

EUROPEAN PARLIAMENT

2004



2009

Session document

FINAL
A6-0291/2006

19.9.2006

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REPORT

on the proposal for a Council decision on providing exceptional
Community assistance to Kosovo
(COM(2006)0207 – C6-0171/2006 – 2006/0068(CNS))

Committee on International Trade

Rapporteur: Erika Mann

Draftsman (*): Joost Lagendijk, Committee on Foreign Affairs

(*) Enhanced cooperation between committees - Rule 47 of the Rules
of Procedures

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- *** Assent procedure
*majority of Parliament's component Members except in cases
covered by Articles 105, 107, 161 and 300 of the EC Treaty and
Article 7 of the EU Treaty*
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission.)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

CONTENTS

	Page
DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION.....	5
EXPLANATORY STATEMENT	16
OPINION OF THE COMMITTEE ON FOREIGN AFFAIRS	21
PROCEDURE	30

DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION
on the proposal for a Council decision on providing exceptional Community assistance to Kosovo
(COM(2006)0207 – C6-0171/2006 – 2006/0068(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2006)0207)¹,
 - having regard to Article 308 of the EC Treaty, pursuant to which the Council consulted Parliament (C6-0171/2006),
 - having regard to Rule 51 of its Rules of Procedure,
 - having regard to the report of the Committee on International Trade and the opinions of the Committee on Foreign Affairs and the Committee on Budgets (A6-0291/2006),
1. Approves the Commission proposal as amended;
 2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty;
 3. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
 4. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
 5. Instructs its President to forward its position to the Council and Commission.

Text proposed by the Commission

Amendments by Parliament

Amendment 1
Recital 7 a (new)

(7a) This exceptional financial assistance complements other Community assistance programmes for the Western Balkans.

¹ Not yet published in OJ.

Justification

Complementarity between exceptional macro-financial assistance (MFA) and other EC assistance programmes is a core principle of the provision of ad hoc macro-financial aid, as set out by the Ecofin Council in its 'Genval guidelines' of 20 March 1995. A specific reference to the CARDS regulation should, however, not be included in the Recitals of this proposal, since CARDS ends by December 2006 and will be replaced by the new financial instruments, primarily IPA.

Amendment 2

Recital 9

(9) Although economic activity resumed after the conflict, Kosovo is at a low level of economic development. Kosovo is not in a position to borrow either domestically or on the international financial market and under its current status it is not eligible for membership in the international financial institutions. It may therefore not benefit from lending assistance associated with their programmes.

(9) Although economic activity resumed after the conflict, Kosovo is at a low level of economic development. Kosovo is not in a position to borrow either domestically or on the international financial market and under its current status it is not eligible for membership in the international financial institutions. It may therefore not benefit from lending assistance associated with their programmes, ***and this is the main reason for providing exceptional financial assistance in the form of a grant.***

Justification

The above-mentioned 'Genval guidelines', adopted by the Ecofin Council on 20 March 1995, include the requirement that macro-financial assistance provided by the Community should be exceptional in nature. The European Community is neither an International Financial Institution like the IMF, nor should it provide continuous budgetary support to third countries. Kosovo's lack of access to funding by the World Bank and the IMF, its projected exhaustion of cash reserves in 2007, and the one-off need to cover a gap in the Kosovo Consolidated Budget prior to the settlement of the territory's final status justify the exceptional provision of such macro-financial assistance in 2006 and 2007.

Amendment 3

Recital 12

(12) The release of this grant assistance is without prejudice to the powers of the Budgetary authority

(12) *The Community financial assistance is to be paid directly to the Kosovo Consolidated Budget of 2006 and 2007 and recorded under the heading "European Community exceptional financial assistance".* The release of this grant is without prejudice to the powers of the Budgetary authority.

Justification

To ensure the transparency of the budget process, it is essential to specify this particular grant under a specific heading in the Kosovo Consolidated Budget of 2006 and 2007.

Amendment 4 Recital 13

(13) This financial support *should* be provided after verifying whether the ***financial and economic*** conditions to be agreed with the authorities of Kosovo ***upon approval of this Council Decision can be*** satisfactorily fulfilled..

(13) This financial support *is to* be provided after verifying whether the conditions to be agreed with the authorities of Kosovo *have been* satisfactorily fulfilled. ***The conditions for the release of tranches of the exceptional assistance shall include specific targets to be achieved in the following areas: improved transparency and increased sustainability of public finances, primarily concerning the consistency of the Kosovo Consolidated Budget with the Medium-Term Expenditure Framework and the Kosovo Development Strategy and Plan; the application of macroeconomic and budgetary priorities on the basis of the Memorandum of Economic and Financial Policies agreed with the International Monetary Fund on 2 November 2005; enhanced fiscal discipline and control of public expenditure, with a particular view to the detection, treatment and follow-up of suspected fraud and other irregularities concerning national and international funds; and full compliance with international democratic and human rights standards, including respect for***

minorities and the fundamental principles of the rule of law. Real progress in attaining the above targets should provide the basis for the disbursement of tranches of this assistance.

