Communiqué by the PIC Steering Board

The PIC Steering Board met in Sarajevo on 23/24 June.

On the occasion of the imminent tenth anniversary of the massacre at Srebrenica on 11 July, the Steering Board solemnly remembered the victims of this terrible crime and the suffering of their friends and families. The Steering Board stressed that the determination of the International Community that the perpetrators of this act, and other war crimes, will face justice does not diminish with the passage of time. It is – and will remain – a firm condition for BiH's integration in Euro-Atlantic structures. The Steering Board made clear that Radovan Karadzic and Ratko Mladic must be apprehended, and called on the BiH authorities, and particularly the RS authorities, to do all in their power to make this happen rapidly, a full ten years after Srebrenica. The PIC welcomed the transfers of some indictees: but it expects this progress to be maintained, and it will not be satisfied until everything is done to transfer all indictees, including Karadzic and Mladic, to The Hague.

The Steering Board noted the preparations for ensuring that the anniversary of Srebrenica is marked in a solemn and an appropriate way. It welcomed the BiH Presidency's invitation to President Tadic of Serbia to attend the memorial event at Potocari, and President Tadic's decision to attend, as an important step on the road to reconciliation. It also welcomed RS President Cavic's intention to be present at the ceremony, and called on all sides to ensure that the 10th anniversary commemoration of Srebrenica is carried out with dignity and solemnity appropriate to the occasion.

The Steering Board deeply regretted that BiH has not yet

qualified to begin negotiations with the EU on a Stabilisation and Association Agreement. The main reasons for this were the failure to accept the PBS legislation, and the decision by the RS authorities, led by the SDS-led RS Government, to block police restructuring. If the RS continues to choose isolation over integration the consequences of this will be grave. Bosnia and Herzegovina ’s road to Europe would remain blocked. This would result in BiH falling behind the other countries in the region.

The Steering Board noted that BiH still had the last chance to cross the threshold to SAA negotiations in time for the tenth anniversary of Dayton at the end of this year. It welcomed the ambition by Prime Minister Terzic and the European Commission to try to achieve this in the very short time left. But it noted that whether BiH succeeded or failed in this depended entirely on the BiH authorities’ readiness energetically to continue the reform process in all areas identified in the Feasibility Study, and in particular to resolve the two main outstanding issues – by adopting PBS legislation, and by restarting and successfully concluding the negotiating process to achieve agreement on police restructuring in line with the EU’s three principles.

The PIC noted recent developments in the Council of Ministers, which have regrettably diverted attention from the Feasibility Study and reform agenda and held up progress. It called for Prime Minister Terzic and the responsible parties to take the lead in resolving these problems as a matter of urgency so that the business of government can resume and reform can proceed.

The Steering Board noted with approval the progress that has been made in Defence Reform, reiterating that the abolition of conscription is an appropriate step forward in BiH’s efforts to secure an affordable and effective military compatible with PfP.

The Steering Board was briefed on positive trends in the BiH economy, which have seen production and inward investment rising, though it views with concern the fact that a substantial number of BiH's population are living on or below the poverty line. It remains worried, however, over the fiscal sustainability challenge faced by BiH's governments, especially at Entity level. It commended the BiH authorities for establishing a Fiscal Council and extending the mandate of the Fiscal Sustainability Working Group, which is charting a way forward on rational reductions in salaries and benefits so as to make room in the state and Entity budgets for the full staffing of existing institutions and the taking on of new competencies.

The Steering Board expressed its intention to continue the process of transferring responsibilities to the BiH authorities. The culmination of this process will bring to an end the OHR. The Steering Board expressed its readiness to do this, and to recommend that the position of the High Representative be replaced by an EU Special Representative. This step must be endorsed by a UN Security Council resolution.

The end point of this process will be an important milestone in BiH's development – the point at which BiH takes its destiny into its own hands, and moves forward towards integration with the EU.

But the PIC will want to ensure that such a process of transition is tied to actual progress in BiH.

