



CENTRE FOR EUROPEAN REFORM

policy brief

How the EU should help its neighbours

By Heather Grabbe

- ★ The EU is trying to offer its neighbours alternatives to membership that will help them to become more stable, secure and prosperous. But unless the Union gives much stronger incentives to the neighbouring countries, its policy will have little effect.
- ★ The EU should grant its neighbours greater access to its huge internal market – including agriculture – and easier passage for travellers across its borders. But it should also set clearer and more consistent conditions for countries to gain these benefits.

The EU has had huge success in using its enlargement process to help ten Central and East European countries along the path to becoming stable democracies and successful market economies. Can it do the same for its neighbours, such as Ukraine and Algeria? The outlook is much bleaker for the countries on the EU's eastern and southern borders. They are less motivated to adopt EU norms and standards. Russia is now much more likely to object to the EU increasing its influence in former Soviet countries than it was in the 1990s. And the EU is not offering the new neighbours the huge incentive of membership, at least for the time being.

But the EU needs to help these countries, for its own sake as well as theirs. If neighbouring countries slide further into poverty and instability, they will threaten the Union with problems like organised crime, trafficking and illegal migration. The EU needs to give its neighbours strong incentives to help them to become constructive partners instead of sources of bad news.

The European Commission published proposals for a 'European Neighbourhood Policy' in May 2004. The document largely consists of general principles, and the Commission promises to provide the substantive details in 'action plans' for each country, starting with

Moldova and Ukraine later this year. The draft action plans suggest that the EU will be vague on many of the key areas that neighbouring countries are really interested in – such as easier access to visas. But if the action plans are insubstantial, they will have little effect, just like the various partnership and co-operation agreements the EU has signed with these countries over the years. This policy brief sets out ideas on how the EU could improve its neighbourhood policy, particularly by providing more specific incentives for its neighbours to reform.

Neighbours but not members

The Commission hopes that its new policy will stop neighbouring countries from demanding promises of membership for a while. The policy is also intended to reassure current member-states that the Union will not go on enlarging indefinitely. It offers countries a process of integration that does not prejudge which of them might someday join the EU. The EU is right not to rule out membership forever, given that it might eventually offer accession to countries like Ukraine and Moldova. However, the Union needs to deepen its integration with its neighbours politically and economically, regardless of the membership question.

The fact that the neighbourhood policy contains no promise of accession vastly diminishes its attractiveness for the neighbours. EU policy-makers too easily assume that the new neighbours will adapt to EU norms in the same way the accession countries did. But the Central and East Europeans were motivated by the real and near prospect of accession, which allowed politicians to push through reforms in the name of joining the EU. Without that prospect, countries are less likely to take up the EU's offers of help, for example in reforming their economies.

But the practical and political obstacles to incorporating the EU's much poorer neighbours into this kind of economic area are much greater. And what the EU is offering now is far from 'everything but institutions'. The Commission has had to work within the framework of the EU's existing policies, so it is unable to grant neighbouring countries the two benefits that they really want: visa-free access to the EU and free trade in agricultural products. These policies are extremely sensitive for the member-states, and decisions on them are in the hands of die-hard ministries which do not have foreign policy objectives

The EU and its neighbours



The EU thus needs to give its neighbours additional incentives to co-operate, or it will have very little influence over them. In their current form, the Commission's proposals look like a token policy, not a serious attempt to transform the EU's neighbourhood.

The Commission's proposals

Commission President Romano Prodi recommended last year that the EU should offer its neighbours "everything but institutions". This would involve integrating the eastern and southern periphery of the EU into every part of the Union's policies, but not providing a seat at the table where decisions are made. Norway, Iceland and Liechtenstein have such an arrangement with the EU. They are members of the 'European Economic Area', which gives them access to the single market and EU policies like research and development, but does not allow them to participate in decision-making.

as their first priority. The member-states are reluctant to allow greater freedom of movement for the citizens of surrounding countries, owing to fears of illegal immigration and their desire to clamp down on trafficking in illegal goods and people. At the same time, the Commission is restricted in how much access it can give to the EU's agricultural markets since the Common Agricultural Policy (CAP) relies on export subsidies and market protection.

