



UNIVERSITY OF PELOPONNESE  
TRIPOLI ARCADIA

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SCHOOL OF ECONOMICS AND MANAGEMENT  
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Master of Economic Analysis

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## List of Abbreviations

- **AA** Association Agreement
- **ACP** Sub-Saharan African, Caribbean and Pacific Countries
- **ASEAN** Association of Southeast Asian Nation Free Trade Agreements (**AFTA**)
- **BSEC** Black Sea Economic Cooperation
- **BSS** Black Sea Synergy
- **CBSS** Council of the Baltic Sea States
- **CSTO** Collective Security Treaty Organization
- **COMESA** Common Market of Eastern and Southern Africa
- **DABLAS** Danube-Black-Sea Environmental Task Force
- **DDA** Doha Development Agenda
- **EaP** Eastern Partnership
- **EEA** European Economic Area
- **EEC** European Economic Community
- **EMP** Euro-Mediterranean Partnership
- **ENP** European Neighbourhood Policy
- **EFTA** European Free Trade Agreements
- **EU** European Union
- **FTA** Free Trade Area
- **GAERC** General Affairs and External Relations Council
- **GATT** General Agreement on Tariffs and Trade
- **INOGATE** Interstate Oil and Gas Transport to Europe
- **MEDA** Community assistance programme for the Mediterranean countries
- **MERCOSUR** A custom union between Argentina, Brazil, Paraguay, Uruguay and Venezuela



- ***MFN** Most Favour Nation*
- ***NAFTA** North American Free Trade Agreements*
- ***ND** Northern Dimension*
- ***NEC** Neighbourhood Economic Community*
- ***NTB** Non-Tariff Barriers*
- ***PCA** Partnership and Cooperation Agreement*
- ***RTA** Regional Trade Agreements*
- ***SAFTA** South Asian Free Trade Agreements*
- ***TACIS** Community Technical Assistance programme  
for the Commonwealth of Independent State*
- ***TRACECA** Transport Corridors Europe-Caucasus-Asia*
- ***UfM** Union for the Mediterranean*
- ***WTO** World Trade Organization*





## ***Abstract***

The analysis will include all NCs included in the ENP framework. In addition, it will cover associated countries that do not belong to the ENP framework in order to examine trade patterns in areas which are at more advanced stages of integration with the EU. Then, the European Union has an integral interest in promoting peace and stability in her bordering region. In achieving these goals, Europe's four sea basins are playing a crucial role, as all four Seas, the Baltic Sea, the Mediterranean as well as the Black and the Caspian Sea are zones of economic and, although to a different degree, security interests. As a result, none of the four sea sub-regions could be subject to exclusive EU regulations. The four sea basins are therefore testing the EU's ability to multitask political, economical and cultural policies within different political environments and fractured and sometimes overlapping institutional frameworks. Also, This paper aims to analyze the evolution, motives and main characteristics of the European Union's external trade policy and the possible consequences of the adoption of the new trade strategy, based multilateral trading system

## **Introduction**

In the south we have neighbours of Europe, in the east we have European neighbours of the EU that-if they fulfil the criteria-will one day be able to apply for membership. The European Union (EU) has grown steadily and, since the 'big bang' enlargement involving ten Central and Southern European countries in May 2004 and the accession of Romania and Bulgaria in 2007, contains 27 member states. The EU of today has little resemblance to the beginnings of European integration, which began in 1957 with the signature of the Treaty of Rome by Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands. That is why the enlargement of the European Community and the EU has been called "the Union's most successful foreign policy instrument", which brought peace and stability to large parts of the European continent. However, this successful instrument has found its limitations, since an ever growing EU could go beyond the scope of even the EU's newest institutional arrangements which have been introduced by the Lisbon Treaty. By the enlargement towards other countries, the EU could lose its capability to act. Accordingly in 2006, the discussion about "the Union's capacity to absorb new members" was evoked by the European Council and was further elaborated in the Special report of the Commission.

But how shall the EU act towards its neighbourhood, which has also grown with the last enlargements, if not by its 'most successful' policy, the policy of enlargement? The citation at the beginning of this text sketches two of the issues that will be dealt with amongst others in this paper, namely the differentiation of approaches towards specific, (sub-regional) groups of states and a possible criterion of distinction, a possible future membership of the EU. However, there are more neighbours of the EU than those in the South and the East, which are sometimes forgotten, namely those in the North and West of Europe and in the Balkans region.