Justification

This amendment by the rapporteur seeks to incorporate Mr Joost Lagendijk's Amendments 2 and 3 (AFET 2 and 3), which emphasise human rights conditionality and compliance, in the rapporteur's original Amedment 4, which stresses economic and financial conditionality in the disbursement of loans.

Amendment 5
Article 1, paragraph 1

The Community shall make available to Kosovo an exceptional financial assistance in the form of a grant of up to EUR 50 million with a view to ***alleviating the financial situation in Kosovo***, supporting the development of a sound economic and fiscal framework, facilitating the continuation and strengthening of essential administrative functions and addressing public investment needs.

The Community shall make available to Kosovo an exceptional financial assistance in the form of a grant of up to EUR 50 million with a view to ***meeting Kosovo's projected external financing requirements in 2006 and 2007, in line with Kosovo's Medium-Term Expenditure Framework for 2006-2008***, supporting the development of a sound economic and fiscal framework, facilitating the continuation and strengthening of essential administrative functions and addressing public investment needs.

Justification

As the core purpose of this exceptional grant is to cover Kosovo's projected budget gap in 2006 and 2007, the objective of the proposal should be changed accordingly.

Amendment 6
Article 1, paragraph 2 a (new)

2a. In order to facilitate dialogue with the European Parliament, the Commission

shall regularly inform the European Parliament of that Committee's proceedings and provide it with the relevant documents;

Justification

It is absolutely essential that the Commission regularly informs the Parliament about the proceedings and makes the relevant documents available. The amendment takes over the procedure as agreed in the Inter Institutional Agreement after the discussions on the financial perspectives and proposes the text from the report on the new financial instrument for the European Neighbourhood Policy, ENPI ..

Amendment 7
Article 1, paragraph 3

3. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 2(1). However, if circumstances so require, the Commission, after consultation of the Economic and Financial Committee, may decide to extend the availability period by a maximum of one year.

3. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 2(1). However, if circumstances so require, the Commission, after consultation of the Economic and Financial Committee ***and the European Parliament***, may decide to extend the availability period by a maximum of one year.

Justification

As the extension of this macro-financial assistance would, in all likelihood, follow the final settlement of Kosovo's status and accompanying donors' conference (which is expected to make a substantial contribution to Kosovo's macro-economic future), Parliament should be consulted on the continuation of this exceptional assistance beyond 2007.

Amendment 8
Article 2, paragraph 1

1. The Commission is empowered to agree with the authorities of Kosovo, after consultation with the Economic and Financial Committee, the ***economic policy and financial*** conditions attached to this assistance, to be laid down in a

1. The Commission is empowered to agree with the authorities of Kosovo, after consultation with the Economic and Financial Committee ***and the European Parliament***, the conditions attached to this assistance, to be laid down in a

Memorandum of Understanding. These conditions shall be consistent with the agreements and understandings referred to in Article 1(2).

Memorandum of Understanding, *which shall be transmitted to the Council and the European Parliament. These conditions shall include specific targets to be achieved in the following areas: improved transparency and increased sustainability of public finances, primarily concerning the consistency of the Kosovo Consolidated Budget with the Medium-Term Expenditure Framework and the Kosovo Development Strategy and Plan; the application of macroeconomic and budgetary priorities on the basis of the Memorandum of Economic and Financial Policies agreed with the International Monetary Fund on 2 November 2005; enhanced fiscal discipline and control of public expenditure, with a particular view to the detection, treatment and follow-up of suspected fraud and other irregularities concerning national and international funds; and full compliance with international democratic and human rights standards, including respect for minorities, and the fundamental principles of the rule of law.* These conditions shall be consistent with the agreements and understandings referred to in Article 1(2).

Justification

This amendment by the rapporteur seeks to incorporate Mr Joost Lagendijk's Amendment 4, which emphasises human rights conditionality, with the rapporteur's original Amendment 7, which stresses economic and financial conditionality in the disbursement of funds.

Amendment 9 Article 2, paragraph 1

1. The Commission is empowered to agree

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with the authorities of Kosovo, after consultation with the Economic and Financial Committee, the economic policy and financial conditions attached to this assistance, to be laid down in a Memorandum of Understanding. These conditions shall be consistent with the agreements and understandings referred to in Article 1(2).

with the authorities of Kosovo, after consultation with the Economic and Financial Committee, the economic policy and financial conditions attached to this assistance, to be laid down in a Memorandum of Understanding, ***which shall be transmitted to the Council and the European Parliament. These conditions shall include specific targets in the following areas: improved transparency and increased sustainability of public finances, primarily concerning the consistency of the Kosovo Consolidated Budget with the Medium-Term Expenditure Framework; the application of macroeconomic and budgetary priorities on the basis of the Memorandum of Economic and Financial Policies agreed with the International Monetary Fund on 2 November 2005; and enhanced fiscal discipline and control of public expenditure, with a particular view to the detection, treatment and follow-up of suspected fraud and other irregularities concerning national and international funds.*** These conditions shall be consistent with the agreements and understandings referred to in Article 1(2).

