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**COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**Wider Europe — Neighbourhood: A New Framework for Relations with our Eastern
and Southern Neighbours**

List of abbreviations

Acquis:	Acquis communautaire (Community legislation)
CEES:	EU/Russia Common European Economic Space initiative
CFSP:	EU Common Foreign and Security Policy
EBRD:	European Bank for Reconstruction and Development
EIB:	European Investment Bank
ERA:	European Research Area
ESDP:	EU European Security and Defence Policy
EU:	European Union
FEMIP:	Facility for Euro-Mediterranean Investment and Partnership
FTA:	Free Trade Agreement
GDP:	Gross Domestic Product
IFIs:	International Financial Institutions
ILO:	International Labour Organisation
INTERREG:	Community programme aiming to stimulate inter-regional cooperation within the EU
JHA:	Justice and Home Affairs
Meda:	Community assistance programme for the Mediterranean countries
MFA:	EU macro-financial assistance
NDEP:	Northern Dimension Environmental Partnership
NIS:	Newly Independent States (Armenia, Azerbaijan, Belarus, Georgia, Turkmenistan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Ukraine, Uzbekistan)
OSCE:	Organisation for Security and Cooperation in Europe
PCA:	Partnership and Cooperation Agreement
Phare:	Community assistance programme for the Central European candidate countries
PRINCE:	Information Programme for European citizens
RTD:	Research and Technological Development
Tacis:	Community Technical Assistance programme for the Commonwealth of Independent States
TENs:	Trans-European Networks
UN:	United Nations
WNIS:	Western Newly Independent States (Ukraine, Moldova, Belarus)
WTO:	World Trade Organisation

1. WIDER EUROPE: ACCEPTING THE CHALLENGE

On 1 May 2004, the European Union will enter a new and historic phase. An enlarged Union of 25 countries, with a combined population of more than 450 million and GDP of almost €10000 billion, will fundamentally increase the political, geographic and economic weight of the EU on the European continent. Enlargement will boost EU growth and employment opportunities within a framework of shared values and common respect for fundamental liberties. New patterns in the movement of people, capital, goods and services will increase diversity in culture and traditions. Beyond the EU's borders, enlargement will change the shape of the EU's political and economic relations with other parts of the world.

Enlargement gives new impetus to the effort of drawing closer to the 385 million inhabitants of the countries who will find themselves on the external land and sea border, namely Russia, the Western NIS and the Southern Mediterranean¹. The accession of the new member states will strengthen the Union's interest in enhancing relations with the new neighbours. Over the coming decade and beyond, the Union's capacity to provide security, stability and sustainable development to its citizens will no longer be distinguishable from its interest in close cooperation with the neighbours.

Interdependence – political and economic – with the Union's neighbourhood is already a reality. The emergence of the euro as a significant international currency has created new opportunities for intensified economic relations. Closer geographical proximity means the enlarged EU and the new neighbourhood will have an equal stake in furthering efforts to promote trans-national flows of trade and investment as well as even more important shared interests in working together to tackle trans-boundary threats - from terrorism to air-borne pollution. The neighbouring countries are the EU's essential partners: to increase our mutual production, economic growth and external trade, to create an enlarged area of political stability and functioning rule of law, and to foster the mutual exchange of human capital, ideas, knowledge and culture.

The EU has a duty, not only towards its citizens and those of the new member states, but also towards its present and future neighbours to ensure continuing social cohesion and economic dynamism. The EU must act to promote the regional and sub-regional cooperation and integration that are preconditions for political stability, economic development and the reduction of poverty and social divisions in our shared environment.

For the EU's part, the whole range of the Union's policies (foreign, security, trade, development, environment and others) will need to rise to meet this challenge. The November 2002 General Affairs and External Relations Council launched the work, noting in particular the situation of Ukraine, Moldova and Belarus – new neighbours on the Union's land border. The December 2002 Copenhagen European Council confirmed that the Union should take the opportunity offered by enlargement to

¹ Southern Mediterranean: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria, Tunisia. Western Newly Independent States (WNIS): Ukraine, Moldova, Belarus

enhance relations with its neighbours on the basis of shared values². It repeated the Union's determination **to avoid drawing new dividing lines in Europe and to promote stability and prosperity within and beyond the new borders of the Union**. It reaffirmed that enlargement will serve to strengthen relations with **Russia**, and called for **enhanced relations with Ukraine, Moldova, Belarus and the Southern Mediterranean countries to be based on a long term approach promoting reform, sustainable development and trade**³. At the same time, the Council **reaffirmed the European perspective of the countries of the Western Balkans in the Stabilisation and Association Process**.

This Communication considers how to strengthen the framework for the Union's relations with those neighbouring countries that do not currently have the perspective of membership of the EU⁴. It does not, therefore, apply to the Union's relations with the remaining candidate countries - Turkey, Romania and Bulgaria – or the Western Balkans. The Communication argues that enhanced interdependence – both political and economic – can itself be a means to promote stability, security and sustainable development both within and without the EU. The communication proposes that **the EU should aim to develop a zone of prosperity and a friendly neighbourhood – a 'ring of friends' - with whom the EU enjoys close, peaceful and co-operative relations**.

In return for concrete progress demonstrating shared values and effective implementation of political, economic and institutional reforms, including in aligning legislation with the *acquis*, the EU's neighbourhood should benefit from the prospect of closer economic integration with the EU. To this end, **Russia, the countries of the Western NIS and the Southern Mediterranean should be offered the prospect of a stake in the EU's Internal Market and further integration and liberalisation to promote the free movement of – persons, goods, services and capital (four freedoms)**.

2. NEIGHBOURHOOD – DIFFERENT COUNTRIES, COMMON INTERESTS

The situations of Russia, the countries of the WNIS and the Southern Mediterranean are very different judged by most standards. The course of the 20th century saw dramatic changes in geography, politics and culture both on the European continent and in the Mediterranean. These forces have not necessarily led to greater convergence.

Differences are reflected in the variety and intensity of the Union's existing relations with and among the countries of its new neighbourhood. While, for example, the Union's relations with Belarus have progressed little since 1996, the development of EU/Russia dialogue and cooperation on political and security issues, energy,

² Notably democracy, respect for human rights and the rule of law, as set out within the EU in the Charter of Fundamental Rights.

³ The European Parliament has also called for attention to be paid to the issues surrounding the new neighbours, most recently in its 12 February 2003 report on relations between the EU and Belarus.

⁴ Given their location, the Southern Caucasus therefore also fall outside the geographical scope of this initiative for the time being.

environment and science and technology over the past few years has accelerated rapidly. A new neighbourhood policy will only constitute one pillar of the overall EU/Russia strategic partnership.

NEIGHBOURHOOD AND EU MEMBERSHIP

- Article 49 of the Treaty on European Union stipulates that any European state may apply to become a member of the European Union. Prospective candidates must meet the criteria for membership: democracy, the rule of law, human rights, respect for minorities; a functioning market economy, and the capacity to cope with competitive pressures; the ability to take on the obligations of membership (meaning to apply effectively the EU's rules and policies).
- The incentive for reform created by the prospect of membership has proved to be strong – enlargement has unarguably been the Union's most successful foreign policy instrument.
- In some cases the issue of prospective membership has already been resolved. Accession has been ruled out, for example, for the non-European Mediterranean partners. But other cases remain open, such as those European countries who have clearly expressed their wish to join the EU.
- In reality, however, any decision on further EU expansion awaits a debate on the ultimate geographic limits of the Union. This is a debate in which the current candidates must be in a position to play a full role.
- The aim of the new Neighbourhood Policy is therefore to provide a framework for the development of a new relationship which would not, in the medium-term, include a perspective of membership or a role in the Union's institutions. A response to the practical issues posed by proximity and neighbourhood should be seen as separate from the question of EU accession.

Regional trade and integration is a recognised objective of the EU's Mediterranean policy, not least because of the positive effects on regional political and economic stability that will result from the creation of a larger Mediterranean market. The EU has Free Trade Agreements (FTAs) in place with the countries of the Southern Mediterranean and the Barcelona process envisages that these should now be expanded to include the services sector as well as the goods sector more fully. Regional integration is also foreseen through the rapid negotiation and implementation of FTAs between the Mediterranean partners, as well as with the EU's customs union partner Turkey. While some Association Agreements with the EU still need to be ratified⁵, the Mediterranean partners are already being encouraged to approximate their legislation to that of the Internal Market.

