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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

Kosovo* - Fulfilling its European Perspective

* Under UNSCR 1244/1999

1. THE PURPOSE OF THIS COMMUNICATION

In its 2008 Enlargement Strategy, the Commission announced its intention to present a feasibility study on Kosovo¹. In December 2008, the Council welcomed the Commission's proposal to present a study examining means to further Kosovo's political and socio-economic development. It recalled the EU's willingness to assist the economic and political development of Kosovo through a clear European perspective, in line with the European perspective of the region.

The Commission issued a communication on Kosovo in April 2005². The Commission has regularly informed EU Member States of developments in Kosovo. The purpose of this communication is to take stock of developments since then, identify the challenges on Kosovo's road to Europe, confirm the measures it should take to address these challenges, and propose Community instruments to help Kosovo further its political and socio-economic development. As Kosovo shares its European perspective with the rest of the Western Balkans, the regional context is of particular importance. Kosovo needs to keep pace with developments in the region to promote economic growth and foster political stability. This is in the interest of Kosovo as well as the Western Balkans and the European Union as a whole.

Kosovo declared independence on 17 February 2008. To date, Kosovo's independence has been recognised by 62 countries. Kosovo also adopted a constitution, which is based on the Comprehensive Proposal for the Kosovo Status Settlement. The International Civilian Representative supervises the implementation of this proposal³.

The United Nations Mission in Kosovo has been reconfigured; United Nations Security Council Resolution 1244/99 continues to apply. UNMIK's functions include monitoring and reporting, facilitating Kosovo's external representation and the Pristina-Belgrade dialogue, and activities related to practical issues concerning Serb-majority areas in Kosovo⁴.

At the request of the UN General Assembly, the International Court of Justice is preparing an advisory opinion on whether Kosovo's declaration of independence is in accordance with international law. The Court's opinion is expected in 2010.

2. THE EU'S COMMITMENT TO KOSOVO

EU Member States decide on their relations with Kosovo in accordance with national practice and international law. 22 EU Member States have recognised Kosovo's independence. The absence of an agreed position on Kosovo's status does not prevent the EU from substantial engagement with Kosovo.

The EU has appointed an EU Special Representative⁵ to advise and support Kosovo's political process and ensure the consistency of EU action. The EU has also deployed its largest civilian

¹ Under UNSCR 1244/1999.

² *A European Future for Kosovo* - COM(2005) 156, 20.4.2005.

³ The ICR reports to the International Steering Group on Kosovo

⁴ Report by the UN Secretary General on the United Nations Interim Administration Mission in Kosovo (UNMIK) for the information of the members of the Security Council of 12 June 2008.

⁵ Council Joint Action 2008/123/CFSP of 4 February 2008.

ESDP mission to date in Kosovo⁶. EULEX monitors, mentors and advises Kosovo on the rule of law, notably on police, justice and customs, and retains certain executive responsibilities.

Kosovo participates in the EU's Stabilisation and Association Process for the Western Balkans. In March 2007, enhanced SAP Tracking Mechanism structures were set up. They provide for regular dialogue on innovation, the internal market, good governance, agriculture, the economy and infrastructure. The EU has set out reform priorities for Kosovo in the European Partnership of 18 February 2008⁷.

In July 2008, the Commission organised a donors' conference for Kosovo, which resulted in € 1.2 billion in pledges, including more than € 500 million from the Community budget. The EU and its Member States pledged almost € 800 million. Kosovo continues to benefit from EC financial assistance under the Instrument for Pre-accession Assistance, CARDS⁸, the Instrument for Stability and other initiatives. It remains eligible for macro-financial assistance.

3. KOSOVO'S PROGRESS TOWARDS EUROPE

In its 2005 Communication *A European Future for Kosovo*, the Commission concentrated on the economic aspects of Kosovo's development, institution-building and the regional context. Kosovo has made some progress in these areas since 2005, but important challenges remain.

