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Serbia and Montenegro Union: Prospects and Policy Implications

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Summary

Among the many policy challenges currently or imminently facing Serbia and Montenegro, such as the issue of cooperation on war crimes and the future status of Kosovo, remains the question of the future of the state itself, the Serbia and Montenegro Union. Replacing the “Federal Republic of Yugoslavia” in February 2003, the union kept Serbia and Montenegro together in a highly decentralized but joint state under a deal brokered by the European Union (EU). Continued stark differences between the two republics and their respective governments have held up consolidation of the union and have contributed to a stalemate in relations with the EU. The long-term future of the Serbia and Montenegro union remains in doubt and could complicate international efforts to address unresolved problems in the region. This report may be updated as events warrant. For additional information, see CRS Report RL30371, *Serbia and Montenegro: Current Situation and U.S. Policy*.

Introduction

On February 4, 2003, a new common state of Serbia and Montenegro came into being, replacing the bi-republic Federal Republic of Yugoslavia (FRY). The event quietly marked the culmination of intensive European Union-led efforts to negotiate the continuation of a common state, as well as the start of a process to implement and develop the blueprint for the new, highly decentralized state. The agreement to keep Serbia and Montenegro a single international entity was initially viewed as a foreign policy success for Javier Solana, the EU’s common foreign policy representative. The EU brokered the union (dubbed by some as “Solania”) in support of its goal eventually to integrate all of the states of the western Balkans into the EU and to prevent further instability in the region that might arise from the creation of new states and new borders.

Two years later, it has become apparent that the complicated union arrangement has not resolved significant political and structural differences between the two republics. Moreover, one of the primary incentives for concluding the union agreement, the prospect

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of integration with the EU, has also been held up in part because of problems with the union. Brussels has attempted to devise special arrangements for Serbia and Montenegro to overcome these challenges, but intra-union disputes appear far from resolved. Meanwhile, the EU, the United States, and the rest of the international community are preparing to begin, by mid-2005, to address the question of Kosovo's future status. While the Kosovo issue more directly involves Serbia than Montenegro, the status of Kosovo and the status of the union will likely bear some mutual impact.

Shape of the Union

The Belgrade Agreement and Constitutional Charter envisaged Serbia and Montenegro to be a loose confederation of two member states with joint state powers remaining limited and split roughly equally between the two republics. Federal institutions are comprised of a president, parliament, council of ministers, and constitutional court. The agreement called for the 126 seats in the union parliament to be first nominated by the republic parliaments, and then openly contested in direct elections by early 2005. The union council of ministers includes five departments: foreign affairs,¹ defense, international economic relations (including relations with the EU), internal economic relations, and protection of minority and human rights. Federal court institutions, which have only slowly become established, are supposed to oversee harmonization of the republics' judicial practices. The army is controlled by a supreme defense council comprised of the federal president and presidents of the two member republics.

Leadership and Key Dates

President of Serbia and Montenegro: Svetozar Marovic
 President of Serbia: Boris Tadic
 Prime Minister of Serbia: Vojislav Kostunica
 President of Montenegro: Filip Vujanovic
 Prime Minister of Montenegro: Milo Djukanovic

March 14, 2002 — "Belgrade Agreement" (Agreement on Principles of Relations between Serbia and Montenegro within the State Union) signed, witnessed by EU High Representative Javier Solana

April 9, 2002 — Both republic parliaments passed the Belgrade Agreement

June 18, 2002 — Inaugural meeting of the Constitutional Commission created by Agreement

July 2002 — Agreement on an Economic Action Plan to harmonize economic policies between two republics

December 6, 2002 — Constitutional Commission adopted Constitutional Charter

February 4, 2003 — Constitutional Charter came into effect

March 3, 2003 — New parliament of Serbia and Montenegro convened, elected Svetozar Marovic (of Montenegro) President of Serbia and Montenegro on March 7

March 12, 2003 — Serbian Prime Minister Zoran Djindjic assassinated

December 28, 2003 — Serbia held early parliamentary elections; the extreme right Serbian Radical Party won the largest share of the vote

March 3, 2004 — A minority coalition government in Serbia under Prime Minister Vojislav Kostunica came to office

June 13, 27, 2004 — Serbia held direct presidential elections; Boris Tadic won in the second round

Early 2005 — Elections to the union parliament of Serbia and Montenegro due

February 2006 — Expiry of 3 year waiting period for a referendum on independence

¹ Montenegro retains its own minister for foreign affairs.

The founding documents call for the creation of a common market and the free movement of persons, goods, services, and capital but give the federal government only a coordinating and harmonizing role in these matters with the member states. Most economic and monetary powers remain with the republics. Serbia and Montenegro retain separate currencies, central banks, and monetary and fiscal policies, for example.² The Belgrade Agreement and Constitutional Charter provide for the withdrawal of either state (or both) from the union following the expiration of a three-year period and a referendum.