In contrast to contractual relations with all the EU's other neighbouring countries, the Partnership and Cooperation Agreements (PCAs) in force with Russia, Ukraine and Moldova grant neither preferential treatment for trade, nor a timetable for regulatory approximation.

⁵ Association agreements with Tunisia, Israel, Morocco, Palestinian Authority and Jordan have entered into force. Those concluded with Egypt, Lebanon and Algeria await ratification. An association agreement with Syria is under negotiation.

Given these different starting points and objectives it is clear that a new EU approach cannot be a one-size-fits-all policy. Different stages of reform and economic development also means that different rates of progress can be expected from the neighbouring countries over the coming decade.

On the other hand, it is increasingly clear that the EU shares an important set of mutual interests with each of its neighbours. All countries in the new neighbourhood are confronted by the opportunities and challenges surrounding **Proximity, Prosperity and Poverty**.

Proximity

Geographical proximity presents opportunities and challenges for both the EU and for its neighbours. In the 1995 Barcelona Declaration, the EU and the Mediterranean partners recognised that geographical proximity increased the value of developing a comprehensive policy of close association, reflected in the negotiation of Association Agreements with each country. In the Partnership and Cooperation Agreements in effect with Russia, Ukraine and Moldova, the parties also agreed on the need to establish a strong partnership, based on historic links and common values. Both types of agreements were designed as instruments to help with the transition process, notably through gradual rapprochement between the EU and the partner countries and to create a wider area of cooperation.

More specifically, geographical proximity increases the importance of a set of issues revolving around, but not limited to, the management of the new external border and trans-boundary flows. The EU and the neighbours have a mutual interest in cooperating, both bilaterally and regionally, to ensure that their migration policies, customs procedures and frontier controls do not prevent or delay people or goods from crossing borders for legitimate purposes. Infrastructure, efficient border management and interconnected transport, energy and telecommunications networks will become more vital to expanding mutual trade and investment. Cross-border cultural links, not least between people of the same ethnic/cultural affinities, gain additional importance in the context of proximity. Equally, threats to mutual security, whether from the trans-border dimension of environmental and nuclear hazards, communicable diseases, illegal immigration, trafficking, organised crime or terrorist networks, will require joint approaches in order to be addressed comprehensively.

Prosperity and Poverty

A new EU approach to its neighbouring countries cannot be confined to the border regions alone. If the EU is to work with its neighbourhood to create an area of shared prosperity and stability, proximity policy must go hand-in-hand with action to tackle the root causes of the political instability, economic vulnerability, institutional deficiencies, conflict and poverty and social exclusion⁶.

⁶ As set out in the 10 November 2000 Council/Commission Statement on EU Development Policy.

Most of the EU's Southern and Eastern neighbours have a nominal GDP per capita of less than €2000⁷. Poverty and social exclusion has increased sharply in Russia and the WNIS over the past decade as a result of falling output and increased inequality in the distribution of income. This has led to an increased risk of social and political dislocation. In Russia, GDP is still a third lower than its level in 1989; Moldova remains at below half of its former level of GDP. What is perhaps less known is that the Mediterranean has also had a very poor rate of growth in GDP per capita. Egypt, Israel and Tunisia are the only countries to have exceeded 2% growth since 1975, while Algeria, for example, shows a small negative growth rate. Only sub-Saharan Africa shows a worse overall growth rate than these two regions. Moldova is by far the poorest neighbouring country (€417 per capita⁸), Ukraine the next most poor (€855). Israel is the richest of the EU's neighbours (€19578), with Lebanon (€5284) second richest, albeit at a considerably lower level of GDP, and Russia some way behind both countries (€2382). A cluster of countries – Belarus, Egypt, Morocco, West Bank/Gaza and Syria – has achieved between three and four times the level of Moldovan GDP per capita (€1292 - €1663).

Despite the sluggish rate of economic growth, the Mediterranean region has long been characterised by a low level of absolute poverty⁹. Relative poverty is, however, an issue as nearly 30% of the population live on less than \$2 a day and illiteracy rates remain high. Only 0.6% of population use the internet and only 1.2% have access to a computer¹⁰. In Russia and the WNIS, poverty rates have increased considerably since 1990. Russia has seen some reversal of this trend in recent years.

Democracy, pluralism, respect for human rights, civil liberties, the rule of law and core labour standards are all essential prerequisites for political stability, as well as for peaceful and sustained social and economic development. Nearly all countries of the Mediterranean, the WNIS and Russia have a history of autocratic and non-democratic governance and poor records in protecting human rights and freedom of the individual. Generally, the countries of the WNIS and Russia have taken steps towards establishing democracy and market institutions over the past 12 years. Yet political reform in the majority of the countries of the Mediterranean has not progressed as quickly as desired.

Trade and investment are vital to improving economic growth and employment. Ensuring secure and sustainable energy supplies will call for additional, vast investments in Russia, the WNIS and the Mediterranean. At the same time, economic diversification towards labour-intensive, employment-creating industries and services are urgently needed, not only in relatively resource-poor countries, such as Ukraine, Moldova and Morocco, but also in energy-rich countries, such as Algeria and Russia. Energy dominates imports from both regions, more so for trade with Russia than from the WNIS and the Southern Mediterranean, where textiles and agricultural produce represent a considerable share of imports from certain countries (Moldova, Morocco, Tunisia). In 2001, a year with high oil prices, exports to the EU from Russia and the WNIS, and the Southern Mediterranean amounted to approximately €60 billion for

⁷ See Annex for statistics on GDP, trade and investment, migration and assistance.

⁸ Nominal estimates for 2001, EBRD Transition Report update, 2002.

⁹ Individuals earning less than \$1 per day, measured in purchasing power parity terms

¹⁰ UNDP Arab Human Development Report

each of the two regions, while imports from the EU were only just over half the exports for both. To compare, in 2001 Hungarian imports and exports to the EU alone totalled around €25 billion each way. The neighbouring countries all face weak levels of foreign direct investment when compared with countries at similar levels of development and relative to their needs. For example, per capita foreign investment in Russia is less than one sixth of the level in Poland, in addition to which Russia has seen an average annual domestic capital flight of \$20 billion over the last 10 years.

PROMOTING REGIONAL AND INTRA-REGIONAL COOPERATION

- The Euro-Mediterranean partnership offers a strong policy framework for the EU's relations with Mediterranean countries. Since the Barcelona declaration was adopted in 1995 it has formed the basis for a continuing dialogue and cooperation in spite of the political turmoil in the region.
- As far as the bilateral dimension of EU relations is concerned, the basic framework is similar for both groups of countries: Association Agreements or Partnership and Cooperation agreements, including political dialogue, are accompanied by national Meda/Tacis programmes and agreements on specific issues (readmission, fisheries etc.). The most important difference is that, in the Mediterranean, an explicit regional dimension encouraging the development of intra-regional initiatives and cooperation in a broad range of sectors is included. This policy of promoting intra-regional cooperation consists of three Chapters defined in the Barcelona Declaration supplementing the bilateral framework: the Political and Security Chapter, Economic and Financial Chapter and Social, Cultural and Human Chapter. Since 1995, seven meetings of the Foreign Ministers of the 15+12 have taken place, together with 16 meetings of sectoral ministers. These meetings have launched a number of joint cooperation initiatives, financed through the Meda regional programme.
- On the future Eastern external border, regional economic cooperation among the WNIS is already quite strong, oriented around traditional flows of trade and investment to and from Russia. However, encouragement for regional political cooperation and/or economic integration has not so far formed a strong component of EU policy towards Russia and the WNIS.
- The Northern Dimension currently provides the only regional framework in which the EU participates with its Eastern partners to address trans-national and cross-border issues. But participation is restricted to Russia.
- In the context of a new EU neighbourhood policy, further regional and sub-regional cooperation and integration amongst the countries of the Southern Mediterranean will be strongly encouraged. New initiatives to encourage regional cooperation between Russia and the countries of the Western NIS might also be considered. These could draw upon the Northern Dimension concept to take a broader and more inclusive approach to dealing with neighbourhood issues.

Spreading the benefits of increased economic growth to all sectors of society requires positive action to promote social inclusion via mutually reinforcing economic, employment and social policies. Attention to areas including education, health, training and housing is equally important. Increasing environmental and economic efficiency should also proceed hand-in-hand. Serious environmental pollution and deficiencies in managing nuclear and toxic waste affect public health and living standards in many of the neighbouring countries and contribute to shortening life

expectancy in some. At the same time, the wasteful and inefficient use of natural resources reduces present and, crucially, future prospects for economic growth.

