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Enlargement Strategy and Main Challenges 2013-2014

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COPENHAGEN TWENTY YEARS ON

FUNDAMENTALS FIRST - RULE OF LAW, DEMOCRACY AND THE ECONOMY

I. THE ENLARGEMENT AGENDA

Twenty years ago, the Western Balkans were torn by conflict. At the same time, the European Union agreed the conditions, known as the Copenhagen criteria, for entry of future Member States into the EU. The Copenhagen criteria reflect the values on which the EU is founded: democracy, the rule of law, respect for fundamental rights, as well as the importance of a functioning market economy. This paved the way for the historic transformation and accession of the countries of Central and Eastern Europe.

Ten years later, at the Thessaloniki Summit in 2003, the EU granted all countries of the Western Balkans a clear perspective of EU membership, subject to fulfilment of the necessary conditions, in particular the Copenhagen criteria and the conditions of the Stabilisation and Association Process (SAP).

Croatia has met these conditions. Following ratification of the Accession Treaty by all Member States, the European Union welcomed Croatia as the 28th Member State on 1 July 2013. Croatia is the first country to complete the Stabilisation and Association Process. Croatia's accession is an example of the transformative power and stabilising effect of the enlargement process and the EU's soft power.

The historic agreement reached by **Serbia** and **Kosovo**[*] in April is further proof of the power of the EU perspective and its role in healing history's deep scars. It also, crucially, reflects the courage of the political leadership in both countries. In June, the European Council decided to open accession negotiations with Serbia and the Council authorised the opening of negotiations for a Stabilisation and Association Agreement between the EU and Kosovo.

It has been a significant year for the other enlargement countries:

In June 2013, **Montenegro** adopted comprehensive actions plans for the chapters on judiciary and fundamental rights and on justice, freedom and security, in line with the new approach to tackle these chapters early in the accession process. In **Albania**, cross-party support for key reforms, orderly conduct of parliamentary elections and further steps in the fight against corruption and organised crime means candidate status is now within reach. **The former Yugoslav Republic of Macedonia** has emerged from its political crisis earlier in the year, but concerns remain, notably as regards freedom of expression and media. Steps have been taken to improve good neighbourly relations. More broadly, a breakthrough in the UN-facilitated name talks is now vital. In **Bosnia and Herzegovina**, a lack of political will to implement reforms and the failure to implement the Sejdic-Finci ruling is hampering the country's EU progress and economic prospects.

In **Turkey**, there has been progress in judicial and other reforms and the much anticipated democratisation package was presented in September. Peace talks with the PKK were pursued with a view to ending terrorism and violence in the southeast of the country, laying the ground for a solution to the Kurdish issue. However, the handling of demonstrations in response to the proposed development of Gezi Park in Istanbul raised serious concerns and underlined the need for the EU to remain the anchor for reform.

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[*] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

As regards **Iceland**, the new government has put accession negotiations with the EU on hold and declared that negotiations will not be continued without a referendum.

The **accession process** today is more rigorous and comprehensive than in the past. This reflects the evolution of EU policies as well as lessons learned from previous enlargements. The process is built on strict but fair conditionality with progress towards membership dependent on the steps taken by each country to meet the established criteria. A key lesson from the past is the importance of addressing the **fundamentals first**.

The **rule of law** is now at the heart of the enlargement process. The new approach, endorsed by the Council in December 2011, means that countries need to tackle issues such as judicial reform and the fight against organised crime and corruption early in accession negotiations. This maximises the time countries have to develop a solid track record of reform implementation, thereby ensuring that reforms are deeply rooted and irreversible. This new approach is a key element of the negotiating framework for Montenegro and will shape the Commission's work with the other enlargement countries.

The global economic crisis of the past five years has underlined the need, for all countries, to fundamentally review and strengthen their **economic governance**. This applies in particular to the countries of the Western Balkans, none of which is a functioning market economy. All are affected by high unemployment, particularly among the young. It is essential that these countries intensify reforms to return to sustainable growth and address the challenges necessary to meet the economic criteria and improve competitiveness. This Communication sets out proposals to support this aim, including the introduction of national economic reform strategies and of action plans for public financial management.

Events in a number of enlargement countries have underlined the importance of **strengthening democratic institutions** and ensuring inclusive democratic processes that support these institutions and reinforce core democratic principles and common EU values. A stronger role for civil society is key, as are cross-party platforms for EU integration and further progress with electoral, parliamentary and public administration reforms.

The European Union is founded on common values and principles, including respect for **fundamental rights**. All the countries of the Western Balkans and Turkey need to undertake further reforms to ensure that the principles of freedom of expression and the protection of the rights of persons belonging to minorities, including Roma are respected in practice, not just enshrined in law. More robust measures are needed to protect other vulnerable groups from discrimination, in particular on grounds of sexual orientation.

Good neighbourly relations and regional cooperation are essential elements of the Stabilisation and Association process. Developments in Serbia and Kosovo in particular have shown that countries can make progress towards overcoming the legacy of recent conflict, in line with the very principle on which the European Union was founded. **Regional cooperation** needs to be further strengthened, to be inclusive and regionally-owned. The Commission fully supports the work of the South-East Europe Cooperation Process (SEECP) and Regional Cooperation Council, including the Regional 2020 strategy. There needs to be a renewed effort to overcome **bilateral disputes** among enlargement countries and with Member States. Bilateral issues need to be addressed by the parties concerned as early as possible and should not hold up the accession process.

2014 sees the launch of the second **Instrument for Pre-Accession Assistance**. Through IPA II, the EU will continue to provide substantial support to the enlargement countries in their preparation for accession, with a comparable level of funds for the period 2014-2020 (€11.7 billion in current prices) as in the current financial framework. IPA II will also support regional and cross-border cooperation. IPA II will focus on areas of shared interest, in

particular to support reforms and their sustained implementation in the rule of law area, to strengthen democratic institutions and good governance as well as socio-economic development.

The launch of IPA II is also an opportunity to ensure an even closer link between the enlargement strategy and the priorities for assistance. IPA II introduces some important innovations, notably the focus on defining long-term policies and strategies in a limited number of priority sectors, which will be aligned with the needs and capacities of each country. Clear targets and realistic indicators will be set and linked to multi-annual sector assistance. If countries meet the necessary standards of public financial management, they will be able to benefit from budget support – a further incentive for reform. Incentives will be available to countries that advance on their reform path. In case of underperformance, funds will be reallocated. The management of IPA programmes will be further streamlined, mainly through fewer and larger projects.

All enlargement countries have a clear **European perspective**. Progress towards membership depends on the steps taken by each country to meet the established criteria, based on the principle of own merits. This is crucial for the credibility of enlargement policy and for providing incentives to the countries to pursue far-reaching reforms. At the same time, it is essential for Member States, together with the EU institutions, to lead an informed debate on the political, economic and social impact of the enlargement policy. They have a key role in providing citizens with the facts on enlargement policy and, in so doing, to inform them of the benefits, including its major contribution to peace, security and prosperity, and to address any concerns they may have.

II. KEY CHALLENGES

In this Communication, the Commission underlines a number of key challenges facing the Western Balkans and Turkey: economic governance and competitiveness; the rule of law; the functioning of institutions guaranteeing democracy; fundamental rights; and, in the case of the Western Balkans, overcoming the legacy of the past. These challenges are central to the Copenhagen criteria and the conditionalities of the Stabilisation and Association process. Measures to address these challenges are also mutually reinforcing. For example, promoting the rule of law and guaranteeing fundamental rights increase legal certainty and together with deeper regional integration, contribute significantly to supporting economic development and competitiveness.

a) Economic governance and competitiveness

In the last three years, the EU has significantly strengthened its economic governance. In the European semester, Member States coordinate fiscal and structural policies before the respective parliaments adopt their national budgets. The tools of the economic dialogue with enlargement countries are gradually being adapted to the new challenges and the coordination mechanisms in the EU. The countries have been already asked to put more emphasis on the sustainability of their external position and on the main structural obstacles to growth. It is important now to more fully reflect the main EU instruments in the economic dialogue given how economically and financially integrated the enlargement countries are with the EU.

The EU is the destination for approximately 60% of exports from the Western Balkans. The EU is also by far the biggest provider of foreign direct investment (FDI). With the exception of Turkey, EU banks dominate the financial sector. Access to the EU's single market for goods and services provides an important channel for growth. Recovery in the EU will also have a positive impact on the Western Balkans in particular. The Commission's most recent forecast is that the Western Balkans should grow by 2% in 2013. The forecast for Turkey is 3.2%, indicating a return to higher growth rates after a relative slowdown in 2012.

Modest recovery in the Western Balkans is not a guarantee for sustainable growth and convergence. There remain significant challenges in all enlargement countries in terms of economic reform, competitiveness and job creation:

- While Turkey is a functioning market economy, no Western Balkan enlargement country enjoys this status.
- Public financial management systems need to be significantly strengthened to reduce the risk of fraud and corruption.
- The rule of law needs to be significantly improved to provide greater legal certainty for economic operators and to increase investor confidence.
- Structural reforms need to be prioritised and competitiveness enhanced in order to support fiscal consolidation, tackle high external imbalances as well as high unemployment in all countries, averaging over 20% in the Western Balkans. There are considerable regional differences within the countries, with higher levels of poverty in rural areas.

A new approach is proposed to help the enlargement countries tackle the economic fundamentals first and meet the economic criteria. The countries will be invited to enhance economic policy and its governance through the co-ordinated preparation of a national economic reform strategy comprising two elements – a macroeconomic and fiscal programme and a structural reforms and competitiveness programme. These will be dealt with both in the bilateral and multilateral dialogue with the countries:

- The macroeconomic and fiscal programme will continue to be addressed through the existing instruments, namely Pre-Accession Economic Programmes for candidate countries and Economic and Fiscal Programmes for potential candidates. To strengthen surveillance, the joint ECOFIN Council with candidate countries will be invited to provide more targeted policy guidance through country-specific recommendations and to undertake an annual review and stock-tacking of policy implementation.
- As a new element, the countries will be asked to develop structural and competitiveness reform programmes. These programmes will be prepared in parallel with the fiscal programmes, but will be then reviewed in the context of the relevant Stabilisation and Association Agreement bodies, most notably in the areas of industry, competition, internal market, research, education, transport, energy and environment. Furthermore, the Commission will use the autumn progress reports to give clear guidance on the reforms needed for achieving further progress in meeting the economic criteria.

The Commission will also engage in dialogue on public financial management with the enlargement countries, which will, inter alia, support progress towards meeting the economic criteria. Countries will need to draw up action plans in this field that will be monitored by the Commission. Progress towards effective public financial management will also open up the possibility of sector budget support, as provided for under IPA II.

The Commission will take forward this approach in close cooperation with relevant international financial institutions and will provide comprehensive regional technical assistance to this effect. The Commission recommendations on the economic criteria will offer guidance as to the scope of this technical assistance.

Other measures to boost competitiveness, investments, growth and jobs

The Commission's support for sustainable economic development in the Western Balkans goes beyond macro-economic stabilisation and the achievement of the functioning market economy status. Since the beginning of the crisis, the Commission has been insisting that more needs to be done to address the difficult socio-economic situation, in particular high unemployment. The Commission has also highlighted the need to support investment in infrastructure in the Western Balkans. Cross-border transport, energy and communications networks are underdeveloped. In view of the size of the Western Balkan economies, closer integration is key. Regional economic cooperation has been recognised as an opportunity for growth and a basis for political cooperation and good neighbourly relations. The planned liberalisation of services in the Central European Free Trade Area (CEFTA) would further support this aim. Developing human and physical capital in rural areas and further adoption of EU standards in the agri-food sector will contribute to the competitiveness of the regional agriculture sector.

The Commission has already started a new dialogue on employment and social reform programmes with Turkey and Serbia. Dialogues with the former Yugoslav Republic of Macedonia and Montenegro will follow. The socio-economic situation in the potential candidates is more challenging than in the candidate countries and extra support will be needed to build administrative capacity to facilitate participation in the new process. The potential candidates will be gradually invited to the new dialogue. Comprehensive technical assistance will be programmed in 2014, with emphasis on the potential candidates. With a view to reducing the skills gap and improving education systems, the Commission will continue developing the Western Balkans platform on education and training.

Under the auspices of the Regional Cooperation Council (RCC), regional groups established under the Thessaloniki agenda have started to address the priorities of Europe 2020. A Regional 2020 strategy is in the making. More needs to be done to increase awareness and capacity of the currently dispersed regional groups so they can engage in regular peer reviews and issue recommendations. The RCC will need to develop a public monitoring mechanism. Findings from the groups and the monitoring mechanism will be followed up by the Commission in its economic dialogue and in the IPA programming process.

Reforms leading to fulfilment of the economic criteria will also be supported by the Western Balkans Investment Framework (WBIF). The WBIF plays an increasingly important role helping prepare and support those investments most needed for boosting growth and jobs. Under the WBIF, the Commission, bilateral donors and international financial institutions are supporting €4 billion worth of investments per year in transport, energy, the environment, climate change, the social sector and private sector / SME development, where the Commission is co-financing a Western Balkan SME platform aimed at improving access to finance for SMEs through guarantees and venture capital.

Improving transport and energy interconnection between the EU and enlargement countries will be a key priority for promoting sustainable economic growth, jobs, trade and cultural exchange. The Commission underlines the importance of further development of Trans-European energy infrastructure and co-operation with the Energy Community. The forthcoming Transport Community Treaty will promote integration of land transport markets and infrastructure whilst helping the Western Balkan countries implement EU land transport standards. The Commission has reviewed the EU's Trans-European Networks in the field of transport (TEN-T) and energy (TEN-E) with a view to improving connections with the countries covered by the enlargement and neighbourhood policies. In this sense, the Commission has adopted a list of Projects of Common Interest (PCIs) for the development of

trans-European energy infrastructure. A list of Projects of Energy Community interest (PECIs) should be adopted by the upcoming Energy Community Ministerial Council.

Cooperation with Turkey will be enhanced, not least in view of its strategic location and potential as an energy hub. In 2013, Turkey ratified the Trans Anatolian Pipeline Agreement aimed at connecting with the Trans Adriatic Pipeline, bringing natural gas to the EU from the Caspian via Turkey. In this context, strengthening of the EU-Turkey energy cooperation as well as relevant progress in the accession negotiations would facilitate further progress towards the interconnection and integration of the energy markets of the EU and Turkey. The Commission looks forward to an evaluation by the World Bank reviewing the EU-Turkey Customs Union. This evaluation, contracted by the European Commission, will make recommendations on the improvement of its functionality and the possible widening of its scope.

To support work on the above challenges, the Commission will:

- Invite the enlargement countries to prepare a national economic reform strategy comprising two elements – the existing macroeconomic and fiscal programme and a new structural reforms and competitiveness programme. The process will result in country specific recommendations and in clear guidance on actions needed for achieving further progress towards becoming a functioning market economy and for improving competitiveness.

- Launch a dialogue with the countries on necessary requirements to meet public financial management standards, preparing the ground for possible IPA budget support.

- Provide comprehensive technical assistance in close cooperation with other international organisations.

In the period 2007-2013, up to €190 million pre-accession assistance have been provided to strengthen institutional capacities of governments in areas such as the management of public funds, economic and fiscal policy and statistics, as well as institutional capacities of national banks.

