



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.02.1996  
SEC(96) 252 final

REPORT FROM THE COMMISSION TO THE COUNCIL

**Prospects for the development of regional cooperation  
for the countries of the former Yugoslavia and what  
the Community could do to foster such cooperation**

**COMMISSION REPORT TO THE COUNCIL**  
**Prospects for the development of regional cooperation**  
**for the countries of the former Yugoslavia and what**  
**the Community could do to foster such cooperation**

**MANDATE**

1. At its general affairs meeting on 29 and 30 January, the Council called on the Commission to provide it with an overview of:
  - the prospects for the development of cooperation between the countries concerned in the context of a broad approach to the region's future;
  - how the Community and its Member States could help the former Yugoslav republics to foster such cooperation.

This is the Commission's response. It also completes and updates the Commission's communication of 20 November last year on the management of the Union's aid and the coordination of international aid, and the working documents presented by the Commission, notably those concerning contractual relations with the countries of the region in question.

The Council said that the Presidency and the Commission could use this report and the resulting Council conclusions as a basis for opening talks with the relevant authorities on possible commitments in the matter of regional cooperation.

**I. PROSPECTS FOR THE DEVELOPMENT OF COOPERATION BETWEEN THE COUNTRIES CONCERNED**

2. The peace agreement and the London conference outlined the parameters for restoring peace in former Yugoslavia so that objectives might be attained and peace maintained in the long-term.

The preconditions for peace include:

- cooperation with the International War Crimes Tribunal (IWCT);
  - effective mutual recognition by the states concerned;
  - removing obstacles in the way of refugees and displaced persons returning home and deploying all available means to facilitate their return and reintegration;
3. The backing of the international community and the Union is aimed at restoring or creating a suitable national framework for each of the countries concerned in the light of two political and economic priorities:
    - to promote and sustain democracy and the rule of law, which entails the organization of the apparatus of state, notably in the form of public administrations, and the reconstitution of civil society, non-discrimination

between citizens of the countries concerned and the resettlement of refugees and displaced persons;

- to relaunch economic activity, which means rebuilding the economy, restoring infrastructure, reorienting war economies to civilian activities and the switch to a market economy.

4. The state of the countries concerned is, however, such that no measures exclusively geared to restoring a suitable national framework could enable the above political and economic objectives to be attained. The reasons are as follows:

- Regardless of the far-reaching political divisions of the past, there can be no long-term political stability in the region without a rapid return to a significant degree of cooperation between each of the countries concerned and its neighbours.
- These countries' economies were linked by a degree of complementarity and they will encounter similar problems, especially in the transition to a market economy. Their development demands that trade and other exchanges resume.
- It is, moreover, obvious that the international community's assistance to these countries will be more effective against a backdrop of economic stability and growing trade.

5. All these factors argue for a regional approach, which should be one way of reconciling political and economic objectives. The Union's influence in the region confers on it a special role in developing new forms of cooperation.

6. Although this report is predicated on all-round cooperation the special nature of each country's peculiar situation will be taken into account.

The planned approach must be designed as a factor for political stability and as an instrument for economic development and cooperation between the countries concerned, between them and their neighbours and between them and the European Union. The aim is not to confine countries within new frontiers or a new Balkan alliance.

The need to foster a regional approach must be the fundamental principle informing the relationships that the Union is planning to develop with the countries of the region and must guarantee that the instruments available to the Union are used coherently.

## **II. MEANS**

7. The Union possesses the instruments needed to encourage a regional approach taking the form of contractual relationships with each of the countries concerned and assistance programmes.

### **A. Contractual relations between the Union and the countries concerned**

8. The European Union will inevitably be called on to conclude a first generation of agreements with these countries. There is no need at this point to speculate about what they will be like or what they will be called.

The contractual relations to be established by the Union must serve the following general objectives:

- the fostering of regional cooperation.
- the improvement and enhancement of relations with the Union.
- the Union's contribution to peace and stability in the region.
- the Community contribution to reconstruction in the former Yugoslavia.

The future bilateral agreements with the EU will provide encouragement and incentives for the normalization of relations between the countries concerned in all fields, beginning with those on their doorsteps. Special provisions should be drawn up for that purpose and be a key component of the political dialogue and the trade and economic framework established by the agreements in question.

9. Certain conditions should be written into the agreements to take account of the region's particular problems and to encourage cooperation.

One key condition should be the honouring by some of these countries of the commitments made in the peace agreements.

At bilateral level, these countries will be seeking close cooperation with the Union, notably in terms of market access, the free movement of persons and economic cooperation. One option would be to make the provisions of any future bilateral agreements between the Union and each of these countries relating to freedom of movement (of goods, persons and services) subject to a commitment to parallel progress in the matter of freedom of movement with its neighbours. Likewise, the future agreements should include provisions requiring comparable progress in respect of the right of establishment, major networks or cooperation in education and research.

