Communique by the PIC Steering Board

Executive Overview

The Political Directors of the Peace Implementation Council Steering Board met inVienna on 15 March, the first such meeting under the chairmanship of the High Representative Dr Christian Schwarz-Schilling since taking office on 31 January 2006.

Representatives of the Bosnia and Herzegovina (BiH) authorities, led by the Chairman of the Council of Ministers Adnan Terzic, joined Political Directors to discuss a range of issues.

The High Representative briefed Political Directors on his work plan and priorities for the next 12 months, saying that his overall objective is to help BiH develop a stable democratic system and a sustainable and dynamic market economy on its way towards integration with the EU.

The High Representative underlined that it will be a priority to encourage the BiH authorities to maintain progress towards the EU. In this context he welcomed the successful first round of the SAA negotiations on 25 January and emphasized the need for the BiH authorities to adopt and implement all the reforms necessary for BiH to conclude SAA negotiations this year. The Steering Board also noted that the prospect of elections later this year should not slow down the reform process.

The High Representative said his office will continue the process of transferring responsibilities to the BiH Authorities in order to prepare for the transition to an Office of the EU Special Representative next year, taking into account progress towards Euro-Atlantic integration. In this respect, he said that the OHR will no longer take on new

commitments and will focus on meeting existing tasks. He highlighted the need to address a range of issues to prepare for transition allowing OHR to be phased out in an orderly manner. He explained that he was considering the first or second quarter of 2007 as a possible timeframe for transition to occur.

The High Representative set out his plans for new measures to address the status of officials removed from their positions, which he intends to announce publicly in due course.

The Steering Board endorsed the High Representative's work plan and priorities in full.

The Steering Board re-emphasized the pressing need for full cooperation with the ICTY. This remains a fundamental requirement for Euro-Atlantic integration. The Steering Board regretted that there has been no progress in 2006, and urged the BiH authorities, and in particular the RS President and new RS Government to work jointly to fulfill their obligations and take decisive and rapid action to ensure that all remaining indictees, and in particular Mladic and Karadzic, are transferred to The Hague and brought to justice without any further delay. The Steering Board welcomed the commitment by the new RS Prime Minister to cooperate with the ICTY, but noted this commitment must be followed up with action. The Steering Board fully endorsed the conclusions of the EU's General Affairs and External Relations Council on the Western Balkans issued on 27 February 2006.

In addition, the Steering Board singled out the need for progress on police restructuring in accordance with the political agreement of 5 October 2005 and on public broadcasting reform. Political Directors urged the BiH authorities to make efforts to overcome remaining obstacles in these areas.

The Steering Board reaffirmed its commitment to the

undertakings expressed in the 24 June 2005 Communiqué to continue the transfer of responsibilities to BiH institutions.

Understanding that the EU is prepared to build on its current engagement in BiH, the Steering Board expressed its view that the time for transition from the OHR to an EUSR Office is approaching. The precise moment is yet to be determined. The Steering Board underlined that its decision on the actual transition will be made upon a recommendation of the High Representative and based on the situation then prevailing in BiH and the region. It encouraged the High Representative to cooperate closely with the EU in preparing the transition to an EUSR Office.

The Steering Board agreed to discuss transition issues in detail when Political Directors next meet in June based on a report by the High Representative.

Constitutional Reform

The Steering Board welcomed the progress made by BiH's political leaders towards agreement on constitutional reforms to enhance the compentences of the state government and streamline parliament and the office of the presidency. Political Directors expressed their strong support for this process, which is an important step towards the effective state government needed to meet the needs of the citizens of BiH and for BiH's Euro-Atlantic integration. Political Directors welcomed the valuable facilitation role played by the US . They urged the BiH parties to seize this opportunity to uphold their commitment to reach agreement by March by resolving the last remaining issue in the next week. Meeting this urgent timetable is essential to putting agreed changes in place for the 2006 elections. If the timetable is not met, the next opportunity for many changes to come into effect will be the 2010 elections.

Brcko District

The Steering Board welcomed the start of direct discussions between the Council of Ministers and the Brcko District, which began in February facilitated by the US Government and with the support of the OHR. It urges the parties to engage intensively to resolve outstanding issues in order to strengthen the relationship between Brcko District and the State.

Economic Reform

The Steering Board noted that although the BiH economy is growing steadily, growth in 2005 was slightly lower than in 2004. While living standards are rising, this is not happening fast enough and most citizens have not yet seen material benefits from economic reforms.

To stimulate accelerated growth, and improve business environment, accelerate privatization, and maintain macro-economic and fiscal stability, a series of key legislation that further reforms the economy should be enacted before the October elections. This includes legislation strengthening the security of citizens' savings by centralizing banking supervision at State level; the enactment of domestic debt settlement legislation with the twin goals of resolving citizens' claims while protecting government budgets; the adoption of the BiH Law on Pharmaceuticals and Medical Devices to ensure availability of pharmaceutical products throughout the country by establishing a single pharmaceutical market; enacting a State Law on Obligations to stimulate business development by improving legal certainty and business predictability in contractual relations; harmonizing the budget calendars so that the State, Entities and Brcko District can coordinate their fiscal policies and operations; implementing business registration and inspections laws; and ensuring proper implementation of the BiH Law on Railways and development of the railway system by adjusting the Agreement on the BiH Railway Public Corporation. BiH should also make further efforts to implement its international trade

arrangements.

