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Enlargement Strategy and Main Challenges 2014-15

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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
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Enlargement Strategy and Main Challenges 2014-15

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COMPLETING THE FOUNDATIONS FOR CREDIBILITY

I. THE ENLARGEMENT AGENDA — ACHIEVEMENTS & CHALLENGES

Over the past five years, the Commission has strengthened the **credibility** of enlargement policy and enhanced its **transformative power** by ensuring a stronger focus on addressing fundamental reforms early in the enlargement process. The Commission has put particular emphasis on the three pillars of **rule of law**, **economic governance** and **public administration reform**.

In its enlargement strategy Communication¹ in 2012 the Commission introduced a new approach to rule of law. In its 2013 Communication,² the Commission set out a framework for strengthening economic governance, drawing on the experience of the European Semester. This year, the Commission sets out new ideas to support public administration reform in the enlargement countries. These three pillars are interlinked and progress in these areas will be key to determining when countries will be fully ready to join the EU.

The EU's enlargement policy contributes to mutual benefits of peace, security and prosperity in Europe. It reinforces the EU's political and economic strength and has a powerful transformative effect on the countries concerned. A well prepared accession process ensures enlargement is not at the expense of the effectiveness of the Union.

The tenth anniversary in May of the accession of ten Member States in 2004 is a reminder of the progress achieved. As the EU expands so do opportunities for our companies, financial investors, consumers, tourists, students and property owners. Accession benefited both those countries joining the EU and the established member states. Trade and investment have increased. The quality of life of citizens has improved as EU environmental, consumer and other standards apply more widely.

For the countries of the Western Balkans, the clear perspective of EU membership granted by the EU's Member States is a key stabilising factor. It supports progress towards fulfilment of the necessary conditions, including those of the Stabilisation and Association Process. Good neighbourly relations and inclusive regional cooperation are essential. There has been progress in this regard over the past year, while some open issues still remain. Continuous efforts to tackle bilateral issues among enlargement countries and with Member States, including under UN auspices where relevant, and overcome the legacy of the past are crucial in view of the history of this region so recently riven by conflict.

The accession process is rigorous, built on strict but fair conditionality, established criteria and the principle of own merit. This is crucial for the credibility of enlargement policy, for providing incentives to enlargement countries to pursue far-reaching reforms and for ensuring the support of EU citizens. For their part, Member States, together with the EU institutions, should lead an informed debate on the political, economic and social impact of enlargement policy.

¹ COM(2012) 600 final.

² COM(2013) 700 final.

The current enlargement agenda covers the countries of the Western Balkans, Turkey and Iceland. It has been a significant year for a number of the countries of the Western Balkans:

Montenegro has taken further steps in accession negotiations. Twelve chapters have been opened. Implementation of rule of law reforms has started. Tangible results are now needed and will be key to determining the overall pace of the accession negotiations.

The opening of accession negotiations is a turning point in the EU's relations with **Serbia**. Now Serbia needs to deliver on its reform priorities in a sustained manner as the pace of negotiations will depend on progress in key areas, notably on rule of law and the normalisation process with Kosovo*. New momentum needs to be generated in the dialogue between Belgrade and Pristina in order to tackle key outstanding issues and open a new phase in the normalisation of relations.

Albania was granted candidate status in June as recognition for its reform efforts and progress made in meeting the required conditionality. The country needs to build on and consolidate the reform momentum and focus its efforts on tackling its EU-integration challenges in a sustainable and inclusive way. Both government and opposition need to ensure political debate takes place primarily in parliament.

The initialling of a Stabilisation and Association Agreement with **Kosovo** in July is a major milestone in EU-Kosovo relations. Now Kosovo needs to deliver on key reforms, in particular the rule of law.

The EU accession process with **the former Yugoslav Republic of Macedonia** is at an impasse. Action is needed to reverse recent backsliding, notably as regards freedom of expression and of the media and the independence of the judiciary. There is an urgent need to find a negotiated and mutually acceptable solution to the name issue. Government and opposition should take steps to restore political dialogue in parliament.

Bosnia and Herzegovina remains at a standstill on its European integration path. Following the elections, it will be essential for the country to speak with one voice, to tackle urgent socio-economic reforms and to progress on its European agenda.

Implementation of certain reform commitments by **Turkey** has continued, such as the 2013 democratisation package, and steps have been taken towards a settlement of the Kurdish issue. However, there have also been grounds for serious concerns regarding the independence of the judiciary and the protection of fundamental freedoms. Active and credible accession negotiations provide the most suitable framework for exploiting the full potential of EU-Turkey relations. Opening negotiations on the relevant chapters on rule of law and fundamental rights would provide a roadmap for reforms in these key areas.

Following a decision of **Iceland**'s government, accession negotiations have been on hold since May 2013.

The Commission's approach of addressing fundamentals first prioritises reforms related to rule of law and fundamental rights, economic governance and improving economic

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

competitiveness, and strengthening democratic institutions. This includes public administration, which remains weak in most enlargement countries, with limited administrative capacity, high levels of politicisation and a lack of transparency. Strengthening the functioning of democratic institutions also requires sound electoral processes and proper functioning of parliaments, including constructive and sustainable dialogue across the political spectrum. More needs to be done to foster an enabling environment for civil society organisations. A strong civil society enhances political accountability and promotes deeper understanding of accession related reforms.

Section II of this Communication focuses on the key challenges and reviews progress in the fields of public administration reform, economic governance and competitiveness, and the rule of law and fundamental rights. Section III takes stock of regional and bilateral issues, particularly in the Western Balkans. Section IV sets out conclusions and recommendations on both horizontal and country-specific issues.

In all the above fields, the Commission aims to make maximum use of existing mechanisms and fora to drive reforms forward, be it through Stabilisation and Association Agreements (SAA) structures, the accession negotiations or Commission-led targeted country-specific initiatives such as high-level dialogues or structured dialogues on the rule of law. Such initiatives were further expanded in November 2013 with the establishment of a high-level dialogue with Albania on the key priorities. On public administration reform the Commission is introducing a more structured dialogue and setting up ‘special groups’ with the enlargement countries.

2014 has seen the launch of the new Instrument for Pre-Accession Assistance (IPA II). Through IPA II, the EU will provide EUR11.7 billion for the period 2014-2020 to support the enlargement countries in their preparation for accession as well as regional and cross-border cooperation. IPA II increases focus on priorities for EU accession in the areas of democracy and rule of law as well as competitiveness and growth, IPA II also introduces a sector approach, incentives for delivery on results, increased budget support and prioritisation of projects. A coordinated approach is required for the major investments along the main infrastructure corridors. Coordination with international financial institutions (IFIs) is being strengthened. The Western Balkans Investment Framework will continue to support investments boosting jobs and growth and promoting connectivity in the region.

Three strategic benefits of enlargement

(1) makes Europe a safer place. Through the accession process, the EU promotes **democracy** and fundamental freedoms and consolidates the rule of law across the aspirant countries, reducing the impact of cross-border crime. Current enlargement policy is **reinforcing peace and stability** in the Western Balkans and promoting recovery and reconciliation after the wars of the 1990s.

(2) helps improve the quality of people’s lives through integration and cooperation in areas like energy, transport, rule of law, migration, food safety, consumer and environmental protection and climate change. Enlargement helps us ensure that our own high standards are applied beyond our borders, which reduces the risks of EU citizens being affected for example by imported pollution.

(3) makes us more prosperous. A bigger Europe is a stronger Europe. In 2012, EU GDP was 23 % of world GDP, amounting to EUR13 trillion. Accession benefited both those countries joining the EU and the established Member States. As the EU expands so do opportunities for our companies, investors, consumers, tourists, students and property owners. A larger single market is more attractive to investors: Foreign direct investment from the rest of the world to the EU has doubled as a percentage of GDP since the 2004 accession (from 15.2 % of GDP in 2004 to 30.5 % of GDP in 2012).

II. FUNDAMENTALS FIRST — CONSOLIDATING REFORM AND STRENGTHENING CREDIBILITY

This section identifies key challenges and reviews progress in the fields of public administration reform, economic governance and competitiveness, and the rule of law and fundamental rights. It sets out new ideas for strengthening the focus on public administration reform and further refines the approach to economic governance. In last year's Communication particular emphasis was put on how pre-accession funding supports the reform process across the board. This year, attention is drawn to certain practices in the above fields which are in place in enlargement countries and which can serve as inspiration for reforms elsewhere.

a) Public administration reform

Together with rule of law and economic governance, public administration reform (PAR) is a pillar of the enlargement process. All three 'pillars' are closely linked, cross-cutting issues of fundamental importance for success in political and economic reforms and building a basis for implementing EU rules and standards. A well-functioning public administration is necessary for democratic governance. It also directly impacts governments' ability to provide public services and to foster competitiveness and growth.

Public administration reform aims at enhanced transparency, accountability and effectiveness and greater focus on the needs of citizens and business. Adequate management of human resources, better policy planning, coordination and development, sound administrative procedures and improved public financial management, including revenue administration and collection are of fundamental importance for the functioning of the state and for implementing the reforms needed for EU integration. Countries need to increase their efforts to improve their public administrations at all levels on the basis of national strategies. Recognising the challenges faced by the enlargement countries, the Commission is strengthening its support towards the establishment of the necessary administrative structures and capacity in the accession process.

The Commission will structure its work on PAR with the enlargement countries around the following key issues:

Key issues for public administration reform

- 1. Strategic framework for public administration reform** — this includes the political commitment to the reform process, including political leadership and technical coordination and monitoring of implementation.

2. **Policy development and coordination** — this includes appropriate coordination at the centre of government, inter-ministerial coordination, policy development and financial analysis.
3. **Public service and human resources management** — this includes organisation and functioning of the public service, including depoliticisation, merit-based recruitment and promotion, training and professionalisation.
4. **Accountability** — this includes transparency of administration, including access to information and possibility of administrative and legal redress.
5. **Service delivery** — this includes improving services for citizens and business, including better administrative procedures and e-government services.
6. **Public financial management (PFM)** — this includes a commitment to a more comprehensive approach to improving management of public finances and the overall budgetary process through preparation and implementation of multi-annual PFM programmes and engaging in a PFM policy dialogue with the Commission and IFIs. A credible and relevant PFM programme is also key for IPA sector budget support.

The Commission aims to better integrate public administration reform into the enlargement process. ‘Special groups on PAR’ have been set up or are in the process of being established with the countries of the Western Balkans on the model of the SAA sub-committees. Special groups have already met in the case of Albania, Kosovo, the former Yugoslav Republic of Macedonia and Montenegro. The first special group on PAR with Serbia will meet in October. The special groups will become the key platform for taking forward work on PAR, which will be based around the above key issues. The results of the PAR special groups should feed into the SAA Council/Committee, with a more structured, political discussion on key PAR issues.

Although there is no specific *acquis* chapter covering public administration as such, accession negotiations should also be used to encourage the necessary reforms. Key issues should be addressed through relevant chapters — notably public procurement, financial control, judiciary and fundamental rights, taxation and economic and monetary policy, — and in the context of inter-governmental conferences where this is important for *acquis* implementation. Coordination with IFIs especially in the area of PFM will be crucial. The Commission continues to support the Regional School of Public Administration, which has an important role for sharing experience in the region on PAR, also in relation to the EU integration process.

Increasing capacity of the public administration in Kosovo:

In order to strengthen professional and institutional capacity of its public administration, Kosovo established a young professionals’ programme. With a strong focus on European integration needs, this programme provides scholarships for the brightest students to follow a special Masters programme in Kosovo together with the opportunity to study in the EU. Around 80% of the graduates have been employed by the Kosovo authorities. This is benefitting not only the Ministry of European Integration, but also sectoral ministries and institutions that will be responsible for implementation of obligations under the future SAA.

b) Economic governance and competitiveness

The Commission is strengthening its support to improving economic governance and competitiveness in enlargement countries. This is key to addressing concerns of citizens in a persistently difficult economic environment, with high unemployment and low investment. This new approach is particularly important in relation to the Western Balkan countries since none of them is yet considered to be a functioning market economy. It will build on the experience of EU Member States in the European Semester. There will be an increased emphasis on structural reforms which are sectoral in nature. The enlargement countries will be asked to submit National Economic Reform Programmes. For its part the EU will provide more guidance for reform priorities and better targeted IPA funding. Improving economic governance in the enlargement countries is also of importance for maintaining support for enlargement within the European Union.

All Western Balkan countries face major structural economic challenges, with high unemployment rates and low levels of foreign investments. There remain significant challenges in all enlargement countries in terms of economic reform, competitiveness, job creation and fiscal consolidation. Weaknesses with the rule of law and public financial management exacerbate the risk of corruption, negatively impacting on the investment climate. To date, none of the countries have produced a comprehensive and convincing domestic reform agenda.

Macroeconomic situation in the enlargement countries

⇒ There is a mixed picture in terms of socio-economic developments in the enlargement countries. All enlargement countries have largely maintained overall macroeconomic stability but fiscal risks have increased significantly in a number of them. Modest recovery is continuing. The Commission's most recent forecast is that the candidate countries in the Western Balkans should grow by 1.6% on average in 2014. The recovery has not translated into more jobs. Unemployment has remained high, particularly among the young, and is now on average 21% in the Western Balkans, but much higher in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Kosovo. Poverty levels remain stubbornly high.

⇒ The EU is the main trading partner for the Western Balkan countries, receiving approximately 60% of the exports from the region. The EU is also by far the biggest provider of foreign direct investment.

⇒ In 2013, Turkey has seen growth increase to 4% and the growth estimate for 2014 is 2.6%. The Turkish lira has weakened and the current account deficit went up to almost 8% of GDP in 2013. Turkey's recent economic performance illustrates both the high potential and the continuing imbalances of its economy. The EU remains the main trading partner of Turkey with over 40% of its exports going to the EU. Turkey has become an investment base for European business with increasing integration into the EU's supply and production chain. Around 70% of the foreign direct investments in Turkey come from the EU.

Key economic indicators

	GDP per capita in PPS (% of EU)	GDP growth (%)	Inflation (%)	Unemployment (%)	Employment rate, age 20-64 (%)	Participation rate, age 20-64 (%)	Exports (goods & services % of GDP)	Gov. debt (% of GDP)	Gov. deficit (% of GDP)
Albania	30	1.4	1.9	15.6	57.2	68.0	40.2	62.0*	-3.4*
Bosnia and Herzegovina	29	2.5	-0.2	27.5	n/a	n/a	30.0	n/a	-2.2
the former Yugoslav Republic of Macedonia	35	2.9	2.8	29.0	50.3	70.4	53.9	36.0	-4.1
Kosovo	n/a	3.4	1.8	30.0	n/a	n/a	17.4	n/a	n/a
Montenegro	42	-2.5*	1.8	19.5	52.6	65.1	44.1*	58.0	-2.3
Serbia	36	2.5	7.8	22.1	51.2	66.0	44.7	63.2	-5.0
Turkey	55	4.0	7.5	8.8	53.4	58.4	25.7	36.2*	-0.3*

Source: Eurostat. Reference year 2013 except (*) 2012.

➤ Enhancing economic governance

The enlargement strategy 2013-14 proposed a new approach to help the enlargement countries tackle the economic fundamentals and to meet the economic criteria. The new approach implies a change in the dialogue and improved reporting in order to give clearer guidance on the reforms needed to support long-term growth and competitiveness.

Key economic challenges in the Western Balkans

⇒ Strengthening fiscal consolidation by reducing budget deficits and implementing credible public sector reforms, including reform of the public administration and pension systems.

⇒ Strengthening public financial management, including revenue administration and collection, budget formulation and execution, accounting and reporting, and external oversight.

⇒ Addressing the high burden of non-performing loans.

⇒ Restructuring and improving governance of state-owned enterprises,

⇒ Improving the business environment, including the digital economy, and supporting private-sector development, reducing para-fiscal charges, simplifying regulation and boosting research investment.

⇒ Improving energy and transport networks and increasing connectivity.

⇒ Establishing functioning labour markets, including sufficient flexibility, addressing the informal sector, improving the employability of workers, and better aligning education and skills with labour market needs.

