

TWELFTH MEETING OF THE STABILISATION AND ASSOCIATION PROCESS TRACKING MECHANISM

CONCLUSIONS

PRISTINA, 19 MARCH 2007

The twelfth meeting of the Stabilisation and Association Process Tracking Mechanism was held in Pristina on 19 March 2007.

The meeting was attended by representatives of the provisional institutions of self-government, of UNMIK and by all EU actors in Pristina.

The European Commission underlined that the European perspective should be the guiding principle of the reform and institution building process. All sides underlined the importance of the European agenda for Kosovo's future and development.

Specifically, the Government of Kosovo throughout the meeting expressed that the Kosovo path toward EU is an irreversible political orientation, widely accepted and supported by the civil society.

European Agenda

Enhancement of the STM mechanism

The Commission presented a proposal to establish five sectoral STM meetings in the areas: a) of good governance, b) economy, c) internal market, d) innovation and e) infrastructures. Meetings should be held once or twice a year creating a framework for discussions on the entire acquis, as well as on the political and economic criteria. In parallel, the number of STM meetings will be reduced to a maximum of two per year.

This new set-up allows for a more efficient structure that: a) will raise the profile of European integration, b) will contribute for better information of the Commission on developments in Kosovo in all sectors and c) to enhance the linkage between the European political agenda and the EU's financial assistance.

The Agency for European Integration stated that this new line set would prove to be very useful having in mind the future of Kosovo-EU relationship.

The PISG stated that they agree with this new approach as it corresponds with their vision and ideas to enhance the European perspective of Kosovo.

The new structure was formally approved and it was agreed that the first sectoral STM meeting would be on infrastructure in the beginning of May.

European Partnership Action Plan

The PISG presented their report on the implementation of the European Partnership Action Plan (EPAP) covering the months September 2006 to January 2007. This report was adopted by the government prior to this STM meeting.

The main achievements highlighted in this report include efforts to re-integrate minority leaders in the institutions of the PISG, the approval of the Language Law, the completion of a draft public administration reform strategy and action plan, the increase of employees stemming from minority communities in the public administration, the approval by the Assembly of Kosovo of the Law on Arbitration (still to be promulgated by the SRSG), further progress in establishing the Kosovo Special Prosecutors' Office (KSPO), the approval of the Public Procurement by the Assembly of Kosovo (signature of the SRSG still pending), the continuation of the privatisation process, the development of the draft agricultural development plan 2007-2013 (pending government's approval) and the approval of the plant protection law.

With regard to the implementation of the 13 Contact Group priority standards the PISG reported that progress included: a) the adoption of the Cultural Heritage Law, b) the reconstruction of the houses in

Svinjare, c) the joint statement of the Prime Minister, the Minister of Justice, d) the President of the Supreme Court and the Chief Prosecutor calling for witnesses of the March 2004 riots and e) the extension of the rental scheme to all residential properties currently under the administration of the Kosovo Property Agency (KPA).

The Commission appreciated the efforts of the PISG to address the European Partnership and Contract Group standards. It regretted that members of the Serbian minority have chosen not to return to the houses in Svinjare and encouraged the PISG to continue to send positive signals to them that their home is in Kosovo.

Update on the Agency for European Integration (AIE)

The AIE leads the European Integration process in Kosovo. The main activities of the Agency which include the coordination of the government activities in the European integration process, the monitoring of the legal approximation process, reporting to the government and the European Commission, the coordination of EU assistance, training on European Affairs for the civil servants and raising the awareness of the Kosovo public on European matters. The Agency is within the Office of the Prime Minister.

There are European Integration Officers in each of the line ministries to ensure a good coordination and cooperation of the Integration process. Institutional meetings of the permanent secretaries within line Ministries on European matters are held periodically. Regular meetings of the government on European matters have started to take place as well. A challenge remains the recruitment of staff for the Agency where still a number of vacancies exist. A number of 10 (ten) young scholars after completion of their post graduate studies in major European Universities (financed by the EC) are expected to start working within AIE in October 2007. An organigramme of the agency attached in annex 1 was presented to the participants.