Contents. In its 'European neighbourhood policy' document, the Commission proposes that the EU give its neighbours more money from 2007 onwards; develop new rules for using existing aid; and gradually integrate neighbouring countries into some of its markets. It also makes some rather vague promises of greater political dialogue and security co-operation.

Scope. The policy covers 17 countries to the EU's east and south, from the Arctic circle down to the Black

Sea and round the Mediterranean. Only the neighbouring countries which have already signed association or partnership agreements with the EU are eligible immediately, which means that the package is not available to Belarus and Libya at the moment. However, Libya could join it as soon as it becomes a member of the EU's 'Barcelona process'. The EU has added the countries of the Southern Caucasus – Armenia, Azerbaijan and Georgia – following Georgia's 'rose revolution' which brought in a new government in 2003. The Commission is

¹ See Katinka Barysch, 'The EU and Russia: strategic partners or squabbling neighbours?', CER, May 2004.

ambiguous about Russia's involvement: it says Russia is covered by the policy, but the EU's existing plans for Russia overlap with many areas of the neighbourhood policy.¹

The EU's relationship with Russia overshadows its neighbourhood policy. While Russia is seeking to re-assert its influence over its 'near abroad', the EU is also trying to deepen its engagement with many of the same countries. Neither side is yet sure how far their two agendas will conflict. But already potential tensions are emerging. For example, Ukraine has been invited to take on EU market regulations, but also Russian ones through a 'common economic space'. Russia wants its citizens to be able to travel freely in the former Soviet countries, but the EU wants its eastern neighbours to reinforce their border controls with other non-EU countries like Russia.

Further tensions could arise if the EU tries to get involved in resolving the many frozen conflicts in the Black Sea region, such as those in Transdnistria in Moldova or South Ossetia in Georgia. Russia has troops in both these areas, as well as in Abkhazia, and Moscow will strongly resist EU attempts to reduce its influence there. Many Russian policy-makers see their country as a strategic competitor of the EU and the US in what they regard as Russia's natural sphere of influence.

Money. The Commission proposes that the funds available to support its neighbourhood policy should be "increased significantly" from 2007 onwards, when a new EU budget starts to operate. It wants to introduce a 'European Neighbourhood Instrument' which could fund projects both inside and outside the Union – creating the first EU fund that can finance projects on both sides of its external borders. The neighbourhood fund would focus on cross-border projects and wider transnational initiatives which promote sustainable development, the environment, public health, fighting organised crime, border control, and 'people-to-people' contacts through education and civil society. However, the amount of money available will depend entirely on how the EU's next budget is divided up, following the next two years of haggling between the member-states. So there is no guarantee of a major increase in the funds available.

For 2004-06, a total of €255 million is available from the existing aid and technical assistance funds for the eastern neighbours (through Phare and Tacis), the Balkans (CARDS) and the Mediterranean countries (MEDA). An embarrassing proportion of these funds remains unspent, especially in the Balkans and the Mediterranean, because the EU cannot find viable projects to invest in. The neighbourhood policy priorities could therefore be a useful way of spending these funds.

What better incentives can the EU offer?

So far, the EU has offered very little that its neighbours want. The ultimate prize – membership – is available only to Bulgaria, Romania, Turkey and the five countries of the Western Balkans.

The incentives contained in the Commission's document are too weak to coax neighbours to move towards market economies and fully democratic politics. Aid and trade concessions – the EU's conventional fare for third countries – are simply not enough to sway governments, and hence for the Union to exert leverage on them. It needs to give specific rewards in return for specific improvements, with clear conditions and benchmarks to measure progress, rather than vague promises of 'launching a dialogue' on various issues.

Trade

The Union has become much more generous in granting trade concessions for industrial products over the past decade. For example, the Stabilisation and Association Agreements for the Balkan countries allow greater market access than the Europe Agreements initially gave to the Central and East Europeans in the early 1990s. However, agriculture is the one area of trade that would really make a big difference to many of the neighbouring countries. For some countries, such as Morocco and Tunisia, access to EU agricultural markets would create a valuable economic opportunity because they could export their tomatoes and oranges. But North African products would compete directly with Spanish and Italian farmers. Such EU farmers are heavily subsidised and have the political clout in the EU to resist even limited foreign competition.

