

EUROPEAN PARLIAMENT



Directorate-General External Policies

Policy Department

POLITICAL AND ECONOMIC SITUATION OF SRI LANKA and ITS RELATIONS WITH THE EU

NOTE

Abstract:

This note outlines the current political and economic situation of Sri Lanka and its relations with the European Union. It is divided into four sections. The first section reviews the political situation with special attention for the civil war and its effects on national politics.

The second section briefly outlines the economic situation, while the third section reviews the humanitarian situation with a focus on the immediate effects of the tsunami of 26 December 2004. In the last section the relations with the EU are analysed.

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1 POLITICAL SITUATION

1.1 General Data¹

<i>Country Name:</i>	Democratic Socialist Republic of Sri Lanka
<i>Location:</i>	Southern Asia, island in the Indian Ocean, south of India
<i>Capital:</i>	Colombo
<i>Population:</i>	20 million
	<i>note:</i> since the outbreak of hostilities between the government and armed Tamil separatists in the mid-1980s, several hundred thousand Tamil civilians have fled the island; as of year-end 2000, approximately 65,000 were housed in 131 refugee camps in south India, another 40,000 lived outside the Indian camps, and more than 200,000 Tamils have sought refuge in the West (July 2004 est.)
	The tidal waves of 26 December 2004 caused 30.000 Sri Lankan deaths, 800.000 people have been made homeless.
<i>Ethnic groups:</i>	Sinhalese 74%, Tamil 18%, Moor 7%, Burgher, Malay, and Vedda 1%
<i>Religions:</i>	Buddhist 70%, Hindu 15%, Christian 8%, Muslim 7% (1999)
<i>chief of state:</i>	President Chandrika Bandaranaike KUMARATUNGA (since 12 November 1994); <i>note</i> - Mahinda RAJAPAKSE (since 6 April 2004) is the Prime Minister; the President is considered both the head of state and head of government

Sri Lanka, then known as Ceylon, was ruled by the Portuguese in the 16th century and by the Dutch in the 17th century. British rule was established at the end of the 18th century. Pressure for independence built up in the first half of the 20th century and the country became independent as Sri Lanka on 4 February 1948.

Centuries of local and European colonisation have left the island with a mixed ethnic and religious population. Tensions between the Sinhalese majority and Tamil separatists erupted in violence in the mid-1980s. Tens of thousands have died in an ethnic war that continues to fester. After two decades of fighting, the government and Liberation Tigers of Tamil Eelam (LTTE) began a ceasefire in December 2001, with Norway brokering peace negotiations.

Sri Lanka's main industry is textiles and clothing but it also exports tea, rubber and coconut. Sri Lanka is a member of regional organisation South Asian Association for Regional Cooperation (SAARC).²

1.2 Important political events

1.2.1 THE CIVIL CONFLICT

For the past 20 years Sri Lanka has been caught up in a civil war in which over 60,000 people have lost their lives. The conflict has been between the Sinhalese-dominated government and factions of the Tamil minority in the North and East who are seeking an independent Tamil state (Eelam). In

¹ CIA The World Factbook: Sri Lanka

² EU External Relations, site European Commission

1958 the first inter-communal riots occurred. Relations between the two groups deteriorated during the 1960s and 1970s: the Tamils sought a federal system of government and became alienated when successive governments rejected this demand.

The failure of Tamil political parties to attain their aims by peaceful means led to demands for an independent Tamil state and to the formation of terrorist groups dedicated to achieving this goal. By 1987 the Tamil Tigers, led by Velupillai Prabhakaran, emerged as the leading Tamil militant group, effectively controlling the northern peninsula and the city of Jaffna.

During the 1980's and 1990's several attempts to come to a peace agreement failed: in 1987 India, which also has a Tamil population, sent the Indian Peace Keeping Force (IPKF), to oversee a peace agreement. The LTTE, however, rejected the agreement and in 1989 the IPKF withdrew without any agreement being reached. In 1989 the newly elected President Ranasinghe Premadasa started direct negotiations with the Tigers. In 1993, however, he was killed by a Tamil Tiger suicide bomber. This assassination, together with that of Rajiv Gandhi, the former Prime Minister of India, in May 1991 marked a turning point in the political fortunes of the United National Party (UNP), the main component of the UNF coalition, and in the profile and tactics of the LTTE. After the assassinations of Mr Gandhi and Mr Premadasa, the LTTE lost much international sympathy.

