

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

**CONCLUSIONS**

**PRISTINA, 29 MARCH 2006**

The ninth meeting of the Stabilisation and Association Process Tracking Mechanism was held in Pristina on 29 March 2006.

It was the first STM meeting with the new Prime Minister Agim Çeku.

The meeting was attended by representatives of the provisional institutions of self-government and of UNMIK and by all EU actors in Pristina. Delegates of the Council working group on the Western Balkans (Coweb) also attended in the context of an informal Coweb meeting in Pristina.

The European Commission expressed its desire to continue a constructive dialogue with the Kosovo authorities and encouraged them to step up their reform efforts.

**European Agenda**

All sides underlined the importance of the European agenda for Kosovo. The provisional institutions of self-government stressed that there was no alternative to the European agenda.

***European Partnership Action Plan***

The provisional institutions of self-government presented their progress in relation to the old European Partnership action plan and highlighted some achievements.

The provisional institutions of self-government presented the current state of the development of the European Partnership action plan, which is being prepared by the Office for European Integration Processes (OEIP) with the support of the UNMIK European Integration Office as a response to the European Partnership priorities. Serious delays in developing the action plan had been incurred and the plan was not ready for presentation. The new action plan would replace the standards implementation plan and the old European Partnership action plan. All of Kosovo's institutions were involved. All initial inputs have been received and the process of finalizing the Action Plan was ongoing. The provisional institutions of self-government hope to present the new European Partnership action plan by the end of April 2006.

The OEIP would be the principal office to follow the implementation of the action plan and inter-ministerial structures to monitor implementation would be put in place.

The Commission stressed that the plan should not be seen as a bureaucratic exercise. It should propose measures leading to concrete and measurable results.

The Commission expressed its dissatisfaction with the delays and expressed its hope to receive the new action plan as soon as possible.

***European Integration Structures***

The provisional institutions of self-government stressed their desire to emulate other EU integration experiences in the region. Several changes to EU integration structures were being made.

The overall strategic coordination in relation to EU integration would be carried out by the government in weekly meetings. The current OEIP would be turned into an agency under the supervision of the Prime Minister, by government decision of 28 March 2006. Furthermore, technical inter-ministerial coordination was to be ensured by permanent secretaries. The prime minister would hold monthly meetings in relation to European Partnership implementation.

The establishment of European Partnership working groups would be completed at a later stage. During a transitional phase three additional working groups would be created on social policies; competition; consumer protection and health.

The Commission commended the government's decision of creating an Agency for EU integration. It expressed its hope that the European message would thus gain more weight with the whole administration.

The Commission added that the structure should be sufficiently developed to assume coordination functions within the administration. The Commission stressed that effective donor coordination should also be ensured.

The Commission stressed that it would monitor the progress of the new structures.

### **Political Requirements**

#### *Kosovo Property Agency*

UNMIK presented progress on the Kosovo Property Agency. The Kosovo Property Agency was created on 4 March 2006 with a mandate to address agricultural and commercial property claims. The Housing and Property Directorate had been integrated into the new agency. The start of claims intake was imminent. The first cases should be presented to courts by the end of 2006. The agency is fully donor funded and is foreseen to operate over a three year period.

The Commission stressed that provisional institutions of self-government, UNMIK Pillar I and the Kosovo Property Agency must demonstrate that the work of the Agency and the courts would be swift and efficient. It furthermore stressed that its work and the results of its work must be ethnically un-biased.

The performance of the claims resolution process should be closely monitored by UNMIK and remedial action taken, if required. Furthermore, UNMIK needed to ensure that the Belgrade authorities support the agency's mandate. This included access to the cadastre in Serbia and claims registration at designated offices outside Kosovo.

The Agency must ensure the swift completion of the residential claims caseload – including decisions on and the implementation of outstanding claims (around 15% of all residential claims).

#### *New Ministries of Interior and Justice*

UNMIK presented the new regulations establishing the ministries of interior and justice and the Kosovo Judicial Council. The first transfer of competences from UNMIK to the new ministries had already occurred and some senior appointments, including the ministers, been made. UNMIK would now conduct an interim review which, if positive, would lead to a second transfer of competences. The results of the interim review would be available in mid April 2006.

The newly appointed ministers of justice and interior presented their ministries. Both ministries were in the process of being set up and consequently still had significant capacity building needs. Both sides agreed that the new ministers would be invited to visit Commission headquarters soon in order to get acquainted with Commission structures, legislation and practices in the rule of law area.

