to certain areas, to take further legislative initiatives. Significant further efforts are required as regards fundamental freedoms and human rights, particularly freedom of expression, women's rights, religious freedoms, trade union rights, cultural rights and the further strengthening of the fight against torture and ill-treatment. In particular, Turkey should integrate better the reform process into the work of all public authorities. Turkey's commitment to further political reforms should be translated into more concrete achievements for the benefit of all Turkish citizens regardless of their origin.

Turkey has made fundamental progress in the economic field and can now be regarded as a functioning market economy, as long as it firmly maintains its recent stabilisation and reform achievements. Turkey should also be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it firmly maintains its stabilisation policy and takes further decisive steps towards structural reforms.

As regards the adoption and implementation of the EU legal order (the *acquis*), Turkey's alignment has progressed in several areas but remains at an early stage in most areas. Further work is required in all areas, new legislation should not move away from the *acquis*, and discrimination against non-Turkish service providers or products, or different treatment of EU Member States, should be discontinued. Commitments deriving from the customs union should be respected. Administrative and judicial capacity must be reinforced to apply EU rules as they are introduced in the country.

### **2.2. Progress made by Croatia**

Croatia faces no major difficulties in meeting the political requirements for membership. There has been progress in most areas but important efforts are still needed to reform the judicial system, including the unbiased prosecution of war crimes, to fight corruption, to improve the situation of minorities and to facilitate refugees' return. There has been good progress on regional cooperation, both in terms of bilateral relations with neighbouring countries and in terms of regional initiatives. The lack of full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) prevented the EU from opening accession negotiations as envisaged in March 2005; full cooperation has now been established and must be maintained.

Regarding the economic criteria, Croatia can be regarded as a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues to implement its reform programme to remove remaining weaknesses.

As regards the adoption and implementation of the EU legal order, Croatia has made some progress, mainly in terms of legislative alignment. Croatia needs to continue legislative alignment across the board while at the same time strengthening administrative and judicial capacity to enforce the *acquis*. In many cases enforcement is weak and administrative capacity remains uneven.

### 2.3. Accession strategy

#### *Conducting accession negotiations*

Relations between the EU and Turkey and Croatia entered a new and historic phase with the opening of accession negotiations on 3 October 2005. The EU has met its commitments in this regard. The negotiations will offer both countries the opportunity to demonstrate their resolve and ability to complete the necessary transformation and meet all requirements for membership.

The signature of the Additional Protocol to the Ankara Agreement this summer was a condition to start accession negotiations with Turkey. The EU will monitor closely the implementation of this Protocol and will evaluate this in 2006, in particular whether all restrictions on the free movement of goods, including on means of transport, have been lifted.

The ICTY Chief Prosecutor's assessment that Croatia is now fully cooperating paved the way for the Council to launch accession negotiations. Sustained full cooperation with the ICTY will remain a requirement for progress throughout the accession process. Less than full cooperation with ICTY at any stage will affect the overall progress of negotiations and could lead to the suspension of the negotiations.

The negotiations will be conducted on the basis of clear and rigorous negotiating frameworks agreed by the Council, which set out the method and guiding principles.<sup>6</sup> The negotiations will be based on the countries' own merits and their pace will depend on the countries progress in meeting the requirements for membership. The Union expects both countries to comply fully with the political criteria and to work towards their further improvement throughout the negotiations. In case of serious and persistent breach by either country of the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law on which the Union is founded, accession negotiations may be suspended. In order to become a Member State, both countries will have to accept the *acquis* of the Union. As in all previous accession negotiations, specific arrangements may be agreed.

The Union will specify benchmarks for the provisional closure and where appropriate also for the opening of individual chapters. Among the benchmarks to be considered for chapters in the economic field, the Commission will pay particular attention to the fulfilment of contractual obligations to the Union and to all its Member States under the association agreements, including for Turkey the customs union and the Additional Protocol, and of the criterion of being a functioning market economy. If the Commission at a later stage concludes that a candidate country no longer fulfils these obligations or criteria, the Commission may propose to the Member States that accession negotiations on the relevant chapters be suspended.

The first step of the negotiations was the start of the analytical examination (called 'screening') of the EU *acquis* on 20 October 2005. The screening exercise brings together experts from Turkey and Croatia and from the Commission to explain EU rules and examine each country's plans for adopting and implementing them. It is expected to take until autumn 2006 to screen all the *acquis* chapters. After a chapter has been screened the EU will decide, on a proposal from the Commission, whether it can be opened or which benchmarks need to be met before opening it.

#### *Supporting reforms*

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<sup>6</sup> The negotiating frameworks are published at <http://europa.eu.int/comm/enlargement/turkey/docs.htm> and [http://europa.eu.int/comm/enlargement/croatia/key\\_documents.htm](http://europa.eu.int/comm/enlargement/croatia/key_documents.htm).

A pillar of the Commission's strategy for Turkey is its active support of the process of political reforms. The regular monitoring of the political criteria has intensified with frequent meetings at political and experts level to review in detail all the issues and problems arising under the various headings of the political criteria. The main outstanding issues will need to be addressed in the early stages of the accession negotiations, including through the benchmarking of necessary actions under relevant negotiating chapters, if the momentum of the negotiations is to be maintained.

The Commission has continued to provide active support to the process of political, economic and other reforms linked to the accession process in Croatia, particularly in the context of the Stabilisation and Association Agreement which entered into force in February 2005.

For both countries, the Commission proposes Accession Partnerships reflecting the main priorities identified in the Progress Reports. They translate the conditionality for progress towards the EU into concrete actions. EU assistance projects are designed around the same priorities.

After becoming a candidate country, Croatia became eligible for all three pre-accession financial instruments: Phare for institution-building and economic and social cohesion, ISPA for environment and transport infrastructures and SAPARD for agricultural and rural development. Croatia also remains eligible for the CARDS Regional Programme in 2005 and 2006. Pre-accession financing amounts to EUR 105 million in 2005 and EUR 140 million in 2006. Croatia can also participate in Community Programmes.

The 2005 pre-accession financial assistance programme for Turkey consists of a national programme and associated expenditure on multi-country programmes, communication and management, bringing the overall total to EUR 300 million in 2005 and 500 million in 2006. The key priorities for the 2005 programme reflect the EU's priorities relating to the political criteria, economic and social cohesion, the implementation of the *acquis* in key areas, and the EU-Turkey political and social dialogue. This also includes financing to prepare Turkey for the implementation of large-scale infrastructure and measures resembling the structural funds from 2007.

### **3. THE WESTERN BALKANS**

#### **3.1. Progress made by Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia,<sup>7</sup> Serbia and Montenegro and Kosovo<sup>8</sup>**

##### *Political developments*

The overall political situation is improving but considerable challenges remain. Albania is politically more stable, as demonstrated by the smooth transition to a new government in July/August 2005; however, governance still needs to improve significantly. Bosnia and Herzegovina has made considerable progress in implementing the priorities in the Feasibility Study, but its complex constitutional structures often lead to blockages and inefficiency in decision-making. The former Yugoslav Republic of Macedonia has displayed a strong commitment to the implementation of the Ohrid Framework Agreement and has made important progress since 2001, strengthening the country's stability. Serbia and Montenegro suffers from structural weaknesses and coordination difficulties, particularly in areas where competences are shared between the State Union and the republics. Kosovo's institutions still lack the political maturity necessary to build a truly democratic, secure and multi-ethnic society.

The functioning of the democratic institutions is generally improving. The countries need to complete their electoral reforms. Election standards have improved. The parliaments are becoming more effective across the region, but a lack of resources and an unconstructive political atmosphere in some countries hamper their work. Public administrations are vulnerable to political interference and suffer from weak administrative and implementation capacities. The countries need to intensify reform efforts. They also need to develop a highly qualified and independent civil service which can manage the European integration process.

The judicial systems are being reformed and legal frameworks have improved. However, judiciaries generally remain weak and lack independence. Inefficiency, lack of resources, backlogs of cases, and weak implementation and enforcement of legislation are commonly shared problems. In Kosovo, recruitment from minority populations to the judicial system is a key priority. Although legal frameworks for the protection of human rights and minorities are in place in almost all countries, there remains discrimination in practice.

Reform of police services needs to continue, to ensure that they operate without political interference and that they are organised according to technical and professional criteria. Organised crime and corruption remain significant problems throughout the region. The countries' anti-corruption strategies need to be refined and updated with realistic objectives and timetables.

The number of people still registered as refugees or internally displaced persons has decreased, mainly as a result of a re-registration of refugees and internally displaced persons in Serbia and Montenegro and in Bosnia and Herzegovina. The violent events in Kosovo in March 2004 were a serious setback to the return process and the dialogue between Belgrade and Pristina on this issue remains problematic.

Bosnia and Herzegovina and Serbia and Montenegro have made significant progress in cooperation with the ICTY, with many transfers of indictees to the Hague, but they still need

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<sup>7</sup> Progress made by the former Yugoslav Republic of Macedonia is covered in the Commission Opinion published separately (COM (2005) 562).