During the second half of the 1990's, the LTTE launched some devastating attacks on the capital. After surviving an assassination attempt, President Chandrika Kumaratunga was re-elected for a second term in the December 1999 presidential election.¹

In 2000 a team of Norwegian diplomats began working with the parties to facilitate the peace process. Following the parliamentary elections in December 2001 the two sides negotiated a ceasefire, which came into force on 23 February 2002. The EU welcomed this. Different rounds of peace talks have now taken place with Norway's special envoy and designated peace broker, Erik Solheim. The LTTE suspended peace talks in April 2003, after their exclusion from a donor seminar in Washington. However, it stated later that it remains committed to a political solution.

The ceasefire has been respected, although the Norwegian diplomats did not succeed in bringing both parties to sign a peace agreement. Tamil negotiators agreed to give up their demand for independence and said they would settle for regional autonomy. This was an important concession but as both sides had the idea that they were at a disadvantage, no agreement has been reached.²

Mrs Kumaratunga, concerned about being forced to continue to rule alongside the opposition-nominated Prime Minister, Ranil Wickramasinghe, dismissed parliament and called a mid-term election for April 2004. The United People's Freedom Alliance (UPFA) coalition, supported by Mrs Kumaratunga, won 105 of the 225 seats in parliament, but fell short of a majority.³

1.2.2 RECENT DEVELOPMENTS

In March 2004 renegade Tamil Tiger commander Karuna lead a split in the rebel movement. He set up a separate regime in the east. After a brief period of inter-Tamil fighting, he was defeated by the LTTE and went underground.

In July there was a suicide bomb blast in Colombo, the first such incident since 2001.⁴

¹ EU External Relations, site European Commission

² BBC, Q&A: Sri Lanka crisis, 28 October 2004

³ EIU Country Profile 2004: Sri Lanka

⁴ BBC, Timeline: Sri Lanka A chronology of key events

Norway, as peace-broker, has continued its efforts to bring the two sides back to the negotiating table, and on November 11th the Norwegian foreign minister, Jan Petersen, met the leader of the Tigers, Velupillai Prabhakaran. Mr Petersen returned to Colombo with a proposal (details of which have not yet been disclosed) to restart peace negotiations.¹

On 19 November 2004 a top Sri Lankan judge was shot dead in Colombo. Judge Sarath Ambepitiya sentenced the leader of the LTTE, Velupillai Prabhakaran, to 200 years in jail in absentia over a 1996 bomb attack. In addition to Prabhakaran, he sentenced numerous other criminals, so it is unsure whether the LTTE was responsible for the killing. The day after the murder, President Kumaratunga announced the reintroduction of the death penalty.

On 27 November Tamil Tiger leader Prabhakaran threatened to return to war unless the government agreed to peace talks based on a rebel blueprint for self-rule. Two days later unrest broke out after a grenade attack on a bus which left one person dead. Members of both communities took to the streets after Sinhalese blamed the Tamil Tiger rebels for the attack, which also seriously injured two passengers.

Tension between the LTTE and the government have mounted after the 26 December 2004 tidal waves when the government prevented UN secretary general Kofi Annan from travelling rebel-held tsunami-hit areas of the island. (See further chapter 3.1)

1.3 Political Structure

Sri Lanka is a parliamentary democracy, with a strong executive presidency. Elected for a period of six years by universal adult suffrage, the president may dissolve parliament. Disenchantment with the strength of the presidency led the current president, Mrs. Chandrika Bandaranaike Kumaratunga, to pledge to abolish the current arrangements and restore the system of parliamentary democracy that existed before the constitutional change of 1978.

Chandrika Kumaratunga has been President of Sri Lanka since 12 November 1994. She has been elected for a second and final 6-year term in December 1999.² Mrs Kumaratunga claims she and the country's Attorney General made a mistake when she took the swearing-in oath as president for a second term shortly after she won the presidential election, a year ahead of schedule. Using a constitutional provision that allows a president to begin a second term at the end of the first, Mrs Kumaratunga now insists that she took the oath again privately in the presence of the Attorney General in November 2000, so her second six-year term should end in November 2006 and not December 2005 as the country had believed. Not surprisingly, the opposition United National Party (UNP) has vowed to fight any attempt by the president to remain in office beyond December 2005.³ These problems, internal to the presidency, complicate the peace process.

