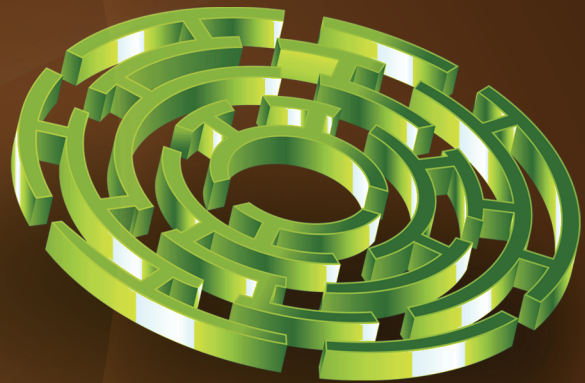




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The ICEG European Center issues its regular publication, which includes 2-4 brief analyses on actual macroeconomic and economic policy issues of the countries of Southeast Europe (SEE). The publication focuses on eight countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia (FYROM), Montenegro, Romania and Serbia.

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About us

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EU PRE-ACCESSION FINANCING FOR THE WESTERN BALKANS – DOES THE TRACK LEAD TO MEMBERSHIP?¹

Tamás Szemplér

The countries of the Western Balkans are at different stages on their way towards full integration into the European Union (EU). By mid-2011, Croatia has concluded its accession negotiations and has the prospect to join the EU by 1 July 2013. For the other countries of the region, however, the road looks longer and very bumpy.

In this article we deal with one specific aspect of the Western Balkans-EU relations: pre-accession assistance. Although it is by far not the only important aspect of the relationship, it can be regarded as a mirror reflecting eventual differences between official declarations and everyday reality.

1991-2011: Twenty Years, Three Periods

From the point of view of EU financial assistance to the Western Balkans, the last two decades can be divided into three periods.

The first period has lasted from 1991 to 1999. These years include the wars in the former Yugoslavia and the first phase of “normalisation” (“normalisation” of the situation in the Western Balkans, and also the normalisation of EU-Western Balkans relations). In this period, most actions have been of *ad hoc* nature – partly due to the specific circumstances (wars), but partly due to the lack of a strategic EU approach towards the region.

The first coordinated form of EU financial assistance was the OBNOVA programme, launched in 1996, and available for the post-Yugoslav countries. OBNOVA has concentrated on the most urgent needs of the post-war period. Despite the fact that its financial resources have been limited (a total sum of € 400 mn between 1996 and 2000)², it was an important milestone in the evolution of EU financial support for the Western Balkans. Its lifetime lasted until 2000 when it was replaced by a new instrument, the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme.

The second period has lasted from 2000 to 2006. The CARDS programme, running between 2000 and 2006, was part of an already more coherent EU approach towards the region. CARDS was part of the general framework of EU-Western Balkans relations, the Stabilisation and Association Process (SAP).

CARDS budget for the period 2000–2006 totalled € 4.65 bn.³ CARDS was characterised by a deeply structured approach – a feature that was missing before. Beyond bilateral co-operation – tailored to the specific needs of the individual Western Balkan countries –, it also included regional co-operation between the Western Balkan countries themselves.

¹ This article is based on parts of the author’s longer paper “The Western Balkans and the EU – is IPA the Right Tool for Narrowing the Existing Gaps?”, submitted to and presented at the International Symposium on Common Governance Culture & Restructuring Problems in Three Seas Basin Countries, Aydin University, Istanbul, 13-16 October 2011. The full paper is expected to be published in the volume presenting the contributions to the symposium.

² <http://www.mvpei.hr/ei/default.asp?ru=234&sid=&akcija=&jezik=2> (25.08.2011).

³ http://europa.eu/legislation_summaries/enlargement/western_balkans/r18002_en.htm (25.08.2011).

Beyond the acknowledgement of the merits of CARDS⁴, its detailed evaluation⁵ also identified a number of weaknesses: the main critics were related to centralisation, the weakness of the regional dimension, the system of programming, the dual implementation of the programme and weaknesses regarding institution building, gender and minority rights and judicial reform.

From 2007, a new instrument, IPA (Instrument for Pre-Accession Assistance) has replaced all previously existing pre-accession instruments (including CARDS). IPA provides a general framework for financial support (€ 11.5 bn between 2007–2013⁶, including support for not only the Western Balkans, but also for Turkey; later, Iceland has joined the group of IPA beneficiaries) for candidate and potential candidate countries.

IPA „is made up of five components, each covering priorities defined according to the needs of the beneficiary countries. Two components concern all beneficiary countries:

- ❖ the “support for transition and institution-building” component, aimed at financing capacity-building and institution-building;
- ❖ the “cross-border cooperation” component, aimed at supporting the beneficiary countries in the area of cross-border cooperation between themselves, with the EU Member States or within the framework of cross-border or inter-regional actions.

The other three components are aimed at candidate countries only:

- ❖ the “regional development” component, aimed at supporting the countries' preparations for the implementation of the Community's cohesion policy, and in particular for the European Regional Development Fund and the Cohesion Fund;
- ❖ the “human resources development” component, which concerns preparation for participation in cohesion policy and the European Social Fund;
- ❖ the “rural development” component, which concerns preparation for the common agricultural policy and related policies and for the European Agricultural Fund for Rural Development (EAFRD).”⁷

With these five components and with the structured differentiation regarding the access to them, the EU has created an overall structure for pre-accession assistance, and found a form of differentiation which is intended to be based on the individual capacities of the countries concerned.