Through IPA II, the Commission will continue to support reforms leading to fulfilment of the economic criteria and socio-economic development, including through the Western Balkans Investment Framework (WBIF), prioritising improvement in transport and energy interconnection between the EU and enlargement countries, and provide technical assistance to support economic governance, the dialogue on employment and social issues, the objectives of the RCC on a regional 2020 strategy, and agriculture and rural development.

b) The rule of law

The rule of law is a fundamental value on which the EU is founded. Safeguarding values, such as the rule of law, is what the European Union was made to do, from its inception to the latest chapters in enlargement. The rule of law remains a priority for the EU and is **at the heart of the accession process**, a key pillar of the Copenhagen political criteria. Countries aspiring to join the Union need to establish and promote from an early stage the proper functioning of the core institutions necessary for securing the rule of law. Rule of law supports the business environment, providing legal certainty for economic operators and stimulating investment, jobs and growth. Fighting organised crime and corruption is fundamental to countering the criminal infiltration of the political, legal and economic systems. In most enlargement countries there is a need for inclusive, transparent and ambitious judicial reforms with the aim of ensuring independent, impartial, efficient and accountable judicial systems. Particular attention is needed to the appointment, evaluation and disciplinary procedures for judges. There is also a need to put in place stronger frameworks for tackling corruption and organised crime, which remain a serious concern in many

enlargement countries. Efforts are needed to ensure a sustained track record of substantial results in this field based on efficient, effective and unbiased investigation, prosecution and court rulings in cases at all levels, including high level corruption.

The **visa liberalisation** process has incentivised the countries of the Western Balkans to take substantial steps to reform those aspects most closely related to the visa liberalisation process. Those reforms have strengthened internal governance. The countries need to step-up efforts to consolidate those reforms and implement measures to prevent abuse of the liberalised visa regime as outlined and recommended by the Commission in its post-visa liberalisation monitoring reports. The Commission will present the fourth such report by the end of 2013. Migration and border management issues will continue to be addressed in the appropriate fora, such as in the SAA framework, and including in chapter 24 on justice, freedom and security.

A **new approach to the accession negotiations** on the judiciary and fundamental rights and justice, freedom and security is being implemented. Building on lessons learned, the new approach introduces the need for solid track records of reform implementation to be developed throughout the process. Tackling these areas early in the negotiations gives maximum time to enlargement countries to ensure that reforms are deeply rooted and irreversible. The new approach is now being applied in the negotiations with *Montenegro*, which has prepared comprehensive action plans as a basis for opening negotiations on these chapters. Following the invitation of the European Council in June 2013, the new approach is being fully integrated into the negotiating framework for *Serbia* and the screening of chapters 23 and 24 is under way.

The rule of law is also a key theme in the **EU's relations with other enlargement countries**. The Commission's High Level Accession Dialogue with *the former Yugoslav Republic of Macedonia* continues to address rule of law issues. A number of the key priorities of the Commission's 2010 Opinion setting out the conditions for the opening of accession negotiations with *Albania* concern the rule of law. The Commission supports judicial reform through its Structured Dialogue on Justice with *Bosnia and Herzegovina* and also holds a Structured Dialogue on the Rule of Law with *Kosovo*, focusing on the fight against organised crime and corruption and reform of the judiciary. The rule of law is also a priority under the positive agenda with Turkey.

To support work on the above challenges, the Commission will:

- Implement the new approach to chapters judiciary and fundamental rights and justice, freedom and security with Montenegro and Serbia and continue to prioritise the rule of law through targeted dialogues with the other enlargement countries.

- Ensure coordination with the relevant European agencies (in particular Europol, Eurojust and Frontex) and encourage strengthened cooperation between these agencies and enlargement countries, including the conclusion of operational agreements with Europol.

- Strengthen support to rule of law-related reforms through IPA II at both national and regional levels, to embed reforms in these key areas and to ensure an effective exchange of best practice in establishing track records in tackling organised crime and corruption.

In the period 2007-2013, over €800 million pre-accession assistance has been provided to improve the justice sector, independence of judiciary, fight against corruption and organised crime, as well as border management and security. **Through IPA II**, sector strategies will be developed with a particular focus on developing independent, efficient and professional judiciaries and supporting the development of a strong framework at national and regional level and track record of implementation in the fight against organised crime and corruption.

This includes prevention measures and providing law enforcement bodies with effective legal and investigative tools, in particular the capacity to conduct financial investigations.

c) The functioning of institutions guaranteeing democracy

The Copenhagen political criteria require candidate countries to achieve stability of institutions guaranteeing democracy. The proper functioning of core institutions is vital, whether the national parliament, the government or the public administration. The transparency, accountability and effectiveness of institutions and public administrations, including a greater focus on the needs of citizens and business, needs to be prioritised in most enlargement countries. More needs to be done to strengthen participatory democracy and establish national platforms for EU-related reforms that build a consensus across parties and wider society to support the major reforms required. The countries also need to find an appropriate balance between **central, regional and local government** that best supports implementation of reforms and the delivery of services to citizens. The role of regional and local authorities in the EU alignment process and eventual application of EU rules is also key.

Democratic institutions remain fragile in a number of enlargement countries. A culture of consensus building is lacking, with the role of **national parliaments** underdeveloped. Democracy is about more than the conduct of free and fair elections. It is about strong, accountable institutions and participatory processes, centred around national parliaments. Parliamentary scrutiny is often undermined by excessive use of urgent procedures for legislation, weak parliamentary committee systems and procedures and insufficient stakeholder consultation, with minimal input from experts.

Elections are all too often seen as an opportunity to gain political control of state institutions well beyond the normal legitimate hand-over of political power associated with a change of administration. In many cases, even relatively junior positions in the public administration are effectively politicised. This undermines both the capacity and accountability of administrations. **Public administration reform** is vital, including professionalization and de-politicisation of the civil service. Embedding meritocratic principles, tackling corruption and ensuring adequate administrative procedures, including with respect to human resources, are of fundamental importance.

Civil society and citizens and particularly young people are too often marginalised from day to day politics. Dialogue between decision makers and stakeholders needs to be further developed. An empowered civil society is a crucial component of any democratic system. It enhances political accountability and social cohesion, deepening understanding and inclusiveness of accession-related reforms, as well as supporting reconciliation in societies divided by conflict. In some cases, a more supportive and enabling environment needs to be developed that improves the conditions for policy dialogue and non-partisan input to the decision making process, supported by good quality statistics provided by independent national statistical bodies. The independence and effectiveness of key bodies such as the **ombudsman** and **state audit institutions** need to be ensured and their recommendations appropriately followed-up.

To support work on the above challenges, the Commission will:

- Work more intensively with international organisations such as the Council of Europe, OSCE/ODIHR and OECD (SIGMA) to support electoral and parliamentary reform; continue to promote inter-parliamentary cooperation between national parliaments of the region and those of the EU Member States and the European Parliament.

- Increase the priority attached to public administration reform in the accession process, with particular emphasis on transparency, de-politicisation and meritocratic recruitment processes.

–Increase focus on civil society, including capacity building and encouraging the creation of an enabling environment for its development and greater involvement of stakeholders in reforms, including through greater transparency of government action and spending;

- Promote broad-based participation in the accession process, building on the positive example of Montenegro, and encourage maximum transparency in handling of relevant documents.

In the period 2007-2013, over €30 million pre-accession assistance has been provided to enhance amongst others the capacity of national parliamentary assemblies, ombudsmen and national audit institutions. In the same period, civil society organisations have been supported by almost €190 million from IPA, as well as by over €35 million from the European Instrument for Democracy and Human Rights (EIDHR). **Through IPA II**, the Commission will support the strengthening of democratic institutions, good governance, including ombudsmen, and public administration reform, including twinning projects in the above areas. The Commission will also explore options to empower and further support the next generation of policy makers, public officials and leaders, including through more targeted visits programmes and a possible EU scholarships scheme. The Commission will also continue to support capacity building of civil society, including through the Civil Society Facility, and provide an enhanced role to civil society in the strategic programming of IPA II.

d) Fundamental rights

Civil, political, social and economic rights, as well as the rights of persons belonging to minorities are significant issues in most enlargement countries. Fundamental rights are broadly guaranteed in law in the enlargement countries but in many cases not implemented in practice. More needs to be done to improve the position of women and ensure gender equality, to implement children's rights and support people with disabilities.

In a number of enlargement countries, freedom of expression remains a serious concern. Ethnic minorities, notably the Roma, face many difficulties, despite the existence of legal frameworks supporting their rights. It is important to consolidate a coherent framework on combating certain forms and expressions of racism and xenophobia in areas such as audio-visual media, sports, politics, education and the internet. Discrimination on the basis of sexual orientation is also widespread. These vulnerable groups also face societal hostility which can descend into hate speech, violence and intimidation.

In this year's Communication, the Commission lays particular emphasis on freedom of expression, the situation of the Roma, and the position of LGBTI persons. The Commission is working closely on these fundamental rights issues with the relevant international and regional organisations, in particular the Council of Europe and the OSCE. The Commission proposes that candidate countries participate as observers in the EU's Fundamental Rights Agency, in view of supporting their efforts to ensure full respect of fundamental rights.

- *Freedom of expression*

The Commission has been prioritising freedom of expression and the media in the EU accession process and in our financial and technical support. In June 2013, the Commission together with the European Parliament held a **Speak-Up!2 conference** which brought together hundreds of key stakeholders from the media, civil society and national authorities.

The enlargement countries are characterised in most cases by pluralist media landscapes. However, the Speak-Up!2 conference confirmed that a number of important challenges need to be urgently addressed. Cases of **violence and intimidation against journalists** are a continuing problem, leading to self-censorship. Authorities need to step up their efforts in investigating new and past cases and ensure dissuasive sanctions are applied against

perpetrators. By decriminalising **defamation**, a major step towards protecting free and critical journalism was taken in south east Europe. However, prosecutions of journalists continue. There is a need to develop and train the judiciary to prevent abuse of state power.

Political interference with media freedom remains a serious concern. More efforts are needed to ensure the political and financial independence of **public service broadcasters** in the Western Balkans. This is best ensured by having sustainable funding and transparent rules for appointing board members and strong national commitment to the needed reforms. In most enlargement countries, **regulatory agencies** are not performing satisfactorily. Moreover, there is no functional **media self-regulation** in place and media outlets need to make more of an effort to improve their internal governance. There is also a need to tackle **informal economic pressure on the media,** including through **transparency of media ownership**, preventing its excessive concentration and transparent rules on procurement of government advertising. Labour laws at media outlets also need to be properly implemented

To support work on these challenges, the Commission will:

- Promote freedom of expression and media and stress its importance for EU membership through our regular political dialogues with the enlargement countries.

- Ensure freedom of expression and media is consistently addressed as a priority through chapter 23 judiciary and fundamental rights and chapter 10 information society and media.

- Grant an award for excellence in investigative journalism starting in 2014.

In the period 2007-2013, over €27 million pre-accession assistance has been provided to help countries address the challenges related to freedom of expression. **Through IPA II**, the Commission will develop a long term vision of EU financial assistance on freedom of expression, also working together with key partners (e.g. Council of Europe, OSCE, OECD).

- ***Roma***

There are about 10 to 12 million Roma in Europe, of which about 4 million are in Turkey and 1 million in the Western Balkans. Across Europe, the **situation of most Roma communities is a matter of serious concern**. Roma are very often the victims of racism, discrimination and social exclusion and live in deep poverty, lacking sufficient access to healthcare, education and training, housing and employment. In light of the difficult conditions they face, significant numbers leave the region and seek asylum in a number of EU countries. Most of these claims are ultimately unsuccessful. This situation is not sustainable.

Since 2011, a framework for National Roma Integration Strategies is in place at EU level. With a focus on reducing poverty, social exclusion and discrimination of Roma, the goals and principles of this framework are equally relevant for enlargement countries, where much more needs to be done to facilitate the social and economic inclusion of Roma and to develop and ensure adequate implementation, follow-up and monitoring of **national Roma strategies**. Roma inclusion has to become a national priority, not just in strategy papers but in actual engagement on the ground, with measures to increase access to **education,** to foster **employment** and increase **health** and **housing** conditions, in particular to ensure access to public utilities such as water and electricity. The issue of **civil documentation** and registration of Roma needs to be addressed.

Roma inclusion remains a key objective and will be an increasing political challenge if stronger action is not taken. It requires a coordinated approach based on strong **political will** at all levels, particularly from **municipal authorities** and national governments in the countries concerned, as well as a change of mind-set among majority populations. **Roma leaders** also need to play their part, by promoting higher rate of civil registration, by ensuring participation in compulsory education and by limiting the flow of asylum seekers. Local

authorities must be willing to enforce attendance and address resistance from majority populations to joint education, including by linking welfare payments to school attendance.

The Commission is working closely with each of the enlargement countries to review progress in implementing key commitments undertaken to promote further inclusion of the Roma community. Coherence of support to Roma in the enlargement countries with the work being done at EU level needs to be enhanced.

To support work on the above challenges, the Commission will:

- Support and encourage national follow-up meetings to the 2011 seminars; with rigorous monitoring of implementation of operational conclusions through country monitoring committees.

- Increase and better target IPA funding through a Roma 'facility' to finance measures agreed in the national seminars, with improved cooperation with other international organisations.

- Hold a Roma conference in Brussels in 2014 on the way forward, including prizes awarded to NGOs for innovative and successful projects for Roma inclusion.

In the period 2007-2013, over €100 million pre-accession assistance has been provided to support social inclusion and integration of Roma in the enlargement countries, including housing. **Through IPA II**, the Commission will better target funds and strengthen strategic cooperation with external stakeholders, identifying and building on best practice. Projects directly making an impact on the lives of individual Roma persons will be prioritised, with a particular focus on education and social inclusion.

- ***Lesbian, gay, bisexual, transgender and intersex (LGBTI) persons***

Homophobia, discrimination and hate crimes on the basis of sexual orientation and gender identity are still widespread phenomena in the Western Balkans and Turkey. This is partly due to incomplete legislative frameworks, but also to the inconsistent implementation of the legal provisions in place. Rights violations include discrimination in areas such as employment and education, failure of certain authorities to enforce freedom of speech and of assembly, hate speech, intimidation and physical violence, even murders.

In June 2013, the EU adopted guidelines for the promotion and protection of the enjoyment of all human rights by LGBTI people to provide guidance for the EU's external actions in this field. A successful strategy in this field in the enlargement countries requires strong political commitment from governments, local authorities and law enforcement bodies concerned, as well as from the EU. The authorities in the enlargement countries can play a key role in bringing about a change in mind-set across society as a whole towards LGBTI persons, which is often at best ambivalent and at worst hostile.

There is an urgent need for **anti-discrimination legislation** to be extended to include sexual orientation and gender identity within its scope in Turkey and the former Yugoslav Republic of Macedonia. **Hate crime legislation** still needs to be introduced in most countries. Training of law enforcement, ombudsman institutions, judges and media professionals is needed to raise awareness of new legislation, to **ensure proper implementation** and contribute to increasing understanding. Countries must pursue a **zero-tolerance approach to hate speech, violence and intimidation** and take steps as a matter of priority to address cases from the past and be prepared to react robustly to new cases in the future. Countries need to take measures to **counter stereotypes and misinformation**, including in the education system. Religious or cultural values cannot be invoked to justify any form of discrimination. Freedom of assembly and expression should be protected, including through appropriate handling of pride parades, including in Serbia, where regrettably this year's parade was banned for the third year in a row on security grounds.

To support work on the above challenges, the Commission will:

- Increase political support and visibility by *inter alia* ensuring these issues are systematically addressed in the appropriate fora with enlargement countries as well as in the accession negotiations, setting clearer policy priorities and improving monitoring and follow-up.

- Organise a high-level LGBTI conference in 2014 with the aim of taking stock of the state of play and progress achieved, sharing best-practice as well as adopting operational conclusions.

- Improve strategic cooperation with external stakeholders (international organisations and civil society).

