

Transcript of the High Representative's Press Conference on Indirect Taxation in BiH

The High Representative, Christian Schwarz-Schilling:

One of the great achievements of recent years in Bosnia and Herzegovina has been the introduction of Value Added Tax.

Everyone who has worked on this project can be justifiably proud of what has been achieved and nobody more so than Joly Dixon, the Chairman of the Governing Board of the Indirect Taxation Authority.

When I met up with Paddy Ashdown, my predecessor, at the end of last year, I was concerned that I would be taking over as High Representative at exactly the time that VAT was being introduced.

I thought I might be blamed for problems associated with the introduction of VAT and was pleasantly surprised by how smoothly it was brought in. Indeed, it was brought in much better in Bosnia and Herzegovina than in other countries.

Joly's achievement has been enormous, and he has secured results through the skilful application of minimum pressure to maximum effect.

He has sought to resolve differences of opinion by encouraging the various stakeholders to agree pragmatic responses to complex questions, rather than by seeking to impose his own view.

He has engineered consensus by removing himself as much as

possible from centre-stage and obliging the Bosnian and Herzegovinian representatives on the Governing Board to come up with their own solutions.

By strictly adhering to a policy of minimum intervention, he has maximised the impact of those interventions that he has made.

Today, Bosnia and Herzegovina is addressing major issues related to the allocation of indirect tax revenue. Three years ago, the issues were much more basic, related to the primary building blocks of a modern fiscal system.

The progress that has been made – from conceiving a modern fiscal system to operating one – owes much to the quiet but steady direction exercised by Joly Dixon, who was part of the reform process from the very beginning.

I am grateful to him for what he has achieved and the people of this country should be as well.

Joly's mandate as ITA Chairman expired at the end of last week. The two of us spoke by telephone about how to proceed in view of the current stalemate over revenue allocation.

To overcome the impasse, I believe a new initiative is required.

As you are all aware, my preference is, wherever possible, to find local solutions or at least to work towards a transition to local ownership.

I have, therefore, asked Peter Nicholl to take over as ITA Chairman until the end of the year.

As Governor of the Central Bank of Bosnia and Herzegovina, Peter helped establish a currency board, introduce the Convertible Mark, and reform the country's payments system.

Peter has also received a host of awards in Bosnia and

Herzegovina in recognition of his work.

In 2000, the Financial Forum of Bosnia and Herzegovina gave him its first Person of the Year award. In 2002, the readers of *Dnevni Avaz*, voted him International Person in Bosnia and Herzegovina of 2001. The oldest financial magazine in Bosnia and Herzegovina *Banks in Bosnia and Herzegovina* presented him with the "Golden BAM" award for his contribution to the establishment and development of the Central Bank.

I believe that Peter is uniquely qualified for the position of Chairman of the ITA Governing Board.

Before I take questions, allow me to say a few words about the issue of revenue allocation.

I was disappointed to learn that the National Fiscal Council failed to hold a session on Monday. Despite the fact that this issue has been pending for more than six months, only half of the Council members turned up for this meeting.

As a result, I have written to all members of the National Fiscal Council – all three prime ministers and all three finance ministers – urging them to agree both revenue distribution in 2006 and a new methodology to be applied from January 2007, before the next meeting of the ITA Governing Board.

I have also asked Prime Minister Adnan Terzic to convene the next National Fiscal Council meeting at the earliest opportunity so that the ITA Governing Board can adopt the National Fiscal Council's conclusions at its next meeting.

The International Community will work with the authorities of Bosnia and Herzegovina to move the issue of revenue allocation forward.

I have had consultations with the European Commission, the United States and other actors. We all agree that this issue

must be resolved as soon as possible.

Ladies and gentlemen, some people believe that it was time that an international made way for a national in this post.

Peter Nicholl is both an international, from New Zealand, and he is a citizen of Bosnia and Herzegovina.

He has also already achieved an enormous amount for this country

I am therefore proud he has agreed to do this job at this critical time to ensure a smooth transition.

Any questions?

RTQs:

Sead Numanović, Dnevni Avaz:

So, Mr. Schilling you have said a couple of times that the new methodology has to be in place very soon, but does that mean that Mr. Dodik was right?

The High Representative, Christian Schwarz-Schilling:

This has nothing to do with political assessments. This is only a possible good solution for a professional problem, and the professional things have to be investigated totally impartially, not regarding this entity or that entity. And insofar, I agree that such things should be done – this investigation by technical and professional people, and then a clear decision can be made. The Fiscal Council has to give the orientation and correction, and that I was missing. I did not see that Prime Minister Dodik was in the Fiscal Council on Monday, I think he was not showing up. And insofar I criticised everybody for not doing their job in the way it is necessary to serve their country in this very crucial time.

So, it had nothing to do with Mr. Dodik. Any other questions?

Rubina Čengić, Nezavisne Novine:

Can you give us anymore information about whether you offered to extend Mr. Dixon's mandate? Did he refuse...if you did offer to extend his mandate? The second question is, who are the potential candidates for filling the position of ITA Chairman next year?

Also, if Mr. Nicholl could answer this question – he said that he does not have any ideas on how to overcome this situation concerning the coefficients and revenue allocation, but bearing in mind what he knows now does he support the idea of operating in accordance with the existing law or applying fixed coefficients which would require the law to be amended?

The High Representative, Christian Schwarz-Schilling:

There were three questions. The third one will be answered by Peter. The first question – as I said I had a phone conversation with him. I would have preferred it if he were here so I could express my respect for the efforts he has made for this country in person. He had some difficulties over the question of and so we came to the opinion that it would be better to make a clear cut now, to make transitional period for getting a new local man in, as we said, the foreseeable future, perhaps by the end of this year or the beginning of the next year. So, that was a very good talk with him.

Let come back though to the issue of Mr. Dodik here. Let me say that I hope that these political attacks, not at all suitable to him, are not at all – I would say – in line with what [Mr. Dixon] has achieved here, and they should be dropped as soon as possible.

But, this question – to find a new one – that would be not the question today, because now I am very happy to have a very

good man for the next several months, for the transition period. He is also pleased. He has citizenship, so what more would you want? It is symbolic already, that he has Bosnian citizenship and if you want to remember him you just have to look at a bank note and there you can see his signature. Of course I cannot comment anything like this, because that is a question for next year. I talk and decide on things when the time comes, not before.

ITA Chairman, Peter Nicholl:

On the third question – in my view, and it was certainly the way I operated when I was Governor of the Central Bank, you have to operate within the law. But, the law should not be seen as fixed or set, but as concrete. And if you do decide after analysis that there is a problem with what has been set out in the law, you should initiate a process to change the law. The Central Bank Law – I think I proposed changes three times during my term as Governor because, in the light of experience we found that things that had looked suitable at the beginning were no longer suitable. You have to operate within the law, but you also have to be willing to change the law if experience suggests the law is not appropriate.

Glas Srpske:

You mentioned that there have been political attacks in relation to Mr. Dixon. Are you also referring to the lawsuit that was filed against Mr. Dixon by the Republica Srpska?

The High Representative, Christian Schwarz-Schilling:

Well, of course. I think that if this country is going to become a mature democracy then the arguments should be made in a professional way and should not be mixed with political games. I think that this is something that all of us have to learn. I did not mention that before, but I think now it is time to say that people doing a good job for this country should be treated that way and not face undue political

attacks for what they have done to benefit this country: everybody can see that even the entity of Republica Srpska is getting more money because of the good introduction of the Value Added Tax, not less. So everybody should see what he has done, and all other talks and all other actions are just ridiculous. So, that is my opinion and I say it very openly.