Back to the Future? – A Comparison of Pre-accession Assistance for the CEE and the Western Balkans

Despite the numerous differences between the situation in 2000 and today, and also between the groups of countries concerned, a comparison between the pre-accession treatment of the countries that joined the EU in 2004 and 2007, and of the Western Balkan countries can be of interest.

4 See e.g. EVINFO (2004).

5 See Development Researcher's Network Consortium (2004).

6 (<http://ec.europa.eu/social/main.jsp?catId=826&langId=en>, 25.08.2011).

7 http://europa.eu/legislation_summaries/agriculture/enlargement/e50020_en.htm, 25.08.2011.

A study prepared by the European Stability Initiative⁸ uses the case of Bulgaria for comparison, and concludes that the opening up of all the pre-accession funds has substantially contributed to the dynamic progress of that country in the pre-accession period. With this, it implicitly says that such a dynamic progress could not have been achieved without the access to all the funds.

The reflection on the design of IPA unavoidably leads us to the evergreen issue of differentiation. In this respect, it is extremely worth comparing the pre-accession situation of the Central and Eastern European EU members with that of the countries of the Western Balkans.

In 1997, the EU first divided the associated (mostly Central and Eastern European) countries into two groups. Differentiation was an important step towards beginning the accession negotiations with the “Luxembourg 6”⁹ next spring. However, on the basis of the first experiences of the accession negotiations, it was realised by all actors concerned that these experiences – gained directly by the “Luxembourg 6” – are useful for all candidates. It has also become clear – and this is a very important aspect for the present situation in the EU-Western Balkans relations – that keeping alive the motivation of all participants is very important.

The above reasons have led to the fundamental change in the EU’s approach to enlargement in 1999 in Helsinki, where the “regatta” principle has been declared. The composition of the two later “sub-rounds”¹⁰ of the Eastern enlargement is a result of many factors (and can now be regarded as a minor issue from the point of view of the whole process), but the management of the further phases of the accession negotiations have clearly shown the merits of the “regatta” approach. This approach contained incentives, considerable financial assistance for the preparation for accession was available, and, last but not least, the commitment of the EU to enlargement remained credible (its credibility has even increased gradually since the end of the 1990s).

Unfortunately, in the case of the Western Balkan countries (and especially of the potential candidates), at present, all the above merits are – at least partially – missing. The present system of financial assistance (despite the fact that IPA is embedded into the SAP) does not provide sufficient incentives for the potential candidates to modernise their institutional setup (in their case, IPA management is the task of the European Commission).

Instead of this approach, decentralised management linked with a strict conditionality regarding institutional capacity could be a more favourable option. If the institutions of a country were not able to manage the programme, the country in question could not get the amounts foreseen for it. On the one hand, it could be a clear incentive for the Western Balkan countries (and also a very important external political assistance in their domestic struggles for changes), on the other hand, it could also guarantee for EU citizens that their money is not used inefficiently. While we focus on the ways of enabling important changes in the Western Balkan countries, we also have to be aware of the fact that the importance of the second aspect is today greater than ever.

Another important issue is the foreseen amount of assistance. Unfortunately, this is also problematic today. The resources available for pre-accession today are clearly less abundant than they were before the enlargements of 2004 and 2007. This is so, despite the fact that the tasks ahead seem to be far more difficult in the case of the Western Balkan countries than they were in Central and Eastern Europe. Here it is also important to mention that IPA includes financial assistance for all candidate and potential countries – beyond the Western Balkans, it also means Turkey and Iceland. While Iceland is not really problematic from this point of view, Turkey’s size and its share in IPA influences the overall picture to a great extent.

8 European Stability Initiative (2005): Breaking out of the Balkan Ghetto: Why IPA should be changed, 1 June 2005, www.esiweb.org/pdf/esi_document_id_66.pdf (25.8.2011).

9 Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia.

10 The accessions on 1 May 2004 and on 1 January 2007.

While between 2000 and 2003, pre-accession funds totalled more than € 3 bn *per year*, the amounts foreseen for Western Balkan countries under IPA reach this level *cumulating* the yearly planned amounts of assistance *for the first four years* (2007–2010) of the present financial perspective. While a substantial modification of the figures is improbable until 2014, it is worth noting that successful preparation (or otherwise expressed: successful membership-building) probably needs more resources, but still costs much less than persisting instability in the heart of Europe.

Unfortunately, from this point of view, the proposal of the European Commission for the 2014–2020 financial perspective¹¹ does not provide any basis for optimism. The document foresees an annual amount of € 1.789 bn (at 2011 prices) for IPA for the period 2014–2020 (for comparison: the amount planned for 2013 (the last year of the present financial perspective) is € 1.888 bn. Even if we take into account the accession of Croatia by mid-2013, we can only say that the level of per-accession financial assistance is planned to be stagnating – not a good news and certainly not an encouraging signal (and even less an incentive) for the candidate and potential candidate countries.

This leads us to the very general, but very important issue of the credibility of the EU. It should be enhanced – while at the moment there is no visible sign for its enhancement. More than a decade ago, with the establishment of the SAP, the EU has created a general framework for its relations towards the Western Balkan countries. The EU's commitment towards the region has repeatedly been reconfirmed since then, but relations (with the exception of the accession of Croatia) in most respects seem to stagnate. Especially the progress of some potential candidate countries seems to slow down and some of the EU's reactions to the political development in the region seem to have an *ad hoc* nature.

Concluding Remarks

The comparison between the pre-accession treatment of the two groups of countries – the Central and Eastern European EU members and the countries of the Western Balkans – shows considerable differences. This is not a surprise, but the very probable continuation of the present stagnating tendency in IPA financing after 2013 is still bad news. The amounts foreseen from 2014 can be perceived as a very negative signal by the candidate and potential candidate countries.