The countries of the Western Balkans are invited to enhance economic policy and its governance through the preparation of annual National Economic Reform Programmes. These programmes will comprise two parts. The first part will consist of an enhanced version of the existing Pre-Accession Economic Programmes (PEP) for candidate countries and Economic and Fiscal Programmes (EFP) for potential candidates and extended also to include Kosovo. Part one of the National Economic Reform Programmes will set out a medium-term macroeconomic and fiscal policy framework, with increased focus on assessing external sustainability and structural obstacles to growth, as well as concrete reform measures to support the policy framework. Part two of the National Economic Reform Programmes will cover structural reforms which are sectoral in nature (such as transport, energy, education, environment, research, industry, competition, internal market) and of most concern for improved competitiveness and growth in the individual countries, including infrastructure investment needs. The Commission will provide the countries with clear and consolidated guidance to ensure that these programmes are targeted on the key issues.

With regard to the increased focus on structural reforms, 2015 should be considered as a first-year pilot phase. Reforms addressed in these documents will be underpinned by IPA assistance. To strengthen surveillance, the process of evaluation will result in more targeted policy guidance for each country. Already in May 2014, the Joint ECOFIN Council issued more targeted guidance for each of the Candidate Countries.

Turkey and the EU share a mutual interest in promoting an agenda of economic reform, and the exchange of experience, aligning of positions in the G20 and deepening economic integration. Moreover, the recent evaluation of the EU-Turkey Customs Union provides important elements for upgrading this trade agreement. It is in the interest of both parties to enhance their trade relations to a level commensurate with modern trade agreements and the strategic importance of EU-Turkey relations. The economic agenda could be addressed in a regular EU-Turkey high-level economic dialogue. These intensified political contacts could be complemented by an annual EU-Turkey business forum.

An annual cycle of economic policy review and guidance for the Western Balkans

31 January — Submission by the countries of the **National Economic Reform Programmes** (part 1 on the macroeconomic and fiscal framework and supporting reforms, part 2 on structural reforms which are sectoral in nature and competitiveness) to the Commission. Given the longer term nature of reforms under part 2, this would be subject to simple annual updating in each subsequent NERP.

February — Commission assessment missions to Western Balkan countries.

April — Country meetings with the Commission to discuss Targeted Policy Guidance

May — ECOFIN Council conclusions

June/July — Country-specific meetings at Ministerial level.

Autumn — Commission's enlargement package takes stock of further progress since ECOFIN Council, offering further, more detailed forward looking guidance to be reflected in the programmes to be submitted the following January.

Dedicated technical assistance is needed to help support the implementation of this approach. The implementation of country-specific policy guidance will have to be rapidly supported by

targeted and concrete IPA projects to improve economic governance. IPA Country and Multi-country Strategy Papers 2014-2020 reflect the importance of economic governance and allocate indicative funds to this aim. Concrete IPA projects are being prepared and will be rolled out as of 2015.

Increasing competitiveness and introducing measures fostering job creation in the region will mitigate migratory pressures from the enlargement countries to the EU. In the most recent enlargements, transitional arrangements were in place to phase-in the full free movement of workers from the new Member States. The possible need for and nature of transitional measures and/or a safeguard mechanism on the free movement of workers will be addressed in the course of accession negotiations on future enlargement, taking into account a future impact assessment.

➤ Dialogue on employment and social reform

The Commission's support for sustainable economic development in the Western Balkans goes beyond macroeconomic stabilisation and the achievement of the functioning market economy status. Since the beginning of the crisis, the Commission has been insisting that more needs to be done to address the difficult socio-economic situation, in particular high unemployment.

The Commission has already started a new dialogue on employment and social reform programmes (ESRPs) with Turkey and Serbia. Dialogues with the former Yugoslav Republic of Macedonia and Montenegro are under preparation. The socio-economic situation in the remaining countries is more challenging and extra support will be needed to build administrative capacity to facilitate participation in the new process. These countries will be gradually invited to the new dialogue. Comprehensive technical assistance is being provided through IPA, in addition to wider support in the employment and social area. The Commission will launch an employment and social platform as a further tool to help countries share experience and prepare for the ESRP dialogue.

In a separate exercise, with a view to reducing the skills gap and improving education systems, the Commission will also continue developing the Western Balkans platform on education and training.

➤ Boosting investments for growth and jobs; networks and regional cooperation

Cross-border transport, energy and communications networks are underdeveloped in the Western Balkans. Infrastructure investments are much needed to boost economic development in the region. In view of the size of the Western Balkan economies, closer integration is key. Regional economic cooperation is not only an opportunity for sustainable growth but also for political cooperation and good neighbourly relations. Work is ongoing under the auspices of the Regional Cooperation Council (RCC) to address the targets and priorities of SEE2020. The planned liberalisation of services in the Central European Free Trade Area (CEFTA) would further support this aim.

Energy and transport networks

Improving energy and transport interconnection between the EU and enlargement countries is a priority for promoting sustainable economic growth, jobs, trade and cultural exchange.

In May, the Commission adopted its European Energy Security Strategy³ aimed at strengthening the EU's energy security. In the short-term, the strategy proposes that the Commission launches **energy security stress tests** to simulate a disruption in the gas supply for the coming winter and to check how the energy system can cope with security of supply risks. Bearing in mind the pan-European dimension of energy security, the Commission has invited all countries of the Western Balkans and Turkey to contribute to the stress test exercise. Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Serbia and Turkey have contributed to this exercise. Further development of trans-European **energy** infrastructure and cooperation with the Energy Community is essential. The Energy Community, which aims to expand the EU's energy *acquis* to enlargement and neighbourhood countries, should be further strengthened in the light of the EU's security of supply concerns. This should be achieved by further promoting energy sector reforms in the participating countries, while also supporting the modernisation and sustainability of their energy system and their full integration in the EU energy regulatory framework.

A particular focus of the Energy Community's future work should be on improved implementation and enforcement of reforms to create a genuine internal market at both wholesale and retail level, particularly as regards unbundling utilities, price transparency or guaranteeing third party access to networks. The need for guaranteed third party access is one of the reasons why the Commission has declared that the Inter-Governmental Agreements, signed between Russia and a number of countries involved in the South Stream project, need to be renegotiated and construction on the project suspended.

Cooperation with Turkey in view of its strategic location and potential as an energy hub should be further developed. Strengthening of the EU-Turkey energy cooperation as well as relevant progress in the accession negotiations would facilitate further progress towards the interconnection and integration of energy markets.

The Commission has adopted a list of Projects of Common Interest (PCIs) for the development of trans-European energy infrastructure. A list of Projects of Energy Community interest (PECIs) has been adopted by the Energy Community Ministerial Council. To implement these networks, parties (with the EU's help) will need to overcome difficulties in financing interconnections between countries.

The forthcoming **Transport** Community Treaty will promote integration of land transport markets and infrastructure whilst helping the Western Balkan countries implement EU land transport standards. The Commission has also reviewed the EU's Trans-European Networks in the field of transport (TEN-T) and energy (TEN-E) with a view to improving connections with the countries covered by the enlargement and neighbourhood policies.

The Western Balkans Investment Framework (WBIF) plays an increasingly important role helping prepare and support those investments most needed for boosting growth and jobs. Under the WBIF, the Commission, bilateral donors and international financial institutions are supporting 4 billion euros worth of investments per year in transport, energy, the environment, climate change, supporting a resource efficient economy, the social sector and private sector / SME development, where the Commission is co-financing a Western Balkan SME platform aimed at improving access to finance for SMEs through guarantees and venture capital. The Commission is encouraging the countries to set up national investment committees or similar coordination mechanisms that would lead to single sector project pipelines.

³

COM(2014) 330 final.

Developing a single project pipeline in Serbia:

Serbia is establishing a list of priority infrastructure projects of national and EU-strategic relevance in the sectors of energy, transport, environment and business infrastructure. These priorities would constitute projects politically endorsed to be implemented up to and beyond accession. The list is being developed with a coherent and objective selection methodology, through an IPA-funded project. Projects are being carefully assessed in terms of the remaining preparatory/administrative steps and detailed institutional responsibilities attributed for all steps concerned. Once politically endorsed by government, all the above elements, missing in the past, can lead to better prioritisation of project financing as well as better coordination among IFIs and international organisations interested in providing funds. The aim is that only projects in the single project pipeline will be funded by IPA and IFIs.

➤ *Ensuring sustainability of investments and effective disaster risk management*

The Western Balkan countries are exposed to a wide range of disasters. The severe floods which hit both Bosnia and Herzegovina and Serbia in May caused not only several dozen casualties but also had a considerable socio-economic impact. Total damage is estimated at around €2.04 billion in Bosnia and Herzegovina (the equivalent of nearly 15% of GDP) and €1.52 billion in Serbia. The floods have also had a significant impact on growth prospects of both countries, negatively affecting their long-term sustainable development. The floods underlined the importance of sustainable investments in disaster risk management and of effectively integrating DRM policy into these countries' overall economic policies.

c) **The rule of law and fundamental rights**

i) Rule of law

The rule of law is a fundamental value on which the EU is founded and is at the heart of the accession process. Countries aspiring to join the Union need to establish and promote from an early stage the proper functioning of the core institutions necessary for securing the rule of law. Rule of law is crucial for a stable business environment, providing legal certainty for economic operators, supporting consumers and stimulating investment, jobs and growth. There have been some positive developments over the past year in this field in the enlargement countries. The opening of chapters 23 and 24 provides an important framework for Montenegro to implement its comprehensive action plans covering a wide range of rule of law issues. Serbia is well advanced in developing similar action plans in the run up to starting its accession negotiations in these chapters. In Albania, important efforts have been made to tackle organised crime.

Strengthening the rule of law is a key challenge for most of the countries in the enlargement process, in particular in terms of improving the functioning and independence of the judiciary and fighting corruption and organised crime. This will require strong political will, moving beyond declarations to tangible results. Countries need to build up credible track records of investigations, prosecutions and final convictions in cases of organised crime and corruption, with adequate sentencing and confiscation of assets.

In most cases, far-reaching **judicial reforms** need to be undertaken with the aim of ensuring independent and efficient judicial systems capable of ensuring fair trials, where judges are appointed and promoted on merit and where they are impartial and accountable. Judicial reform strategies are in place in most countries. However, implementation is at an early stage

and numerous challenges remain. Independence of state judicial councils needs to be ensured, more sound procedures for the appointment of judges and prosecutors put in place and judicial independence needs to be safeguarded whilst ensuring accountability. Quality and efficiency of justice is often lacking, with excessive case backlogs in most countries and difficulties enforcing court decisions. A change in judicial culture is needed towards an increased focus on delivering a service for citizens.

Training judicial officials in the former Yugoslav Republic of Macedonia:

The Academy for Judges and Prosecutors was established in 2006 and became operational in 2007. It provides pre-service training for future judges and prosecutors through a 2-year full-time theoretical and practical training programme, as well as continuous in-service training for judges, prosecutors, court staff and civil servants throughout their careers. Training is largely provided by practitioners, such as senior judges. 80 candidate judges and prosecutors have already graduated from the pre-service training programme and last year the Academy reached over 7300 participants with over 270 in-service training events. A decentralised system also caters for participants outside the capital, as do the e-learning modules available through the Academy's web portal. Contacts with international judicial organisations are also being fostered, including internships abroad.

Corruption remains a serious problem in most enlargement countries. In areas such as public procurement and in privatisation, corrupt practices continue to divert scarce resources from national budgets, negatively affecting the business and investment climate, which needs legal certainty to thrive. Corruption also affects citizens directly when accessing certain public services such as education and health services. Tools to effectively prevent corruption remain under-used. There is a need for more proactive, well-coordinated and effective law enforcement to ensure corruption cases, including at high level, are properly investigated, prosecuted and sanctioned. A sustained track record of substantial results in this field will be required.

Countries must ensure a strong framework for the prevention of corruption, with further efforts needed as regards the financing of political parties and election campaigns, the management of conflicts of interest, transparency in the use of public funds, access to information and the seizure and confiscation of assets. Public administration reform and public financial management will be crucial in this regard. Improvements in data collection and accessibility are needed to improve transparency and help monitor the implementation of anti-corruption policies.

The fight against **organised crime** remains a significant issue in most enlargement countries. Progress is being made, but much more needs to be done to provide law enforcement bodies and prosecution services with effective legal and investigative tools to properly fight and sanction organised crime and to ensure proactive investigations. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems. Law enforcement bodies, prosecution services and the judiciary need to be made more resilient to corruption and more controls put in place to detect apparently legal businesses providing a front for criminal activities. The capacity to conduct complex financial investigations as well as to tackle money laundering needs to substantially improve and new threats such as cybercrime need to be addressed. Proceeds of crime need to be effectively confiscated, a system of extended confiscation of assets introduced and consideration given to criminalising illicit enrichment to address the phenomenon of unexplained wealth.

The cross-border nature of many criminal activities and organised crime groups requires enhanced regional and international cooperation, with improved responses to Member States requests for police and judicial cooperation. Further operational cooperation with the relevant European agencies, in particular Europol, Eurojust and Frontex is also being pursued. Operational agreements with Europol entered into force with Serbia and Albania and are at an advanced state of preparation with Montenegro. The Commission continues to support a regional prosecutors' network and coordinated witness protection systems in the region.

Developing a strategic analysis of the organised crime situation in Montenegro:

Any country wanting to successfully fight organised crime is to have a coherent, overarching strategic assessment of organised crime on its territory. This is necessary for all stakeholders, even beyond the law enforcement community to understand the threats the country is facing and to manage trends. Montenegro published in spring 2014 its Serious and Organised threat Assessment providing an overview of crime threats in the region and the country affecting Montenegro's security situation. The analysis now serves to identify common priorities for law enforcement bodies allowing them to prepare appropriate responses and implement the concept of 'intelligence-led policing'.

The Commission continues to attach a high priority to all aspects of rule of law in the enlargement countries. In the accession negotiations, a new approach is being implemented in the chapters covering judiciary and fundamental rights and justice, freedom and security. This requires solid track records of reform implementation to be developed throughout the process of preparing for accession. The EU has set interim benchmarks in the accession negotiations for the first time, with Montenegro in December 2013. Serbia has been provided with substantial guidance for the comprehensive action plans it is preparing as a basis for opening negotiations on rule of law issues. This guidance and benchmarks will set the tone for future negotiations and work with other enlargement countries. Rule of law issues are now being addressed at an early stage of the accession process with all enlargement countries, and progress in this field is an important consideration when deciding on each stage of the EU accession process.

The new approach to chapters 23 /24 in a nutshell

Covering **negotiating** chapters 23 'judiciary and fundamental rights' and 24 'justice, freedom and security', the new approach provides a more structured framework for negotiations, that takes into account the time needed for reforms to be properly implemented:

- ▶ Ch. 23/24 to be opened early in the process and closed at the end to allow maximum time for solid track records to develop with the aim of irreversibility of reforms.
- ▶ EU to provide substantial guidance as basis for comprehensive reform action plans, which are required as opening benchmarks and serve as a catalyst for reforms.
- ▶ Introduction of 'interim benchmarks' to further guide the reform process and keep the reforms on track.
- ▶ Closing benchmarks only set once substantial progress made across the board, including on track records of implementation on the ground.

- ▶ Safeguards and corrective measures, for example the updating of benchmarks and to ensure an overall balance in the progress of negotiations across all chapters, a mechanism to stop negotiations on other chapters if progress on chapters 23/24 lags behind.
- ▶ Greater transparency and inclusiveness of the process, with wide stakeholder consultation expected on the reforms, to ensure maximum support for their implementation.