In the period 2007-2013, over €2.5 million has been provided in specific support of LGBTI issues, both through IPA and EIDHR. **Through IPA II**, the Commission will better target funding including training of employees of relevant public institutions, including judges and police, and targeted campaigns and other initiatives (workshops, events) to raise awareness and increase tolerance. The Commission will coordinate its assistance on these issues, notably with the Council of Europe and OSCE.

e) Dealing with bilateral issues and overcoming the legacy of the past

The historic agreement in April between Belgrade and Pristina creates the conditions for building a common European future for both sides. It puts other bilateral disputes in a new light, demonstrating what can be achieved with political will, courage and EU support. Following numerous high level meetings facilitated by the EU, Serbia and Kosovo agreed on 19 April to a 'First agreement of principles governing the normalisation of relations', complemented in May by a comprehensive implementation plan with a clear timeline until the end of 2013. This paved the way for the European Council decision to open accession negotiations with Serbia and the Council to approve negotiating directives for an SAA with Kosovo.

Progress on **bilateral issues** elsewhere in the region has also been made, with good neighbourly relations – an essential element of the Stabilisation and Association process - reinforced. Serbia and Bosnia and Herzegovina have intensified contacts, Serbia's President has expressed a public apology for crimes committed in Bosnia and Herzegovina, and there has been a new more constructive mood in relations between Serbia and Croatia. Bilateral and multilateral contacts between the countries of the region have also continued in sensitive areas such as war crimes, refugee return, organised crime and police cooperation. Several agreements between war crimes prosecutors have been signed, including between Bosnia-Herzegovina and both Croatia and Serbia. Obstacles to extradition are being addressed. Representatives of the Presidents of Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Kosovo met in September to discuss the statute of the truth and reconciliation initiative RECOM for the first time. They agreed on the objectives and essential role of this initiative. The regional housing project under the Sarajevo process is being implemented by Croatia, Serbia, Bosnia and Herzegovina and Montenegro.

The progress made needs to be consolidated. Many bilateral problems remain unresolved, including as regards minorities and issues stemming from the break-up of the former Yugoslavia such as border demarcation. Fundamentally opposed views of recent history burden relations, as does the prevalence of inter-ethnic problems. Political and other leaders need to show more responsibility and take a stronger stand to condemn hate speech and other manifestations of intolerance when it occurs. More work is needed to hold perpetrators to account for war crimes, to address pending issues concerning refugees and internally displaced persons and to normalise relations on the situation of minorities. There has been insufficient progress on missing persons.

Inter-ethnic and status disputes continue to hinder the functioning of institutions within states, particularly in Bosnia and Herzegovina, frustrating the reform process. Difficult ethnic-related issues can be successfully addressed through dialogue and compromise, as demonstrated by the Serbia-Kosovo agreement and ongoing implementation of the Ohrid Framework Agreement in the former Yugoslav Republic of Macedonia.

Outstanding bilateral issues continue to negatively affect the accession process. In the spirit of good neighbourly relations, open bilateral issues need to be addressed by the parties concerned as early as possible. Every effort needs to be made to avoid importing significant bilateral disputes into the EU. The Commission urges parties to make every effort towards solving outstanding disputes in line with established principles and means, including referring issues as appropriate to the International Court of Justice or other existing or ad hoc dispute settlement bodies. Slovenia and Croatia have shown that such an approach can lead to positive results. Bilateral issues should not hold up the accession process.

The EU is now in the process of integrating the requirement for normalisation of relations between Belgrade and Pristina into the framework for accession negotiations with Serbia. As regards the former Yugoslav Republic of Macedonia, maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential and needs to be found without further delay. The Commission stands ready to facilitate the creation of the necessary political impetus in the search for solutions and to support related initiatives.

Reconciliation is essential to promote stability in a region so recently afflicted by conflict. Countries of the region, Member States and the EU need to do more to support the creation of an environment in south-east Europe conducive to overcoming the legacy of the past, thereby minimising the risk of open bilateral issues being politically instrumentalised. The Commission underlines the importance of Croatia's declaration on promoting European values in South-East Europe. Croatia's willingness to use its unique position as the EU's first Member State seriously affected by the conflicts of the 1990s to provide political and technical support to its neighbours on their EU path is commendable. The Commission is ready to facilitate such support in particular through the Taiex facility.

Regional cooperation has continued within regional fora such as the Energy Community, the European Common Aviation Area, the Central European Free Trade Area (CEFTA) and the Regional School of Public Administration. The Regional Cooperation Council is further developing its role as a platform for the promotion of issues of importance to the whole region and its EU perspective thus further mainstreaming regional cooperation in the countries' political agenda. Montenegro's proposal for a Western Balkans Six grouping (bringing together Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia) is a constructive initiative, drawing on the positive experience of the Visegrad Four. It is important that such initiatives are complementary and add value to existing arrangements, and that they are regionally owned and driven. Active participation in the Danube and the forthcoming Adriatic-Ionian macro-regional strategies can also support economic and social development and promote EU integration.

To support work on the above challenges, the Commission will:

- Encourage the development of a network of bilateral agreements among countries party to Stabilisation and Association Agreements to provide a framework for increased political dialogue on the key issues.

- Continue to offer political support and facilitation to all countries concerned to find solutions to bilateral issues as early as possible and continue to actively support the efforts in other fora to find solutions.

In the period 2007-2013, the Commission provided significant pre-accession funding to projects and initiatives supporting reconciliation, and, more generally, regional and cross-border cooperation. **Under IPA II**, reconciliation will be a key theme and the Commission will continue to support initiatives aimed at addressing war legacy issues (Sarajevo process, war crimes prosecutor network, truth and reconciliation process (RECOM)). Cooperation will also be encouraged and supported in fields such as education, science, culture, media, youth and sport. The Commission will continue to support regional initiatives, such as the Regional Cooperation Council and the Regional School of Public Administration. It will be important to ensure close coherence and the alignment of funds between country and regional programmes and relevant macro-regional strategies.

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III. CONCLUSIONS AND RECOMMENDATIONS

Based on the above analysis and the country specific assessments in the country conclusions in annex, the Commission puts forward the following **conclusions** and **recommendations**:

I

1. **Twenty years ago** the Western Balkans were torn by conflict. At the same time, the European Union agreed the **Copenhagen criteria** for the entry of future Member States into the EU. Ten years later, at the **Thessaloniki Summit in 2003**, the EU Member States granted all countries of the Western Balkans **a clear perspective of EU membership**, subject to fulfilment of the necessary conditions, including those of the Stabilisation and Association Process.

Croatia has met these conditions, and in July 2013 the EU welcomed **Croatia as the 28th Member State**. Croatia's accession is an example of the transformative power and stabilising effect of the enlargement process. The historic agreement reached by **Serbia** and **Kosovo** in April is further proof of the power of the EU perspective and its role in healing history's deep scars.

The Copenhagen criteria are just as relevant today, reflecting **the core values** on which the EU is founded: democracy, the rule of law, respect for fundamental rights. The **economic challenges facing the EU** underline the importance of the economic criteria and the need to further consolidate economic and financial stability and foster growth and competitiveness in the enlargement countries.

2. The **accession process** today is more rigorous and comprehensive than in the past, reflecting the evolution of EU policies as well as lessons learned from previous enlargements. The process is built on **strict but fair conditionality** with progress towards membership dependent on the steps taken by each country to meet the **established criteria**. This is crucial for the **credibility** of enlargement policy and for providing incentives to enlargement countries to pursue far reaching reforms. A key lesson from the past is the importance of addressing the **fundamentals first.**

3. The **rule of law** is now at the heart of the enlargement process. The new approach, endorsed by the Council in December 2011, means that countries need to tackle issues such as judicial reform and the fight against organised crime and corruption early in accession negotiations. This maximises the time countries have to develop a solid track record of reform implementation, thereby ensuring that reforms are deeply rooted and irreversible. This new approach is a key element of the negotiating framework for Montenegro and will shape our work with the other enlargement countries. The visa liberalisation process has brought significant benefits to citizens of the Western Balkans and has incentivised the countries to implement reforms in the

field of rule of law as well as border control and migration. The countries need to step up efforts to consolidate reforms and implement measures to prevent abuse of the liberalised visa regime.

4. The global economic crisis has underlined the need for all countries to strengthen their **economic governance.** None of the Western Balkan countries is yet a functioning market economy. All are affected by high unemployment, particularly among the young. It is essential that these countries intensify reforms to achieve sustainable growth and address the challenges necessary to meet the economic criteria and improve **competitiveness**. The Commission has set out a number of proposals to support this aim, including the introduction of national economic reform strategies and of action plans for public financial management. The Commission will work with the major international financial institutions to support reforms leading to fulfilment of the economic criteria. The Western Balkans Investment Framework will continue to support investments boosting jobs and growth. An environment more conducive to attracting foreign direct investment is crucial.

5. Events in a number of enlargement countries have underlined the importance of **strengthening democratic institutions** and ensuring that democratic processes are more inclusive. The Commission encourages and will support through financial assistance a stronger role for civil society and cross-party platforms for EU integration. The Commission will also promote electoral, parliamentary and public administration reforms, in close cooperation with other international organisations in these fields.

6. The European Union is founded on common values and principles, including respect for **fundamental rights**. All countries of the Western Balkans and Turkey need to undertake further reforms to ensure that the principles of freedom of expression and the protection of the rights of persons belonging to minorities, including **Roma** are respected in practice. More robust measures are needed to protect other **vulnerable groups** from discrimination, in particular on grounds of sexual orientation. The Commission will increase the priority attached to these issues in the accession process, including better targeted IPA funding and increased assistance to support Roma inclusion through a Roma ‘facility’.

7. **Regional cooperation** and **good neighbourly relations** are essential elements of the Stabilisation and Association process. Issues related to past conflicts, including war crimes and refugee return, as well as the treatment of minorities and ensuring equal rights for all citizens remain key challenges to stability in the Western Balkans and need to be fully addressed. To this end, the Commission will continue to support initiatives aimed at overcoming the legacy of the past. Regional cooperation needs to be further strengthened, to be inclusive and regionally-owned. The Commission fully supports the work of the South-East European Cooperation Process (SEECP) and Regional Cooperation Council, including the Regional 2020 strategy.

8. A renewed effort to overcome **bilateral disputes** among enlargement countries and with existing Member States is needed. Bilateral issues need to be addressed by the parties concerned as early as possible and should not hold up the accession process. The Commission urges parties to make every effort towards solving outstanding disputes in line with established principles and means. The context of accession negotiations can generate political impetus for the resolution of disputes. The Commission will continue to offer political support and facilitation to all countries concerned to find solutions to bilateral issues as early as possible and continue to actively support the efforts in other fora to find solutions. The Commission will

encourage the development of a network of bilateral agreements among countries party to Stabilisation and Association Agreements to provide a framework for increased political dialogue on the key issues.

9. 2014 sees the launch of the second **Instrument for Pre-Accession Assistance** for the period to 2020. Through IPA II, the EU will continue to provide substantial support to the enlargement countries in their preparations for accession and will also support regional and cross-border cooperation. The focus will be on areas of shared interest with fewer priorities and larger projects. The key challenges facing the countries will be addressed in a more strategic and coherent way, with innovations including a sector approach, incentives for better performance, increased budget support and a stronger focus on achieving measurable results. To help meet the high investment needs and to create growth and employment, the Commission will strengthen cooperation with IFIs so that IPA funds can also leverage private capital through innovative financial instruments.

10. Enlargement policy depends on the support of EU citizens. It is essential for Member States, together with the EU institutions, to lead an informed debate on the political, economic and social impact of the enlargement policy. They have a key role in providing citizens with the facts on enlargement policy and, in so doing, to inform them of the benefits, including its major contribution to peace, security and prosperity, and to address any concerns they may have.

II

11. **Montenegro:** The launch of accession negotiations last year marked the opening of a new stage for Montenegro on its path to the EU. The deep and lasting political reforms necessary to implement the new approach to chapter 23 on judiciary and fundamental rights and chapter 24 on justice, freedom and security will require strong political will and enhanced administrative capacity. The accession process needs to be inclusive, with strong involvement of civil society throughout. Montenegro has adopted detailed action plans providing a comprehensive reform agenda for strengthening the rule of law. Implementation of these plans and progress in meeting the interim benchmarks on these chapters will determine the overall pace of accession negotiations. In this regard, implementation of the July constitutional amendments strengthening the independence of the judiciary and further progress with respect to the fight against organised crime and corruption, including at high level, are essential.

Public administration reform is a priority to ensure Montenegro has the capacity to apply the *acquis*, to tackle politicisation and increase transparency and professionalism of the civil service. Events over the last months, in particular the alleged use of public funds for party political purposes, have highlighted the importance of strengthening citizens' trust in public institutions. In this context, it is important to ensure that investigations are completed thoroughly and rapidly and that any appropriate action is taken. Adequate follow-up of the work of the parliamentary group on the electoral process is also needed. Freedom of expression needs to be strengthened, including by properly investigating all cases of violence and threats against journalists and bringing perpetrators to justice. In the economic field, improving the business environment and tackling high unemployment are key issues. Restructuring of the aluminium producer KAP is now urgent.

12. **Serbia:** 2013 has been a historic year for Serbia on its path to the European Union. The decision of the June European Council to open accession negotiations represents the start of a significant new phase in Serbia's relations with the European Union. This is recognition for the progress made on key reforms and the substantial efforts made

by Serbia towards normalisation of its relations with Kosovo. In September, the Stabilisation and Association Agreement entered into force.

Serbia has actively and constructively worked towards a visible and sustainable improvement of relations with Kosovo. In April, Serbia's engagement in the EU-facilitated dialogue resulted in the landmark 'First agreement of principles governing the normalisation of relations' with Kosovo (the First Agreement), which was complemented in May by an implementation plan. Implementation has continued and has already led to a number of irreversible changes on the ground. The parties also reached agreement on energy and on telecommunications. Serbia needs to remain fully committed to the continued normalisation of relations with Kosovo and implementation of all agreements reached in the dialogue.

The Commission started the screening of the *acquis* in September and looks forward to the first inter-governmental conference on Serbia's accession by January 2014 at the very latest, once the Council has adopted the negotiating framework. In this new demanding phase, Serbia will need to pay particular attention to the key areas of rule of law, particularly the implementation of the reform of the judiciary, fight against corruption and organised crime, public administration reform, independence of key institutions, media freedom, anti-discrimination and protection of minorities. The Roma Strategy needs to be proactively implemented. Serbia needs to continue improving the business environment and develop a competitive private sector. Tackling high unemployment is also essential. Serbia needs to build on the positive contribution made to regional cooperation over the past year, which included stepping up high-level contacts with neighbouring countries.

13. **The former Yugoslav Republic of Macedonia:** The political crisis which followed events in parliament late last year exposed deep divisions among political parties, affecting the functioning of parliament, and demonstrated the need for constructive politics in the national interest. Continued implementation of the 1 March political agreement is key. The EU agenda remains the country's strategic priority. The High Level Accession Dialogue has contributed to progress in most priority areas, including the elimination of court backlogs and progress in the fight against corruption. The country has already reached a high level of alignment relative to where it is in the accession process and has made further progress in improving its ability to take on the obligations of membership.

The reform priority for the coming year should be the effective implementation and enforcement of existing legal and policy frameworks. Particular attention should be paid to the rule of law, including the independence of the judiciary and achieving further results in the fight against corruption and organised crime. Freedom of expression and the media situation in general also remain issues of concern. The review of the *Ohrid Framework Agreement*, particularly important for inter-ethnic relations, must be completed and its recommendations implemented. The Roma Strategy needs to be proactively implemented. The blurring of the distinction between state and party needs to be addressed, as highlighted by the OSCE/ODIHR in the electoral context. High unemployment needs to be tackled and public financial management strengthened.