A functioning legal system, implemented by strong regulatory authorities and effective and independent judiciaries equipped with the powers to protect property rights, are also required to maximise economic activity and production, and accelerate economic growth.

The negative effects of conflict on economic and political development, especially where sustained over a long period, cannot be over-estimated. These effects are not only domestic – so long as conflicts persist there is a danger of spill over. Conflict and political division in the Mediterranean (Western Sahara, Palestine) over the past half century has seriously retarded the development of the region. Unrecognised statelets such as Transdnistria are a magnet for organised crime and can de-stabilise or throw off course the process of state-building, political consolidation and sustainable development.

The EU has a clear interest in ensuring that these common challenges are addressed.

3. A NEW VISION AND A NEW OFFER

The EU can and should work to spread the benefits of enlargement for political and economic stability in the neighbouring countries and to help reduce prosperity gaps where they exist. This should be reflected in a **clear vision** for the development of closer and more coherent relations with the Union's neighbours over the medium and long term. The EU should act to reinforce and unite its existing neighbourhood policy towards these regions around two overarching objectives for the next decade or longer:

- **To work with the partners to reduce poverty and create an area of shared prosperity and values based on deeper economic integration, intensified political and cultural relations, enhanced cross-border cooperation and shared responsibility for conflict prevention between the EU and its neighbours.**
- **To anchor the EU's offer of concrete benefits and preferential relations within a differentiated framework which responds to progress made by the partner countries in political and economic reform.**

The establishment at pan-European level of an open and integrated market functioning on the basis of compatible or harmonised rules and further liberalisation would bring significant economic and other benefits to both the EU and the neighbourhood. A political, regulatory and trading framework, which enhances economic stability and institutionalises the rule of law, will increase our neighbours' attractiveness to investors and reduce their vulnerability to external shocks. Further reciprocal market access through preferential agreements covering goods and services will have the greatest positive impact if accompanied by measures to facilitate economic activity. Sustainable development requires a common understanding that the adoption of a broader range of policies, including environmental protection, will support more rapid

economic growth. Research and scientific **cooperation** can catalyse technological progress. The EU *acquis* offers a well established model on which to establish functioning markets and common standards for industrial products, services, transport, energy and telecommunications networks, environmental and consumer protection, health, labour and minimum quality requirements. Enhanced and better targeted EU development assistance could accompany reform, helping to build administrative capacity and mitigate social adjustment costs.

In return for concrete progress demonstrating shared values and effective implementation of political, economic and institutional reforms, including aligning legislation with the *acquis*, the EU's neighbourhood should benefit from the prospect of closer economic integration with the EU. Specifically, **all the neighbouring countries should be offered the prospect of a stake in the EU's Internal Market and further integration and liberalisation to promote the free movement of – persons, goods, services and capital (four freedoms)**. If a country has reached this level, it has come as close to the Union as it can be without being a member.¹¹ The EU therefore should stand ready to work in close partnership with the neighbouring countries who wish to implement further reforms and assist in building their capacity to align with and implement parts of the *acquis communautaire*.

The EU's approach could therefore be based on the following incentives:

□ **EXTENSION OF THE INTERNAL MARKET AND REGULATORY STRUCTURES:** Common rules and standards are vital to ensure that our neighbours can access and reap the benefits of the enlarged EU internal market as well as to create a more stable environment for economic activity. The EU *acquis*, which has established a common market based on the free movement of goods, persons, services and capital, ensuring competition and a level playing field based on shared norms and integrating health, consumer and environmental protection, could serve as a model for countries undertaking institutional and economic reform.

Both the Association and Partnership and Cooperation Agreements set, in broad terms, an agenda for legislative and regulatory approximation, albeit without fixed deadlines. For the WNIS, this agenda could be developed as currently explored in the Common European Economic Space (CEES) initiative launched with Russia. The CEES itself should be developed to set out a deeper and broader timetable for legislative approximation between the EU and Russia. Participation in selected EU activities and programmes, including aspects such as consumer protection, standards, environmental and research bodies, could be opened to all neighbouring countries. Efforts to support the further development of enterprise policy by the partner countries should accompany regulatory approximation.

□ **PREFERENTIAL TRADING RELATIONS AND MARKET OPENING:** Although countries can benefit from approximating their economic rules and structures on those of the EU before proceeding with trade liberalisation, more open trade is a key component for market integration.

¹¹ President Prodi's speech to the Sixth ECSA-World Conference, Brussels, 5-6 December 2002

As provided for in the Barcelona process, the free trade agreements that are already in place with the Mediterranean countries should cover more fully the goods and services sectors. Creating a more integrated market requires that our partners also conclude agreements of a similar depth among themselves, as well as with Turkey. For Russia and the WNIS, Free Trade Areas are envisaged in the PCAs, but with no timetable attached. Objectives and benchmarks could be developed. The sequencing of economic rapprochement is important to ensure that liberalisation really helps development. For Moldova which does not currently possess the competitive strength or administrative capacity to take on the reciprocal obligations of an FTA yet, the EU is ready to consider developing new initiatives to grant better market access, in line with WTO obligations.

❑ **PERSPECTIVES FOR LAWFUL MIGRATION AND MOVEMENT OF PERSONS:** The EU and the partner countries have a common interest in ensuring the new external border is not a barrier to trade, social and cultural interchange or regional cooperation. The impact of ageing and demographic decline, globalisation and specialisation means the EU and its neighbours can profit from putting in place mechanisms that allow workers to move from one territory to another where skills are needed most – although the free movement of people and labour remains the long-term objective. Significant additional opportunities for cultural and technical interchange could be facilitated by a long-stay visa policy on the part of the EU member states.

An efficient and user-friendly system for small border traffic is an essential part of any regional development policy. The EU is currently looking at ways of facilitating the crossing of external borders for *bona fide* third-country nationals living in the border areas that have legitimate and valid grounds for regularly crossing the border and do not pose any security threat. The EU could also consider the possibilities for facilitating the movement of citizens of neighbouring countries participating in EU programmes and activities. EU member states should also consider using the possibilities for granting visa-free access to holders of diplomatic and service passports. Beyond this, provided the necessary conditions are in place, the EU should be open to examine wider application of visa free regimes. The EU should develop a common approach to ensure the integration of third country nationals, with special emphasis on citizens of the neighbouring countries lawfully resident in the Union. The EU should assist in reinforcing the neighbouring countries' efforts to combat illegal migration and to establish efficient mechanisms for returns, especially illegal transit migration. Concluding readmission agreement with all the neighbours, starting with Morocco, Russia, Algeria, Ukraine, Belarus and Moldova, will be an essential element in joint efforts to curb illegal migration.

❑ **INTENSIFIED COOPERATION TO PREVENT AND COMBAT COMMON SECURITY THREATS:** Cooperation, joint work and assistance to combat security threats such as terrorism and trans-national organised crime, customs and taxation fraud, nuclear and environmental hazards and communicable diseases should be prioritised.

Both domestic measures and intensified bilateral and multilateral action are indispensable to fight organised crime. Particular attention should be paid to drugs trafficking, trafficking in human beings, smuggling of migrants, fraud, counterfeiting, money laundering and corruption. The EU should explore the possibilities for working ever more closely with the neighbouring countries on judicial and police cooperation and the development of mutual legal assistance. The approach taken in

the EU/Russia Action Plan against organised crime and the Justice and Home Affairs (JHA) Action Plan for Ukraine, which includes a scoreboard, could be developed for other neighbouring countries. The EU should capitalise on the cooperation initiated in the Mediterranean to introduce reforms to the judicial system, improve police training and other cooperation in the fight against organised crime. The fight against terrorism is a potential area for closer cooperation. The new neighbours should also be assisted in the implementation of all the relevant international instruments in this field, notably those developed in the UN. EU political focus and assistance must continue to support efforts to take forward nuclear clean-up in north west Russia and follow-up to the closure of the Chernobyl Nuclear Power Plant. Efforts to combat trans-boundary pollution - air, sea, water or land - should be modelled on the collaborative approach taken by the Northern Dimension Environmental Partnership (NDEP) and the Danube-Black Sea Task Force.

❑ **GREATER EU POLITICAL INVOLVEMENT IN CONFLICT PREVENTION AND CRISIS MANAGEMENT:** Shared values, strong democratic institutions and a common understanding of the need to institutionalise respect for human rights will open the way for closer and more open dialogue on the Union's Common Foreign and Security Policy (CFSP) and the development of the European Security and Defence Policy (ESDP). A shared neighbourhood implies burden-sharing and joint responsibility for addressing the threats to stability created by conflict and insecurity.