Connected to the EU via the *European Economic Area (EEA)* are Iceland, Liechtenstein and Norway, with the latter's population having repeatedly refused EU membership and Iceland as a potential member, having handed in its application for membership in 2009. Besides Liechtenstein, there are four other micro-states on the European continent, Andorra, Monaco, San Marino and the Vatican City, which are not members of the EU. Another state in the heart of Europe, without EU membership but connected to the EU by special relations within the Schengen zone is Switzerland.

Besides the current candidate countries for EU membership Turkey, and Croatia as well as the former Yugoslav Republic of Macedonia in the Western Balkans, there is also an EU perspective for the remaining countries of the region, namely Albania, Bosnia and Herzegovina, Montenegro, Serbia and possibly Kosovo.

This list of 16 European neighbour states which could potentially become EU members makes it clear that further commitments to other states in the Eastern and Southern neighbourhood might not be welcome to every EU member state and not even be feasible in practice. Nevertheless, the EU has developed different policy approaches towards its neighbourhoods in the South and East during recent years, which will form the focus of this work.

It is highly important for the EU to maintain or establish good relations with its old and new neighbours and it is of vital interest to have a secure and peaceful neighbourhood. One of the aims of the ENP is to "prevent the emergence of new dividing lines between the enlarged EU and its neighbours".

By now there is a large quantity of literature dealing with one or the other policy, but not many scientific texts or studies have been devoted so far on the comparison of the different, newly established policies in the EU's neighbourhood; this is partly due to the fact that they are quite new.

Since the 1990s a wide range of new sub-regional groups have emerged in Central and Eastern Europe, the Balkans, the Mediterranean and the former Soviet Union. Although they lack the economic, military and institutional power of the EU and NATO, these groups have played a positive role in helping to overcome the Cold War division of Europe, assisting states to integrate with the EU and NATO, softening the inevitable tensions generated by EU and NATO enlargement, encouraging reforms in post-communist Europe and addressing transnational policy challenges. Sub-regional groups have a continuing role to play in promoting cooperation between the enlarged EU/NATO and the countries and sub-regions to the east and south.

The European Commission revealed a new trade policy strategy under which the EU will pursue bilateral free trade agreements (FTAs) with targeted economies in order to secure new markets and protect or enhance competitiveness for European businesses. This new strategy was a significant shift from the EC's **de facto** moratorium of any bilateral agreements and expressing loyalty to multilateral trade policy. This change in the trade policy strategy raised concerns about the future of the multilateral trading system, as the biggest proponent of multilateralism shifted its attention to bilateralism.

Also, the trade policy is an engine of global growth, offers a path to development and all countries in Europe depend today, directly or indirectly, on trade policy. We must deliver the multilateral and bilateral trade deals already underway or on the starting block. We have to find a new ways of working with other key trading partners where many of the challenges are all about regulation and rules rather than traditional tariffs. We need to ensure that everyone plays by the rules. This policy draws strength from a new institutional setting that will make our trade voice louder and clearer, and building on our commitment to an open, fair and rules-based trading system, will deliver growth for Europe.





## 1. The European Neighbourhood Policy

This chapter aims to give a brief overview of the *ENP*, which has been developed throughout the last decade. On the one hand, the term ‘neighbourhood’, that appeared in the EU’s vocabulary for the first time in 1999, signalled “the intention to design a more coherent and strategic approach towards third countries in the EU’s immediate geographical vicinity” and has been implemented through the ENP. On the other hand, it is only one policy framework approach among others and includes the approach of ‘differentiation’. Therefore, besides describing the origins, scope, instruments and aims of the ENP, the concept of differentiation will be introduced and briefly discussed in this section, as well as the concept of sub-regionalism, which describes the tendency of dividing the overall framework into different sub-groups of states.

Before the ENP was established, the EU had already put in place far-reaching bilateral agreements in the form of *Association Agreements (AAs)* with many of its Southern neighbours and *Partnership and Cooperation Agreements (PCAs)* with many of its Eastern neighbours, that would later be included in the ENP in 2003/2004. A further approach with both bilateral and multilateral levels of engagement was established through *Euro-Mediterranean Partnership (EMP)* the regarding a number of Mediterranean neighbours. This is going to be explained in more detail in the next chapter.