The Commission considers that the political criteria continue to be sufficiently met and recommends that accession negotiations be opened. Moving to the next, more challenging stages of the enlargement process is essential in order to consolidate and encourage further reforms as well as to strengthen inter-ethnic relations. The High

Level Accession Dialogue is a useful tool which will continue to focus on key issues, including good neighbourly relations, but it cannot replace the accession negotiations.

The Commission remains convinced that a decision to open accession negotiations would contribute to creating the conditions conducive to improving good neighbourly relations in general and, in particular, to finding a mutually acceptable solution to the name issue, which the Commission considers essential. After almost two decades, intense political commitment from all sides in the UN process is required to finally reach a solution, with the active engagement of the international community.

This is the fifth time the Commission recommends the opening of accession negotiations with this country. No decision has been taken by the Council to date. Failure to act on this recommendation poses potentially serious challenges to the former Yugoslav Republic of Macedonia and to the EU. This calls into question the credibility of the enlargement process, which is based on clear conditionality and the principle of own merits. The lack of a credible EU perspective puts at risk the sustainability of the country's reform efforts.

Upon invitation by the European Council, the Commission reiterates its intention to present without delay a proposal for a negotiating framework, which takes into account the need to solve the name issue at an early stage of accession negotiations, and will carry out the process of analytical examination of the EU *acquis* beginning with the chapters on the judiciary and fundamental rights, and justice, freedom and security. The Commission considers that, if the screening and the Council discussions on the negotiating framework were under way, the necessary momentum could be created which would support finding a negotiated and mutually accepted solution to the name issue even before negotiating chapters are opened. Applying the new approach on chapters 23 and 24 also to the former Yugoslav Republic of Macedonia would provide the necessary tools to tackle key issues of concern also to Member States and contribute to the sustainability of reforms.

In advance of the tenth anniversary of the entry into force of the SAA in April 2004, the Commission also calls for a fifth time on the Council to adopt its 2009 proposal to move to the second stage of the association, in line with the relevant provisions of the SAA, which foresee that the association shall be fully realised over a transitional period of a maximum of ten years.

14. **Albania:** Last October, the Commission recommended that the Council should grant Albania the status of a candidate country subject to the completion of key measures in the areas of judicial and public administration reform and revision of the parliamentary rules of procedure. In December 2012, with a view to deciding whether to grant candidate status, the Council invited the Commission to report as soon as the necessary progress had been achieved, also taking into account the further action taken by Albania to fight corruption and organised crime, including by proactive investigations and prosecutions of such cases. In this regard, Albania has adopted the remaining key judicial, public administration and parliamentary reform measures with cross-party consensus. The parliamentary elections in June were assessed by the international election observation mission led by OSCE/ODIHR as competitive with active citizen participation throughout the campaign and genuine respect for fundamental freedoms. In the fight against corruption and organised crime, Albania has taken initial steps towards improving the efficiency of investigations and prosecutions and strengthening cooperation between law enforcement bodies. The number of convictions in corruption and in money laundering cases has increased, as has the number of investigations into the trafficking of people and drugs. All of the

Council of Europe's recent recommendations concerning financing of political parties and legal provisions on corruption have been satisfactorily addressed. The new government in Albania has made a strong commitment to fighting corruption and has prioritised this issue in its programme.

In view of Albania having achieved the necessary progress, the Commission recommends that the Council should grant Albania the status of a candidate country on the understanding that Albania continues to take action in the fight against organised crime and corruption.

Further to the Commission's 2010 Opinion, Albania needs to meet the following key priorities for the opening of accession negotiations:

1. continue to implement public administration reform with a view to enhancing professionalism and depoliticisation of public administration;
2. take further action to reinforce the independence, efficiency and accountability of judicial institutions;
3. make further determined efforts in the fight against corruption, including towards establishing a solid track record of proactive investigations, prosecutions and convictions;
4. make further determined efforts in the fight against organised crime, including towards establishing a solid track record of proactive investigations, prosecutions and convictions;
5. take effective measures to reinforce the protection of human rights, including of Roma, and anti-discrimination policies, as well as implement property rights.

The Commission stands ready to support Albania's efforts towards meeting these key priorities by engaging in a high level dialogue with the country.

Constructive and sustainable dialogue between the government and the opposition on EU-related reforms will be vital in securing Albania's EU future. Albania's constructive engagement in regional cooperation remains essential.

15. **Bosnia and Herzegovina** is at a standstill in the European integration process. The country needs to implement without further delay the Sejdic-Finci judgement of the European Court of Human Rights in order to move forward on the EU path. Addressing this judgement is not only crucial for the country to advance on the EU path but also for the legitimacy and credibility of the Presidency and the House of Peoples of Bosnia and Herzegovina which are to be elected in 2014. Bosnia and Herzegovina also needs urgently to establish a co-ordination mechanism on EU matters so that it can speak with one voice on the EU agenda.

Without the consensus necessary to move forward on the EU path, there is a strong risk that pre-accession assistance will not produce the expected results. Given that no solution has yet been found on the implementation of the Sejdic-Finci ruling and that the EU co-ordination mechanism has not been established, the same level of EU pre accession funds cannot be maintained.

The Commission has decided to postpone further discussions on IPA II until the country is back on track in the EU integration process. In the absence of tangible progress, Bosnia and Herzegovina risks losing significant IPA funds.

The EU is firmly committed to supporting Bosnia and Herzegovina and its citizens to fulfil their hopes and ambitions of making progress on their EU path. Further progress depends on the ability of the political leaders to work together and to agree on a

compromise that unlocks the path to the EU. Agreeing such a compromise will help renew the trust of citizens in the capacity of the leadership to deliver on EU integration. This would pave the way for the entry into force of the Stabilisation and Association Agreement and thereafter for a credible membership application.

While there has been limited progress in the overall reform of the judicial system, a number of recommendations issued by the Commission in the framework of the Structured Dialogue on Justice are being implemented. This dialogue shows the potential of the enlargement agenda and the benefits of effective engagement. Some progress was also made in reducing the backlog of war crimes cases. Thorough preparations at all levels, supported by the EU and other international organisations, also made it possible to carry out the long awaited census. The country is faced with major challenges, however. Increased attention is needed on the rule of law, including judicial reform and the fight against corruption and organised crime, public administration reform, freedom of expression, including to address intimidation of journalists, and on tackling discrimination, including of Roma. Further economic reforms are needed to improve the weak business environment and create a single economic space in the country.

Following Croatia's accession, the Commission finds it unacceptable that Bosnia and Herzegovina has to date refused to adapt the Interim Agreement/Stabilisation and Association Agreement to take into account its traditional trade with Croatia. The Commission calls on Bosnia and Herzegovina to revise its position urgently so that an adaptation based on traditional trade flows can be finalised as soon as possible.

16. **Kosovo:** 2013 has been a historic year for Kosovo on its path to the European Union. The decisions of the Council in June authorising the opening of negotiations for a Stabilisation and Association Agreement (SAA) represent the start of a significant new phase in EU-Kosovo relations. This is recognition for the progress made on key reforms and the substantial efforts made by Kosovo towards normalisation of its relations with Serbia. The negotiations on the Agreement will be formally opened this month. The Commission aims to complete these negotiations in spring 2014, to initial the draft agreement in summer and thereafter to submit the proposals for the Council to sign and conclude the Agreement.

Kosovo has actively and constructively worked towards a visible and sustainable improvement of relations with Serbia. In April, Kosovo's engagement in the EU-facilitated dialogue resulted in the landmark 'First agreement of principles governing the normalisation of relations' with Serbia (the First Agreement), which was complemented in May by an implementation plan. Implementation has continued and has already led to a number of irreversible changes on the ground. The parties also reached agreement on energy and on telecommunications. Kosovo needs to remain fully committed to the continued normalisation of relations with Serbia and implementation of all agreements reached in the dialogue. The Commission will provide additional IPA funds to help the implementation of the April agreement in the communities concerned.

The rule of law continues to be a key priority for Kosovo. It is also a cornerstone of the Stabilisation and Association Process of which Kosovo is a part. The Structured Dialogue on the Rule of Law will therefore continue to support and guide Kosovo in this area, including in the discussions on the future of the EU rule of law mission in Kosovo, EULEX. Kosovo continues to take measures to address the priorities set out in the visa road map and the Commission will report in the first half of 2014.

Kosovo now needs to focus on the implementation of the reforms to meet its obligations under a future SAA. Particular attention should be paid to tackling organised crime and corruption, pursuing judicial and public administration reforms, ensuring the rights of persons belonging to minorities – including the Roma - and addressing trade issues. Kosovo needs to urgently address unemployment and the structural weaknesses that affect its labour market.

The Commission also calls on all people eligible to vote to participate in the upcoming municipal elections in November. This is an important opportunity for the local community in northern Kosovo to assert its democratic rights and to play a full part in the future development of Kosovo. The Commission expects that the authorities will ensure that the elections are inclusive and fully respect democratic principles.

17. **Turkey** is a candidate country and a strategic partner for the European Union. Turkey, with its large, dynamic economy, is an important trading partner for the EU and a valuable component of EU competitiveness through the Customs Union. Turkey has a strategic location, including on energy security, and plays an important regional role. The Commission underlines the importance of ongoing cooperation and dialogue on foreign policy issues. The Positive Agenda, launched in 2012, continues to support and complement accession negotiations with Turkey but is not a substitute for negotiations. The full potential of the EU-Turkey relationship is best fulfilled within the framework of an active and credible accession process, where the EU remains the anchor for Turkey's economic and political reforms. More high level contacts between Turkey, the EU and its Member States would further strengthen cooperation.

Important progress on reforms has been made during the last twelve months. The fourth judicial reform package strengthens the protection of fundamental rights, including freedom of expression and the fight against impunity for cases of torture and ill-treatment. The government has started an historic peace process aimed at ending terrorism and violence in the Southeast of the country and paving the way for a solution of the Kurdish issue. Announced measures in the democratisation package presented in September 2013 foresee further reforms on a range of important issues, including the use of languages other than Turkish, rights of persons belonging to minorities and addressing the current high thresholds for representation in parliament and budget support to political parties. Implementation in cooperation with stakeholders and in line with European standards is key. The cross-party conciliation committee of the parliament, which was set up to draft a new constitution, has achieved agreement on a number of articles. With the adoption of a comprehensive law on foreigners and international protection, an important step has been taken towards adequate protection of asylum seekers. The Ombudsman Institution has been established and is already actively working to fulfil its role. Public debate on topics previously considered sensitive has grown. Turkey has also provided vital humanitarian assistance to large numbers of Syrians fleeing their country. Other positive developments include the ratification by Turkey of the Trans Anatolian Pipeline Agreement aimed at connecting with the Trans Adriatic Pipeline, bringing natural gas to the EU from the Caspian via Turkey.

The excessive use of force by police and the overall absence of dialogue during the protests in May/June have raised serious concerns. This underlines the urgent need for further reforms and the promotion of dialogue across the political spectrum and in society more broadly, as well as for respect of fundamental rights in practice. A number of administrative and judicial investigations have been launched into police conduct during the protests. These should be followed through in accordance with

European standards and those responsible brought to account. The Ministry of Interior has issued two circulars aimed at improving procedures for police interventions during demonstrations. It is important to proceed with plans to establish a law enforcement monitoring mechanism so as to ensure the independent supervision of police conduct. Further changes are needed in the Turkish legal system, especially to strengthen freedom of expression and of the media, and freedom of assembly and of association; judicial practice should systematically reflect European standards. The fourth judicial reform package should be implemented in full. The wave of protests in June is also the result of the broad democratic reform that has taken place in the past decade and the emergence of a vibrant and diverse civil society that needs to be respected and consulted more systematically at every level of decision making, irrespective of who holds the majority in parliament.

All of these developments underline the importance of EU engagement and of the EU remaining the benchmark for reform in Turkey. To this end, accession negotiations need to regain momentum, respecting the EU's commitments and established conditionality. In this regard, the opening of chapter 22 on regional policy represents an important step; the Commission looks forward to the IGC taking place at the earliest opportunity. Turkey has made progress in a number of other chapters. Turkey can accelerate the pace of negotiations by the fulfilment of benchmarks, meeting the requirements of the negotiating framework and by respecting its contractual obligations towards the EU.

Progress in the accession negotiations and progress in the political reforms in Turkey are two sides of the same coin. It is in the interest of both Turkey and the EU that the opening benchmarks for chapter 23: Judiciary and Fundamental rights and 24: Justice, Freedom and Security are agreed upon and communicated to Turkey as soon as possible with a view to enabling the opening of negotiations under these two chapters so as to enhance the EU's dialogue with Turkey in areas of vital mutual interest and to support ongoing reform efforts. The signature of the EU-Turkey readmission agreement and the simultaneous start of the visa dialogue towards visa liberalisation would give a new momentum to EU-Turkey relations and bring concrete benefits for both. It is important that these two processes move forward and that the signature and ratification of the readmission agreement in Turkey be swiftly finalised. Further strengthening of EU-Turkey energy cooperation and progress in the accession negotiations would facilitate the interconnection and integration of the energy markets of the EU and Turkey.

The Commission stresses all the sovereign rights of EU Member States which include, inter alia, entering into bilateral agreements, and to explore and exploit their natural resources in accordance with the EU *acquis* and international law, including the UN Convention on the Law of the Sea. In line with the repeated Council and Commission positions from previous years, it is now urgent that Turkey fulfils its obligation of fully implementing the Additional Protocol and makes progress towards normalisation of relations with the Republic of Cyprus. This could provide new momentum to the accession process, allowing in particular progress to be made on the eight chapters covered by the Council conclusions of December 2006. The Commission also urges the avoidance of any kind of threat, source of friction or action that could damage good neighbourly relations and the peaceful settlement of disputes. Turkey's commitment and contribution in concrete terms to a comprehensive settlement to the Cyprus issue is crucial.

18. As regards the **Cyprus issue**, the Commission expects the Greek Cypriot and Turkish Cypriot communities to resume fully-fledged negotiations on a comprehensive settlement under the auspices of the United Nations. The Commission expects both sides to quickly move into substance with the aim of swiftly reaching a successful conclusion. All parties are encouraged to contribute to establishing a positive climate between communities, through steps that benefit Cypriots in their daily lives, and to prepare the public for the necessary compromises. The Commission considers that the benefits of reunification will outweigh any concessions that may need to be made to this end. In particular, all Cypriots would fully profit from the exploitation of hydrocarbon resources. The Commission stands ready to further strengthen its support for the process, should the two parties request it and UN agree.

19. **Iceland:** Iceland had reached an advanced stage of accession negotiations when the new government decided to put the negotiations on hold, and the accession process has come to a standstill. The government has stated that it will undertake an assessment of the negotiations to date as well as on the developments in the European Union, which will be submitted to the Icelandic parliament for discussion in the coming months. The Commission has suspended preparatory work on IPA II. Under all circumstances, Iceland remains an important partner for the EU.

ANNEX

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

Montenegro

The opening of EU accession negotiations with Montenegro in June 2012 marked the beginning of a new and intensive phase for Montenegro on its path to the EU. The deep and lasting political reforms necessary to implement the new approach to chapter 23 on judiciary and fundamental rights and chapter 24 on justice, freedom and security will require strong political will and enhanced administrative capacity. The accession process needs to be inclusive, with strong involvement of civil society throughout.

During the reporting period Montenegro focused on the preparation of comprehensive action plans which will guide the country's reform process on the rule of law. In June, the government adopted these action plans, which constitute the opening benchmarks for chapters 23 and 24. Following the adoption of the action plans the Commission in August recommended the opening of these chapters and, in September, the Council invited Montenegro to submit its negotiating positions. Work is proceeding in line with the new approach to these chapters set out in the framework for negotiations with Montenegro.