The Commission stressed that it stood ready to provide more help, assistance and advise where needed. An EU expert mission in the rule of law area would be visiting Kosovo later in 2006 to provide a comprehensive overview of the state of play and the needs in the rule of law field in Kosovo. This would assist the Commission design its future assistance, provide information for the progress report and also help Kosovan institutions in their own development plans.

The Commission stressed that recruitment procedures should be transparent and recruited staff should reflect the ethnic composition of Kosovo.

The fight against corruption at all levels was the basic requirement to establish the rule of law.

#### *Census*

The provisional institutions of self-government presented their work in relation to holding a housing and population census in Kosovo, including the first pilot census. The cost of the operation was currently being reconsidered and the total cost likely to be lower than anticipated. The second pilot was scheduled for 10 June 2006.

The Commission underlined that it remain committed to give assistance to conduct the population census in Kosovo. The memorandum of understanding establishing the mandate of the international monitoring operation and the scope thereof had been signed in March by the Commission.

The Commission urged the provisional institutions of self-government to continue the outreach campaign. The dialogue with the northern municipalities must not be stopped. The provisional institutions of self-government must identify further ways and modalities to involve **all communities in the census process. In particular the participation of Kosovo Serbs is very important. They should be associated to this exercise from the outset.** The setting up of municipal census commissions in the northern municipalities is a pressing issue.

The central census commission should officially set – in agreement with the Assembly and the SRSB and in consultation with Eurostat - a realistic timeframe for the pilot census and the general census that allows for the necessary planning and preparation of both the census and the monitoring operation. The Commission urged Kosovo authorities to wait till a second pilot census had been successfully conducted before setting a date for the census.

Furthermore it was important that the statistical office took a more active and leading role in the process and that the authorities provided funding and the appropriate framework for the census. The capacity of the Statistical Office of Kosovo was not yet sufficient to produce basic statistical data. **It is desirable to have Kosovo Serb staff in the office.**

The Commission agreed that the initial costs for the census was probably too high and welcomed the Ministry's decision to re-cost the exercise. This had to be done swiftly and credibly.

The census must follow international rules in order to provide internationally recognised results. The statistical office needed to improve the census questionnaires and manuals in order to be in line with the international recommendations, Eurostat and international standards. The usual residence criteria had to be respected.

### **Economic Requirements**

UNMIK and the provisional institutions of self-government gave a general overview of the economic situation in Kosovo. UNMIK/PISG stressed that the signature of the letter of intent with the International Monetary Fund (IMF), was an important development.

According to UNMIK/PISG, the structural budget deficit in Kosovo was normal for a developing economy and was to be addressed by the donors' meeting of 5 April 2006. Kosovo was caught in a vicious circle of low growth, high unemployment and fiscal constraints. Regional integration remained important for Kosovo; the energy community treaty and the proposal for a regional free trade agreement were welcomed. Kosovo authorities welcomed the launch of the Free Trade Agreement process in South Eastern Europe.

The Commission emphasised that Kosovo should be fully integrated into all regional initiatives such as the European Common Aviation Area (ECAA).

#### *Medium Term Expenditure Framework*

The provisional institutions of self-government presented the medium-term expenditure framework (MTEF) as last revised in March 2006. The medium term expenditure framework covers the period 2006 to 2008 and incorporates the in and off-budget capital expenditure resulting from the public investment programme. It also includes sector analyses in the areas of economy and infrastructure, public security, education and culture, health and welfare and public services.

The Commission noticed the efforts of Kosovo to draft the medium-term expenditure framework. It stressed that this had been one of the pre-conditions for the organisation of the donors' meeting of 5 April 2006. It furthermore noted that Kosovo institutions had incorporated most of the comments the Commission and the World Bank had put forward.

The Commission stated that it considered the MTEF a living document that should be revised to take account of political developments and evolving financing needs in the future.

### *Kosovo Development Strategy Plan (KDSP)*

The provisional institutions of self-government presented progress on the Kosovo Development Strategy Plan. The plan would present a development vision till 2020 and be complemented by sectoral strategies. Consultations were ongoing with ministries and Kosovan society. The final plan has been delayed but would be presented towards the end of 2006.

The Commission urged the government to ensure that the process for the development of the Kosovo Development Strategy Plan did not become overly complicated by too many coordination committees and working groups, or overly centralised within the Kosovo Development Strategy Plan secretariat.

