

**EIGHTH MEETING OF THE STABILISATION AND ASSOCIATION TRACKING MECHANISM
(STM)**

CONCLUSIONS

PRISTINA, 14 DECEMBER 2005

The eighth STM was held in Pristina, Kosovo on 14 December 2005. It was the first meeting to be held after the start of status talks and the publication by the Commission of the 2005 progress report and European Partnership.

The meeting was attended by all the EU actors in Pristina.

The European Commission expressed its hope to continue a constructive dialogue with the Kosovo authorities and encouraged them to focus on the continuation of their reform efforts.

The European Partnership and Kosovo Standards

All parties highlighted the European agenda for Kosovo as the lead and defining agenda for Kosovo's short, medium, and long-term future. In this context, Kosovo's institutions welcomed the 2005 progress report and the revised European Partnership.

The European Commission informed Kosovo's authorities about the 2005 reporting exercise as well as the resulting progress report on Kosovo and the proposed European Partnership carried out in the framework of the Thessaloniki process.

The Commission acknowledged the efforts Kosovo authorities had made to address most of the issues identified last year as regards the political situation, the economic criteria, European standards and sector policies. However, there is a general concern that the Standards for Kosovo have not been met satisfactorily in particular in some sensitive areas concerning crucial multi-ethnic objectives. Improvements remain too often at the declaration stage and are not clearly reflected in proper implementation and results. The above are reflected both in the progress report as well as in the late Kai Eide report. Further, the Commission voiced its fear that the respect for the rule of law had yet to take a firm hold in Kosovo's institutions and the society as a whole.

On the practical implications of the merger between the UN and EU Standards, the Commission highlighted its efforts to integrate the Kosovo Standards into the new European Partnership. This was in an effort to create one clear lead guiding document for reform efforts and related assistance and facilitate the work of UNMIK and the PISG to implement, to report and to monitor the priorities contained in the European Partnership.

The Commission was informed that the SRSG, given UNMIK's obligation to continue reporting to the UNSC on the Standards implementation and the lack of capacity building of the PISG had – in agreement with the prime minister – instructed his services that the current Kosovo Standards structures remain unchanged until a new set up is in place and functioning. It is expected that in the new set up the PISG will have a more central role.

Nevertheless, the PISG supported by UNMIK as necessary will present one unique action plan in response to the European Partnership priorities and Kosovo Standards by March 2006.

The Commission added that UNMIK and the PISG must work together to create effective implementing, monitoring and reporting mechanisms that would deliver the desired result and would increase PISG ownership. At the same time Kosovo should avoid overburdening its institutions with excessive reporting requirements.

The Commission reassured UNMIK that it did not want to encroach on UNMIK's reporting responsibility vis-à-vis the Security Council until UNSCR 1244 expired.

Political Situation

The Commission urged Kosovo's authorities to continue promoting the important reform efforts that were needed and indeed regardless of any settlement of the status issue and in the interest of the people of Kosovo.

Census

The Commission stressed that reliable demographic data was needed for Kosovo and added that EC funding had recently been made available to support the Statistics Office of Kosovo. There are still concerns about the Kosovo's institutions' technical capacity to carry out the census.

Furthermore, the Commission added that it was assembling a team - together with the Council of Europe and other international institutions - to ensure the monitoring of the census as a concrete way of building confidence in its results. A Memorandum of Understanding was currently being finalised and will be signed by the Commission and the Council of Europe, on the one side, and UNMIK and Kosovo authorities on the other side. The Memorandum refers to census monitoring and observation.

The PISG reiterated that the census was a priority for Kosovo. The pilot project had been successful and the decision on a date was to be taken by the SRSG and the Assembly soon. Furthermore, the Kosovo government had allocated €200,000 in 2005 and a further €1.3m in 2006 for census operations.