The Commission's Progress Reports since 2006 confirm that Kosovo has made progress in its approximation to European standards. The presentation of a Medium-Term Expenditure Framework in 2008 and 2009 marked progress towards a sustainable fiscal framework for Kosovo. In June 2009, Kosovo became a member of the International Monetary Fund and the World Bank. The establishment of the Agency for Coordination of Development and European Integration in 2008 is an important step towards improving Kosovo's donor coordination and its European approximation efforts. Kosovo has been involved in work on the Stability Pact and its transition to the Regional Cooperation Council. It participates in numerous regional cooperation initiatives⁹.

However, in its approximation process to the EU, Kosovo needs to match the adoption of legislation with adequate implementation and enforcement. Kosovo's economy has a large informal sector, and its economic governance, regulatory framework and business environment remain areas of concern. Its businesses lack export capacity. Kosovo needs to improve the coverage and efficiency of its social protection system and move towards a more strategic approach to employment. Kosovo's public administration continues to be weak. Kosovo's participation in regional fora has become increasingly difficult. The Central

⁶ Council Joint Action 2008/124/CFSP of 4 February 2008.

⁷ Council Decision 2008/213/EC.

⁸ Community Assistance for Reconstruction, Development and Stabilisation

⁹ Kosovo participates in the Energy Treaty Community (ETC), the European Common Aviation Area Agreement (ECAA), the South-East Europe Transport Observatory (SEETO), the Central European Free Trade Area Agreement (CEFTA) and the EU Charter for Small Enterprises. Kosovo has joined the Broadband Southeast Europe Initiative (bSEE), the Electronic Southeast Europe Initiative (eSEE), the Regional School for Public Administration (ReSPA), the Southeast European Cooperative Initiative (SECI), two regional environmental initiatives (RENA and ECENA) and the Investment Compact initiative. This list is not exhaustive.

European Free Trade Area Agreement has not been able to solve the blockade of Kosovo exports to Serbia and transit trade to Bosnia and Herzegovina.

4. DELIVERING ON KOSOVO'S EU PERSPECTIVE

The EU has repeatedly confirmed that Kosovo shares its European perspective with the region. In December 2007, the European Council confirmed that the EU would be ready to assist Kosovo's economic and political development through a clear European perspective, in line with the European perspective of the region. In February 2008, the Council reaffirmed its commitment to fully and effectively support the European perspective for the Western Balkans and asked the Commission to use Community instruments to promote economic and political development and to propose to the broader region concrete measures in order to advance in that direction. In December 2008, the EU again underlined its willingness to assist the economic and political development of Kosovo through a clear European perspective, in line with the European perspective of the region.

The region has made considerable progress in the area of European integration. All countries have negotiated Stabilisation and Association Agreements with the EU. Croatia and the former Yugoslav Republic of Macedonia have candidate status. At the request of the Council, the Commission is preparing an opinion on the membership application received from Montenegro. The Council has received an application for membership from Albania. Kosovo needs to keep pace with these developments in the interest of political stability and economic progress of the region.

In its Communication *Western Balkans: Enhancing the European Perspective*¹⁰ of March 2008, the Commission identified the Community instruments to promote democratic reform, economic progress and good neighbourly relations. Kosovo faces a number of important challenges, which Community instruments could help it meet. The benefits that Kosovo can draw from these instruments depend on its progress on reform. Kosovo needs to consolidate its European agenda, ensure sustained socio-economic development, strengthen sectoral approximation and constructively engage in regional cooperation. The EU can help Kosovo in these efforts.

The Commission welcomes the fact that, notwithstanding EU Member States' differing positions on Kosovo's status, the approach of diversity on recognition, but unity in engagement provides a constructive basis for progress. In line with Council conclusions, the EU can agree on measures to support Kosovo's political and economic development without prejudice to EU Member States' positions on status.

5. CONSOLIDATING KOSOVO'S EUROPEAN AGENDA

Kosovo has repeatedly confirmed its determination to make progress on its European agenda. EU approximation continues to be the driving force for reform in Kosovo. In April 2008, Kosovo adopted its Plan for European Integration. Kosovo updated its European Partnership Action Plan in August 2009.