Sri Lanka has a unicameral legislature; 225 members, are directly elected for five years by a system of modified proportional representation. Under the 13th amendment to the constitution, passed in November 1987, extensive powers have been devolved to nine directly elected provincial councils,

¹ EIU, country report Sri Lanka, November 2004

² Chandrika Bandaranaike KUMARATUNGA 51%, Ranil WICKREMASINGHE 42%, other 7%, CIA The World Factbook: Sri Lanka

³ EIU Country Report Sri Lanka, November 2004

primarily with a view to meeting Tamil demands for greater autonomy.¹

The last elections were held on 2 April 2004. The party of President Kumaratunga won 105 of 225 parliamentary seats, falling short of overall majority. Mahinda Rajapakse of the People's Alliance was sworn in as Prime Minister on 6 April. The President in consultation with the Prime Minister appoints the cabinet in Sri Lanka.²

2 ECONOMIC SITUATION

Sri Lanka liberalised its economy in the late 1970s ahead of other developing countries, but lost its competitive edge in subsequent decades, owing to the patchy implementation of the reform agenda and the ethnic conflict.³

Since the late 1970 Sri Lanka has tried to diversify its plantation-based economy. Whereas plantation agricultural commodities accounted for 74% of total exports in 1977, this share had fallen to 15 % by 2000. Despite the measures taken to diversify, the economy remains largely agrarian-based with agriculture accounting for over 20% of GDP and 40 % of the workforce. Plantation crops are still important exports and Sri Lanka is the world leader in tea production (20% of world production and 80% of Sri Lankan agricultural exports).

While the importance of agricultural products in export rates decreased, the reliance on textiles and garments has peaked and accounts today for over 50% of the export. There is an urgent need for Sri Lanka to diversify its export base with a view to ensuring long term economic growth and employment generation in view of the quota system under the WTO Agreement on Textiles and Clothing coming to an end on 31 December 2004. Efforts to diversify the export base away from textiles and garments over the past years have, however, not yet been successful. Together with vegetable products and precious stones, clothing accounts for 70% of Sri Lanka's exports to the EU.⁴

Potential exists in several sectors, including information and communications technology, tourism and outsourcing, capitalising on the wide use of English. However, political stability and the institution of a lasting ceasefire in the two-decade-old civil war remain pivotal for any of that potential to be realised.⁵

The reform process that was started in the late 1970s seriously suffered from the periods of intensified violence. It has, on different occasions, been re-launched. The government's commitment to reform and the progress achieved in 2002 has been viewed favourably by international lending agencies. In April 2003 the IMF approved a US\$567m loan package. In 2003 US\$59m was disbursed.

However, the IMF postponed its second tranche, worth US\$80m due to be disbursed in February 2004. Although satisfied by the progress made by the government on the fiscal front, the IMF remained uncertain about the government's ability to push through some tough reforms, including amendments to labour legislation. The World Bank is finalising an US\$800m package to support deeper economic reforms in 2003-06. In early 2004 the Bank approved a US\$51m grant to reduce rural poverty.⁶

¹ EIU Country Report Sri Lanka, November 2004

² EIU Country Report Sri Lanka, November 2004

³ EIU Country Profile 2004: Sri Lanka

⁴ EU External Relations, site European Commission

⁵ WMRC Country Report Sri Lanka, 21 November 2004, p.16

⁶ EIU Country Profile 2004: Sri Lanka

Real GDP growth averaged 4% per annum in 1999-2004, a reasonable performance given that it was achieved against the backdrop, for most of the period, of a devastating civil war. Sri Lanka has been unable to sustain growth rates of 6% or more, except in 1997 and 2000. Since 1994 the escalating civil war, heightened political and economic uncertainty and the slowdown in the pace of economic reform have kept Sri Lanka's growth rates well below potential. Other factors that have constrained growth are a huge and inefficient public¹ sector, unsustainable fiscal deficits, and slow improvements in agricultural productivity, inefficiencies in the financial sector and inadequate infrastructure facilities. External shocks have also had a significant impact on external trade.²

About 800,000 Sri Lankans work abroad, 90% of them in the Middle East. They send home about \$1 billion a year. Despite having one of Asia's better performing and most liberal economies, Sri Lanka's poverty reduction efforts have been largely ineffective with at least a quarter of the population remaining below the poverty line.