Justification

One of the main criticisms made by the Court of Auditors in its Special Report on macrofinancial assistance to third countries (OJ C 121/1 of 23.5.2002) concerned the lack of transparency and coordination among the various Commission services in agreeing conditions for, and the disbursement of, Community MFA assistance to the Western Balkans. It is absolutely essential that the Commission makes available to Parliament the list of conditions agreed with Kosovo authorities, and that these conditions are specifically linked to the short-term priorities of the 2006 European Partnership with Serbia and Montenegro, including Kosovo under UN Security Council Resolution 1244.

However, it would make the procedure unnecessarily complicated if the European Parliament were to be fully included in the consultation procedure for laying down the conditions in the Memorandum of Understanding.

Amendment 10
Article 2, paragraph 2

2. Before proceeding with the actual implementation of the Community assistance, the Commission shall monitor the soundness of Kosovo's financial circuits, administrative procedures, internal and external control mechanisms which are relevant to this Community macro-financial assistance.

2. Before proceeding with the actual implementation of the Community assistance, the Commission shall monitor the soundness of Kosovo's financial circuits, administrative procedures, internal and external control mechanisms which are relevant to this Community macro-financial assistance, ***drawing upon the expertise and monitoring capacity of its representatives in Kosovo.***

Justification

Another core criticism made by the Court of Auditors in its 2002 Special Report on MFA to third countries concerned the poor monitoring undertaken by the Commission prior to the disbursement of funds, as well as the Commission's over-reliance on information provided by the World Bank and the IMF. With the expected phasing out of the UNMIK mission in Kosovo at the end of the status negotiations, perhaps some of UNMIK's expertise and personnel could be transferred to the newly created EC delegation in Kosovo to undertake monitoring on behalf of the Commission, which could improve the delivery and timing of grant instalments to the recipient.

Amendment 11
Article 2, paragraph 3

3. The Commission shall verify at regular intervals, in collaboration with the Economic and Financial Committee and in coordination with the IMF, that economic policies in Kosovo are in accordance with the objectives of this assistance and that the agreed economic policy and financial conditions are being satisfactorily fulfilled.

3. The Commission shall verify at regular intervals, in collaboration with the Economic and Financial Committee and in coordination with the IMF, ***and drawing upon the expertise and monitoring capacity of its representatives in Kosovo,*** that economic policies in Kosovo are in accordance with the objectives ***and conditions*** of this assistance, ***as set out in Articles 1(1) and 2(1),*** and that the agreed economic policy and financial conditions are being satisfactorily fulfilled.

Justification

Same as for Amendment 8.

Amendment 12
Article 3, paragraph 2

2. The second and any further instalments shall be released on the basis of a satisfactory compliance with the ***economic policy and financial*** conditions referred to in Article 2(1), and not before three months have elapsed since the release of the previous instalment.

2. The second and any further instalments shall be released on the basis of a satisfactory compliance with the conditions referred to in Article 2(1), ***in particular the making of satisfactory progress towards attaining the targets set out in the Memorandum of Understanding provided for in Article 2(1)***, and not before three months have elapsed since the release of the previous instalment.

Justification

This amendment by the rapporteur seeks to integrate Mr Joost Lagendijk's Amendment 5 into her draft report -- to ensure consistency with the language used in other Amendments.

Amendment 13
Article 4

The implementation of this assistance shall take place in accordance with the provisions of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the General Budget of the European Communities and its implementing rules. In particular, the Memorandum of Understanding referred to in Article 2(1) shall provide for appropriate measures by Kosovo related to the prevention of and the fight against fraud, corruption and other irregularities linked to this assistance. ***It*** shall also provide for controls by the Commission, including the European Anti-Fraud Office (OLAF), with the right to perform on-the-spot checks and inspections, and for audits by the Court of

The implementation of this assistance shall take place in accordance with the provisions of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the General Budget of the European Communities and its implementing rules. In particular, the Memorandum of Understanding referred to in Article 2(1) shall provide for appropriate measures by Kosovo related to the prevention of and the fight against fraud, corruption and other irregularities linked to this assistance. ***In order to guarantee greater transparency in the management and disbursement of funds, it*** shall also provide for controls by the Commission, including the European Anti-Fraud Office (OLAF), with the right

Auditors, where appropriate, to be carried out on the spot.

to perform on-the-spot checks and inspections, and for audits by the Court of Auditors where appropriate, to be carried out on the spot

Justification

Greater transparency is needed in order to ensure the proper use of assistance;

Amendment 14 Article 4

The implementation of this assistance shall take place in accordance with the provisions of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the General Budget of the European Communities and its implementing rules. In particular, the Memorandum of Understanding referred to in Article 2(1) shall provide for appropriate measures by Kosovo related to the prevention of and the fight against fraud, corruption and other irregularities linked to this assistance. It shall also provide for controls by the Commission, including the European Anti-Fraud Office (OLAF), with the right to perform on-the-spot checks and inspections, and for audits by the Court of Auditors, where appropriate, to be carried out on the spot.

The implementation of this assistance shall take place in accordance with the provisions of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the General Budget of the European Communities and its implementing rules. In particular, the Memorandum of Understanding referred to in Article 2(1) shall provide for appropriate measures by Kosovo related to the prevention of and the fight against fraud, corruption and other irregularities linked to this assistance. It shall also provide for controls by the Commission, including the European Anti-Fraud Office (OLAF), with the right to perform on-the-spot checks and inspections, and for audits by the Court of Auditors **and independent auditors**, where appropriate, to be carried out on the spot.