Factors for Cohesion

Since playing a key international role in brokering the Belgrade Agreement, the European Union has remained the primary external force promoting continuation of a joint Serbia and Montenegro state. As both republics share the goal of attaining membership in the European Union, EU officials have attempted to leverage this influence by repeatedly insisting that Serbia and Montenegro's only path toward closer integration with the EU lies together rather than apart. The Solana-brokered Belgrade agreement constitutes a pillar of the EU's integration strategy for the western Balkan region. At the June 2003 Thessaloniki summit, EU and western Balkan leaders agreed on a common agenda to move the region toward European integration through the framework of the EU's Stabilization and Association process (SAP).³ Later that year, the EU agreed to begin a feasibility study for a Stabilization and Association Agreement (SAA) with Serbia and Montenegro, the first step in the EU accession process. At the same time, the EU has pressed Serbia and Montenegro to achieve greater harmonization of their economies, trade, and tariff policies in order to facilitate progress in integrating with the EU. However, given the lack of progress in tariff and trade harmonization, the uncertain political climate in Serbia, and Serbia's lack of full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), the EU indefinitely postponed further work on the SAA feasibility study with Serbia and Montenegro in 2003 and early 2004.⁴

In mid-2004, the EU considered new approaches to Serbia and Montenegro in order to break the stalemate. EU members adopted a "twin track" policy that would recognize Serbia and Montenegro's economic distinctions and differentiate EU approaches to them, including different trade and customs regimes. Concurrently, the new policy calls for the preservation of Serbia and Montenegro's existence as a single state entity. Officials from Serbia and Montenegro welcomed the EU initiative, if for different reasons. Despite the new approach, progress in finalizing the feasibility study and opening negotiations on an SAA has not moved forward, albeit mainly due to Belgrade's insufficient cooperation with ICTY. In January 2005, Solana postponed a planned visit to Serbia and Montenegro, citing the ICTY issue as well as limited progress on development of the union.

² Montenegro adopted the *deutschmark* in 2001 (while it was still part of the FRY), and now uses the *euro*. Serbia uses the *dinar* as its currency.

³ See EU-Western Balkans Summit Declaration, June 21, 2003, at [<http://www.eu2003.gr>].

⁴ For details on the EU's relationship with Serbia and Montenegro, see the European Commission's *Stabilization and Association Report 2004*, released in March 2004.

Another factor that may encourage the continued existence of the union is Serbia and Montenegro's dealings with other international organizations. For example, both republics seek closer ties with and/or entry into NATO and the WTO. Maintaining the union may prove the quickest route toward achieving their objectives, as opposed to establishing new links to these institutions as two independent states.

Political positions and public opinion in both republics may also reinforce continuation of the union. In Serbia, most parties in the government and in opposition support the union, which some see in any case as a prerequisite to EU integration. An exception is Serbia's small G-17 Plus party, which has advocated "Serbian independence," or separation from Montenegro (as well as Kosovo), as a quicker route to EU integration. While the leadership in Montenegro remains firmly committed to the goal of independence, the opposition parties support union with Serbia. Public opinion poll data in Montenegro varies but shows divided sentiments on the issue, with slightly more favoring independence over the union. Should a referendum eventually be held, it is estimated that a large share of the republic's population would likely oppose independence.⁵

Factors for Dissolution

Most observers agree that the Belgrade Agreement successfully diffused an emerging crisis between Serbia and Montenegro in 2002, even while it did not resolve all of the challenges in the inter-republic relationship. In the intervening period, different policy priorities and concerns have caused development of the union to languish. Serbia has been largely preoccupied with internal political developments, including the Djindjic assassination in 2003, and subsequent parliamentary and presidential elections. In Montenegro, Prime Minister Djukanovic has remained largely unchallenged politically (despite mounting charges of government involvement in, or deficient responses to, organized crime and trafficking), but a parliamentary boycott by opposition parties has blocked normal legislative functions. In addition, while economic revitalization and reforms are the dominant concerns for both Serbia and Montenegro, their respective governments have sought different approaches and strategies to their problems that reflect substantial differences of economic structure and scale between the two republics. This in turn has presented recurring hurdles in the process of trying to harmonize the republics' economic policies beyond the lack of political will. Some observers believe that the structural differences between the two republics are simply too great to allow the union to function as a single state.

The Montenegrin government remains the driving political force promoting dissolution of the union. Prime Minister Djukanovic and his Democratic Party of Socialists have long been identified with the ultimate goal of independence. Djukanovic's smaller coalition parties have been even more insistent on this objective. While a relatively dormant issue in 2003, Montenegro's leaders have renewed their commitment to dissolve the union and to hold a referendum on independence. They have proposed direct talks with Belgrade on negotiating a separation and insist on holding a referendum

⁵ Recent census data in Montenegro showed a sharp decline in the number of citizens who registered as "Montenegrin" and an increase in those who registered as "Serb" from the 1991 census.

prior to direct elections to the union parliament, called for by early 2005. The exact timing of such a referendum remains unclear but may come in late 2005 or 2006. The Montenegrin government has predicted that its supporters would not participate in any election for a union institution and has argued that state status issues should be resolved first. In contrast, Belgrade and the EU have insisted on holding parliamentary elections first, as called for in the Constitutional Charter. Another factor driving Podgorica toward independence may be Belgrade's increasing isolation from the international community over issues that Montenegro has little ability to influence. Notably, Montenegro favors full cooperation with ICTY but cannot alter policies of the Serbian government in this area. Montenegro's leaders therefore see independence as a means toward quicker European integration.