Civil Service

The Commission reminded Kosovo's authorities that the Kai Eide report and the progress report both stressed that Kosovo's civil service should not be politicised. There were signs that the civil service was increasingly subject to political pressures. The Commission repeated that Kosovo's institutions must subscribe to the concept that the aim is to create an effective civil service free from political interference. Recent events in relation to senior civil service appointments and the mal-functioning of the Senior Public Appointment Committee had cast a certain doubt over the PISG's commitment to establish a professional, impartial and accountable senior civil service.

Returns

UNMIK and the PISG presented the work of the working groups that were preparing the new action plan on returns based on the July 2005 strategic framework. The main document was to be finalised by the end of 2005 and then subject to wide consultation in early 2006. The aim was to publish and promulgate the action plan in early 2006. It was expected to be a guidance tool for all stakeholders.

UNMIK was hoping to sign a Memorandum of Understanding on returns with Belgrade soon. The PISG stated that they were ready to sign a Memorandum of Understanding on returns with Belgrade. Furthermore, the prime minister added that returns were important, that property issues are crucial and that the Kosovo side had the political will to support the return of the displaced population.

The Commission stressed that the new action plan should also clarify the division of roles and responsibilities as well as the coordination mechanisms of the various institutions involved including the Office of Communities Returns and Minority Affairs, the Ministry of Communities and Returns, UNHCR, UNDP, UNMIK Office of Community Affairs, and implementing partners and NGOs.

In particular, there was a need for stronger leadership from the Ministry, which should be supported by the government and the municipalities, to constructively advance the returns process.

Security for the returning families remains a concern and should be tackled.

Kosovo Property Agency

The Commission stated its support for the establishment of the Kosovo Property Agency (KPA), which is expected to deal with and resolve commercial and agricultural property disputes. Commission's interest is underlined by the EC support of €3m that has been made available. The Commission voiced some concerns that the municipal courts (already dealing with a significant back-log) and the Supreme Court did not have yet the necessary capacity and resources to effectively process determinations from Kosovo Property Agency's claims commission. Furthermore, Pillar I must also ensure that the KPA continues to have full access to the cadastre in Serbia.

UNMIK reassured the Commission that in an effort to avoid delays, KPA would apply special time limits in the dispute resolution process.

Economic Situation

The PISG informed that the government of Kosovo had established a first draft of a medium-term expenditure framework and that the draft 2006 budget had been submitted for approval to the Economic and Fiscal Council. The budget 2006 hearing had concluded in line with calendar. Furthermore, the government was exercising strict control in budget expenditure and local institutions had pledged to equally respect control of expenditure. The level of public employees was to remain the same as in 2005. The KCB 2006 was to be approved before the end of 2005.

Further, the PISG stated that the draft budget was in compliance with the Letter of Intent that the SRSG and the Prime Minister signed on 2 November following the IMF field mission of last October. The signing of this Letter of Intent was important as in their view and in addition to other issues, it made Kosovo a *de facto* member of the international financial system.

Commission acknowledged the efforts made in establishing business-friendly regulatory framework, privatising SOEs and stopping the deterioration of the budgetary situation. It reminded, however, Kosovo that economic growth was strong all over the Western Balkans region, while in Kosovo it was not. This could partly be explained by Kosovo's unique and low starting conditions but that was not the only reason. The Commission urged Kosovo to follow the suggestions of the European Partnership, namely in particular to unleash the private sector, in order to allow it to play a greater role in economic development, and to ensure a favourable fiscal governance and fiscal policy. Furthermore, it was important to ensure that a viable economic and fiscal architecture would be part of the final settlement. The Commission stressed that economic development and in particular strengthening domestic and foreign investment was a complex task and would not be automatically ensured by status settlement alone.

European Standards

Transport

The PISG presented the conclusions of the workshop on transport that was held on 25 October 2005. It was agreed that transport is crucial for the economic and social development of Kosovo and its regional integration. The workshop presented a first step towards aligning Kosovo with European standards.

The Commission expressed its appreciation for Kosovo's active participation in the implementation of the Memorandum of Understanding of the South East Europe Core Regional Transport Network including the Transport Observatory.