Justification

The Court of Auditors also made the recommendation in its 2002 Special Report on MFA that the Commission should employ external auditors to carry out independent external evaluations of macro-financial assistance to third countries. This recommendation seems eminently sensible to the rapporteur.

Amendment 15
Article 5

At least once a year the Commission shall submit to the European Parliament and to the Council a report, including an evaluation *on* the implementation of this Decision in the previous year.

At least once a year, ***and before 15 September***, the Commission shall submit to the European Parliament and to the Council a report, including an evaluation of the implementation of this Decision in the previous year. ***This report shall specify the linkage between the targets set out in Article 2(1), Kosovo's ongoing economic and fiscal performance and the Commission's decision to release tranches of this assistance.***

Justification

To be able to exercise its democratic oversight of the provision of macro-financial assistance to third countries, it is very important for Parliament to receive quality information on Kosovo's ongoing economic and financial performance, the Commission's assessment thereof and the reasons underlying the Commission's decision to release tranches of the grant assistance to the recipient.

Amendment 16
Article 5

At least once a year the Commission shall submit the European Parliament, and to the Council a report, including an evaluation of the implementation of this Decision in the previous year.

At least once a year the Commission shall submit ***to the relevant committees in*** the European Parliament, and to the Council a report, including an evaluation of the implementation of this Decision in the previous year.

Justification

The relevant Committees of the European Parliament should be regularly informed as well.

EXPLANATORY STATEMENT

1. This proposal was transmitted to the Council and the Parliament on 12 May 2006. The Council decided, on 6 June 2006, to consult Parliament on the basis of Article 308 of the EC Treaty. The rapporteur would like to express her appreciation that the Commission presented this proposal in the first half of the year, which will give Parliament's specialised committees sufficient time to examine the proposal before adoption by the Council, and allow the expected negotiation of conditions in the final months of the year (for disbursement to begin in December 2006).
2. The rapporteur visited Pristina between 8 and 10 May 2006 to assess Kosovo's economic prospects in the context of the ongoing negotiations on the territory's final status. During her visit, she had an opportunity to meet practically all the key economic policy-makers in Kosovo. This visit convinced her of the necessity and desirability of providing exceptional macro-financial assistance to Kosovo in the lead-up to resolving the territory's final status.
3. The rapporteur proposes five fundamental amendments to the text submitted by the Commission, namely that:
 - this exceptional macro-financial assistance should be **complementary to the CARDS** programme;
 - its core objective should be to **cover a funding gap** in the Kosovo Consolidated Budget (KBC) of 2006 and 2007;
 - the **conditionality** associated with this particular grant should be **explicitly spelled out** in the Council decision, linked to specific benchmarks, and based on monitoring supported by the new EC delegation in Kosovo after the final resolution of status;
 - **external auditors** should be engaged to carry out an independent assessment of this particular instance of MFA; and
 - the Commission should **improve its reporting** to Parliament as concerns the actual implementation of this aid instrument.
4. The rapporteur urges the Kosovo authorities to pay particular attention to the following economic issues in the short to medium term:
 - **Create jobs for a young and rapidly expanding labour force.** Reducing the current unemployment rate of 44%, and creating jobs for the 30,000 people who enter the labour market each year, is perhaps the core economic challenge for Kosovo. Unemployment disproportionately affects the young and

unskilled, which will require a long-term strategy in a territory where half the population is below 27 years of age.

- **Build a competitive industrial and export base in Kosovo.** Resolving Kosovo's final status will be crucial to attracting foreign direct investment (FDI). Meanwhile, domestic savings tend to be concentrated in non-productive activities, which further constrains investment in the private sector. Kosovo's Ministry of Trade and Industry has recently adopted a *Private Sector Development Strategy*, which focuses on improving access to finance for small businesses, attracting FDI for socially owned enterprises (SOEs), improving corporate governance for publicly owned enterprises (POEs) and a stricter regulatory environment. In this context, it is particularly important to:
 - **reduce Kosovo's dependence on external assistance.** Kosovo's trade deficit of €1.13 billion in 2005 was financed mainly from remittances from the Kosovo diaspora (15% of GDP) and external donor aid (23% of GDP);
 - **attract investment** (both foreign and domestic) for SOEs through the Investment Promotion Agency;
 - **invest in infrastructure** in line with the *acquis communautaire* in the areas of measuring, standardisation, testing and quality;
 - **support the participation of marginalised groups**, such as women, youth and minorities, in the economy;
 - **create access to finance for small businesses** and develop financial reporting, accounting and auditing skills in the private sector; and
 - **improve the corporate governance** of publicly owned enterprises (POEs).
- **Keep the euro.** There is general agreement in Kosovo that the use of the euro has created the stable monetary framework necessary for developing a healthy financial sector. Kosovo's Banking and Payments Authority has overseen the establishment of a vibrant financial sector: there are now six banks (two international, four local), ten savings and credit associations, twelve micro-finance institutions and eight insurance companies operating in Kosovo. In the rapporteur's view, the benefit of the continuing use of the euro as Kosovo's legal tender far outweighs the loss of an independent monetary policy.
- **Restructure debt.** This issue mainly concerns the apportioning to Serbia and Kosovo of debt incurred in the former Yugoslav era, as well as the restructuring of debt with the Paris and London Clubs. The donors' conference accompanying the resolution of Kosovo's final status should ensure that Kosovo is not burdened with unserviceable past debt as it joins the International Financial Institutions.