<sup>8</sup> Kosovo is currently governed under the auspices of UN Security Council Resolution 1244.



to achieve full cooperation. Nearly all of the countries have aligned with the Council Decision on the freezing of assets of natural persons indicted by the ICTY.<sup>9</sup>

Increasing regional cooperation is important for further stabilisation and reconciliation. It is an indication of a country's ability to cope with more advanced relations with the EU. The recent apology of the Serbian President for war crimes committed by his countrymen in Bosnia and Herzegovina was an encouraging sign of a deepening reconciliation process. Cooperation on refugee return has improved and it is increasing in the area of justice, liberty and security, including in combating organised crime.

Over the past six years, the Stability Pact has made a valuable contribution, but the premises for its work are changing. The region is gradually assuming ownership of regional cooperation, for example through the South-East Europe Cooperation Process. A reformed Stability Pact could gradually and adequately transfer its key functions to the region, in order to maintain the momentum in regional cooperation.

#### *Economic developments*

Macroeconomic stability has been further strengthened overall. This contributed to sustained growth rates and moderate inflation. However, high current account deficits remained a source of vulnerability.

Structural reforms progressed unevenly. The process of privatisation and restructuring is at different stages. Enforcement of property rights and contracts is still difficult. The large informal sector remained a source of uneven competition and tax evasion. Trade liberalisation was advanced by the completion of a regional network of free trade agreements. In order to establish functioning market economies, the countries need to ensure further macro-economic stabilisation and structural reforms, including liberalisation and privatisation. This process requires appropriate regulatory frameworks and structures of corporate governance.

### **3.2. Pre-accession strategy**

#### *Realising the perspective of membership: a road-map*

All the Western Balkan countries have been given the prospect of EU membership once they fulfil the necessary conditions.<sup>10</sup> The EU will stand by this commitment. Each country will advance towards this goal on its own merits, depending on its progress in meeting the requirements. The countries are at different stages along their path towards the EU, but all will be able to realise their European perspective by following the road-map explained below.

As potential candidate countries, the Western Balkans already have access to a number of instruments also available to help candidate countries. These include access to Community programmes (such as education, science and research), help to reach EU standards, trade preferences for their products, regular reporting by the Commission, and policy priority-setting by the EU.

Each country can establish a far-reaching **Stabilisation and Association Agreement (SAA)** with the EU. These agreements help to prepare Western Balkan countries for future membership by introducing EU rules in various fields well in advance of accession. So far, Croatia and the former Yugoslav Republic of Macedonia have SAAs in force. Albania is close to finalising such an agreement, while Serbia and Montenegro has just opened SAA negotiations, and Bosnia and Herzegovina will do so shortly.

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<sup>9</sup> Council Decision 2004/767/CFSP implementing Common Position 2004/694/CFSP.

<sup>10</sup> European Council at Thessaloniki in June 2003.

Before **opening SAA negotiations**, the EU examines whether the basic conditions are in place. A sufficient degree of **stabilisation** is a pre-condition for opening negotiations.

The EU supports the further stabilisation of the region through a number of instruments under the Common Foreign and Security Policy, including EU Special Representatives, the EU Monitoring Mission, the EU Military Force in Bosnia and Herzegovina and EU Police Missions in Bosnia and Herzegovina and in the former Yugoslav Republic of Macedonia. The nature of the EU's presence will need to adapt as the countries stabilise and make progress towards European integration. The Union has made an important step in 2005 by appointing the same person as Head of the Commission Delegation and EU Special Representative in Skopje.

Once stabilisation is sufficiently ensured, the Commission can recommend to the Council in a **Feasibility Report** whether and under what conditions SAA negotiations can start. Given the importance of having a contractual relationship, the Commission considers it a priority to negotiate and then conclude, as soon as possible, SAAs with the remaining countries. SAA negotiations with Serbia and Montenegro were opened in October 2005. Also in October, the Commission recommended to the Council the opening of SAA negotiations with Bosnia and Herzegovina.

SAA negotiations can be **concluded** once the country has made sufficient overall progress in the reform areas essential for implementation of the agreement. Once signed, the agreement is subject to ratification by the EU side and by the future associated country. In the meantime, the trade-related provisions of the SAA are applied by means of an interim agreement. Following ratification, the agreement enters into force.

Croatia and the former Yugoslav Republic of Macedonia have SAAs in force. Albania has made sufficient progress in the development of the legislative and institutional framework and the administrative capacity required for the proper implementation of the future agreement; this paves the way for the conclusion of SAA negotiations.

The Commission considers that it should be possible to conclude the SAA negotiations with Serbia and Montenegro and with Bosnia and Herzegovina within a year of opening. This is an ambitious timetable, which will depend on concrete progress on political, economic and institutional reforms.

The successful negotiation and conclusion of an Agreement allows a country to demonstrate that it is able to sustain more advanced relations with the EU. Proper implementation of the Agreement is therefore the best basis on which to assess a country's readiness to move to the next phases of candidate status and then accession negotiations. A country's satisfactory track-record in implementing its SAA obligations (including the trade-related provisions) will therefore be an essential element for the EU to consider any membership **application**.

Following a membership application, and on the basis of the Commission's Opinion, the EU may decide to grant an applicant country **candidate status**. This status is a political recognition of a closer relationship with a country on its way towards membership. In practice, it implies that EU assistance can be used in all areas relevant to the ability of the country eventually to assume the obligations of membership, such as preparation for the implementation of the structural funds. However, it does not mean any automatic increase in the overall sum of assistance allocated to the country. Candidate status implies that the country concerned opens a new stage in its relationship with the EU, and it will benefit from more intense political dialogue and economic cooperation with the Commission and Member States.

Candidate status is necessary but insufficient for **opening accession negotiations**. Before accession negotiations can be opened, the country needs to reach a sufficient degree of

general compliance with the Copenhagen criteria. The political criteria must be met,<sup>11</sup> including full cooperation with the ICTY where relevant. The country has to have made significant progress towards meeting the economic criteria and the obligations of membership. The Commission examines the degree of overall compliance in its Opinion on the country's application for membership, and reports on progress regularly thereafter. The European Council decides whether and when negotiations can be opened, based on a recommendation from the Commission. Once that decision has been taken, an intergovernmental conference is convened on the basis of a negotiating framework adopted by the Council following a Commission proposal.

As spelled out in the negotiating framework for Croatia, the fulfilment of the specific criteria in the Stabilisation and Association Process (SAP) and implementation of the SAA must continue right up until accession. Weaknesses in fulfilling these requirements will affect the pace of the negotiations. Based on previous experience, the accession negotiations can last for widely varying numbers of years, depending on the country. By their very nature, negotiations are an open-ended process. Once concluded, the results of the negotiations are reflected in an Accession Treaty. This Treaty allows for accession to the Union, once it has been approved by the European Parliament, and ratified by all Member States and the acceding country.

#### *Supporting reforms*

The **European Partnerships** guide the countries' reform efforts and indicate the concrete actions needed to achieve progress through the road-map. They identify the short and medium-term priorities for each particular stage of the pre-accession process. The countries should respond to the priorities proposed by the EU with their own corresponding Action Plans without delay. To make the most of this instrument, the countries need to integrate the Partnership priorities fully into their domestic policy agenda, including not only legislative but also budgetary and administrative planning. The European Partnerships will continue to be the basis for the CARDS assistance programme to the Western Balkans.<sup>12</sup>

The Union supports the reform agenda contained in the European Partnerships with a range of instruments. **EU assistance** to the Western Balkans comprises an allocation of EUR 539 million in 2005 alone, including support to the regional programme for which Croatia remains eligible. This assistance focuses on the challenges identified within the framework of the European Partnerships. Most new EU support instruments agreed at the 2003 Thessaloniki Summit have now been put in place. The countries have been given the possibility of participating in Community programmes, in order to familiarise them with EU policies and working methods. The Commission envisages making a proposal shortly concerning the application of diagonal cumulation of origin in trade between the countries of the region which have a free trade agreement with the EU. Separately, the Commission has proposed a five-year extension of the countries' free access to the EU market essentially for all products. Progress towards the conclusion of agreements on readmission and visa facilitation will signal mutual commitment to further cooperation on justice, liberty and security.

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<sup>11</sup> As specified by the European Council at Helsinki in December 1999.

<sup>12</sup> CARDS = Community Assistance for Reconstruction, Development and Stabilisation.

