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BENCHMARKS FOR A SUSTAINABLE PEACE

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A REPORT ON PROGRESS MADE TOWARD ACHIEVING BENCHMARKS FOR A SUSTAINABLE PEACE IN BOSNIA AND HERZEGOVINA

FEBRUARY 5, 2003.—Message and accompanying papers referred to the Committees on International Relations, Armed Services, and Appropriations and ordered to be printed

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To the Congress of the United States:

As required by the Levin Amendment to the 1998 Supplemental Appropriations and Rescissions Act (section 7(b) of Public Law 105–174) and section 1203(a) of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105–261), I am providing a report prepared by my Administration on progress made toward achieving benchmarks for a sustainable peace process in Bosnia and Herzegovina.

This seventh report, which also includes supplemental reporting as required by section 1203(a) of Public Law 105–261, provides an updated assessment of progress on the benchmarks covering the period January 1 to December 31, 2002.

GEORGE W. BUSH.

THE WHITE HOUSE, *February 4, 2003.*

REPORT ON BOSNIA AND U.S. FORCES
IN NATO-LED STABILIZATION FORCE (SFOR)

This document is divided into two parts, corresponding to two separate Congressional reporting requirements concerning NATO-led Stabilization Force (SFOR) operations and developments in Bosnia and Herzegovina (BiH). Part I responds to the requirements of section 7 of Public Law 105-174 and outlines the latest developments in our continuing efforts to achieve a sustainable peace in BiH. Part II responds to the supplementary reporting requirements regarding the SFOR deployment contained in section 1203(a) of the National Defense Authorization Act for Fiscal Year 1999. These two reports are submitted in a single document to afford Congress a broad and comprehensive assessment of developments in BiH from January 1 through December 31, 2002.

Part I

Introduction. In June 2002, I sent the sixth semiannual report to Congress under Public Law (PL) 105-174, detailing progress towards achieving the 10 benchmarks adopted by the Peace Implementation Council (PIC) and the North Atlantic Council (NAC) for evaluating implementation of the General Framework Agreement for Peace in BiH (GFAP, or the Dayton Peace Accords) over the period from April 1 through December 31, 2001. This report is an assessment of progress on the benchmarks for the period from January 1 through December 31, 2002.

Progress on the broad goals, as set by the PIC Steering Board, of a self-sustaining peace, expansion of democracy, rule of law, and economic reform and growth, continues apace, albeit not without significant hurdles to overcome along the way.

Significant areas of progress include the following:

- General elections compatible with international standards conducted by BiH authorities on October 5;
- Agreement with the International Monetary Fund (IMF) on economic reform program;
- Progress by the Republika Srpska (RS) Government on investigating and controlling arms trafficking violations;
- Reductions of military personnel in both the RS and the Federation;

- Progress towards the development of the Standing Committee on Military Matters as a functioning state-level institution;

- Completion of the United Nations Mission in Bosnia and Herzegovina (UNMIBH) and the United Nations International Police Task Force (IPTF);

- Deployment of the EU Police Mission (EUPM) in preparation to take on remaining police-related tasks in place of the IPTF;

- The State Border Service (SBS) deployed to all BiH borders;

- The IPTF completed process of certification and accreditation for entity and cantonal police and SBS;

- The High Judicial and Prosecutorial Councils began process of assessing judicial and prosecutorial candidates;

- Closure/asset freeze of Islamic non-governmental organizations (NGOs) linked to terrorist organizations;

- Guilty verdicts delivered against leading members of a crime family involved with the corrupt BH Bank;

- Imposition of a law reforming the Council of Ministers, including establishment of a prime minister and ministries for security and justice, and organizational and procedural refinements to promote more efficient decision-making;

- Imposition of a Law on Communications establishing a Communications Regulatory Agency;

- Passage by BiH parliament of the Law on Customs Tariffs harmonizing tariffs between the RS and the Federation;

- A record high rate of returns by displaced persons and refugees, especially to areas where returnees are ethnic minorities;

- Progress on redevelopment of the Arizona Market (Brcko District) as a lawful enterprise area; and

- Apprehension by SFOR of four persons indicted for war crimes (PIFWCs).

Despite these successes, several areas of concern remain. The likely rise to power of nationalist parties at state and entity levels heralds a setback for reform processes and could render more difficult BiH's eventual integration into Europe. Ethnic-based politics remains an ever-present and highly divisive phenomenon that contributes to national and regional instability and retards economic progress. Extremist groups of varied ethnic and political affiliation continue to find a foothold in BiH. The discovery that some parts of the RS military were involved in illegal arms trade with Iraq raises as yet unanswered questions about the extent of the illegal arms traffic in the RS and Federation and the possible involvement of high-level political figures. Corruption at all levels of government remains a serious problem and adequate measures to correct the problem are lacking. Necessary judicial reforms are under-funded and lack sufficient implementation. Leading PIFWCs continue to avoid apprehension, probably with the assistance of local authorities in the RS.

Military Stability.

Aim: Maintain Dayton cease-fire and strengthen state-level defense apparatus.

The military security situation in BiH remains calm. Breaches in the Dayton cease-fire or the resumption of war are unlikely. In the current period, BiH and the Federal Republic of Yugoslavia (FRY) continue to build upon recently established, normal diplomatic relations. Though Belgrade announced an end to direct salary support to the Republika Srpska military (VRS) in March 2002, other military and military-industrial ties between the FRY and the RS still exist, as demonstrated by the revelations about joint arms sales to Iraq.

Inspection by SFOR in October of the RS military-owned "Orao" arms production facility turned up evidence that the firm repaired aircraft engines and established a maintenance facility for Iraq through Yugoimport, a FRY government-owned trading company. Following a strong United States Government and International Community (IC) reaction and the presentation of evidence, the RS Government admitted that violations of U.N.

