

**Relations with the European Union and Progress on the
Stabilization and Association Process (SAP)**

I. SAP and SAA

The Stabilization and Association Process (SAP) is a special regional approach of the European Union (EU) designed exclusively for the Western Balkan countries to pave their way for membership in the EU. It is the cornerstone of the EU's policy towards the region and it aims to promote stability while also facilitating closer association with the EU.

The concept of SAP dates back to the Zagreb summit in November 2000 when the EU and the Western Balkan countries agreed on the guiding principles of SAP. These principles include the recognition that: i) the main motivator for reform in these countries is a relationship with the EU, based on the credible prospect of membership; ii) the countries need to establish bilateral relationships between themselves to allow greater economic and political stability in the region to develop, and iii) given the diversity of the countries in the region, a more flexible approach is needed from the EU's side to allow each country to move ahead at its own pace.

The EU had previously stated in its Council meeting in Feira in June 2000 that the future of the Western Balkan countries lies within the European Union. The Zagreb summit provided the necessary instruments for the EU to fulfill the Feira commitments. Since then the EU has reaffirmed on many occasions that its ultimate goal is the full integration of the Western Balkan countries into the EU, once the countries have fulfilled the necessary conditions for membership.⁷

A key element of the SAP is the Stabilization and Association Agreement (SAA) which represents a far-reaching contractual relationship between the EU and the candidate country, entailing mutual rights and obligations. The SAA is signed with countries that have made sufficient progress in terms of political and economic reform and building administrative capacities necessary for convergence with Europe. The SAP also offers a mixture of trade concessions and a financial assistance program to the countries included in the SAP. Once the SAA has been signed and ratified, the country is eligible to become a candidate country. The SAA foresees the establishment of a free trade area between the candidate country and the EU by the end of a five-year transition period and enhanced cooperation in the economic field. The SAA also stipulates increased cooperation in the fields of environmental protection, justice and security.

According to the EU, the main benefits of the SAA: i) economic development through enhanced trade and economic cooperation and the creation of a business environment facilitating investments, encouraging individual entrepreneurial initiatives and generating employment; ii) enhanced political stability and security due to good relations with neighbors, greater regional co-operation and deeper integration into the EU; and iii) progress in the process of political and economic reforms, including in the areas of institution building, public administration reform, respect of human rights and the rule of law, which are necessary to improve the quality of life for all citizens. The SAP was expanded to include a new instrument, the European Partnership, at the EU Thessaloniki Council meeting in 2003.

⁷ These conditions include the Copenhagen criteria that outlines the core accession conditions for candidate countries: i) stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; ii) existence of a functioning market economy, as well as capacity to cope with competitive pressure and market forces within the EU; and iii) ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

II. Current status of the SAP in Serbia

Serbia initiated a Stabilization and Association Agreement (SAA) with the European Commission in November 2007.

The SAP process was officially launched in Serbia in 2001. Relations between Serbia and the EU followed a generally positive trend until 2006. The country made rapid advances on the EU's political and economic criteria and implemented several key reforms urged by the EU. An EC feasibility report recommending the launch of SAA negotiations with Serbia was endorsed by the EU Council in May 2005. This was based on the conclusion that Serbia had advanced sufficiently in key areas to start SAA negotiations.

SAA negotiations were officially launched on October 10, 2005, using a twin-track approach, with negotiations conducted with the Serbia and Montenegro State Union and individually each of the constituent republics, depending on the field of competence. The EC and the EU Council, however, stated explicitly that the continuation and the pace of the SAA talks would depend on Serbia's compliance in highlighted issues, especially with regard to Serbia's cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY). During the first eight months of the SAA negotiations the technical talks advanced quickly and large parts of the agreement text were agreed upon. However, following a negative assessment on Serbia's cooperation with the ICTY, the SAA negotiations were put on hold in May 2006. Negotiations resumed in June 2007 following improvements in Serbia's cooperation with the ICTY, including the arrests two ICTY fugitives. Upon restarting the SAA negotiations, the EC stated that the conclusion of the SAA negotiations would depend on Serbia's progress in developing the necessary legislative framework and administrative capacity to implement its obligations under the SAA, as well as on its future cooperation with the ICTY.⁸ Technical negotiations were concluded in September 2007.