In its reply the Commission highlighted that substantial funding was provided to help shaping Kosovo's EU-related structures. Measures and mechanisms have to be developed to solve the staff situation, particularly as regards retaining staff. The Commission appreciated the efforts of the Agency to ensure compatibility of the Kosovo legislation with the EU legislation and best practices. However, this process needs to be enhanced into developing clear expertise in all sectors of the European legislation to be able to make serious checks. The Commission's readiness to support this process through its various assistance schemes was stated.

UNMIK announced that as reflection of increased PISG ownership over Kosovo's European Integration process, UNMIK's Office of European Integration will close. However, UNMIK reiterated its responsibility to ensure full compliance with UNSCR1244 and its commitment to Kosovo's European perspective through continued assistance in this field.

Political Requirements

Public Administration Reform

The PISG presented the draft strategy for the reform of the public administration as well as the action plan for the implementation of the strategy. Public hearings and workshops were organised in which the PISG, civil society as well as public administration experts participated. In parallel, international organisations are consulted on the documents as well. The strategy covers the period up to 2012 and has an estimated cost of EUR 25 million.

In the short-term the main activities should include the restructuring of the public administration, including reducing the overall numbers of staff together with enhancing the human resource efficiency, creating a database for civil servants and adopting basic laws related to the functioning of the public administration. The PISG underlined that they hope to be supported in this process by international donors.

The Commission thanked by highlighting that the 5 years Action Plan for Public Administration Reform is a good basis for the continuation of this complex and long-term process. It is necessary to identify clearly the key financial needs and to streamline them into the budgetary planning process.

The Commission emphasised the need to closely monitor the implementation of the strategy and the action plan. It further called on focusing in the reform also very closely on local government.

Rule of law

The PISG reported on developments of the rule of law. The PISG confirmed that in harmony with the status settlement proposal of President Ahtisaari the legal framework for the judiciary is being currently elaborated. The law on courts is in its final drafting. By this law a restructuring of the courts in Kosovo is foreseen as well as increasing the efficiency and functionality of the judiciary. It foresees the establishment of basic, district and appeal courts as well as a Supreme Court. The law on prosecution is still in its drafting phase. The draft law on notary was submitted to the Office of the Prime Minister for consistency checks and will be sent soon to the Assembly of Kosovo for approval.

The PISG reported about the establishment of the Ministry of Interior and its structures. Competences on emergency management and civil registration were handed over from the Ministry of Public Services to the Ministry of Interior. The PISG further reported that a strategy for integrated border management was compiled based on EU standards. The Ministry of Interior drafted further a strategic plan which covers areas such as minority protection, borders and refugees. A police inspectorate has been also established.

Courts in Kosovo filed 253,466 all kinds of new cases during 2006. Compared to the number of filed cases they completed 245,954 or 93,03 %, however, compared to the number of cases that are in process (397,242) in 2006, including the backlog of brought cases from previous years, courts managed to complete 61,91 % of the cases only.

The backlog of cases was caused by the following reasons: a) Insufficient number of judges and inadequate distribution of judges among the courts, b) the small number of prosecutors, c) the IT infrastructure, d) problems with the addresses of persons e) and the working conditions in some courts. Overall, the level of execution of judgements increased, but additional measures to address the rather low execution rate will be tackled in the Kosovo Judicial Council's strategic development plan which is currently drafted.

The PISG emphasised that the Kosovo Anti-Corruption Agency (KACA) is operational since July 2006. 13 officials were employed with the KACA. Further recruitments are foreseen, as well as training measures for the staff. The rules of procedure of the KACA as well as a number of internal regulations were approved in December 2006. The mandate of the KACA includes control as well as preventive functions. The budget of the KACA is still limited: the financial means necessary to guarantee its independence and professionalism have to be identified.

The Commission underlined that the judiciary must be well functioning and fully transparent. Judicial reform and the fight against corruption must be given first priority. The functioning of the judiciary is of utmost importance for the implementation of the whole acquis as well as the respect of the fundamental principles of the European Union. The Commission noted concern about the enforcement of judgements. The Commission recalled that the mentioned draft laws should all be checked very carefully on their EU compatibility.