The EU should take a more active role to facilitate settlement of the disputes over Palestine, the Western Sahara and Transdniestria (in support of the efforts of the OSCE and other mediators). Greater EU involvement in crisis management in response to specific regional threats would be a tangible demonstration of the EU's willingness to assume a greater share of the burden of conflict resolution in the neighbouring countries. Once settlement has been reached, EU civil and crisis management capabilities could also be engaged in post-conflict internal security arrangements. Additional sources of funding for post-conflict reconstruction and development would be required.

❑ **GREATER EFFORTS TO PROMOTE HUMAN RIGHTS, FURTHER CULTURAL COOPERATION AND ENHANCE MUTUAL UNDERSTANDING:** Shared values and mutual understanding provide the foundations for, inter alia, deeper political relations, enhanced cooperation on justice and security issues, environmental improvement and governance. The importance of dialogue between civilisations and the free exchange of ideas between cultures, religions, traditions and human links cannot be over-emphasised. The EU should contribute to the development of a flourishing civil society to promote basic liberties such as freedom of expression and association. The EU also needs to make a greater effort to create a positive image in the neighbourhood and act to combat stereotypes which affect perceptions of the neighbouring countries within the EU.

EU programmes and activities in research, education, culture and bilateral visitor programmes should be expanded. Exchange programmes between youth and universities, the creation of European studies courses and the opening of new Euro-information centres, 'people-to-people' activities, including professional exchange/visit programmes, activities in the field of media, training and journalists exchanges merit close consideration. Ideas circulated by the new member states should be looked upon favourably. Exchanges on a regional level regarding

governance and human rights training issues have proven beneficial and should be explored further. In the Mediterranean, work could take place under the auspices of the Euro-Mediterranean Foundation. Attention should be given to strengthening EU information policy in Russia and the WNIS in cooperation with the member states. Twinning opportunities between local government and civil society organisations and judicial cooperation should be fully utilised. A PRINCE information campaign to make the European public aware of the benefits and challenges of the wider Europe framework will be launched.

❑ **INTEGRATION INTO TRANSPORT, ENERGY AND TELECOMMUNICATIONS NETWORKS AND THE EUROPEAN RESEARCH AREA:** Full integration into EU markets and society requires compatible and interconnected infrastructure and networks as well as harmonised regulatory environments. EU policies such as Trans-European Networks (TENs), Galileo and other research activities should draw up strategies for the Eastern and Southern neighbours.

The Meda regional programme is producing blueprints for infrastructure interconnection and regulatory approximation and harmonisation in transport, energy and telecommunications (Trans-Euro-Mediterranean Networks). These blueprints should be implemented with loans and risk capital from the EIB through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) as well as the other International Financial Institutions (IFIs). The EU should encourage and support telecommunications markets in the neighbouring countries, improving the availability of Internet access for business and private use and encouraging the growth of knowledge-based economies. As set out in the 6th Framework programme for Research and Technological Development (RTD), the EU should take forward the opening of the European Research Area (ERA) to integrate the scientific communities of the neighbouring countries, exploit scientific results, stimulate innovation and develop human resources and research capacities.

❑ **NEW INSTRUMENTS FOR INVESTMENT PROMOTION AND PROTECTION:** A stronger and more stable climate for domestic and foreign investment is critical to reducing the wealth gap that exists between the EU and its neighbours. Foreign investment can encourage reform and improved governance at the same time as contributing to the transfer of know-how and management techniques and the training of local personnel.

Future agreements concluded with our neighbours could include reciprocal provisions granting companies national treatment for their operations as well to strengthen the overall framework to protect investment. The EU should continue to assist the fight against corruption, strengthening of the rule of law and the independence of the judiciary. The EU should help to enhance business-to-business dialogue initiatives, involving EU and the neighbours' companies. The EU-Russia Industrialists Round Table process and the Business Summits with the Mediterranean countries have been useful instruments for entrepreneurs to develop practical suggestions on how to improve the investment and business climate in the neighbouring countries. Regional bodies representing entrepreneurs and EU business associations in the neighbouring countries are valuable partners in this area.

❑ **SUPPORT FOR INTEGRATION INTO THE GLOBAL TRADING SYSTEM:** WTO Membership is an integral part of a positive economic agenda and expanding trade and investment links.

The EU should support a high rhythm of WTO negotiations with the applicant countries - Russia, Ukraine, Algeria, Lebanon and Syria – and continue to offer assistance to prepare for accession on acceptable terms as soon as possible. The Tacis and Meda programmes could provide further trade-related technical assistance and training for customs cooperation and trade facilitation, intellectual property rights, regulation of the service sector and the approximation and implementation of Internal Market legislation.

❑ **ENHANCED ASSISTANCE, BETTER TAILORED TO NEEDS:** Proximity calls for further efforts to encourage cross-border and trans-national cooperation and development, both locally and regionally. This includes the strengthening of all forms of economic, legal and social cooperation across the borders, especially between regional and local authorities and within civil society. The EU should work with the neighbours to facilitate common management of migration flows and border transit and to address trans-border organised crime, including illicit trafficking, as well as corruption, fraud, environmental, nuclear issues and communicable diseases. The EU's cooperation instruments must be sufficiently flexible to address the entire range of needs.

For Russia and the WNIS, constraints on coordination between the existing EU instruments create obstacles to cross-border and sub-regional activities. Taking into account the constraints that may arise in the short-term, the Commission will consider the possibility of creating a new Neighbourhood Instrument which builds on the positive experiences of promoting cross-border cooperation within the Phare, Tacis and INTERREG programmes¹². This instrument will focus on trans-border issues, promoting regional and sub-regional cooperation and sustainable development on the Eastern border. For the Mediterranean, consideration should be given to whether such a unified proximity instrument could also apply to shorter sea crossings (between the enlarged EU and a number of Barcelona partner countries). The EU should accompany progress made in reforms with enhanced assistance to mitigate the impact of adjustment on the poor and vulnerable. The WNIS should benefit from more direct grant aid and budget support for tackling poverty, social and economic inequality and exclusion to achieve greater social cohesion. Criteria for eligibility for EU exceptional macro-financial assistance (MFA) should be clarified. The need for a MFA framework regulation could be re-assessed.

❑ **NEW SOURCES OF FINANCE:** EU technical and grant assistance is not the only means for promoting reform or catalysing private investment. The IFIs have a key role to play in reducing poverty, helping to mitigate the social consequences of transition, assisting accelerated reform and increased investment as well as developing infrastructure and the private sector.

¹² Although outside the geographical scope of this paper, similar considerations apply to cross border aspects of the CARDS programme in the Western Balkans.

Community financial instruments and the EIB should continue to support infrastructure investment in the Mediterranean. FEMIP or, subject to Council review, a possible Euro-Med bank, are means of providing additional support for private sector development in the region. For Russia and the WNIS, community, EBRD and EIB supported initiatives should be further developed. While the central role played by the EBRD should continue to be supported, the EU could also consider the progressive and targeted increase of EIB lending to Russia, and its extension to Ukraine, Moldova and, eventually, Belarus. The EU should ensure the IFIs take adequate account of the importance of spending on education, health and social safety net provisions in their policies towards the neighbouring countries.

4. A DIFFERENTIATED, PROGRESSIVE, AND BENCHMARKED APPROACH

The long term goal of the initiatives set out in Chapter 3 is to move towards an arrangement whereby the Union's relations with the neighbouring countries ultimately resemble the close political and economic links currently enjoyed with the European Economic Area. This implies the partners taking on considerably deeper and broader obligations, specifically when it comes to aligning with Community legislation. However, the new neighbourhood policy should not override the existing framework for EU relations with Russia and the countries of the Western NIS, and the Southern Mediterranean. Instead, it would supplement and build on existing policies and arrangements.

BELARUS
<ul style="list-style-type: none"> ▪ EU-Belarus relations stalled in 1996-7 as a consequence of serious setbacks in the development of democracy and human rights in Belarus, in particular the replacement of the democratically elected parliament with a national assembly nominated by the President in violation of the 1994 constitution. ▪ The GAC reacted in 1997 by freezing conclusion of the PCA, signed in 1995, and restricting ministerial level contacts and the scope of EU assistance to Belarus. ▪ Despite repeated approaches by the EU, OSCE and Council of Europe since 1997, Belarus has applied a constant policy of deviation from its commitments to the Council of Europe and OSCE. Confrontation with the OSCE over its representation in Minsk led to a decision of 14 member states to impose a visa ban on government representatives in November 2002. ▪ The EU faces a choice in Belarus: either to leave things to drift – a policy for which the people of Belarus may pay dear and one which prevents the EU from pursuing increased cooperation on issues of mutual interest - or to engage, and risk sending a signal of support for policies which do not conform to EU values. ▪ In the run-up to the parliamentary elections in 2004, the EU should aim to engage Belarus in a measurable, step-by-step process focused on creating the conditions for free and fair elections and, once achieved, the integration of Belarus into the neighbourhood policy, without compromising the EU's commitment to common and democratic values.