Those bilateral and multilateral frameworks failed somewhat to generate substantive progress, and this was a reason to develop a new policy framework – the ENP. But the reasons for the development of a new policy by the EU towards its neighbourhood can also be seen as a consequence of the successful policy of enlargement, which lead in 2004 to a change in the external borders in the East, and which, with Malta and Cyprus entering the EU, increased the importance of relations with the EU’s Mediterranean neighbours. The enlarged EU should care more about the outcomes of its regional policies if it wants to be a serious global player. At the same time, the enlargement and the failed referenda in France and the Netherlands concerning the European Constitution in 2005 caused enlargement fatigue, both amongst the population and within the EU institutions, where the absorption capacity of the EU to take in more members was discussed. That is also why no country with an explicitly recognized prospect of membership was included in the ENP and why the expression of “everything but institutions”. In conclusion, it can be said that the ENP is an attempt to reform failed

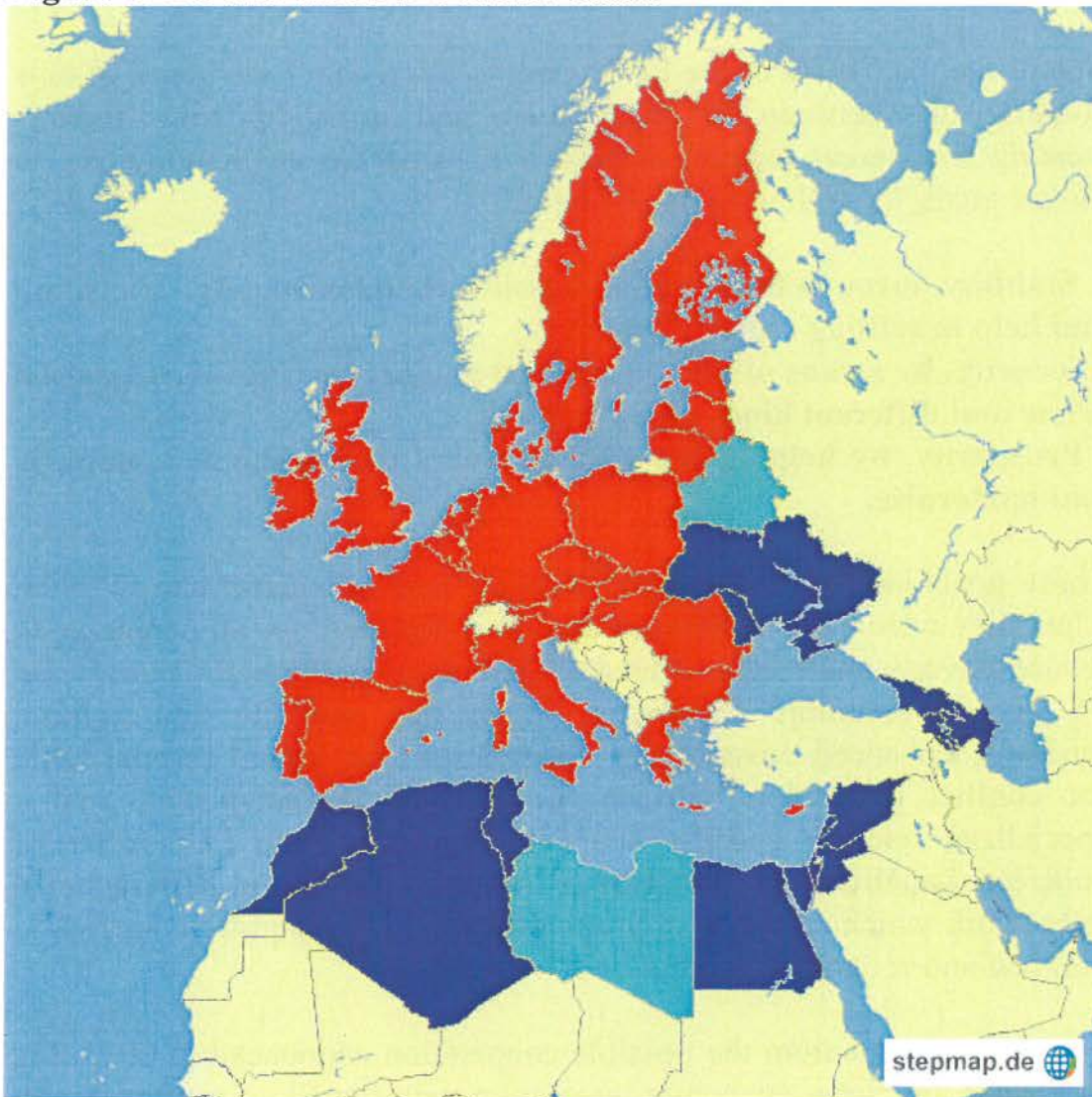
strategies towards the EU's neighbours while keeping the principal foundation of these earlier policies which is to exclude the perspective of future membership. Therefore the ENP does not seek to replace but rather to reinforce the *acquis* of earlier policies and the institutions and policies set up by the PCAs and the Association Agreements.