Security Council resolutions had occurred. The RS Government is undertaking an internal investigation which it says will fully reveal the extent of arms trading violations committed by RS-owned firms or organizations. Initial investigative efforts led by the RS military were hesitant and suffered from weak investigative powers and failed even to acknowledge what SFOR discoveries made obvious. United States Government and IC pressure has forced the RS to undertake a more intensive investigation. At year's end, the investigation appears to be making progress and the RS Government appears to have accepted the necessity for broad cooperation with the United States Government and IC. The United States Government and IC have demanded that the RS hold those responsible for the violation of sanctions accountable and also demanded that the RS accept increased state-level control over all military production and exports and civilian control of all the armed forces in BiH. The institution of a state-level arms export licensing regime, which is expected in 2003, will help increase the level of stability.

The first international audit of BiH defense spending, conducted by the Organization for Security and Cooperation in Europe (OSCE), confirmed that defense spending in 2000 was excessive. Federation expenditures were twice as large as appropriations, and amounted to over 10 percent of the entity's Gross Domestic Product. Similar, although somewhat less severe, results were obtained in the RS. The audit results prompted both entities to accelerate manpower reductions agreed to under the May 2001 BiH Common Defense Policy. The Common Defense Policy mandates that by 2005, the Federation Army (VF) will reduce by 10,000 to a strength of 13,200 and the VRS will reduce by 3,000 to a strength of 6,600. As of November 1, 2002, the VF had released 9,600 personnel, and the RS military had released 1,539 personnel. SFOR advice and guidance to the Standing Committee for Military Matters (SCMM) will continue to be important in restructuring and integrating the Armed Forces in Bosnia and Herzegovina.

While efforts to build professionalism within the entity armed forces continue, they are limited by current force structures, which remain geared toward inter-entity conflict. Further work is needed to move beyond having two opposing armed forces within the territory. In August, the Joint Presidency of BiH approved a new structure for the Secretariat of the SCMM. The Secretary General of the SCMM and his two deputies are working to expand this state-level institution. This expansion could serve as the basis for developing unified command and

control of the two entities' armed forces, one of NATO's key conditions for BiH to be considered for membership in the Partnership for Peace.

Further reform of the armed forces in BiH is likely to encounter political resistance from hard-line Serb leaders, who are generally opposed to BiH obtaining even the minimum state-level defense constructs needed to defend BiH or participate in collective defense missions. The likely return of the Bosnian Croatian Democratic Union (HDZ) party to the Federation government also raises the prospect of internal turmoil in the Croat component of the VF. It was the HDZ that led a secessionist "Third Entity" movement in 2001 and fomented a mutiny by Croat members of the VF. The HDZ may seek retribution against those Croats who returned to duty. It could also manipulate the Croat component of the VF for political purposes, as it has in the past.

Public Security and Law Enforcement.

Aim: Restructured and democratic police forces in the Federation and RS.

There was continued progress in reforming and professionalizing the police during the year. As of October, the multi-ethnic SBS was deployed to all land border crossings and each of the functioning international airports. It now has much of the basic equipment it needs, including a computerized tracking system (with watch list) now operating at the airports. As a result of tighter controls, the flow of illegal immigrants through the airports has declined to between 5 and 10 percent of what it was a year ago. According to both Bosnian and U.N. officials, customs revenues have increased as a result of improved border controls. However, the SBS still faces difficulty in obtaining the necessary funds from the BiH Treasury to cover operating costs, much less new capital improvements.

The new State Information and Protection Agency is now starting to form. However, it faces severe budgetary constraints and lack of adequate facilities. This agency is charged with protection of dignitaries, diplomats and state-owned facilities, as well as disseminating information on serious criminal activity to entity police.

Regular entity police made considerable progress over the last 6 months. As required by its mandate, the IPTF completed

the process of certification and accreditation for entity police as well as cantonal police and the SBS. Internal affairs laws now in place at the entity and canton level established unified professional standards, including procedures for the appointment of senior police officials by independent selection boards. Some progress was also made in integrating police in western Herzegovina with the rest of the Federation, including removal of some Croatian nationalist insignia from uniforms and nationalist flags from police stations. In addition, the Federation Parliament enacted a law that regulates and limits private security companies, some of which are linked to political extremists. With the end of the U.N. IPTF mission on December 31, responsibility for preserving and building upon these gains now rests with the smaller EUPM. Although the EUPM will deploy only about 460 police officers, it will focus on holding the top local police officials accountable for progress. Unlike the IPTF, the EUPM does not plan to conduct directly human rights investigations. Also, the EUPM will not have direct authority to de-certify local police for inappropriate behavior, but can recommend such action to the High Representative.

Judicial Reform.

Aim: An effective judicial reform program.

The High Representative, in consultation with local and international officials, established a new approach to judicial reform. Under the new restructuring and reappointment process, similar to a model used during German unification, all judicial and prosecutorial positions are subject to open competition supervised by the newly created High Judicial and Prosecutorial Councils (HJPCs). The HJPCs, which began work September 4, 2002, and consist of nationals and internationals, will conduct the reappointment process and oversee the restructuring and training requirements of the justice system.

The judicial reform process should take approximately 2 years to complete, with the aim of creating a truly independent judicial and prosecutorial system. The Independent Judicial Commission is continuing to focus on its core tasks of restructuring and rationalizing the court system and providing to the HJPCs detailed background information on all candidates for the judicial positions. The Office of the High Representative (OHR) Rule of Law Department will assist in the development of new legislation, coordinate the legal training provided by the international community in BiH, and monitor and

coordinate other programs of non-governmental organizations related to the rule of law and judicial reform.

More effort is needed to ensure implementation of the new re-structuring and laws and guarantee true independence (political and financial) of the judiciary. Successful execution of judicial reforms is critical to establishing the rule of law and the confidence of all Bosnia's citizens, regardless of ethnicity, in the domestic court system. Additional focus must be concentrated on the local financing of the judiciary so that the legislative and executive branches of government provide necessary funding without delay or obstruction. The restructuring of the courts and prosecutors' offices is designed to reduce costs and rationalize them in accordance with European and international norms. Currently, financing of the judiciary occurs at a cantonal or entity level and is inconsistent.

