

# Communiqué by the PIC Steering Board

## Executive Summary

The Steering Board of the PIC reached four key conclusions at their meeting in Sarajevo on 31 March – 1 April:

While progress has been made, including the successful passage of ITA and Intelligence legislation, the establishment of a State-level Ministry of Defence the assumption of competencies by the State to create a single BiH High Judicial and Prosecutorial Council, and some progress shown by the authorities in fulfilling the recommendations set out in the EC Feasibility Study, the BiH authorities will have to accelerate significantly the pace of reform if they are not to undermine this country's ambitions to join Euro-Atlantic structures.

Establishing the Indirect Taxation Authority is the most important economic reform currently underway in BiH because of its importance for European integration, tackling organised crime and the proper financing of services for citizens. Yet implementation is behind schedule, and without a significant change of approach, BiH will miss the opportunity of introducing VAT in mid 2005.

The current inability to finance effectively BiH's growing responsibilities at the State level threatens BiH's future as a functional and viable state. Further elimination of duplication of functions at lower levels of government will be necessary.

The BiH authorities are putting this country's future at risk if they fail to cooperate fully with the ICTY. BiH will not have fulfilled its international obligations until it has taken all possible measures to transfer indictees, including

Radovan Karadzic, to The Hague. The Steering Board viewed the SFOR action which took place on the morning of 1 April in this context. The Steering Board expressed sincere regret that civilians were injured in last night's operation.

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The Political Directors of the Peace Implementation Council met in Sarajevo on 31 March and 1 April under the chairmanship of the High Representative, Paddy Ashdown. Representatives of the BiH authorities, led by Chairman of the Council of Ministers Adnan Terzic, participated in part of the meeting.

The Steering Board noted with satisfaction that progress has been made on a number of key reforms. The Law on the Indirect Taxation Authority and the Intelligence Law have been adopted by the BiH Parliament, creating major new State-level institutions with significant competencies. A State-level Ministry of Defence is in the process of being established. In addition, competencies have been assumed by the State enabling the creation of a single BiH-wide High Judicial and Prosecutorial Council, and the process of establishing a unified and efficient Mostar city administration is now underway and, so far, on track.

However, despite these successes, implementation of core reforms is being delayed and in some cases jeopardized by the politics of the governing parties. This may undermine BiH's chances of gaining membership in Partnership for Peace (PfP), and could limit the ability of the European Commission to recommend in 2004 the opening of negotiations on a Stabilisation and Association Agreement. It also threatens to lose BiH more than 100 million KM in assistance from international financial institutions.

The Steering Board underlined that if the governing parties are to prevent unnecessary skepticism among the International Community and the citizens of BiH about their ability to

deliver reforms on schedule they will need to demonstrate, with deeds, that they can radically improve their performance.

Prime Minister Terzic assured the Steering Board that he and his Entity counterparts will do everything possible to ensure that lost ground is made up. The Steering Board welcomed the clear undertaking given by Prime Minister Terzic that he will drive forward the State Government Strengthening Plan, which is an essential element in the present effort to make State institutions – such as the Indirect Taxation Authority, the HJPC, SIPA, the SBS and the relevant state ministries – operate with administrative efficiency and financial security. The Steering Board expressed the International Community's commitment to support BiH's self-help effort. Prime Minister Terzic also mapped out the way in which he is going to address outstanding Feasibility Study issues as well as the ongoing ITA reform process. The Steering Board urged the BiH authorities to address the pressing need to downsize public administration at Entity level and below, appropriate to the strengthening of State institutions. Recalling the importance attached by the Feasibility Study to the reform of public administration, the Steering Board emphasized the need for BiH Governments at all levels to assume full ownership of the ongoing functional review of BiH public administration.

The Steering Board thanked Prime Minister Terzic for his commitment and noted that, in view of the crucial role to be played by the Indirect Taxation Authority it is imperative that the ITA becomes fully operational as soon as possible, with decisions on the regional structure and the revenue allocation mechanism, and the submission of VAT legislation to Parliament by the end of July 2004. It is important that the ITA continue to strive for a mid 2005 target date for the introduction of VAT. The introduction of VAT is essential if BiH is to finance its growing obligations at the State level. Further elimination of duplication of resources at all levels of government will also be necessary.

The Steering Board also urged the Prime Minister to bring the draft public broadcasting legislation into line with the Agreement signed by the State and Entity Prime Ministers on 6 November 2003, and ensure its adoption in the Council of Ministers at the earliest possible opportunity.