¹⁰ *Western Balkans: Enhancing the European Perspective* - COM(2008) 127, 5.3.2008.

The conclusions of the 2009 Progress Report for Kosovo confirm that Kosovo faces major challenges. Kosovo has to make further progress in establishing and consolidating the rule of law and needs to improve the functioning and independence of its judiciary. It needs to establish a track record in the fight against corruption, money laundering and organised crime, demonstrating concrete results. Kosovo also needs to strengthen the capacity, independence and professionalism of its public administration and improve its business environment, including regulation, supervision and corporate governance. Kosovo has to ensure full transparency in senior public appointments and make sure that public procurement complies with criteria of independence, objectivity and transparency. Kosovo needs to establish a sustainable macro-economic and fiscal policy.

Kosovo needs to ensure the local elections scheduled for November 2009 are conducted in a fair and transparent manner. Minority communities must be fully associated in the decentralisation process. Kosovo needs to improve the protection of Serb and other minorities and enhance dialogue and reconciliation between the communities. Social cohesion must be strengthened. Kosovo needs to develop an efficient and effective public administration. When preparing legislation, Kosovo shall make full and timely use of the international expertise it has at its disposal. The priority must be to ensure proper implementation of adopted legislation, including the allocation of appropriate staffing and equipment. It is essential Kosovo take a constructive and pragmatic approach to regional cooperation.

The Commission proposes to target IPA resources to support the rule of law, public administration reform and efforts to improve Kosovo's business environment, notably through twinning. Support for infrastructure will also be considered.

6. BRINGING KOSOVO CITIZENS CLOSER TO THE EU

A number of countries in the region have made substantial progress in the area of freedom of movement. In return for agreements on re-admission, they have been able to benefit from visa facilitation agreements with the EU. Visa liberalisation roadmaps have provided crucial guidance on issues such as the security of documents, the fight against organised crime, migration and border security. Progress has been monitored and evaluated through dialogue at senior official level. The prospect of visa-free travel has been a powerful incentive for these countries to carry out reforms. As a result, the Commission has proposed the relevant Council Regulation¹¹ be amended to make citizens of the former Yugoslav Republic of Macedonia, Montenegro and Serbia eligible for visa-free travel to the EU as from January 2010. Citizens from Albania and Bosnia and Herzegovina could also benefit from this as soon as these countries meet the remaining requirements.

Kosovo started issuing its own passports in July 2008. The process for individual Kosovo citizens to apply for visas has been made easier. Most EU Member States use the flexibility offered by EU legislation to simplify procedures to issue short-stay visas to individual Kosovo residents.

Kosovo citizens need to share further in the benefits of EU approximation, including the possibility to travel visa-free in the EU. This is only possible if Kosovo can ensure that relevant reforms are implemented and rules and procedures are respected so as to minimise

¹¹ Council Regulation (EC) No 539/2001.

the associated security risks for EU Member States. The starting point for these reforms is properly functioning readmission arrangements. Kosovo needs to adapt its legislation, strengthen its administrative capacity to process readmission requests and implement an effective reintegration strategy. It also needs to enhance the security of its borders and secure the management of civil registries and the issuance of documents.

The Commission proposes to move forward with a structured approach to bring Kosovo's citizens closer to the EU through a visa dialogue with the perspective of eventual visa liberalisation when the necessary reforms will have been undertaken. Based on a thorough assessment the Commission proposes to draft a comprehensive strategy to guide Kosovo's efforts to meet the EU's requirements for visa liberalisation. This strategy will set benchmarks to measure Kosovo's progress in the context of a visa dialogue and will be presented to the Council for information.

The Commission will regularly assess Kosovo's progress in the implementation of the strategy, drawing on evaluation missions by Member State and Commission experts. The Commission will support Kosovo in the implementation of its strategy through technical and financial assistance. In addition, within the wider framework of the rule of law and as a corollary to EULEX's activities, the Commission will explore the possibility of involving Kosovo in judicial cooperation initiatives at the regional level. The arrangements for Kosovo to cooperate and be associated with the work of Europol, Eurojust and Frontex require further examination, including through the possible involvement of EULEX¹².