As noted above, the neighbouring countries do not start from the same point in their relations with the EU. Some partners already have FTAs with differing degrees of scope and depth; others have begun the process of developing a strategic partnership

with the EU, with economic integration with the EU as one aspect of this. While the EU should aim to ensure a more coherent approach, offering the same opportunities across the wider neighbourhood, and asking in return the same standards of behaviour from each of our neighbours, **differentiation** between countries would remain the basis for the new neighbourhood policy.

The overall goal will be to work with partner countries to foster the political and economic reform process, promote closer economic integration and sustainable development and provide political support and assistance. The EU should start from the premise that the institutions of state need to be capable of delivering full transition to comply with international political, legal and human rights standards and obligations. Partners will start from variable, in some cases limited, capacity to undertake rapid reform and comprehensive transition. They will need to show a strong commitment to building up their administrative, institutional and legal capacity. There is therefore no alternative to a step-by-step approach. The extension of the benefits set out in Chapter 3, including increased financial assistance, should be conducted so as to encourage and reward reform – reforms which existing EU policies and incentives have so far not managed to elicit in all cases. Engagement should therefore be introduced **progressively**, and be **conditional on meeting agreed targets for reform**. New benefits should only be offered to reflect the progress made by the partner countries in political and economic reform. In the absence of progress, partners will not be offered these opportunities.

This communication proposes that the principles of differentiation and progressivity should be established by means of country and/or regional **Action Plans**. These should be political documents – drawing together existing and future work in the full range of the EU's relations with its neighbours, in order to set out clearly the overarching strategic policy targets and benchmarks by which progress can be judged over several years. They should be concise, complemented where necessary by more detailed plans for sector-specific cooperation.

The setting of clear and public objectives and **benchmarks** spelling out the actions the EU expects of its partners is a means to ensure a consistent and credible approach between countries. Benchmarks also offer greater predictability and certainty for the partner countries than traditional 'conditionality'. Political and economic benchmarks could be used to evaluate progress in key areas of reform and against agreed targets. Beyond the regulatory and administrative aspects directly linked to market integration, key benchmarks should include the ratification and implementation of international commitments which demonstrate respect for shared values, in particular the values codified in the UN Human Rights Declaration, the OSCE and Council of Europe standards. Wherever possible, these benchmarks should be developed in close cooperation with the partner countries themselves, in order to ensure national ownership and commitment.

International organisations, notably the OSCE and the Council of Europe, the International Labour Organisation (ILO) and the IFIs, can assist with establishing benchmarks. These organisations should also be engaged in the process of supporting related reforms.

Action Plans and accompanying benchmarks should be established by the Council, based on proposals from the Commission, wherever possible with prior discussion

with the partner countries concerned. The Action Plans, once agreed, will supersede common strategies to become the Union's main policy document for relations with these countries over the medium term.

When it comes to the **institutional and contractual arrangements** of the Association Agreements and Partnership and Cooperation Agreements, the full implementation and exploitation of the provisions contained in the existing Agreements remains a necessary precondition for any new development.

LIBYA

- The EU has no contractual relations with Libya.
- In April 1999, following the suspension of UN sanctions, Libya acquired observer status in the Barcelona Process and was invited to become a full member as soon as the UN Security Council sanctions have been definitively lifted and once Libya has accepted the full Barcelona 'acquis'.
- The EU has suspended sanctions against Libya and lifted restrictions on diplomatic and consular personnel and visas; the embargo on arms exports remains in place.
- Although Libya has not so far accepted the Barcelona acquis, in particular because of disagreement over the position of Israel and the Palestinian Authority, it regularly observes in Foreign Ministers and Senior Official's meetings.
- The EU should therefore give consideration to how it could incorporate Libya into the neighbourhood policy. In order to send a coherent message, further engagement needs to be pursued within a conditional framework and a clear understanding of the benefits of making progress towards cooperation based on respect for shared values.

Thereafter, the EU will examine the scope for new **Neighbourhood Agreements** to build on existing contractual relations. These would supplement existing contractual relations where the EU and the neighbouring country have moved beyond the existing framework, taking on new entitlements and obligations. If, however, the Neighbourhood Agreements contain provisions going beyond those of the Euro-Mediterranean Association Agreements, similar arrangements could be offered, on equivalent terms, to the Mediterranean partners.

5. NEXT STEPS

A three step process could be envisaged for developing and implementing the Action Plans for each country:

- I. Dialogue in the existing frameworks (Association and Partnership and Cooperation Agreements) jointly analysing the achievements and failures of reform hitherto. The Association and Cooperation Committees should be mandated to prepare this work.
- II. A document would then be drawn up by the Commission and the Member States, to be agreed in association with each country, setting out common objectives and benchmarks and a timetable for their achievement. This action plan should be given a political endorsement by the EU and the partner(s)

involved, if appropriate at the level of the Association and Cooperation Councils.

- III. An annual review of progress in implementing the Action Plan, integrated into the existing institutional cooperation framework with the partner countries, would be a concrete demonstration of enhanced EU political interest and provide governments with the opportunity to receive credit from the EU for their political and economic reform efforts.

The financial implications of the new Neighbourhood Policy should be reflected in the Commission's future budgetary proposals. The Commission will consider proposals for a new Neighbourhood Instrument focussing on ensuring the smooth functioning and secure management of the future Eastern and Mediterranean borders, promoting sustainable economic and social development of the bordering regions and pursuing regional and trans-national cooperation. The Commission will consider how objectives and benchmarks could help regarding regulatory approximation, further market opening and preferential trade relations with Russia, Ukraine and Moldova in line with the commitments and obligations in the PCAs. Where justified by progress made against the Action Plans, the Commission will also put forward initiatives to:

- extend existing Community policies, programmes and instruments to neighbouring countries not already benefiting from them.
- implement a progressive and targeted extension of the EIB's external mandate to Russia and the WNIS, in close collaboration with the EBRD and the other relevant IFIs.
- evaluate FEMIP and consider its possible incorporation into an EIB majority owned Euro-Med Bank.

The contribution of the new member states will be fundamental to the development of the new neighbourhood policy.

ANNEX: Tables and Charts

Table 1: Basic economic indicators

	Population	GDP	Overall	Overall	Imports from	Exports to	FDI
	in million	per capita in EUR	Imports EUR million	Exports EUR million	the EU EUR million	the EU EUR million	EUR million
Israel	6.4	19 578	36721	32 032	15 557	8 544	3 397
Algeria	30.7	1 974	12882	21 788	8 234	14 473	1 335
Egypt	65.3	1 663	14063	4 614	4 191	1 453	569
Libya	5.4	1776 ⁽¹⁾	4867	12 548	3 247	10 331	- 112
Morocco	29.2	1 296	12192	7 945	6 302	5 562	2 966
Tunisia	9.7	2 301	10622	7 379	7 563	5 892	543
Jordan	5.2	1 901	5344	2 553	1 535	98	189 ⁽²⁾
Lebanon	3.6	5 284	7072	1 030	3 366	274	278 ⁽²⁾
Occ. Palest. Terr.	3.0	1591 ⁽¹⁾	3339(1)	653 ⁽¹⁾	31 ⁽³⁾	6 ⁽³⁾	57 ⁽²⁾
Syria	17.1	1 292	6970	6 121	2 287	3 747	229 ⁽²⁾
Belarus	10.0	1 352	8966	8 286	1 387	917	189
Moldova	4.3	417 ⁽¹⁾	998	636	278	136	167
Russian Fed.	144.8	2 382	41006	91 864	16 597	35 703	2 835
Ukraine	49.1	855	18665	16 139	5 437	3 316	862