#### 4. CONCLUSIONS AND RECOMMENDATIONS

- (1) The Commission's enlargement policy is based on consolidation, conditionality and communication. A carefully managed enlargement process extends peace, stability, prosperity, democracy and the rule of law across Europe. The Union will stand by the commitments it has made once the countries fulfil the strict conditions for accession. Each country will be assessed on its own merits. The Commission will assist the countries and monitor their progress to ensure proper implementation and enforcement. At the same time, the EU as a whole has to communicate better the objectives and the challenges of the accession process.
- (2) The opening of accession negotiations with Turkey and Croatia on 3 October has begun a new phase of political and economic integration. The Accession Partnerships set out the key tasks each country has to undertake to progress through the negotiations.
- (3) The future of the Western Balkans lies in the EU. The Western Balkan countries are moving from stabilisation and reconstruction to sustainable development, association and integration into European structures, achieving the aims set out at the Thessaloniki European Council in 2003. The Commission aims to ensure that all the countries sign Stabilisation and Association Agreements (SAAs) with the EU, to establish a sound contractual relationship. A country's satisfactory track-record in implementing its SAA obligations (including the application of its trade-related provisions in the form of an Interim Agreement) will be an essential element for the EU to consider any membership application.
- (4) The Commission recommended this year that the EU open SAA negotiations with Serbia and Montenegro, and with Bosnia and Herzegovina. Depending on their progress in making political, economic and institutional reforms, it should be possible to conclude these SAA negotiations within a year of opening. Albania has made sufficient overall progress in the reform areas essential for implementation of its future SAA; this paves the way for the conclusion of negotiations.
- (5) The EU is ensuring that Kosovo benefits from the key instruments offered to the region. The opening of status discussions is a challenge for the entire region, and for the international community. The strong commitment of all parties to a multi-ethnic, stable and democratic Kosovo will be essential to achieve a sustainable settlement that reinforces the security and stability of the region, and to ensure its further progress towards the EU.
- (6) In its Opinion, the Commission recommends that the European Council should grant the status of candidate country to the former Yugoslav Republic of Macedonia. Accession negotiations should be opened once the country has reached a sufficient degree of compliance with the membership criteria. The Commission will present a report to the Council no later than the end of 2006 on the progress of the former Yugoslav Republic of Macedonia.

## ANNEX: CONCLUSIONS OF THE PROGRESS REPORTS ON ALBANIA, BOSNIA AND HERZEGOVINA, CROATIA, SERBIA AND MONTENEGRO AND KOSOVO, TURKEY

### *Albania*

As regards the **political situation**, Albania has made progress in reinforcing its democratic, judicial and public administration institutions, but needs to implement strategies and laws with more vigour to further improve their functioning. Efforts have been made to fight corruption and improve human rights. Further commitment is needed to achieve significant results. Albania has continued to play a positive political and commercial role in the region.

The Parliament has remained the centre of political exchange and has passed a considerable amount of important legislation. Overly marked political confrontation has hindered political consensus on reform issues, slowing progress. New internal parliamentary rules, and in particular the strengthened European Integration Committee, could help foster constructive consensus. The July 2005 parliamentary elections were fundamentally sound and resulted in a smooth transfer of power, but showed shortcomings which demonstrated a need for further electoral reform.

The government has developed major new strategies and co-ordination tools relevant to Albania's EU progress. In many cases further energy and commitment is needed to use them to achieve concretely improved results. The Ministry of European integration has been strengthened, but needs further resources in order to improve its leadership and co-ordination on EU issues. The merging of several ministries could improve co-ordination in related policy areas but care will be needed to ensure appropriate checks and balances.

Albania has improved the oversight, recruitment and training of its public administration and taken steps to enhance its legal framework. It now needs to ensure an appropriate division between its political and administrative levels, and improve assessment procedures and conditions of employment for its civil servants.

Progress has been made in improving the functioning of Albania's judicial system. Training for judges and prosecutors has been improved and should now be followed by further steps to ensure their independence and better employment conditions for other judiciary staff. Measures to increase judicial transparency and co-ordination have been taken, but more are needed. Although more judgements are now executed, the level of execution remains relatively low. New legal tools and regional agreements should now be used to achieve better concrete results in fighting organised crime and terrorism.

Some efforts have been made to fight corruption: work has continued in international fora, new conflict of interest legislation has been adopted, more public officials have been prosecuted for corruption, and strong action has been taken against police corruption. Nonetheless tangible results remain limited: considerable further efforts are required to enforce current legislation and adopt new measures in line with Albania's anti-corruption action plan, GRECO recommendations and international anti-corruption conventions.

In the field of human rights, Albania has made some efforts to improve conditions for prisoners, with a new code of conduct and internal control law for prisons, but inadequate infrastructure means physical conditions remain poor. Knowledge and enforcement of domestic law and international conventions on treatment of prisoners should be improved. Little concrete progress has been made in improving media freedom. Legislative progress has been made in reinforcing property rights, but implementation must be greatly accelerated. Albania is an example of religious tolerance, but requires further progress to reach international standards in human and minority rights.

Albania has continued to play a positive role in the region, actively pursuing the deepening of political and commercial relations with its neighbours through free trade agreements and regional multilateral initiatives, and maintaining a constructive policy towards Kosovo.

The **economy** of Albania operates to some degree within the framework of functioning market principles. Further vigorous reform efforts are necessary to address the shortcomings in competitiveness of the economy.

Growth remained strong while inflationary pressure remained subdued. The current account deficit has narrowed. Fiscal consolidation continued and the budget deficit has declined. Progress in public administration reform has continued and the administrative capacity of the tax administration has improved. In the field of public financial control and internal audit, some progress has been made. Privatisation of small- and medium-sized enterprises has been completed. The sale of the Savings Bank was completed in 2004 and the privatisation of Albtelecom has started in early 2005. Prudential supervision has been strengthened through the implementation of a risk-based supervision process. The labour market is considered as relatively flexible.

However, public sector governance remains to be strengthened and the privatisation of large enterprises has suffered delays. The performance of the financial sector to channel savings towards productive investment has recently been improving, but still remains weak. The establishment and enforcement of property rights remain difficult, damaging the potential for investment and economic activity. Enterprise creation continued to face obstacles such as weak infrastructure, poor legislation and weak implementation of tax legislation. Unfair competition by businesses operating in the grey economy remains a problem. Educational attainment remains relatively low and the supply of skilled labour is limited.

Albania has made some progress towards meeting **European standards**. Progress has mainly consisted of adoption of new legislation and the establishment of new institutions. Some efforts regarding the strengthening of administrative capacity have also been made, but in a number of cases more commitment and resources are needed for further progress.

On *internal market* issues, Albania has continued to make progress in the area of *free movement of goods*. Standardisation and certification has advanced satisfactorily, but more attention should be paid to implementing the New, Global and Old Approach directives. There have been no legislative developments in metrology, and equipment for testing is deficient. Considerable further legal and administrative progress is required for proper market surveillance. Consumer protection laws should be improved and implemented. As regards the *movement of persons, services and right of establishment*, Albania continues to face a problem of emigration. Legislation on establishment is relatively open but requires amendment to remove discrimination between national and foreign firms. Rules for the provision of services are fairly liberal. No significant developments have taken place regarding the *movement of capital*.

Albania has made considerable progress in the field of *customs* rules, and revenue collection has increased, while progress in other related areas has been more limited and further action is needed to address corruption in the customs service. *Taxation* legislation has been improved, benefiting in particular SMEs. A positive development was the transfer of the social and health insurance contributions collection section to the tax administration. Tax legislation should be implemented fairly and transparently and revenue collection should be improved.

In the field of *competition*, more work is needed to increase understanding of its principles among market actors. Particular progress has been made on state aid, with a state aid department established and new legislation passed. Existing *public procurement* rules should be respected, and related legislation requires considerable work to comply with EU standards.

New legislation on *intellectual property rights* was adopted, but its enforcement should be enhanced. Some progress has been made regarding the *statistics* system, especially on classification and the establishment of a business registry, which should now be expanded. Macroeconomic statistics should be improved.

With regard to *sectoral policies*, the *industry and SME* sector showed only limited progress, but the abovementioned steps in the field of taxation benefited the sector. Albania should fully implement its action plan to reduce administrative barriers and address the informal economy.

The *agriculture and fisheries* sectors have made little progress. Agriculture continues to function as economic and social buffer, reducing poverty and unemployment, although its share of GDP continues to decrease. Much needs to be done to improve the quality of agricultural and fisheries produce, in particular regarding food safety.

Only limited progress has been made as regards the *environment*. Some improved legislation has been adopted, but enforcement continues to be problematic. Administrative capacity to implement environmental legislation should be strengthened.

Some progress has been made in the *transport* sector, especially in legislation and participation in international fora, but its infrastructure remains inadequate and poorly maintained. Albania should implement its transport master plan and improve transport safety in the various transport modes. Transport investments should be transparent and respect procurement rules.

Albania has made good progress in the *energy* sector, in particular by implementing the energy action plan, aligning legislation and signing the South East Europe Energy Community treaty. It must continue to strictly implement the energy action plan in order to reduce the still-frequent power cuts and illegal connections.

Some progress has been made in the sector of *information society and media*, in particular through the liberalisation of the telecommunications sector and improved distribution of electronic communications. The privatisation of Albtelecom remains to be successfully concluded and telecommunications legislation should be developed to attract further investment. Further work is needed to align electronic communications, information technology and audiovisual legislation and to ensure its non-discriminatory implementation.

Albania has drafted a Policy Paper on public internal financial control, but it needs to be further developed. As regards external audit, the Supreme Audit Institution of Albania should be improved in line with the INTOSAI guidelines, and its financial independence should be ensured.