Right now, a clear positive signal would be necessary to enhance the EU's credibility regarding its intentions with the Western Balkans. Even if the room for manoeuvre is (financially) limited, such a signal is conceivable: the declaration of the “regatta” principle for the candidate and potential candidate countries could be the starting point for a breakthrough. The lessons of the preparation for the enlargements in 2004 and in 2007 strongly support this argument.

Of course, the problems related to the integration prospects are far more complex than the ones that were there in the case of the Central and Eastern European (now) members. Beyond the painful recent history of the region, the question of Turkey (more exactly: the indecision of the EU on what it wants on the long run with Turkey) also contributes to the present stalemate.

¹¹ European Commission (2011): A Budget For Europe 2020 – Part I – Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions COM(2011), 500/1 final.

To find a way out of this situation, the EU should seriously revise, and, if necessary, redesign its approach towards the Western Balkans. On the basis of a new, coherent concept, the structure of the relations – including the financial instruments – should be redefined.

It is important to emphasise that the EU's credibility is at stake, in a region which is an organic part of Europe for many centuries. If the EU wants stability in the Western Balkans, it also has to be a major stabilising factor in the region. For this, it has to be able to provide the whole region prospects that are both attractive and credible.

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http://ec.europa.eu/europeaid/evaluation/evinfo/2004/951651_ev.pdf (25.8.2011).

CROATIA: TREATY TEXT IN HAND, ACCESSION IN SIGHT

Tamás Szemplér

Polish Prime Minister Donald Tusk – representing the Polish Presidency of the Council of the European Union – has officially handed over the text of the EU Accession Treaty to Croatian Prime Minister Jadranka Kosor in Zagreb on 17 September 2011. The signature of the Treaty is foreseen for December 2011, and Croatia is scheduled to become an EU member on 1 July 2013, following the ratification of the treaty by all the Member States and Croatia¹.

A Long and Winding Road – Even Before the Start

With this, a long and complicated process has arrived to its final stage (see Table 1 for an overview of the milestones of EU-Croatia relations since 2000). Complications were related to the fact that after the disastrous wars between 1991 and 1995 between and within the republics of the former Yugoslavia, the EU needed time for the elaboration of a structured approach. The first elements of such an approach appeared by the late 1990s, and the general structure of relations, the Stabilisation and Association Process (SAP) has gained momentum in 2000.

Croatia has signed its Stabilisation and Association Agreement (SAA) in October 2001, and applied for EU membership in February 2003. It received a positive opinion (*avis*) from the European Commission in 2004, and in the same year Croatia has made another important step forward: from the status of a „potential candidate” for EU membership, to that of a „candidate country”.

In February 2005, Croatia’s SAA has entered into force, and the country was expecting the opening of EU accession talks in March of the same year. Things, however, were not that easy: the start date of the negotiations was postponed; the reason behind was that the cooperation of Croatia with the International Criminal Tribunal for the former Yugoslavia (ICTY) was not seen as full. The months following the postponement of the start of the negotiations have been the most difficult period of EU-Croatia relations since the SAP has started. After more than half a year, the official judgement of Croatia’s cooperation with the ICTY has changed, and the country could begin the accession negotiations on 20 October 2005.

TABLE 1. KEY DATES AND EVENTS OF EU-CROATIA RELATIONS SINCE 2000

<p>June 2000 - The Feira European Council states that all the countries participating in the Stabilisation and Association Process (SAP) announced previous year are „potential candidates” for EU membership.</p> <p>November 2000 – The Zagreb Summit launches the Stabilisation and Association Process (SAP) for five countries of South-Eastern Europe, including Croatia.</p> <p>29 October 2001 - Stabilisation and Association Agreement signed.</p> <p>21 February 2003 - Croatia applies for EU membership.</p> <p>June 2003 – The Thessaloniki European Council confirms the accession perspective of the Western Balkan countries, including Croatia.</p>
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¹ Croatia to Receive Accession Treaty Text, http://ec.europa.eu/enlargement/press_corner/whatsnew/news/110916_en.htm (20.09.2011).

April 2004 – The European Commission issues a positive opinion (*avis*) on Croatia's application for EU membership.

June 2004 – The European Council confirms Croatia as a candidate country.

December 2004 – The European Council sets 17 March 2005 as start date for negotiations conditional upon full cooperation with the International Criminal Tribunal for the former Yugoslavia.

1 February 2005 – The Stabilisation and Association Agreement (SAA) enters into force.

16 March 2005 – The EU postpones the start of the accession negotiations but adopts the framework for negotiations with Croatia.

26 April 2005 – First meeting of the Stabilisation and Association Council; meeting of the extended „EU troika” on Croatia's cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

3 October 2005 – ICTY Chief Prosecutor assesses Croatia is now fully cooperating with ICTY. The Council concludes that the last remaining condition for starting negotiations is met. Accession negotiations are launched the same day.

20 October 2005 – The 'screening' stage of accession negotiations begins.

12 June 2006 – The first chapter of the accession negotiations - science and research – is formally opened and provisionally closed at an Accession Conference (ministerial level).

18 October 2006 - 'Screening' concluded; accession negotiations continue.

12 February 2008 - The Council adopts the new Accession Partnership.

19 April 2010 - The Chapters for Food safety and Financial control were provisionally closed.

30 June 2010 - Croatia opens the last three policy-related negotiating chapters and provisionally closes two.

27 July 2010 - The Chapters for Food safety and Financial control were provisionally closed.

5 November 2010 - Provisionally closed three more chapters, including the one dealing with the institutional arrangements.