Outlook Indicators

International opinion appears divided on the staying power of the joint state of Serbia and Montenegro. Some upcoming developments may suggest future trends:

- *Position of the EU.* The EU has repeatedly reiterated its preference for a continuation of the *status quo* on state unity and border issues. However, efforts to harmonize Serbia's and Montenegro's economic policies and political positions have proven to be a continual struggle and a barrier to the conclusion of a Stabilization and Association Agreement. Reflecting the belief of the need for a more flexible approach to Serbia and Montenegro, the EU adopted the "twin track" approach in order to allow for differentiated treatment toward the two disparate economies. However, progress on the SAA has remained stalled due to the ICTY problem as well as union issues. The EU is expected to consider next steps on Serbia and Montenegro's association agreement in March 2005.
- *Montenegro's preparations for a referendum.* Montenegro's leadership continues to insist that the republic exercise its democratic right to hold a referendum on the future of the union and is apparently confident that the results will endorse independence. Moreover, they insist that a referendum be held before elections to the union parliament take place. The preparations for such a vote and its execution will provide further indications of the future of the union.
- *Public views.* The Serbian and Montenegrin populations were not actively engaged in the lengthy deliberations in 2003-2003 over the shape of the union. Should direct union parliamentary elections eventually be held, both publics will have the opportunity to register their views on the union. The Montenegrin public will also likely soon face a referendum on independence, if the current government carries out its pledge.
- *Serbia's political landscape.* Serbia's political situation has stabilized somewhat since the 2003-2004 parliamentary and presidential elections. However, the political landscape remains fluid and the prospect of early elections still looms. Factors in Serbia that could shape the union include the current government's work on a new Serbian constitution and the possible emergence of a new government, should the current one fall.

- *Kosovo's status.* 2005 is a key year for international engagement on Kosovo. Since 1999, the province of Kosovo has come under U.N. administration under an international mandate regulated by U.N. Security Council Resolution 1244. Current international policy calls for a review of Kosovo by mid-2005, possibly leading to consideration of Kosovo's status. While no formal linkage exists between the issue of Kosovo's status and the inter-republic relationship between Serbia and Montenegro,⁶ many observers believe each situation will impact the other and open a broader discussion of borders, sovereignty issues, and state relationships. At the least, it appears that the EU would prefer to hold off on major changes to the Serbia and Montenegro union arrangement until 2006, after the Kosovo review process begins in 2005.⁷

U.S. Policy

The United States strongly supports the long-term goal of countries of the western Balkans to join Europe and recognizes Europe's leading role in the stabilization of the region, in close cooperation with the United States. The United States supported the Solana-led negotiations leading up the Belgrade Agreement and welcomed the adoption of the Constitutional Charter. U.S. Administrations and some Members of Congress maintained longstanding close relations with the primary architects of the union agreement, Serbian Prime Minister Djindjic and Montenegrin President Djukanovic, ties stemming from the staunch anti-Milosevic positions of these leaders during the 1990s. Especially with regard to Montenegro, Congress took care to exempt that republic from economic sanctions during the Milosevic years, as well as earmark to it high levels of bilateral foreign assistance. Montenegro remains exempt from conditions on U.S. aid to Serbia that pertain to Serbia's cooperation with the international war crimes tribunal. For example, Montenegro was spared from the U.S. suspension of FY2005 assistance to Serbia announced in January 2005.⁸

The U.S. policy agenda with Serbia and Montenegro has been dominated by the issue of ICTY cooperation and Kosovo. Nevertheless, the joint or separate future of Serbia and Montenegro is of importance to U.S. policymakers because of its potential impact on a range of bilateral and multilateral policy issues. These include U.S. support for the stabilization of the western Balkans region and its integration into western institutions, including NATO; the normalization and expansion of U.S. bilateral political, economic, and security relations with Serbia and Montenegro; Serbia and Montenegro's relations with the International Criminal Tribunal for the former Yugoslavia; and the future of Kosovo. Should they eventually separate, Serbia and Montenegro may develop divergent positions on these and other issues affecting U.S. policy.

⁶ The Belgrade Agreement and Constitutional Charter state that, should Montenegro withdraw from the union, U.N. Resolution 1244 shall apply to Serbia as successor the FRY.

⁷ Eric Jansson, "Enthusiasm for union at low ebb," *Financial Times*, December 14, 2004.

⁸ For more information see CRS Report RS21686, *Conditions on U.S. aid to Serbia*, by Steve Woehrel.