Screening meetings for all negotiating chapters were completed at the end of June 2013. So far, negotiations on two chapters (science and research; education and culture) have been provisionally closed. Opening benchmarks have been set for six chapters (free movement of goods; right of establishment and freedom to provide services; competition policy; agriculture and rural development; food safety, veterinary and phytosanitary policy; regional policy and coordination of structural instruments).

Public administration reform is a priority to ensure Montenegro has the capacity to apply the acquis, to tackle politicisation and increase transparency and professionalism of the civil service. Events over the last months, in particular the alleged use of public funds for party political purposes, have highlighted the importance of strengthening citizens' trust in public institutions. In this context, it is important to ensure that investigations are completed thoroughly and rapidly and that any appropriate action is taken. Adequate follow-up of the work of the parliamentary group on the electoral process is also needed. Montenegro also needs to ensure an adequate follow-up to the long-standing OSCE/ODIHR recommendations on its election legislation and establish a clear, broadly-accepted delineation between public and party interests. Montenegro continues to sufficiently meet the **political criteria** for membership in the EU. Parliamentary and presidential elections of October 2012 and April 2013, respectively, have not altered the strategic priority given by the country to the objective of EU accession. While these elections were qualified by the OSCE/ODIHR as professionally and efficiently administered, some shortcomings were also identified. Non-recognition of presidential election results by the opposition resulted in a two-month boycott of parliament by the largest opposition group. The boycott was ended when a cross-party agreement was reached to form two parliamentary bodies to investigate allegations of abuse of public funds for election purposes and to draft recommendations to improve the electoral process. The parliamentary inquiry committee on the alleged misuse of public funds completed its work in July. The parliament failed to agree on conclusions that would, *inter alia*, establish political responsibility and limited itself to a technical report. Judicial follow-up remains to be ensured.

A working group on building trust in the electoral process has already adopted a draft law on a single voters' list, to replace the law on voters' register, as well as draft amendments to the law on personal identity cards. In the area of rule of law, parliament adopted the long awaited

amendments to the constitution on strengthening the independence of the judiciary, which are broadly in line with the recommendations of the Venice Commission.

Montenegro is actively involved in regional and international police and judicial co-operation. While some verdicts related to drug smuggling were issued, only a few cases referred to crimes such as trafficking in human beings and money laundering. Some first-instance convictions in cases of organised crime and corruption have been overturned. Impunity in relation to cases of ill-treatment of detainees remains a serious concern.

Montenegro has taken a leading role in promoting regional cooperation, notably through its proposal for the establishment of the 'Western Balkans Six' initiative.

As regards the International Criminal Court, Montenegro still maintains a 2007 bilateral immunity agreement with the United States, granting exemptions from the jurisdiction of the Court. Montenegro needs to align with the EU position.

Looking ahead, Montenegro needs to ensure the political and judicial follow-up to the alleged misuse of public funds for party political purposes. It also needs to carry through the work of the parliamentary group on the electoral process, by adopting legislative and other measures to broaden political support and enhance public trust in the electoral process and state institutions.

Enhancing public trust in the state is closely linked to further strengthening the rule of law. The effective and timely implementation of Montenegro´s action plans in these areas will therefore play a central role. Particular focus should be given to reforms improving the independence, accountability and professionalism of the judiciary, through reinforcing integrity safeguards, as well as merit-based appointments. The implementation of the constitutional amendments will play an important role in this regard. In parallel, Montenegro needs to develop its track record regarding the systematic investigation and prosecution of cases of corruption and organised crime, including high level cases, as well as regarding the imposition of sanctions that are commensurate to the gravity of the crimes committed.

Freedom of expression needs to be strengthened, including by properly investigating all cases of violence and threats against journalists and bringing perpetrators to justice. Increased attention is required to tackle the shortcomings in the protection of human rights by judicial and law enforcement authorities, especially as regards vulnerable groups. Roma face discrimination, especially in terms of social and economic rights, and remain under-represented at political level. Lesbian, gay, bisexual, transgender and intersex (LGBTI) activists are still exposed to discrimination, attacks are rarely reported and penalties still need to be reinforced.

The adoption of the plan for the reorganisation of the public sector and the entry into force of the new law on civil servants and state employees are positive steps. Fair and competitive recruitment of civil servants is a precondition to develop a professional administration. The undated resignation letters are an issue of concern and should be returned to the staff who signed them.

As regards the **economic criteria**, Montenegro has made some further progress towards a functioning market economy. The country should be able to cope with competitive pressures and market forces within the Union over the medium term, provided that it continues to address current weaknesses through appropriate macroeconomic policies and structural reforms.

After entering in recession in 2012, the country came out of recession in 2013. The resilience of tourism and foreign direct investments (FDI) together with an increase of electricity exports supported the recovery, compensating for a weak domestic demand. The current

account deficit is declining, but still remains very high. In July, the aluminium producer KAP was put into bankruptcy procedure, which represents a risk to public finances, in view of the considerable size of contingent liabilities. Unemployment remained very high. Credit growth turned positive after four years of contraction, but the high levels of non-performing loans still weigh on bank capitalisation and hence, on credit supply.

To cope with the existing economic challenges and to reduce external imbalances, Montenegro needs to strengthen competitiveness, by improving productivity and attracting further FDI into more sectors than tourism and real estate. The establishment of a sound business environment continues to be hampered by the weak rule of law and corruption. The high unemployment rate requires bridging the gap between supply and demand of labour skills and allowing more independent wage setting at company level. It also requires the strengthening of the public employment service in order to implement the activation policies and establish an inclusive and efficient labour market. Authorities should consider objectively the viability of the aluminium conglomerate under market conditions and the best possible solution without exacerbating the pressure on public finances. The path of fiscal consolidation should be continued, including efforts to collect tax arrears. The high level of non-performing loans remains a matter of concern and calls for a reinforced banking supervision enforcing adequate provisioning. The informal sector remains an important challenge.

As regards the **ability to take on the obligations of EU membership**, Montenegro is at varying degrees of alignment. Strengthening of administrative capacities is a cross-cutting challenge in many areas. In chapters such as public procurement, company law, intellectual property law, information society and media, taxation, and enterprise and industrial policy, Montenegro is sufficiently advanced for the Commission to have recommended the opening of accession negotiations.

In other areas, such as free movement of goods; right of establishment and freedom to provide services; agriculture and rural development; food safety, veterinary and phytosanitary policy; and regional policy and coordination of structural instruments, opening benchmarks – often including strategies for alignment with the *acquis* – have been set. These benchmarks should now guide Montenegro's work in the coming months. For the competition policy chapter, elaborating a restructuring plan for the aluminium producer KAP is particularly urgent, in order to bring Montenegro in line with its obligations under the Stabilisation and Association Agreement. In the area of environment and climate change, considerable efforts, including more strategic planning, are needed to ensure alignment and implementation of the *acquis*.

Serbia

2013 has been a historic year for Serbia on its path to the European Union. Serbia has actively and constructively worked towards a visible and sustainable improvement of relations with Kosovo. In April, Serbia's engagement in the EU-facilitated dialogue resulted in the landmark *'First agreement of principles governing the normalisation of relations'* (the First Agreement), which was complemented in May by an implementation plan. The two parties have in particular agreed that neither side will block, or encourage others to block the other side's progress on their respective EU paths. This represents a fundamental change in the relations between the two sides. Implementation of the First Agreement has continued and has already led to a number of irreversible changes on the ground. The parties have reached agreements on energy and on telecommunications. There has also been progress in the implementation of agreements reached in the technical dialogue and Serbia's cooperation with EULEX has continued to improve in a number of areas.

Serbia has reinvigorated the momentum of reforms and has stepped up high-level contacts with neighbouring countries in an effort to ensure a positive contribution to regional cooperation. Serbia has taken some steps to consolidate its fiscal situation and to improve the

business environment. It continued aligning its legislation to the requirements of the EU legislation in many fields, which are now monitored within the National Plan for the Adoption of the Acquis for the period 2013-2016. The Stabilisation and Association Agreement between the EU and Serbia entered into force on 1 September.

As a result of the significant progress achieved, a new phase has been opened in relations between Serbia and the European Union. The European Council decided to open accession negotiations on 28 June, following the Commission's recommendation of 22 April. The Commission submitted its proposal for a framework for negotiations to the Council on 22 July. The Commission also started the analytical examination of the EU *acquis* ('screening') in September. The negotiating framework is due to be adopted by the Council soon and confirmed by the European Council with a view of holding the first inter-governmental conference on Serbia's accession in January 2014 at the very latest.

In this new, demanding phase of EU-Serbia relations, Serbia will need to further intensify its efforts to achieve full compliance with all membership criteria. It will also be crucial to communicate regularly on the benefits and opportunities the accession process creates for all citizens in Serbia, all the way to accession.

Among the key challenges it faces, Serbia will need to pay particular attention to the key areas of rule of law, particularly the reform of the judiciary, fight against corruption and fight against organised crime, public administration reform, independence of key institutions, media freedom, anti-discrimination and protection of minorities.

Serbia needs to remain fully committed to the continued normalisation of relations with Kosovo and implementation of all agreements reached in the dialogue, including by cooperating with EULEX as appropriate. Serbia needs to complete the implementation of the First Agreement in particular on police, justice and municipal elections in Kosovo. It is important that Serbia continues to encourage wide participation of Kosovo Serbs in the forthcoming local elections in Kosovo. Full application of the principle of inclusive regional cooperation remains notably to be ensured, including by avoiding problems such as the one encountered with the summit of the South East European Cooperation Process (SEECP). Serbia will be expected to continue to make an active contribution to regional cooperation and reconciliation.

Serbia sufficiently fulfils the **political criteria**. The government has actively pursued the EU integration agenda, demonstrating consensus in key policy decisions and enhancing the consultation process. Parliament has improved the transparency of its work, the consultation process on legislation as well as its oversight of the executive. However, parliament still often applies urgent procedures, which unduly limits time and debate for scrutiny of draft legislation.

Serbia has paid particular attention to the improvement of the rule of law, which will be a key issue, in line with the new approach on Chapters 23 (judiciary and fundamental rights) and 24 (justice, freedom and security). Serbia adopted comprehensive new strategies in the key areas of judiciary, fight against corruption and anti-discrimination following an extensive consultation process. There was a visible proactive approach to investigations in the fight against corruption, including in high-level cases. Regional and international cooperation has also led to some results in the fight against organised crime. Criminal investigations have been launched in a number of cases but final convictions remain rare in these areas. Serbia also continued to fully cooperate with the International Criminal Tribunal for the Former Yugoslavia (ICTY).

As regards freedom of expression, defamation has been decriminalised. In line with earlier commitments on Roma inclusion, measures have been implemented and a new action plan has

been adopted. The legal framework for the protection of minorities remains generally respected but its consistent implementation throughout Serbia remains to be built-up, in areas such as education, use of language, and access to media and religious services in minority language. While some additional efforts were made by the authorities and independent institutions on the protection of other vulnerable groups, in particular of the lesbian, gay, bisexual, transgender and intersex (LGBTI) population, sufficient political support is lacking. It was in particular regrettable that the pride parade was banned for the third year in a row on security grounds; this was a missed opportunity to demonstrate respect for fundamental rights.

Looking ahead, Serbia will have to pay particular attention to strengthening the independence of key institutions and notably the judiciary. The constitutional and legislative framework still leaves room for undue political influence, especially when it comes to the role of parliament in judicial appointments and dismissals. Further reforms will require a comprehensive functional analysis of the judiciary in terms of cost, efficiency and access to justice. Serbia's track record in effectively investigating, prosecuting and convicting perpetrators of corruption and organised crime remains to be seriously strengthened. The implementation of recent changes to the legislation on 'abuse of office' should be carefully monitored with a view to a comprehensive review of economic crimes. Effective legislation for the protection of whistle-blowers needs to be set-up. The effective implementation of the strategies and action plans in the fields of judiciary and anti-corruption will test Serbia's preparedness and willingness to move forward. Those strategic documents may require adjustments further to the screening exercise.

The government also needs to enhance its steer in the area of public administration reform and further develop a transparent, merit-based civil service system. The legal framework for the civil service at the local level remains to be properly applied and developed.

Further attention needs to be given to freedom of the media. Serbia needs now to move forward the implementation of the media strategy starting with the adoption of the expected legislation on public information and the media, on public service broadcasters and on electronic communications. The direct state financing and control of media as well as the sustainability of public broadcasters remain key issues to be addressed. The action plan of the anti-discrimination strategy needs to be adopted and implemented. Authorities need to enhance the protection of media, human right defenders and other vulnerable groups, including LGBTI population, from threats and attacks from radical groups. Recent progress to improve the situation of minorities, including the Roma, needs to be further built up over time including with additional financial resources. The issue of housing and access to documents for Roma needs continued attention. More attention needs to be given to regions facing severe socio-economic conditions, in particular in the South and East of Serbia. The elections to the National Minority Councils in 2014 will provide a good opportunity for Serbia to reaffirm its commitment to the protection of minorities. The electoral process will have to be carefully conducted, taking into account past recommendations from independent institutions.

It will be important that Serbia continues to make an active contribution to regional cooperation and further develops its ties with neighbouring countries, including by addressing outstanding bilateral issues.

As regards the **economic criteria**, Serbia has made some progress towards establishing a functioning market economy. Serbia needs to make significant efforts in restructuring its economy so as to cope in the medium-term with the competitive pressures and market forces within the Union.

In 2012, Serbia went through another recession and the economy contracted by 1.7%. High exports growth has softened the effects of depressed domestic demand and led to a mild and uneven recovery in the first half of 2013. A series of fiscal consolidation efforts were taken

mostly on the revenue side. The process of restructuring state-owned enterprises was revived. Some progress has been made with regards to fighting corruption and improving property rights.

Growth remains narrowly based and the first signs of economic recovery in 2013 did not spill over to the labour market. Unemployment and the budget deficit remain very high. Rigidities persisted on the labour market and sustainable employment creation represents a major challenge. The adoption of a credible medium-term fiscal adjustment programme is still lacking. State presence in the economy is significant and state-owned companies continued to accumulate big losses. Serbia needs to continue improving the business environment and should make strong efforts to develop a competitive private sector. The functioning of market mechanisms is hampered by legal uncertainty and corruption. The informal sector remains an important challenge.

As regards its **ability to take on the obligations of membership**, Serbia has continued aligning its legislation to the requirements of the EU legislation in many fields, efforts which were underpinned by the adoption of a National Plan for the Adoption of the *acquis*. Good progress has been registered in public procurement with the adoption of a new Law on Public Procurement which provides for further alignment with the EU *acquis* and includes improved provisions on the prevention of corruption. The issue of the central bank's independence has been partly addressed with amendments to the law. Two new laws were adopted in the fields of corporate accounting and auditing, aiming at further alignment in the area of company law. The institutional framework for SME policy and SMEs access to finance improved. Measures taken to improve the business environment, in particular on the business impact assessment for new legislation, are a welcome development. The population and agriculture censuses have been finalised successfully. However, the changes to the law on copyright regarding fee collection and exemptions constitute a step backwards in the alignment to the EU *acquis*.