9 November 2010 – Adoption of the annual Progress Report.

22 December 2010 – Three additional chapters were provisionally closed. In total 28 chapters out of 35 chapters provisionally closed.

30 June 2011 – EU Member States decide to close accession negotiations with Croatia. Following the ratification procedure in all Member States and Croatia, accession is foreseen for 1 July 2013.

Source: http://ec.europa.eu/enlargement/candidate-countries/croatia/relation/index_en.htm (20.09.2011).

Negotiations: Business as Usual – With Some Extras...

The EU accession negotiations of Croatia have followed the usual way. The process has begun with the ‘screening’ phase (the detailed examination of the EU acquis and the identification of the main achievements and the remaining tasks for the candidate country in order to adopt and implement it). The ‘screening’ phase has lasted almost a year (this phase has been concluded on 18 October 2006), but the second phase of the negotiations – the opening and the discussion of the negotiation chapters – has already begun before that date, in June 2006. There were 35 negotiation chapters; during the five years of the second phase of the negotiations, each chapter has been opened and (temporarily²) closed; Table 2 presents the opening and closing dates of the negotiation chapters.

TABLE 2 OPENING AND CLOSURE OF THE NEGOTIATION CHAPTERS DURING THE EU ACCESSION TALKS OF CROATIA

CROATIA	35	35
state of play: 30 June 2011	negotiations opened	negotiations closed
1 – free movement of goods	25 July 2008	19 April 2010
2 – freedom of movement of workers	17 June 2008	2 October 2009
3 – right of est. & freedom to provide services	26 June 2007	21 December 2009
4 – free movement of capital	2 October 2009	5 November 2010
5 – public procurement	19 December 2008	30 June 2010
6 – company law	26 June 2007	2 October 2009
7 – intellectual property rights	29 March 2007	19 December 2008
8 – competition policy	30 June 2010	30 June 2011
9 – financial services	26 June 2007	27 November 2009
10 – information society and media	26 June 2007	19 December 2008
11 – agriculture and rural development	2 October 2009	19 April 2011
12 – food safety, vet. & phytosanitary policy	2 October 2009	27 July 2010
13 – fisheries	19 February 2010	6 June 2011
14 – transport policy	21 April 2008	5 November 2010
15 – energy	21 April 2008	27 November 2009
16 – taxation	2 October 2009	30 June 2010
17 – economic and monetary policy	21 December 2006	19 December 2008
18 – statistics	26 June 2007	2 October 2009
19 – social policy and employment	17 June 2008	21 December 2009
20 – enterprise and industrial policy	21 Dec 2006	25 July 2008
21 – Trans-European networks	19 Dec 2007	2 October 2009
22 – regional pol. & coord. of structural instr.	2 October 2009	19 April 2011
23 – judiciary and fundamental rights	30 June 2010	30 June 2011
24 – justice, freedom and security	2 October 2009	22 December 2010
25 – science and research	12 June 2006	12 June 2006
26 – education and culture	11 December 2006	11 Dec 2006
27 – environment	19 February 2010	22 December 2010
28 – consumer and health protection	12 October 2007	27 November 2009
29 – customs union	21 December 2006	2 October 2009
30 – external relations	12 October 2007	30 Oct 2008
31 – foreign, security and defence policy	30 June 2010	22 December 2010
32 – financial control	26 June 2007	27 July 2010
33 – financial and budgetary provisions	19 December 2007	30 June 2011
34 – institutions	5 November 2010	5 November 2010
35 – other issues	30 June 2011	30 June 2011

Source : http://ec.europa.eu/enlargement/pdf/enlargement_process/accesion_process/how_does_a_country_join_the_eu/negotiations_croatia_turkey/overview_negotiations_hr_en.pdf (23.09.2011).

² During EU accession negotiations, no chapter is finally closed until all chapters (and thus the negotiations themselves) – are finally closed. Temporarily closed chapters may also be reopened and discussed further during the negotiations.

The above structure has been the one we could see in the case of previous enlargements of the EU. However, the Croatian EU accession talks could not be simply regarded as ‘business as usual’. The first specific element, slowing the process of Croatia’s accession for a considerable time, was the already mentioned issue of Croatia’s cooperation with the ICTY. The arrest of general Gotovina (in December 2005) as well as the sentences of the ICTY for generals Gotovina and Markač (in April 2011³) caused internal tensions in Croatia and did not contribute to the EU’s popularity in the country.⁴

The second specific issue was that of the border disputes between Croatia and Slovenia. The most highlighted element of the disputes is the border in the Bay of Piran⁵. The two countries could not agree neither on the solution of the disputes, nor on international arbitration. As a result, Slovenia has blocked Croatia’s accession from December 2008 to 4 November 2009, when, finally, the border arbitration agreement was signed in Stockholm by the two Prime Ministers⁶. The arbitration agreement has been submitted to the UN on 25 May 2011; the arbitration is expected to be finalised by the end of 2011⁷.

The third specific issue was the inability of Italians to purchase land in Croatia. The issue had its historical roots, most importantly related to the events of World War II when Istria has ceased to be an Italian territory and was integrated into Yugoslavia. The issue was settled by an agreement between Croatia and Italy; on the basis of that agreement, Italians can purchase land in Croatia as well as Croatsians are allowed to buy land in Italy since October 2006.⁸

The above issues – especially the blockade of the negotiations by Slovenia – have made Croatia’s EU accession talks longer and more difficult, but did not prove to be insurmountable obstacles. As a result of – among other factors, of course – the very decided and efficient work of the Hungarian EU Presidency, the negotiations could be closed by 30 June 2011; following the referendum in Croatia and the ratification of the Accession Treaty in all EU Member States, Croatia may enter the EU on 1 July 2013.