More broadly, the Commission is using all available instruments to strengthen the rule of law, including through its regular monitoring, in particular through the joint bodies under the Stabilisation and Association Agreements, assessment missions and structured dialogues; through its reporting, especially the progress reports; through financial assistance, with a major focus on rule of law under IPA II; through institution building, Taiex, twinning, and peer reviews, which bring judges, prosecutors and other experts in law enforcement, border management and migration from the Member States into direct contact with their counterparts. A working group on chapter 23 has been set up under the positive agenda with Turkey. To better tackle transnational crime, the Commission is encouraging intensified judicial and police cooperation within the region, with EU Member States as well as with Europol, Eurojust and Frontex and increasingly also the European Asylum Support Office. In order to develop adequate measures to address the phenomenon of foreign fighters, the enlargement countries will need to step up their capacity to prevent radicalisation, including through exchange of best practice, and increased cooperation with the Member States. The visa liberalisation process, with its specific conditions for reform, has helped the countries to better focus their efforts. The countries need to step up efforts to consolidate those reforms. The visa-exempt countries need to undertake immediate actions to address any abuse of the liberalised visa regime. Consolidated efforts are needed in the areas of migration and border management. Outstanding issues in these fields will continue to be addressed in the appropriate fora, such as in the SAA framework, and including in chapter 24 on justice, freedom and security.

ii) Fundamental rights

The Commission is carefully monitoring the situation as regards civil, political, social and economic rights, as well as the rights of persons belonging to minorities in the enlargement countries. Fundamental rights are largely enshrined in law but more needs to be done to ensure they are fully respected in practice. Freedom of expression and media remains a particular concern. There is a need to better protect the rights of persons belonging to minorities and to tackle discrimination and hostility towards vulnerable groups, including on grounds of sexual orientation. Further work is also required to promote the rights of women, including tackling domestic violence. Improvements are needed with respect to the rights of the child, Further efforts are needed to support people with disabilities. Challenges remain with respect to other fundamental rights such as the right to property. Often, more effective measures are needed to facilitate access to justice.

The countries need to put in place a more robust institutional framework for the protection of fundamental rights. Human rights institutions, including Ombudsmen, are in place but need to be accorded a stronger role, commensurate with the seriousness of the issues at stake. Too often recommendations of such institutions go unheeded, with inadequate follow-up by state bodies. A culture of acceptance of the work of non-governmental organisations (NGOs) and human rights defenders also needs to be nurtured. In order to better integrate the enlargement

countries into EU frameworks and support the spread of best practice, the Commission strongly encourages the candidate countries to continue their preparations aimed at participation as observers in the work of the EU's Fundamental Rights Agency.

Guaranteeing fundamental rights by the Constitutional Court in Turkey:

Since 2011, any individual who claims that any of his or her fundamental rights and freedoms guaranteed by the Constitution has been violated by the public authorities can apply to the Constitutional Court, in principle after exhaustion of ordinary legal remedies. It is on the basis of this procedure that the Turkish Constitutional Court took, in 2014, decisions that

- protect freedom of expression and of the internet.
- safeguard the right to liberty and security, and the right to a fair trial and open the way for re-trials in a number of high-profile cases that polarised Turkey.
- recognise hate speech on the grounds of sexual orientation as a criminal offence.

➤ Freedom of expression and media

The legal framework for freedom of expression and the media is largely in place in the enlargement countries, with by and large pluralist media landscapes. However, the situation concerning freedom of expression and media in practice has deteriorated in some countries in the past year. Many important challenges need to be urgently addressed, Government interference with media freedom remains a serious concern. More efforts are needed to ensure the political and financial independence of public service broadcasters, to strengthen regulatory agencies and foster functional media self-regulation. There is also a need to tackle informal economic pressure on the media, including through transparency of media ownership, preventing its excessive concentration and transparent rules on procurement of government advertising. In some countries, a climate of fear and censorship is stoked by continuing violence and intimidation against journalists, with little success by the authorities in identifying and properly sanctioning perpetrators. Sometime governments themselves contribute to an atmosphere which demonises as traitors journalists critical of government policy, leading to self-censorship. Although defamation has been decriminalised, prosecutions of journalists continue. There is a need to develop and train the judiciary to prevent abuse of state power.

The Commission continues to prioritise work on freedom of expression and the media in the EU accession process. The Commission will explore the possibility of holding in 2015, together with the European Parliament, the third edition of the Speak-Up! conference, bringing together key stakeholders from the media, civil society and national authorities. Later this year, the Commission will award for the first time a prize for investigative journalism.

➤ Protection of minorities, including Roma

Overall, sound and well elaborated legal frameworks are in place to provide for the protection of minorities. Implementation in practice is often complicated, however, in particular where there are links to recent conflicts. More needs to be done to ensure the proper implementation of legal commitments and better address the difficulties facing ethnic minorities. Issues such as use of minority languages, access to education, and political representation often require greater attention. A general culture of acceptance of minorities needs to be encouraged and

societal hostility countered, through education, broad public debates and awareness raising. There is a need for a zero-tolerance, proactive approach to cases of ethnic-based hate speech, discrimination, violence and intimidation. It is important to consolidate a coherent framework on combating certain forms and expressions of racism and xenophobia in areas like audiovisual media, sports, politics, education and the internet.

Across the Western Balkans and Turkey, the situation of most Roma communities remains a matter of serious concern. Roma are very often the victims of racism, discrimination and social exclusion and live in deep poverty, lacking sufficient access to healthcare, education and training, housing and employment. The lack of civil documentation is also a concern. The Commission held a high-level Roma Summit in April 2014 to draw attention to the challenges facing Roma across Europe, including in the enlargement countries. This underlined the particular role of local authorities in ensuring the social inclusion of Roma. In 2014, the Commission established an award for Roma inclusion to recognise the invaluable contribution of NGOs to Roma integration.

The Commission is working closely with each of the enlargement countries to ensure adequate implementation, follow-up and monitoring of national Roma strategies. Financial support through IPA is also being increased and better targeted to support sustainable progress in the five priority areas of education, employment, health, housing and civil documentation. The Commission intends to enhance strategic cooperation with international organisations and other donors. Roma inclusion has to become a national priority backed by strong political will at all levels, with all stake holders taking their responsibility.

Supporting early years education — Roma teaching assistants in Serbia:

In order to increase the enrolment of Roma children in the education system and promote completion of the primary school cycle, a network of over 170 pedagogical assistants has been in place since 2008. The assistants provide support to pupils from vulnerable groups, many of whom are Roma, organise lessons and maintain contact with parents. This initiative, which is now firmly enshrined in the Serbian education system, has led to a significant increase in enrolment rates for lower grades as well as for the pre-school programmes.

➤ Sexual orientation and gender identity

Homophobia, discrimination and hate crimes, including violence and intimidation on the basis of sexual orientation and gender identity are still widespread in the Western Balkans and Turkey. There is an urgent need for anti-discrimination legislation to be extended to include sexual orientation and gender identity within its scope in Turkey and the former Yugoslav Republic of Macedonia. Hate crime legislation still needs to be introduced in these two countries as well as Bosnia-Herzegovina and Kosovo. Training of law enforcement, ombudsman institutions, judges and media professionals is needed to raise awareness of new legislation, to ensure proper implementation and contribute to increasing understanding.

A zero-tolerance approach to hate speech, violence and intimidation is needed as is strong leadership from the authorities to bring about a change in the frequently hostile societal attitudes towards lesbian, gay, bisexual, transgender and intersex (LGBTI) people. Countries need to take measures to counter stereotypes and misinformation, including in the education system. Religious or cultural values cannot be invoked to justify any form of discrimination. Freedom of assembly and expression should be protected, including through appropriate handling of pride parades.

The Commission will organise a high-level conference in late autumn together with the European Parliament and the Italian Presidency of the Council to take stock of the state of play and progress achieved on LGBTI issues and to share best practice.

Improving police response to violence against LGBTI persons in Bosnia and Herzegovina:

Incidents of threats and violence against persons on the basis of their sexual orientation have typically been significantly underreported across the region. This is due partly to indifference and even hostility on the part of the police and society at large and a lack of confidence in the authorities' response. The police in Sarajevo have appointed specially trained liaison officers for handling cases of homophobic threats and attacks. This initiative is the result of good cooperation between police and NGOs, and has raised awareness in the police of the need to tackle this phenomenon more seriously and react appropriately to all cases of hate crimes.

➤ Women's rights

More needs to be done to support women's rights and to ensure gender equality. Discrimination in employment, as well as low participation rates of women in the workforce need to be addressed. Stereotypes and traditional gender roles persist, in some cases to such an extent that they seriously limit the ability of women to assert their rights, particularly in Turkey. In Kosovo, serious obstacles prevent women realising their right to inherit land. Most countries of the region have ratified the Council of Europe Convention on preventing and combating violence against women and domestic violence, which entered into force this year. Implementation is key, as **violence against women** and providing support to victims remains a challenge in all countries. In Turkey, domestic violence, 'honour' based violence and oppression and the issue of early and forced marriages remain a serious concern. The convention establishes a series of offences characterised as violence against women which need to be criminalised. These include psychological, physical and sexual violence, including rape, forced marriage, and stalking.

Comprehensive gender equality programme in Montenegro:

Policy and legislative developments in the last few years have created a new ground to address women's access to human rights and their opportunity to contribute to political, economic and social development. To ensure that laws and policies are implemented, Montenegro has initiated a comprehensive gender programme to improve women's personal integrity, economic advancement and political representation. It has led to the creation of multidisciplinary teams for fighting violence against women and contributed to raising women's participation in the parliament.

➤ Rights of the child

More needs to be done to protect the rights of the child, especially to ensure protection from all forms of violence, to improve access to justice and juvenile justice systems and to promote community- and family-based alternatives to the institutionalisation of children without parental care (deinstitutionalisation). Most countries of the region have now established legal frameworks and action plans, but implementation is lagging behind.

III. REGIONAL AND BILATERAL ISSUES AND OVERCOMING THE LEGACY OF THE PAST

Good neighbourly relations and regional cooperation are essential elements of the Stabilisation and Association Process.

Good neighbourly relations have been strengthened through intensified cooperation and contacts at bilateral level, also in sensitive areas such as war crimes, refugee return, including through implementation of the regional housing programme under the Sarajevo process⁴, with housing construction now underway, and on organised crime and police cooperation. The progress made needs to be consolidated. The floods which severely affected Bosnia and Herzegovina and Serbia in May led not only to a strong EU response underlining EU solidarity and the benefits of closer integration, but also to good cooperation between these two countries and across the region. Strong solidarity was shown beyond national and ethnic lines, especially — but not only — at grass roots level. Political leaders should grasp the opportunity to build on this good-will to focus on further cooperation on common challenges on the EU path.

Further efforts to overcome **bilateral disputes** among enlargement countries and with Member States are needed. Many unresolved issues continue to burden bilateral relations in the region, especially those stemming from the break-up of the former Yugoslavia such as inter-ethnic and status disputes, the situation of minorities, accountability for war crimes, missing persons and border demarcation. Fundamentally opposed views of recent history also burden relations. Initial steps supporting the truth and reconciliation initiative RECOM should be followed up. Reconciliation is essential to promote stability and support the creation of an environment in south-east Europe conducive to overcoming the legacy of the past, thereby minimising the risk of open bilateral issues being politically instrumentalised.

Bilateral issues need to be addressed by the parties concerned as early as possible and should not hold up the accession process, which should be based on established conditionality. The Commission urges parties to make every effort towards solving outstanding disputes in line with established principles and means, including referring issues as appropriate to the International Court of Justice or other existing or ad hoc dispute settlement bodies. The context of accession negotiations can generate political impetus for the resolution of disputes. The process of normalisation between Serbia and Kosovo needs to continue and the Brussels Agreement⁵ implemented. The EU has integrated the requirement for normalisation of relations into the negotiating framework with Serbia and the SAA with Kosovo. As regards the former Yugoslav Republic of Macedonia, maintaining good neighbourly relations remains essential, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, which needs to be found without further delay. The Commission will continue to offer political support and facilitation to all countries concerned to find solutions to bilateral issues as early as possible and continue to actively support the efforts in other fora to find solutions.

Good neighbourly relations continue to be reinforced through various **regional cooperation** initiatives. The Commission fully supports the work of the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council, including the Regional 2020 strategy. The Commission welcomes the establishment of the SEECP Regional Parliamentary Assembly in May as well as the recently launched Western Balkans Six enhanced cooperation under the Stabilisation and Association Process. This initiative has seen important contacts

⁴ Croatia, Serbia, Bosnia and Herzegovina and Montenegro.

⁵ April 2013 'First agreement of principles governing the normalisation of relations'.

recently between ministers of foreign affairs and of finance from the region to discuss common challenges, in particular in the field of economic governance. Cooperation has continued in other regional fora such as the Central European Free Trade Area (CEFTA), the Energy Community and the Regional School of Public Administration. It is important that these initiatives are complementary, inclusive and regionally-owned and driven. The Commission welcomes the Berlin Summit in August, which demonstrated strong political support for the European perspective of the Western Balkans. Further annual summits are foreseen, with Austria as the next host. The 'Berlin process' can be instrumental for encouraging reforms and agreeing realistic priorities for core connectivity investments. It can also act as a spur to help resolve outstanding bilateral issues. The Commission stands ready to support follow-up to this initiative.

IV. CONCLUSIONS AND RECOMMENDATIONS

Based on the above analysis and the assessments in the country summaries in annex, the Commission puts forward the following **conclusions** and **recommendations**:

I

1. Over the past five years, the Commission has strengthened the credibility of enlargement policy and enhanced its transformative power by ensuring a stronger focus on addressing fundamental reforms early in the enlargement process. The Commission has put particular emphasis on the **three pillars of i) rule of law, ii) economic governance and iii) public administration reform**.
2. In 2012 the Commission introduced a new approach to rule of law. In 2013, the Commission set out a framework for strengthening economic governance, drawing on the experience of the European Semester. This year, the Commission sets out new ideas to support public administration reform in the enlargement countries. The three pillars of the reinvigorated enlargement process are interlinked and progress in these areas will be key to determining when countries will be fully ready to join the EU.
3. The EU's enlargement policy continues to contribute to mutual benefits of peace, security and prosperity in Europe. It reinforces the EU's political and economic strength and has a powerful **transformative effect** on the countries concerned. A well prepared accession process ensures enlargement is not at the expense of the effectiveness of the Union.
4. The tenth anniversary in May of the **historic accession of ten Member States** in 2004 is a reminder of the progress achieved. As the EU expands so do opportunities for our companies, investors, consumers, tourists, students and property owners. Accession benefited both those countries joining the EU and the established member states. Trade and investment have increased. The quality of life of citizens has improved as EU environmental, consumer and other standards apply more widely.
5. For the countries of the Western Balkans, the **clear perspective of EU membership** granted by the EU's Member States is a key stabilising factor. It supports progress towards fulfilment of the necessary conditions, including those of the Stabilisation and

Association Process. Good neighbourly relations and inclusive regional cooperation are essential. Continuous efforts to tackle bilateral issues and overcome the legacy of the past are crucial in view of the history of this region so recently riven by conflict.

6. Enlargement has become a powerful instrument of the Union's external policy. Developments in the EU's neighbourhood underline the importance of enlargement policy as a tool to further deepen cooperation on key **foreign policy issues**. Bilateral foreign policy dialogue should be enhanced with each of the enlargement countries. Chapter 31: Foreign Security and Defence Policy should be addressed early with the negotiating countries. The Commission underlines the importance of enlargement countries progressively aligning with the EU's foreign policy positions. It also underlines the importance of the common security and defence policy, including, for example, participation in the European Defence Agency's programmes.
7. The accession process is rigorous, built on strict but fair **conditionality**, established criteria and the principle of own merits. This is crucial for the credibility of enlargement policy, for providing incentives to enlargement countries to pursue far-reaching reforms and for ensuring the support of EU citizens. For their part, Member States, together with the EU institutions, should lead an informed debate on the political, economic and social impact of enlargement policy.
8. As regards the first pillar, strengthening the **rule of law** is central to the reinvigorated accession process. Judicial reform needs to be pursued with vigour to ensure an independent and impartial judiciary delivers justice effectively. Countries need to build up credible track records of investigations, prosecutions and convictions in cases of organised crime and corruption. Sentencing should be dissuasive, and assets acquired through criminal means should be confiscated. Rule of law supports the business and investment environment, providing legal certainty and contributing to competitiveness, job creation and growth.
9. The Commission continues to implement the new approach to the rule of law endorsed by the Council in December 2011. Tackling rule of law early in the accession process maximises the time countries have to develop solid track records of reform implementation. This helps ensure reforms are deeply rooted and irreversible. In line with the new approach, the Commission is determined to ensure an overall balance in negotiations. Progress under chapters 23: judiciary and fundamental rights and 24: justice freedom and security will need to be made in parallel with progress in negotiations overall. The Commission recalls the existence of the 'overall balance' clause of the negotiating frameworks and the possibility of stopping negotiations on other chapters if progress on rule of law issues lags behind.
10. **Fundamental rights** are largely enshrined in the legal framework of the enlargement countries but more needs to be done to ensure these are fully respected in practice. Freedom of expression and media remains a particular concern. There is a need to better protect the rights of persons belonging to minorities. Discrimination and hostility towards vulnerable groups, including on grounds of sexual orientation, remains an important concern. Further work is required to promote the rights of women, including tackling domestic violence, and of children and people with disabilities. There is a need to better integrate the enlargement countries into EU frameworks and support the spread of best practice. To this end, the Commission strongly encourages the candidate countries to continue their preparations for participation as observers in the work of the EU's Fundamental Rights Agency.