In the field of *justice, freedom and security*, travel documents have been made more secure, but progress is needed in computerising the *visa* system and in bringing visa legislation up to EU standards. Albania has considerably improved *border control* through better management and IT infrastructure and better co-operation with neighbours, but trafficking remains a significant problem which should be addressed through an integrated border management strategy providing for improved inter-service co-operation and further resources. National strategies were adopted on *migration* and *asylum*, and Albania signed a readmission agreement with the EU. These now need to be funded and implemented.

Progress has been made in fighting *money laundering*, with new implementing legislation and steps to improve inter-agency and regional co-operation. These aspects however need further work, focusing on results, and the Financial Intelligence Unit, the prosecutor's offices and the police Economic Crime Unit require more resources to function fully effectively.

Albania has made some progress in the fight against the illegal *drugs* trade, approving a National Anti-Drug Strategy, the introduction of special investigative means and asset seizure

legislation. Albania nonetheless continues to be a major transit country for drug trafficking and should give higher priority and funding to the implementation of its anti-drug strategy. It should further strengthen enforcement, improve co-ordination both domestically and with foreign partners and prevent the obstruction of anti-drug investigations by public servants.

There has been some progress in enhancing the effectiveness of the Albanian state *police*, with the strengthening of departments dealing with organised crime and corruption, and prosecution and dismissal of increased numbers of often senior police officers for corruption. Albania must nonetheless further improve the equipment and the management of the police, in particular as regards human resources, transparency, autonomy and police records, and should accelerate efforts to reach an agreement with Europol.

Albania has made progress in the fight *against organised crime and terrorism*, adopting a targeted package of laws. Albania has continued to implement the specific action-oriented measures against organised crime and has upgraded key ministry bodies and improved laws on the proceeds of crime. Police intelligence analysis has improved, and sea-borne human trafficking has been reduced. Progress in implementing the action-oriented measures should however be accelerated and concrete steps to improve witness protection are urgently required. Albania should improve inter-agency co-operation, pursue regional and international co-operation more vigorously and use its new legal tools more determinedly to arrest and prosecute organised criminals. The fight against *terrorism* was reinforced by the establishment of a specialist police directorate. Albania has supported international initiatives in the field, expelled suspected supporters of terrorism and is improving airport security. It should accelerate implementation of international conventions and further improve security at Tirana airport.

#### *Bosnia and Herzegovina*

As regards the **political situation**, Bosnia and Herzegovina has made progress in further consolidating the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Most of the Council of Europe post-accession commitments have been fulfilled. Nonetheless, continued efforts remain necessary in order to ensure a non-reversible, self-sustaining state able to assume full responsibility for government.

As regards democratic principles, Bosnia and Herzegovina assumed full organisational and financial responsibility for the 2004 municipal elections. Further progress has been made in implementing the Law on the Council of Ministers and the Law on Ministries. Efforts need now to continue to increase the effectiveness of the executive and legislative bodies, to ensure that State-level institutions are properly equipped to implement their tasks and to strengthen co-ordination between State and Entities.

Some positive steps have been taken in the field of public administration. A Coordination Office for the Public Administration Reform has been established; the Directorate for European Integration has been reinforced; a review of key public administration sectors has been carried out. Increased efforts are now necessary to create a modern and effective civil service. The comprehensive action plan for public administration reform has not yet been adopted. Lack of the necessary staff and of adequate premises for the various administrations is a recurrent issue. Building up training capacity for civil servants is also crucial.

Progress has been made regarding the judicial system. The legislation establishing a single High Judicial and Prosecutorial Council has been adopted. This legislation has strengthened the independence of the judiciary throughout the country. Bosnia and Herzegovina is progressively taking over responsibility from the international community for the management of its judicial system.



Further efforts are necessary to fight corruption. While prosecution of a number of specific corruption cases has been ensured, many continue to escape justice. Adequate anti-corruption action plans have to be prepared and implemented. The adoption of the law on the conflict of interest has been a positive step. Its consistent implementation needs to be ensured.

Positive developments have taken place regarding the defence reform through the adoption of the legislation necessary for the establishment of a single smaller and professional army, in line with NATO's Partnership for Peace requirements. Regarding police reform, the endorsement by the Entity and State Parliaments of an agreement on the restructuring of the police in accordance with EU requirements is welcome. Proper implementation is now required.

The outstanding legislation supporting refugee returns has been adopted and the Refugee Return Fund has been made operational. Significant progress has been achieved regarding the return of refugees and displaced persons to their pre-war areas. The priority should now be to complete the process and to work towards socioeconomic integration of returnees. The transfer of human rights bodies from international to national responsibility has seen considerable developments. However, continued progress is necessary in order to meet international standards in the area of human and minority rights. In this respect, due attention should be paid to avoiding division of schools along ethnic lines. Efforts should also be devoted to improve the integration of the Roma minority.

Co-operation with ICTY has seen improvements. However, further efforts should be made to achieve full co-operation with the Tribunal so that all indictees be brought to justice. Constructive co-operation with neighbouring countries has continued. Nonetheless, proper implementation of the regional Free Trade Agreements should be ensured. Bosnia and Herzegovina should also make efforts to meet the outstanding Council of Europe post-accession requirements, notably regarding elections and education.

The **economy** of Bosnia and Herzegovina operates only to a limited degree within the framework of functioning market principles. Further vigorous reform efforts are necessary to address the serious shortcomings in competitiveness of the economy.

Economic growth rebounded in 2004 and industrial production picked up. Inflation remained low while inflows of foreign direct investments were significant. Further harmonisation between the Entities took place, in particular in the area of indirect taxation where competencies were transferred from the Entities to the Indirect Taxation Authority. This created a new platform for cooperation and other efforts to increase fiscal and economic policy coordination were also made, for example through the establishment of a National Fiscal Council. Some steps to improve the business climate were taken. Banking intermediation deepened further as the regulatory framework continued to improve.

However, unemployment and external imbalances have remained very large and fiscal challenges have risen. To maintain macroeconomic stability and safeguard the sustainability of the currency board a prudent macroeconomic policy mix will be imperative. In order to strengthen the productive base of the economy, the largely loss-making corporate sector must be urgently and profoundly restructured and privatisation be accelerated. In addition, actions to reduce the overall government interference in the economy and to improve the business climate will be essential. The flexibility of the labour market should be enhanced and the judicial system, in particular the handling of bankruptcies and property rights, be strengthened. To successfully manage the fiscal challenges, coordination and analytical capabilities need to be improved and the size of public expenditures to be reduced in real terms. These demanding tasks will require swift action and firm political commitment and cooperation between different levels of government.

Since the last report, Bosnia and Herzegovina has made further progress towards meeting **European standards**. Progress has mainly consisted in adoption of new legislation and the establishment of a number of new institutions. Some efforts regarding the strengthening of administrative capacity have also been registered. It is now necessary to ensure sustained efforts in order to increase its implementation capacity, in particular with a view to a future Stabilisation and Association Agreement.

Regarding *internal market*, Bosnia and Herzegovina has made some progress in the area of *free movement of goods*, in particular through the adoption of new legislation on standards, certification, conformity assessment, general product safety and market surveillance. However, the new legislation is not yet properly implemented. Human and technical resources remain limited and the non-application of conformity assessment on the local production continues to hinder Bosnia and Herzegovina's export capacity. As regards *movement of persons, services and right of establishment*, some additional progress regarding services and establishment has been made, notably through the adoption of legislation in the insurance sector and the establishment of a single registry for companies. No significant developments have taken place in the area of *movement of capital*.

Bosnia and Herzegovina has made progress in the field of *customs and taxation* through the adoption of new customs legislation, the establishment of a single customs administration and the reorganisation of the customs services. A VAT law has been adopted and preparations for implementation have been made. However, the implementation of this law and the actual collection of VAT are still important challenges. Sustained efforts are required to increase revenue collection, to combat fiscal evasion, corruption and cross-border crime, and to ensure that free zones, customs valuation and origin issues are managed in accordance with EU standards. Specifically on customs valuation, the use of price lists is of great concern. As regards *competition* the establishment of the Competition Council and the adoption of a new competition Law have been positive steps. However, no significant development can be reported in relation to state aids. The *public procurement* system has seen further approximation. Further efforts need now to be made to establish the public procurement agency and the public procurement review body and to make them operational. As regards *intellectual, industrial and commercial property rights (IPR)*, new legislation foresees the establishment of a separate institute for Intellectual Property. Bosnia and Herzegovina has signed a co-operation agreement with the European Patent Organisation and has carried out some actions against piracy. However, implementation and enforcement of IPR legislation remains limited and need to be enhanced.

Regarding *sectoral policies*, Bosnia and Herzegovina has continued its efforts to remove barriers to business and to implement the European Charter for SMEs. However, it has been unable to develop appropriate strategies for the *industry and SMEs* sectors. As regards *agriculture*, some improvements have been made through the adoption of legislation in the veterinary, phytosanitary and food safety areas, but overall strategic planning has been lacking and some of the institutions foreseen by the new legislation have not been established. State-Entity and inter-Entity co-ordination should also be improved. In the area of *environment*, some steps have been taken by Bosnia and Herzegovina in the air, water and waste sectors. Nonetheless, implementation capacity remains limited, due to scarce human and technical resources. In this context the establishment of a well equipped State Environmental Agency should be a priority.