One way to sell the idea of agricultural trade liberalisation to reluctant member-states would be to emphasise how little it would cost the Union. Trade concessions are very cheap in comparison with aid or military intervention. Moreover, the neighbouring countries would have very little impact on the EU's massive trade flows. How many potatoes is Ukraine really going to sell to the EU? How much damage could Moldova's unsubsidised fruit-growers really cause to the EU's heavily protected producers? The Commission should do a study on the export potential of neighbouring countries' agricultural sectors, to show how little EU markets would be affected. The study could also consider mechanisms

to reassure member-states that disruption can be avoided – like the safeguard clauses that can already limit surges of exports from the new member-states.

The EU should apply its agricultural product standards to imports from third countries, but it must use these to help countries to improve their farming sectors, not as a means of protecting its own producers. Hygiene, veterinary and phyto-sanitary standards are useful parts of the EU's rule-book that could be transferred to neighbouring countries – but only if the EU is prepared to open its markets to the dairies, abattoirs and food manufacturers which can meet them. For example, the EU could set up a scheme to certify organic producers, because so many farmers in neighbouring countries are producing on land where pesticides and fertilisers have never been used. If Georgian and Moldovan farmers could apply for an EU certificate for their organic production, that would help them to sell their products in EU and other markets, and encourage good environmental practices.

Gradual integration into the single market

The Commission's paper invites the neighbours to adopt its economic legislation, open up their economies to one another, and reduce trade barriers. But it offers little in return, arguing that the neighbours would benefit from such reforms because they would stimulate investment and growth, while reducing unemployment. In the long run, no doubt, such measures would have this effect. But will the neighbouring countries be persuaded by this argument? They have been told for years by the international financial institutions that they should open their markets. Thus far, they have not done so, mostly because free markets run against the interests of ruling elites in countries like Armenia and Algeria. These countries are unlikely to be converted to the EU's free-market rhetoric if the Union grants no specific inducements in return for liberalisation.

The Commission proposes giving the neighbouring countries a 'stake' in the EU's single market – which seems to mean inviting countries to take on EU legislation and market rules. The Commission proposes giving technical assistance and setting up twinning programmes to help neighbours to meet EU norms and standards. But if it wants the neighbours to respond with economic reforms, it will also need to add substantial offers of preferential trade concessions to the action plans.

In addition to providing more incentives, the EU needs to resolve some major practical questions about how to integrate neighbouring countries into its single market. Will it demand that the neighbours' products are made with EU-level environmental and labour standards? If not, will EU producers complain about environmental and social 'dumping'? Likewise, will the neighbours have to comply fully with EU competition rules? The Commission's paper suggests it will demand that the

neighbours move towards aligning their laws with the EU's rules on state aids and anti-trust. This was the approach the Commission also took towards the Central and East European countries. They found the EU's system very cumbersome to implement, and neighbouring countries are likely to find it much more so, given their very limited administrative capacity. The Commission needs to develop a more detailed policy on these questions.

Movement of people

The Commission paper raises the prospect of reducing some of the administrative obstacles faced by people living in frontier regions in travelling across the EU's borders. It also mentions the possibility of making it easier for citizens of neighbouring countries to gain Schengen visas – but without details or a timescale. In return, the Commission wants co-operation from the neighbours on making travel documents more secure and frontier management more efficient by training professional, non-military border guards.

This area is hugely important to the EU's strategy because it really interests the neighbouring countries. For ordinary people – rather than diplomats and businesspeople – the ability to travel freely in other countries is one of the few unambiguous benefits of the end of communism. Even for the many people in wider Europe who have not travelled or worked abroad, knowing that the possibility exists for them and their children is very important. It fundamentally shapes their view of the EU.

However, member-states may well adopt an increasingly restrictive approach to allowing people into the Schengen zone of passport-free travel in future, owing to fears of terrorism and illegal immigration. The EU needs to work fast in designing better travel and visa-issuing systems for its neighbours, before domestic political pressures cause its member-states to close their doors even more tightly. The politics of the movement of people could get harder rather than easier to handle.