3 HUMANITARIAN SITUATION

The continued independence struggle by the LTTE seriously harms the development of the country. According to a survey conducted in 2000 by the government and donor agencies, roughly one-third of the population is classified as poor, earning less than US\$15 per month. Poverty is predominantly a rural phenomenon, owing to sluggish agricultural growth and the lack of physical infrastructure (roads, electricity, communications and irrigation), and has prevented the population from benefiting from industrialisation.³

A consequence of the two-decades of civil war is the widespread presence of mines throughout the north and east of the island. The mine problem has been assessed as 'containable' which means that clearance of all known high-priority areas is feasible by the end of 2006. The achievement of this ambitious goal depends on donor support and on the continuation of the peace process. The Sri Lanka Mined Areas Database contains some 3000 minefield records provided by the Sri Lankan army. Different humanitarian organisations, inter alia ECHO, support mine awareness projects, training for de-miners and rehabilitation for mine accident victims.⁴

On 20 November 2004 the Office of the President announced the reintroduction of the death penalty for rape, murder and narcotics dealings. The reintroduction of the death penalty came in response to the murder of a High Court judge, Honourable Sarath Ambepitiya, and a policeman who was providing security for him, both of whom were shot on 19 November 2004.⁵

The LTTE has a bad reputation for the recruitment of child soldiers. Tamil children in the North and East of Sri Lanka are vulnerable to recruitment from the age of eleven or twelve. The ceasefire signed in 2002 seems only to have worsened the situation as throughout the ceasefire the LTTE

¹ Sri Lanka has the highest number of public employees per head in Asia: 12% of the labor force are employed by the government compared with 8% in Pakistan and 4,7% in India. Expenditure on civil servants and a huge political establishment consumes around 10% of GDP. EIU Sri Lanka Country Profile 2004

² EIU, Sri Lanka country profile 2004

³ EIU, Sri Lanka country profile 2004

⁴ UN Mine Action, Sri Lanka Country Report, November 2004

⁵ "Sri Lanka: Amnesty International concerned at reactivation of death penalty" Public Statement, 23 November 2004

continued recruiting children. Since 1998 the LTTE has repeatedly promised to end its recruitment and use of children, it has however failed to meet the commitments made.¹

3.1 The 26 December tsunami

Sri Lanka was one of the countries most affected by the tsunami of 26 December 2004. More than 30,000 people have been killed and 835,000 have been made homeless mainly in the southern and eastern coastal regions. Homes, crops and fishing boats have all been destroyed. Severe weather in the days following the tsunami in Sri Lanka disrupted efforts to help people affected. Flash floods prevented aid workers reaching some parts of the island.²

Among the areas that suffered the greatest impact are the east and north - both traditional LTTE strongholds. This must have harmed the movement: not only has it lost fighters and supporters, but much of its naval force - known as the Sea Tigers - has been wiped out.³

Tension between LTTE and the government have mounted after the tidal waves when the government prevented UN secretary general Kofi Annan from travelling rebel-held tsunami hit areas of the island. The LTTE has criticised the government for not giving enough relief aid to the north and the east.⁴

The European Commissioner for Development and Humanitarian Aid, Louis Michel, has visited some of the most affected coastal areas of Sri Lanka, as well as hospitals and relief camps in Galle (South). At the "Special ASEAN Leaders' Meeting on the Aftermath of Earthquake and Tsunami" in Jakarta on 6th January, José Manuel Barroso, President of the European Commission, announced an additional package of up to € 450 million in humanitarian and reconstruction aid to help in the relief efforts following the Asian Tsunami disaster. This will bring the total support from the European Union (25 EU Member States + European Commission) around € 1,5 billion, or US\$ 2 billion.⁵

4 EU RELATIONS⁶

Sri Lanka was one of the first Asian countries to sign a formal co-operation agreement with the EC in 1975. A third generation Co-operation Agreement on Partnership and Development was signed in 1995. The Commission opened a Delegation in Colombo in October 1995.