Looking ahead, Serbia should redouble its efforts to align with the EU *acquis* with particular attention to the effective implementation of adopted legislation. In particular, Serbia will need to intensify efforts towards alignment in the fields of water, waste management, air quality and nature protection and towards market opening, unbundling and cost reflective tariffs in the energy sector. Further efforts are also needed in the areas of state aid control, where the independence of the Commission for State Aid Control needs to be further established and the exemption of enterprises under privatisation from state aid rules need to be repealed. Social protection systems, labour relations and social dialogue need to be substantially strengthened, notably at the tripartite level of social dialogue. The GMO law needs to be aligned with EU legislation to enable WTO accession. Substantial further efforts are needed to develop public-sector financial management and control based on the underlying concept of managerial accountability and to develop full external audit capacity.

The Interim Agreement (IA) of the Stabilisation and Association Agreement (SAA) continued to be smoothly implemented.

The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia was the first country to sign a Stabilisation and Association Agreement with the EU, in 2001. It has been a candidate country for eight years, since the Commission's positive Opinion in November 2005 and the Council's decision in December 2005. Since 2009, the Commission has assessed that the country sufficiently meets the political criteria and recommended the opening of negotiations. The Commission has also recommended, since 2009, that the second stage of the association, under the Stabilisation and Association Agreement, should begin. No decision has been taken by the Council in either case. Twenty years after the country's entry into the United Nations, a solution to the name issue should be found without further delay.

In the absence of the negotiation process, the main *fora* for discussion and monitoring of reforms are the bodies established under the SAA as well as the High Level Accession Dialogue (HLAD) established in 2012. The HLAD has contributed to progress in most priority areas. The progress being made under HLAD will stand the country in good stead when negotiations begin. However it is not, and cannot be, a substitute for moving to the opening of accession negotiations.

The political crisis which followed events in parliament late last year exposed deep divisions among political parties, affecting the functioning of parliament and demonstrated the need for constructive politics in the national interest. During the adoption of the 2013 budget, the forcible removal of opposition MPs and journalists from the parliament chamber resulted in the largest opposition grouping boycotting parliament and threatening a boycott of the local elections. The protracted stalemate was resolved through the implementation of the 1 March political agreement. This involved a return to parliament by opposition MPs, participation in the municipal elections, forward-looking recommendations by a Committee of Inquiry, the signature of a cross-party Memorandum of Understanding on the country's strategic Euro-Atlantic objectives and further work on electoral reforms. The relaunch of the dialogue between government and journalists remains outstanding. The consensus on the report of the Committee of Inquiry showed that constructive solutions can be found, with political will, through dialogue and compromise. The recommendations of the Committee of Inquiry need to be implemented in full.

Overall, the country continues to sufficiently meet the **political criteria**. The municipal elections in March / April 2013 were assessed by the OSCE/ODIHR as professionally and efficiently administered while noting the blurring of the distinction between state and party and recommending further amendment of electoral legislation. The country completed the bulk of its judicial reforms between 2004 and 2010. Further progress has been made this year in the area of the efficiency of the judiciary. Progress has also been made with the establishment of comprehensive data on the anti-corruption enforcement track-record, which should be built on in future. On freedom of expression, progress on the media dialogue stalled following the expulsion of journalists from the parliament and despite developments on the legislative framework, the country's reputation on media freedom deteriorated. The closure of a number of media outlets in recent years has also reduced the diversity of different viewpoints available to citizens.

As the country has already reached a high level of alignment, relative to where it is in the accession process, the priority for the coming year should be the effective implementation and enforcement of existing legal and policy frameworks, similar to countries already engaged in accession negotiations.

In the area of the rule of law, the independence and competence of courts needs to be further enhanced and more focus placed on the quality of justice provided to the citizen. Corruption remains prevalent in many areas and continues to be a serious problem. The country needs to demonstrate the tangible impact of existing anti-corruption measures and to implement effectively measures to tackle organised crime. On freedom of expression, the high degree of polarisation of the media, often along political lines, hampers the development of objective reporting, places economic pressure on journalists and media owners (including through the opaque use of government advertising) and fosters poor professional standards. Dialogue between the government and media representatives needs to be re-established and produce concrete results in changing the media culture as well as establishing a climate of confidence-building and trust. The remaining ODIHR recommendations should be fully implemented. The Roma Strategy needs to be proactively implemented. More action is needed to denounce

intolerance e.g. *vis-à-vis* the lesbian, gay, bisexual, transgender and intersex (LGBTI) community.

It is also urgent that the review of the *Ohrid Framework Agreement*, particularly important for inter-community and inter-ethnic relations, be completed and that its recommendations be implemented. This, as well as continued decentralisation, a key element of the Agreement, will contribute to stability in the country and beyond.

The country generally maintains good relations with other enlargement countries and plays an active role in *regional cooperation*. A constructive approach to relations with neighbouring EU Member States remains important. Actions and statements which negatively impact on good neighbourly relations should be avoided.

In terms of the **economic criteria**, the country remains well advanced and, in some areas, has made further progress towards becoming a functioning market economy. The country should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it vigorously implements its reform programmes in order to reduce significant structural weaknesses.

Economic activity stagnated in 2012, with growth resuming in the first half of 2013. Against the background of a challenging external environment, macroeconomic stability was preserved. Unemployment remains very high, especially among young people. The rising deficit and public debt levels increased the country's vulnerability.

Measures need to be undertaken in order to address the underlying reasons for the high unemployment, in particular tackling the skills mismatch. The sustainability of public finances needs to be strengthened. Fiscal policy needs to be aligned with the country's structural reform priorities and oriented towards growth enhancing spending. The introduction of a medium term fiscal framework and strategic planning would contribute to strengthening fiscal discipline. Further efforts are needed to effectively implement public financial management, in order to ensure the most efficient and transparent use of public and EU resources. To secure more private sector investment, further efforts are needed to improve the business environment, which is negatively affected by corruption, as well as lengthy and costly market exit procedures. The informal sector remains an important challenge.

The country has deep and wide-ranging cooperation with the EU across all areas of the *acquis* and is at an advanced level of legislative alignment, at strategic and institutional level, with the focus now on administrative capacity and coordination mechanisms within the national administration to ensure effective implementation. The country has made further progress in improving its **ability to take on the obligations of membership**. The country continues to fulfil its commitments under the Stabilisation and Association Agreement (SAA), in advance of the tenth anniversary of the SAA's entry into force.

In the field of the internal market, a good level of legislative alignment has been achieved in the fields of capital movements, postal services and company law. In the area of justice and home affairs, the country is well advanced in its preparations on visa policy, external borders and Schengen, and police cooperation. On public administration reform, work should continue on implementing the principles of transparency, merit and equitable representation. Further efforts are needed particularly in the areas of regional policy, environment and climate change where the implementation of EU-funded projects needs to improve, as well as water quality, industrial pollution control and risk management. On social policy and employment, measures are needed to achieve an inclusive and efficient labour market. Public internal financial control needs to be strengthened and developed across the public administration. Overall, the country has achieved a level of alignment with the *acquis* sufficient to move to the next stage of the accession process.

Albania

Last October, the Commission recommended that the Council should grant Albania the status of a candidate country subject to the completion of key measures in the areas of judicial and public administration reform and revision of the parliamentary rules of procedure. In December 2012, with a view to deciding whether to grant candidate status, the Council invited the Commission to report as soon as the necessary progress had been achieved, also taking into account the further action taken by Albania to fight corruption and organised crime, including by proactive investigations and prosecutions of such cases. In this regard, Albania has adopted the remaining key judicial, public administration and parliamentary reform measures with cross-party consensus. The parliamentary elections in June were assessed by the international election observation mission led by OSCE/ODIHR as competitive with active citizen participation throughout the campaign and genuine respect for fundamental freedoms. In the fight against corruption and organised crime, Albania has taken initial steps towards improving the efficiency of investigations and prosecutions and strengthening cooperation between law enforcement bodies. The number of convictions in corruption and in money laundering cases has increased, as has the number of investigations into the trafficking of people and drugs. All of the Council of Europe's recent recommendations concerning financing of political parties and legal provisions on corruption have been satisfactorily addressed. The new government in Albania has made a strong commitment to fighting corruption and has prioritised this issue in its programme.

Further to the Commission's 2010 Opinion, Albania needs to meet the following key priorities for the opening of accession negotiations. Albania will need to 1) continue to implement public administration reform with a view to enhancing professionalism and depoliticisation of public administration; 2) take further action to reinforce the independence, efficiency and accountability of judicial institutions; 3) make further determined efforts in the fight against corruption, including towards establishing a solid track record of proactive investigations, prosecutions and convictions; 4) make further determined efforts in the fight against organised crime, including towards establishing a solid track record of proactive investigations, prosecutions and convictions; 5) take effective measures to reinforce the protection of human rights, including of Roma, and anti-discrimination policies, as well as implement property rights.

Constructive and sustainable dialogue between the government and the opposition on EU-related reforms will be vital in securing Albania's EU future. Albania's constructive engagement in regional cooperation remains essential.

Albania has made further progress towards fulfilling the **political criteria** for membership of the EU. The ruling majority and opposition cooperated to adopt a number of legal instruments in parliament. This includes the adoption of the Law on Civil Service, the Law on the High Court and the Parliament's Rules of Procedure and a set of amendments to the Criminal Code and the Civil Procedure Code.

While the process leading up to the June 23 parliamentary elections was marked by tensions, jeopardising at times the work of election administration bodies, the elections were competitive and conducted in an overall orderly manner, with a high voter turnout. Albania made further progress regarding public administration reform, in particular through the adoption of the Law on Civil Service.

Further steps have been taken to reform the judiciary, including streamlining of the court system. Improved working methods of anti-corruption bodies, an increase in convictions and better inter-institutional cooperation resulted in some progress in the fight against corruption, providing an initial track record of results, which needs to be strengthened. Better monitoring and transparency in key areas, such as property registration, customs, higher education and

health, testify to increased prevention awareness. The Council of Europe's recommendations on financing of political parties and legal provisions on corruption have been addressed. However, corruption remains a particularly serious problem which will require determination and concerted efforts to address. Regarding organised crime, international police cooperation has improved, as has the use of threat analysis; seizures of drugs and criminal assets have increased. The Council of Europe's recommendations on the fight against money laundering have been fulfilled. Important Criminal Code amendments addressed trafficking in human beings and other serious offences.

In the field of human rights, freedom of assembly and association, as well as freedom of thought, conscience and religion, has generally been respected. In the field of anti-discrimination progress was made, for instance through the action plan on the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) persons. In the area of freedom of expression, the Law on Audio-Visual Media substantially improved the legislative framework for audio-visual media in Albania.

Looking ahead, Albania needs to accelerate the reform of the judiciary. The judiciary's institutional and legal set-up should be reviewed and strengthened. To ensure the independence, transparency, accountability and efficiency of the judiciary, essential legislation remains to be finalised or adopted, including constitutional amendments to depoliticise appointments to the High Court. Recently adopted legislation has to be effectively implemented with the full support of both the politicians and the judicial profession.

Moreover, Albania needs to pay particular attention to the implementation of public administration reform, in particular regarding structural laws and administrative acts. Secondary legislation on the new Civil Service Law needs to be adopted and implemented swiftly. Continuity in the public administration has to be ensured and professionalism, de-politicisation and accountability need to be enhanced.

Targeted measures in the fight against corruption will be necessary, including through empowering a central coordinating body with the necessary authority and capacities as well as strong political support. The prevention and repression capacity and independence of law enforcement institutions need to be enhanced. The proper follow up of independent institutions' reports by the parliament needs to be ensured.

The track record of effective investigations and prosecutions of organized crime also needs to be further developed, building on the initial results. Further efforts are necessary to conclude amendments to the Criminal Procedure Code and to effectively expand the use of threat assessment, intelligence exchange and targeted, proactive investigations. A more proactive approach is also required as regards investigating unexplained wealth and suspicions of money laundering.

In the field of human rights, the drafting of new legislation and implementation of existing legislation should be priorities, with a clear focus on the rights of persons with disabilities, children's rights and Roma inclusion. As concerns freedom of expression, additional efforts are required to fully guarantee the independence of the media regulatory authority.

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

Albania has maintained macroeconomic stability. GDP growth decelerated but remained positive mainly due to external demand. Low inflation created room for monetary policy easing to stimulate growth, but its transmission to the real economy is yet to be seen, as credit growth slowed amid high and rising non-performing loans. The budget deficit remains high

and public debt increased further, leading to the statutory debt ceiling of 60% of GDP being breached and abolished. There was a slight improvement in the labour market but unemployment remains high. The current account deficit has narrowed but remains large. The economy remains vulnerable to both domestic structural weaknesses and global economic volatility.

Albania needs to complement stability-oriented fiscal and monetary policies with structural reforms to ensure long-term sustainable economic growth. Albania will have to address the high levels of budget deficit and public debt and its short term bias. Moreover, it will need to improve fiscal predictability by reducing the recurrent overestimation of revenues and by collecting taxes more efficiently. Improving the business and investment environment is essential for diversifying the economy and boosting its long-term growth potential. This could, inter alia, be achieved by reinforcing the rule of law, tackling corruption and addressing payment arrears, as well as developing infrastructure and enhancing human capital. The informal sector remains an important challenge.

The Stabilisation and Association Agreement (SAA) continued to be overall smoothly implemented and Albania continued aligning its legislation to the requirements of the EU legislation in a number of areas, enhancing its **ability to take on the obligations of membership**. Improvements were made in areas such as public procurement, statistics, justice, freedom and security, and customs. Albania needs to make additional efforts to ensure effective enforcement of intellectual and industrial property rights, and pay particular attention to the energy sector, including the diversification of energy sources, the functioning of the electricity market, addressing concerns over network losses and low bill collection rates. It also needs to address the issue of VAT refunds with determination, including as regards existing backlogs, and to reinforce environmental protection including through sustainable investments in the field of waste management and waste water. Further efforts are needed in the fields of employment and social policy. The administrative capacity and professionalism of bodies charged with the implementation of the *acquis* needs to be strengthened and the independence of regulatory bodies safeguarded. In several *acquis* areas, in particular public procurement and financial control, it is important to enhance transparency and accountability.

Bosnia and Herzegovina

Bosnia and Herzegovina is at a standstill in the European integration process while other countries in the region are moving ahead. The Stabilisation and Association Agreement (SAA) was signed in 2008 and the ratification process was completed in 2011. The SAA has not yet entered into force because the country has not met the remaining requirements, notably a credible effort in implementing the European Court of Human Rights judgement in the Sejdic-Finci case regarding discrimination against citizens on the grounds of ethnicity. Therefore, the EU relations with Bosnia and Herzegovina are still governed by the Interim Agreement (IA) of 2008.

The political representatives do not share a vision on the overall direction and future of the country or on how it should function. There is no thorough internal political dialogue on fundamental issues such as the EU integration process nor any priority-setting related to it. The EU agenda has not been a priority for the political representatives of the country resulting in no progress in its European perspective. Short-term party or ethnic interests have been prevailing over a future-oriented policy of anchoring Bosnia and Herzegovina in the EU. The political deadlock in the Federation, which has been ongoing for more than one year, has a negative impact on the governance both in the Federation and at the State level. There is continued questioning by certain political players of the unity of Bosnia and Herzegovina as a single State.

The two key commitments in the 2012 Roadmap on the country's EU membership application, notably the actual implementation of the Sejdic-Finci judgement and the establishment of an effective coordination mechanism on EU matters, have not been met. The EU has engaged in intensive facilitation efforts to help Bosnia and Herzegovina's political leaders to find common ground for implementing the Sejdic-Finci judgement, but they could not agree on a solution.

Addressing this judgement is not only crucial for the country to advance on the EU path but also for the legitimacy and credibility of the Presidency and the House of Peoples of Bosnia and Herzegovina, which are to be elected in 2014. It would unlock the EU accession process, which is vital for Bosnia and Herzegovina's evolution from a post-conflict country to becoming an EU Member State in the future. Without political courage and determination, the European perspective of Bosnia and Herzegovina will not materialise.