The establishment of political dialogue with the Union could help solve such problems as the resettlement of refugees. Ultimately, this dialogue could develop like a stability pact into a framework guaranteeing neighbourly relations between all the countries of the region (and their neighbours).

In the matter of trade, the Union should confirm the preferential access to the Community's markets currently enjoyed by industrial products from these countries as a result of the unilateral application of the concessions accorded by the old trade and cooperation Agreement with Yugoslavia.

In order to encourage trade links between these countries, consideration could be given to granting them regional cumulation of origin and creating a free-trade area between them. Since not all these countries have yet joined the World Trade Organization (WTO), a waiver would have to be sought from the WTO for any preferential agreement between the Community and the countries concerned. Given the political importance attached by the international community to reconstruction in the former

Yugoslavia, no time should be lost in discussing how best to obtain such a waiver with the Union's main trading partners. With regard to trade relations between the countries concerned, thought could also be given to a flexible interpretation of the most-favoured-nation clause so that these countries could grant each other reciprocal preferences (along the lines of Article 5 of the Partnership Agreement with Russia).

Any concessions on agriculture would be examined in the light of market conditions in each of the countries concerned.

Special attention should be given in the provisions on economic cooperation to measures with an intra-regional or trans-European dimension. The Union could even decide to earmark a given part of the funding for economic cooperation for operations fostering regional cooperation.

B. Application of the Union's financial instruments

(a) The various aid instruments

10. An enormous amount of reconstruction and rehabilitation is needed in the former Yugoslav republics.

A conference of donors marked the beginning of international aid, the first recipient being Bosnia-Herzegovina, which has been hardest hit by the war. However, meeting the needs identified in the run-up to the donors' second conference still has a long way to go. The Commission intends to present a memo to the Council on this matter.

The Union for its part is already active on the ground, having delivered the first instalment of PHARE emergency aid (ECU 62.5 million) and a considerable amount of humanitarian aid from ECHO.

Beyond emergency aid, the main needs have now been identified by the IMG, which has been financed almost entirely by the Union. The design of the resulting key projects is being supervised by the World Bank, which is working in conjunction with the Commission and other donors. Given that it can mobilize large amounts of money rapidly, the Union will be playing a key role in the early stages of reconstruction, which will require special care to the use of funds.

Given that aid for reconstruction in former Yugoslavia will be flowing through a number of multilateral and bilateral channels, its effectiveness - *inter alia* in fostering regional cooperation - will depend very much on how well the Commission and the Member States coordinate their activities. The first thing needed is a regular exchange of information. The Commission for its part has already been keeping Member States regularly informed of its initiatives and will coordinate with them the preparation of the second donors' conference.

(b) The use of Union instruments as incentives for cooperation

11. Over and above emergency aid, a given part of the PHARE funds should - and this could perhaps be stipulated in the future bilateral agreements between the EU and the

countries concerned - be earmarked for schemes to foster regional cooperation. A similar approach could be adopted with regard to EIB loans.

More specifically:

- A proportion of the PHARE resources could be allocated to multi-country or cross-border programmes under multi-annual programmes.

PHARE multi-country programmes are used to strengthen cooperation in such fields as networks (including trans-European networks), regional economic cooperation, legal cooperation and training for national administrators, the environment, customs, statistics or the campaign against drugs. Since these programmes are open to all countries eligible for PHARE, it will be possible to adopt a more targeted regional approach reflecting the needs of a certain number of these countries.

The current PHARE cross-border programme for regions of central Europe bordering on the Union (this includes maritime frontiers) could be extended to certain of the countries concerned. They could also be made eligible for another PHARE cross-border programme currently on the drawing-board, which covers the frontiers between central European countries.

- Liaison in the matter of regional networks should also be improved very rapidly by submitting national priorities to an assessment of regional structures. The EIB and its loans could play a part in this framework.
- Lastly, regional cooperation schemes involving several of the countries concerned could be undertaken in areas such as industrial cooperation, training, education, research and the fight against crime.

Even before the countries concerned have finished drafting their economic recovery programmes, the Union should seek to encourage regional cooperation by making such programmes a condition for the negotiation of bilateral agreements and the application of financial instruments.

### **III. GUIDELINES**

19. The Council could authorize the Presidency and the Commission to open with the authorities in each of these countries the talks referred to in the conclusions of the Council meeting of 29 and 30 January. Regional cooperation should be central to these talks. It should be a key component of the agreements to be concluded by the Union with the countries of the region. These agreements should clearly link the advantages they offer to commitments by those countries to develop cooperation with each other.

The necessity of regional cooperation should be reflected fully in the use of the financial instruments of the Union and its Member States.

The development of regional cooperation also calls for closer coordination between Union and Member State operations in all forums dealing with rehabilitation/reconstruction and transition, and in particular the specialized institutions referred to in Article 229 of the Treaty. The Commission is ready to keep the Member States fully informed through the relevant Council working parties and through Coreper.