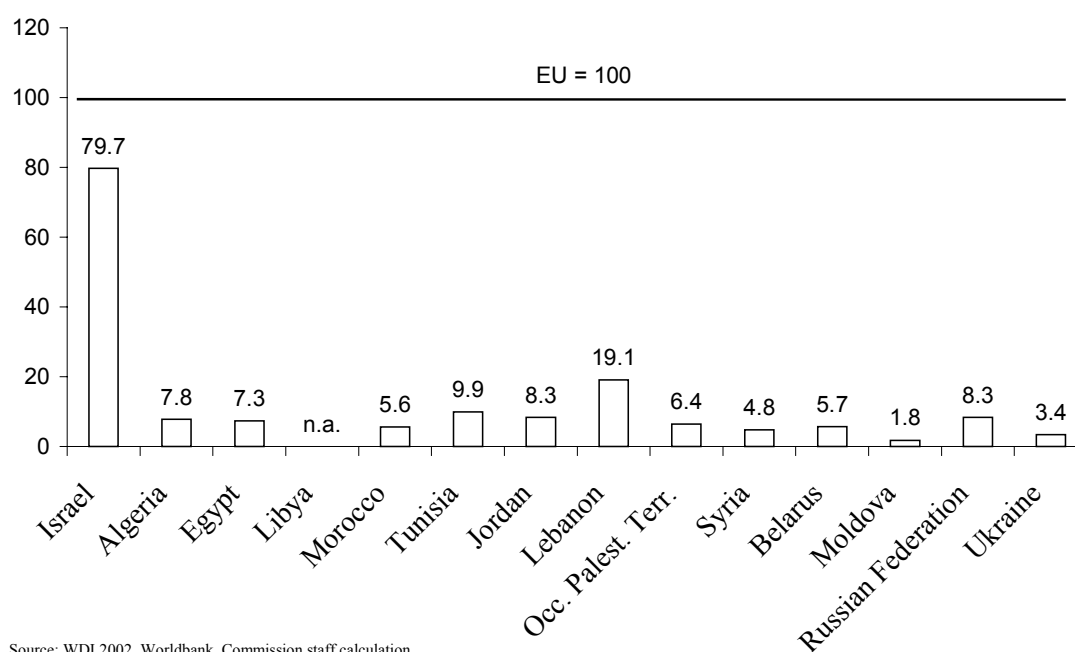
Source: WDI 2002 (World Bank), IMF (GDP per capita), IMF (trade data), EIU, UNCTAD/DITE for FDI data. Data refers to 2001.

⁽¹⁾ 2000 data

⁽²⁾ estimates

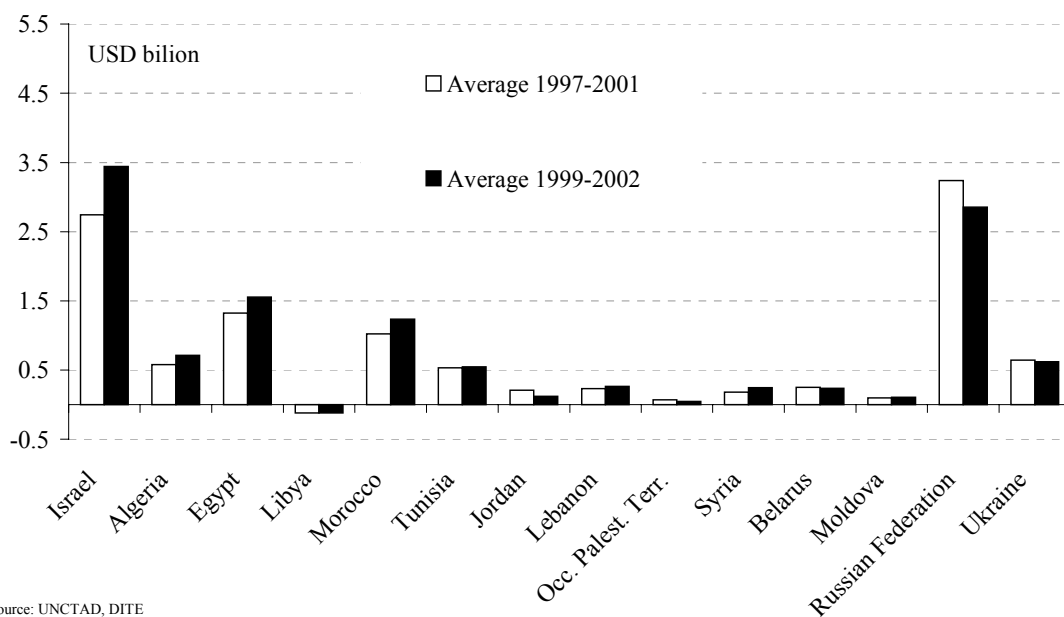
⁽³⁾ Inversion of data reported by EU

Chart 1: GDP per capita in % of EU



Source: WDI 2002, Worldbank, Commission staff calculation

Chart 2: Total FDI flows



Source: UNCTAD, DITE

Chart 3: Share of World Foreign Investment Inflows

(Average 1998-2001)

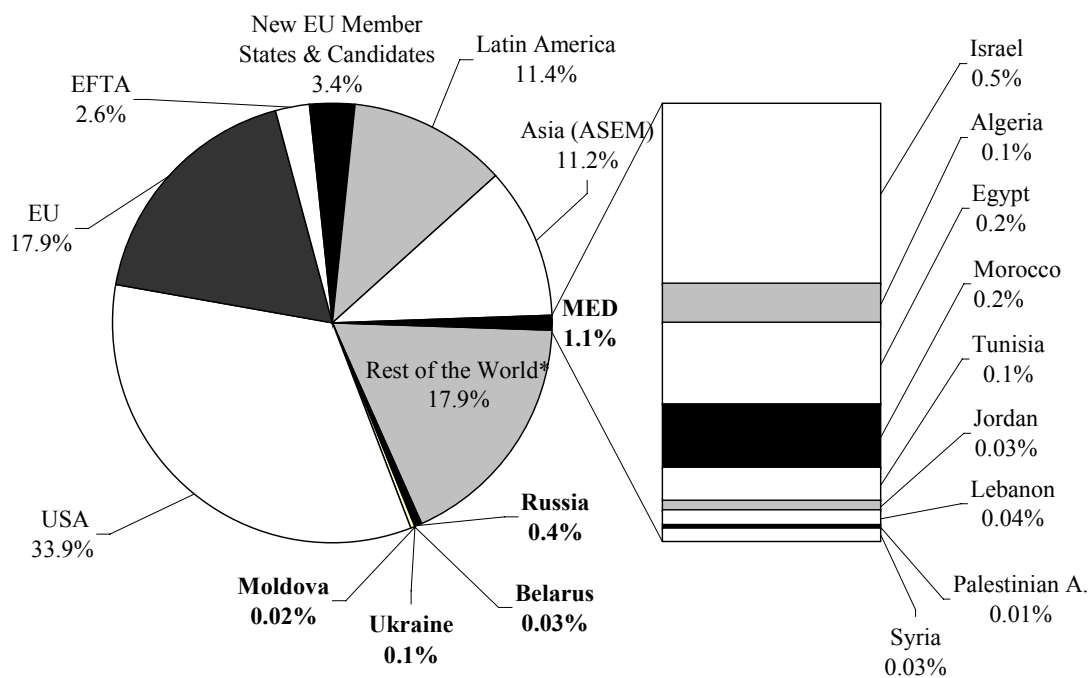


Chart 4: Share of World Inward Foreign Investment Stock (2001)