11. As regards the second pillar, strengthening **economic governance** and **competitiveness** in the enlargement countries is crucial for meeting the economic criteria for EU membership. Reforms should be intensified to achieve sustainable growth, improve the business environment and boost investment. High unemployment needs to be tackled, particularly among the young. Supporting economic development should also mitigate migratory pressure on the EU. The possible need for and nature of transitional measures and/or a safeguard mechanism on the free movement of workers will be addressed in the course of accession negotiations on future enlargement, taking into account a future impact assessment.
12. Drawing on the experience of the European Semester and strengthened economic governance in the EU, the Commission has launched improved processes of cooperation with the enlargement countries. For the Western Balkans, the Commission foresees the preparation of National Economic Reform Programmes comprising two parts. The first part will consist of an enhanced version of the existing Pre-Accession Economic Programmes for candidate countries and Economic and Fiscal Programmes for potential candidates, extended to also include Kosovo. This will set out a medium-term macroeconomic and fiscal policy framework, with increased focus on assessing external sustainability and structural obstacles to growth. Part two will cover structural reforms which are sectoral in nature and of most concern for improved competitiveness and growth, including infrastructure investment needs. To strengthen surveillance, the process of evaluation will continue to result in more targeted policy guidance for each country. For Turkey, a high-level economic dialogue will be established.
13. As regards the third pillar, **public administration reform** (PAR) is a priority in all countries. Public service remains overly politicised. Transparency, accountability, professionalism and effectiveness of public administration need to be enhanced. A greater focus is required on the needs of citizens and business. Public financial management also needs more attention. The Commission will better integrate public administration reform into the enlargement process. ‘Special groups on PAR’ have been set up or are in the process of being established with the enlargement countries. These groups will become the key platform for taking forward work on PAR. There should be a more structured, political discussion on key issues in the Association Council/Committee. Accession negotiations should also be used to encourage the necessary reform. Key issues should be addressed through relevant chapters – notably public procurement, financial control, judiciary and fundamental rights, taxation and economic and monetary policy, - and in the context of Inter-governmental conferences. The special groups will also be a forum for addressing horizontal PAR issues from the relevant negotiating chapters, monitoring progress and ensuring consistency. The results will feed back into chapter negotiations.
14. To support the reform process, strengthening the functioning and independence of key democratic institutions in the enlargement countries is essential. This includes ensuring constructive and sustainable dialogue across the political spectrum, notably within the parliament. More also needs to be done to foster an enabling environment for civil society organisations. A strong civil society enhances political accountability and promotes deeper understanding of accession related reforms.
15. **Good neighbourly relations** are an essential element of the Stabilisation and Association Process. Continued efforts are needed to overcome the legacy of the past, foster reconciliation and tackle **bilateral disputes** among enlargement countries and

with Member States. Bilateral issues need to be addressed by the parties concerned as early as possible and should not hold up the accession process, which should be based on established conditionality.

16. **Regional cooperation** has been further strengthened over the past year. The Commission fully supports the work of the South-East European Cooperation Process (SEECP) and Regional Cooperation Council, including the Regional 2020 strategy. The increasing inclusion of Kosovo in regional initiatives has been a positive development. The Commission welcomes the launch of the Western Balkans Six enhanced cooperation under the Stabilisation and Association Process. These developments strengthen the multi-lateral dimension of enlargement policy, support inclusive cooperation and sharing of best practice on economic governance and promote connectivity within the region and with the EU. The Commission also welcomes the Berlin Summit in August, which demonstrated strong political support for the European perspective of the Western Balkans. Further annual summits are foreseen, with Austria as the next host. The ‘Berlin process’ can be instrumental for encouraging reforms and agreeing realistic priorities for core connectivity investments. It can also act as a spur to help resolve outstanding bilateral issues. The Commission stands ready to support follow-up to this initiative.
17. 2014 has seen the launch of the new **Instrument for Pre-Accession Assistance**. Through IPA II, the EU will provide €1.7 billion for the period 2014-2020 to support the enlargement countries in their preparation for accession as well as regional and cross-border cooperation. IPA II increases focus on priorities for EU accession in the areas of democracy and rule of law as well as competitiveness and growth. IPA II also introduces a sector approach, incentives for delivery on results, increased budget support and prioritisation of projects. A coordinated approach is required for the major investments along the main infrastructure corridors. Coordination with international financial institutions is being strengthened. The Western Balkans Investment Framework will continue to support investments boosting jobs and growth and promoting connectivity in the region.

II

18. **Montenegro:** Further steps have been taken in the accession negotiations. The analytical examination of the EU acquis (screening) was completed in May 2014. In December negotiations were opened on chapters 23 – Judiciary and fundamental rights and 24 – Justice, freedom and security. Based on action plans adopted by Montenegro, the EU established a comprehensive set of 84 interim benchmarks for chapters 23 and 24. These benchmarks provide clear guidance for future reforms. In total negotiations have been opened on twelve chapters and provisionally closed on two.
19. Implementation of the action plans has started. Following alignment of the relevant legislation with the constitutional reforms of July 2013, a number of key judicial and prosecutorial officials have been elected and appointed. After several attempts, the parliament finally appointed a new Supreme State Prosecutor in October 2014. The efficiency of the judiciary increased. The legislative framework for the protection of fundamental rights, including the law on Ombudsman, was strengthened.
20. Delays have been noted however on a number of measures, especially on legislative reforms, notably as regards anti-corruption. Legislative measures adopted have not

yielded results in practice. Montenegro should rapidly ensure adoption of an adequate law on political party financing. A credible track record of investigations, prosecutions and final convictions in corruption cases, including high-level corruption, needs to be developed. The systematic use of the instruments of seizure and confiscation of assets should be ensured. Serious concerns remain with respect to freedom of expression and the media. Work should be accelerated investigating cases of violence against journalists. Constructive political dialogue needs to be established and trust restored in the electoral process and in state institutions. Strengthening administrative capacities on EU-integration issues will be essential to maintain momentum on the EU path. Depoliticisation of the civil service and increased professionalism is also required. Economic reform should be pursued, not least to tackle high unemployment, and the business environment improved. A sustainable and SAA-compatible solution for the aluminium producer KAP is urgently required.

21. Strong political commitment is essential for the deep and lasting political reforms necessary to strengthen the rule of law. Montenegro is the first country to open chapters 23 and 24 under the new approach to rule of law in the accession negotiations. The Commission recalls the existence of the ‘overall balance’ clause of the negotiating framework. Progress in meeting the interim benchmarks on the rule of law chapters and the relevant identified shortcomings above, demonstrated by tangible results, will impact upon the pace of accession negotiations overall, including the agendas of future IGCs.
22. **Serbia:** EU accession negotiations with Serbia are now underway. The decision of the European Council to open negotiations was reached due to Serbia’s progress in the reforms and its continued commitment to the normalisation of its relations with Kosovo. The first inter-governmental conference on the negotiations took place in January 2014. The analytical examination of the EU acquis (screening) is proceeding according to plan. The severe floods which hit the country in May have had a considerable socio-economic impact. The EU provided immediate and substantial rescue and relief efforts and organised a donors’ conference in July. Significant pledges were made from the international community for the recovery and reconstruction phase.
23. Serbia has made some progress in public administration reform. It adopted a comprehensive strategy and strengthened coordination and planning. As regards the judiciary, important legislation as well appraisal rules for judges and prosecutors were adopted. An important number of Court Presidents have been appointed on a permanent basis. There is strong political impetus to fight corruption. Several investigations into high-level cases have been conducted and efforts made to improve coordination. Serbia actively participated in regional law enforcement cooperation.
24. However, continued efforts are needed to ensure an effective, independent judiciary. Key pieces of legislation remain to be adopted, such as the law on free legal aid, the law on whistle-blowers, and the law on conflicts of interest. Corruption remains prevalent in many areas. Serbia needs to build up a track record of concrete results in the fight against corruption and organised crime. Fundamental rights need to be fully respected in practice, including protection of the most vulnerable groups. There are concerns about deteriorating conditions for the full exercise of freedom of expression. Weaknesses in public administration need to be addressed. Findings of independent regulatory bodies need to be better followed up. Economic reforms are also essential to generate growth and tackle high unemployment.

25. With its strong mandate, the new government should seize the opportunity to pursue reforms with vigour. Serbia faces many challenges ahead. Serbia needs to foster proactively the inclusiveness and transparency of the accession process. To support the reform process, Serbia should improve planning, coordination and monitoring of implementation of new legislation and policies. In line with the new approach to rule of law issues, opening benchmarks have been set under chapters 23 and 24. These require Serbia to present comprehensive action plans. In order to ensure an overall balance in negotiations, progress under these chapters will need to be made in parallel with progress in negotiations overall.
26. Serbia needs to maintain its commitment to regional cooperation and an active and constructive engagement in the normalisation process with Kosovo, which has seen significant progress. Serbia should continue to ensure the implementation of the agreements reached in the dialogue. The Commission recalls that, as is the case for rule of law chapters, the negotiating framework requires progress in the process of normalising relations with Kosovo under chapter 35 to be made in parallel with progress in negotiations overall. Chapter 35 should be opened early in the negotiations. This will provide a solid framework for monitoring implementation of agreements reached.
27. **The former Yugoslav Republic of Macedonia:** The EU accession process for the former Yugoslav Republic of Macedonia is at an impasse. Failure to act on the Commission's recommendation to the Council means that accession negotiations have still not been opened. At the same time, the government's failure to deliver sufficiently on a number of key issues damaged the sustainability of reforms, with backsliding evident in some areas.
28. Some further progress has been made as regards reform of the public administration, as well as active regional and international police cooperation. The country maintains a high level of alignment with the *acquis* relative to where it is in the accession process. The EU agenda remains the country's strategic priority.
29. However, over the past year, there have been serious concerns about increasing politicisation of state institutions and government control over media, including in the context of elections as reported by OSCE/ODIHR. Trust in state institutions is being progressively eroded. There are growing concerns about selective justice. The situation on media freedom continued to deteriorate. Recent political crises between government and opposition parties showed that party interests are increasingly prevailing over national interests. It is the responsibility of both government and opposition to ensure that political debate takes place primarily in parliament and to contribute to creating the conditions for its proper functioning. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes. No meeting of the High Level Accession Dialogue was held over the past year. As regards the inter-ethnic situation, greater trust between the communities needs to be built. The review of the Ohrid Framework Agreement still needs to be completed and its recommendations implemented.
30. It remains essential that decisive steps are taken towards resolving the 'name issue' with Greece. The failure of the parties to this dispute to reach a compromise after 19 years of UN-mediated talks is having a direct and adverse impact on the country's European aspirations. Resolute action is required, as well as proactive support from

EU leaders. The Commission recalls its view that, if the screening and the Council discussions on the negotiating framework were under way, the necessary momentum could have been created which would have supported finding a negotiated and mutually accepted solution to the name issue even before negotiating chapters were opened.

31. Overall, given the cumulative progress the country has achieved, the Commission considers that the political criteria continue to be sufficiently met and maintains its recommendation to open accession negotiations but regrets the backward steps of the past year. The Commission urges the authorities to take decisive action to address concerns about increased politicisation and growing shortcomings with regard to the independence of the judiciary and freedom of expression so that its recommendation can be sustained in future years. The Commission remains committed to assisting the country's efforts, including through an inclusive High Level Accession Dialogue process, in addressing all EU-related reforms so that the full potential of relations can be achieved.
32. **Albania:** The decision of the European Council of June 2014 to grant Albania candidate status is recognition for the reform steps undertaken. It is also an encouragement to step up the pace of reforms. In November 2013, the Commission launched a High Level Dialogue with Albania to help the country to maintain focus on its EU integration process and to monitor reform progress under the key priorities identified for the opening of accession negotiations. In May 2014 Albania adopted a roadmap laying down and structuring its planned reforms under the key priorities.
33. Albania has made progress over the past year. Further steps were taken towards the reform of the judiciary. The government has shown political will to act decisively in the prevention and fight against corruption. The legislative framework was strengthened and policy coordination and monitoring at central level improved. The fight against organised crime shows a positive trend in a number of areas, with an intensification of law enforcement activities, notably on drug seizures and drug-related crimes, and on economic crime and trafficking of human beings. Some steps were taken to improve the legal recognition of the rights of lesbian, gay, bisexual, transgender and intersex persons.
34. However, many shortcomings remain, in particular in the rule of law field. Much work lies ahead. Fighting corruption and organised crime are significant challenges. Albania will need to undertake substantial and sustained efforts to address the implementation of the key priorities identified for the opening of accession negotiations. Albania will need to act decisively to: continue the reform of the public administration with a view to enhancing its professionalism and depoliticisation; pursue a comprehensive reform of the judiciary to reinforce its independence, efficiency and accountability through an inclusive process and in close consultation with the Venice Commission; intensify its anti-corruption efforts and take further determined steps in the fight against organised crime, with a view to establishing a solid track record of proactive investigations, prosecutions and convictions in both areas; and take effective measures to reinforce the protection of human rights, including of Roma, and anti-discrimination policies, as well as implement property rights. As regards freedom of expression and media, the government failed to act on the identified priorities. All statutory functions of the Audiovisual Media Authority need to be restored and its independence guaranteed in practice. Albania should pursue economic reforms aimed at increasing

competitiveness and tackling high unemployment, as well as address the high level of informality in the economy and improve the business environment.