The Day After – What is in the Treaty?

The draft text of the accession treaty is already available on the Internet⁹. Although the document is still subject to linguistic modifications, it contains the final results of the negotiations.

Although the treaty is ready, and it is planned to be signed in Warsaw in December 2011, it does not mean that Croatia is out of the focus of the European Commission. Its actions related to the fulfilment of the obligations stemming from the treaty will be monitored by the European Commission, and the results will be reported to the Council and the European Parliament.

3 Tribunal Convicts Gotovina and Markač, Acquits Čermak, <http://www.icty.org/sid/10633> (25.09.2011).

4 Despite the fact that the ICTY is not an EU institution, the conditionality set by the Commission in 2005 (the linkage between full cooperation with the ICTY and the start of the accession talks) logically led to a situation in which the activity and the sentences of ICTY were implicitly perceived as part of EU-Croatia relations.

5 Beyond this widely known dispute, land disputes between the two countries exist, as well.

6 Croatia, Slovenia open new chapter in their relations, PMs say, http://www.vlada.hr/en/naslovnica/novosti_i_najave/2009/studeni/predsjednica_vlade_rh_kosor_i_predsjednik_slovenske_vlade_pahor_otvorena_nova_stranica_u_odnosima_dviju_zemalja (25.09.2011).

7 Croatia and Slovenia submit arbitration agreement to UN, http://www.dur.ac.uk/ibru/news/boundary_news/?itemno=12176 (25.09.2011).

8 Press Release 231/06, http://www.mfa.hr/custompages/static/hrv/templates/_frt_Priopcenja_en.asp?id=2672 (25.09.2011).

9 Treaty Concerning the Accession of the Republic of Croatia, <http://www.delhrv.ec.europa.eu/files/file/articles-Copy%20of%20st14509-re01.en11-1316702813.pdf> (25.09.2011).

There are, however, no specific measures foreseen for the case Croatia would fail to fulfil its commitments¹⁰.

While – as it has always been the case with accession – the candidate country accepts (and commits itself to implement) the overwhelming majority of the EU acquis, there are always some specific points which are particularly sensitive either to the EU, or to the candidate country, and therefore compromises are agreed upon. Croatia's case was not an exception. The main fields where such compromises – specific measures and/or transition periods – have been established are listed in Table 3.

TABLE 3 SOME KEY ISSUES AND THEIR SOLUTIONS IN THE EU ACCESSION TREATY OF CROATIA

Crossing through the Neum corridor

“Consignments of products coming from the territory of Croatia and transiting through the territory of Bosnia and Herzegovina at Neum corridor before re-entering the territory of Croatia may be exempted from the veterinary checks if they are transported in closed vehicles with uniquely numbered seals. The date and time of leaving and re-entering the territory of Croatia of the vehicles transporting consignments shall be recorded, so that the total time of transit can be calculated.

Croatia shall ensure that consignment must not be allowed to re-enter its territory where a vehicle's seal has been broken or replaced during transiting the Neum corridor and/or the total time of transit considerably exceeds the acceptable total time of transit, given the total distance of transit unless the competent authority has carried out an assessment of the risks to animal and public health and has adopted effective, proportionate and targeted measures based on that assessment, according to the treaty.”

VAT

“With its entry into the EU, Croatia will have to abolish the zero rate of the Value Added Tax (VAT), but will be able to introduce minimum or lowered VAT rates.”

Foreigners' purchase of agricultural land

“During the negotiations, Croatia and the EU agreed on a seven-year transitional period with the ban of the foreigners' purchase of agricultural land. The seven-year transitional period could be extended for additional three years, provided that there is sufficient evidence that, upon expiry of the seven-year transitional period, there will be serious disturbances or a threat of serious disturbances on the agricultural land market of the Republic of Croatia.”

Free movement of persons/labour

“Member States can introduce restrictions for the employment of Croatian nationals to two, five and seven years at the maximum, and Croatia can apply reciprocal measures for workers from EU members that impose restrictions on the employment of Croatians.”

Source: What Croatia's EU accession treaty contains, <http://daily.tportal.hr/150074/What-Croatia-s-EU-accession-treaty-contains.html> (25.09.2011).

¹⁰ What Croatia's EU accession treaty contains, <http://daily.tportal.hr/150074/What-Croatia-s-EU-accession-treaty-contains.html> (25.09.2011). The text says: “The Council, acting by qualified majority on a proposal from the Commission, may take all appropriate measures if issues of concern are identified during the monitoring process. The measures shall be maintained no longer than strictly necessary and, in any case, shall be lifted by the Council, acting in accordance with the same procedure, when the relevant issues of concern have been effectively addressed.” Treaty Concerning the Accession of the Republic of Croatia, <http://www.delhrv.ec.europa.eu/files/file/articles-Copy%20of%20st14509-re01.en11-1316702813.pdf> (25.09.2011), p. 55.

Title III (containing Articles 27 to 35) presents the financial provisions agreed upon; exact financial provisions are given only for the first six months of Croatia's EU membership.¹¹ This is a consequence of the fact that the present EU financial perspective will end by 31 December 2013, and the debate on the 2014–2020 financial perspective has just begun. Adding all items listed in the draft treaty, for these six months, Croatia will have access to about € 800 mn (commitments).¹² There are specific provisions related to the Structural and Cohesion Funds, the European Fisheries Fund and the European Agricultural and Rural Development Fund; in the case of the first two, a phasing-in is foreseen¹³; for agriculture, specific provisions will be applied.