How soon the Steering Board will be in a position to initiate such a transition, therefore, will depend entirely on the ability of the BiH authorities to put their country firmly on the road to Europe.

One clear indication to the Steering Board that BiH is indeed firmly on the road to Europe will be when it has qualified for

negotiations on a Stabilisation and Association Agreement with the EU, and taken the hard decisions still needed to accomplish that.

The sooner that happens, the sooner the PIC will be in a position to launch the process of phasing out the OHR.

Work is ongoing to ensure that the Brcko District's multiethnic and democratic institutions of self-government are functioning effectively and permanently and that the Entities as well as the BiH institutions fully accept the District's status as a self-governing administrative unit and have complied with the Final Award. In this context the Steering Board welcomed the plans set out by PM Terzic to conclude expeditiously an agreement with Brcko District on measures to protect the status of the District as a BiH Institution, and secure appropriate representation at the BiH State level, compatible with the shared objective of building a self-sustaining state and consistent with the requirements of the Final Award. The Steering Board also noted their aim remains to create the conditions required to meet the provisions of the Final Arbitral Award if possible by the end of 2005.

The next meeting of the PIC SB Political Directors will take place in Sarajevo on 6 & 7 October 2005.

Communique Annexe: Economic Situation & Status of Institutions

The Steering Board noted that industrial production and exports have increased substantially; macroeconomic stability has been maintained; and public budgets are close to being balanced. Foreign Direct Investment was five times higher last year than at the end of the nineties. However, real unemployment is estimated to be around 20 percent; government

spending accounts for about half of GDP; the trade imbalance remains severe (though improving); output is still well below pre-war levels, and – most significant of all – a substantial number of citizens are living on or below the poverty line, though poverty reduction is at last beginning to take effect.

Focus must be placed on corporate restructuring as a precondition for creating new jobs by making use of the procedures now available under the bankruptcy legislation, and renewed efforts must be made to educate authorities of all levels on the correlation between a good business environment and inward investment and job creation. In addition, the authorities must urgently assemble a state-level Working Group to develop legislation settling internal debt liability issues in line with the recent decision of the Human Rights Commission of the BiH Constitutional Court . An equitable and timely resolution of this issue will open the way for inward investment in BiH that can create jobs.

Despite the fact that the reform of the indirect tax system under the ITA has already produced a robust improvement in revenue gathering, funding state-building will require reductions in state salary levels and expenditure reductions at lower levels of government. In this respect, the Steering Board welcomed the establishment of the Fiscal Council of BiH on 14 May following IMF recommendations, and the extension of the mandate of the Fiscal Sustainability Working Group. The Steering Board also supported early negotiations for a third IMF Standby Arrangement.

A draft Law on Salaries, prepared by local experts, to provide a single system covering all employees of institutions funded at the state level is nearly complete. This will facilitate rational reductions in salaries and benefits so as to make room in the state budget for full staffing of existing institutions and taking on of new competencies. Defence and police reforms and the maintenance and staffing of key agencies, including the SBS and SIPA, must take into account

budget constraints and the new approach to state salaries. The draft Law should be taken up by the Council of Ministers and Parliament as soon as possible in order to ensure that the Law becomes already effective for the 2006 budget.

The Steering Board noted that although the prospect of launching SAA negotiations has accelerated the pace of reform, a long list of institutions, including the Public Procurement Agency, the Public Procurement Review Body, the Pharmaceutical Agency, the Market Surveillance Agency, and the Standardisation, Metrology and Intellectual Property Institutes, have been established but have not yet become operational. Focus clearly must be placed on implementation.

The Steering Board noted with dissatisfaction that the RS continues its four-month obstruction of the appointment of two outstanding members to the State Property Commission. Despite repeated calls for action by the Steering Board, the OHR and PM Terzic, it continues to block the Commission’s formal establishment, thereby delaying identification, distribution and regulation of public assets. The Steering Board expects the RS to end its obstruction immediately so that the important issue of housing essential state institutions can be addressed.