In the area of *transport*, efforts aiming at improving transport infrastructures continue. Legislation on railways has been adopted. Positive developments have also been registered as regards aviation, including in terms of regional co-operation. Nonetheless, sustained efforts are necessary in order to enhance strategic planning, to further improve infrastructure and to ensure the progressive alignment, notably as regards technical and safety standards, social

standards and market liberalisation. As regards *energy*, positive developments have taken place in the field of electricity, notably through the establishment of a State-level regulator, and the establishment of an Independent System Operator and a national transmission company. Action plans for the restructuring of the sector have also been adopted by both Entities and co-operation for the establishment of a regional energy market has continued. Bosnia and Herzegovina should now ensure implementation of the various Action Plans, consolidate State and Entity regulatory bodies, accelerate the reform of the gas sector and prepare a comprehensive Energy Policy. Bosnia and Herzegovina has signed the South East Europe Energy Community treaty.

Concerning *information society and media*, some progress has been made. While some steps to strengthen the Regulatory Communications Agency have been taken, the law for the establishment of an Information Society Agency has not been adopted and no progress has been made regarding the liberalisation of the oligopoly fixed-line services. The adoption of the law on the public broadcasting system and the progress made towards the adoption of the State law on public broadcasting service have been positive developments. The corresponding Entity-level legislation should be passed once the public broadcasting service law is formally adopted.

Regarding *justice, freedom and security*, progress has been made in relation to *visa requirements, border control, asylum and migration*. An integrated Border Management Strategy has been adopted and efforts have been made to reduce illegal migration and to increase effectiveness regarding the issuing of visas. Asylum-related responsibilities, performed until now by international bodies, are gradually being taken on by the State authorities. However, staff shortcomings at the Ministry of Security endanger proper implementation of tasks. The number of visas issued at the borders should be further reduced. As regards *money laundering*, the adoption of new legislation and the establishment of the necessary structures have been positive steps. Proper implementation and enforcement of this legislation should now be ensured. Not much has been achieved in the field of fight against *drugs*. Bosnia and Herzegovina should develop a State-level drugs policy, adopt adequate legislation on drugs and precursors and establish a State-level office for narcotics in order to be more effective in the fight against drugs trafficking.

There has been some progress in the area of *police*. In addition to the agreement reached on the overall police reform, State-level bodies have been established and are now operational. Intelligence services have been unified. Training and equipment has been provided. Concerning *the fight against organised crime and terrorism*, a strategy against the trafficking in human beings has been adopted. Further steps have been taken in terms of strategy, legislation and structures, and there has been good co-operation with the international community in the area of counter-terrorism. However, increased efforts are necessary, in particular as organised crime is considered a major threat for Bosnia and Herzegovina's stability and overall socio-economic development. The legislation on data protection is still pending and should be adopted without further delay. Proper implementation of laws and prosecution of criminals is paramount.

### *Croatia*

Croatia faces no major difficulties in meeting the **political criteria** for membership. Problems which had arisen since the Opinion<sup>13</sup> with respect to the requirement for full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) have meanwhile been solved. Croatia has continued to make progress overall but further sustained efforts are required in a number of important areas.

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<sup>13</sup> COM (2004) 257 of 20 April 2004.

There has been progress in the area of judiciary, including the adoption of a judicial reform strategy and various procedural and organisational improvements, but the scope and challenges faced in this field will require continued serious attention in particular as regards the large overall case backlog and the need to ensure proper enforcement of judgements. There have been improvements in the prosecution of war crimes trials, but an ethnic bias against Serb defendants persists.

Despite some progress in setting up the necessary legislative and institutional framework, efforts aimed at tackling corruption, which remains a serious problem in Croatia, need to be further stepped up.

In the area of human rights and minorities an appropriate legal framework is in place. The position of minorities has in general continued to improve since the Opinion. However, implementation of the Constitutional Law on National Minorities in particular has been slow. Serbs and Roma continue to face discrimination and the need to improve their situation especially with respect to job opportunities and as well as creating a more receptive climate in the majority community is an urgent priority. Implementation of a new Roma strategy has begun, but major challenges lie ahead. Particular attention should be paid to ensuring all ethnically motivated incidents are properly investigated and those responsible prosecuted.

On regional issues, while there has been good progress on refugee return in terms of repossession and reconstruction of housing, a number of foreseen deadlines have not been met. Progress has been particularly weak in implementing housing care programmes for former tenancy rights holders. On-going efforts to create the economic and social conditions necessary for the sustainability of refugee return need to be accelerated. There has been good progress in the area of regional cooperation, both in terms of improvements in bilateral relations with neighbouring countries as well as regional initiatives. Croatia has signed the South East Europe Energy Community treaty. However, serious efforts are needed to find definitive solutions to all pending bilateral issues, particularly as regards border issues as well as all open property-related questions. Problems arose since the Opinion with respect to the requirement for full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), contributing directly to the postponement of the start of accession negotiations foreseen in March 2005. The situation has meanwhile improved, however, allowing the ICTY Chief Prosecutor to conclude in October 2005 that cooperation was full. This subsequently paved the way for the Council to conclude on 3 October 2005 that the outstanding condition for the start of accession negotiations had been met. Negotiations were formally launched the same day. In its conclusions, the Council confirmed that sustained full co-operation with the ICTY would remain a requirement for progress throughout the accession progress. Less than full cooperation with ICTY at any stage could lead to the suspension of negotiations.

As regards the **economic criteria**, Croatia can be regarded as a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme to remove remaining weaknesses. The political consensus on the fundamentals of a market-based economy appears to have remained. Stability-oriented macroeconomic policies have contributed to a relatively low inflation and stable exchange rate. Significant budget and current account deficits have been reduced and some measures have been taken to enhance expenditure control in health care and in the pension system. The privatisation process has regained some momentum in 2005 and business and land registration procedures have been simplified. The banking sector has continued to grow and supervision has been further strengthened. Road infrastructure has improved due to strong investment in the motorway network. Progress has been made in liberalising the telecommunication sector with positive effects on infrastructure development, following the entry of private service providers.

Important initial steps have been taken to restructure the loss-making railway system. Croatia's economy is already well integrated with that of the EU and regional trade integration has strengthened.

However, significant external and fiscal imbalances imply potential risks to macroeconomic stability. Therefore, fiscal consolidation needs to be further strengthened and effectively backed by structural measures, in particular in the area of subsidies and social transfers. The development of a more vivid private sector and foreign direct investment has been hampered by complex rules and deficiencies in public administration and courts as well as by slow market entry and exit procedures. The enforcement of property and creditor rights continues to be undermined by an inefficient judiciary. State interventions in the economy remain significant and little progress has been made with respect to the restructuring of large state-owned enterprises, in particular in the shipbuilding, steel and energy sector. The strengthening of financial discipline of state-owned enterprises remains a particular economic policy challenge. In order to enhance its competitiveness and to improve the prospects for sustained investment and growth, Croatia needs to address the identified weaknesses and problems with determination.

As regards Croatia's **ability to assume the obligations of membership**, Croatia has made some progress since the Opinion, mainly in terms of legislative alignment with the *acquis* in areas such as free movement of goods and public procurement and in the field of information society. Progress has also been good in the field of education and culture and in foreign, security and defence policy.

Croatia needs to continue legislative alignment across the board, however, while at the same time strengthening administrative and judicial structures that are necessary for the effective enforcement of the *acquis*. In many cases enforcement is weak and administrative capacity remains uneven.

In particular, increased efforts will be needed to align legislation with the *acquis* and to effectively implement and enforce in the following fields: Free Movement of Capital, Company Law, Information Society and Media, Fisheries, Transport, Energy, Consumer and Health Protection, Customs Union and Financial Control.

Croatia will need to make considerable and sustained efforts to align legislation with the *acquis* and to effectively implement and enforce it in the following fields: Free Movement of Goods, Public Procurement, Freedom of Movement for Workers, Rights of Establishment and Free Movement of Services, Financial Services, Competition Policy, Agriculture and Rural Development, Food Safety, Taxation, Social Policy and Employment, Regional Policy, Judiciary and Fundamental Rights, and Justice, Freedom and Security.

Very significant efforts will be required in the area of Environment, including substantial investment and the strengthening of administrative capacity for the enforcement of the *acquis*.

#### *Serbia and Montenegro*

As regards the **political situation** and the state of *democracy and rule of law* in Serbia and Montenegro, constitutional and legal certainty has remained precarious. While the legitimacy of the State Union Parliament has been restored and functioning of the Serbian parliament has improved with the adoption of new rules of procedures, the overall functioning of democratic institutions remains affected by structural weaknesses. No actual progress has taken place as regards the revision of the Constitutions of the two Republics.

Constitutional issues in Serbia and Montenegro, notably with respect to the relationship between its two constituent Republics and the functioning of the institutions of the State Union, should be addressed in a constructive spirit and in full respect of the Constitutional Charter of Serbia and Montenegro. This applies also to a possible referendum on

independence of either Republic. Such a referendum will have to comply to and internationally recognised democratic standards, in the light of the forthcoming recommendations of the Venice Commission.