35. It is crucial that the reform process is accompanied by a constructive and sustainable political dialogue between government and opposition. It is the responsibility of both government and opposition to ensure that political debate takes place primarily in parliament and to contribute to creating the conditions for its proper functioning. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes. Compromise-based and constructive work in parliament is vital for the sustainability of reforms. The establishment of a National Council for European Integration, uniting all stakeholders, will further help to enhance the inclusiveness of the reform process. It is also key for consensus on the relevant reforms across Albanian society.
36. **Bosnia and Herzegovina:** The country remains at a standstill in the European integration process. There remains a lack of collective political will on the part of the political leaders to address the reforms necessary for progress on the EU path. There has been very limited progress on political and economic issues and on moving towards European standards. The severe floods which hit the country in May have had a considerable socio-economic impact. The EU provided immediate and substantial rescue and relief efforts and organised a donors' conference in July. Significant pledges were made from the international community for the recovery and reconstruction phase.
37. Widespread, citizen-led protests in early 2014 underlined the fragility of the socio-economic situation. The Commission has launched three initiatives to shift the focus towards reforms and issues of direct concern to citizens. It has expanded the EU-Bosnia and Herzegovina Structured Dialogue on Justice to additional rule of law matters, in particular the fight against corruption. It has set up a joint EU- Bosnia and Herzegovina Working Group to accelerate the implementation of EU funded projects. It has focused on strengthening economic governance. This included development of a 'Compact for Growth and Jobs' together with key actors including international financial institutions. The Compact will be the yardstick for the necessary economic reform over the coming months. It will also be the basis for the National Economic Reform Programme which the Commission expects the country to develop by end-January 2015.
38. The lack of any effective coordination mechanism on EU issues continues to negatively affect the country's interaction with the EU. Political tensions within the Council of Ministers related to the division of competences across different levels of government have continued. This has been compounded by the complexity of the institutional arrangements in the country. This has prevented the conduct of three out of the last six subcommittee meetings under the Interim Agreement. Bosnia and Herzegovina also still refuses to adapt this Agreement to take into account its traditional trade with Croatia before it joined the EU. The Commission has undertaken steps to suspend Bosnia and Herzegovina from certain trade benefits if the adaptation process is not finalised by the end of 2015. The Stabilisation and Association Agreement (SAA) signed in 2008 and ratified in 2011 has not yet entered into force as Bosnia and Herzegovina has not yet fulfilled the conditions

39. The political actors involved have been unable to agree countrywide strategies required for Instrument for Pre-Accession Assistance in sectors such as energy, transport and environment. This has led to a substantial reduction of funding in these areas and a refocusing on assistance that benefits citizens directly. Reaching the necessary agreement will open the way for Bosnia and Herzegovina to benefit fully from the funding available.
40. Despite intensive facilitation efforts of the Commission to resolve remaining blockages, the Sejdić-Finci ruling of the European Court of Human Rights has not been implemented. The ruling continues to be instrumentalised for narrow party political and ethnic interests and the solution to it linked to other issues.
41. For Bosnia and Herzegovina to progress on the EU path it is important that all levels of government are rapidly formed after the elections and that concrete reform steps are taken swiftly. The political leadership owes it to Bosnia and Herzegovina's citizens to provide the country with a clear direction. The efficiency and functioning of the political institutions at all levels of government need to improve. This applies in particular to the interaction between different levels of government. This requires setting up a well-functioning coordination mechanism on EU matters. Public administration also needs strengthening across the board.
42. **Kosovo:** Completion of the negotiation of a Stabilisation and Association Agreement with Kosovo and its initialling in July is a milestone on Kosovo's European integration path. It will be the first comprehensive agreement between the EU and Kosovo. The SAA provides for enhanced political dialogue, closer trade integration, including opening EU markets to Kosovo's industrial and agricultural products, and new forms of cooperation. The Commission now looks forward to its signature and conclusion. Following the elections in June, there has been an increasingly polarised political environment and Kosovo has come to a situation of political deadlock, delaying certain key reforms.
43. Kosovo has made progress in its visa liberalisation dialogue. Good cooperation with the EU rule of law mission, EULEX, has continued. Kosovo authorities have made a substantial political commitment to renew the mission's mandate whilst taking up more responsibilities, and agreed to establish a specialist court to hear cases arising out of the investigation led by the Special Investigative Task Force. To complete this process, Kosovo needs to adopt the necessary legislative changes including to its constitution. Kosovo should cooperate with the planned court and deal with the past.
44. Kosovo faces numerous challenges. The rule of law in Kosovo, including judicial independence, and limited results in the fight against organised crime and corruption remains a major concern. More needs to be done to address shortcomings raised in the visa dialogue, including mitigating the security and migratory risks of potential visa liberalisation. The need for structural economic reforms addressing the high level of unemployment is becoming urgent. Important reforms such as electoral reform and public administration reforms need to be undertaken as a priority and the protection of minorities addressed.
45. Kosovo needs to actively work on its EU reform agenda and the priorities highlighted in the 2012 Feasibility Study and most recent Progress Reports. Under the SAA, Kosovo has committed to comprehensive reform and legislative alignment with the EU *acquis*, including in sectors such as the rule of law, public administration,

economy, competition and trade. Kosovo should focus on preparing the smooth implementation of the SAA including the necessary structures. The Commission stands ready to support Kosovo as it moves to this important new stage in its relations with the EU and step up its dialogue with the National Council on European Integration.

46. Kosovo's progress towards its European future has been possible due to the progress made by Kosovo in the reforms and its continued commitment to the normalisation of its relations with Serbia, which has seen significant progress. In this regard, the new government in Kosovo will need to maintain the commitment to regional cooperation and an active and constructive engagement in the normalisation process with Serbia. Kosovo should continue to ensure the implementation of the agreements reached in the dialogue.
47. The situation in northern Kosovo remains tense. All actors should cooperate with EULEX, and refrain from taking unilateral steps. EULEX should be fully supported to carry out its mandate in north Kosovo. Further efforts should be made to allow the four northern municipalities to function under Kosovo's legal framework.
48. **Turkey:** Turkey is a candidate country and a strategic partner for the European Union. Its dynamic economy provides a valuable contribution to the prosperity of the European continent. The very serious developments in the region, in particular in Syria and Iraq, render cooperation on foreign policy issues even more crucial. Turkey's strategic location also underlines the importance of further cooperation in the areas of migration policy and energy security. The value of such cooperation is even clearer in light of the considerable challenges posed by recent developments in our joint neighbourhood, including the Ukraine crisis.
49. Active and credible accession negotiations provide the most suitable framework for exploiting the full potential of EU-Turkey relations. Given its unrivalled scope and depth, the accession process, which no alternative can replace, promotes EU-related reforms and provides an important basis for intensifying dialogue on foreign policy and security issues and for strengthening economic competitiveness and trade opportunities. It also helps increase cooperation in the field of energy and on justice and home affairs, including visa/migration policy/readmission. Accession negotiations need to regain momentum, respecting the EU's commitments and the established conditionality. The EU should remain an important anchor for Turkey's economic and political reforms. In this regard, it is in the interest of both Turkey and the EU that the opening benchmarks for chapter 23: Judiciary and Fundamental rights and 24: Justice, Freedom and security are defined as soon as possible, leading to opening of negotiations under these two chapters. Turkey can accelerate the pace of negotiations by advancing in the fulfilment of the benchmarks, meeting the requirements of the negotiating framework and by respecting its contractual obligations towards the EU. This could provide a significant boost to the negotiation process. In the meantime, cooperation between the EU and Turkey should develop in all crucial areas, notably those already identified in the positive agenda.
50. Turkey plays an important regional role and is actively involved in its wider neighbourhood. In this regard, further development of dialogue and cooperation on foreign policy issues of common interest is needed. Turkey's continuing participation in CSDP missions and operations, and its recent offer to contribute to EUFOR CAR and to EUBAM Libya, are welcome. Turkey's role on Syria, especially with regard to

the very important humanitarian support provided to Syrians fleeing violence across the border, is key. The EU has pledged to continue to support the governments and host communities of Syria's neighbours so they can deal effectively with the increasing flow of refugees and build up their resilience. Turkey has made clear its readiness to play an active role in the coalition against ISIL. The political dialogue should be used to develop closer cooperation against ISIL and its funding networks. The active counter-terrorism dialogue between the EU and Turkey is welcome and should be further strengthened, particularly in the area of 'foreign fighters'. This cooperation will be further enhanced by the adoption by Turkey of further relevant counter-terrorism legislation. The EU continues to encourage Turkey to develop its foreign policy as a complement to and in coordination with the EU, and to progressively align with EU policies and positions.

- 51.** Implementation of reforms adopted in previous years, in particular measures announced in the September 2013 democratisation package, has continued. The Constitutional Court has taken a number of important decisions which has illustrated the resilience of the country's constitutional system. The EU-Turkey readmission agreement was signed in December 2013, in parallel with the launching of the visa liberalisation dialogue, and entered into force on 1 October 2014, creating new momentum in EU-Turkey relations. There have been renewed efforts towards a peaceful settlement of the Kurdish issue, notably the adoption of legislation aimed at 'bringing a stronger legal foundation to the process'. This process is of historical significance for Turkey and should be pursued in good faith on all sides.
- 52.** The response of the government following allegations of corruption in December 2013 has given rise to serious concerns regarding the independence of the judiciary and separation of powers. The widespread reassignments and dismissals of police officers, judges and prosecutors, despite the government's claim that these were not linked to the anti-corruption case, have impacted on the effective functioning of the relevant institutions, and raise questions as to the way procedures were used to formalise these. It is crucial that the investigations into corruption allegations are properly conducted in full transparency and the operational capabilities of the judiciary and the police are assured. Attempts to ban social media, later overturned by the Constitutional Court, and pressures on the press leading to a widespread self-censorship, reflect a restrictive approach to freedom of expression. The approach taken in the area of freedom of assembly remains restrictive. Turkish legislation and its implementation concerning the right to assembly and intervention by law enforcement officers will need to be brought in line with European standards.
- 53.** In this context, priorities for Turkey will be to promote dialogue across the political spectrum and society more broadly, to reinvigorate its rule of law reform efforts and to pay particular attention to the respect of fundamental rights in law and in practice. Opening negotiations on chapter 23 and 24 would provide Turkey with a comprehensive roadmap for reforms in this essential area. Turkey is invited to engage more systematically with the Commission and other relevant bodies such as the Council of Europe, including the Venice Commission. In general, more attention should be given to the effective implementation of existing legislation. The Ministry for European Affairs has a crucial role to play in ensuring the coordination and compatibility of the new legislation with EU laws. The Commission looks forward to the concrete follow-up by Turkey of its recently adopted EU strategy, which aims to reinvigorate Turkey's accession process.

54. The Positive Agenda, launched in 2012, continues to support and complement accession negotiations with Turkey through enhanced cooperation in a number of areas of joint interest. More high-level contacts between Turkey, the EU and its Member States would further strengthen cooperation. Challenges in the area of justice and home affairs, notably in the field of migration, need to be addressed by enhanced joint efforts. The EU expects the full and effective implementation of Turkey's obligations under the readmission agreement vis-à-vis all Member States.
55. With its large, dynamic economy, Turkey is also an important trading partner for the EU and a valuable component of EU competitiveness through the Customs Union. It is time to work towards unleashing the full potential of the Customs Union. The EU should engage with Turkey on broadening and modernising mutual trade relations for the benefit of both sides. A number of issues related to the functioning of the Customs Union, on the basis of the evaluation completed in 2014, should also be addressed. It is also crucial to develop an active and far-reaching economic dialogue. Further strengthening of EU-Turkey energy cooperation and progress in the accession negotiations would facilitate the interconnection and integration of energy markets. Economic cooperation would be greatly enhanced by the opening of negotiations of Chapter 5 (public procurement), Chapter 8 (Competition) and Chapter 19 (Employment and Social policy), as soon as the necessary benchmarks are met by Turkey.
56. The Commission stresses all the sovereign rights of EU Member States. This includes, inter alia, the right to enter into bilateral agreements and to explore and exploit natural resources in accordance with the EU acquis and international law, including the UN Convention on the Law of the Sea. In line with the repeated Council and Commission positions from previous years, it is now urgent that Turkey fulfils its obligation of fully implementing the Additional Protocol and makes progress towards normalisation of relations with the Republic of Cyprus. This could provide new momentum to the accession process, allowing in particular progress to be made on the eight chapters covered by the Council conclusions of December 2006. The Commission also urges the avoidance of any kind of threat, source of friction or provocative action that could damage good neighbourly relations and the peaceful settlement of disputes. The Commission welcomes the support of Turkey to the resumption of the fully-fledged settlement talks in Cyprus. It is now important that such support is followed up through constructive statements and concrete action.
57. As regards the **Cyprus issue**, the Commission welcomes the resumption of fully-fledged settlement talks between the Greek Cypriot and Turkish Cypriot community leaders under UN auspices and the appointment of Mr Espen Barth Eide as the Special Advisor to the UN Secretary-General on Cyprus. The Commission expects both sides to soon enter substantial structured negotiations that will pave the way to an agreement on a comprehensive solution of the Cyprus problem to the benefit of all. The Commission encourages steps that contribute to a positive climate between communities and which benefit Cypriots in their daily lives and welcomes civil society initiatives to this end. The EU has declared its readiness to accommodate the terms of a settlement in line with the principles on which the Union is founded. Statements that are not conducive to creating a positive atmosphere in the context of the ongoing settlement talks should be avoided.
58. **Iceland:** following a decision of the Icelandic government, accession negotiations have been on hold since May 2013. Given the government position, the Commission

proceeded with the phasing-out of IPA pre-accession assistance with Iceland. Iceland remains an important partner for the EU through its participation in the European Economic Area agreement, its membership of the Schengen area as well as through co-operation on Arctic matters.

ANNEX

Summary of findings of the progress reports on Montenegro, Serbia, the former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, Kosovo and Turkey

Montenegro

Montenegro continues to sufficiently meet the **political criteria**. The government has remained focused on EU integration. The structures for the accession negotiations were further strengthened. The adoption of the 2014-15 Action Plan for the implementation of the public administration reform strategy and the establishment of a new special group on public administration reform within the framework of the Stabilisation and Association Agreement (SAA), should support progress in this area. Public administration needs to be further rationalised, transparency increased to limit the scope for corruption and the strengthening of administrative capacity in the area of European integration ensured. Serious efforts are needed to address the high level of politicisation in the civil service and to ensure merit-based recruitment and promotion. Increasing professionalism and efficiency is important, not least to equip the administration for the challenges of the accession negotiations and of implementing the *acquis*. On public financial management, the capacity for financial forecasting needs to be strengthened and the compliance with European standards reinforced.

Allegations of wrongdoing marred the electoral rounds held in a number of municipalities in early 2014. Where appropriate, these should be investigated and, where necessary, prosecuted by the competent authorities. Due to the polarised political climate, the formation of the new administrations in certain municipalities after the elections was a difficult process. New electoral legislation was adopted in February and March. It fulfils several outstanding OSCE/ODIHR recommendations, while some issues remain to be addressed in line with European standards and best practices. The adoption of amendments to the law on political party financing was marked by controversy, with the main governing party voting against. Following a constitutional court ruling in June, a significant part of the amendments to the law on political party financing were deemed unconstitutional. Montenegro needs to rapidly bring its legislative framework in this area fully in line with European standards and best practice, as well as provide an initial track record on the correct implementation of the law, including application of deterrent sanctions where required. The judicial follow-up to the alleged abuse of public funds for party political purposes remains to be completed and political responsibility ensured.

In the area of judicial reform, implementation of measures in accordance with the timelines foreseen in the Action Plan is ongoing. Following alignment of relevant legislation with the constitutional reforms of July 2013, several judicial and prosecutorial officials have been elected. After several attempts, the parliament finally appointed a new Supreme State Prosecutor in October 2014. Reforms introducing a single countrywide recruitment system for judges and prosecutors, an objective and merit-based promotion system as well as an improved disciplinary system need to be completed. While the efficiency of courts has overall increased, efforts to further enhance the efficiency of the judiciary should continue.

The impact of anti-corruption measures has so far been limited. Already prior to the start of operation of the new anti-corruption agency, existing institutions in the area of prevention of corruption need to be strengthened to take a more proactive approach. Corruption remains prevalent in many areas and continues to be a serious problem. A credible track record of investigations, prosecutions and final convictions in corruption cases, including high-level

corruption, needs to be developed. The systematic use of the instruments of seizure and confiscation of assets should be ensured. While the track record has continued to develop in the area of the fight against drugs and new cases were launched on migrants' smuggling, difficulties remain in addressing other forms of organised crime, including trafficking in human beings, cybercrime and anti-money laundering. The number of final convictions, for both corruption and organised crime, is limited, with cases often referred to retrial based on procedural infringements. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

The legal and institutional framework for the observance of human rights is in place and the main elements of international human rights laws have been incorporated into the legal system. The capacity of the institutions in charge of protection and enforcement of human rights require strengthening, including for the judiciary and police. Vulnerable groups, for example the Roma and disabled persons, are most affected by shortcomings in this area.

Serious concerns remain with respect to freedom of expression, which has been undermined by cases of violence against journalists, and attacks on media property. Old and recent cases of threats and violence against journalists remain to be thoroughly investigated and prosecuted, to identify not only the material perpetrators but also those behind the attacks. Older cases in particular need to be addressed as a matter of urgency to avoid them being time-barred. A Commission for monitoring the activities of the competent authorities in the investigation of old and recent cases of threats and violence against journalists was established in December. Its recommendations need to be fully followed up by the authorities. The government should continue publicly promoting and supporting media freedom, avoiding any statements that may be understood as intimidation. Self-regulatory bodies responsible for maintaining and promoting professional and ethical standards are weak.