The Commission also stressed the need for Kosovo to strengthen the administrative and planning capacity in the Ministry of Transport and Communication. Road safety was an area of concern and should be enhanced. Furthermore, Kosovo was encouraged to find the

necessary funds in order to ensure appropriate maintenance and rehabilitation of the road network.

Energy

UNMIK/PISG informed that they had created a joint task force to help increase the revenue collection from electricity. UNMIK Pillar IV stated that revenue collection had been increased lately from about 33% to almost 50% but these figures were not sustainable yet and efforts should continue. Furthermore, the government approved an energy strategy while a comprehensive regional generation investment study had been completed. This study identifies Kosovo as an area with great potential for energy generation thanks to its big lignite reserves.

The Commission reminded the immediate priorities that Kosovo needs to address in the short run, notably (1) to substantially increase revenue collection, (2) to ensure uninterrupted lignite supply to existing power plants and (3) to proceed with the necessary investments with a view to stabilising and enhancing generation capacity of Kosovo A and B power plants.

The recent co-signature by Kosovo of the Energy Community Treaty aligned Kosovo with EU standards and countries of the region and had thus also an economic and political dimension. All internal procedures required by the Treaty had already been concluded by UNMIK. Furthermore, it was announced that in the future Kosovo would be represented by its energy regulator at the South East Europe Transmission System Operators (SEETSO) task force. Commission support was sought to encourage Serbia to be more constructive at SEETSO meetings and not hamper Kosovo's participation.

Justice Freedom and Security

As UNMIK was planning the creation of two ministries - justice and interior - the Commission insisted that the legislation created should be fully compatible with European standards and policies from the very beginning as well as with the general lines that the European Commission has been promoting for the whole region.

UNMIK insisted that the appointment of the new ministers and staff should be done on the basis of professional competence and in a transparent manner.

The Commission reiterated that it was ready to provide capacity building support and that it counted on Kosovo's institutions' full cooperation.

The Commission stated that it participates actively in the working groups on the future international arrangements in Kosovo from the very beginning and is constantly trying to mobilise technical expertise from relevant line DGs as recently confirmed by the Commissioner for Justice, Freedom and Security, Commission Vice President Frattini.

In this context the Commission reminded Kosovo authorities that there was also a need for continued and increased donor coordination.

Furthermore, the Commission stated that it was conscious of the expectation for it to be engaged in institution building activities in this field even more. In order to do so the Commission counted on Kosovo institutions' cooperation and information sharing so that EC assistance could be designed as effectively as possible.

The Commission reminded Kosovo authorities that in addition to the transfer of competencies from UNMIK, Kosovo needs to address the priorities pointed out in the European Partnership.

CARDS Assistance

The European Agency for Reconstruction presented the process of preparing the 2006 CARDS programme for Kosovo and outlined main components.

The Commission reconfirmed that it stood ready to help Kosovo where it could. The allocation of an additional 25 million Euro under the 2005 programme was a sign that the Commission took this commitment very seriously. In consultation with Kosovo's institutions, the Commission had decided to allocate the funds to energy, further institution building support and the census activities.

The main concerns for Commission assistance were relevance, effectiveness and ownership. Those three aspects are interlinked and it is essential that they are reflected in how we design and manage EC assistance.

The Commission and the EAR encouraged Kosovo's authorities to increase their efforts in donor coordination which had hitherto been too weak.

UNMIK and the PISG enquired about the functioning of the future pre accession instruments. Furthermore, the PISG stressed the importance of more projects on European integration, legislation and *acquis*. Additionally, Kosovo should participate more actively in regional CARDS projects and there was still the feeling that while UNMIK was represented at regional projects and events, the PISG were not. Within the PISG there was currently little or no understanding of IPA and community programmes. The future use of the Twinning instrument in Kosovo was welcomed.

STM Planning for 2006

The Commission proposed to hold four STM meetings in 2006.

The Commission also committed to continue holding sector meetings next year.

It promised to propose a set of four dates for the STM meetings to be held in 2006 and a list of sectors. Jointly, the Commission and Kosovo authorities would agree on the dates and the sectors.