The Commission expressed its hope that the Kosovo Development Strategy Plan would be the guiding tool for Kosovo in its steps towards economic development, regional and European integration. It stressed that the Kosovo Development Strategy Plan strategies must be coherent with and integrate the medium-term expenditure framework, the public investment programme and other strategies already developed or under preparation by ministries.

Furthermore, full coherence with the European Partnership and the future EC assistance to be planned under the instrument for pre-accession should be ensured. The Kosovo Development Strategy Plan process must aim to strengthen government leadership of both donor and inter-ministerial coordination.

The Commission expressed concerns about the delay in the finalisation of the drafting.

The Commission stressed that reliable statistics were of prime importance for economic development. The statistical office should be further strengthened and Kosovo Serb representation at the statistical office should be increased.

### **European Standards**

#### *Report from the Workshop on Customs, Taxation and Trade*

The STM meeting took note of the conclusions of the technical workshop on customs, trade and taxation, held on 27 March 2006 in Pristina. The conclusions are attached as annex to these STM conclusions).

The Commission stressed that the areas of trade, customs and taxation were key issues for Kosovo's economic development and viability. The workshop underlined the Commission's commitment to engage in technical sector discussions with Kosovo on a regular basis.

The Commission added that the Kosovo Customs and Fiscal Assistance Office would be tasked to complete a benchmarking exercise in relation to customs and taxation. The exercise would identify needs and gaps and measures how to address those in a comprehensive blueprint. This exercise would take place in the next few months to prepare a follow up workshop on customs and taxation.

#### *Amendment of the Public Procurement Law*

The Commission noted that significant progress had been achieved on the amendment of the public procurement law prior to the STM meeting.

The Commission stressed the need for the provisional institutions of self-government to establish a modern, workable and EC compliant public procurement law and an institutional framework that guaranteed its proper implementation.

The Public Procurement process should not be overly centralised but decentralised whereby the contracting authorities should remain independent and accountable. There should also be a clear separation between regulatory and review functions.

The Commission stressed that the right legislation was only the first step and the proper, effective and efficient legislation was key to proper use of public funds. The application of the public procurement law would be further monitored and scrutinised.

In this context the Commission encouraged Kosovo's institutions to provide training on the amended public procurement law and its procedures through the Kosovo institute for public administration to all parts of the administration.

### **The Instrument for Pre Accession**

The European Commission presented the basic elements of the future instrument for pre accession (IPA) for the period 2007 – 2013. The Commission stressed that while the Council Decision had not been taken and financial allocations had not been fixed, some elements could be communicated.

While the Commission was responsible for the design and content of IPA, it was necessary to increase ownership. Kosovo authorities were encouraged to be even more closely involved in the design of planning and programming.

This in turn also required a clear and prioritised idea about Kosovo's needs amongst Kosovo's institutions, clear and precise planning and needs assessment and also improved and efficient donor coordination.

The Commission advised the Kosovo institutions that strategic planning for IPA had started and that Kosovan input would be sought. It invited Kosovan institutions to reflect about past EC assistance and engage in a dialogue on possible future changes to priorities.

The Commission stressed that the European Partnership would remain the main guiding document.

The first draft of the multi annual indicative planning document would be available to Kosovan authorities for internal consultation by the end of April.

Kosovan authorities were also advised to create the necessary structures, including the appointment of an IPA coordinator.

### **Other issues**

The Commission outlined three important issues for the new future. The regular STM rhythm would be maintained and STM meetings organised for June, September and December 2006. They would be complemented by technical workshops. Secondly, the IPA planning and eventually programming would be continuing. Thirdly, the annual reporting exercise would be starting shortly with the aim that the progress report be published in autumn this year. The Commission reiterated that it would require good cooperation from Kosovo authorities.

**ANNEX**  
**WORKSHOP ON TRADE, CUSTOMS AND TAXATION**  
**CONCLUSIONS**

The workshop was held in Pristina, Kosovo on 27 March 2006.

Participants:

From the PISG: The Ministry of Trade and Industry (MTI), the Ministry of Economy and Finance (MFE), the Office for European Integration Processes in the OPM (OEIP), the Kosovo Food and Veterinary Office and the Kosovo Coordinator of the Stability Pact.