Illegal Institutions, Organized Crime, and Corruption.

Aim: Building local capacity to combat organized crime and corruption and the dissolution of illegal pre-Dayton institutions.

In the complex arena of combating terrorism and organized crime, Bosnian law enforcement agencies have continued to make progress in limited areas. Federation authorities provided documents and other physical evidence used to prepare an indictment in Chicago of an individual who provided financial support to al-Qaida and other terrorist groups. They also froze accounts and ordered several suspect Islamic NGOs to suspend operations in accordance with U.N. Security Council Resolutions. In a bellwether organized crime case, a Sarajevo Court returned guilty verdicts against two leading members of a crime family linked to the corrupt (now defunct) BH Bank. One faces nearly 10 years in prison, while the other faces 3 years. The kingpin of the family remains behind bars as his trial on kidnapping charges proceeds. However, another key court case did not end as expected: all six defendants charged in the 1999 murder of former Federation Deputy Interior Minister Jozo Leutar were acquitted for insufficient evidence.

Bosnia's first nation-wide organized crime task force, composed of police, SBS, and prosecutors, has started to show some results in the investigation of syndicates involved in human trafficking and illegal migration. Its investigations during this period led to the prosecution and conviction of a

trafficking kingpin, who was sentenced to 18 months in prison by the Brcko District court on charges of promoting prostitution. Local authorities also carried out other anti-trafficking operations, including an IPTF-initiated program and "Operation Mirage," a 2-week long series of police raids and border inspections in coordination with other Southeast Europe Cooperation Initiative member states. The IPTF program reports it has shut down over 150 establishments allegedly involved in trafficking. Operation Mirage led to trafficking charges (based on the RS Criminal Code) against two individuals, and the closure of two nightclubs for tax violations.

A joint OHR-Federation police task force continued to make progress in the investigation of a massive diversion of funds from Herzegovacka Banka to Croat secessionists. Indictments in the case are expected in 2003.

The United States, through the Department of Justice, the Federal Bureau of Investigation, the Immigration and Naturalization Service, the Treasury Department, and State Department, continued to provide support to a U.N.-supported initiative to establish an inter-entity police coordinating group targeting major crimes.

BiH continues to participate in a Regional Steering Committee that meets regularly to standardize cooperation among Southeast European customs services and share best practices. However, entity customs services continue to remain a source of corruption and diversion of government revenues to organized crime groups and illegal parallel institutions. The IC is considering options for addressing this problem, including a unified customs service and a state-level Value Added Tax (VAT).

Media Reform.

Aim: Politically independent media and an apolitical telecommunications regulatory authority.

An economically viable media market is a key factor in achieving and maintaining political independence. There were both positive and negative developments in this regard during the year.

On the positive side, the Communications Regulatory Agency (CRA) completed its issuance of long-term broadcasting licenses, which paired that overcrowded broadcast market down from 258 stations to 183, though still a high number for the BiH market.

Also, the Mreza Plus network of private, independent stations, formed in June 2001, reported in its review of its first year of operations that it had surpassed its advertising goals and was moving forward with plans for news sharing among the network's member stations. The network and the Association of Electronic Media, as well as the recently established Coordinating Group of professional media associations, have also been making progress in their lobbying and regulatory negotiation skills. These groups have been taking increasing responsibility for direct dealing with the CRA and the government instead of relying on IC intermediaries.

OHR's restructuring of the public broadcasting system continued during the year with the launch of PBS nationwide news on May 7, broadcasting for half an hour on each of the entity public broadcasters' (RTRS and FedTV) frequencies.

The second half of 2002 saw two major achievements in media market development: imposition of the Law on Communications of Bosnia and Herzegovina; and the fair and responsible performance of broadcast media during the October general elections. The Law on Communications fully established the CRA as a BiH state-level institution, strengthening its credibility and authority in enforcement decisions on broadcasting violations. CRA's local board members, working in consultation with international advisors, appear committed to objective enforcement of broadcast policy and are increasingly more comfortable in maintaining their independence. CRA has developed a transition plan to replace its remaining international employees with local managers by mid 2004. The United States continues to pursue improvements to the Law on Public Broadcasting, imposed in May 2002, in order to provide the CRA necessary authority to regulate advertising terms and time limits for public broadcasters.

Broadcast media's performance during the general election campaign was widely recognized as fair and impartial, though strict rules regarding election coverage resulted in generally uninformative coverage. Election Commission regulations were particularly strict in an effort to provide equal opportunity to all 57 registered parties, regardless of size. While these restrictions together with the large number of parties made in-depth reporting on campaign issues difficult and coverage somewhat bland and uncritical, all major stations carefully observed the regulations.

Implementation of Freedom of Information laws at the entity levels remains sluggish with no improvement since the previous period. However, the Federation did adopt a Defamation law which should improve the climate for journalistic independence.

A negative aspect of media development was the behavior of print journalism during and since the election campaign. In contrast to electronic media, newspapers and weeklies indulged in highly politicized behavior, including character assassination of various candidates or their critics and consequently, to the candidates' parties as well. The most flagrant example was the personal attack by Sarajevo daily *Dnevni Avaz* on the leader of the multi-ethnic SDP and the Alliance for Change coalition, and the uncritical defense and often vitriolic countercharges from other daily and weekly publications. The lack of professional behavior was noted and reported by the IC and by local media observation organizations. Though television has considerably more influence than print media in Bosnian society, the rigid broadcast restrictions created a dearth of election information on television, increasing the impact of the politicized newspaper coverage. Print media is regulated by a Press Council, with a self-regulatory professional code of conduct, without specific enforcement powers. The need for responsible print as well as broadcast journalism is recognized by BiH media associations, as is the failure of the print media to meet these standards during the election.

Elections and Democratic Governance.

Aim: National democratic institutions and practices.