7. SUSTAINING KOSOVO'S SOCIO-ECONOMIC DEVELOPMENT

Kosovo's social and political stability depends on sustained economic development and strengthened social cohesion. Kosovo has been relatively little affected by the global economic crisis due to its limited integration into global markets. However, inflows of foreign direct investment and remittances are expected to decrease. Levels of public investment are expected to drop as government revenues come under increasing pressure. Kosovo's budget deficit is forecast to increase to 7% of GDP in 2009.

Kosovo faces serious economic challenges. According to the International Monetary Fund, Kosovo's GDP per capita is €1,726, which is 6.9% of the EU-27 average. Kosovo continues to face a considerable deficit in trade in goods and services. Kosovo's overall trade deficit is estimated at 43% of GDP in 2009. High external imbalances reveal underdeveloped domestic production capacity and points at significant vulnerabilities.

In addition to implementing sustainable macro-economic policies, Kosovo needs to address supply-side constraints such as infrastructure weaknesses, energy shortages, high capital costs and low levels of skill. It is essential for Kosovo to improve the competitiveness of its economy, increase productivity and strengthen its export sector.

¹² Europol: Article 42 of the Europol Convention and the Council Act of 3 November 1998; Eurojust: Article 26a of Decision 2002/187/EC as amended; Frontex: Article 14 of Council Regulation (EC) No 2007/2004 as amended by Regulation (EC) No 863/2007.

7.1. Trade

Trade and the capacity to trade are essential to attract investment, stimulate growth and ensure socio-economic development. The EU is Kosovo's main trading partner. EC trade preferences have been granted to Kosovo under EC autonomous trade measures¹³. However, these preferences will expire at the end of 2010. Kosovo does not currently benefit from a Stabilisation and Association Agreement (SAA) or Interim Agreement (IA). The progressive entry into force of the respective SAAs/IAs¹⁴ for the rest of the Western Balkans and the expiry of the current preferential regime will therefore result in a deterioration of Kosovo's trading position, in both absolute and relative terms. In addition, Kosovo cannot benefit from the diagonal cumulation of origin between the EU and most SAP countries, which limits the development of regional trade complementarities. This also reduces the attractiveness of Kosovo to foreign investors and limits the ability of Kosovo producers to export to the EU.

For Kosovo to continue to benefit from the current preferential regime, this regime would need to be extended. However, the validity of an extension would only be temporary. EU-Kosovo trade relations based solely on autonomous trade preferences do not offer a substantive perspective for the sustainability of Kosovo's long-term economic development. Such a perspective can only be provided through a trade agreement between the European Community and Kosovo.

A trade agreement offers important advantages for both Kosovo and the EU. An agreement provides a legal framework offering stability and predictability to investors. It is also wider in scope, guaranteeing market access in parallel with progress on intellectual property rights, competition, standards compliance and administrative cooperation. The prospect of an agreement will constitute an important incentive for Kosovo to advance with its reforms in all areas affecting the internal market, including administrative capacity. Equally, it will require Kosovo to conduct an effective trade policy and manage its borders. Finally, an agreement is a precondition for Kosovo to participate in the diagonal cumulation of origin between the EU and SAP countries.

Kosovo is not yet ready to negotiate and implement a trade agreement. For example, the administrative capacity to ensure the effective implementation of antitrust policy and state aid regulation needs to be prepared. As regards intellectual property rights, key elements of industrial property rights legislation are in place, but Kosovo still needs to build the basic administrative capacity to ensure compliance. Kosovo also needs to make significant progress in legislative alignment in the area of copyright legislation and enforcement. It also needs to make significant progress in the legislative and institutional structures affecting trade in goods, including sanitary and phyto-sanitary matters. The institutional framework to ensure adequate accreditation, certification, standardisation and market surveillance needs to be applied effectively.