So far, the Schengen countries have granted greater freedom of movement only to countries that are very close to membership, like Bulgaria, Croatia and Romania. But the EU could help neighbouring countries by:

- ★ Working more intensively with the neighbours to ease the burden on ordinary travellers and catch more illicit trade and illegal migration. But to get the neighbours to co-operate, the Union needs to promise to ease various travel restrictions in return. The Commission's vague promise to look at the question will not be enough. Ukraine is disappointed with the EU's incentives, and is stalling on a re-admission agreement that would oblige it to take back travellers who enter the EU illegally across its borders. The EU should develop a common system for issuing Schengen

² For details of how such a system might work, see Judy Batt, 'The EU's new borderlands', CER, October 2003.

visas, and it should make such visas cheaper and easier to obtain.²

- ★ Providing more assistance with customs, not just immigration controls. That would be good for the EU, in stopping illicit and contraband trade, and it would also improve conditions for cross-border business. It would also help neighbouring countries to improve the quality of their public administration and reduce opportunities for petty corruption.
- ★ Giving the next generation a chance to learn about the EU. Thousands of young people from Central and Eastern Europe have taken up the opportunity to study and work in the EU-15 countries over the past 15 years. Politicians, officials, business-people and students became used to the EU's ways. They made friends and contacts which helped reintegrate post-Cold War Europe. The political classes of the accession countries benefited as these EU-educated young people grew up and took jobs in the public administration and private sector. The EU should offer the same opportunities to people in its neighbourhood, by allowing young people to travel and work for short periods in the Union. It should set up many more scholarship programmes and student exchanges.

What the EU should demand from its neighbours

The EU also needs to apply tougher conditions to elements of its neighbourhood policy. The EU should be firm but fair in the application of its conditionality: 'tough love' is one way of describing this approach. The Union needs to make it clear that countries will gain rewards if they meet various conditions, and that the rewards will be denied or withdrawn if they lapse back into bad habits.

Consistency is key

The EU's internal complexity seriously reduces its external impact. The neighbours need to hear a coherent message from all parts of the EU. But instead, they receive different signals from different EU institutions and governments. Even the Commission often sends mixed messages. For example, the Directorate-General for External Relations tries to encourage the neighbours by proposing trade concessions, but is often blocked by the directorates for agriculture and trade. The gap between the technocratic approach of the Commission and the political approach of the Council also leads to incoherent policies. The differences in timetables and priorities between EU institutions cause huge confusion in the neighbourhood, where the Union's demands are often a baffling combination of conflicting requirements.

Member-states are to blame, too. For example, the EU puts suspension clauses into its aid and trade agreements, on human rights and democracy, but it has never used them despite blatant breaches by some North African countries. Special pleading by one or another member-state gets favoured countries off the hook, but it undermines the EU's credibility. A few suspensions could have a powerful effect in showing that the EU means what it says.

The large member-states need to stop giving special concessions to Russia – such as market economy status and the prospect of visa-free travel – if they create double-standards. For example, Ukraine has little prospect of such benefits although its economy and border controls are similar to Russia's. Despite the evident difficulties of dealing with large countries, the EU needs to speak with one voice in its whole neighbourhood, and it needs to keep saying the same thing year after year.

A neighbourhood commissioner

The EU needs to appoint a senior figure to be responsible for neighbourhood policy, to concentrate policy-makers' minds on the countries just outside the Union's borders. This appointment would also encourage the EU to bring together its different policy instruments. The best place to locate neighbourhood policy is within the Commission, which has responsibility for the EU's trade and aid policies. Owing to enlargement, the next Commission will take office in November 2004 with 25 commissioners instead of 20. When the new Commission president allocates the portfolios, he or she could use that opportunity to restructure them. A useful innovation would be to create a 'neighbourhood and enlargement commissioner'. The existence of that job would signal that enlargement is not over yet, and that the EU is committed to developing deeper ties with neighbouring countries which might never join.

Thanks to 15 years of experience in preparing the Central and East Europeans for membership, the European Commission and the member-states now have a wealth of expertise in integrating poorer countries. Many EU officials – especially in the new member-states – have practical experience of state-building and policy transfer in often difficult political circumstances. The EU should make full use of this expertise in extending its 'twinning' programme to send experts to help neighbouring countries. Slovak, Latvian and Polish officials who have been through the bruising experience of implementing the EU's policies in their own countries are especially well-placed to explain them to Ukrainians and Tunisians.