General elections took place on October 5, 2002. The elections were the first since the Dayton Agreement to be organized and administered by BiH authorities. The OSCE conducted the previous six post-war elections. International observers found the elections to be generally free and fair and in line with international standards, with few reports of violence or intimidation. Although voter turnout was nearly 54 percent, it was lower than in previous elections, indicating a high degree of public apathy and widespread frustration with lack of economic progress.

Candidates of the three main nationalist parties, the Bosniak Party for Democratic Action (SDA), the Serb Democratic Party (SDS), and the HDZ, won seats on the tripartite BiH Joint Presidency. Low voter turnout combined with a sense of

frustration and disappointment regarding the achievements of the Alliance Government elected in 2000 left no party or bloc with a clear majority in either entity or at the state-level. The SDS and HDZ actually lost votes compared to the 2000 elections, whereas the SDA gained some seats based on a marginal increase in votes and low turn-out for its chief rival. Nationalist parties (SDA and HDZ) dominated the post-election scene in the Federation and at year's end appeared ready to form a government in that entity. In early December, a leading Serb swing party, the Party of Democratic Progress (PDP), turned its back on the moderate parties and threw its support behind nationalists in the RS (SDS and SDA) and at the BiH level (SDS-SDA-HDZ). As a result of this support, nationalists appeared poised at year's end to form governments in the RS and at the BiH state level as well.

State-level Dayton-mandated and other central institutions are growing stronger, but continue to fall short of establishing their functional effectiveness as a viable, self-sustaining government. The outgoing government (which took office in February 2001) made progress toward establishing the capabilities of the state government, but its development continues to be hindered by insufficient funding for state government institutions. The state parliament passed a number of laws creating state institutions and competencies during the reporting period, including a Law on State Information and Protection Agency, the Consumer Protection Law, and the Law on the State Prosecutors Office. A law mandating changes in the election law was passed in July that established the condition for nation-wide October 5 elections. A law updating the BiH Criminal Code and bringing it into harmony with the laws of leading EU countries was submitted to parliament but remains under review.

The BiH Ministry of Civil Affairs developed a national system for the issuance of a new national identification card, after the necessary legislation was passed in October 2001, and began issuing the first cards in December 2002. The extension of the authority of the SBS to all BiH land borders is an example of expanded central government functioning. The government has largely integrated the three parallel ethnic cabinets that existed in each of the six BiH government ministries under the previous government into unified ministries. Progress in passing state-building legislation and in meeting other criteria led to BiH's accession to the Council of Europe in September and to completion of the EU "roadmap" in October.

The development of central government institutions remains constrained by lack of funds. The central government relies upon transfers from the entities for the vast majority of its budget since its only independent sources of revenue are fees from issuance of the new joint passport, overflight fees, and international donations. An International Advisory Group on Taxation is continuing to develop a proposal for a State VAT (which would also have the benefit of unifying tax rates throughout the country), but such a system must first win political approval and could take as long as 2 years to establish. At year's end, no "roadmap" on how to accomplish this has been established and it remains unclear how a state-level VAT would be implemented. In August, the BiH parliament passed a Law on Customs Tariffs that harmonizes tariffs between the entities (RS and Federation) thus paving the way for BiH to apply for World Trade Organization membership.

In April, the High Representative imposed changes to the constitutions of the two entities of BiH to bring their laws in line with a decision by the BiH Constitutional Court mandating equal rights in both entities for the country's three main ethnic groups: Bosniaks; Croats; and Serbs. The amendments imposed resulted from a political agreement among the leading political parties in BiH on the implementation of the court's decision in the "Constituent Peoples" case, but which could not be passed through the normal legislative process. The amendments create a legislative body to protect vital national interests in the RS to correspond to the Federation's House of Peoples, institute formulas for division of senior government positions among the three groups, and establish parameters for proportionate ethnic representation in all public authorities, including courts.

During the present reporting period, the High Representative imposed a Law on Communications of Bosnia and Herzegovina establishing a state-level CRA. The High Representative also imposed a Civil Service Law with the aim of de-politicizing the BiH civil service and re-organizing it to meet general European standards. The law removes political affiliation as a basis for hiring or firing in the vast majority of civil service positions in all state level institutions and agencies. The High Representative also, in December, imposed a Law on the Council of Ministers (COM) intended to render the parliamentary process more efficient by strengthening the role of the Chair of the COM to something akin to a Prime Minister. The Chair will now occupy a full (4 year) mandate rather than

rotate on an 8-month basis. The COM law also replaced the Council's consensus-based decision-making process with a simple majority vote on draft legislation. In addition, the law established a new Ministry of Justice and Ministry of Security. The COM law also strengthened the authority of individual ministers in each of BiH's eight ministries to make decisions concerning their ministries without, as previously, obtaining the consent of two (ethnically different) deputy ministers. The exact functions of the new ministries remain to be determined through legislation.

Economic Development.

Aim: Free-market Reform.

BiH continues to make slow but steady progress toward free-market reform. However, additional reforms must be implemented if the BiH economy is to grow fast enough to replace rapidly diminishing foreign aid. To make the transition from aid dependence to sustainable economic growth, BiH must stimulate private sector development and attract more investment. To do this it will have to improve the business climate, rationalize taxes and regulations, reduce crime, corruption and the gray economy, and create a single economic space that includes a state-level VAT and a unified customs administration. To deal with massive budget shortfalls resulting from decreased donor assistance, BiH's multiple layers of government will also have to reform social welfare programs like healthcare, pensions, unemployment, and veterans' benefits. Economic development will also hinge on reforms of the labor market and education. In November, the BiH COM published their comprehensive Poverty Reduction Strategy Paper, which cites many of these reforms as priorities in order to reduce poverty in BiH by 50 percent by the end of 2006.

In August, the IMF concluded a second Standby Agreement with the BiH Government to provide approximately $80 million in budget support over 15 months. Since the first tranche of nearly $25 million was provided, both entities have imposed forceful fiscal adjustments. In the RS this has been achieved through major improvements in tax collection, while the Federation has imposed strict management of budget expenditures. The second tranche of $15 million was expected to be approved when the IMF board meets in late December.