The Montenegrin authorities took further steps to strengthen the protection of the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) persons. The first pride parade in Podgorica took place in October 2013, supported adequately by the authorities. However, attacks against LGBTI persons continued and related criminal convictions remain few. Hostility against them remains widespread in society.

Some progress was made regarding the situation of the Roma, especially concerning school attendance; nevertheless, drop-out rates and the low share of female Roma students among the total population of Roma students is a cause of concern. Discrimination against the Roma and their political underrepresentation needs to be addressed.

Montenegro continues to maintain good bilateral relations with the other enlargement countries and neighbouring EU Member States and is strongly involved in developing regional cooperation. A border agreement was initialled with Bosnia and Herzegovina.

Montenegro still maintains the 2007 bilateral immunity agreement with the United States, granting exemptions from the jurisdiction of the International Criminal Court. Montenegro needs to align with the EU position in the framework of accession negotiations

As regards the **economic criteria**, Montenegro undertook some further steps towards a functioning market economy. The country should be able to cope with competitive pressures and market forces within the Union over the medium term, provided that it continues to address current weaknesses through appropriate structural reforms.

The economy recovered in 2013 from a double-dip recession, but the recovery remains fragile due to weak domestic demand, a narrow production base, and a high dependence on the

external environment. The current account deficit somewhat narrowed but external imbalances remain high. Substantial and persistent budget deficits point to the need for fiscal consolidation measures to ensure a reduction of public debt. In spite of marginal improvements, the labour market conditions remain precarious in view of very high unemployment rates, especially among the youth and the long-term unemployed.

Montenegro should increase workers mobility and strengthen the effectiveness of active labour market policies, as well as enhance the quality of education, including vocational education and training. To support private-sector development, measures should be taken to further simplify the regulatory and legal environment, including strengthening contract enforcement, reducing administrative costs and barriers, and facilitating privatisation procedures. The unsettled situation of the aluminium conglomerate KAP calls for a sustainable solution, implemented in compliance with SAA rules, in order to avoid a new round of contingent liabilities.

As regards the **ability to take on the obligations of membership**, Montenegro is at varying degrees of alignment. As a result of the screening process, the Commission assessed that, in twenty chapters, Montenegro was sufficiently advanced for negotiations on these chapters to be opened without setting opening benchmarks. Of these chapters, ten have already been opened, with interim or closing benchmarks set and two have been provisionally closed. In addition to the rule of law chapters, opening benchmarks were set in eleven chapters⁶. The fulfilment of the opening benchmarks, as well as the interim benchmarks set for the rule of law chapters and the closing benchmarks, set for eight other chapters⁷, should guide Montenegro on its integration path.

Overall, Montenegro is advanced in its alignment in some chapters of the *acquis*, including intellectual property law, science and research, education and culture, consumer and health protection, and foreign, security and defence policy. Montenegro generally aligned itself with and implemented restrictive measures introduced by Council decisions, including EU restrictive measures in the context of Russia's illegal annexation of Crimea and events in eastern Ukraine.

Aligning with the *acquis* and strengthening the necessary administrative capacity remains a substantial challenge for Montenegro. The Montenegrin administration will need to focus on addressing the outstanding opening benchmarks set. Particular priority should be given to ensuring compliance with SAA state aid rules in the case of KAP. The administrative capacity in all areas of environment and climate change has to be strengthened at both central and local level to ensure alignment with and implementation of environment and climate *acquis*.

Serbia

Serbia continues to sufficiently meet the **political criteria**. Early parliamentary elections in March confirmed the European integration aspirations of the country. EU accession remains the main goal of the new government. It can count on an unprecedented two thirds majority in parliament to conduct the key priority reforms needed to drive the country on its European

⁶ Free movement of goods; right of establishment and freedom to provide services (Montenegro has fulfilled the Opening Benchmark for this Chapter and, as a consequence, has been invited to submit its negotiating position); competition policy; agriculture and rural development; food safety, phytosanitary and veterinary policy; fisheries; energy; economic and monetary policy; social policy and employment; regional policy and coordination of structural instruments; environment and climate change.

⁷ Free movement of capital; public procurement; company law; intellectual property law; information society and media; enterprise and industrial policy; foreign, security and defence policy; financial control.

path. The Serbian government set itself ambitious economic goals in this respect. Constitutional reforms early on in the new legislature would represent a decisive progress in the accession negotiations. Attention should be paid to continuing improving inclusiveness and transparency of the reform process. Urgent parliamentary procedure should be limited to cases where it is strictly necessary. The role of independent regulatory bodies should be continuously acknowledged and their recommendations followed up. A National Convention on the European Union was set up as a platform for cooperation with civil society in the accession negotiation process in June, which should materialise in increased consultation of civil society throughout, especially at times of particular economic and social challenges for Serbian citizens.

Serbia is progressing in reforming its public administration. It adopted a comprehensive strategy and strengthened coordination and planning of public policies with the setting up of a new Secretariat for Public policies. A sound and comprehensive reform, underpinned by proper analysis and performance management tools, is however still needed.

First steps were taken in the implementation of the national strategies on judicial reform and the fight against corruption adopted last year. Serbia has taken stock of the significant challenges its judiciary is facing. Intensive legislative activities took place. Appraisal rules for judges and prosecutors were adopted. An important number of Court Presidents have been appointed on a permanent basis. The first generation of public notaries took office. Key pieces of legislation remain however to be adopted, such as the law on free legal aid. The assessment of the implementation of the laws recently adopted is pending. Progress is needed to ensure an effective independent judiciary. The recruitment and appointment of magistrates remain governed by unclear criteria. The generalisation of the adversarial system and modification of the court networks have not yet had a noticeable impact on the efficiency and quality of the judiciary.

There is a strong political impetus to fight corruption. Several investigations into high-level cases have been conducted and efforts have been made to improve coordination and institutional leadership in this area. However, corruption remains prevalent in many areas and remains a serious problem. The ratio of convictions to indictments is low. Whistle-blowing protection mechanisms have yet to be established. Effective prevention and repression mechanisms remain to be built. The Anti-Corruption Agency and Council's role need to be supported at the highest level and their recommendations and proposals properly followed up. Effective alternatives to the excessive recourse to incriminations under the offence of abuse of position in the private sector need to be found.

Serbia actively participated in regional law enforcement cooperation, which yielded concrete results in the fight against organised crime, leading in particular to a high-profile arrest in connection with organised crime groups. A strategic threat assessment on organised crime is needed, with a view to develop strategic planning and analysis and subsequently appropriate law enforcement responses, including through the concept of intelligence-led policing. Credible track records of investigations, prosecutions and final convictions need to be developed in corruption and organised crime cases, including high-level ones. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

Looking ahead, the adoption of credible and comprehensive action plans for chapters 23 and 24, in line with the new approach, will be a crucial milestone for Serbia.

The legal framework for the protection of minorities is broadly in place but its consistent implementation across the country needs to be ensured, notably in the areas of education, use of languages, and access to the media and to religious services in minority languages. The positive measures taken to improve the situation of the Roma need to be stepped up, particularly when it comes to education, housing and employment. Further sustained efforts are needed to improve the situation of refugees and displaced persons.

The Pride Parade, which took place in Belgrade on 28 September without major incident, is an important milestone towards the effective exercise of human rights in general and lesbian, gay, bisexual, transgender and intersex (LGBTI) rights in particular. Serbia took an important step towards implementing the 2011 media strategy by adopting in August a package of media legislation, which is designed to enhance transparency of media ownership and funding and to align legislation and practice with the EU framework. However, there are concerns about deteriorating conditions for the full exercise of freedom of expression. The authorities hold a crucial responsibility in actively contributing to the unimpeded exercise of freedom of expression, including by showing appropriate support to independent bodies, human rights defenders and independent journalists. The promotion of all fundamental rights and the implementation of the anti-discrimination strategy will require an even more dedicated and proactive approach.

Serbia continued to adopt a constructive approach in regional cooperation and made significant improvements when it comes to relations with some of its neighbours.

Regarding the **normalisation of relations with Kosovo**, Serbia has remained engaged in the dialogue and overall committed to the implementation of the April 2013 First agreement of principles governing the normalisation of relations and other agreements reached in the dialogue. This has led to a number of irreversible changes on the ground, with local and parliamentary elections held Kosovo wide for the first time and the dismantling of the Serbian police and justice structures substantially advanced. A permanent solution for Kosovo's inclusion in the South-East European Cooperation Process (SEECP) was endorsed. While there have been no high-level meetings since early elections were called in Kosovo, work has continued at technical level, leading to progress in the areas of customs collection, IBM, energy and telecoms.

However, progress in the dialogue implementation has generally slowed down. Early general elections were held in both Serbia and Kosovo. It is important that the high-level dialogue resumes. It is also essential that both sides continue to engage fully in the implementation in good faith of all existing agreements. Further progress should gradually lead to the comprehensive normalisation of relations between Serbia and Kosovo, in the form of a legally binding agreement by the end of Serbia's accession negotiations, with the prospect of both Serbia and Kosovo being able to fully exercise their rights and fulfil their responsibilities.

As regards the **economic criteria**, Serbia has made limited progress towards establishing a functioning market economy. A wide range of structural reforms needs to be implemented so as to cope in the medium-term with the competitive pressures and market forces within the Union.

The economy contracted in the first half of the year, also impacted by heavy floods. The government has made a serious start on its ambitious programme of economic and structural reforms with the adoption of a first set of important laws on labour, privatisation, and bankruptcy. Despite a series of new measures, fiscal imbalances remain very high and government debt continued to increase. However, growing exports contributed to narrowing

of external imbalances. Inflation hit historically low levels, under the targeted band of the central bank. Unemployment remained very high.

Significant efforts to reduce government expenditure and implement the adopted structural reforms are required, in order to restore fiscal sustainability and ultimately support growth. Reducing the heavy state influence in the economy requires tackling inefficiencies in the large public sector, advancing privatisation in line with the schedule, streamlining state aid, and improving corporate governance of public companies. Tax collection needs to be improved, also by tackling the large informal sector. The business environment suffers from excessive red tape, slow market entry and exit, many obstacles to investment, such as the weak legal system and slow contract enforcement. The high share of non-performing loans needs to be effectively addressed to improve bank lending. Upgrading the physical infrastructure, especially after the damage incurred by the floods, requires persistent efforts and creation of additional fiscal space. The education system needs to be made more efficient in view of falling numbers of pupils and the skills mismatch in the labour market.

As regards its **ability to take on the obligations of membership**, Serbia has continued aligning its legislation to the requirements of the EU legislation in many fields. It continued to implement its obligations under the Stabilisation and Association Agreement (SAA) smoothly. Good progress can be reported in information society and media with the adoption of the package of three laws implementing the 2011 media strategy thus further aligning Serbia's legal framework with the *acquis*. Legislation on rail, air and road transport was also further aligned. The release of the results of the population and agriculture censuses continued. The new public administration reform strategy from January 2014 includes public internal financial control among the reform priorities.

In the field of foreign and security policy, Serbia's alignment with EU declarations and Council decisions should be improved so that Serbia fulfils the requirement under the negotiating framework to progressively align its policies and decisions in this area with the ones adopted by the European Union and its Member States in the period up to accession. Serbia needs to urgently elaborate and implement reliable and robust monitoring and supervision mechanisms for *acquis* alignment across the board. Significant efforts are also needed not only to enhance and fully enforce the overall legal framework but also, and most importantly, to back these reforms with appropriate financial and human resources. There is also a lack of institutional coordination and leadership in some key *acquis* areas and the need to safeguard the independence of regulatory bodies. The legislation on state aid control must be aligned with the *acquis* and effectively applied to all undertakings, including those in the process of restructuring and privatisation. Further efforts are needed to streamline the asylum procedure in line with EU standards and permanent accommodation facilities need to be urgently upgraded. Serbia needs to step up its efforts towards alignment in the field of energy, including when it comes to the South Stream gas pipeline. It needs to achieve unbundling in the gas sector and the restructuring of the public gas company Srbijagas as a matter of priority. Further alignment in the areas of taxation, environment, climate change, genetically modified organisms is also needed, together with substantial strengthening of the overall health and social protection system.

The former Yugoslav Republic of Macedonia

Overall, the country continues to sufficiently meet the **political criteria**. The country has completed the bulk of its reforms as regards the judicial system and the public administration and has made progress since becoming a candidate country in 2005. The level of legislative alignment is high in relation to where the country stands in the accession process. However,

serious challenges persist, and in some areas have increased. These relate, in particular, to the increasingly divisive political culture, serious concerns about increasing politicisation and government control over state institutions and media, and a still fragile inter-ethnic situation.

The presidential and early parliamentary elections of April 2014 were assessed by the OSCE/ODIHR as efficiently administered, but affected by lack of separation between state and party activities and biased media reporting. Concerns about the blurring of state and governing parties are eroding trust in the public institutions. Lack of dialogue and persisting divisions between the parties led to a renewed political crisis, arising out of allegations in relation to the elections, which saw the main opposition party absent itself from parliament. The main political parties make insufficient efforts to engage in constructive politics in the interest of the entire electorate and the country as a whole. Government and opposition should take steps to restore political dialogue in parliament. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes.

Politicisation of the public administration, at both central and local level, is a serious concern. The principles of transparency, accountability, and merit are not yet fully applied. OSCE/ODIHR furthermore reported on credible allegations of pressure having been exerted on public sector employees during the April 2014 elections. These issues should be addressed, including through the new legislative framework.

The independence and competence of courts also needs to be further enhanced and more focus placed on the quality of justice provided to the citizen. The country's high level of legislative and technical advancement in this area is overshadowed by growing concerns about selectivity of justice. Track records are being developed, but corruption remains prevalent in many areas and continues to be a serious problem. The anti-corruption framework needs to be more effectively implemented.

Further improvements were made in the areas of police cooperation and combating organised crime and human trafficking. Efforts should continue to build up a track record of investigations, prosecutions and convictions in organised crime and corruption cases. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

The overall framework for the protection of fundamental rights is in place but more focus needs to be placed on its effective implementation. Continued efforts are needed to address concerns about prejudice and discrimination against the Roma population and to counteract intolerance against lesbian, gay, bisexual, transgender and intersex (LGBTI) persons.

The situation on media freedom continued to deteriorate. Government influence on media output is exercised through, *inter alia*, state-financed advertising. There is a scarcity of truly independent reporting and lack of accurate and objective information being made available through mainstream media to the public, and a lack of informed public debate.

As regards inter-ethnic relations, the Ohrid Framework Agreement, which brought an end to the 2001 conflict, provides the framework for guaranteeing the multi-ethnic character of the society. However, a lack of trust between the communities prevails. Tensions can be easily sparked by events or incidents. A more proactive and joint approach to promoting an inclusive multi-ethnic society is needed. The review of the Ohrid Framework Agreement still needs to be completed and its recommendations implemented.

The country generally maintains good relations with other enlargement countries and plays an active role in regional cooperation. A constructive approach to relations with neighbouring EU Member States remains important. Actions and statements which negatively impact on good neighbourly relations should be avoided.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia remains well advanced and, in some areas, made some further progress in the establishment of a functioning market economy. To cope with competitive pressures and market forces within the Union in the medium-term, the country needs to address important challenges through determined implementation of structural reforms.

The economic recovery continued to progress, but it remains narrowly based on the external sector, and has had limited impact on unemployment which remains high especially among young people. Reforms addressing the structural rigidities of the labour market have progressed only hesitantly. Financial stability was preserved and FDI inflows increased. Fiscal discipline as well as transparency and quality of government spending deteriorated.

Prospects for growth and employment depend largely on the business environment of the domestic private sector. To support this, there is a need to further facilitate licensing procedures, also with a view to encouraging backward linkages between domestic and foreign firms; to speed up market exit procedures; and, generally, to ensure a level-playing field for all companies when enforcing business regulation. Access to finance will need to be improved, including by repairing the bank-lending channel. A better alignment of workers' skills with labour demand needs to be tackled through further reforms of the education system, including the implementation of the vocation training strategy. Regarding public finances, the renewed deterioration of fiscal discipline in 2013 and 2014 calls for improved budget planning procedures and better consistency of annual budget execution with the medium-term fiscal strategy. The quality of public spending should be improved, by shifting the composition of capital expenditure towards growth-enhancing investment.