There has been progress in both Republics concerning the legal framework of public administration reform, but the implementation of this reform is still at a very early stage. No progress has taken place as regards the reform of State Union public administration. The level of administrative capacity remains generally low. The administrative structures with a view to the SAA negotiations have been set up at the level of State Union and the two Republics.

Defence reform continues to meet serious obstruction, due to insufficient democratic control and lack of transparent financial management.

The State Union Court has started working although its capacity remains weak and the agreement on the scope of its powers is still largely untested. The transfer of powers of military justice to civilian courts has been implemented smoothly, with the exception of the considerable backlog of the administrative cases. The judiciary has continued to be affected, especially in Serbia, by serious weaknesses and its independence is undermined by undue political interference.

Corruption remains a serious concern. Some progress has taken place with the development of anti-corruption strategies which now need to be finalised – in Serbia - and effectively implemented.

As regards the respect for *human rights*, Serbia and Montenegro has made progress in implementing the commitments undertaken by when joining the Council of Europe notably with the appointment of Government Agent for the European Court of Human Rights. There have been problems with regard to freedom of expression and civil society. Cases of police ill-treatment have occurred. Little progress has taken place in relation to the investigation of crimes committed during the previous regime. There is no comprehensive anti-discrimination legislation yet. Respect for *minority rights* has continued to see some progress, but incidents still occur.

Serbia and Montenegro achieved significant progress in *co-operation with the ICTY* in the run-up to the Commission Report on the preparedness to start SAA negotiations, in particular delivering a significant number of indictees to The Hague Tribunal. Since then there continues to be good co-operation with regard to waivers to witnesses and access to documents, though this process is still sometimes obstructed by parts of the administration and the army. Serbia and Montenegro has made some further, though limited, progress to bring remaining fugitives to justice. This progress must be continued until full co-operation with ICTY is achieved.

As regards the respect of the *United Nations Security Council Resolution 1244 on Kosovo*, Belgrade has intensified dialogue with Pristina on technical matters of common interest. However, it has not actively encouraged Kosovo Serbs to participate in the Provisional Institutions of Self-Government. Belgrade's constructive engagement on the Kosovo issue will help to advance Serbia and Montenegro's European perspective, while obstruction could turn into an obstacle.

Regional co-operation at the multilateral and bilateral level continues to improve, although sporadic problems occur.

In both Republics, the **economies** operate to some degree within the framework of functioning market principles. Further vigorous reform efforts are necessary to address the shortcomings in competitiveness.

In Serbia, economic activity remained relatively robust in the first half of 2005. Fiscal tightening continued, reflecting mainly strong domestic demand and improved tax enforcement. The trade deficit narrowed in the first half of 2005 and international reserves have improved. The completion of negotiations with the London Club of commercial creditors in 2004 has contributed to the reduction of the level of external debt. Momentum has been regained in respect to structural reforms and in particular further progress has been made in restructuring and privatisation of the banking system.

However, the government's commitment to macroeconomic stabilisation and structural reform has been mixed. Inflation and wage pressure have mounted and external imbalances remain high. Also labour markets continue to show very significant imbalances. The business environment is still hampered by bureaucratic obstacles and the slow and inefficient functioning of the judiciary system is seriously affecting economic development. The share of the private sector in GDP remains relatively modest and the level of competition low. Despite progress in privatisation, a competitive and dynamic private sector has not yet been established. The government sector still absorbs a large share of resources, undermining the free interplay of market forces and hindering an efficient resource allocation. Losses by publicly- and socially-owned companies remain a burden on public finances.

In Montenegro economic growth strengthened. Inflation continued declining further with price liberalisation almost complete. Privatisation has further advanced. Unemployment declined somewhat. The budget deficit narrowed in 2004. Bank lending has risen from low levels as confidence in the banking sector has begun to return.

However, external imbalances widened and external debt increased further. The share of the private sector is still relatively moderate. Private sector development is still impeded by weaknesses in the judiciary. High wage growth negatively affected export competitiveness and employment levels.

Serbia and Montenegro has made progress towards meeting **European standards**. In the area of *internal market*, both Republics have made overall some good progress. They must now continue to make sustained efforts to improve legislative and administrative capacities with a view to future SAA obligations. They must also avoid creating new barriers between them.

Both Republics are making some progress in the area of *free movement of goods*. No particular developments can be reported in the field of standardisation and certification. In the areas of *movement of persons and the right of establishment*, no substantial developments have taken place. As for the *freedom to provide services*, good progress can be reported in Serbia which adopted a package of new laws in the area of financial services. Limited developments have been registered in both Republics as regards *free movement of capital*. In Montenegro a new foreign exchange law and a law on foreign current and capital transactions further liberalising capital movements were adopted. No progress was made in ensuring the free movement of capital within the State Union as the two republican Central Banks have not yet completed the agreement on a fully operational system of corresponding accounts.

Some progress has been reported in the area of *customs*. Serbia adopted amendments to the customs law, and to the customs tariffs law harmonising the tariff nomenclature with the EU combined nomenclature. Montenegro adopted amendments to the customs law and to the customs service law. The administrative and operational capacity of the two republican customs authorities is improving but still needs to be strengthened significantly. In the area of *competition*, both Republics have adopted new anti-trust legislation and have set up basic structures to monitor state aid. Further efforts are required to make the republican regimes for anti-trust and state aid control operational. In the field of *public procurement*, no legislative or administrative developments have been registered in Serbia. Montenegro has done some limited progress by including State Union institutions within the scope of procurement rules.

Administrative capacity to implement and enforce procurement legislation needs to be considerably strengthened, especially in Montenegro. Both Republics should ensure that operators from one Republic can benefit from national treatment in the other and that State Union institutions are covered by statutory procurement rules. Concerning *intellectual property rights*, some legislative progress has been registered in both Republics. Montenegro adopted a framework law for the implementation of intellectual property rights. Enforcement is gradually improving but further actions need to be vigorously pursued. The role of the State Union Intellectual Property Office must be fully recognised by the two Republics and this Office needs to be provided with the necessary administrative capacity to perform its tasks.

As regards *sectoral policies*, there has been some progress, although uneven. In the area of *industry and small and medium enterprises*, both Republics have done some progress with the implementation of the European Charter for Small and Medium Enterprises. Some progress has been made in the area of *agriculture*. In particular, Serbia has strengthened the administrative capacity of the Ministry of Agriculture and has passed new framework veterinary laws. Concerning *environment*, there has been some limited progress in both Republics. In particular, Montenegro adopted a Law on Integrated Prevention and Control of Pollution. Both Republics have made some progress in the *transport* field, in particular through the participation in the South East Europe Core Regional Transport Network. In the *energy* field, both Republics have made progress. In Serbia the Energy Agency has become operational and energy development strategy for the period up to 2015 has been approved. The unbundling process of the state electricity utility continues. In Montenegro, some progress has been achieved in restructuring the electricity sector. Serbia and Montenegro have signed the South East Europe Energy Community treaty.

Concerning *information society and media*, some progress has been registered. In Serbia, the exclusive monopoly of fixed lines has come to an end but the Telecommunications Agency is still not operational due to lack of financing. In Montenegro, the privatisation process of the fixed-line telecom provider has been finalised. As regards *audiovisual* policy, no progress has taken place in Serbia which amended its broadcasting law to extend of the deadline for the transformation of the Serbian Radio Television from its present government-controlled role into a public broadcasting service, as well as to postponement of the privatization of broadcasters operated by local governments. In Montenegro the Broadcasting Council has implemented a tender for licenses of the use of the spectrum.

As regards *justice, freedom and security*, no actual progress has taken place in the areas where responsibilities are shared between the State union and the two Republics. The two Republics continue to operate different *visa* regimes. In both Republics, national strategies on integrated *border control* are still in preparation and - in Serbia - the transfer of border control from the State Union army to the police has been delayed. In the field of *asylum*, the two Republics have not yet adopted the laws that are necessary for the implementation of the State Union framework law. As regards *migration*, the readmission agreements have to be fully enforced.

As regards the areas falling within the remit of the Republics, some legislative progress has taken place concerning the fight against *money laundering*. As regards *police* reform, progress has taken place in Montenegro with the adoption of the laws on the police and the national security agency. In Serbia, the new legislation on police and security services is still pending. *Organised crime* remains a source of serious concern in both Republics. A strategy on fight against corruption and organised crime has been adopted by Montenegro.

#### *Kosovo*

The **political situation** in Kosovo remained stable during the parliamentary elections and the subsequent establishment of the coalition government, as well as on the occasion of the ICTY indictment and voluntary surrender of the former Prime Minister. However, substantial



democratic and efficiency deficits weaken the performance of the provisional institutions of self-government.

Relations between Kosovo Serbs and Kosovo Albanians have remained strained. The Kosovo Serbs' boycott of the 2004 elections undermined their capacity to address their community's legitimate concerns through democratic means. At the same time, the Kosovo Albanian majority failed to create the necessary conditions to facilitate Kosovo Serb participation in the political process. The implementation of local self government reform was significantly hampered by this situation.