- **Replicate success of UNMIK customs in tax administration.** UNMIK Customs is generally seen as one of the most professional of Kosovo's institutions: it collected 69% of the revenues of the 2006 KBC, while the Tax Administration collected only 21%. This is primarily because Kosovo levies a 10% flat-rate customs duty on imports, save on agricultural inputs which are duty-free, and collects value-added tax (VAT) at the border. With the implementation of bilateral free trade agreements (FTAs) and Kosovo's impending entry to the Central European Free Trade Agreement (CEFTA), the territory's customs revenues will decrease, and the importance of VAT in Kosovo's own resources will further increase. This makes it an imperative to improve Kosovo's tax administration, perhaps by transferring institutional know-how and expertise from UNMIK Customs.
- **Combat corruption and cross-border crime.** The rapporteur urges the Kosovo authorities to ensure full respect for the rule of law and pursue a policy of zero tolerance against corruption and cross-border crime, particularly smuggling, counterfeiting and piracy. It is of primary importance that the Kosovo authorities press ahead with the establishment of an anti-corruption agency; enhance the capacity of UNMIK Customs to fight corruption and cross-border crime, partly by strengthening the office's criminal investigation unit; and implement and enforce legislation on the protection of intellectual, industrial and commercial property rights.
- **Complete privatisation.** The Kosovo Trust Agency (KTA) is well on track to meet its stated goal of privatising 90% of its asset value and 50% of SOEs by mid-2006. Some 240 new companies, representing 163 SOEs, have been tendered to date, with total privatisation proceeds amounting to €230 million, which has been put in a trust fund, overseen by the Banking and Payments Authority, for the post-status era. The rapporteur believes that the KTA should continue to operate, with local Board Members, in the post-status era, while the Liquidation Committees should have international Members. It is crucial that ethnic Serbs equally participate in the bidding process and in the identification of suitable SOEs in minority areas, such as Mitrovica.
- **Address property claims.** The rapporteur welcomes the recent setting up of the Kosovo Property Agency (KPA), whose mandate is to address agricultural and commercial property claims resulting from the armed conflict of the late 1990s. The KPA must perform its work in an ethnically unbiased manner, as the KTA had done in the past, which requires access to the cadastres both in Kosovo and Serbia. Resolving property claims in the Mitrovica region is of the highest priority, as some 27% of all claims to date have been submitted in this region.
- **Restructure Korporata Energjetike e Kosoves (KEK).** While the incorporation of POEs is far advanced, more should be done about restructuring KEK, the electricity-provider. Irregular electricity supply is one of the biggest obstacles to private sector growth, and a huge disincentive for

foreign investors. In 2005, KEK was split into KEK (responsible for power generation, distribution and supply) and Transko (transmission and dispatch). KEK suffers from decades of under-investment and must improve its revenue collection through its load-shedding scheme, as it currently receives payment only for a third of the electricity it delivers. Some €754 million in investment will be needed in order to achieve financial sustainability by 2010. The restructuring of KEK should remain a top priority in the context of the upcoming donors' conference, and foreign investors should be made aware of the possibilities inherent in Kosovo's energy sector. The authorities should also begin to implement the commitments undertaken in the framework of the Energy Community Treaty, which recently entered into force.

- **Invest in lignite and ore mining.** Kosovo has large reserves of lignite (along with zinc, lead and ferronickel), which it could use to develop an additional capacity of 4000 MW of electricity. Ore mining is equally advanced in Kosovo, as shown by the recent international sale of Ferronikeli and efforts to develop the Trepce mining complex. The rapporteur is fully in favour of the Kosovo authorities' strategy of developing lignite resources as a means to long-term economic development.
- **Spend more on education.** The Medium-Term Expenditure Framework (MTEF) sets out the Kosovo authorities' capital investment priorities for 2006-2008, allocating a disproportionately higher amount to public investment programmes in energy, mining, transport, trade and industry than to education, health and social spending. Meanwhile, the Letter of Intent signed with the IMF commits the Kosovo authorities to respecting an annual budget deficit of 3% and freezing real expenditure growth to 0.5%. The rapporteur believes that more funds should be allocated to education and vocational training if the Kosovo authorities wish to solve the problem of youth unemployment.
- **Reduce poverty.** Currently, some 37% of the population lives in poverty, of whom 15% lives in extreme poverty. The rapporteur fully supports the World Bank's recommendation that poverty alleviation should be streamlined into the *Kosovo Development Strategy*, which is expected to be finalised later this year, and that this should be reflected in the changed priorities of the MTEF.
- **Implement bilateral FTAs.** At €50 million, Kosovo's exports only covered some 4.2% of its imports of €1.18 billion in 2005. Despite its huge trade deficit, Kosovo is on the right track in terms of liberalising trade with its neighbours and the EU: it has FTAs in place with Albania, the Former Yugoslav Republic of Macedonia and Bosnia and Herzegovina; continuing free trade with Serbia and Montenegro; and it benefits from the EU's Autonomous Trade Preferences. It is of primary importance that Kosovo implements its bilateral FTAs with its neighbours.
- **Negotiate ambitious CEFTA.** The heads of government of Western Balkan countries signed a *Joint Declaration* on 6 April 2006 calling for the modernisation and deepening of CEFTA by extending bilateral trade

