

# Communique by the PIC Steering Board

## Returning to the Reform Agenda

The Political Directors of the Peace Implementation Council Steering Board, together with representatives of the authorities of Bosnia and Herzegovina, met in Sarajevo on 19 and 20 October.

The Steering Board welcomed the conduct of the 1 October election that the International Election Observation Mission qualified as “generally in line with international standards for democratic elections”. In its wake, the process of coalition-building and government formation is now under way and should be completed as soon as possible.

The Steering Board concluded that the authorities in Bosnia and Herzegovina have failed to deliver the expected level of reform in recent months. It noted that not one law of the reform agenda highlighted by the High Representative in his speech to parliament on 24 May was passed in the intervening period. By contrast, several bills that undermined the fiscal stability of Bosnia and Herzegovina were either passed or are close to being adopted.

The Steering Board made clear that regardless of which parties enter government, the obligations that must be met and the reforms that must be delivered remain the same. To advance on the road to Europe, any government must base its programme on the National Action Plan that was adopted in March with a view to meeting the priorities in the European Partnership.

The Steering Board noted that sufficient progress in a number of key reforms necessary for concluding negotiations on a Stabilisation and Association Agreement (SAA) with the

European Union has not been made. The Steering Board expressed particular concern over the lack of progress in police reform, pointing out that progress can and should be made in this area even before governments are formed.

The Steering Board believes that progress can, and must, also be made in constitutional reform in advance of the formation of governments.

Moreover, the ability to carry out difficult reforms should reflect the assumption of full ownership of the political process by the new political leaders in Bosnia and Herzegovina.

The Steering Board urged the State and Entity governments immediately to begin preparing 2007 budgets and to agree ITA revenue allocation based on a new, sustainable methodology.

The Steering Board called on the authorities of Bosnia and Herzegovina , in particular those of Republika Srpska, to meet their international and Dayton obligations to cooperate fully with the International Criminal Tribunal for the former Yugoslavia (ICTY). Republika Srpska must take the initiative and play a proactive role in apprehending all indicted war criminals, notably Radovan Karadzic and Ratko Mladic, and in transferring them to The Hague , as well as in shutting down their criminal support networks.

Both the Federation and Republika Srpska are in breach of their respective legal obligations as long as they fail to implement Human Rights Chamber/Commission Decisions, including for example, Decisions in regard to the case of Avdo Palic.

The Steering Board noted with disappointment attempts by politicians to undermine the independence and efficiency of judges and prosecutors. They expressed confidence in the institutions of Bosnia and Herzegovina to address this problem and in particular supported the High Judicial and Prosecutorial Council in its efforts to ensure that judges and

prosecutors are free from political interference in their work.

The Steering Board takes this opportunity to reiterate that the sovereignty and territorial integrity of Bosnia and Herzegovina is internationally guaranteed and not a matter for discussion.

The Steering Board expressed satisfaction that the State, Entity and Brcko governments had endorsed the National Public Administration Reform strategy in September, and called on the incoming governments to implement it without delay.

The Steering Board expressed satisfaction with implementation of defence reform to date and called for continued implementation of adopted defence-related legislation.

Incoming governments will in addition have to address as a matter of urgency a wide range of reforms, including reforms relating to Public Broadcasting Service, education and State property.

Preparations for the OHR's closure are continuing, in line with the decision of June 2006 to close OHR at the end of June 2007, subject to review and confirmation early next year. The Steering Board approved an operating budget of 5,674,291 Euros for 2007 as well as a post-closure liquidation budget of 936,512 Euros.

The Steering Board also welcomed the European Union's continued planning for a reinforced EU presence in Bosnia and Herzegovina in the context of the closure of the OHR, in recognition of Bosnia and Herzegovina's progress in recent years.

## **Police Restructuring**

The Steering Board welcomes the fact that the Directorate for Police Restructuring Implementation is making progress in

developing the elements of a proposal for police reform in line with the three EU principles as mandated by the October 2005 Agreement on Restructuring of Police Structures. Recognising that the Directorate is not responsible for earlier delays, the Steering Board notes that it is not acceptable for parties to put into question the Agreement, the three EU principles or the existence and work of the Directorate.

The Steering Board emphasises the need for all parties to the Agreement to take the fundamental decisions allowing for the implementation of the police reform. It calls on the RS institutions to resume full and active participation in the work of the Directorate and to engage in the process laid out in the Agreement.

The Steering Board calls on the Directorate to move forward in a spirit of consensus to find solutions on the institutional arrangements of the future police structure and the local police regions as soon as possible, so that it can submit its report by the end of November.