While recognizing some successes of privatisation, such as the recent privatization of the Holiday Inn and progress with G1 companies, the Steering Board particularly identified the decidedly unsatisfactory pace of privatization as a policy failure on the part of the Entity governments, which have not rid the privatisation process of endemic administrative and legal shortcomings. Lack of political will is seen as a main obstacle to progress in this area. As a result, while privatization, improved corporate governance and corporate restructuring have proved an effective means of restructuring industry in other Transition Countries, privatisation has failed to serve this purpose in BiH. The Steering Board supports the donor community's expression of frustration with the slowness of the process. We urge the authorities to renew their commitment, redouble their efforts, and engage politically to sustain privatization in BiH.

The Steering Board noted the publication of the European Commission's annual Stabilisation and Association Report on BiH, and its European Partnership with BiH. Acknowledging the progress the country has made in addressing the 16 areas for priority action set out in the EC's Feasibility Study in November 2003, the Steering Board stressed that much still needs to be done, and much more quickly if the BiH authorities' own targets are not to be missed. It urged the BiH authorities to address without delay the areas of concern listed by the European Commission, and to act expeditiously on the European Partnership document.

The Steering Board applauded the adoption of the Law on the Intelligence and Security Agency and thanked Ambassador Kalman Kocsis for his contribution towards forming a modern and

professional intelligence service which is regarded as a basic requirement of a modern European state. The Steering Board underlined the importance of implementing the Law, including establishing the Agency itself, the parliamentary oversight committee and the Council of Ministers' oversight office. In particular, the Steering Board re-affirmed its full support for, and its willingness to provide assistance to, Prime Minister Terzic in his task of establishing a single European-standard State Intelligence Service, and expressed its hope for the early appointment of the Agency's new management and the allocation of sufficient funds. It warned the BiH authorities that politicisation of operations or recruitment during the transitional period would not be tolerated and that the size of the Agency's staff would need to correspond to its tasks and needs.

The Steering Board welcomed the recent appointment of Nikola Radovanovic as the Minister of Defence, and noted with approval the early steps taken by Minister Radovanovic. It underlined that the steps taken to implement the Defence Reform Commission's recommendations between now and June will be of fundamental importance to NATO's decision on whether to accept BiH's application to join PfP. In this context, the Steering Board warned that the impetus behind reform had to be strengthened and the issues that are hampering progress had to be overcome. Full co-operation with the ICTY is also a core requirement and the BiH authorities, in particular the RS, will have to show results in this field. So far they have not done so.

The Steering Board was briefed by SFOR Command about the action undertaken against a war crimes indictee in Pale early on the morning of 1 April. The Steering Board expressed sincere regret that civilians were injured in this operation.

The Steering Board recalled that full cooperation with the ICTY, including action to detain Karadzic, Mladic and Gotovina, is binding on all states, most recently set out in

UN Security Council Resolutions 1503 and 1534 under Chapter VII of the Charter. The Steering Board viewed the SFOR action in support of the ICTY in this context. The Steering Board also noted the importance of this in connection with BiH's application to take part in PfP and called on all BiH leaders to take the necessary steps to achieve this.

The Steering Board noted with concern continuing delay in the passage of the BiH Framework Law on Higher Education, which has belatedly entered parliamentary procedure after extended delay in the Council of Ministers. In this connection, it commends Prime Minister Terzic for his leadership in moving the law to Parliament for debate. The Steering Board recalls that 42 million dollars in World Bank funds will leave BiH unless the law is promptly passed, and that failure to do so threatens the viability and European vocation of all the universities in BiH. Finally, the Steering Board reaffirms its members' determination to provide tangible and adequate support for a reunited and inclusive Old Gymnasium in Mostar.

Following a presentation by EUPM Commissioner Kevin Carty, and with a view to strengthening the capacity to fight crime, the Steering Board expressed its support for a restructuring of the BiH police, guided by the highest European standards and the need to ensure the financial sustainability of the police sector. The Steering Board welcomes the implementation of a functional review of the BiH police forces, and supports the establishment of a Police Restructuring Commission.

The Steering Board congratulates the BiH Government for adopting a realistic plan to eliminate the country's internal debt and on their progress to date in implementing this strategy. This will remove a great financial burden from BiH, and it clears the way for stimulating greater domestic and foreign investment.

The Steering Board tasked the High Representative to engage with the BiH authorities in discussion to decide on the legal

process aiming at establishing a Domestic War Crimes Registry, and fully to associate the donors with these discussions. The Registry should manage and administer war crimes trials in BiH, with a view to having the first war crimes cases processed in January 2005.

The Steering Board tasked the OHR to analyze, in close cooperation with the local authorities and interested international organizations, the feasibility and organizational and financial implications of possible legislation at State and Entity level which would create a procedure whereby prosecutors could institute civil actions to seize, on behalf of the Governments, assets acquired as a result of criminal activities. These potential laws would not create new institutions in order to take such actions but would give the prosecutors at State and Entity level another tool to attack the network of organized crime and corruption in BiH and deprive criminals of the fruits of their wrongdoing.

The next meeting of the PIC Steering Board will take place in Sarajevo on 24/25 June.