

Report on the strategy paper on progress in the enlargement process

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PURPOSE: presentation of the 2005 progress report concerning **Serbia and Montenegro**.

CONTENT: This report provides a balance sheet of the progress made by Serbia and Montenegro with regard to the Copenhagen fundamental criteria:

1) political criteria: the political situation, the state of democracy and rule of law in Serbia and Montenegro, constitutional and legal certainty has remained precarious. While the legitimacy of the State Union Parliament has been restored and functioning of the Serbian parliament has improved with the adoption of new rules of procedures, the overall functioning of democratic institutions remains affected by structural weaknesses. No actual progress has taken place as regards the revision of the Constitutions of the two Republics. The resolution of institutional and constitutional issues is an absolute priority in order to comply with international democratic standards. There has been progress in both Republics concerning the legal framework of public administration reform, but the implementation of this reform is still at a very early stage. Defence reform continues to meet serious obstruction, due to insufficient democratic control and lack of transparent financial management. The State Union Court has started working although its capacity remains weak and the agreement on the scope of its powers is still largely untested. The transfer of powers of military justice to civilian courts has been implemented smoothly, with the exception of the considerable backlog of the administrative cases. The judiciary has continued to be affected, especially in Serbia, by serious weaknesses and its independence is undermined by undue political interference. Corruption remains a serious concern and

In regard to human rights, progress has been made in implementing the commitments undertaken by when joining the Council of Europe notably with the appointment of Government Agent for the European Court of Human Rights. There have been problems with regard to freedom of expression and civil society. Cases of police ill-treatment have occurred. Little progress has taken place in relation to the investigation of crimes committed during the previous regime. Serbia and Montenegro have achieved significant progress in co-operation with the ICTY, in particular delivering a significant number of indictees to The Hague Tribunal, although this process is still sometimes obstructed by parts of the administration and the army. Further, though limited, progress to bring remaining fugitives to justice must be continued until full co-operation with ICTY is achieved. Belgrade has intensified dialogue with Pristina on technical matters of common interest. However, it has not actively encouraged Kosovo Serbs to participate in the Provisional Institutions of Self-Government. Belgrade's constructive engagement on the Kosovo issue will help to advance Serbia and Montenegro's European perspective, while obstruction could turn into an obstacle. Regional co-operation at the multilateral and bilateral level continues to improve, although sporadic problems occur.

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

- In Serbia, economic activity remained relatively robust in the first half of 2005. Fiscal tightening continued, reflecting mainly strong domestic demand and improved tax enforcement. The trade deficit narrowed in the first half of 2005 and international reserves have improved. However, the government's commitment to macroeconomic stabilisation and structural reform has been mixed. Inflation and wage pressure have mounted and external imbalances remain high. The business

environment is still hampered by bureaucratic obstacles and the slow and inefficient functioning of the judiciary system is seriously affecting economic development. Despite progress in privatisation, a competitive and dynamic private sector has not yet been established and the government sector still absorbs a large share of resources;

- In Montenegro, economic growth strengthened. Inflation continued declining further with price liberalisation almost complete. Privatisation has further advanced. Unemployment declined somewhat. However, external imbalances widened and external debt increased further. Private sector development is still impeded by weaknesses in the judiciary. High wage growth negatively affected export competitiveness and employment levels.

3) progress towards implementing the acquis: Serbia and Montenegro have both made progress towards meeting European standards. In the area of internal market, both Republics have made overall some good progress. They must now continue to make sustained efforts to improve legislative and administrative capacities with a view to future SAA obligations. They must also avoid creating new barriers between them. The main areas in which sustained reform efforts are needed are the following:

- Internal market: standardization and certification, free movement of persons and right of establishment and free movement of capital;
- Customs: strengthening of administrative and operational resources of the customs authorities;
- Competition and public procurement: strengthening of controls on state aids; reinforcing administrative capacity responsible for implementing the legislation, particularly in Montenegro; mutual and reciprocal treatment of procurement rules; improvements in the area of intellectual property;
- Industry and SMEs: overall strengthening of the sector;
- Energy: continuation of the unbundling process of the state electricity utility (in Serbia);
- information society and media: In Serbia, the exclusive monopoly of fixed lines has come to an end but the Telecommunications Agency is still not operational due to lack of financing. In Montenegro, the privatisation process of the fixed-line telecom provider has been finalised. As regards audiovisual policy, no progress has taken place in Serbia; in Montenegro, the Broadcasting Council has implemented a tender for licenses of the use of the spectrum;
- Justice, freedom and security: no actual progress has taken place in the areas where responsibilities are shared between the State union and the two Republics: they continue to operate different visa regimes; national strategies on integrated border control are still in preparation and - in Serbia - the transfer of border control from the State Union army to the police has been delayed. In the field of asylum, neither has yet adopted the laws that are necessary for the implementation of the State Union framework law; the combat against money laundering and organized crime needs to be reinforced.