Communiqué by the PIC Steering Board

Executive Summary

The Steering Board acknowledged the legislative steps that have been taken by the BiH authorities in order to fulfill the requirements laid down in the EC's Feasibility Study, but emphasized that implementation is now key. Among other things, the Steering Board urged the BiH Council of Ministers and Parliament to take specific steps by the end of July in order to implement tax reform, and it noted that VAT should be introduced in BiH not later than1 January 2006.

The Steering Board was briefed on a range of Rule of Law reforms, including the War Crimes Chamber project and initiatives to tackle organized crime in BiH. The Steering Board welcomed Prime Minister Terzic's call for a Police Restructuring Commission.

The Steering Board also welcomed the significant progress that has been made in Defence and Intelligence Reform but expressed dissatisfaction with the fact that, just days ahead of NATO's Istanbul Summit, BiH has failed to meet a key condition for participation in Partnership for Peace, namely cooperation with the ICTY. The work of the RS Srebrenica Commission, and the recent statement of RS President Dragan Cavic, are welcome positive steps that may represent a significant turning point in postwar reconciliation in BiH. The Steering Board, however, emphasized that President Cavic's statement must be followed by deeds, including the arrest of ICTY indictees. The RS has failed to locate or apprehend even one war-crimes indictee in the nine years since the Dayton Accord. The RS, an Entity of BiH guaranteed under Dayton , is failing to carry out a key obligation under Dayton and international law, for which the

relevant individuals and institutions must be held accountable.

The Steering Board welcomed the progress that has been made in the re-unification of the City of Mostar , and reiterated the key role of a fully inclusive education system in establishing BiH as a normal European country. Reviewing a range of economic initiatives, the Steering Board urged the Entity Parliaments to debate and enact, without delay, the laws necessary to resolve BiH's substantial domestic debt problem, a resolution of which is vital for the country's long-term fiscal sustainability.

Communique

The Political Directors of the Peace Implementation Council Steering Board met in Sarajevo on 24 and 25 June 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.

I Feasibility Study

The Steering Board was briefed by the European Commission and the BiH authorities on the progress that has been made in order to meet the requirement of the EC's Feasibility Study. Both presentations concurred in acknowledging that a large amount of preparatory work has been done. Progress has been achieved in a number of individual items, especially in terms of legislation. However, the EC emphasized that progress must be maintained and, crucially, that much implementation work, institution building and measures to ensure sustainability have still to be undertaken.

The Steering Board congratulated the BiH CoM for having taken up the Feasibility Study list seriously and expressed the hope

that this speedy process will be continued as significant progress on each of the 16 points of the Feasibility Study will be the prerequisite for the European Commission to propose to the member states the opening of negotiations on the Stability and Association Agreement.

The Steering Board welcomed the progress that has recently been made with Indirect Taxation reform. It encouraged the Council of Ministers and the BiH Parliament rapidly to enact the draft Single Account Law, Customs Policy Law and VAT Law. It strongly urges that:

- The ITA budget agreement is made fully operational by the end of July.
- The ITA's regional structure is fully agreed in detail and that the implementation of the customs merger passes from a planning to an implementation phase by September.
- The Allocation Formula for revenues is agreed so that the Single Account can start operating by the end of July.
- The draft Sales Tax and Excise Tax laws are approved by the Governing Board and transmitted to the Council of Ministers by 30 July.

ITA reform, including the introduction of VAT as early as possible, but no later than 1 January 2006, is vital for the BiH economy. Any delays in implementation carry the risk of a detrimental impact on revenues. The ITA Director, Council of Ministers, Governing Board and BiH Parliament all need to play their part in ensuring that BiH takes the necessary steps. Immediate action needs to be taken to establish an ITA development team, to agree on VAT rates, exemptions and thresholds, to put in place taxpayer registration procedures and to agree on revenue allocation so that a single account can begin to function.

The Steering Board noted with particular concern the lack of progress on the BiH Statistics Agency, and the remaining

amendments that need to be made to the PBS Law, currently before Parliament, in order to make this fully compatible with the Feasibility Study requirements and with the Prime Ministers' agreement.

The Steering Board also noted with concern delays in the harmonization of refugee and DP legislation in the Entities with the amended State law, the non-implementation to date of the Return Fund to help around 320,000 remaining displaced persons find a durable solution, and the continued presence in BiH of some 24,000 refugees from Croatia and Serbia & Montenegro who deserve a concentrated effort by all governments concerned.

II Rule of Law

EUPM Commissioner Kevin Carty briefed the meeting on the direct relationship that exists between problems in fighting criminality and the current fractured and uncoordinated police system in BiH. The Steering Board acknowledged that all necessary measures must be taken in order to establish a single structure of policing. In light of this, and the EC's functional review of the BiH police forces, which finds that there are too many levels of policing in the present system and that the system should be rationalized in order to promote the effectiveness of police in BiH, the Steering Board welcomed Prime Minister Terzic's call for a Police Restructuring Commission.