Equally urgent and important is the establishment of a co-ordination mechanism on EU matters between various levels of government. In a highly decentralised country like Bosnia and Herzegovina, such a mechanism is of crucial importance in order for the respective representative from Bosnia and Herzegovina to be able to speak on behalf of the whole country and to commit it when interacting with the EU. It is for the country to develop urgently a mechanism complying with this basic requirement.

It is becoming increasingly difficult to justify providing pre-accession funds to a country whose political representatives are not willing to reach the consensus necessary to move forward on the pre-accession path. Without this consensus, there is a strong risk that pre-accession assistance will not produce the expected results. Given that no solution has yet been found on the implementation of the Sejdic-Finci ruling and the EU coordination mechanism has not been established, the same level of funding under the Instrument for Pre-accession Assistance (IPA) cannot be maintained. The Commission has decided to postpone further discussions on IPA II until the country is back on track in the EU integration process. In the absence of tangible progress, Bosnia and Herzegovina risks losing significant pre-accession funds.

The country's preparations for adapting to Croatia's accession have been slow but the necessary agreements related to crossing of persons and goods at the border with Croatia were signed in time before 1 July. The Commission finds it unacceptable that Bosnia and Herzegovina has to date refused to adapt the IA/SAA to take into account its traditional trade with Croatia. The Commission calls on Bosnia and Herzegovina to revise its position urgently so that an adaptation based on traditional trade flows can be finalised as soon as possible.

The country has made very limited progress in addressing the **political criteria**. Having not implemented the Sejdic-Finci ruling, the country has not yet ended the discriminatory practice whereby citizens of Bosnia and Herzegovina not declaring themselves as belonging to one of the three Constituent Peoples are prevented to run for the Presidency and/or the House of Peoples of Bosnia and Herzegovina. Legislative processes in general remain extremely slow, due to the lack of political will to reach compromises. The frequent use of the urgent procedure to introduce laws in the Parliamentary assembly of Bosnia and Herzegovina resulted in extensive use of the Vital National Interest procedure. Due to the lack of political agreement, legislation was often blocked by using the Entity veto.

There is still a high level of corruption, effective prevention measures against money laundering are lacking, and limited progress has been made in the fight against organised crime and terrorism. While there has been limited progress in the overall reform of the judicial system, a number of recommendations issued by the Commission in the framework of the Structured Dialogue on Justice are being implemented: in the field of war crimes processing, the determination of jurisdiction for cases has advanced significantly in

accordance with the National War Crimes Strategy and with the allocation of the adequate financial and human resources from the relevant budgets and major contributions from IPA. The backlog of cases has reduced. The conclusion of the Protocols on Cooperation in Prosecution of Perpetrators of War crimes, Crimes against Humanity and Genocide with both Croatia and Serbia is promising. Overall, there are still serious shortcomings as regards the independence, effectiveness, accountability and impartiality of the judiciary in Bosnia and Herzegovina.

The implementation of the existing human rights instruments, including those protecting lesbian, gay, bisexual, transgender and intersex (LGBTI) persons from violence and hate speech as well as the implementation of Roma action plans, remains limited. Legislative gaps still hamper sustainable return and local integration of refugees and internally displaced persons. Legal provisions guaranteeing freedom of expression are in place, yet intimidation of journalists and editors remain an issue of concern as do financial pressures on public broadcasters. Bosnia and Herzegovina has continued to participate actively in regional cooperation and to maintain good neighbourly relations. Remaining border and property issues with neighbouring countries need to be addressed.

Thorough preparations at all levels, supported by the EU and other international organisations, have made it possible to carry out the long-expected population census in Bosnia and Herzegovina, the first since 1991.

As regards the **economic criteria**, Bosnia and Herzegovina has made little further progress towards a functioning market economy. Considerable further reform efforts need to be pursued with determination to enable the country to cope over the long-term with competitive pressure and market forces within the Union.

The economy contracted by 1.1% in 2012. However, indicators for the first half of 2013 show some signs of recovery. Unemployment is still very high. The quality of public finances remained low, even though public finance management was somewhat strengthened. Despite some slight improvement, consensus on economic and fiscal policy essentials remains weak, thus impeding reforms at the country level. The large and inefficient public sector with multiple overlapping competences on state, entity and municipal or cantonal level (especially in the Federation) continues to impose risk for fiscal sustainability. An inefficient legal and judicial system hampers enforcement capacity and is a clear deterrent for investment and a source of corruption.

The composition and the low efficiency of public spending in Bosnia and Herzegovina remain a concern. In this context, fiscal reporting needs to be further improved in order to increase the quality of analysis and policy design. Structural rigidities such as the excessive labour taxation and poorly targeted social transfers would require measures to spur labour demand. Authorities in the Federation should proceed with development of the pension reform. Given the high share of public companies in the economy, the authorities should reinvigorate privatisation, which has the potential to improve the fiscal situation and bring about more competition. The private sector needs to be supported by a sound business environment, most notably by improving contract enforcement and establishing a single economic space in the country. The informal sector remains an important challenge.

The lack of genuine political support for the EU agenda is reflected in very limited progress also as regards **approximation to EU laws and standards**. This concerns in particular the fields of veterinary and food safety; competition; public procurement; energy; environment and climate change; transport; employment and social policies. In other areas, such as rural development or regional policy, there is little progress due to the lack of agreement on the relevant country-wide strategies. In a number of cases appointments for important bodies need to be made. Failure to do so is hampering the legislative progress. Other institutions such as

the State Aid Council have been suffering from the lack of financial resources and could therefore not function properly so far. One of the few positive exceptions is the area of intellectual, industrial and commercial property rights where preparations to align with EU standards are advanced.

In order for Bosnia and Herzegovina to be able to export products of animal origin to the EU it is necessary to advance rapidly with the transposition of the EU's veterinary and food safety legislation. Bosnia and Herzegovina is the only country in the region which has not aligned its legislation with the 2004 EU directives on public procurement. It needs to do so as a matter of urgency. The country needs to maintain consistent efforts for a sustainable implementation of all reforms introduced under the visa liberalisation roadmap, also regarding the broader measures at the borders aimed at strengthening national and regional security. Activities related to preventing abuses of the visa-free regime need to continue.

Kosovo

2013 has been a historic year for Kosovo on its path to the European Union. The decisions of the Council in June authorising the opening of negotiations for a Stabilisation and Association Agreement (SAA) represent the start of a significant new phase in EU-Kosovo relations. The negotiations will be formally opened this month. The Commission aims to complete these negotiations in spring 2014, to initial the draft agreement in summer and thereafter to submit the proposals for the Council to sign and conclude the agreement.

Kosovo has actively and constructively worked towards a visible and sustainable improvement of *relations with Serbia*. In April, Kosovo's engagement in the EU-facilitated dialogue resulted in the landmark *'First agreement of principles governing the normalisation of relations'* with Serbia (the First Agreement), which was complemented in May by an implementation plan. The two parties have in particular agreed that neither side will block or encourage others to block the other side's progress on their respective EU paths. This represents a fundamental change in relations between the two sides. Implementation of the First Agreement has continued and has already led to a number of irreversible changes on the ground. The parties have reached agreement on energy and on telecommunications. There has also been progress in the implementation of agreements reached in the technical dialogue, with the support of the EU rule of law mission EULEX. Kosovo needs to remain fully committed to the continued normalisation of relations with Serbia and implementation of all agreements reached in the dialogue. Kosovo needs to complete the implementation of the First Agreement in particular on police, justice and municipal elections.

The First Agreement has been met with resistance in *northern Kosovo*. Pristina's restraint and inclusive approach, together with the positive role played by Belgrade, have prevented escalation. Following the First Agreement, Serbian police stations operating in northern Kosovo have been closed; salary payments from Serbia to police officers employed by Kosovo have ceased; Serbian courts have stopped processing criminal cases in Kosovo; and municipal assemblies in the four northern municipalities have been dissolved. The municipal elections scheduled for November are also to take place in northern Kosovo. It is important that these elections are held in an orderly manner and that all people eligible to vote participate and exercise their democratic rights. On 19 September, one member of EULEX was killed in an attack on an EULEX convoy in northern Kosovo. The leadership of both Kosovo and Serbia condemned the attack in the strongest terms.

Kosovo has delivered on important policy *reforms*. In April, the Commission and the High Representative of the Union for Foreign Affairs and Security Policy confirmed[1] that Kosovo had met the short-term priorities on the rule of law, public administration, protection of

[1] JOIN(2013) 8 final

minorities and trade as identified in the feasibility study[2] of October last year. In April, the Commission also issued its recommendation to the Council to sign and conclude a framework agreement allowing Kosovo to participate in European Union programmes.

In December, Kosovo became a member of the European Bank for Reconstruction and Development. In June, Kosovo signed a framework agreement with the European Investment Bank and the Council of Europe Development Bank agreed for Kosovo to join. In February, the Regional Cooperation Council decided to amend its statute to allow Kosovo to become a participant in its own right.

The *visa liberalisation* dialogue has remained very high on Kosovo's political agenda. Pristina has made efforts to ensure progress. In February, the Commission adopted its first report on Kosovo's fulfilment of requirements of the visa liberalisation roadmap.[3] Kosovo adopted its visa liberalisation action plan in April. To date, three meetings of senior officials have taken place. In close cooperation with the Commission, the EU Office in Pristina and EULEX, Kosovo has made progress in amending legislation as recommended in the report. Further efforts in this respect are needed. Kosovo needs also to focus on implementation of the legislation.

Broad political consensus on Kosovo's European perspective has been instrumental to the momentum of the approximation process. The National Council on European Integration has also pursued this objective. It is important that this consensus is maintained and broadened further. These efforts should prove a key contribution to the negotiations on the Stabilisation and Association Agreement.

The Commission's feasibility study sets out the priority areas that Kosovo needs to focus on to meet its obligations under a Stabilisation and Association Agreement. These are the rule of law, the judiciary, public administration, electoral reform and the Assembly, human and fundamental rights, protection of minorities, trade and internal market issues, and phytosanitary and veterinary issues.

In the context of the **political criteria**, the Kosovo government has increased its capacity to address priorities of the European integration process. It has demonstrated this capacity by its follow-up to the short-term priorities of the feasibility study and the preparations for the negotiations of the Stabilisation and Association Agreement. Steps have also been taken to improve the Assembly's oversight of the government's work. However, the decision of the Assembly to debate the outcome of a judicial case was a setback to Kosovo's efforts to strengthen its institutions of democratic governance.

Kosovo has demonstrated a commitment to deliver results in the fight against organised crime and corruption, including launching investigations and strengthening the legislative framework. First steps have been taken to produce harmonised statistics in this area. Kosovo has also continued its good cooperation with EULEX. The judicial system underwent important reform. Its coherent implementation will be essential for bringing further positive changes and will need to be closely monitored. In January, the laws on courts and on prosecution entered into force, introducing new court and prosecution structures. The new legal framework is expected to contribute to the independence, effectiveness, accountability and impartiality of the judicial system. Kosovo has also continued the readmission of persons from Member States.

Following feasibility study recommendations, the Assembly has modified the articles of the Criminal Code on criminal liability of the media and the protection of journalists' sources.

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2 COM(2012) 602 final

3 COM(2013) 66 final

The Implementation Monitoring Council, which brings Kosovo authorities and the Serbian Orthodox Church together, has been established and functions well. Public broadcasting in the Serbian language has also started. A new Language Commissioner was appointed and his office has started to perform its functions. The budget and staff of the Ombudsperson have increased so that this institution can now deliver on its role as protector of good governance and human rights in Kosovo.

Kosovo still needs to ensure that *electoral reform* is completed and the legal framework reflects best practice in the EU. The *Assembly* needs to enhance its oversight of the executive by improved scrutiny of draft legislation and by monitoring the implementation of policies and laws. The government needs to ensure adequate participation in the work of the Assembly. Financial independence of the Assembly has improved, but further steps are needed (for example improving rules of procedure and legislation on the Assembly) to enhance the financial and administrative independence of the Assembly.

On the *rule of law*, Kosovo needs to provide concrete evidence of results in fighting organised crime and corruption as a matter of priority, and strengthen legislation and its implementation. Kosovo needs to improve further the reliability of statistics in these areas. Kosovo needs to actively support EULEX in the implementation of its mandate, including the Special Investigative Task Force. Kosovo is progressively taking on increasing responsibilities from EULEX. The Structured Dialogue on the Rule of Law is an essential forum for Kosovo and the EU to review progress in this regard.

Political interference in the work of the *judiciary* remains a serious concern. The Judicial and Prosecutorial Councils need to strongly respond to attacks against judges, prosecutors and the judicial institutions. The Assembly and the government need to do the same. Appropriate security and protection measures for judges and court staff, as well as prosecutors, witnesses and plaintiffs, are necessary. Kosovo needs to take further measures to reduce the total backlog of cases, including the enforcement of court rulings, and ensure trials are conducted in appropriate premises and in line with court procedures. The recruitment of judges and prosecutors from minorities in accordance with the legislative framework needs to continue. Kosovo needs to ensure that the special prosecution responsible for cases of organised crime, war crimes and corruption maintains its competencies.

As concerns *public administration*, Kosovo needs to focus on the implementation of legislation, the strategy and the action plan, which requires strong political guidance. The professionalism of the civil service needs to be enhanced, and the persons belonging to minorities need to be well represented in line with the legislation. Political interference with recruitment and appointment of public employees needs to stop. In the area of *human and fundamental rights*, the complex and overlapping institutional set-up for their promotion and protection needs to be simplified. More efforts are needed in investigating and prosecuting physical attacks against journalists. The same applies to violent incidents against the lesbian, gay, bisexual, transgender and intersex (LGBTI) community. Progress is also needed in enforcing property rights, for example through decreasing the backlog of cases and improving enforcement of judicial and administrative decisions. Personal data protection legislation needs to be better enforced. The Assembly needs to design a sustainable long-term funding mechanism for the public broadcaster; appointments to its board still need to be completed.

On the *protection of minorities*, legislation on cultural heritage and the Serbian Orthodox Church needs to be implemented. Local authorities need to be further supported to continue the process of decentralisation. The strategy and action plan for the Roma, Ashkali and Egyptian communities need to be implemented vigorously, as the situation of these minorities on the ground remains a major concern. This is also important in the context of the visa

liberalisation process. Attacks motivated by ethnicity or religion have to be investigated, prosecuted and perpetrators brought to justice.

As regards the **economic criteria**, Kosovo has made some progress towards establishing a functioning market economy. Considerable reforms and investments are needed to enable it to cope over the long term with competitive pressure and market forces.

The challenging economic situation in the region and the EU has started to affect Kosovo's economy, although less than in other countries of the region. Kosovo's GDP grew by 2.5% in 2012. Fiscal policy has been prudent and budget performance has been on track. A legally binding fiscal rule was introduced, to be implemented in 2014. Unemployment has remained very high. Kosovo has continued significant investments in its infrastructure.

Continuous efforts are needed to support macroeconomic stability and improvement in the social situation. Kosovo needs to improve its competitiveness and business environment, and support the private sector so as to reduce unemployment. A sound business environment demands further measures to tackle the weak rule of law and corruption. Privatisation needs to continue. The informal sector remains an important challenge.

The priorities in the area of **European standards** need to be tackled in the context of negotiations on the Stabilisation and Association Agreement. Kosovo has completed the restructuring of the Ministry for Trade and Industry so as to be able to negotiate the trade-related parts of the agreement effectively and it has completed an impact analysis. Kosovo has also undertaken efforts to prepare the agricultural census.