concession to all partners; the inclusion in the agreement of competition rules, government procurement, intellectual property protection, trade in services, a regional dispute settlement mechanism and the establishment of an EU-Western Balkans zone of diagonal cumulation of origin. It is of fundamental importance that Kosovo takes an active part in the ongoing CEFTA negotiations, as this agreement will cement the territory's free access to regional markets.

- **Reduce regional NTBs.** Kosovo's unresolved status constitutes a major non-tariff barrier (NTBs) to trade as UNMIK travel documents and Kosovo licence plates are often not recognised in neighbouring countries. Kosovo should continue working under the auspices of the Stability Pact's Trade Working Group to make further progress in the elimination of NTBs with neighbours. The rapporteur also believes that EU visa requirements for the citizens of Kosovo should be eased, to mitigate Kosovars' isolation from the region and the European Union.
- **Ensure approximation of EU standards.** As concerns Kosovo's ability to export to the EU, it is of fundamental importance that economic operators improve the quality of their products so as to be able to comply with EU standards and safety requirements. In the area of agricultural trade, it is crucial that the Kosovo authorities continue to align legislation with EU veterinary and phytosanitary standards so as to ensure producers' access to EU markets. The recent establishment of the Kosovo Standardisation Agency is a welcome development, but further efforts are needed in the areas of measuring, standardisation, testing, quality assurance, certification and accreditation.

(CNS)
12.9.2006

OPINION OF THE COMMITTEE ON FOREIGN AFFAIRS

for the Committee on International Trade

on the proposal for a Council decision providing exceptional Community financial assistance to Kosovo

(COM(2006)0207 – C6-0171/2006 – 2006/0068(CNS))

Draftsman (*): Joost Lagendijk

(*) Enhanced cooperation between committees – Rule 47 of the Rules of Procedure

AMENDMENTS

The Committee on Foreign Affairs calls on the Committee on International Trade, as the committee responsible, to incorporate the following amendments in its report:

Text proposed by the Commission²

Amendments by Parliament

Amendment 1 Recital 9

(9) Although economic activity resumed after the conflict, Kosovo is at a low level of economic development. Kosovo is not in a position to borrow either domestically or on the international financial market and under its current status it is not eligible for membership in the international financial institutions. It may therefore not benefit from lending assistance associated with their programmes.

(9) Although economic activity resumed after the conflict, Kosovo is at a low level of economic development. Kosovo is not in a position to borrow either domestically or on the international financial market and under its current status it is not eligible for membership in the international financial institutions. It may therefore not benefit from lending assistance associated with their programmes. ***The handicap resulting from the lack of international status calls for continued financial support by the***

² Not yet published in OJ.

European Union.

Justification

It is undeniable that the current lack of status represents a major handicap for the region which is not in a position to borrow money from international financial organisations in order to meet unforeseen budgetary needs. The International Community and the European Union in particular should step in, in order to alleviate this problem.

Amendment 2

Recital 11 a (new)

(11a) Financial assistance to Kosovo should however be conditional on the establishment, with the support of international financial institutions, of a comprehensive and realistic long-term economic development plan, full compliance with international democratic and human rights standards, including respect for minorities, and with the fundamental principles of the rule of law, and a detailed and properly resourced anti-corruption strategy.

Justification

Your rapporteur is convinced that the EU should exercise greater leverage on Kosovo authorities in order to promote better compliance with international democratic and human rights standards and ensure that international assistance is used to pursue and underpin the long-term economic development of Kosovo. One should counteract a certain complacency which seems to prevail in Kosovo, particularly with regard to the future status of region, which many consider a separate issue from the implementation of UN Standards and, more particularly, independently of real progress in terms of respect for minority rights.

Amendment 3

Recital 13

(13) This financial support should be provided after verifying whether the

(13) This financial support should be provided after verifying whether the

financial and economic conditions to be agreed with the authorities of Kosovo upon approval of this Council Decision can be satisfactorily fulfilled.

conditions to be agreed with the authorities of Kosovo upon approval of this Council Decision can be satisfactorily fulfilled. ***To that end, the Commission should establish clear benchmarks by which compliance with the above requirements would be measured. Real progress in achieving such benchmarks would provide the basis for the disbursement of subsequent instalments.***

Justification

The criteria underlying the Community's financial support to Kosovo should not be purely financial and economic but should cover the areas outlined in the amendment to Recital 11a. They should also be accompanied by clear benchmarks against which the Commission should evaluate the performance of Kosovo's authorities.