The former Yugoslav Republic of Macedonia has made further progress in improving its **ability to take on the obligations of membership**. The country continues to be engaged in the Stabilisation and Association Process and to fulfil its commitments under the Stabilisation and Association Agreement.

The country has wide-ranging cooperation with the EU across all areas of the *acquis* and is at an advanced level of legislative alignment, at strategic and institutional level. The country's level of alignment is sufficient to move to the next stage of the accession process. The focus should now be on administrative capacity and effective implementation.

In the field of the internal market, a good level of legislative alignment has already been achieved for capital movements, postal services and company law. In the area of justice and home affairs, the country is well advanced in its preparations on visa policy, external borders and Schengen, as well as police cooperation. On the other hand, further efforts are needed in particular on regional policy, environment and climate change, social policy and education. Public internal financial control also needs to be further strengthened and developed across the public administration.

The Council has not yet decided on the Commission's 2009 proposal on passage to the second stage of the Association, under Article 5 of the Stabilisation and Association Agreement.

Albania

Albania has made further progress towards fulfilling the **political criteria**. A High Level Dialogue on the Key Priorities was launched and Joint Working Groups to structure work on the required reforms were established. A National Council for European Integration is yet to be established to foster inclusiveness and unite all stakeholders around the reform process. A constructive and sustainable political dialogue between government and opposition is vital for the sustainability of reforms.

Parliament consensually adopted a Resolution on European Integration. It endorsed a number of legislative measures relevant to EU integration, mainly in the areas of fight against corruption and organised crime and also voted on appointments to the judiciary. Transparency of the legislative procedure was improved. However, a tense political climate impinged on parliamentary work, resulting in the opposition often abstaining from and since July boycotting all parliamentary work. Both government and opposition need to ensure political debate takes place primarily in parliament. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes.

The reform of the public administration moved forward, notably with the Civil Service Law coming into effect, the adoption of relevant implementing legislation and steps to improve recruitment procedures. Implementation needs to be pursued with a view to strengthen the depoliticisation, accountability and professional standards of public administration. The Code of Administrative Procedures needs to be finalised and adopted in line with EU standards. Steps will need to be taken to reinforce the independence and performance of independent institutions.

Albania took further steps towards the reform of the judiciary by engaging with the Venice Commission in view of enhancing the independence, accountability and professionalism of the judicial system and by starting to draft the 2014-2020 judicial reform strategy. Some steps were made to improve the accountability and transparency of the judiciary, including through legislative amendments regulating the immunities of judges and prosecutors. Disciplinary proceedings against judges have led to a number of sanctions. The Administrative Courts started to function, although they still need to be made fully operational. Changes were introduced to the Law on the High Council of Justice aimed at improving its functioning. However, concerns have been expressed on their expeditious adoption without including and consulting all relevant actors. Many shortcomings remain and there is an overall awareness that deep reform of the judiciary is urgently needed. Further substantial efforts to ensure the independence, efficiency and accountability of the judiciary will need to be made, including through constitutional amendments. Albania will need to vigorously pursue this process with the constructive cooperation of all stakeholders, including through continued cooperation with the Venice Commission. Determined action is needed to reinforce the disciplinary system for judges, prosecutors and lawyers, as well as to further improve the efficiency of courts.

The government has shown political will to act decisively in the prevention and fight against corruption. The legislative framework was strengthened and policy coordination and monitoring at central level improved. A National Anti-Corruption Coordinator was appointed and a network of anti-corruption focal points was established in all line ministries. However, corruption is prevalent in many areas, including the judiciary and law enforcement, and remains a particularly serious problem. Albania needs to take measures to enforce the legislative framework and adopt the 2014-20 anti-corruption strategy and action plans. Inter-institutional cooperation needs to be enhanced and existing obstacles to proactive

investigations need to be removed. Albania will also need to further develop the track record of investigations, prosecutions and convictions in corruption cases, notably at high level.

The fight against organised crime shows a positive trend in a number of areas, with an intensification of law enforcement activities including on drug seizures and drug-related crimes, economic crime, and trafficking of human beings. In particular, the authorities have taken serious steps to fight cultivation and trafficking of cannabis, which remains a serious concern, most notably through a major police operation in the village of Lazarat and in the north of the country. International cooperation has been strengthened. Efforts in fighting organised crime need to be further stepped up, however. The cooperation between law enforcement institutions should be further improved and legislative barriers affecting the efficiency of investigations should be lifted. Albania will need sustainable efforts, combined with proactive and systematic financial investigations and consistent enforcement of legislation, to counter all kinds of criminal activities including money laundering, and trafficking of human beings and in drugs. Albania should continue acting decisively against cannabis cultivation. Fighting organised crime and corruption is fundamental for countering criminal infiltration of the political, legal and economic system.

As regards fundamental rights, freedom of assembly and association, as well as freedom of thought, conscience and religion, continued to be generally respected. Cooperation between the state authorities and civil society organisations regarding the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) persons was improved. The legal framework for persons with disabilities was revised; its implementation needs to be ensured. Gender-discriminatory legal provisions need to be removed, the institutional capacity for child protection should be strengthened and children's forced labour should be addressed. An action plan on children's rights was adopted. Albania will need to focus on implementing measures to enhance Roma inclusion and protect vulnerable groups. The protection of property rights needs to be further strengthened, including through reviewing the 2012 property reform strategy and strengthening security of legal ownership. As regards freedom of expression and media, the government failed to act on the identified priorities. All statutory functions of the Audiovisual Media Authority need to be restored and its independence guaranteed in practice. The unauthorised use of frequencies by several broadcasters remains a problem.

Albania's positive engagement in regional cooperation and good neighbourly relations remains essential.

As regards the **economic criteria**, Albania made some progress towards becoming a functioning market economy. Albania should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it further accelerates structural reforms.

Albania preserved macroeconomic stability, proceeded with arrears clearance and took steps to improve tax administration and collection. However, economic growth slowed further and the current account deficit remains large, reflecting weak competitiveness. The budget deficit exceeded the target in 2013 and the high level of public debt increased further restricting the fiscal room for manoeuvre. Inflation remained low, which allowed monetary easing to continue, but this did not translate into credit growth due to the high level of non-performing loans in commercial banks. Unemployment is high and the informal economy remains widespread.

Albania should pursue fiscal consolidation efforts with a view to reducing public debt, while at the same time preserving room for growth-friendly expenditure. The energy sector should

be reformed and pension and tax administration reforms to be further implemented in order to lower the risks it poses to public finances. Bank lending and credit growth need to be supported by the continued payment of state arrears towards companies and by addressing non-performing loans. Obstacles to private-sector development should be removed by improving the business environment, which is characterised by deficiencies in the rule of law, weaknesses in the regulatory framework and uncertainty over property ownership. Creating favourable conditions for private investment, and in particular foreign direct investment, is essential for diversifying the narrow production base. Education and training should be further improved to address skills mismatches in the labour market and increase employability.

The Stabilisation and Association Agreement (SAA), which entered into force in April 2009, continued to be overall smoothly implemented. Albania continued aligning its legislation to the requirements of the EU in a number of areas, enhancing its **ability to take on the obligations of membership**. A new National Plan for European Integration for 2014-2020 was adopted. However, concrete improvements have been moderate in most areas. Albania will need to make substantial efforts to upgrade its preparations for implementing EU *acquis*. More efforts are needed to ensure protection of intellectual property rights. The settlement of the dispute between the government and the power distribution company CEZ contributed to pave the way for further energy sector reforms. Stepping up efforts in this area, including the diversification of energy sources and the functioning of the electricity market, is vital for economic development. Albania will also need to reinforce environmental protection, and address shortcomings noticed in the areas of transport, food safety, and consumer and health protection. The administrative capacity and professional standards of bodies charged with the implementation of the *acquis* needs to be strengthened and the independence of regulatory bodies safeguarded. Enhancing transparency and accountability, in particular as regards public procurement and public finance management, remains essential.

Bosnia and Herzegovina

Once again the country has made very limited progress in addressing the **political criteria**. There has been no tangible progress in establishing functional and sustainable institutions. Likewise, the Parliamentary Assembly of Bosnia and Herzegovina has made very limited progress in adopting EU-related legislation. Disagreements along political and ethnic lines have had a major negative effect on the work of the assemblies at the State level and in the Federation.

Cooperation with civil society at the State, Entity and cantonal levels remains weak. As manifested in the social protests of early 2014, all governments should as a matter of priority focus on addressing socio-economic needs of citizens, in particular on tackling the very high youth unemployment and assisting those in need, also following the heavy floods in May.

Given the political climate, very limited progress has been made in reforming public administration and improving its capacity to fulfil the requirements of EU integration. The fragmentation of the legal administrative framework at different levels of government remains an issue of serious concern, as it highly affects the functionality of the public services system. A new public administration reform strategy after 2014 needs to be developed. The necessary reforms in public financial management need to be addressed in a comprehensive manner.

The area of judicial system reform saw little progress. The Structured Dialogue on Justice remains an important platform to achieve consensus on judicial reforms and has been further broadened to other rule of law related matters. The reform of the State-level judiciary needs to

be carried out as a matter of priority. The lack of human resources at all levels to tackle the backlog of war crime cases has been partly addressed, but sustainability still needs to be ensured with proper planning and relevant allocations by competent domestic authorities. The judiciary requires further reinforcement of disciplinary tools and adequate regulations of the conflict of interest.

There was little progress in advancing reforms to reduce corruption, which continues to affect the entire public sector and remains most acute in the areas of service delivery and access to employment. Political patronage networks are widespread and influence all levels of government. Investigation and prosecution in high-profile cases remain insufficient and the overall level of effective investigations, prosecution and convictions is low. There is little political will to move beyond rhetoric and tackle corruption, including investigations and convictions in high-profile cases. There has been overall limited progress tackling organised crime, which remains a serious concern despite some successful joint operations, including through close coordination with neighbouring countries. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

The legal and institutional framework for the observance of human rights is in place and the main elements of international human rights laws have been incorporated into the legal system. However, increased political and financial pressure on the media and intimidation and threats against journalists and editors are of serious concern. There needs to be more effort to make schools more inclusive and to address the continuing existence of ‘two schools under one roof’ in the Federation. Effective prevention and investigation of cases of hate speech, violence and discrimination against lesbian, gay, bisexual, transgender and intersex (LGBTI) persons needs to be ensured. While very good progress was made in addressing the housing needs of Roma, efforts in the areas of education, health and employment need to be strengthened. As regards refugees and internally displaced persons, effective implementation of the revised strategy needs to be ensured, in particular its socio-economic aspects. Bosnia and Herzegovina has continued to participate actively in regional cooperation and to maintain good neighbourly relations.

As regards the **economic criteria**, Bosnia and Herzegovina has made little progress towards becoming a functioning market economy. Considerable steps would be needed to tackle persistent structural weaknesses to be able to cope with competitive pressures and market forces within the Union over the long term.

Economic growth has modestly resumed and the current account deficit has narrowed amid persisting external imbalances. The recovery remains fragile due to weak domestic demand and a narrow production base. The heavy flooding in the spring is expected to worsen the short-term economic and fiscal situation. Efforts have been made to improve fiscal coordination in the Federation as well as the collection of indirect taxes.

Bosnia and Herzegovina should pursue further urgent measures to preserve fiscal discipline. In addition, efforts are required to address the significant state presence in the economy and to reduce the level and improve the composition and the targeting of public spending. Moreover, the inefficiency of public enterprises should also be adequately tackled. Better coordination between and within the entities would significantly facilitate and improve economic policy making. High labour market imbalances as reflected by the persistently high unemployment, notably among the youth, as well as the very low participation rate, call for decisive steps to remove disincentives to work and to improve the quality of education. Deficiencies in the legal and business environment, notably lengthy contract enforcement and costly and complex procedures of business entry and exit as well as the underdeveloped infrastructure should be

addressed to support private-sector development and attract investment, especially foreign investment. In this context, the informal sector also remains an important challenge. In addition, the high level of non-performing loans needs to be tackled.

Similar to last year the lack of genuine political support for the EU agenda, the absence of a functioning coordination mechanism on EU matters and internal disputes on competencies have resulted in limited progress as regards **approximation to EU laws and standards**. This concerns in particular the areas of movement of persons and labour force, freedom to provide services and right of establishment, the free movement of goods, consumer protection, employment and social policies, education, culture and research, the area of industry and SMEs, environment and climate fields and the area of transport. In a number of areas further progress is hampered by a lack of countrywide strategies.

There was little progress in the fields of agriculture and rural development, food safety, veterinary, phytosanitary policy and fisheries. Lack of alignment with EU requirements in this area continues to prevent exports of goods of animal origin to the EU, a regrettable situation which requires serious and well-coordinated efforts to be overcome. In the field of taxation, Bosnia and Herzegovina adopted a small-brewery tax scheme that is non-compliant with obligations under the Interim Agreement insofar as it discriminates against beer imports. Not much progress was achieved in the energy sector due to the complexity of the administrative structure, disputes on competencies between State level and entities and lack of political will. This has *inter alia* led to a serious and persistent breach of the country's obligations under the Energy Community Treaty in the gas field which needs to be addressed urgently. Progress can be reported *inter alia* in the internal market area with the adoption of the law on public procurement, which enables the country to align with the EU Directives of 2004. Cooperation between statistical bodies at entity and State level has improved particularly in the context of the population and housing census.

Kosovo

With regard to the **political criteria**, the past year saw Kosovo's political agenda dominated by local and general elections and their aftermath. The June general elections were transparent and well-organised. Election day passed without major incidents and voters cast their votes freely throughout Kosovo, including in the four northern municipalities. The elections consolidated progress made in the local elections of end-2013. In both cases, the electoral process improved. There were fewer electoral fraud cases than in the 2010 elections, and they were handled efficiently. A considerable number of the 2010 cases are still pending in the courts. Kosovo still needs to address recommendations from the election observation missions and experts. These include adoption of a comprehensive electoral code and enhancing the accuracy of voters' lists. Electoral reform needs to ensure that the legal framework for elections reflects best practice in the EU. Kosovo's recent membership of the Venice Commission can help in this regard.

The failure to constitute the new legislature smoothly and in a timely manner has been a setback. The new government and the Assembly will need to re-energise Kosovo's reform agenda. Both institutions need to build on the existing political consensus in Kosovo on EU integration. Kosovo's government has demonstrated its capacity to coordinate its EU-integration agenda, notably with regard to the SAA negotiations. Building on the expertise across different departments and institutions, Kosovo's negotiators put substantial effort into scrutinising the proposed text and analysing its possible impact. This reflects a good grasp of the impact of the commitments made.

To implement and meet the obligations under the future SAA, Kosovo's executive and the Assembly need to focus on the implementation of legislation and policies. Legislative and policy plans need to realistically reflect the resources required. The new legislature provides for a good opportunity to improve oversight of the executive and the legislative process. The Assembly's role in supervising independent institutions and regulatory authorities needs to be strengthened. The independence of these bodies needs to be upheld and appointments for these bodies need to proceed without delay and be based on a fair and depoliticised selection process with objective criteria.

Good cooperation with the EU rule of law mission, EULEX, has continued. Kosovo authorities have made a substantial political commitment to the extension of the mission's mandate and agreed to establish a specialist court to adjudicate findings of the Special Investigative Task Force. To complete this process, Kosovo needs to adopt the necessary legislative changes, including to its constitution. Judicial authorities have coped well with structural challenges such as the comprehensive judicial reform adopted in 2013 and the process of the transfer of some EULEX functions to local authorities. The Structured Dialogue on the Rule of Law continued to support this process. The backlog of cases and ensuring impartial, independent justice remains a challenge. Kosovo judicial authorities need to proactively pursue indictments based on admissible evidence, and issue well-reasoned, timely judgments, irrespective of prevailing public or political opinion.