The Commission will assess Kosovo's progress in enhancing its capacity and undertaking reforms in areas most relevant to a trade agreement. It will identify the measures Kosovo needs to take. Once Kosovo meets the relevant requirements, the Commission will propose

¹³ Council Regulation (EC) No 2007/2000 as last amended by Commission Regulation (EC) No 407/2008 of 7 May 2008.

¹⁴ Former Yugoslav Republic of Macedonia (SAA — April 2004), Montenegro (IA — January 2008), Bosnia and Herzegovina (IA — July 2008) and Albania (SAA — April 2009). The SAA with Serbia was signed in April 2008.

negotiating directives for the Community to start negotiations on a trade agreement in due time. To maintain current trade relations pending progress towards a trade agreement, the Commission will prepare the extension of the autonomous trade measures. Kosovo, as a participant in the Stabilisation and Association Process, will be included in the extension of the pan-euro-Mediterranean cumulation of origin to the Western Balkans through the Convention on pan-euro-Mediterranean preferential rules of origin.

7.2. Macro-economic and fiscal sustainability

A sustainable macro-economic and fiscal framework is essential for Kosovo's development. The EU and other donors have supported the establishment of a Medium-Term Expenditure Framework in support of this objective. The MTEF has become a key component of Kosovo's budget cycle.

In 2008, Kosovo and the Commission initiated a consultative Fiscal Surveillance Mechanism, in close cooperation with the IMF. This mechanism helps Kosovo prepare for its smooth integration into existing EU economic and fiscal monitoring frameworks. Kosovo needs to develop its capacity to implement a coherent and co-ordinated set of macro-economic and fiscal policies. Subject to its progress in this regard, Kosovo will be invited to participate in the regular economic and fiscal reporting framework that has been established for the Western Balkans and submit an annual medium-term Economic and Fiscal Programme. The Commission will continue to support Kosovo's efforts to progress in this direction and hold a regular dialogue to monitor economic developments.

7.3. Private sector development

Small and medium-sized enterprises are estimated to make a contribution of some 40% to Kosovo's GDP and 60% of its employment and constitute 99% of its businesses. SMEs play a key role in enhancing productivity, innovation and job creation. Support for the sector needs to be improved to provide incentives for entrepreneurship and transform informal entrepreneurial activity into formal businesses.

Kosovo would benefit from programmes aimed to raise the competitiveness of its economy, focusing on the adoption of new technology, increased productivity, reduced labour costs and the generation of jobs. Such programmes should help increase the transparency of business regulation, including licences, permits and certification, and effective and independent supervision, and offer support for networking initiatives.

Kosovo needs to make further progress with privatisation. Kosovo would benefit from the further development of micro-finance institutions to support small businesses in sectors with growth potential, including agriculture, rural tourism, small-scale manufacturing and urban services.

Kosovo would benefit from membership of the European Bank for Reconstruction and Development and increased European Investment Bank lending. Kosovo's business environment and its SMEs in particular would benefit from increased participation in and closer association with relevant EU initiatives, the Small Business Act and the 7th Framework Programme for Research. Provided Kosovo meets the relevant conditions, the Commission proposes it participate in activities that take place within these frameworks, with the help of technical and financial assistance, where appropriate.

7.4. Employment and social policies

Kosovo's very high unemployment (estimated at around 40% in 2008) is a drain on its economy. Youth unemployment is a particular challenge with approximately 75% of young people out of work. Kosovo needs to tackle unemployment strategically by a combination of carefully coordinated measures. The capacity of job centres should be improved and links with universities and schools further developed so as to bridge the gap between education and the workplace. Kosovo would benefit from introducing work incentive schemes for recipients of social assistance who are able to work.

The EU can help Kosovo by associating it with its efforts to promote access to employment for all, improve dialogue with social partners and civil society and better target its employment and social policies. In this regard, the Commission will present a study on "Social Protection and Social Inclusion in Kosovo", which will help prepare Kosovo for enhanced coordination of social and employment policies. The Commission proposes to associate Kosovo with the Progress¹⁵ programme, which is open to the Western Balkans. It will support Kosovo's participation in regional cooperation efforts on employment and social policies within the framework of the South-East Europe Employment and Social Policy Network and the SEE Health Network. The Commission proposes to engage with the secretariat of the Roma Decade to develop Kosovo's association and help efforts to include minority communities in social protection and inclusion measures.