Overall, the rule of law needs to be significantly strengthened. One underlying difficulty is the legal uncertainty which exists in relation to the laws that govern Kosovo. The administration of justice continues to be a major problem as the backlog of cases increases. The judicial institutions and the law enforcement agencies need to be substantially improved to be capable of fully enforcing the law, notably as far as property rights and fighting organised and financial crime is concerned. Corruption is widespread and there is a lack of cohesive and forceful action against it.

Kosovo's administrative capacity remains extremely weak. Its public administration is inefficient and subject to political interference, and does not always act equitably. Although a legal basis for the civil service and for public finance management is in place, there is a lack of transparency and accountability. Government coordination must be enhanced and the relationship between the central and municipal level needs to be further defined. Improving basic public service provision to all communities is a priority, not least to help reduce the demand for services provided by the parallel structures that continue to operate in most predominately Kosovo-Serb municipalities.

There has been further progress in enhancing freedom of expression, with the establishment of the regulatory framework for independent media and the establishment of two new academic institutions to foster quality journalism. An anti-discrimination law was adopted but now needs to be fully implemented if it is to properly protect the rights of the most vulnerable, in particular children and women. The ombudsperson institution has continued to play a crucial role in safeguarding human rights and the protection of minorities.

Some outreach efforts have been made on the part of Kosovo's institution to condemn acts of violence against minority groups, to increase minority representation and to encourage return of refugees but they remained just declaratory statements without being translated into practice on the local level. Thus the situation of ethnic minorities continues to be extremely difficult. The use of minority languages in central and municipal authorities is insufficient and hinders participation into the institutions. Minorities' access to public services is also a problem. Regarding the return of refugees and internally displaced people, the number of returnees remains very low. Uncertainty over Kosovo's future status and fears about security, coupled with bleak employment prospects, is discouraging the return of Kosovo Serbs and other communities. Particular attention is required to ensuring a sustainable livelihood for all minority communities already living in Kosovo but the situation of Roma, Ashkalija and Egyptian communities, notably those living in health-hazardous conditions, requires urgent action.

The technical dialogue with Belgrade has resumed and the participation of Kosovo in regional co-operation initiatives has enhanced.

The opening of discussions on Kosovo's future status is a challenge for the entire region. The strong commitment of all parties to a multi-ethnic, stable and democratic Kosovo will be essential to achieve a sustainable settlement that reinforces the security and stability of the region and its further progress towards the EU.

The **economy** of Kosovo operates within an emerging framework of functioning market principles. Further vigorous reform efforts are necessary to address the serious shortcomings in competitiveness of the economy.

Monetary stability continued to be ensured through the use of the euro as the main currency in circulation. Inflation turned negative in the second half of 2004 and in early 2005. Structural reforms progressed, in particular the privatisation of socially-owned enterprises accelerated since mid-2004. Two publicly-owned enterprises were incorporated. The authorities continued pursuing liberal trade and labour market policies and ensuring relatively open market entry and a broadly favourable entrepreneurial environment. Some modest flows of foreign direct investment took place in the context of accelerated privatisation.

However, economic growth has been rather weak, also affected by the decline in support by foreign donors and a lack of dynamism of the economy. Unemployment remains very high and the current account deficit continues to be considerable. The policy mix was not fully appropriate: in particular considerable increases in expenditure have resulted in a sizeable budget deficit in 2004. Restructuring of the electricity utility has been delayed in particular by a lack of resources to finance its investment needs. The establishment of property rights remains a challenge. Legal uncertainty and weaknesses in law implementation and contract enforcement continue to hinder private sector development and investment. Market exit remains difficult and lengthy owing mainly to weaknesses in the judiciary. Insufficient basic infrastructure continues to impede economic activity. Rises in real wages have undermined Kosovo's export competitiveness.

Kosovo has made progress in terms of alignment to **European standards** in many areas though in an uneven way.

New legislation and policies are now broadly checked for EU compliance from the phase of conception and early stages of drafting in line ministries and through the Office for European Integration Processes. Seven ministries have established EU integration units, some of them supported by external experts. The lack of qualified local legal experts in EU law is an obstacle and difficulties have been encountered in the translation of new legislation. Despite this progress, neither of these civil service structures are fully consolidated, nor is the parliamentary committee on international cooperation and EU integration fully operational yet.

In the area of *internal market*, some progress was made regarding with the adoption of new legislation. The revised law on *public procurement* is based on EU rules, although still under review by the Assembly. No progress can be reported in the area of *intellectual property law*. Positive developments have occurred in the area of *customs* mainly in the implementation of an Integrated Tariff for Kosovo and the Customs Code. Some progress has been made in the field of *taxation* where a progressive alignment with the EU acquis is under way. In 2005 Kosovo moved to a simplified system of two types of income taxes. The collection and control capacity of tax administration needs to be enhanced and fraud in excise duties tackled.

As regards development of *sector policies*, it continued the implementation of the European Charter for Small and Medium Enterprises. A law on support to SME has been promulgated. Despite its potential, Kosovo's *agriculture* remains under-exploited and key challenges such as poor infrastructure, property rights, inappropriate credit, inefficient quality control mechanisms and low education need to be tackled. In the area of *environment* Kosovo has made progress towards approximation to EU acquis with the adoption of legislation on water and air quality, and by-laws on environmental impact assessment. The government approved an Environmental Protection Strategy while a five year Environmental Action Plan is under development. Progress can be reported in the area of *transport* where Kosovo participates in the regional transport initiatives. Pristina airport came under civilian control and was

incorporated. Kosovo participates in the extension of the European Common Aviation Area to South East Europe. Regarding *energy*, Kosovo is a signatory of the South East Europe Energy Community Treaty. In the area of telecommunications and postal services, new postal codes became effective in June 2005.

As regards *justice, freedom and security*, the situation is still unsatisfactory. Some progress has been made in establishing the legal framework to combat *money laundering* while implementing mechanisms still need to be much improved. A comprehensive anti-*drug* strategy has yet to be established, both in relation to trafficking and the increasing local drug abuse. The transition of power to the Kosovo Police Service is ongoing. However, further capacity building is needed, in particular for investigations and management and leadership skills. More progress is needed to bring perpetrators of crime to justice and enforce rule of law. The *fight against organised crime* and against financial crime must be stepped up and local capacities developed in view of any future further transfer of powers to local authorities.

### *Turkey*

Political transition is ongoing in Turkey and the country continues to sufficiently fulfil the Copenhagen **political criteria**. Important legislative reforms have now entered into force and should lead to structural changes in the legal system, particularly in the judiciary. However, the pace of change has slowed in 2005 and implementation of the reforms remains uneven. Although human rights violations are diminishing, they continue to occur and there is an urgent need both to implement legislation already in force and, with respect to certain areas, to take further legislative initiatives. Significant further efforts are required as regards fundamental freedoms and human rights, particularly freedom of expression, women's rights, religious freedoms, trade union rights, cultural rights and the further strengthening of the fight against torture and ill-treatment. In particular, Turkey should integrate better the reform process into the work of all public authorities. Turkey's commitment to further political reforms should be translated into more concrete achievements for the benefit of all Turkish citizens regardless of their origin.

As regards *democracy and the rule of law*, important structural reforms have been put in place, particularly in the area of the functioning of the judiciary. The six pieces of legislation mentioned in the Commission's 2004 recommendation entered into force. However, implementation on the ground remains uneven. On the one hand, several judgements suggest that the judiciary is increasingly acting in accordance with the case law of the European Court of Human Rights. On the other hand, there have been a number of decisions, in particular in relation to the expression of opinions on traditionally sensitive subjects, which have led to both prosecutions and convictions. Reforms concerning civil-military relations have continued, but the armed forces still exert significant influence by issuing public statements on political developments and government policies.

Concerning the *protection of human rights and minorities*, despite some progress, the picture remains mixed. As regards the fight against torture and ill-treatment further provisions have entered into force, adding to the comprehensive legislative framework already in place, and the incidence of such practice is diminishing. Nevertheless, reports of torture and ill-treatment remain frequent and those perpetrating such crimes still often enjoy impunity.

Legislative progress has been achieved with regard to the exercise of fundamental freedoms, notably through the entry into force of a new Penal Code and a new Law on Associations, and in practice both individuals and civil society organisations enjoy greater freedom than in the past. Nevertheless, individuals continue to be prosecuted and convicted for the expression of non-violent opinion and certain associations continue to face constraints on their activities. In this context court proceedings based on Article 301 will be closely monitored.

There are still reports of the security forces using disproportionate force in the context of demonstrations. As regards freedom of religion, despite some ad hoc measures, religious minorities and communities still lack legal personality. There is an urgent need to address their problems through the adoption of a comprehensive legislative framework in line with European standards. Greater attention is being paid to women's rights, but violence against women remains a matter of serious concern.

Notwithstanding a greater tolerance for the use of languages other than Turkish, the exercise of cultural rights is still precarious. No local broadcasting in Kurdish has yet been authorised, Kurdish language courses have closed down and politicians continue to be convicted for using the Kurdish language in certain contexts. Turkey continues to adopt a restrictive approach to minorities and cultural rights.