The Commission emphasised that it is following closely the enforcement of law in Kosovo. It underlined that enhanced cooperation between the police and the prosecution service is needed to strengthen the fight against organised crime and other serious crimes. It further highlighted that the structures and systems being created should fully correspond to the European best practices and standards.

On anti-corruption, the Commission appreciated that concrete cases were brought to court. It highlighted that further consideration to the budgetary resources for the KACA to be able to fully exercise its functions and roles was needed.

Human and minority rights

The PISG highlighted that human rights units have been established in the public administration which are closely cooperating with the OSCE DSRSG. An Action Plan for strengthening and

increasing the capacities of the human rights entities was drafted by the Office of Good Governance. Anti-discrimination policies were enhanced by screening the legislation and organisation of workshops. Drafting of the Human Rights Strategy is continuing with the draft being publicly discussed in April. In end October, a sub-Ministry for children rights was created. The PISG highlighted the good cooperation with civil society in implementing the various human rights mechanisms.

The PISG informed that the Ministry of Communities and Returns is elaborating plans to enhance activities to encourage the process of returns in urban areas. The cooperation with international organisations in implementing return projects works smoothly.

The Commission welcomed the establishment of human rights units in the ministries, but highlighted that they have to become fully operational now. It called on the PISG to be very proactive in the promotion of minority rights and to constantly monitor the situation very carefully. The Commission raised concerns that the election and appointment of the heads of the Ombudsperson Institution and the Independent Media Commission has not yet occurred.

Regional co-operation

UNMIK provided information about its efforts to integrate Kosovo in the different regional initiatives. Kosovo participates now under others in the Energy Community Treaty, the Memorandum of Understanding on the development of the South East Europe Core Regional Transport Network including the Transport Observatory, the European Common Aviation Area and the Central European Free Trade Agreement. A list of all initiatives is attached in annex 2.

The Commission appreciated these developments and encouraged the participation of Kosovo in all relevant regional initiatives.

Economic Requirements

Macro-economic developments

The PISG reported that preliminary data for 2006 suggest that the economy has grown considerably. Based on preliminary data for 2006, the real GDP has grown at approximately 3.0% which is mainly driven by a considerable increase in private investments and some increase in exports. It highlighted that in 2006 the government tried to cut expenditures in those categories that do not affect the economic growth and through a shift of budgetary funds towards capital investments. This resulted in a surplus of EUR 77 million. This surplus was mainly due to an increase in budget revenues, but also of poor execution of capital expenditures and several other types of expenditure.

The financial sector and particularly the banking sector have also shown a positive trend. Deposits in commercial banks increased and loans granted to the private sector have shown a considerable increase. With regard to the external sector, the trade balance deficit still remains very high. An increase in import prices of more than 5% has led to an increase in inflation.

For 2007-2009 projections suggest growth is expected to slow down particularly in 2007 due to the downsizing of UNMIK. In 2008-2009 economic growth is expected to improve as a result of increased investments and net exports.

The Commission appreciated Kosovo's progress in implementing macro-economic and structural reforms. In relation to conducting a sustainable fiscal policy the Commission encouraged Kosovo to reach an agreement with the IMF on the key macro-economic, fiscal and key structural policies. It highlighted that the absence of robust statistical data makes it difficult to trace the developments of key macro-economic indicators and called consequently for reinforcing the Kosovo Statistical Office. As regards the implementation of any new legislation to be adopted a sound budgetary planning is of utmost importance. Furthermore, the collection of revenues from the utility sector has to be strengthened. The Commission underlined that in view of mobilising donor's support for the socio-economic development of Kosovo, it is very important to complete drafting the Medium-Term Expenditure Framework 2007-2010 (MTEF). The MTEF should be the collective work of the government that needs to be fully engaged and coordinated.

Update on the Kosovo Development Strategy and Plan

The PISG confirmed that they consider the development of the Kosovo Development Strategy and Plan (KDSP) crucial for the future of Kosovo. The KDSP as well as the MTEF will be finalised by April and adopted by the government by the end of April. Broad discussions have taken place on the KDSP, including with civil society. Both the KDSP and the MTEF will be coherent in their approach and aims as well as with the European Partnership Action Plan.