It is equally important that the complex – but pressing – economic questions facing BiH are placed at the heart of the forthcoming election debate. Authorities at every level must explain how they propose to address the issue of BiH's unsustainable trade deficit, likely to worsen due to this year's sharp increases in public spending against international financial institution advice. Authorities in BiH must make the public aware of how they plan to rationalize salaries for State-level civil servants, while improving the services provided to citizens; and they must engage in a serious debate about formulating and enacting a BiH Law on the National Fiscal Council, which is a prerequisite for an efficient and disciplined public expenditure that the country can sustain and afford.

VAT

The Steering Board welcomed the successful introduction of the Value Added Tax and the proper reaction from both the Indirect Taxation Authority and the business community. However, the process is not yet complete and the Steering Board calls upon BiH's authorities to ensure their support for the ITA and its Governing Board.

Promoting BiH and its Economic Potential

The Steering Board welcomed the High Representative's commitment to articulate and promote a positive, up to date and realistic image of BiH in order to help build confidence in the country both internationally and domestically.

They welcomed the High Representative's commitment to continued improvement of the BiH business environment by working to resolve issues impeding the development of small and medium-size enterprises. This requires full and prompt implementation of legislation, such as the Laws on Business Registration, and also a different mindset to allow civil

servants and other officials to see themselves as partners – not obstacles – in developing business.

Organised Crime and Corruption

The Steering Board welcomed the initiative of the BiH authorities, under the leadership of Prime Minister Terzic and guided by Minister Colak and Deputy Minister Mektic, to produce an updated National Action Plan against Organised Crime and Corruption. They noted the good work being undertaken by representatives of all the BiH law enforcement agencies to produce a Plan by 31 March, which would meet BiH's national, international, EU and regional obligations. They commended the stated determination of the BiH authorities to produce and implement a National Action Plan that sets strategic priorities and objectives. The Steering Board offered its full support to this important on-going work. The Steering Board also welcomed the emphasis which the new Government of Republika Srpska has given to the fight against organized crime and corruption.

The Steering Board noted that the new BiH Service for Foreigners Affairs will be established in 2006 and welcomed the significant contribution this specialized agency will make to the fight against organized crime, and particularly measures to combat human trafficking and international terrorism. They also welcomed the establishment of the Citizenship Review Commission. Given its critical importance for the counter-terrorism agenda, Political Directors requested an update on the Commission's activities at the June PIC.

Police Restructuring

Political Directors welcomed the setting up of the Directorate for Police Restructuring in line with the October 2005 Political Agreement on Police Restructuring and noted that its inaugural meeting took place on January 26. They stressed the

importance of moving forward quickly on the basis of the Political Agreement. Meeting the Agreement's deadlines is essential to BiH's overall reform agenda. Reminding the BiH authorities that clear progress on police restructuring is central to BiH completing the SAA negotiations, Political Directors requested a detailed review of progress from BiH authorities and OHR at the June PIC .

Defence Reform

The Steering Board expressed its satisfaction that both the RSNA and the Federation Parliament adopted all outstanding pieces of legislation to complete the legislative basis to allow the implementation phase of defence reform to begin.

The Steering Board commended Defence Minister Radovanović for his role in Defence Reform to date, and called on the BiH authorities to ensure that the reform is implemented in the manner intended and within the deadlines set in the Law on Defence. The PIC stressed the responsibility of the BiH authorities to guarantee the professionalism of the single military force of BiH, and to prevent any attempts to prolong ethnic parallelism.

State Government Strengthening Plan

Political Directors welcomed the BiH Property Commission's efforts to develop legislation that identifies, and appropriately regulates, public property respectively owned by the State, Entities and the District of Brcko. However, the Political Directors expressed concern over delays in drafting the new laws and the lack of agreement on key principles. They urged the Commission to accelerate their work and finalize their recommendations for the Council of Ministers in the second quarter of 2006.

Public Administration Reform (PAR)

Political Directors urged the BiH authorities, particularly

the new RS Government, to show greater political commitment to public administration reform and appoint a State-level Working Group on PAR without further delay, and to ensure that the principle of an apolitical civil service is fully respected in reality, and the civil service legislation fully implemented.

Education

The Steering Board urged the BiH authorities to adopt the draft law on Higher Education in line with BiH´s international obligations and in compliance with the Bologna Process and Lisbon Convention. All other state-level legislation must be adopted and a state-level agency established rapidly. It is also important that the BiH authorities implement fully all existing state-level laws and address the issue of segregation in schools which cannot be part of a sustainable education system in BiH.

State Court

Political Directors expressed their continuing support for the State Court to enable the BiH authorities to effectively prosecute domestically war crimes indictees and those indicted for organized crime. They noted the upcoming March 31 donors' conference and encouraged international contributions to help sustain the Court and its operations, which are an essential part of the overall BiH justice sector reform.

The next meeting of the Political Directors of the Peace Implementation Council Steering Board will be held on 22 and 23 June 2006 in Sarajevo.