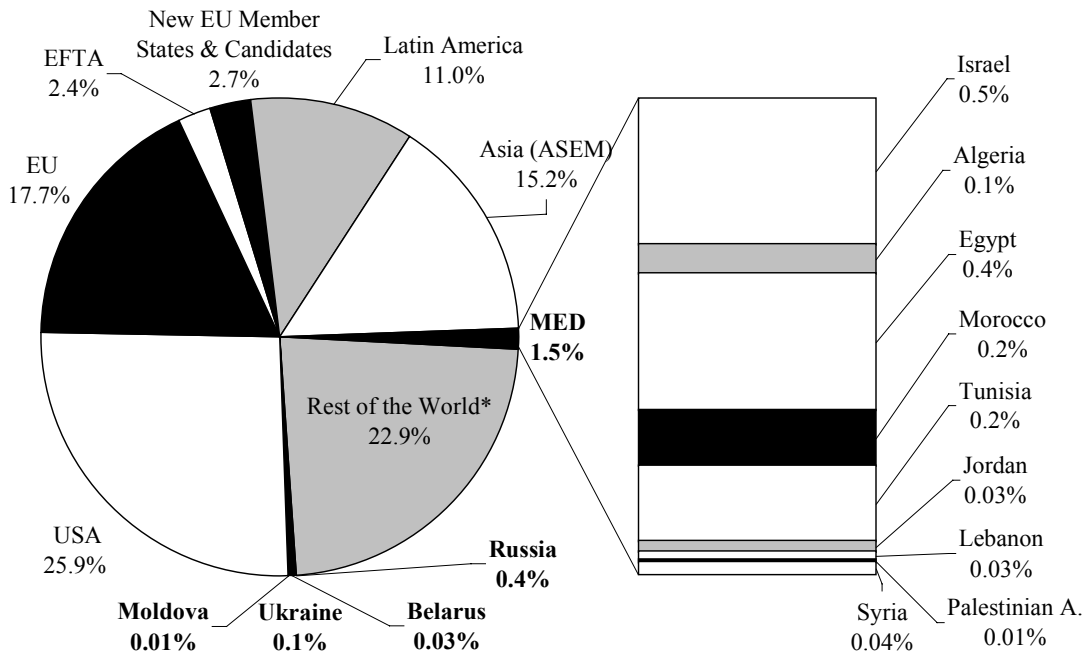
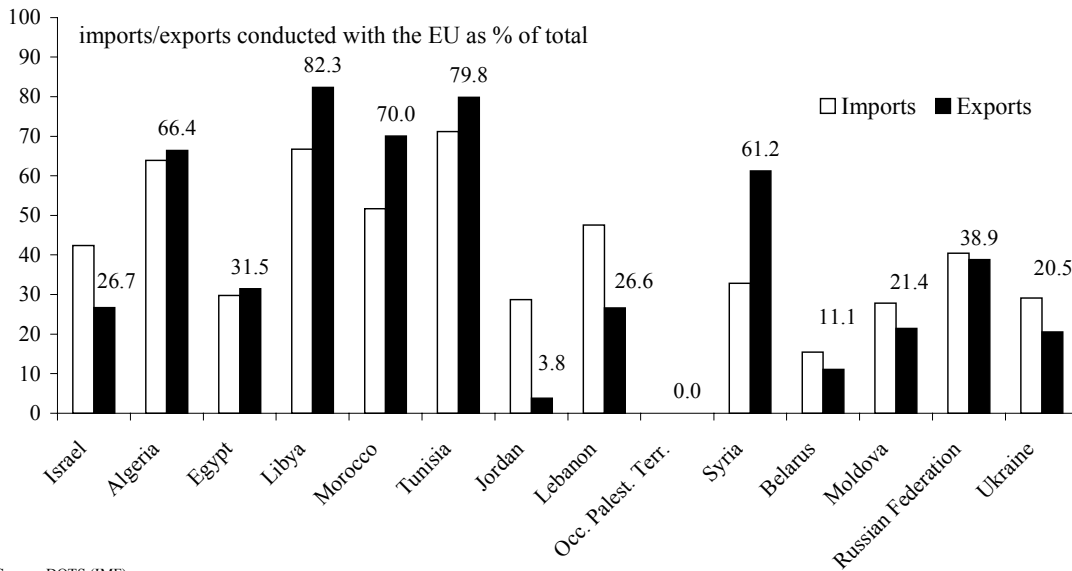
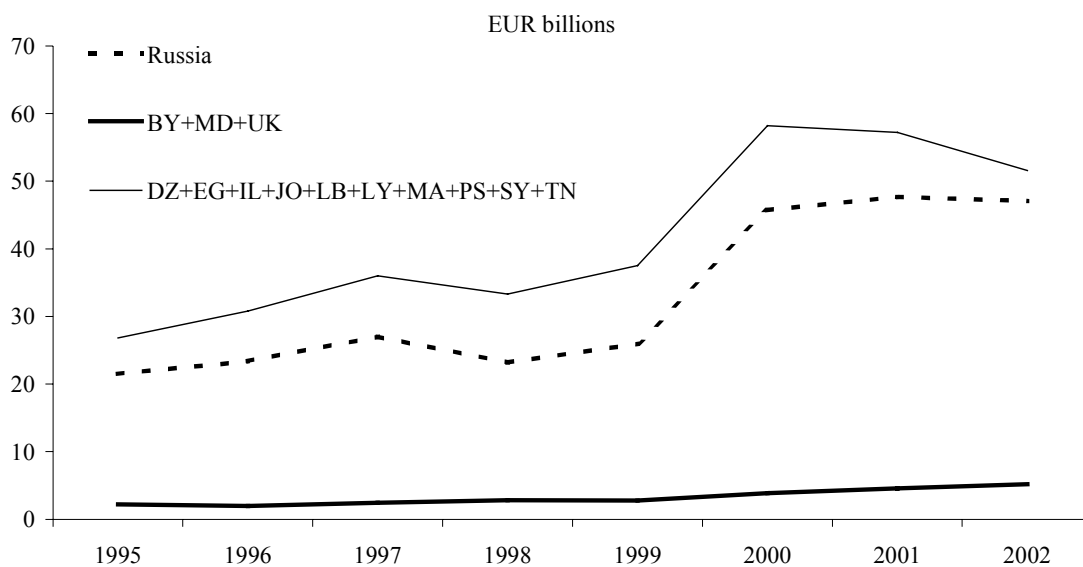


Chart 5: Trade integration with the EU



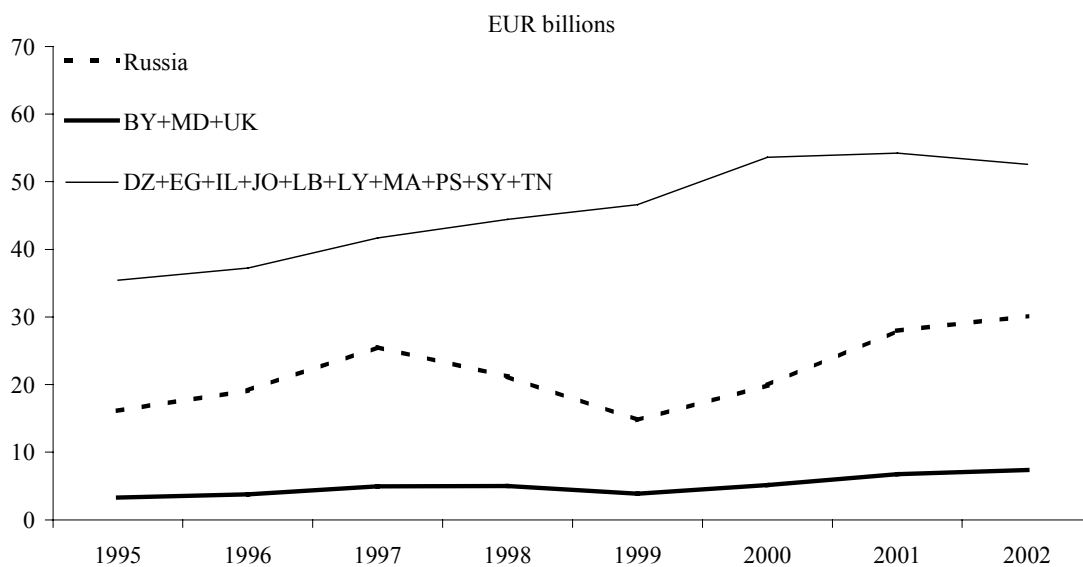
Source: DOTS (IMF)