7.5. Education, training and research

Kosovo's population is young, with an average age of 26. Around one third of the population are under 15 and more than half are below 25. In the next five years, 200 000 people will reach working age and enter the labour market. Given its very high levels of youth unemployment, education is a key priority for Kosovo.

Kosovo needs to raise education standards, reduce school drop-out levels and make its education system more inclusive. Particular priority should be given to improving teachers' skills, upgrading existing educational establishments, and expanding the reach of schools and colleges to enrol students from all communities. Secondary vocational training, adult vocational training and life-long learning would benefit from increased funding. Curricula should focus on employability.

The Tempus programme will continue to support higher education reform in Kosovo. In addition to the University of Pristina, the University of Mitrovica has also started to submit projects. Kosovo universities, students, teachers, young people and youth organisations need to take full advantage of the opportunities offered under the Erasmus Mundus and Youth in Action programmes. The Commission proposes to increase funding under IPA for Tempus, Erasmus Mundus and Youth in Action, ring-fence allocations, where appropriate, and increase outreach to eligible actors.

The Commission will explore with Kosovo opportunities and arrangements to associate Kosovo's educational institutions with some Lifelong Learning Programme activities. The Commission will also explore with the European Training Foundation ways to enhance the Foundation's activities in Kosovo and increase awareness of EU education-related activities.

¹⁵ Community Programme for Employment and Social Solidarity.

Within the framework of quality assurance mechanisms, the Commission will start a dialogue with the Kosovo authorities to help increase the quality of curricula for all communities. The Commission will examine ways to support the establishment of an EU studies department at Pristina University.

Research is important for Kosovo's socio-economic development and provides for the opportunity to intensify regional cooperation activities. The Western Balkans are associated to the EU's 7th Framework Programme for Research. Kosovo is entitled to participate as an international cooperation partner. It has nominated an FP7 contact point and is working on a national action plan to strengthen its research capacity. Kosovo's involvement in the EU's research activities needs to continue and increase¹⁶.

7.6. Culture and Europe for Citizens

Respect for cultural and religious heritage is an essential element of reconciliation, trust and stability. It can also make an important contribution to Kosovo's socio-economic development. Kosovo has made progress in the protection and restoration of cultural and religious heritage. Its participation in the Ljubljana Process, the Reconstruction Implementation Commission and the Technical Forum on Cultural Heritage has been helpful and needs to continue. Kosovo needs to build on its investment in this sector as part of a comprehensive development strategy. This strategy needs to reflect the involvement of all stakeholders, in both its design and implementation. It needs to pay particular attention to tackling unregulated activities on, or in the vicinity of heritage sites.

Several countries of the Western Balkans participate in the Culture and Europe for Citizens programmes. Participation in these programmes is based on a framework agreement on the general principles governing their participation in Community programmes. Kosovo does not currently benefit from such an agreement. However, participation in these programmes will bring people in Kosovo closer to the European project. Pending a framework agreement, actions strengthening the capacity of civil society organisations, municipalities and cultural operators and facilitating their networking with EU and regional counterparts will be supported through IPA. The Commission will explore the possibility of facilitating cultural exchanges and scholarships by broadening the scope of the Young Cell Scheme, currently limited to law, to include the area of culture as well.

8. TAKING SECTORAL APPROXIMATION A STEP FURTHER

8.1. Energy

Intermittent electricity supply is a major obstacle to economic growth and increasing foreign direct investment in Kosovo. Without a secure and sustainable supply of energy, Kosovo's economic development will be limited.