Amendment 4 Article 2, paragraph 1

The Commission is empowered to agree with the authorities of Kosovo, after consultation with the Economic and Financial Committee, the ***economic policy and financial*** conditions attached to this assistance, to be laid down in a Memorandum of Understanding. These conditions shall be consistent with the agreements or understandings referred to in Article 1(2).

The Commission is empowered to agree with the authorities of Kosovo, after consultation with the Economic and Financial Committee, the conditions attached to this assistance, to be laid down in a Memorandum of Understanding. These conditions shall be consistent with the agreements or understandings referred to in Article 1(2). ***They shall include a comprehensive and realistic long-term economic development plan, full compliance with international democratic and human rights standards, including respect for minorities, and with the fundamental principles of the rule of law, and a detailed and properly resourced anti-corruption strategy.***

Justification

See the justification to the amendment on recital 11a (new).

Amendment 5 Article 3, paragraph 2

The second and any further instalments shall be released on the basis of *a* satisfactory compliance with the ***economic policy and financial*** conditions referred to in Article 2(1), and not before three months have elapsed since the release of the previous instalment.

The second and any further instalments shall be released on the basis of satisfactory compliance with the conditions referred to in Article 2(1), and not before three months have elapsed since the release of the previous instalment. ***Such compliance will be measured against benchmarks laid down in the Memorandum of Understanding provided for in Article 2(1).***

Justification

See justification to the amendment on recital 13.

Amendment 6
Article 5

At least once a year the Commission shall submit to the European Parliament and to the Council a report, including an evaluation on the implementation of this Decision in the previous year.

At least once a year the Commission shall submit to the European Parliament and to the Council a report, including an evaluation on the implementation of this Decision in the previous year. ***The report shall make specific reference to the benchmarks referred to in Article 3(2).***

Justification

See justification to the amendment on recital 13.

PROCEDURE

Title	Proposal for a Council decision providing exceptional Community financial assistance to Kosovo
References	COM(2006)0207 – C6–171/2006 – 2006/0068(CNS)
Committee responsible	INTA
Opinion Date announced in plenary	by AFET 15.6.2006
Enhanced cooperation – date announced in plenary	6.7.2006
Draftsman Date appointed	Joost Lagendijk 30.5.2006
Discussed in committee	11.7.2006 12.9.2006
Date adopted	12.9.2006
Result of final vote	+: 43 –: 0: 2
Members present for the final vote	Panagiotis Beglitis, Bastiaan Belder, Monika Beňová, Paul Marie Coûteaux, Véronique De Keyser, Giorgos Dimitrakopoulos, Maciej Marian Giertych, Jana Hybášková, Anna Ibrisagic, Ioannis Kasoulides, Bogdan Klich, Helmut Kuhne, Joost Lagendijk, Vytautas Landsbergis, Cecilia Malmström, Pasqualina Napoletano, Annemie Neyts-Uyttebroeck, Raimon Obiols i Germà, Vural Öger, Alojz Peterle, Tobias Pflüger, João de Deus Pinheiro, Mirosław Mariusz Piotrowski, Bernd Posselt, Michel Rocard, Raúl Romeva i Rueda, Libor Rouček, José Ignacio Salafranca Sánchez-Neyra, György Schöpflin, Gitte Seeberg, István Szent-Iványi, Charles Tannock, Paavo Väyrynen, Inese Vaidere, Geoffrey Van Orden, Josef Zieleniec
Substitute(s) present for the final vote	Laima Liucija Andrikienė, Irena Belohorská, Proinsias De Rossa, Alexandra Dobolyi, Lilli Gruber, Tunne Kelam, Csaba Sándor Tabajdi, Marcello Vernola
Substitute(s) under Rule 178(2) present for the final vote	Kyriacos Triantaphyllides

OPINION OF THE COMMITTEE ON BUDGETS
for the Committee on International Trade

on the proposal for a Council decision providing exceptional Community financial assistance to Kosovo
(COM(2006)0207 – C6-0171/2006 – 2006/0068(CNS))

Draftsman: Janusz Lewandowski

SHORT JUSTIFICATION

This proposal aims to provide macro-financial assistance to Kosovo for an amount of EUR 50 million.

There is no financial "instrument" for macro-financial assistance. Each programme is established individually by means of legislation based on Article 308 EC through Council Decisions. The Parliament is consulted for an opinion.

The draftsman thinks that it is prudent to point out two things. Firstly, this assistance would be financed from commitment appropriations in the 2006 budget. However, at present (July 2006) there is only EUR 37 million available on the line for macro-financial assistance. It should therefore be made clear that the grant agreement to be signed with Kosovo authorities for 2006 should naturally be covered by available commitment appropriations in the 2006 budget.

If need be, a second grant-agreement could be signed (as confirmed by the Commission in the explanatory statement) to be covered by the 2007 budget.

It is possible that the Commission will propose a transfer in the 2nd part of 2006 to reinforce the line in question. If approved, this would enable a single agreement to be signed in 2006 (covered by reinforced 2006 budget commitments) but the outcome of a transfer can not be taken for granted.