Although there is a growing consensus on the need to address the economic, cultural and social development of the Southeast, little concrete progress has been made and the security situation has worsened since the resumption of PKK violence. Internally displaced persons continue to face a number of difficulties.

As regards *regional issues*, the Turkish government has stated on several occasions that it remains committed to a comprehensive settlement of the Cyprus problem in line with the plan presented by the UN Secretary General. Turkey signed the Additional Protocol adapting the EC Turkey Association Agreement to the accession of 10 new Member States on 29 July. At the same time, Turkey issued a unilateral declaration stating that this signature did not amount to formal recognition of the Republic of Cyprus. The EU adopted a declaration on 21 September indicating that Turkey's declaration does not affect Turkey's obligations under the Additional Protocol. The EU declaration stressed that recognition of all Member States was a necessary component of the accession process. It also underlined the need for supporting the efforts of the Secretary General of the UN to bring about a comprehensive settlement of the Cyprus problem which would contribute to peace, stability and harmonious relations in the region. Turkey has continued to impose its veto on Cyprus' membership to certain international organisations as well as to the Wassenaar Agreement on the Code of Conduct on Arms Exports and on Dual Use Goods. Relations between Greece and Turkey have continued to develop positively. However, despite 31 rounds of meetings since 2002, the parties have not yet been able to reach a comprehensive settlement of the outstanding border dispute.

As regards the **economic criteria**, Turkey can be regarded as a functioning market economy, as long as it firmly maintains its recent stabilisation and reform achievements. Turkey should also be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it firmly maintains its stabilisation policy and takes further decisive steps towards structural reforms.

Further significant gains on macroeconomic stabilisation have been achieved over the last year. Due to a rigorous and cautious policy mix, fiscal consolidation continued, debt dynamics improved and inflation further decreased, while economic growth has remained robust. Considerable progress has been made on improving public financial management and control, and as a result fiscal transparency has increased. A significant overhaul of the social security and health systems is ongoing. The successive improvements in the supervisory and regulatory framework of the banking sector and the advances in privatisation are progressively tightening economic agents' financial discipline and improving Turkey's business and investment climate. Foreign direct investment has picked up .

To build upon this progress, macroeconomic stabilisation, based on budgetary restraint, should be further pursued. The recent sharp increase in the current account deficit requires careful monitoring and a readiness to take prompt actions. Further structural reforms, in particular aimed at strengthening the rule of law, enhancing privatisation and enterprise

restructuring, correcting labour market imbalances and reducing the informal economy should underpin and strengthen the stabilisation process. Resources should be more efficiently allocated, in particular by a reform of key factor markets. Commitments to restrict the total wage bill should be respected. The reform of public expenditures budgetary procedures should be continued and a full implementation of improved regulatory and legal frameworks should be ensured.

As regards Turkey's **ability to adopt and implement the EU legal order**, there has been some, though uneven, progress since 2004. Progress has taken place in the area of *free circulation of goods*, in particular concerning the implementation provisions covered by the new approach, including the possibility for Turkey to notify conformity assessment bodies, as well as market surveillance. For the other areas, i.e. old approach and non harmonised areas, no progress took place. Despite the EC-Turkey Customs Union, circulation of products is not yet entirely free.

*Free movement of capital* has slightly improved. Certain restrictions have been lifted, but foreigners are not allowed to acquire real estate and to engage in certain economic sectors. Some progress has taken place in the important area of money laundering, but alignment remains incomplete.

Some progress took place concerning *company law*, in particular as regards accounting standards and auditing. Overall alignment remains limited for this chapter.

Alignment concerning *intellectual property rights* is advanced, and has further improved. Also some improvement has been made concerning enforcement of the legislation, but this remains the weakest aspect of the system.

In the area of *competition policy*, provisions concerning undertakings (anti trust, and merger control) are satisfactorily aligned and implemented by the competition authority. On the other hand, on state aids, no progress can be reported as regards alignment or enforcement. Therefore alignment remains very limited, despite specific bilateral commitments. Particular attention should be devoted to state aids control in the steel sector.

Some progress has been made concerning *financial services*, and in particular insurance and supplementary pension sector. Progress in the banking sector needs to be consolidated. Nevertheless, overall alignment in this area is limited, and the administrative capacity needs to be reinforced.

In the area of *information society and media*, some progress can be recorded concerning electronic communication and information technologies, where liberalisation proceeded, and information society services. Effective implementation of the legislation would require further development of the administrative capacity. In the area of audiovisual policy, both recent progress and overall alignment remain limited.

Concerning *agriculture and fisheries*, progress was very limited. Some initiatives have been taken concerning rural development but these need to be reinforced. Overall the alignment and administrative capacity remain very limited.

Alignment in the areas of *food safety, veterinary and phytosanitary policy* is also fairly limited. Alignment is higher in certain specific sub-sectors of general foodstuff policy, but still incomplete, and implementation appears difficult. The general framework for veterinary policy is not in place. However the administration has started work to identify the problems on the ground and the administrative changes necessary to address them. Phytosanitary policy shows some limited progress. Administrative structures will need major upgrading.

Progress concerning *transport* is uneven among the various modes of transport. Some progress took place concerning road transport, where alignment is more advanced, but

implementation remains incomplete. Substantial legislative and institutional reforms are needed in the rail sector. In maritime transport some progress can be reported on legislative alignment and strengthening of administrative capacity. With regard to air transport some progress can be noted although overall alignment remains limited. On *energy*, overall some progress has been achieved, notably as regards security of supply and renewable energies. While progress remained limited concerning the establishment of the internal energy market, there was none concerning state aids in the sector, nor energy efficiency. If Turkey develops a nuclear energy generation capacity, administrative capacities must be strengthened to ensure a high level of nuclear safety. Some progress has been made concerning radiation protection.

Progress in the area of *taxation* is limited, as concerns both indirect taxation, and direct taxation. Overall the Turkish fiscal regime is partially complying with the *acquis*, but substantial alignment is still required. The size of the informal economy remains an issue. The administrative capacity needs extensive upgrading.

Some progress has been recorded concerning *statistics*, and in particular as regards classifications, sector statistics. The alignment with the *acquis* is currently limited, but co-operation between Eurostat and the State Institute of Statistics is continuing. Some progress was made in the area of *employment and social policy*. However, while alignment is relatively advanced on health and safety at work, substantial efforts are still required in areas such as social dialogue, gender equality and antidiscrimination. A major task lies ahead as concerns implementation and strengthening of administrative capacity.

The Turkish strategy concerning *industrial policy* is already largely in line with the basic principles of the EU. Since the previous Report some additional progress can be reported, in particular for SME policy. Progress is uneven on *regional policy and coordination of structural instruments*. No development took place since the previous Report on territorial organisation, and programming. Progress has taken place in the legislative framework, and financial management and control. Considerable efforts remain necessary to set up the institutional structures. Administrations involved in regional policy should be established, both at central and regional level, and subsequently upgraded.

In the areas covered by the *judiciary and fundamental rights*, Turkey has made progress in aligning with EU standards and practices concerning the judiciary and anti-corruption measures. However, further steps are needed to ensure the independence and efficiency of the judiciary. On corruption, further action is necessary to improve the efficiency of the relevant bodies established to combat corruption and to raise public awareness of corruption as a serious criminal offence.

Turkey continued to align its legislation with the *acquis* in the area of *justice freedom and security*. Overall, the Turkish legislation is partly in line with the *acquis*. Further progress is necessary in a number of areas such as adoption of a law on protection of personal data, adoption and implementation of the National Action Plan on Border Management, implementation of the National Action Plan on Migration and Asylum, lifting the geographic limitation to the Geneva Convention and developing inter-agency co-operation.

Concerning *environment*, Turkey has made limited progress. The overall level of transposition of the *acquis* remains low, with the exception of waste management and noise, where transposition is advanced. Weaknesses in the implementation and enforcement are still source of concern. Turkey needs to take steps to integrate environmental policy into the definition and implementation of all other policies.

Alignment in the area of *consumers and health protection*, is advancing steadily. In particular progress was made in the implementation of non-safety related measures. For safety related measures, no further progress took place. Some development was recorded concerning public

health, and in particular concerning tobacco legislation. The administrative capacity should be reinforced.

Provisions concerning *customs union* are aligned to a large extent, also to comply with bilateral EC-Turkey agreements. However, further alignment of the Turkish Customs Code with that of the EC is still needed. Non-customs legislation applied in free zones and the continuation of weaknesses in intellectual property rights enforcement in customs controls is a matter of concern

The commercial aspects of EU policy on *external relations* are largely followed by Turkey, as a commitment deriving from the EC-Turkey customs union. In particular, new free trade agreements with third countries were signed. Turkey managed to align to a large extent with the EC GSP regime. Turkey has a large degree of alignment with EU *common foreign and security policy*. Bilateral relations with neighbouring countries, including Greece, have further improved. The border with Armenia is still closed. Turkey and the EU have a different interpretation of the “Berlin Plus” agreements between EU and NATO which hampers EU-NATO strategic co-operation in crisis management.