The Central Bank of Bosnia-Herzegovina is maintaining its policies of low inflation and a stable exchange rate, conditions which should serve to attract new investment.

The banking sector as a whole continues to be the star of the BiH economy. Foreign investment is greater in BiH banks than in any other sector of the economy and still growing. Depositor confidence in banks is up, and loans are on the increase. Perhaps most significantly, people in the RS are putting their money in Federation-registered foreign banks, defying nationalist allegiances. There are, of course, areas for improvement: loans to small- and medium-sized enterprises, potential drivers of the economy, lag far behind consumer loans. Agricultural lending which could help to alleviate poverty is still minimal. Banks lack reliable financial information to evaluate loans, and they are wary of lending to businesses because of the ineffectiveness of BiH courts in resolving commercial disputes. Credit reporting agencies have only recently begun to collect information on individuals' and companies' credit histories. Therefore establishing a collateral registry and instituting a specialized commercial court system are necessary reforms to improve the lending environment.

Displaced Person and Refugee (DPRE) Returns.

Aim: A self-sustaining, orderly minority return process.

This period has seen a surge in DPRE returns to their pre-war homes. An accelerating eviction process, governed by Bosnia's property laws, drove much of the return momentum. Returns have occurred throughout Bosnia, even in the most hard-line areas, with little intimidation.

The United Nations High Commission for Refugees (UNHCR) reports that in the first 9 months of 2002 there were 80,711 minority returns, 24,028 more than took place in the same period in 2001. This accelerating return rate suggests that the total in 2002 could be as many as 100,000 minority returns. This compares with 92,000 minority returns in 2001. The Office of the High Representative projects that final 2002 returns could reach 130,000, although this may be somewhat optimistic.

Out of the estimated 2.2 million people displaced by the 1992-1995 war, according to UNHCR as of September 30, 2002, some 907,968 DPREs have gone back to their homes in Bosnia. Another 750,000 have been resettled abroad. Reliable estimates put the

number of internally displaced persons in Bosnia at approximately 380,000 and another 137,000 Bosnians are refugees in neighboring FRY and Croatia. Many want to remain in their place of displacement, but others want to go home. UNHCR officials believe, given the current high rate of return, that most of those wanting to return will have done so by the end of 2003.

Until recently, returns were largely to rural towns and villages, but in the past year perhaps half of the returnees have gone back to suburban and urban settings. A major factor for this new trend is that local authorities, after considerable prodding by the international community, in most areas of the country have begun to evict illegal property occupants and reinstate lawful owners. However, no studies have yet been done to assess how many reinstated owners have actually moved back to their property; anecdotal evidence indicates that many repossessed houses go uninhabited. UNHCR is currently discussing a re-registration exercise with the BiH State Ministry of Human Rights and Refugees that would include data such as the number of people who have returned to their repossessed property and the age break-down of returnees. Results of this data collection could be available by June 2003. Property law obstruction continues to be a problem in hard-line areas such as the eastern RS and western Herzegovina. As of the end of September 2002, 62 percent of all property claims had been resolved.

Both the RS and the Federation entities are devoting significant portions of their budget to support returns; however, it remains to be seen whether they will actually follow through on these commitments. The Federation ministry has not supported returns in the same manner as in 2001 in which over 3,000 reconstruction packages were distributed to returnees. In 2002, the Federation Ministry of Labor, Social Welfare, Displaced Persons and Refugees (FMSA) has yet to report the total number of reconstruction packages they have delivered to returnees nor have they provided a transparent accounting of their expenditures. FMSA is currently being audited by the OHR and the results should be available by February 2003. The state-level refugee ministry has a small budget, as well. As international donor funding drops, local actors will need to play an increased role in maintaining return momentum. Plans to hand over Annex 7 responsibilities are currently being finalized by international organizations such as the Office of the High Representative-Reconstruction and Return Task Force (OHR-RRTF) and the Commission for Real Property Claims. The timeline for

the completion of the hand over is December 2003. The state-level refugee ministry will be the focal point for the hand over, and this state-level ministry will need to maintain an adequate budget to meet its increasing responsibilities in 2003.

Security is no longer the primary concern of most refugees, with the possible exception of those in some hard-line areas. The arrest of publicly indicted war criminals would greatly ease fears of many would-be returnees and reduce local tensions in these areas. Elsewhere, according to a United States Agency for International Development study, economic factors such as provision of adequate shelter, infrastructure, employment, education, and health care are the main impediments to sustaining returns.

The refugee program for Bosnian entry into the United States ended in April 1, 2001. The Embassy's consular section reports a modest number of Bosnian refugees returning to Bosnia from the United States.

Brcko.

Aim: Implementation of the Brcko Final Award.

Retired U.S. Ambassador Henry Clarke completed his first year as Brcko's third Supervisor in April 2002 and, in close cooperation with the Brcko District Government, continues to make significant progress in implementing the Brcko Final Award.

The Brcko District Government, fashioned out of three pre-war municipalities and reorganized under an open competitive process, continues to function much more efficiently than other municipalities in BiH. The District Government has the most comprehensive and transparent budget in BiH, with all revenues and expenditures accounted for. Brcko is the only completely self-financed municipality in Bosnia. The district assembly has adopted a 5-year capital needs budget plan.

In June 2002, the newly constructed Brcko District Court complex (U.S. funded) was dedicated and opened to the public. Located on the site of the former VRS military barracks, one building houses the Brcko District Basic Court, Appellate Court, the Judicial Commission of Brcko District, and the Agency for Legal Aid. Established to represent indigent individuals in criminal cases and specified civil cases, the Agency for Legal Aid is the first organization of its kind in BiH. The other

building in the complex houses the Court Administration, District Registry, and the Brcko District Archives.

UNMIBH head Jacques Paul Klein formally accredited the Brcko District Police Force in March 2002 following an extensive review of its selection, qualification, training, and professionalism, making it the first such accredited police force in BiH.