The EU is one of Sri Lanka's major trading partners. In 2001, it accounted for 27.1 % of Sri Lanka's exports, second only to the US, which accounted for 41.9 %. The EU was also Sri Lanka's largest source of imports, accounting for 15.7 % of the total in 2001.

- From 1980 to 2001, EU imports from Sri Lanka almost quintupled and EU exports increased nine-fold.

¹ Living in Fear _ Child Soldiers and the Tamil Tigers in Sri Lanka, Human Rights Watch, 2004

² Mapping the destruction- Asia Quake disaster: Sri Lanka, BBCnews

³ Sri Lanka: the impact of Tsunami on Sri Lanka's peace process starts to become apparent, World Markets Analysis 7 Jan 2005

⁴ Tiger's fury at Annan travel ban, 9 Jan 2005, BBCnews

⁵ Indian Ocean Tsunami - the EU reponse, EU Commission President Barroso on Tsunami disaster: European aid will be around 1.5 billion euros <http://europa.eu.int/comm/world/tsunami/index.htm>

⁶ EU bilateral relations: Sri Lanka, http://www.europa.eu.int/comm/external_relations/index.htm

- Trade with Sri Lanka represents 0.2% of total EU imports and 0.1% of total EU exports

EU-Sri Lanka co-operation has traditionally focussed on poverty alleviation through rural development: irrigation, agricultural development.

The EU provides humanitarian assistance to vulnerable groups in the conflict-affected area and to Internally Displaced Persons (IDP); the European Commission Humanitarian Office (ECHO) has funded emergency aid for the civilian population affected by the conflict. This aid supports the UNHCR, NGOs and international aid agencies.

ECHO provided assistance to Sri Lanka totalling € 20.8 million between 1993 and 2002. For 2003 a further € 8.80 million was provided and for 2004 the ECHO budget contained € 6.50 million. Some € 16.6 million was allocated from the Aid to Up-rooted People budget line between 1997 and 2002, with a further € 9.0 million (included in the above mentioned € 50 million) for the peace process proposed for 2003/2004 to provide assistance for health care, education, mine awareness, water and sanitation, shelter, food security.

In total (including ECHO) the EC allocated € 20.95 million in 2002, € 29.35 million in 2003 and € 27.55 million in 2004.

EU development aid to Sri Lanka, although never large in terms of annual commitments, has nevertheless also been a significant area of co-operation. From the mid-1980s the Commission focused on the rural development sector where it has committed some € 53 million. Programmes funded have directly addressed poverty alleviation in rural areas through projects aimed at improving irrigation and water management and through a series of projects to assist small farmers. A feature of these activities has been the promotion of off-farm co-operation activities to stimulate rural employment and added value income generation possibilities.

In addition, EC Food Aid Counterpart Funds (FACF) to the value of some € 20 million in rupee equivalent await disbursement from the National Bank.

The National Indicative Programme for 2003 – 2005 proposes to use the full amount of 16.8 M€ available under the Asia budget with the following ventilation among main areas of co-operation:

- € 5.3 million for economic co-operation,
- € 7.5 million for development co-operation, and
- € 4 million for post-conflict assistance.

These sums will also cater for the intended small project facility. This facility is expected to cover both economic activities (as a follow-up to EBIC) and civil society initiatives.

In its resolution of 20 November 2004 on Sri Lanka, the European Parliament welcomed the steps taken by both parties in the civil conflict between the government and the LTTE to create the conditions in which negotiations may lead to a political solution. The EP also recognised the important contribution of the Norwegian government in facilitating the ongoing negotiations. (Annex 2)

5 SOURCES

CIA The World Factbook: Sri Lanka
Economist Intelligence Unit (EIU)
Oxford Analytica
European Commission
Amnesty International
BBCnews
UN Mine Action
Human Rights Watch
Amnesty International

6 ANNEXES

ANNEX 1



20/11/2003

P5_TA(2003)0524

European Parliament resolution on Sri Lanka

The European Parliament,

– having regard to its previous resolutions of 18 May 2000⁽¹⁾ and 14 March 2002⁽²⁾ on Sri Lanka,
– having regard to the ceasefire agreement signed between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE) which entered into force on 23 February 2002,
– having regard to the Oslo Declaration of December 2002, in which the Government of Sri Lanka and the LTTE agreed to explore a solution based on a federal structure within a united Sri Lanka,
– having regard to the support given by the EU and the wider international community to the peace process, as reflected by the Tokyo Conference on Reconstruction and Development of Sri Lanka held on 9 and 10 June 2003, which pledged USD 4.5 billion over the next four years to underpin it, and which linked assistance pledged by donor countries to substantial and parallel progress in the peace process,