From UNMIK Pillar IV: The UNMIK Customs Service, the UNMIK Office of European Integration, the Economic Policy Office and the Fiscal Affairs Office.

From the Commission: Representatives from DG Trade, DG TAXUD, DG Enlargement, CAFAO to UNMIK and the European Commission Liaison Office.

**Introduction:**

The Commission explained the rationale behind the workshop, stressing that these are technical discussions the purpose of which is to take stock on developments in the framework of the STM and notably to review progress towards accomplishment of the European Partnership priorities. The Commission also expressed the wish that the dialogue between the Commission services and the Kosovo institutions strengthens and more regular STM workshops will be held in the future.

The Workshop provided for an excellent forum for discussion on the most recent developments in the fields of Trade, Customs and Taxation.

The conclusions of this workshop will be an annex to the overall STM conclusions.

**1. Conclusions - TRADE**

*Overview of presentations and discussions:*

The Ministry of Trade and Industry (MTI) and UNMIK Pillar IV presented an update on the bilateral FTA's, on the legislative and administrative set-up on external trade as well as an update on the state of fulfilment of the European Partnership priorities. Furthermore, three specific items were discussed: the issue of export of lambs, the nomenclature of trade statistics and the issue of valuation of agricultural imports. The European Commission presented its trade policy towards the Western Balkans (notably the adoption of autonomous trade preferences for the benefit of the Western Balkans) and regional trade integration.

*Conclusions:*

- The European Commission acknowledged the very good preparation undertaken by the Kosovo institutions for the workshop and welcomed the exchange of views.
- It was stressed that through the conclusion of FTAs Kosovo's regional integration is advancing satisfactorily. The Kosovo institutions asked the Commission to exert its leverage on B&H, to sign the FTA and start with its implementation.
- The Commission pledged its strong support towards further regional trade integration and the inclusion of Kosovo in the future single regional trade agreement based on an enlargement and improvement of CEFTA.
- Kosovo expressed its firm intention to participate in the CEFTA extension negotiations. The Commission highlighted its support to this process. However, Kosovo stressed that it is the only participant not having in place bilateral FTAs will all participants. The Commission replied that bilateral negotiations on specific trade concessions (e.g. with Croatia and Moldova) would have to take place in parallel to the CEFTA negotiations. It was also stressed that given the

approaching accession of Bulgaria and Romania, bilateral negotiations with these two countries would not be advisable.

- As regards non-tariff trade barriers, Kosovo stressed that free movement of businessmen is crucial and is currently an obstacle. A number of SAP countries do not recognize UNMIK travel documents and Kosovo number plates. The assistance of the Commission was requested.
- The MTI needs capacity building. Numerous offices recently set-up, need reinforcement and technical assistance. The Commission expressed its readiness to support this process. The Commission invited the authorities to make proposals for future capacity-building assistance through IPA.
- The limited administrative capacity available hampers coordination amongst trade-related agencies. For example, with regard to Intellectual Property Rights (IPR) a co-ordinated approach is required with a particular focus on enforcement mechanisms (see also point under Customs).
- It was agreed that it is too early yet for Kosovo to apply for WTO membership, since Kosovo does not yet meet the necessary requirements. However, training on WTO-related issues and practices would be useful.
- The Commission acknowledged that the fulfilment of the European Partnership priorities is on track. However, Kosovo should submit its comprehensive Action Plan to address these priorities as soon as possible.
- It is recognised that external trade is important for the sustainable economic development of Kosovo, as well as for its regional integration. External trade can act as a catalyst for the reform agenda, quality of products, and EU standards.
- The Commission stressed that trade policy cannot be seen in isolation, but has deep implications on domestic policies (e.g. agricultural policies, industrial standards, intellectual property rights etc.)
- The Commission highlighted that the autonomous trade preferences granted towards Kosovo will have its maximum effect only if Kosovo also complies with EU standards. In this context, the Kosovo institutions stressed that it is crucial to define priorities, given the limited resources, and the Commission's input would be welcomed.
- Kosovo requested the Commission to ask third countries to adopt separate nomenclature for trade with Kosovo. The Commission agreed to take the point forward with the various countries trading with Kosovo.
- On the issue of valuation of agricultural imports (from a trade perspective) the Commission asked the Kosovo institutions to make a proposal (respecting the standstill clause) and consult with the Commission prior to the adoption of any measures. It was also stressed that the WTO rules on customs valuation have to be respected.
- Kosovo requested listing as authorised exporter of lamb. The Commission suggested that Kosovo undertakes the necessary steps/procedures (as per hand-outs). The Commission expressed its readiness to advise.