A core 'acquis' for the economy

The Commission proposes that neighbouring countries should unilaterally adopt the EU's *acquis communautaire* – its rule-book of laws and regulations. But this body of laws and policies was designed for advanced, industrialised economies. It was never intended as an instrument to guide

economic, political or social development in much poorer countries. After all, the single market *acquis* is essentially about market-making, not reforming economies. Proper implementation of EU rules requires complex and sophisticated institutional frameworks that are little developed in neighbouring countries. Even the new member-states – which have the best-performing economies and public administrations in post-communist Europe – have struggled to implement and enforce many parts of the *acquis*.

If the EU is to give its neighbours models based on the *acquis*, it needs to look very carefully at which elements would be most appropriate. The Commission has made the useful suggestion that it should identify areas of the *acquis* that are appropriate for export. The EU should use parts of its rule-book to create a development agenda for neighbouring countries, with supplementary requirements tailored to their economic needs. These countries need additional guidance, beyond broad economic policy guidelines and the single market rules.

A clearer agenda for democracy

The *acquis* is patchy, reflecting the EU's own uneven development: it is highly detailed on market regulation, competition policy and the CAP, but very sketchy on governance issues. A constant complaint of applicant countries is that the EU has never spelled out the criteria for achieving (or indeed measuring) political conditions such as the stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities.

The general nature of these criteria gives the EU leverage on countries and flexibility in deciding when a country is ready to start negotiations. However, that very generality is a problem when it comes to guiding countries which are far from being able to begin negotiations – or which have no membership perspective – towards greater compliance with EU standards of democracy. The malleability of the political conditions makes it easy for authoritarian leaders to pretend that they are close to meeting them. More detailed guidance would assist advocates of greater democracy and protection of rights in highlighting what is wrong in their country.

The EU should develop a clearer explanation of what its standards of democracy consist of, in substantive terms, to guide neighbours and aspirants towards European values. Such an explanation could be drawn partly from the EU's Charter of Fundamental Rights, and other sources such as the Council of Europe. It would help reformers in countries that are still far from democracy to persuade their fellow citizens to work towards European standards. A clearer agenda for democracy could also help EU member-states to

improve the quality of their own democracies, if it gave guidance on how to deal with racism and xenophobia, and how to guarantee the independence of the media.

Conclusions

The main problem with the Commission's proposals is the feebleness of the incentives so far proposed. The latest neighbourhood policy document is vague about exactly what the EU might offer, and when. The Union frequently argues that countries should undertake reforms and co-operate with its policies because that will help them to achieve goals like becoming full market economies and combating terrorism. But these are EU priorities, and are much less interesting to the neighbours' governments. If the EU wants to persuade its neighbours to co-operate, it needs to give them much more help with the areas they really care about, not just its own concerns.

The EU should be realistic as well as ambitious in its neighbourhood policy. The Union cannot expect to transform the whole of 'wider Europe' in the way it did the Central and East European candidates. Those countries identified with the EU as a way of reaffirming their Europeanness, and accession was clearly open to them.

The EU's enlargement process can only transform neighbouring countries if certain pre-requisites are in place which allow countries to take advantage of what the EU has to offer. Most of the work has to be done by the countries themselves. The main pre-requisites are a fairly well-functioning state, a strongly motivated political class that wants to meet EU standards, and inflows of foreign direct investment. For many countries in the region, the best the EU can hope to do is to use its leverage to improve the areas that most affect the EU – particularly borders, markets and governance – and to encourage the next generation through support for civil society and educational exchanges.

But despite these difficulties, the Union needs to develop a much more coherent, consistent and ambitious policy for its neighbourhood. Even if membership is not possible in the foreseeable future, the EU needs to develop a more substantive process to engage its neighbours and integrate them into its policies. Troubled countries with difficult regimes will be on the EU's doorstep regardless of how far and how fast the accession process goes. If the EU fails to build a more credible and substantive policy, it will constantly have to manage crises in its backyard. That would be much more expensive and difficult than devising an effective strategy now.

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