Redevelopment of the Arizona Market has continued since the June 2002 groundbreaking with minor fits and starts. Several squatters (mostly Croat) have tried to delay the project claiming land they "owned" was taken illegally for the project. The Brcko government has given compensation to the few who could prove legitimate ownership. The Arizona Market project foresees investments of KM 250 million (approximate 132 million U.S. dollars) over a period of 7 years and allows the contractor to manage the Market for 20 years. Afterwards, the Market, with its improved infrastructure, will be returned to the District.

The Privatization Office of the Brcko District continued operations begun in early 2002, stopping attempts by the RS to privatize businesses based in Brcko District. Its mandate is to privatize each of the 15 largest state enterprises located in the District. The first success was realized in June 2002. Since then, three more privatization tenders have been issued with the aim that these businesses will be privatized early in 2003.

Refugee returns to the District continue at a steady pace. Complementing this, property returns to rightful owners or claimants have reached 50 per week. Assuming this pace continues, property returns should be completed by the end of 2003.

The Brcko District Assembly, with no prompting by the IC, approved in early 2002 renamed streets and plazas, thereby ridding the District of names linked to past inter-ethnic conflict. Taking another step toward ethnic reconciliation, the Assembly is now addressing the contentious issue of public monuments in the District. In particular, a statue of the notorious WWII Chetnik leader Draza Mihajlovic is at the center of the debate. Bosniaks and Bosnian Croats are pushing for removal of the statue while Bosnian Serbs view Mihajlovic as a hero and a critical link to their past. That such a debate can take place without fear of destabilizing ethnic flare-up is significant. In another sign of continuing movement toward

multi-ethnic tolerance, re-construction of the former 400 year old White Mosque is nearing completion. Located in the center of town and completely destroyed by Serb and Bosnian Serb para-militaries at the beginning of the Bosnian conflict in 1992, the Mosque remained in ruins because Bosnian Serb community leaders had prevented its reconstruction claiming that such a provocation would stoke ethnic tensions existing within the District. The local Brcko Moslem community has refused to accept donations from other "Islamic" nations, not wanting to be subject to questions associated with or conditions attached to such money. Instead, they have depended on donations received from within its membership base.

Persons Indicted for War Crimes (PIFWCs).

Aim: Cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) leading to the transfer of PIFWCs to The Hague for trial.

As of December 20, 2002, a total of 78 PIFWCs had been transferred to The Hague for trial. Twenty-four indictees remain at large out of a total of 129 public indictments to date (some indictees have died or cases were withdrawn or dismissed). Acting within its mandate, SFOR has intensified its search efforts, assisted in the transfer of indictees to The Hague, and supported ICTY field investigations in BiH. At the State and Federation levels, the outgoing moderate Alliance for Change government coalition has been substantially more cooperative than its predecessors. Bosniak and Croat leaders have generally been more cooperative in apprehending and turning over PIFWCs to the ICTY than their Serbian counterparts. Many United States Government initiatives involving the RS are permitted under a blanket waiver issued in fiscal year 2002. Two RS municipalities, Foca and Pale, however, are specifically excluded from waiver benefits and sanctioned under Section 581 (the Lautenberg Amendment) of the Foreign Operations Appropriations Act for having failed to take adequate steps to apprehend PIFWCs on their territory.

During the reporting period, SFOR forces apprehended four PIFWCs, Momir Nikolic on April 1, Darko Mrdja on June 13, Miroslav Deronjic on July 7, and Radovan Stankovic on July 9. All were arrested on sealed indictments: Nikolic for alleged crimes near Srebrenica in 1995; Mrdja for alleged crimes near Prijedor in 1992; Deronjic for alleged crimes near Bratunac; Stankovic for alleged crimes near Foca. During the Stankovic apprehension, his brother (a police officer with the RS Ministry

of Interior) assisted the negotiations that led to delivering Stankovic to SFOR authorities without violent incident.

Also during the year, Momcilo Gruban surrendered to authorities in Serbia on May 2 on charges connected to his alleged actions at the Omarska prison. Dusan Knezevic surrendered to authorities of the RS on May 24 on charges connected to his alleged actions at the Omarska and Keraterm prisons. Knezevic is the first PIFWC to surrender to RS authorities. Beyond the assistance in the Stankovic detention (which should be considered more of a personal rather than official intervention) and the Knezevic surrender, RS law enforcement authorities have not been helpful regarding PIFWC apprehensions, and the RS has still not arrested any ICTY indictees. In fact, the RS Government has sought to diminish the importance of war crimes committed by Bosnian Serb forces. On September 3, the RS Bureau for Cooperation with the ICTY issued a report on the Srebrenica massacre of 1995 that sought to spread the blame for the event to the victims and to downplay the scale of the massacre. The United States, along with other members of the IC, roundly condemned the report.

The United States continues to consider the apprehension, detention, and trial of Bosnian Serb PIFWCs Radovan Karadzic and Ratko Mladic to be of the highest priority, not only in the interest of justice, but also to facilitate Dayton implementation in BiH. Their refusal to surrender and ability to avoid apprehension sustains Serb extremism, inhibits the establishment of trust among ethnic communities, undermines the credibility of the IC, and retards the rule of law.

Part II

Pursuant to Section 1203(a) of the Fiscal Year 1999 National Defense Authorization, this section of the report covers events that occurred while U.S. ground combat forces continued to participate in the NATO-led SFOR from January through December 2002. This section supplements Part I of the report, and the two are submitted together. When possible and where requirements overlap, this section will refer back to elements in Part I in order to avoid duplication. The numbered responses that follow correspond to specific numbered reporting requirements contained in section 1203(b).

Expected duration of U.S. forces in Bosnia.

Significant reductions in U.S. and NATO-led forces have proceeded apace with improvements in the overall security environment. By the end of 2002, NATO-led forces in Bosnia numbered approximately 12,000. Utilizing enhanced operational flexibility, SFOR has continued to fulfill successfully its key military and supporting tasks.

NATO has a solid record of success in Bosnia, maintaining a safe and secure environment for Bosnian authorities and IC representatives to carry out their responsibilities and activities under the Dayton Peace Accords.