SDHR Bernard Fassier briefed the Political Directors on the current status of the War Crimes Chamber project and of the work of the Srebrenica Commission. The Steering Board noted the progress of the project on both the legal and technical aspects. The drafts of Amended Laws and the draft Agreement on the Registry of the BiH Court will be submitted in July to the BiH CoM for consideration respectively by the Parliament and the Presidency. The Steering Board urged the BiH authorities to consider these documents quickly in order to

have them adopted by the end of October. The Steering Board welcomed the arrival of the project manager, Michael Johnson, and the recruitment of his management team, and noted that the timeline to begin processing the first war crimes cases is still planned for January 2005.

The Steering Board welcomed the substantive report of the Srebrenica Commission, which has provided important new information on mass graves and has obtained new documentation (sent to the ICTY) confirming the scale of the crimes and the involvement of the then RS authorities. The Steering Board also welcomed the statement by RS President Dragan Cavic, which may represent a significant turning point, as the peoples of BiH come face to face with the crimes committed in their names and recognise that the people who committed those crimes are not national heroes, but the worst sort of criminals who must now face justice in The Hague. President Cavic's statement must be followed by deeds, including the arrest of ICTY indictees. The Steering Board hopes that President Cavic's statement, taken with the work of the Srebrenica Commission, will pave the way for the creation of similar commissions to investigate other war crimes dealt with in Decisions of the Human Right Chamber and to facilitate a process of reconciliation.

As a preliminary draft BiH Civil Confiscation Law, which, together with amendments to the Civil Procedure Code and Criminal Code, will provide the BiH Prosecutor's Office, on application to the Court of BiH, with an enhanced capacity for the seizure, confiscation and forfeiture of the proceeds of crime, will be presented to the BiH Ministers of Justice and Security by the end of June 2004, the Steering Board urged the Ministries to consider this legislation quickly, so that it can be put into parliamentary procedure as soon as possible.

III Defence Reform

The Steering Board welcomed the significant progress that has

been made in Defence Reform but expressed dissatisfaction with the fact that, just days ahead of NATO's Istanbul Summit, BiH has failed to meet a key condition for participation in PfP, namely cooperation with the ICTY. The Steering Board emphasized that this applies to the RS, and its failure to locate or apprehend even one war-crimes indictee in the nine years since the Dayton Accord, and urged the RS authorities to take concrete measures to this end. The RS, an Entity of BiH guaranteed under Dayton , is failing to carry out a key obligation under Dayton and international law, for which the relevant individuals and institutions must be held accountable.

The Steering Board supported actions by the High Representative to encourage the BiH authorities to make necessary systemic changes to BiH's security structures so as to enable BiH better to fulfill its international obligations and to hold politically accountable those individuals responsible for BiH's failure to meet these obligations.

The Steering Board emphasized the need to build on the defence reform progress that has been achieved, by implementing the Presidency's Decision on restructuring the BiH Armed Forces, designing common personnel and resource management systems, developing the command and control system, establishing accurate inventories of property and equipment, proceeding with the destruction of surplus arms and ammunition and designing and implementing a State-centred military intelligence system.

The Steering Board indicated that it will encourage donors to increase the volume of financial assistance currently allocated to BiH for the purposes of implementing defence reforms.

IV Intelligence Reform

The Steering Board is encouraged by the progress that has been

made in Intelligence Reform, including passage of the Law on Intelligence Agency, the appointment of an Intelligence Committee in the BiH Parliamentary Assembly and the appointment of the Director-General and Deputy-Director-General. Steps that must now be taken include making appointments to the CoM's advisory board and completing the review of the Agency's staff.

The Steering Board and the High Representative made clear to the BiH authorities that politicization of operations or of the review process or of the Intelligence Agency's structure will not be tolerated. It also expressed the expectation that the size of the Agency's staff and budget will correspond to its tasks and that suitable premises will be allocated to the Agency.

1V Mostar

The Steering Board noted the progress that has been made in reunifying the City of Mostar and expressed its support for the efforts of the Mayor and Deputy Mayor, the City Council and the Mostar Implementation Unit as they work towards the permanent reunification of the City.

V Education

Recalling that an efficient, modern and fully inclusive education system sustained by democratic values is key to the development of BiH as a normal European state, the Steering Board called on the BiH authorities to resolve remaining obstacles to reform at all levels, so that the education system can play its proper role as a bulwark against ethnic, religious and cultural prejudice.

VI Internal Debt

The Steering Board urged the Entity Parliaments to debate and enact the laws necessary to resolve BiH's substantial domestic debt problem in a way that is consistent with the commitments

made to the IMF at the end of last year, as proposed by the governments. A resolution of this issue is vital to the long-term fiscal sustainability of BiH and is absolutely essential if foreign investment is to be encouraged in BiH.

VII Restitution

The Steering Board supported the Council of Ministers' plan to establish a Restitution Commission, which will conduct a comprehensive legal, fiscal and operational analysis and suggest comprehensive solutions for the proposed Framework Law on Restitution in BiH.

The next meeting of the PIC Steering Board will take place in Sarajevo on 23/24 September.