Secondly, in the proposal, a period of two years is mentioned in article 1(3) for the availability of financial assistance. In the same paragraph it is also proposed that the availability could be extended by one year (to three years) by means of a Commission decision following consultation of only the Council through a comitology committee. This would appear not to be acceptable and is not in line with previous decisions on macro-financial assistance. If the Commission wishes to extend this period, they could, as was the case in past cases, present a proposal for a one-year extension of the

Decision.

AMENDMENTS

The Committee on Budgets calls on the Committee on International Trade, as the committee responsible, to incorporate the following amendments in its report:

Text proposed by the Commission³

Amendments by Parliament

Amendment 1 Article 1, paragraph 1

1. The Community shall make available to Kosovo an exceptional financial assistance in the form of **a grant** of up to EUR 50 million with a view to alleviating the financial situation in Kosovo, supporting the development of a sound economic and fiscal framework, facilitating the continuation and strengthening of essential administrative functions and addressing public investment needs.

1. The Community shall make available to Kosovo an exceptional financial assistance in the form of **grants** of up to EUR 50 million with a view to alleviating the financial situation in Kosovo, supporting the development of a sound economic and fiscal framework, facilitating the continuation and strengthening of essential administrative functions and addressing public investment needs.

Justification

There are not sufficient commitment appropriations available on the corresponding budget line to finance a grant of EUR 50 million. It may therefore be necessary to sign a second grant agreement (to be financed against 2007 appropriations) to make up the final amount.

Amendment 2 Article 1, paragraph 3

3. The Community financial assistance shall be made available for two years starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 2(1). However, if circumstances so require, the Commission, after consultation of the Economic and Financial Committee, may **deleted**

³ Not yet published in OJ.

decide to extend the availability period by a maximum of one year.

Justification

The availability period was in the past always dependent on the validity of the legal base (this Decision). If the Commission wants to prolong this period from two to three years, they can present a proposal to extend the legal base by one year. It seems inappropriate that this could be decided through a comitology committee. A duration for this Decision has been inserted through Am.3

Amendment 3
Article 6, paragraph 1 a (new)

It shall apply for a period of two years beginning on that date.

Justification

See amendment 2.

PROCEDURE

Title	Proposal for a Council decision providing exceptional Community financial assistance to Kosovo
References	COM(2006)0207 – C6-0171/2006 – 2006/0068(CNS))
Committee responsible	INTA
Opinion Date announced in plenary	by BUDG 15.6.2006
Enhanced cooperation – date announced in plenary	
Draftsman Date appointed	Janusz Lewandowski 5.7.2006
Previous drafts(wo)man	
Discussed in committee	11.7.2006 12.9.2006
Date adopted	12.9.2006
Result of final vote	+: 20 -: 0:
Members present for the final vote	Laima Liucija Andrikienė, Reimer Böge, Gérard Deprez, Brigitte Douay, Hynek Fajmon, Markus Ferber, Salvador Garriga Polledo, Ingeborg Gräßle, Louis Grech, Catherine Guy-Quint, Jutta D. Haug, Ville Itälä, Anne E. Jensen, Janusz Lewandowski, Vladimír Maňka, Giovanni Pittella, Antonis Samaras, Esko Seppänen, Kyösti Virrankoski, Ralf Walter
Substitute(s) present for the final vote	
Substitute(s) under Rule 178(2) present for the final vote	
Comments (available in one language only)	...

PROCEDURE

Title	Proposal for a Council decision on providing exceptional Community assistance to Kosovo	
References	COM(2006)0207 – C6-0171/2006 – 2006/0068(CNS)	
Date of consulting Parliament	6.6.2006	
Committee responsible Date announced in plenary	INTA 15.6.2006	
Committee(s) asked for opinion(s) Date announced in plenary	BUDG 15.6.2006	AFET 15.6.2006
Not delivering opinion(s) Date of decision		
Enhanced cooperation Date announced in plenary	AFET 6.7.2006	
Rapporteur(s) Date appointed	Erika Mann 30.5.2006	
Previous rapporteur(s)		
Simplified procedure – date of decision Date of decision		
Legal basis disputed Date of JURI opinion		
Financial endowment amended Date of BUDG opinion		
Parliament to consult European Economic and Social Committee – date decided in plenary		
Parliament to consult Committee of the Regions – date decided in plenary		
Discussed in committee	19.6.2006	13.7.2006
Date adopted	12.9.2006	
Result of final vote	+: 24 –: 0 0: 0	
Members present for the final vote	Jean-Pierre Audy, Daniel Caspary, Giulietto Chiesa, Christofer Fjellner, Béla Glattfelder, Jacky Henin, Alain Lipietz, Caroline Lucas, Erika Mann, Helmuth Markov, Georgios Papastamkos, Godelieve Quisthoudt-Rowohl, Tokia Saïfi, Peter Šťastný, Johan Van Hecke, Daniel Varela Suanzes-Carpegna, Zbigniew Zaleski	
Substitute(s) present for the final vote	Margrietus van den Berg, Jorgo Chatzimarkakis, Robert Goebbels, Maria Martens, Antolín Sánchez Presedo, Mauro Zani	
Substitute(s) under Rule 178(2) present for the final vote	Filip Kaczmarek	
Date tabled	19.9.2006	
Comments (available in one language only)	...	