The Steering Board calls on political leaders to achieve progress on police restructuring now, without waiting for the formation of parliaments and governments, through constructive talks on police reform to facilitate the work of the Directorate and subsequent adoption of the Directorate's proposal by State and Entity governments and parliaments.

The Steering Board draws special attention to the importance of police reform for concluding the SAA negotiations.

## **Constitutional Reform**

Bosnia and Herzegovina has a constitution that was shaped by the necessity to end the war, not by the need for functionality, fiscal sustainability and economic and social development. Constitutional reform will be needed to accelerate progress towards the European Union and Euro-

Atlantic institutions.

The Steering Board expressed its full support and urged early adoption of the package of constitutional amendments agreed by six political parties in March. The package enjoys widespread international support and addresses the need for progress on constitutional reform to create more functional state structures that are better able to meet European standards. This is urgently required so that Bosnia and Herzegovina can implement the reforms necessary to ensure a prosperous and stable future for all citizens of Bosnia and Herzegovina.

The Steering Board acknowledged these reforms are only the first steps in a longer-term process and welcomed the commitment by the European Union, in the person of the EU Special Representative in particular, and the United States to work together and assist in this effort.

### **Fiscal sustainability**

At the State level, the amendments passed in September by the House of Representatives to the Law on Frozen Foreign Currency Savings reintroduces historic interest payments at an additional cost of KM 1.7 billion and reduces the repayment period from 13 to 5 years. The total debt of KM 3.4 billion that would be paid to deposit-holders represents more than 20 per cent of this year's GDP and yet no resources to pay the additional costs have been identified. The Steering Board reiterated its view that the original debt settlement represents the fairest possible solution in light of Bosnia and Herzegovina's financial circumstances – for deposit-holders and for all citizens.

In the Federation, the adoption of the Law on Demobilised Defenders will burden the Federation, Cantons and municipalities with additional expenditure of at least KM 249 million. If the intended beneficiaries are to see even a fraction of this money, other public services will have to be

significantly reduced. The net effect will be to slash social services while undermining the Federation's financial viability.

Republika Srpska, meanwhile, has failed to adopt transfer agreements that would allow progress to be made on enacting or amending laws on Obligations, Banking Supervision and Conflict of Interest. The net benefit of these laws would be more legal certainty, thereby improving the business environment, reducing the shortcomings in banking supervision and increasing transparency in government.

The Steering Board also noted with concern the lack of progress towards establishing a National Fiscal Council that would help end the present practice whereby public money is spent in an uncoordinated and wasteful way.

## **Mostar**

The Steering Board noted that no tangible progress has been achieved in completing the unification of the Mostar city administration as required by the Statute as a result of political intransigence. The successful unification of Mostar is of crucial importance for the political stability of the Federation and of Bosnia and Herzegovina as a whole, which wants to move further ahead on the road towards Europe.

The Steering Board offered its full support to Norbert Winterstein, whom the High Representative appointed as his Special Envoy to Mostar in September, in his efforts to mediate or, if requested by the stakeholders, to arbitrate solutions to the outstanding issues.

The Steering Board welcomed the recent decision of the City Council and the request by the Mayor to invite arbitration on some of the key disputed issues. The solutions that the Special Envoy will propose should be implemented by the local authorities as soon as possible. If this fails, the Special Envoy will refer the issues to the High Representative who

will not hesitate to take decisive action.

## **Brcko**

The Steering Board welcomed the Council of Ministers' adoption of draft legislation to establish the Brcko District Coordinator's Office as a permanent body in the Council of Ministers, and urged rapid consideration of this law by the new Parliament of Bosnia and Herzegovina.

At the same time, the Steering Board called for completion and adoption of a State Law on the Brcko District of Bosnia and Herzegovina, which will formally establish and regulate the relationship between the State institutions and the District.

The Steering Board agreed with the position of the Working Group on the Status of Brcko District that the constitution of Bosnia and Herzegovina should in due course regulate the status of the District.

The Steering Board expressed its hope that the issue of VAT revenue allocation would be solved as soon as possible by the parties in a fair manner that reflects the District's position as an institution of Bosnia and Herzegovina , the Final Award, and its fiscal self-sustainability.

The Steering Board expressed its appreciation for the work of former Brcko Supervisor Susan Johnson, who left the position on 15 September, and offered its full support for the new Supervisor, Raffi Gregorian, whose mandate began the following day.

The next meeting of the Peace Implementation Council Steering Board will be in Brussels on 6 and 7 December.