With regard to the fight against corruption and organised crime, the number of drug-related crime investigations has increased and some human trafficking groups have been dismantled. However, with a low number of actual convictions and drug seizures, Kosovo is at an early stage in its fight against organised crime and corruption. Law enforcement agencies are reluctant to initiate financial investigations and the number of cases of freezing and confiscating assets ordered by the judiciary and executed by the police continues to be low. Witness intimidation is still a major concern. The new government and parliament need to show zero tolerance towards corruption and organised crime and a clear political will to the effective fight against corruption and organised crime. Kosovo's political class needs to demonstrate its readiness to accept the outcome of independent judicial processes. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

The implementation of the strategy (2010-13) and action plan (2012-14) on public administration reform has been a major challenge for Kosovo, delivering very limited results. Supported by a serious political commitment, Kosovo needs to establish a realistic strategic framework for policy making, legislative planning and the practical implementation of reforms. Completing the legislative framework for the civil service, ensuring it is depoliticised and carrying out performance appraisals of the civil service are priorities. Kosovo also needs to adopt a law on general administrative procedures, which is crucial for the development of a business-friendly environment. While some public financial management rules and regulations are in place, Kosovo should ensure a more comprehensive approach to the reforms in this field. Kosovo needs to ensure their implementation and improve follow-up to Auditor-General reports.

Human and fundamental rights continue to be broadly guaranteed by law in Kosovo. The Independent Media Commission is operational again. The perpetrators of violence against Kosovo 2.0 journal received suspended sentences. Threats and attacks on lesbian, gay, bisexual, transgender and intersex (LGBTI) activists and on journalists have continued, which remains a serious concern. The conditions for freedom of expression and media need to be put in place. Property rights need to be effectively enforced, including women's access to

inherited property. Kosovo has yet to streamline its institutional system dealing with human rights protection. The respective responsibilities are not clear, which hinders the implementation of legislation and monitoring.

Land has been allocated to some internally displaced families from the Roma community living in a camp in Montenegro. The main building of the Roma camp in Leposaviq/Leposavić has been closed. The Implementation and Monitoring Council has facilitated improved protection of cultural and religious heritage. However, Kosovo needs to step up its efforts to ensure implementation of legislation and policy frameworks, including the action plan on the integration of Roma, Ashkali and Egyptian communities. Security incidents and crimes targeting persons belonging to minorities and their property need to be investigated and prosecuted thoroughly and promptly. The laws on the historic centre of Prizren and on Velika Hoča/Hoçë e Madhe need to be implemented. The Law on Velika Hoča /Hoçë e Madhe is of particular concern as no progress in its implementation has been made despite a municipal decision of February 2013 to move ahead and despite the provision of administrative instructions by the Ministry of Environment and Spatial Planning. Robust action is required to prevent illegal construction and demolition of cultural heritage sites.

On regional cooperation, Kosovo has made further progress, and it has concluded further bilateral cooperation agreements with several of its neighbours.

Regarding the **normalisation of relations with Serbia**, Kosovo has remained engaged in the dialogue and overall committed to the implementation of the April 2013 First agreement of principles governing the normalisation of relations and other agreements reached in the dialogue. This has led to a number of irreversible changes on the ground, with local and parliamentary elections held Kosovo wide for the first time and the dismantling of the Serbian police and justice structures substantially advanced. A permanent solution for Kosovo's inclusion in the South-East European Cooperation Process (SEECP) was endorsed. While there have been no high-level meetings since early elections were called in Kosovo, work has continued at technical level, leading to progress in the areas of customs collection, IBM, energy and telecoms.

However, progress in the dialogue implementation has generally slowed down. Early general elections were held in both Serbia and Kosovo. It is important that the high-level dialogue resumes. It is also essential that both sides continue to engage fully in the implementation in good faith of all existing agreements. Further progress should gradually lead to the comprehensive normalisation of relations between Serbia and Kosovo, in the form of a legally binding agreement by the end of Serbia's accession negotiations, with the prospect of both Serbia and Kosovo being able to fully exercise their rights and fulfil their responsibilities.

As regards the **economic criteria**, Kosovo made limited progress on its path to become a functioning market economy. Substantial efforts are needed to tackle structural weaknesses to cope with competitive pressures and market forces within the Union over the long term.

Economic growth remained positive at 3.4% but did not yield any improvements in labour market conditions. High external imbalances persist despite some narrowing of the trade deficit. Macroeconomic stability was broadly preserved despite significant pre-election *ad hoc* increases in current expenditure, in particular on wages and pensions. Such practice deteriorates the transparency, predictability and credibility of fiscal policy, complicates fiscal planning and shifts the composition of spending towards less growth-friendly expenditure.

Strengthening fiscal planning and effectively implementing the fiscal rule is vital. Moreover, decisions on large infrastructure projects, such as in the transport sector, should be based on

proper cost-benefit evaluations to maximise economic benefits. In view of the persistent and very high unemployment, efforts should be undertaken to facilitate private-sector development through improvements in the business environment. To that end, obstacles arising from weak administrative capacities, difficult access to finance and lengthy and complex privatisation procedures should be swiftly addressed. Kosovo must ensure a properly functioning legal and judiciary system, enhance contract enforcement and effectively reduce delays in courts. Economic statistics need to be improved.

Regarding **approximation to EU laws and standards**, Kosovo institutions have demonstrated their capacity to deliver on the political priorities, such as the SAA negotiations, the visa liberalisation dialogue and the dialogue with Serbia. This was the result of strong political commitments. Delivery of results in other priority reform areas has been more uneven. The basic legal framework allowing for capital movement remains in place, but obstacles to real estate purchases by foreigners persist. As concerns competition, Kosovo's track record is limited, which is due to very weak oversight of anti-competitive practice and state aid. Kosovo needs to ensure that the competition authorities are effective and independent. The law on public procurement was amended to introduce preferences for local producers. These preferences will have to be removed within five years of the entry into force of the SAA.

There has been a steady improvement in Kosovo's energy supply with the result that power cuts are now infrequent. An explosion at the Kosovo A plant underlined the fragility of the system. Kosovo needs to prepare more actively to decommission this plant. There has been sound progress in agriculture and food safety, despite scarce resources. The transfer of inspectors to the central agency needs to be completed urgently. This is essential to enforce food and veterinary standards, which are important for trade in the context of the SAA. The lack of interest in the environment has become a serious issue for public health and the quality of life in Kosovo.

Turkey

As regards the **political criteria**, the year was marked once again by sharp contrasts.

On the one hand, implementation of reforms adopted in previous years continued. Several measures under the 3rd and 4th judicial reform packages, as well as measures announced in the democratisation package presented in September 2013 were adopted and implemented. These measures, amongst others, decreased the threshold for budget support to political parties, allowed the conduct of political activity in languages and dialects other than Turkish, and provided for private education in languages and dialects other than Turkish. The adoption in March of an Action Plan on Prevention of Violations of the European Convention on Human Rights (ECHR) was an important step aimed at aligning Turkey's legal framework and practice with the case-law of the European Court of Human Rights (ECtHR). The Constitutional Court continued applying the individual application procedure. It took a number of important decisions strengthening the protection of fundamental rights in the country and illustrating the resilience of the country's constitutional system.

In June, the Turkish parliament adopted a law to 'bring a stronger legal foundation to the settlement process' aiming at a solution of the Kurdish issue. The law was adopted with broad support across political parties. It encompasses measures to eliminate terrorism, strengthen social inclusion, reintegrate those who leave the Kurdistan Workers' Party (PKK) and lay down their arms, and prepare public opinion for the return of former fighters. The law

strengthens the basis for the settlement process and makes a positive contribution to stability and protection of human rights in Turkey.

In September, the Ministry of EU affairs presented a 'European Union Strategy' intended to reinvigorate Turkey's accession process. The Strategy is based on three pillars: political reforms; socio-economic transformation in the accession process; communication strategy. It is expected to be followed up by action plans with concrete actions and timelines.

On the other hand, the government's response to allegations of corruption targeting high-level personalities, including members of the government and their families, raised serious concerns over the independence of judiciary and the rule of law. This response consisted in particular in amendments to the Law on the High Council of Judges and Prosecutors and subsequent numerous reassignments and dismissals of judges and prosecutors, as well as reassignments, dismissals, or even detention, of a large number of police officers. This raised concerns with regard to the operational capabilities of the judiciary and the police and cast serious doubts on their ability to conduct the investigations into corruption allegations in a non-discriminatory, transparent and impartial manner. The Constitutional Court found a number of provisions of the Law on the High Council of Judges and Prosecutors unconstitutional, following which parliament amended the legislation and brought back previous provisions.

These developments have also resulted in an increased polarisation within the political spectrum. Several pieces of legislation proposed by the ruling majority, including on fundamental issues for the Turkish democracy, were adopted without proper parliamentary debate or adequate consultation of stakeholders and civil society. The overall decision making process, both nationally and locally, should involve more structured and systematic consultation of civil society. It is essential to reform the existing legal environment and make it more conducive to the development of civil society organisations in general.

As regards freedom of expression, wide public debate continued on topics previously considered as sensitive, including the Kurdish and the Armenian issues. However, a number of provisions of the Turkish legal framework and their interpretation by members of the judiciary continue to hamper freedom of expression, including freedom of the media. Amendments to the Internet Law restricted freedom of expression on the internet. The blanket bans on YouTube and Twitter have raised serious concerns. These bans were subsequently found unconstitutional by the Constitutional Court. State officials continued making statements having an intimidating effect on the media. This, together the ownership structure of the Turkish media sector, led to widespread self-censorship in the press, as well as resignations and dismissals of journalists.

Turkish legislation concerning the right to assembly focusing more on the legality rather than on the peaceful character of the demonstration, and its implementation by law enforcement officers, have to be brought in line with European standards. Legislation on the establishment of a law enforcement monitoring commission as an independent oversight body for police offences needs to be adopted.

The unclear definition in criminal legislation of membership of an armed organisation continues to be the source of a large number of arrests and prosecutions. An ECHR-compatible legal framework has to be established on matters of faith and conscientious objection. Substantial efforts are needed to effectively guarantee the rights of women, children, and lesbian, gay, bisexual, transgender and intersex (LGBTI) individuals. Domestic violence, occasional 'honour' killings and the issue of early and forced marriages remain a

serious concern. Turkey needs to ensure full respect for all property rights, including those of non-Muslim religious communities.

These shortcomings need to be addressed and the authorities need to enhance efforts to protect other fundamental rights and freedoms so that all citizens can exercise their rights without hindrance.

The signature of the EU-Turkey readmission agreement on 16 December 2013 in parallel with the start of the visa liberalisation dialogue created a new momentum for EU-Turkey relations. The readmission agreement has entered into force on 1 October 2014, while the first report on Turkey's progress in the framework of the visa liberalisation roadmap will be published on 20 October 2014. It is important that these two processes move forward. Full and effective implementation vis-à-vis all Member States is crucial.

Regarding the fight against organised crime, Turkey improved its programme to counter the financing of terrorism, consolidated the network of witness protection units and reorganised the responsibilities in the fight against the trafficking in human beings. However, large-scale removals of police officers have taken place which raised concern over their impact on the operational capabilities of key police services involved in the fight against organised crime. Fighting organised crime and corruption is fundamental to countering the illicit influence of criminal groups on the political, legal and economic systems.

On foreign policy, Turkey has continued to play an important role in its wider neighbourhood. It has played a particularly important role on Syria, strongly and repeatedly condemning the Syrian regime's violence against civilians, supporting the development of a more unified opposition and providing vital humanitarian assistance to more than 1 million Syrians fleeing their country. It has also continued to provide practical support to the E3+3 talks with Iran. Solid foundations were laid for greater European energy security with the adoption of the final investment decisions for the realisation of the three Southern Gas Corridor projects. The regular political dialogue between the EU and Turkey continued, covering both international issues of common interest such as the Middle East and Central Asia, and global issues such as counter-terrorism, foreign fighters and non-proliferation. Turkey has continued its policy of engagement in the Western Balkans, including through its active participation in the South-East European Cooperation Process and its contribution to EU-led military, police and rule of law missions. In the light of the serious challenges arising in Turkey's immediate neighbourhood, the dialogue with the EU should intensify further and alignment with EU positions should improve.

Turkey supported the resumption of the fully-fledged settlement talks between the leaders of both communities in Cyprus under the good offices of the UN Secretary-General. Turkey and Greece promoted reciprocal visits by the two Chief Negotiators to Ankara and Athens in the context of the ongoing negotiations.

However, Turkey continued to issue statements challenging the Republic of Cyprus' right to exploit hydrocarbon resources in Cyprus' Exclusive Economic Zone for the benefit of all Cypriots. Turkey is expected to actively support the negotiations towards a fair, comprehensive and viable settlement of the Cyprus issue within the UN framework, in accordance with the relevant UN Security Council resolutions and in line with the principles on which the EU is founded. Turkey's commitment in concrete terms to such a comprehensive settlement remains crucial. Despite repeated calls by the Council and the Commission, Turkey has still not fulfilled its obligation to ensure full and non-discriminatory implementation of the Additional Protocol to the Association Agreement and has not removed

all obstacles to the free movement of goods, including restrictions on direct transport links with Cyprus. There was no progress on normalising bilateral relations with the Republic of Cyprus.

Turkey needs to commit itself unequivocally to good neighbourly relations and to the peaceful settlement of disputes in accordance with the United Nations Charter, having recourse, if necessary, to the International Court of Justice. In this context, the EU has expressed once again serious concern and urged Turkey to avoid any kind of threat or action directed against a Member State, or source of friction or actions, which could damage good neighbourly relations and the peaceful settlement of disputes.

The EU has welcomed the fact that the cooperation initiatives between Greece and Turkey to improve bilateral relations are continuing. The latest, 58th round of exploratory talks for the delimitation of continental-shelf took place. Greece and Cyprus made formal complaints about repeated and increased violations of their territorial waters and airspace by Turkey, including flights over Greek islands.

As regards the **economic criteria**, Turkey is considered a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it accelerates the implementation of comprehensive structural reforms.

Following the slowdown in 2012, output and employment have increased at a moderately high rate. Nevertheless, unemployment has risen as a result of a strongly expanding labour force. The current account deficit, while narrowing somewhat in 2014, has remained at an elevated level. The reliance on sustained capital inflows makes Turkey vulnerable to changes in global risk sentiment, resulting in large exchange rate fluctuations.

Although fiscal deficit and public debt have remained at moderate levels, continuing budgetary overruns on the expenditure side call for a strengthening of the fiscal framework. Fiscal policy should help raising overall national saving in view of the need to reduce the external deficit. Considering that inflation has trended upwards, diverging further from the central bank's target, monetary policy needs to pursue a restrictive course and be focused clearly on price stability. Notwithstanding some progress regarding privatisations and the liberalisation of the electricity market, it is essential that structural reforms are accelerated on a broad basis to improve the functioning of the markets for goods, services and labour. These reforms should include further improvements in the judicial system and of administrative capacity, enhanced transparency of state aids, and an open, fair and competitive public procurement system.

As regards the **ability to take on the obligations of membership**, Turkey has continued to align with the *acquis*. In 2013, another negotiating chapter (22 — Regional policy and coordination of structural instruments) was opened. There has been good progress on trans-European networks. Turkey has also taken important steps in key areas under chapter 24, in particular as regards migration and asylum policy, in spite of the very considerable burden represented by the continuous refugee crisis. Progress was achieved on energy, especially on security of supply and the internal market for electricity, on company law, on enterprise and industrial policy, on statistics, on science and research, on free movement of capital regarding the fight against money-laundering and terrorist financing, and in the implementation of the pre-accession rural development programme.

Overall, Turkey is advanced in its alignment in several chapters of the *acquis*, including freedom of movement of goods, company law, intellectual property law, financial services,

energy, economic and monetary policy, statistics, enterprise and industrial policy, trans-European networks, science and research, customs union and external relations.

In all areas, more attention needs to be given to enforcement of legislation. Comprehensive efforts should continue in the area of justice, freedom and security, food safety, veterinary and phytosanitary policy and environment and climate change. Further significant progress is needed on judiciary and fundamental rights, social policy and employment, especially in the areas of labour law and health and safety at work. Legislative alignment needs to be pursued especially in public procurement, competition policy, particularly state aid, information society and media.