Concluding Remarks

For Croatia, EU accession will certainly be the coronation of its efforts to become a full-fledged member of the Euroatlantic community. From the point of view of the country, EU entry means the realisation of a key political and economic objective.

From a broader perspective, however, it is not all the same whether we only see the completion of a process (that of Croatia's EU accession) or also an important milestone in the process leading towards the integration of the Western Balkans into Euroatlantic structures. Certainly, the second vision is more desirable for the Western Balkans. In order to transform this vision into reality, further efforts from candidate and potential candidate countries as well as from the EU are needed. Croatia's hard-fought success should encourage both sides.

¹¹ With the exception of some specific items (payments to the European Investment Bank, to the Research Fund for Coal and Steel, transfers in the framework of the temporary Schengen Facility, the temporary Cash-Flow Facility).

¹² Croatia's EU accession treaty result of nearly 6 yrs of negotiations, <http://daily.tportal.hr/149803/Croatia-s-EU-accession-treaty-result-of-nearly-6-yrs-of-negotiations.html> (25.09.2011).

¹³ "For the period covered by the next financial framework, Croatia's allocations shall be calculated based on the then applicable acquis. These amounts shall be adjusted in accordance with the following phasing-in schedule: 70% in 2014; 90% in 2015; 100% as of 2016. Insofar as the limits of the new acquis allow, an adjustment shall be made to ensure an increase of funds for Croatia in 2014 of 2.33 times the 2013 allocation, and in 2015 of 3 times the 2013 allocation." Treaty Concerning the Accession of the Republic of Croatia, <http://www.delhrv.ec.europa.eu/files/file/articles-Copy%20of%20st14509-re01.en11-1316702813.pdf> (25.09.2011), p. 53.

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Judit Szilágyi¹

SERBIA: FINALLY ON THE RIGHT TRACK TO EU CANDIDATE STATUS

This summer has left remarkable changes on Serbia's international position. Although EU officials emphasised that the extradition of the last two war crime fugitives to the International Criminal Tribunal for the former Yugoslavia was a *conditio sine qua non*, accession talks gained a new impetus and the country is likely to receive a positive Council opinion and to become an official candidate in December 2011.

Carrot and Stick from the EU – Growing Discontent in Serbia

Serbia has already gained many experiences about the roughness of the way towards EU membership, and there still seems to be a long road till full-fledged membership. The country has not only lost its relative leading role in the region as part of ex-Yugoslavia, but had to come to terms with its position as one of the last partners for the EU to reach each step of the accession process. Compared to other countries of the Western Balkans, at certain points the EU has speeded up negotiations with other countries (e.g. Macedonia or Albania) while keeping Serbia on the waiting list. An overview of key events and dates of Serbia-EU relations are included in Table 1.

Negotiations on the Stabilisation and Association Agreement (SAA) of Serbia started, relatively late, only in October 2005. Talks and even the implementation of the SAA interim agreement were suspended several times due to Serbia's insufficient cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). The last two arrests and extraditions (*Mladić* this year in May and *Hadžić* in July) were particularly welcome by Brussels as they removed the last obstacles to start negotiations about candidate status. On the other hand, they also fuelled unrealistic expectations in Serbia about a quick and relatively painless road towards EU membership. The Serbian government has set a goal for accession by 2014 in accordance with the Papandreu plan. However, on the basis of past experiences, it is much more realistic to expect a considerably later date for full membership.

TABLE 1 MILESTONES OF SERBIA'S EU INTEGRATION

1997	The EU Council of Ministers establishes political and economic conditionality for the development of bilateral relations.
1999	The EU proposes the new Stabilisation and Association Process (SAP) for five countries of Southeastern Europe, including Serbia.
October 2000	Fall of the Milosevic regime
November 2000	Serbia benefits from Autonomous Trade Preferences from the EU.
2001	First year of the new CARDS (Community Assistance for Reconstruction, Development and Stabilisation) programme specifically designed for the SAP countries.

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June 2001	Feira European Council states that all the SAP countries are „potential candidates” for EU membership.
June 2003	At Thessaloniki Summit, the SAP is confirmed as the EU policy for the Western Balkans. The EU perspective for these countries is confirmed.
October 2004	Council conclusions open up a process for a Stabilisation and Association Agreement (SAA).
October 2005	Negotiations for a Stabilisation and Association Agreement are launched
May 2006	SAA negotiations suspended due to lack of progress on cooperation with the ICTY.
June 2006	Following the declaration of independence of Montenegro, Serbia becomes the legal successor to the State Union.
June 2007	SAA negotiations with Serbia resumed, following a clear commitment by the country to achieve full cooperation with the ICTY.
1 January 2008	Entry into force of the Visa Facilitation and Readmission Agreement
17 February 2008	Kosovo declares independence
April 2008	Serbia’s SAA and Interim Agreement are signed
21 July 2008	War crime fugitive Radovan Karadzic is arrested.
9 September 2008	SAA and IA ratified by National Assembly of Serbia.
15 September 2008	Netherlands freezes SAA and trade part of SAA due to insufficient cooperation with the ICTY.
October 2008	Serbian government unilaterally decides to begin implementation of trade part of Interim Trade agreement with EU from 1 January 2009
December 2009	European Commission decides to implement Interim Trade agreement with Serbia.
19 December 2009	Visa-free regime for Serbia is put into force.
22 December 2009	Serbia officially applies for membership in the European Union.
1 February 2010	Interim agreement entry into force.
June 2010	European Commission decides to start ratification of SAA.
May 2011	Former Bosnian Serb army chief Ratko Mladić arrested and extradited to the UN’s ICTY in The Hague.
July 2011	Goran Hadžić, the last fugitive indicted by the ICTY arrested and extradited.