## **2. Conclusions - CUSTOMS:**

### Overview of presentations and discussions:

The UNMIK Customs authorities presented the state of play of existing legislation and actions undertaken to further align it with the *acquis communautaire*. Customs presented the Customs Code and the implementing provisions as well as the New Customs Code that is expected to become operational by 1 Jan 2007 and which will bring further alignment with the EU *acquis*. In addition, the steps undertaken to improve administrative capacities have been presented with specific reference to the benchmarking exercise against the *acquis* carried out by CAFAO.

### Conclusions:

- The EC noted the high level of commitment and seriousness in the area of customs. Substantial progress has been identified in terms of legislation, capacity building and law enforcement.
- The Commission stressed that the most important priorities in the short to medium-term are listed in the European Partnership Priorities for Kosovo.
- The EC noted that customs legislation is broadly in line with the EU *acquis* and stated that further progress on administrative capacity, computerization and revenue collection is needed.
- With reference to New Customs Code the EC recommended that the Kosovo institutions should be careful with regard to Free Zones and to consult with the Commission prior to any actions undertaken. EU standards will need to be respected, both on customs, indirect taxation and business taxation (Code of Conduct).
- On the new Customs Code, the Commission stressed the need to take into account the 2005 modifications of the EU Customs Code (customs security) but advised to be cautious with the latest Commission proposal (still to be negotiated within the EU).
- UNMIK Customs brought up the issue of missing legislation in the field of Intellectual Property Rights and the lack of scanners and other necessary equipment to successfully do their work. Progress in the field of Intellectual Property Rights is required both in terms of legislative infrastructure and capacity building but also in terms of enforcement mechanisms. The Commission stressed the importance of this area and called on further progress to be carried out (both on legislation and administrative capacity).
- The Commission noted that further progress will be needed on customs laboratories as well as on the effective implementation of risk analysis. CAFAO assistance will be provided in these areas.
- The EC acknowledged the great efforts of the customs authorities in the fight against smuggling, counterfeit and corruption, but also called for continued efforts on these important matters.

### **3. Conclusions - TAXATION:**

#### Overview of presentations and discussions:

Tax Administration of Kosovo gave a comprehensive presentation of the state of play in the field of legal harmonization with the *acquis* with specific reference to VAT, Excise and legislation on direct and indirect taxes. In addition, a thorough presentation was given on the improvement of administrative capacities with the focus on organization of TAK at central and at local level, tax collection, fiscal control and auditing procedures, fight against tax evasion, risk analysis, relations with tax payers and the development of IT. The EC representative from DG TAXUD made a short presentation of the Code of Conduct for business taxation.

#### Conclusions:

- Taxation issues are of a high priority for the Commission and their inclusion in the European Partnership for Kosovo, both on short term and long-term priorities, require strong commitment in the future from the Kosovo institutions.
- The EC noted that the alignment of indirect tax legislation has started, but that it needs to continue progressively.
- The Commission requested the setting of a timetable for the adoption of the new VAT law

- The reduction of the threshold level from 50.000 Euros to 30.000 Euros in the new VAT law was a step in the right direction according to the EC. However, the Commission stressed that any further decrease should be done progressively.
- The Commission noted that the 0% VAT norm on agricultural products is not compliant with the *acquis* and that it has to be modified at some stage.
- The Commission gave a positive feedback on the excise code as a right and realistic step towards EU compliance.
- The collection of taxes by the TAK is still weak, since 65% of the Kosovo Consolidated Budget is collected at the borders. Much more work therefore needs to be done in the area of domestic tax collection as well as in changing the mentality of Tax Payers and Businesses.
- The EC notes that the provisions of the Code of Conduct on business taxation have to be respected.
- The EU therefore proposed that the Kosovo institutions undertake a gap analysis with the EU tax blue prints dealing with different measures *inter alia* tax collection, IT, audit, and risk analysis. Such a gap analysis could also serve as a basis for future EU assistance. The Commission suggested that CAFAO should assist TAK in identifying these gaps.
- The EC emphasized that the Tax collection will become even more important in the future while customs duties are going down progressively due to the signature and implementation of FTA's. The Commission suggested that at the next workshop it would like to discuss the Action Plan to increase tax collection.