The Commission welcomed the information and highlighted that both, the KDSP and the MTEF, are of crucial importance for the socio-economic development of Kosovo as well as future assistance from the donor community.

European Standards

Taxation (& Customs)

The Tax administration of Kosovo (TAK) presented progress achieved. In December 2006 the Strategic Plan for 2007 to 2010 was drafted developing goals and actions designed to address the gaps identified in the Fiscal Blueprints Benchmarking exercise and the IMF report. A full benchmarking exercise is planned for June 2007. Training activities continued and Working Groups were established in different areas. A new draft of the VAT law is currently under public discussion.

The TAK highlighted that their priorities for 2007 are to improve the communication with taxpayers, reviewing staff allocations and resourcing, setting up new units to meet blueprint and IMF recommendations, improving debt management and refund procedures as well as the management performance systems, introducing risk based systems, ensuring an appropriate standard of IT security and establishing a Gaming Directorate.

On customs a report was circulated which is attached in annex 3.

The Commission welcomed the developments noting progress in the implementation of the EU blueprint suggested by CAFAO as well as the recommendations of the IMF report on taxation. It encouraged Kosovo to continue improving the levels of tax collection; a process which the Commission will continue to support via its assistance programmes. It further called on ensuring full respect for staff appointment procedures in TAK.

Internal Market

The PISG reported that the state aid law is currently under adoption procedure. In particular the law shall allow the distribution of state aids for the fishery and agricultural sector as well. Based on this law, a State Aid Office will be established with the Ministry of Economy and Finance which will have control and supervising functions.

The PISG further reported that amendments to the law on patents, the law on trade marks and the law on Industrial Design entered into force. By the amendments to the law on patents an Industrial Property Office is established. Laws on trade organisation, amendments to the law on metrology and a law on suited tax are under preparation.

The amended public procurement law was adopted by the Assembly of Kosovo in February 2007 and awaits approval from the SRSG. The training and certification of Kosovo procurement officers shall be transferred to the Kosovo Institution for Public Administration. Auditing of procurement activities remain the responsibility of the Office of the Auditor General of Kosovo.

The Commission highlighted that it is important to ensure that the new law is in line with the EU principles. The laws on patents, trademarks and industrial design should secure the intellectual property rights in order to create a favourable business environment. The Commission could support the Kosovo authorities that the approach taken is *acquis compatible*. On public procurement, the Commission welcomed the efforts to review the law, as the current rules raised some concerns. The Commission continues however to be concerned about the procedures for appointing and suspending the Procurement Review Board, as well as the qualifications necessary to become a Procurement Officer. It was agreed to hold technical discussion on this point.

Energy

The PISG reported that cooperation agreements on energy matters with the countries of the region are being developed, as the whole region suffers from a shortage of energy. Negotiations with all bidders on the new Kosovo power plant C are on going and a wide consultation and information campaign with various stakeholders, including civil society organizations, are currently being conducted by the Ministry of Energy and Mining.

The Commission highlighted the importance of the Kosovo C project for future sustainable electricity supply in Kosovo. It should be designed and implemented in line with international best practices and in respect with the acquis. An open, transparent, competitive and EU compatible bidding process is of utmost importance. The Commission further highlighted the importance of ensuring the independence of the regulators.

The Instrument for Pre Accession Assistance

The Commission presented an update on the instrument for pre-accession assistance (IPA). The Multi-Annual Indicative Planning Document (MIPD) was approved by the newly established IPA Committee in February 2007. Currently, a Commission Decision is being prepared enabling the establishment of the IPA Annual Programmes 2007-2009. Close coordination is ensured with European Partnership Action Plan (EPAP) and will be ensured with the MTEF and the KSDP.

The PISG highlighted that much is expected from the programme. All ministries are consulted on the draft programme and comments will be submitted in the last week of March.

Other issues

The conclusions of the last workshop on Environment which took place in January 2007 were presented by the PISG and agreed.

It was agreed that the next STM meeting would be held in autumn 2007.

It was agreed that a set of the five sectoral STM meetings would be held until the next STM meeting.