Since December 2001, the NAC has been implementing a "Joint Operations Area Review" force transition concept that can preclude a resumption of hostilities and still contribute, within means and capabilities, to a secure environment through a lower presence in Bosnia. This includes periodic theater-wide assessments of the scope for rationalizing peacekeeping operations in the Balkans, with a more regional approach to certain aspects including refugee returns, border security and combating organized crime, extremism and terrorism. A key objective is to enhance efficiency and allow for significant resource savings.

Ongoing NATO and U.S. reevaluations of required force structure in BiH have led to significant reduction of the U.S. footprint from a high of approximately 20,000 personnel in 1996 to the current level of approximately 1,800 or about 15 percent of the total deployed forces. This has made it possible to release U.S. military assets and resources now engaged in Bosnia to be used for other priority missions, including the war on terrorism. (See Part I, Benchmark 1).

Percentage of benchmarks completed.

No benchmark has been fully accomplished to date, although in some security areas we are approaching completion. The latest Operation Plan revision has reduced the number of key military and supporting tasks for SFOR. Substantial progress has been recorded in other areas, particularly Brcko, but completing the benchmarks will require time and continued commitment, as described fully in Part I of this report.

Status of the NATO "force of gendarmes."

The Multinational Specialized Unit (MSU) continues to be an essential component of SFOR, which provides unique capabilities in information gathering and crowd control. The MSU carries out liaison with the international and local police. It deters disruptive civil behavior by demonstrating that SFOR can deal effectively with outbreaks and by maintaining a police-like professional presence throughout BiH that is less confrontational than a military response. These qualities, combined with the MSU's continuous patrolling and cooperation with local police and community leaders, help to foster an atmosphere of security and rule of law. The MSU has nearly completed the task of training special indigenous police units in many of the same skills as international MSUs. These kinds of forces will take on a greater role as NATO continues to draw down.

The United States and NATO attach particular importance to accelerating the development of civil institutions and local police in Bosnia so they can fully and appropriately carry out their rightful responsibilities for public security and the rule of law. We are working collectively to improve the capabilities and confidence of the police in Bosnia to deal with civil disorder, including through training by the MSU. With the expiration of the IPTF mandate in December 2002, the Peace Implementation Steering Board accepted the EU's offer to lead a follow-on police mission the EUPM. The EUPM will concentrate on management and administration of indigenous police units and managers. It will place less emphasis on patrolling and training.

Military and non-military missions directed by the President for U.S. forces in BiH.

The United States Government supported the June 2002 decision of the NAC to task the Commander, Stabilization Force, through the Supreme Allied Commander Europe, with the continued SFOR mission according to the revised tasks outlined below:

Key military tasks:

- Maintain an adequate military presence to ensure deterrence and continued compliance with military aspects of the GFAP;
- Contribute, within means and capabilities, and in close coordination with the OHR and OSCE, to the Armed Forces

of Bosnia and Herzegovina restructuring, education and training process, and to the development of state-level defense institutions;

- Contribute, within means and capabilities, to a secure environment in which the international civil organizations and the parties to the GFAP can carry out their responsibilities under the agreement;
- Ensure force protection and freedom of movement;
- Be prepared to coordinate the turnover of responsibility for airspace management and control to BiH; and
- Pursue, within current mandate and within means and capabilities, actions against persons suspected to be terrorists.

Key supporting tasks, within the means and capabilities:

- Provide on a case-by-case basis support to the High Representative in his implementation of civil aspects of the GFAP, as well as to the other key civil implementation organizations;
- Support, in coordination with the OHR, the UNHCR, and other IOs, return of DPREs to high-risk areas by contributing to a safe and secure environment;
- Support the ICTY and efforts against PIFWCs;
- Support the OHR, the IPTF and its follow-on force in assisting the local police;
- Provide, on a case by case basis, support to the OSCE, if requested, in implementing Annex 1B of the GFAP; and
- Provide technical advice on de-mining to the Host Nation.

SFOR has been very successful thus far in accomplishing its primary missions of deterring renewed aggression and providing a safe and secure environment. While SFOR's continued attention is required to maintain this favorable situation, the force should now be able to shift its main focus to three narrower missions: combating terrorism; reforming and restructuring Bosnia's armed forces; and apprehending indicted war criminals.

With regard to specific issues raised under reporting requirement 4:

(A) Persons Indicted for War Crimes (PIFWCs): Primary responsibility for the apprehension and transportation of PIFWCs lies with the Bosnian parties to the GFAP. During 2002, SFOR detained four indictees with little or no support from the parties for a total of 22 since

1996. Some 24 PIFWCs are still at large, including two high profile indictees, Mladic and Karadzic. Additionally, SFOR continues to support, as necessary and within means and capabilities, the ICTY in the exhumation of suspected war crime sites. (See Part I, Benchmark 10).

(B) Support to civilian police functions: As long as organized opposition to full implementation of the GFAP continues, OHR, UNMIBH, and other international organizations involved in civil implementation will expect SFOR to contribute to a secure environment and to provide back-up in the case of civil unrest provoked by Dayton opponents. Indigenous police forces are further hindered by lagging pay, overstaffing, and poorly equipped personnel and investigative units. There is widespread corruption, political influence from hard-liners, and lack of inter-ethnic credibility. On a positive note, the Police Academies are meeting ethnic quotas, and vetting of potential officers has improved. While the nascent SBS has shown some promise, it faces severe resource constraints. (See also Part I, Benchmarks 2, 3, 4).

(C) Resettlement and return of refugees: During this reporting period, SFOR continued close cooperation with the OHR and the UNHCR to encourage refugee returns. As of September 2002, returns of ethnic minorities to majority population areas surpassed last year's level, according to UNHCR figures. UNHCR reports that 80,711 minority refugees and displaced persons returned by September 2002, a 29 percent increase over the same period in 2001. In its support role, SFOR focused on advanced planning, enhanced information exchange to identify hot spots, and maintaining a secure environment to minimize any efforts to intimidate returnees. (See Part I, Benchmark 8).