Source: http://ec.europa.eu/enlargement/potential-candidates/serbia/relation/index_en.htm (22.09.2011).

War crime fugitives were huge and essential obstacles, but their extradition will still not guarantee a ticket to speedy and easy EU membership. A clear signal of this was sent to Belgrade by Angela Merkel in late August, who visited the country for negotiations about Serbia's EU aspirations. She set three major conditions for Serbia to reach official candidate status: closer cooperation with EU police and civilian forces EULEX, dismantling of parallel structures in the region and direct talks with Prishtina. The last condition means in other terms recognition of Kosovo, what would be at this moment a clear political suicide for all possible Serbian governments or political parties. Belgrade has declared several times that the status of Kosovo should not be linked to EU accession talks.

Merkel was not speaking for the whole European Union, but Germany will definitely seek to slow down the accession process in a fear from sponsoring a new economically unstable country. The bottleneck here is not necessarily Serbia but the EU itself: the Union has to handle first its severe sovereign debt crises, the euro crisis and in general, prepare its economic, political and institutional frameworks for the inclusion of new members. Therefore, the timeline for Serbia may resemble in an optimal view the Croatian scenario, however, a Macedonian or even more negatively, a Turkish scenario cannot be excluded. The EU will most probably be hesitant to start the accession process immediately after offering candidate status; several years may well pass until any real process will take place.

Besides Kosovo, another sensitive issue in domestic politics is the country's relation towards NATO. Slightly more than a decade after the air strikes, Serbia's hostile stance is not surprising, however unacceptable this is for Brussels and EU Member States. The EU has already sent signals to Belgrade and the domestic public opinion about the meaning of „Euroatlantic” integration and made it clear that it will not tolerate dismissive behaviour.

Although the date of accession is still not in sight and Serbia has substantial time for institutional preparation, some problems concerning the absorption capacity of the country are already visible. Since 2000, Serbia, as a potential candidate country for EU membership, has been able to use EU financial pre-accession instruments for implementing political, economic, social and institutional reforms. Currently the use of financial support in the framework of the Instrument for Pre-Accession Assistance (IPA) is still implemented by the EU Delegation in Belgrade. Recently a lot of effort has been invested in the creation of a national institutional structure able to efficiently coordinate reforms supported through EU funded projects, preparation of a decentralised system continues however at a slow pace, drawing critical voices from Brussels.

Serbia can currently use resources of ca. € 200 million on average per year from the IPA pre-accession fund - about 0.6–0.7% of its national GDP.² As the upper limit according to which each EU member state can receive resources from Structural and Cohesion Funds is equal to a maximum of 3.6% of its GDP, Serbia theoretically as an EU member state could, at current GDP levels, receive a maximum of €1.2 billion per year.

² European Commission: Serbia – Financial Assistance http://ec.europa.eu/enlargement/potential-candidates/serbia/financial-assistance/index_en.htm (22.09.2011)

However, experience in previous EU enlargements has proven that many candidate countries, especially during the early post-accession years, have faced difficulties absorbing EU funds from the EU budget. The major problems Serbia still has to tackle are similar to that of the Central and Eastern European Member States: lack of a coherent long-term strategy of national development at government level, lack of resources to co-finance projects, inefficient or in some cases absent horizontal and vertical coordination among ministries and different levels of governance in countries. Finally, the lack of skilled human resources engaged in management of EU funds in national, regional and local administrations has also been a major drawback.

On the other hand, the glimmer of hope may come for the public already too late. While on the long-time waiting list and perceiving EU conditions partly unfair and unequal, Serbian public has slowly turned away from Europe. Although at the moment there is consensus among mainstream political parties that there exists only one realistic way of political and economic development, that is EU integration, public opinion is much more divided on the issue. Official surveys have shown that support for EU integration has dropped from 72 % in 2003 to just slightly above 50 % by 2011.³ Other polls have indicated even worse trends: in recent years, EU support has been steadily under 50 % according to the Gallup Balkan Monitor.

Besides EU accession, an important milestone of Serbia's global reintegration has been its WTO accession process. The country filed its application for membership in December 2004 and after more than 6 years of negotiations, in January 2011 finally gained formal backing from the European Union in the form of a bilateral agreement. The document includes provisions on goods tariffs and on the reciprocal opening of services markets. However, before accessing the WTO, Serbia must still complete bilateral negotiations with other WTO members (in particular the US, Canada and Japan who with the EU form the so-called "Quad Group"), and have its accession endorsed by a multilateral working group in Geneva.

Macroeconomic Developments

Although recently not the focal point for criticism neither in the Commission's progress reports, nor in bilateral relations, economic difficulties may delay Serbia's EU accession. Economic growth in 2010 was a modest 1.8 %, following a 3.1 % contraction in 2009, but exports rose by over 16% and manufacturing output increased by 3.2 %. (for an overview of major macroeconomic indicators, see Table 2) High unemployment and stagnant household incomes are not only the major indicators of ongoing economic problems but also result in growing political and social tensions. Especially dissatisfied public sector workers are staging strikes. As a result of the nation-wide action of elementary and high school teachers, some 220,000 pupils were left without education for more than a week this year at the end of January.⁴ The government, however, has little room for manoeuvre due to strict IMF surveillance.

³ Milovanovic, Bojana: Serbia: Public Support For EU Accession Declines, 2011 July 26 <http://www.eurasiareview.com/26072011-serbia-public-support-for-eu-accession-declines/> (23.09.2011)

⁴ Serbia's Economy Caught in a Bind, 2011 Feb 7 http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2011/02/07/feature-02 (25.09.2011).