A. whereas the ceasefire agreement has now held for 21 months, longer than any previous attempt, and gives great hope for bringing an end to the twenty-year-long civil war that has caused over 60 000 deaths and has impeded the development prospects of Sri Lanka,

B. whereas political stability is vital to a long-term solution with the LTTE,

C. whereas the government of Prime Minister Ranil Wickremasinghe, which was elected in 2001, made the resolution of the conflict its main priority,

D. whereas the decision made by President Kumaratunga at the beginning of November to sack three ministers and prorogue parliament while Prime Minister Wickremasinghe was outside the country represents a threat to the peace process and shows the need, more than ever, for a real bipartisan commitment and approach to securing a political settlement in Sri Lanka between the major parties,

E. whereas Norway has played a key role in brokering talks, but has suspended its participation in the peace process until the political crisis within the government is resolved,

F. whereas prior to 4 November 2003 the peace dividend had already made a significant difference to the everyday life of Sri Lanka's citizens and also to the economy as a whole, as illustrated by the fact that the Colombo stock exchange was at a nine-year high and national GDP was experiencing a 5.6% growth rate as compared to 1.5% in 2001 while, additionally, incoming tourism was increasing substantially,

G. whereas expectations remain high that an end to military conflict could improve the problematic human rights situation in Sri Lanka, which was documented again in the fourth periodic report on Sri Lanka by the UN Commission on Human Rights, as adopted this month,

1. Acknowledges the bold steps taken by the Government of Sri Lanka and the LTTE to create the conditions in which negotiations may lead to a political solution and a lasting peace, on the basis of the Oslo Declaration of December 2002, where the Government of Sri Lanka and the LTTE agreed to explore a solution based on a federal structure within a united Sri Lanka;

2. Welcomes, therefore, the publication of the proposals by the Government of Sri Lanka for a provisional administrative structure and of those by the LTTE for an interim self-governing authority;

3. Acknowledges the contribution of the Government of Norway in facilitating the ongoing negotiations between the Government of Sri Lanka and the LTTE, and deeply regrets that the

current political crisis and the lack of clarity as to who has political authority have obliged the Government of Norway to suspend its mediation role;

4. Acknowledges, furthermore, the contribution of the Sri Lanka Monitoring Mission, especially the continuation of its work despite recent setbacks;

5. Expresses its deep concern about the recent developments in Sri Lanka which threaten the internationally supported peace process, notably the decisions by President Chandrika Kumaratunga to sack the three Ministers for Defence, Interior and Information and to prorogue the Parliament of Sri Lanka;

6. Regrets, furthermore, the comments made by President Kumaratunga on the validity of the ceasefire agreement signed by Prime Minister Ranil Wickremasinghe with the LTTE;

7. Believes that it is essential that the political differences between the two main parties in the south be resolved without delay; believes, furthermore, that this can best be achieved by the full and immediate restoration of parliamentary and governmental functions;

8. Urges the President, in the national interest, to work together with the democratically elected Government and its Prime Minister; welcomes, therefore, the recent establishment of a committee of officials to work out the details of future working arrangements under which the President and the Prime Minister could work together on these important national issues;

9. Welcomes the commitments given by all sides, including the LTTE, to maintaining the ceasefire agreement and respecting the peace process; stresses the need for full respect for human rights by both the armed forces and the LTTE;

10. Calls on the Council, the Commission and the Member States to continue to monitor progress in the search for a lasting and equitable political solution based on respect for human rights and democracy and the rule of law, securing the interests of all peoples and communities on the basis of a federal structure within a united Sri Lanka;

11. Instructs its President to forward this resolution to the Council, the Commission, the Member States, the President, Prime Minister and Parliament of Sri Lanka, the LTTE, the Government of Norway and the other Co-Chairs of the Tokyo Donor Conference, and the UN Commission on Human Rights.

[\(1\)](#) ¹ OJ C 59, 23.2.2001, p. 278.

[\(2\)](#) ² OJ C 47 E, 27.2.2003, p. 613.