(D) Support to local and international authorities:

Elections. A general election took place in October 2002, the first since a new election law was enacted in August 2001 and the first organized and run entirely by BiH authorities. SFOR provided wide-area security, although this requirement was significantly

reduced due to the improved security environment. (See Part I, Benchmark 6).

Crime and Corruption. Crime and corruption remain perhaps the most significant threats to the secure environment in BiH, impeding progress in civil implementation of the GFAP. There is still significant illegitimate political and criminal influence on police, prosecutors, and judges, and links between organized crime and the local officials remain strong. Much needs to be done to reinforce the equitable rule of law in BiH. Reform of the criminal justice system remains a major priority for the IC. SFOR has an important role in supporting, within means and capabilities, the new EUPM that replaces the IPTF at the end of 2002. The EUPM will continue to advise and monitor local police, particularly senior leaders, to enhance their capabilities and professionalism. SFOR also continued to support UNMIBH and OHR efforts to develop a SBS, which began operations in June 2000 and continues to expand its responsibilities. (See Part I, Benchmarks 2, 3, 4).

Brcko. Since the final Brcko Arbitration Award in March 1999, the Brcko District has been completely demilitarized with the full cooperation of the Entity Armed Forces (EAFs). (See Part I, Benchmark 9).

Airspace Control. Progress in the work of the OHR with BiH airspace management authorities should permit, at some future time, final transfer of this responsibility to BiH itself. In January 2000, SFOR returned control of the BiH upper airspace (which NATO had controlled since initial implementation of IFOR as provided for in the GFAP) to Bosnian authority. Transfer of "medium-term airspace" occurred at the end of 2001. During the reporting period, SFOR continued to work with local authorities to develop a state-level approach to other civil aviation issues, including management of the airport in Sarajevo. At the end of 2002, SFOR transferred full responsibility for the operation of the Sarajevo airport to BiH civilian authorities.

Assessment of threats to the United States forces.

The security situation in BiH remains stable. The EAFs generally comply with the GFAP and cooperate with SFOR, so maintenance of public order is normally not a problem. Despite an increase in refugee returns, and actions against PIFWCs and terrorists with alleged links to al-Qaida, the situation remains generally calm. Initiatives are underway to reduce the EAFs to a size and budget commensurate with Bosnia's population and financial capabilities. Cooperation between the EAFs on civil projects and demining continues to improve.

BiH authorities, civil and military, have yet to develop fully the legitimate, responsible, and accountable state institutions necessary to achieve the ultimate goal of a self-sustaining peace. However, the latest estimates by Supreme Headquarters Allied Powers Europe and SFOR view the likelihood of an internal military threat as remote. There has also been significant improvement in the external security situation of BiH, due to democratic political change in the FRY and Croatia. The impact of these democratic changes is not yet clear, and their effect on Bosnia remains to be seen.

Bosnia remains the Balkan country most vulnerable to terrorist penetration. Uniquely positioned and resourced, SFOR, in cooperation with Bosnian authorities, serves as the catalyst to continue to disrupt and counter conditions that support terrorism within Bosnia. The United States Government was successful in revising the SFOR Operations Plan to reflect counterterrorism as a key supporting task.

6. Assessment of costs: Since fiscal year (FY) 1996, the projected cost to the Department of Defense of the military missions that the President has directed in BiH has been about $12.15 billion. Costs are summarized below (in millions):

OPERATION	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998	FY 1997	FY 1996
	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Joint Forge /Guard/SFOR /IFOR	1019.4	1292.8	1381.8	1431.2	1792.8	2087.5	2241.0
Deliberate Forge/Deny Flight	Incl. in SFOR	Incl. in SFOR	101.3	141.4	159.4	183.3	225.9
Task Force				14.0	10.5	11.7	30.9

Saber/Able Sentry							
UNCRO/Provide Promise							22.2
Total	**1019.4**	**1292.8**	**1483.1**	**1586.6**	**1962.7**	**2282.5**	**2520.0**

Operation Joint Forge (follow-on to Implementation Force (IFOR), SFOR, Deliberate Force, Joint Endeavor, and Joint Guard) is the NATO operation to deter the resumption of hostilities and to contribute to a secure environment that promotes the reestablishment of civil authority in BiH. Operations financed include continued support of a U.S. Division headquarters by a U.S. Brigade Combat Team Task Force with a force capacity of approximately 1800 in Bosnia, support of approximately 70 enabling soldiers in adjacent countries, four base camps, and two troop rotations per year.

IFOR Preparation and IFOR included the costs of preparing U.S. troops for deployment to IFOR, which was the peace implementation force in the Former Republic of Yugoslavia.

Operation Deliberate Forge (follow-on to Deny Flight, Decisive Edge, and Deliberate Guard) involves air operations for maintaining the no-fly zone over BiH.

Operation Sharp Guard enforced the U.N.-sanctioned embargo against the FRY (excluding the enforcement of the arms embargo against Bosnia) conducted in conjunction with Western European Union forces.

Task Force Able Sentry was the United States participation in the United Nations Preventive Deployment along the Serbian/Macedonian border.

United Nations Croatia was support provided to the Zagreb hospital in support of the United Nations in Croatia.

Operation Provide Promise was the military operation that airlifted and airdropped humanitarian supplies into Bosnia.

Status of future operation plans.

As this report indicates, there has been a continued, gradual improvement in all aspects of civil implementation and in the security situation in Bosnia during the reporting period.

The EAFs have been cooperative. Increasing flows of returning refugees and internally displaced persons continue. To the extent that Bosnia moves toward normalcy and as its leaders and citizens take on greater responsibility for implementing all aspects of the agreement, the requirement for an overwhelming NATO presence is diminishing. The threat of a resumption of hostilities by the EAFs remains low. In accordance with OPLAN 10407, revised in June 2002, NATO will continue to evaluate its presence and the forces required based on these elements.

O