TABLE 2 MAJOR MACROECONOMIC INDICATORS OF SERBIA

		2006	2007	2008	2009	2010
GDP	Ann.% ch.	5.2	6.9	5.5	-3.1	1.8
Unemployment rate	%	20.9	18.1	13.6	16.1	20.0
Employment	Ann.% ch.	-1.4	-1.2	0.1	-6.1	-3.7
Wages	Ann.% ch.	11.3	15.0	4.5	1.0	7.4
Exports of goods and services	Ann.% ch.	37.2	24.8	15.9	-19.6	24.0
Imports of goods and services	Ann.% ch.	22.2	29.8	14.6	-26.1	9.9
Current account balance	% of GDP	-11.7	-16.1	-20.6	-7.4	-7.4
FDI (net)	% of GDP	13.8	6.4	6.2	4.8	3.0
International reserves	€ mn	9020.0	9633.6	8161.8	10601.9	10001.6
Consumer Price Index	%	N.A.	11.0	8.6	6.6	10.3
Interest rate (3 months)	% p.a.	13.46	6.48	5.20	13.40	10.85
Bond yield (12 months)	% p.a.	N.A.	N.A.	N.A.	N.A.	11.45
Government balance	% of GDP	-1.6	-2.0	-2.6	-4.5	-4.8
Government debt	% of GDP	36.2	29.4	25.6	31.3	41.4

Source: European Commission: EU Candidate and Pre-Accession Countries Economic Quarterly, July 2011, http://ec.europa.eu/economy_finance/db_indicators/cpaceq/documents/cceq_2011_q2_en.pdf (23.09.2011).

As a result of the global economic turmoil, the country had to line up with a growing number of countries applying for IMF loan in January 2009. In May a 2-year, € 3 bn stand-by agreement was signed to assist Serbia enforce large spending cuts in years needed to stabilise its weakening economy.⁵

According to IMF analyses, a fiscal gap of 3.0 percent of GDP was the maximum Serbia could finance, while a sharp fiscal adjustment, including a wage and pension freeze in 2009 and 2010 was needed for Serbia to attain a more balanced external position. Although these fiscal steps have been taken, there is still no sign of real structural reforms that have already become inevitable, especially in the pension and the health care systems.

After the expiry of the stand-by agreement, Belgrade requested further IMF assistance in May 2011. The new agreement was signed in early September about an additional € 1 bn precautionary programme for the next 18 months, would economic conditions deteriorate sharply. However, with the coming elections in 2012, there are also growing fears that the government would turn to more populist policies and instead of implementing the long awaited structural reforms, and would try to ease the fiscal burden.

During recent IMF negotiations it was agreed that the budget deficit by the end of this year would be higher than planned before, it will increase from € 1 bn to € 1.5 bn, or from 4.1% to 4.5% of the country's GDP. This adjustment was necessary as production in Serbia is not growing as expected and fewer taxes will be collected. The IMF has also reduced expectations for growth of the Serbian economy to 2 % from 3 % for 2011.⁶

⁵ Republic of Serbia and IMF Relations, <http://www.imf.org/external/country/srb/index.htm?pn=3> (26.09.2011).

⁶ Republic of Serbia and IMF Relations, <http://www.imf.org/external/country/srb/index.htm?pn=3> (26.09.2011).

Belgrade adopted a new long-term economic growth plan in 2010 that calls for a quadrupling of exports over ten years and heavy investments in basic infrastructure. However, on the short term, IMF conditions on Serbia constrain the use of fiscal stimulus measures to revive the economy, while Serbia's concerns about inflation and exchange rate stability preclude the use of expansionary monetary policy.

Serbia in many aspects is still a transition economy with unfinished privatisation and incomplete structural reforms. Major challenges ahead include: relatively high government expenditures for salaries, pensions and unemployment benefits, the need for new government borrowing, rising public and private foreign debt, and stagnant levels of foreign direct investment. In recent years, privatisation revenues have fallen significantly, while a high percentage of economic activity remains in the hands of the state.

One of the most serious problems also regularly highlighted in the Commission reports is the high share of the hidden economy, and in general the high level of corruption along with a tainted public procurement system.⁷ Other areas for improvement include an inefficient judicial system, money laundering, trafficking of drugs and human beings and the protection and equal treatment of minorities. Similarly to other European countries, a serious challenge is posed by the aging population, which really soon will call for implementation of painful structural reforms in the welfare systems. Factors favorable to Serbia's economic growth include a strategic location, a relatively inexpensive and skilled labor force, and a generous package of incentives for foreign investors.

Concluding Remarks

Compared to the shock of the Balkan wars that left the country's economy half the size in 2000 as it was a decade earlier, Serbia has a relatively stable economy and political system and is on the way to full reintegration to the international community and the global economy. After renewing its membership in the IMF in late 2000, the country (at that time Yugoslavia) has joined the World Bank, the European Bank for Reconstruction and Development (EBRD), and after a number of trade liberalization measures is on the right track to WTO membership. Considerable progress has been made towards EU accession, the country is likely to become an official candidate this year in December.

Although the fragile economic and social stability of the country has been undermined by the global economic crisis, with the assistance of the international community, the government will probably be able to tackle the hardships. However, painful adjustments and structural reforms will become inevitable already in the short term, but probably only after next year's elections.

⁷ European Commission: Serbia 2010 Progress Report, 2010 Nov. http://ec.europa.eu/economy_finance/db_indicators/cpaceq/documents/cceq_2011_q2_en.pdf (22.09.2011).

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