Chart 6: Exports to EU-15



Source: Eurostat, COMEXT

Chart 7: Imports from EU-15



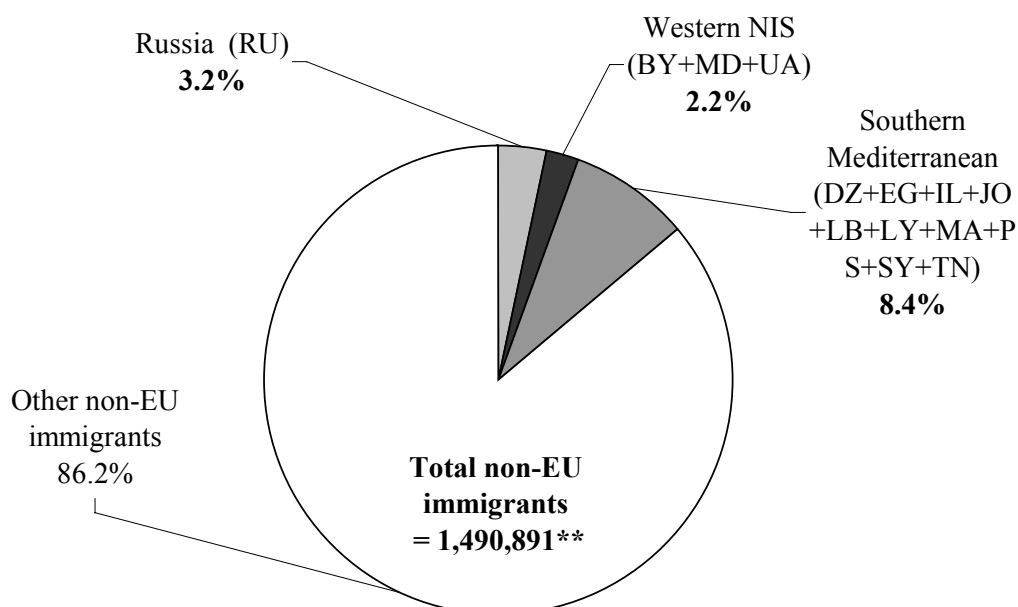
Source: Eurostat, COMEXT

Table 2: Population - Growth rates

	Population				Population growth rates	
	1990	1995	2000	2001	2001	Avg. 1995 -2000
	in million	in million	in million	in million	in %	in %
Israel	4.7	5.5	6.3	6.4	2.4	2.5
Algeria	25.0	28.1	30.3	30.7	1.5	1.5
Egypt	51.9	57.5	64.0	65.3	2.1	2.1
Libya	n.a.	4.8	5.3	5.4	2.3	2.2
Morocco	24.2	26.4	28.7	29.2	1.6	1.7
Tunisia	8.2	9.0	9.6	9.7	1.4	1.3
Jordan	3.5	4.3	5.0	5.2	3.0	3.2
Lebanon	2.6	3.2	3.5	3.6	1.7	2.0
Occ. Palest. Terr.	n.a.	n.a.	3.0	3.0	0.0	n.a.
Syria	12.1	14.2	16.6	17.1	3.1	3.2
Belarus	n.a.	10.3	10.0	10.0	0.0	-0.5
Moldova	n.a.	4.3	4.3	4.3	0.0	0.0
Russian Fed.	n.a.	148.3	145.4	144.8	-0.4	-0.4
Ukraine	n.a.	51.5	49.3	49.1	-0.4	-0.8

Source: IMF, EBRD, EIU, World Bank

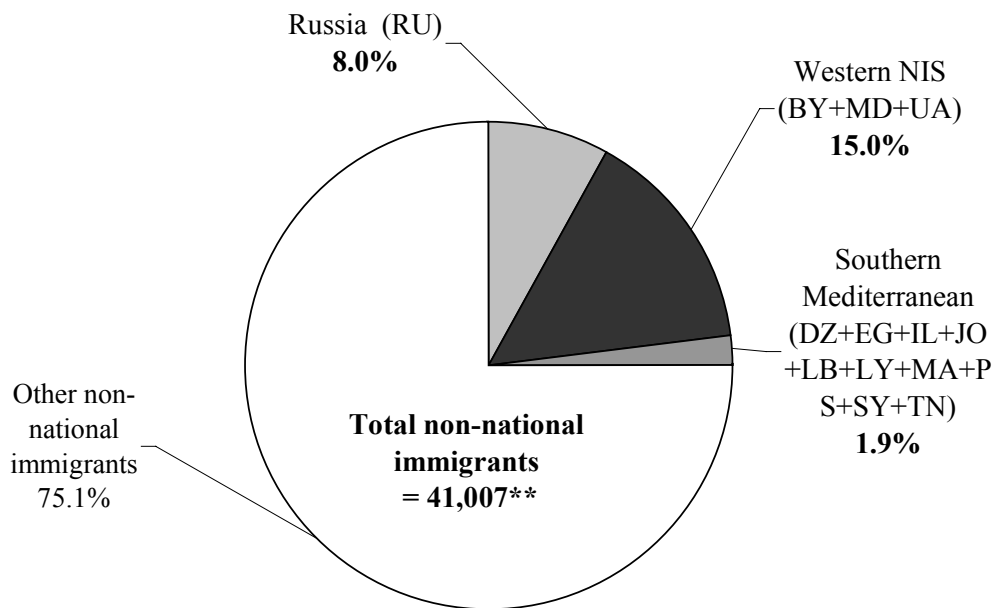
Chart 8: Immigration of South. Mediterranean, Western NIS, and Russian nationals to the EU-15 as percentages of all non-EU immigrants, 2000*



*Source: Eurostat. 1999 data: B, D, F, I. 1998 data: EL

**Includes non-EU immigrants into IRL but nationality-specific details for Eastern and Southern countries are not available.

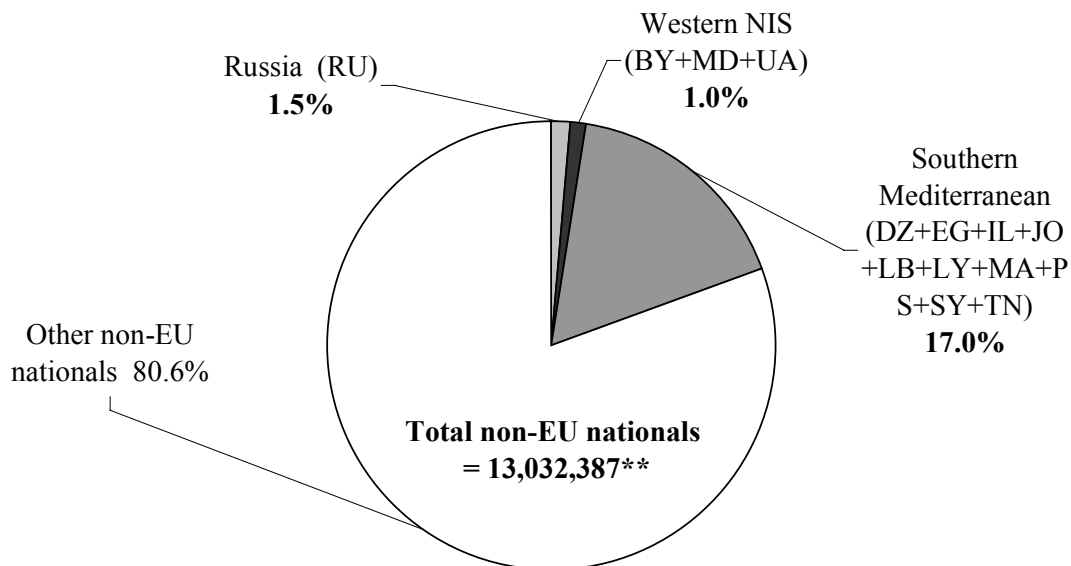
Chart 9: Immigration of Southern Mediterranean, Western NIS, and Russian nationals to the Acceding countries as percentages of all non-national immigrants, 1999*



* Source: Eurostat. No data available for PL. 2001 data: SK

** Includes non-national immigrants into MT but nationality-specific details for Eastern and Southern countries are not available

Chart 10: Southern Mediterranean, Western NIS, and Russian nationals as percentages of all non-EU nationals in the EU-15, 2001*



* Source: Eurostat. 2000 data: B, I, A, P, S, UK. 1999 data: F. 1998 data: EL

** Includes non-EU nationals in A and IRL but nationality-specific details for Eastern and Southern countries are not available

ASSISTANCE

Community assistance to Russia, Western NIS and Southern Mediterranean countries 1995-2002 (commitments, € millions)

	Algeria	WB/ Gaza	Egypt	Jordan	Lebanon	Morocco	Syria	Tunisia	Russia	Ukraine	Moldova	Belarus	Total S. Med	Total Russia/ WNIS
Bilateral Aid 95-02	304.2	307.7 + 151.1 ¹	776.7	381	194	1,038.6	181	685.9	912.3	498.1	62.7	17	3869.1 ² +151.1	1490.1
Meda Regional & Tacis cross- border programme													974.5 ³	1052.2 ⁴ (CBC: 228.9, 96-03)
MFA/Food Security Programme		112 ⁵ +10		2						453	50/15.5	30	124	558/15. 5
Fuel gap										(97-01)				115

¹ B7-420B for 2000-2002

² Meda, part B of the budget (B7-410B)

³ Meda, parts A and B of the budget (B7410A and B7-410B). This does not include monies committed to the United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNWRA) for Palestinian refugees in Jordan, Lebanon, Syria and West Bank/Gaza

⁴ Estimates based on Russia and Ukraine receiving a proportionate (50% and 25% respectively) share of the overall budget for the Tacis Regional Programme

⁵ Amount allocated via UNRWA, WFP and ACAD