As regards *trade and internal market issues*, improving Kosovo's business statistics is essential. Kosovo needs to continue implementing the legal framework for trade, competition and the internal market. Kosovo needs to step up its efforts in a number of *phytosanitary and veterinary areas* that affect food safety, as defined in the feasibility study. In the *energy* sector, efforts to decommission the Kosovo A power plant need to be enhanced. The focus on the priorities of the feasibility study, on preparing the negotiations of the agreement with the EU and on the visa liberalisation dialogue has had an impact on progress in other sectors.

Turkey

Turkey is a candidate country and a strategic partner for the European Union. Turkey, with its large, dynamic economy, is an important trading partner for the EU and a valuable component of EU competitiveness through the Customs Union. Turkey has a strategic location, including on energy security, and plays an important regional role. The Commission underlines the importance of ongoing cooperation and dialogue on foreign policy issues. Equally, the EU remains an important anchor for Turkey's economic and political reforms. The events surrounding Gezi Park have highlighted the importance of promoting dialogue across the political spectrum and society more broadly and the need for respect of fundamental rights in practice.

The Positive Agenda, launched in 2012, continues to support and complement accession negotiations with Turkey through enhanced cooperation in a number of areas of joint interest. While it has delivered some positive results, it is not a substitute for negotiations. The full potential of the EU-Turkey relationship is best fulfilled within the framework of an active and credible accession process. This process remains the most suitable framework for promoting EU-related reforms, developing dialogue on foreign and security policy issues, strengthening economic competitiveness and increasing cooperation in the field of energy and justice and home affairs. Accession negotiations need to regain momentum, respecting the EU's commitments and the established conditionality. In this regard, the opening of chapter 22-Regional policy, after more than three years of stalemate in the negotiations, represents an important step. Turkey can accelerate the pace of negotiations by the fulfilment of

benchmarks, meeting the requirements of the Negotiating Framework and by respecting its contractual obligations towards the EU, including the full and non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States.

A mixed picture emerges from developments over the past twelve months in Turkey under the **political criteria**. Important reform efforts have continued. The fourth judicial reform package adopted in April strengthens the protection of fundamental rights, including freedom of expression and the fight against impunity for cases of torture and ill-treatment. The government has started a peace process aiming to end terrorism and violence in the Southeast of the country and to pave the way for a solution of the Kurdish issue. This process should be pursued in good faith on all sides. Announced measures in the democratisation package presented in September 2013 foresee further reforms on a range of important issues, including the use of languages other than Turkish, rights of persons belonging to minorities and changes to the current high thresholds for representation in parliament and financing of political parties, which should increase pluralism. Progress in cooperation with opposition parties and implementation in line with European standards is key.

The cross-party conciliation committee of the parliament, which was set up to draft a new constitution, has pursued its work and has achieved agreement on a number of articles. This work should continue in a spirit of compromise. With the adoption of a comprehensive law on foreigners and international protection, an important step has been taken towards adequate protection of asylum seekers. Efforts have also continued aimed at protecting women's rights, notably through implementation of the Law on the Protection of Family and Prevention of Violence. The Ombudsman Institution has been established and is already actively working to fulfil its role. The National Human Rights institution also became operational.

In addition, there is more public debate on topics previously considered as sensitive, including the Kurdish issue, the role of the military, the Armenian issue or the rights of persons regardless of their sexual orientation. Democratic debate is spreading, in particular through the social media, and is also being expressed beyond traditional party politics, including through demonstrations. In this respect, the wave of protests in June is also the result of the broad democratic reform that has taken place in the past decade and the emergence of a vibrant and diverse civil society that needs to be respected and consulted more systematically at every level of decision making, irrespective of who holds the majority in parliament.

However, further progress is held back by various persisting factors. The political climate is still marked by polarisation and lacks a spirit of compromise. The government has tended to rely exclusively on its parliamentary majority to pass laws and decisions, including on socially sensitive issues, without sufficient consultation and dialogue with stakeholders. The resulting tensions and frustration eventually peaked in May and June around a controversial urban development project in Gezi Park in Istanbul and overflowed into major protests in many other cities. Attempts to reach out to protestors were limited and overshadowed by excessive use of force by the police, polarising language and an overall absence of dialogue. As a result of the confrontations six people lost their lives and more than 8 000 were injured. The inspections carried out by the Ministry of Interior concluded that police used disproportionate force against protesters in May and June.

The wave of protests in June highlighted a number of issues that need to be urgently tackled. With regard to the excessive use of force by the police, the administrative and judicial investigations launched should be followed through in accordance with the case law of the European Court of Human Rights and those responsible need to be held to account. Legislation on the establishment of a law enforcement monitoring commission as an independent oversight body for police offences should be adopted and implemented in line

with European standards. The Minister of the Interior took a first positive step by issuing circulars to regulate the conduct by police officers during demonstrations. However, the overall legal framework and practice on the intervention of law enforcement officers should be brought in line with European standards so as to guarantee under all circumstances respect for human rights and, in particular, the right to freedom of assembly.

Key provisions of the Turkish legal framework and their interpretation by members of the judiciary continue to hamper freedom of expression, including freedom of the media. The ownership structure of the Turkish media, dominated by large industrial groups, combined with at times intimidating statements by high-level officials and warnings by the authorities, also makes self-censorship in the media widespread, as shown when mainstream media failed to report on the June protests. This environment has also led to dismissals and resignations of journalists.

A restrictive interpretation by the judiciary of legal provisions on provoking public hatred has led to a number of convictions of public figures for critical remarks on religion. The unclear definition in criminal legislation of membership of an armed organisation continues to be the source of a large number of arrests and prosecutions. An ECHR-compatible legal framework has yet to be established on matters of faith and conscientious objection. Substantial efforts are needed to effectively guarantee the rights of women, children, and lesbian, gay, bisexual, transgender and intersex (LGBTI) individuals. Domestic violence, occasional honour killings and the issue of early and forced marriages remain a serious concern. Turkey needs to ensure full respect for all property rights, including those of non-Muslim religious communities.

These shortcomings need to be addressed and the fourth judicial reform package properly implemented in line with European standards. The authorities need to enhance efforts to protect other fundamental rights and freedoms so that all citizens can exercise their rights without hindrance. The measures announced in the democratisation package hold out the prospect of progress on a number of these issues.

These issues underline the importance for the EU to enhance its engagement with Turkey on fundamental rights. Progress in the accession negotiations and progress in the political reforms in Turkey are two sides of the same coin. It is in the interest of both Turkey and the EU that the opening benchmarks for *chapters 23-Judiciary and Fundamental Rights, and 24-Justice, Freedom and Security* are agreed upon and communicated to Turkey as soon as possible with a view to enabling the opening of negotiations under these two chapters. This would significantly contribute to ensuring that the EU and its standards remain the benchmark for reforms in Turkey.

In view of the reforms required, the overall decision making process, both nationally and locally, should involve more structured and systematic consultation of civil society. It is essential to reform the existing legal environment and make it more conducive to the development of civil society organisations in general. As an example, environmental impact assessments need to be carried out fully respecting the EU *acquis.* Major infrastructure projects should no longer be excluded. Consultation of relevant civil society actors in other policy areas is also strongly be encouraged.

The signature of the *EU-Turkey readmission agreement and the simultaneous start of the visa dialogue* are the first steps towards visa liberalisation, which can give a new momentum to EU-Turkey relations and bring concrete benefits for both. It is important that these two processes move forward and that the ratification procedure of the readmission agreement in Turkey is swiftly finalised in view of its full and effective implementation.

On *foreign policy,* Turkey has continued to play an important role in its wider neighbourhood, for example expanding its activities as a non-traditional donor in the Horn of Africa,

supporting democratic transition in North Africa, and enhancing cooperation with and between Afghanistan and Pakistan. It has played a particularly important role on Syria, supporting the development of a more unified opposition and providing vital humanitarian assistance to large numbers of Syrians fleeing their country. It has also continued to provide practical support to the E3+3 talks with Iran. The ratification of an intergovernmental agreement on the Trans Anatolian Pipeline Project (TANAP) between Turkey and Azerbaijan was an important contribution to the goal of promoting greater European energy security through the southern energy corridor. The regular political dialogue between the EU and Turkey continued to intensify, covering both international issues of common interest such as the Middle East and Central Asia, and global issues such as counter-terrorism and non-proliferation. Turkey has continued its policy of engagement in the Western Balkans, including through its active participation in the South East European Cooperation Process and its contribution to EU-led military, police and rule of law missions in Bosnia and Herzegovina and Kosovo.

Turkey continued to express support for a resumption of talks aimed at achieving a fair, comprehensive solution and viable settlement of the *Cyprus issue* under the good offices of the United Nations. The willingness of Turkey and Greece to accept contacts with the chief negotiators of the two communities is a positive step that could potentially support the settlement process.

The EU has also underlined the importance of progress in the normalisation of relations between Turkey and all EU Member States, including the Republic of Cyprus. In this regard, it has called on Turkey to stop blocking the accession of Member States to international organisations and mechanisms. Furthermore, the EU has stressed again all the sovereign rights of EU Member States, which include, inter alia, entering into bilateral agreements, and to explore and exploit their natural resources, in accordance with the EU *acquis* and international law, including the UN Convention on the Law of the Sea.

In this context, in the Council conclusions of 11 December 2012, the EU noted with deep regret that Turkey, despite repeated calls, continues refusing to fulfil its obligation of full, non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States and has not removed all restrictions on vessels and aircraft registered in Cyprus or whose last port of call was in Cyprus. The EU has underlined that fulfilling this obligation could provide a significant boost to the negotiation process. In the absence of progress on this issue, the EU will maintain its measures from 2006, which will have a continuous effect on the overall progress of the negotiations. The EU will continue to closely follow and review progress made on all issues covered by the declaration of the European Community and its Member States of 21 September 2005. Progress is now expected without any further delay.

In line with the Negotiating Framework and previous European Council and Council conclusions, Turkey needs to commit itself unequivocally to good neighbourly relations and to the peaceful settlement of disputes in accordance with the United Nations Charter, having recourse, if necessary, to the International Court of Justice. In this context, the EU has expressed once again serious concern and urged Turkey to avoid any kind of threat or action directed against a Member State, or source of friction or actions, which could damage good neighbourly relations and the peaceful settlement of disputes.

The EU has welcomed the fact that the co-operation initiatives between Greece and Turkey to improve bilateral relations are continuing. The latest, 55th round of exploratory talks for the delimitation of continental-shelf took place in September. Greece and Cyprus made formal complaints about violations of their territorial waters and airspace by Turkey, including flights over Greek islands.

As regards the **economic criteria**, Turkey is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it accelerates the implementation of its comprehensive structural reform programme.

Following strong growth rates of around 9% in the preceding two years, Turkish GDP growth slowed down to 2.2% in 2012. This was accompanied by a rebalancing of growth from domestic demand to foreign trade, a temporary narrowing of the current account deficit, and a decline of inflation. In the first half of 2013, GDP growth strengthened again to 3.7%. At the same time, the current account deficit has widened again and consumer prices have re-accelerated. Public debt as a share of GDP has continued to recede and is now clearly below 40%. Since May, due to domestic and global factors, financial markets have come under pressure which led to immediate reactions by the central bank with a view to stabilising the exchange rate and containing capital outflows.

Turkey's recent economic performance illustrates both the high potential and the continuing imbalances of the economy. On the external side, the reliance on sustained capital inflows to finance a large structural current account deficit makes Turkey vulnerable to changes in global risk sentiment, resulting in large exchange rate fluctuations and boom-bust cycles in economic activity. Addressing this vulnerability calls for measures to increase national saving and fiscal policy has an important role to play in this respect. The adoption of a fiscal rule would enhance budget transparency, provide an important fiscal anchor and enhance credibility. Relatively high inflation continues to be a major challenge. A rebalancing of the macroeconomic policy mix would be helpful to ease the burden on monetary policy. For the medium to longer term, it is essential that the functioning of the markets for goods, services and labour is improved through structural reforms to increase international competitiveness.

The ongoing survey on the functioning of the EU-Turkey **Customs Union** provides an important opportunity to reflect on and discuss the necessary modernisation of this key instrument in EU-Turkey relations, with a view to re-energising trade performance on both sides and economic integration.

Given Turkey's further development potential as an energy hub and the common energy challenges it shares with the EU, it is important that the enhanced dialogue develops on all issues of joint interest.

As regards the **ability to take on the obligations of membership**, Turkey has continued to align with the *acquis*. There has been good progress on free movement of goods; financial services; energy; regional policy and coordination of structural instruments; science and research; and education. There have been significant developments on establishing the legal framework in the area of migration and asylum. The legal framework against the financing of terrorism has improved. The new legislation on electricity has brought this area to a great extent in line with the *acquis*. The Commission has assessed progress made in the framework of the working groups under the Positive Agenda and informed Turkey and the Member States which benchmarks it considers to be met. The Commission also acknowledged progress achieved on important requirements as regards the judiciary and fundamental rights. Progress has been limited in some chapters, including public procurement, competition policy, agriculture and rural development, food safety, veterinary and phytosanitary policy, and taxation.

Comprehensive efforts should continue in the area of intellectual property law, agriculture and rural development, food safety, veterinary and phytosanitary policy, social policy and employment, environment and climate change as well as consumer protection. Further significant progress is needed on judiciary and fundamental rights and justice, freedom and security. Legislative alignment needs to be pursued especially in public procurement,

competition policy, and taxation. Turkey needs to develop its institutional capacity, in particular under chapters on company law, transport as well as regional policy and coordination of structural instruments.

Iceland

Following the 27 April 2013 general elections, the government decided to put the EU accession negotiations on hold and has indicated that the negotiations will not be continued unless approved through a referendum. Iceland's EU negotiations committee has been dissolved. This decision means that the accession process has come to a halt. The government has stated that it will undertake an assessment of the status of the negotiations to date as well as on the developments of the European Union, which will be submitted to the Icelandic parliament for discussion in the coming months.

The Icelandic authorities ceased contributing to this report under the new government. The Commission's reporting in the framework of this Communication has been adapted to reflect this fact, where the period covered is from September 2012 to the entry into office of the new government in May 2013.

To date, 27 negotiation chapters have been opened, of which 11 have been provisionally closed. Substantial progress was made in this respect during the reporting period with 9 chapters opened and 1 provisionally closed. Iceland is an important partner for the EU through its membership of the European Economic Area, its participation in the Schengen Zone, as well as due to common interests in the fields of renewable energy and climate change and in view of the strategic importance of the EU's Arctic policy.

As a well-established and functioning democracy, Iceland continues to fully meet the **political criteria** for EU membership.

As regards the **economic criteria**, Iceland can be considered a functioning market economy.

Capital movement restrictions are a substantial impediment to investment and growth. Lifting these controls while preserving exchange rate stability remains a key challenge. An ad-hoc group on the removal of capital controls, including experts from the European Central Bank, the Commission and the International Monetary Fund was set-up in June 2012 at the request of the Icelandic government, within the framework of accession, to assess prospects for lifting these controls.

As regards the **Instrument for Pre-accession Assistance** (**IPA**) for Iceland, given the purpose of this instrument and the government's decision on the accession negotiations, the Commission has suspended preparatory work on IPA II. The Commission will not sign any new contracts under IPA I. As concerns projects for which contracts have already been signed, the Commission is undertaking a project-by-project assessment together with the Icelandic authorities in order for the Commission to determine which projects would be continued.

Iceland has already reached a **high level of alignment** in a significant number of policy areas covered by the *acquis*, mainly due to its membership of the European Economic Area. Additional steps towards alignment were made in the reporting period, including in the following policy areas: free movement of goods, company law, public procurement, information society and media, and transport policy.