The next step will be for the SAA to be signed, which should occur in early 2008, subject to continued Serbian cooperation with ICTY. Ratification will then require the SAA to be approved by national parliaments in EU member states. The Serbian government has stated that it hopes to receive the status of candidate country during 2008 and enter the EU between 2012 and 2014.

In its latest progress report released in November 2007, the EU Commission commended Serbia for its good economic performance, constructive approach to regional cooperation projects and for showing that it has a good administrative capacity to progress towards the EU and to implement a future SAA. Progress was also achieved in areas such as free movement of goods, customs and taxation, Industry and SMEs, agriculture and visa facilitation. Nevertheless, the EC is concerned about lack of progress in judicial reform, enforcement of human rights (especially minority rights), high unemployment, lack of flexibility in the labor market, and widespread corruption.⁹

III. EU financial assistance to Serbia

Since 2001, the EC has provided very significant financial assistance to Serbia. Between 1998 and 2006, the EC committed nearly 1.3 billion euros to support reforms in Serbia alone, with annual commitments between 150 and 220 million euros. These figures include the EC's macro-financial support and funds disbursed under the CARDS program.

⁸ EU Council Conclusions on Western Balkans, External Relations Council Meeting, 18 June 2007, Luxembourg

⁹ Serbia 2007 Progress Report, November 6, 2007.

The focus areas of EC financial assistance has evolved since the 1990s, switching from humanitarian aid, conflict management and post-conflict reconstruction towards supporting political, institutional and economic reforms, with the overall objective to facilitate a closer association with the EU. In recent years the CARDS assistance program has focused mainly on the European Partnership priorities, while taking also into account the requirements Serbia will have to meet to conclude the SAA negotiations and implement the agreement. In addition to having its own CARDS program, Serbia also benefits from a regional CARDS scheme that supports actions in the interest for the whole Western Balkans region in the fields of infrastructure, institution building and cross-border cooperation.

In order to simplify and harmonize the different external aid components, to facilitate coherence and improve consistency and to achieve better results and to improve consistency, the EU is currently adopting a new financial aid mechanism to replace all previous external assistance programs for candidate and potential candidate countries. The new mechanism, called IPA (Instrument for Pre-Accession Assistance) will replace the CARDS program in the Western Balkan region and it will be operative during the period of 2007-2013.

The total financial allocation granted to Serbia under IPA amount to 976,8 million Euros during the period of 2007 – 2011, with average annual allocation of around 195 million Euros during the five-year period.¹⁰ IPA is made up of five components: (i) support for transition and institution building; (ii) cross-border cooperation; (iii) regional development, (iv) human resources development; and (v) rural development. The first two components concern all beneficiary countries, whereas the three latter components are aimed at EU candidate countries only. Therefore Serbia, being a potential candidate country, only benefits at this stage from activities under the two first components. In this framework, IPA will support Serbia to:

1. **Fulfill the political requirements of the SAP and lay foundations for the fulfillment of the Copenhagen criteria.** In order to achieve this goal, the EC will focus on the following areas in Serbia: i) strengthening democratic institutions, decentralization and local governments, budget and fiscal management, rule of law, reform of the judiciary and public administration reform; ii) intensify the fight against corruption, reform of the police; iii) advancing human rights and protection of minorities, antidiscrimination; and iv) supporting civil society and the media.
2. **Improve the socio-economic situation.** IPA will finance activities in the areas of i) employment generation; ii) education; iii) social inclusion; iv) health; v) business environment, SME restructuring and competitiveness; vi) infrastructure and inland waterway transport; vii) flood prevention; and viii) rural development.
3. **Approximate to European Standards in sectors related to the introduction and implementation of the EU *Acquis* in all areas, including the overall coordination of the European integration process.** This component aims to strengthen Serbian administrative capacities to implement the SAA once it has been signed.

With IPA, the EC also wants to develop local ownership in the fund management framework and to help prepare the authorities for the introduction of the Decentralized Implementation System (DIS) to self-manage EC funds. However, administrative capacities need to be further strengthened throughout the administration in Serbia to implement the IPA program. According to the EC, further measures should also be identified to address the continued weak inter-ministerial relations, coordination and communication which undermine implementation of EU policies.

¹⁰ EU Commission MEMO/07-446, November 6, 2007.