Privatising parts of the power sector will remove a significant drain on the Kosovo budget and enable investment in other priority areas. It will also lead to increases in efficiency and effectiveness of power supply. Bill collection needs to improve to enable the power companies to ensure a more secure and reliable supply. However, privatisation is only part of

¹⁶ Kosovo is included in the list of International Cooperation Partner Countries (ICPCs) attached to the 7th RDT FP work programmes.

the solution. Kosovo also needs to increase its involvement in regional arrangements for energy cooperation and production, implement measures to reduce energy demand, and increase its use of renewables and alternative means of energy generation.

Kosovo's continued participation in the Energy Community Treaty is essential. Kosovo needs to both intensify and widen the scope of its participation, including in the inter-transmission compensation mechanism and the capacity allocation mechanisms. All parties in the region need to allow Kosovo to benefit as an equal partner in these mechanisms. Kosovo's energy suppliers, regulatory bodies and other operators need to take full advantage of existing regional cooperation arrangements. Kosovo needs to share in the benefits that derive from EU initiatives in the area of energy efficiency and renewables. This is also in the interest of the region at large.

8.2. Transport

Kosovo urgently needs to improve its transport infrastructure. Kosovo has initiated a major road-building programme. However, the programme represents a significant burden on the Kosovo budget. Alternative funding needs to be mobilised. This should be part of a balanced approach that also favours investment in railways and allows funding for road maintenance as well as new construction. Kosovo needs to continue its efforts to implement the European Common Aviation Area Agreement, including the aviation *acquis*.

The Transport Community Treaty aims to accompany progressive transposition of the transport *acquis* by signatories with gradual regional and EU market integration. The treaty is of key importance to Kosovo. All parties to the treaty need to ensure Kosovo's inclusion so that it can participate fully in related initiatives. Kosovo needs to start implementing a calendar to apply the land transport *acquis* and benefit from regional market integration provisions.

8.3. Environment

Kosovo's environment has been damaged by years of pollution and neglect. Kosovo's power plants are estimated to generate 25 tons of ash and dust per hour, or 74 times the level permitted by EU standards. Water is also an area of concern. Only 70% of the population are connected to drinking water supplies and only a third is connected to sewage systems. Improving Kosovo's environment is an imperative for improving the health of its citizens. Kosovo continues to make good progress in the legal transposition of EU standards. However, it lacks the capacity and resources to ensure adequate implementation. Less than 1% of the Kosovo budget goes to finance environmental activities.

Kosovo benefits from EU regional environmental activities, such as the assistance currently provided through the Regional Environment Centre in adopting, implementing and enforcing legislation. It also participates in the Regional Environment Network for Accession, which will help Kosovo through exchanges of best practice, administrative capacity-building and training. The Commission proposes to complement these efforts, including through the Infrastructure Project Facility, to support the preparation of projects, which IFI funding in turn would help implement.

9. EFFECTIVE AND INCLUSIVE REGIONAL COOPERATION

Regional cooperation is an essential element of EU policy for South-East Europe. Kosovo's regional cooperation is key for its European approximation agenda. Its continued participation and integration in regional cooperation initiatives is of commercial, economic and political importance.

UNMIK has been the signatory to a number of regional cooperation arrangements on behalf of Kosovo. The mandate of the reconfigured UNMIK includes the 'facilitation of Kosovo's external representation'. However, UNMIK's capacity is limited. Kosovo would benefit from a constructive and pragmatic approach in its efforts to enhance cooperation with countries in the neighbourhood. Kosovo needs to make strategic use of the means at its disposal. The Kosovo government needs to issue a clear and comprehensive set of guidelines for all public institutions to apply consistently at all levels of regional cooperation. Kosovo needs to participate fully in the newly-established Regional School for Public Administration. All parties to the relevant agreement need to ensure Kosovo's inclusion.

The Commission echoes the call of the EU delegation at the Regional Cooperation Council meeting at Chisinau in June 2009 urging all parties concerned to adopt a constructive attitude in finding pragmatic ways of ensuring the inclusive character of regional cooperation in South-East Europe. The Commission strongly encourages all parties to seek practical and pragmatic solutions and is ready to facilitate all efforts to this effect.

10. MARKING A NEW STAGE IN THE EU-KOSOVO DIALOGUE

Kosovo is part of the Stabilisation and Association Process. The first meetings were held in 2003. The SAP's enhanced Tracking Mechanism was established in 2007. To mark a new stage in EU-Kosovo relations, the STM should develop into an enhanced policy dialogue focused on progress with reform and cooperation.

The plenary meeting should be *the* occasion to discuss the priorities for Kosovo's European agenda. Sectoral meetings will be modelled on the political dialogue with candidate and potential candidates. They will centre on Kosovo's European agenda, institution-building and the adoption, implementation and enforcement of European standards. Cross-cutting issues such as public administration reform and judiciary merit in-depth discussion.

Meetings will be subject to a regular schedule allowing for effective preparation, coordination and monitoring of Kosovo's delivery on commitments. This is important to target assistance and reflect the outputs of peer assessment reviews. Sectoral meetings will be held in Pristina as well as in Brussels allowing increased participation by Commission services. To increase civil society involvement in the approximation process, a meeting with civil society organisations will be held each year.

The Commission proposes to rename the process 'Stabilisation and Association Process Dialogue'.

11. MAKING BETTER USE OF EC FINANCIAL ASSISTANCE

Kosovo has benefited from substantial EC financial assistance. At the 2008 donors' conference for Kosovo, the Commission pledged more than € 500 million. Under the IPA

programme, Kosovo received € 359 million over the period 2007-2009. The current Multi-Annual Indicative Financial Framework 2010-2012 allocates another € 206 million to Kosovo. Under direct management of the Commission's Liaison Office in Pristina, Kosovo has made good progress in IPA implementation. It needs to build on this.

IPA assistance needs to be targeted on a limited number of key priorities, which need to be closely aligned with Kosovo's European reform agenda and reflect costed sector strategies. Project selection should reflect improved planning, prioritisation and sequencing, and better coordination with other donors. The possibility to associate other donors with IPA management in areas where these have a comparative advantage will be explored. Following the donors' conference, Kosovo's ownership of IPA projects should be strengthened.

Cross-border Cooperation under component II of the IPA programme can make a valuable contribution to reconciliation and good neighbourly relations. In addition, CBC's 'learning-by-doing' approach would contribute to local capacity-building. The Commission considers the progressive mobilisation of IPA component II for Kosovo both timely and appropriate.

12. CONCLUSIONS AND RECOMMENDATIONS

The European Council has repeatedly confirmed that Kosovo shares the European perspective of the Western Balkans. This communication identifies the Community instruments the EU can mobilise to promote Kosovo's political and socio-economic development. Kosovo has achieved a certain political stability, but the security situation remains fragile. Kosovo must not be left behind as the Western Balkans region progresses towards the EU.

EU Member States have different views on Kosovo's status. However, this should be no obstacle to substantive progress in EU-Kosovo relations. The approach of diversity on recognition, but unity in engagement is working and should be strengthened. Without prejudice to Kosovo's status, the Commission proposes the EU take a number of practical steps to ensure Kosovo's continued progress towards Europe. As Kosovo progresses in the implementation of its European agenda, the Commission proposes to:

- Move forward with a structured approach to bring Kosovo's citizens closer to the EU through a visa dialogue with the perspective of eventual visa liberalisation when the necessary reforms will have been undertaken and the conditions met;
- Extend the Autonomous Trade Measures and, once Kosovo meets the relevant requirements, propose negotiating directives for a trade agreement in due time;
- Facilitate Kosovo's participation in the pan-euro-med cumulation of origin, once a trade agreement is in place;
- Progressively integrate Kosovo into the economic and fiscal surveillance framework that has been established with the Western Balkans;
- Examine the opportunity of a framework agreement with Kosovo on the general principles of its participation in Community programmes, and on this basis prepare negotiating directives;

- Strengthen and deepen Kosovo's participation in the Stabilisation and Association Process through establishing a regular 'SAP Dialogue';
- Progressively activate the IPA cross-border co-operation component (component II) for Kosovo.

The Commission will support the above initiatives through financial and technical assistance.