The ENP was finally developed through a series of documents starting with the joint letter to the Council by the High Representative Mr Javier Solana and Commissioner Patten in August 2002, named 'Wider Europe', and the Commission's Communication, 'Wider Europe – Neighbourhood: A new Framework for relations with our Eastern and Southern Neighbours'. This framework was approved by the ***General Affairs and External Relations Council (GAERC)*** meeting in June 2003, and the final ENP Strategy Paper by the Commission, also recommending the inclusion of Armenia, Azerbaijan and Georgia in the ENP, was eventually decided upon by the GAERC in June 2004. Parallel to the development of the ENP, the EU also elaborated its first Security Strategy, where the promotion of "a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean" was repeated and the goal of "Building Security in our Neighbourhood" was pointed out as a strategic objective.

In the communication finally setting up the ENP strategy, the neighbourhood is described as "Eastern Europe and the Mediterranean region", and is composed of the "EU's existing neighbours and those that have drawn closer to the EU as a result of enlargement." The ENP is open to the three Eastern European countries Belarus, Moldova and Ukraine, with Belarus having the possibility to fully participate under the condition of reforms having been implemented. Russia is left outside the ENP, and instead its strategic partnership with the EU shall be further developed in different ways. Besides the three Eastern European countries, the three in the South Caucasus: Armenia, Azerbaijan and Georgia take part in the ENP, as do ten EU partners around the Mediterranean, Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, as well as the Palestinian Authority. Out of these countries, Libya can only properly benefit from the ENP after once having fully accepted the Barcelona *acquis*. Looking at a Figure 1 reveals that the 'ring of friends' the EU wants to establish through the ENP consists of three different, geographical entities, that are not connected to each other, composed of different Eastern European, Southern Caucasian and the Mediterranean partners.



**Figure 1: EU and the ENP Partner States**



**Source:** Own illustration with recourse to the map editor stepmap, accessible at: <http://www.stepmap.de>, (consulted on: 22.04.2010).

Some of the ENP countries, namely Armenia and Azerbaijan aren't direct neighbours of the EU by land or sea. However, this would be the case should Turkey become an EU member state one day. Jordan is included in the ENP since it was already included in the EMP, but does not border the Mediterranean Sea and is therefore not a direct EU neighbour country either. Dannreuther sums up that "the resulting collection of countries in the ENP creates an unusual regional grouping", and further calls it an 'artificial' one.

## Aims

One of the main aims of the ENP is not to allow the “emergence of new dividing lines between the enlarged EU and its neighbours” , thereby creating a coherent regional approach towards the neighbourhood. As further goals, the following can be cited:

- **Stability, through the support of political and economic transition and help in settling regional conflicts;**
- **Security, by means of helping to fight against corruption, organised crime and different kinds of trafficking;**
- **Prosperity, by helping the ENP partners to develop economically and modernise.**

These goals had, in similar form, already been communicated in 2003, when they were divided between a general objective for all countries, 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, and a specialized one for specific countries, 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 main benefit from the possible cooperation announced in 2003 was to further the 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*). Further possible incentives named by the Commission in 2003 can be found in Table 1.

**Table 1: Possible Incentives of the ENP**

STABILITY	SECURITY
<ul style="list-style-type: none"><li>• Enhanced assistance, better tailored to needs.</li><li>• New sources of finance</li></ul>	<ul style="list-style-type: none"><li>• Intensified cooperation to prevent and combat common security threats</li></ul>
<ul style="list-style-type: none"><li>• Greater EU political involvement in conflict prevention and crisis management</li></ul>	



PROSPERITY	VALUES AND INTENSIFIED RELATIONS
<ul style="list-style-type: none"> <li>• Extension of the internal market and regulatory structures</li> <li>• Preferential trading relations and market opening</li> <li>• New instruments for investment promotion and protection</li> <li>• Support for integration into the global trading system</li> </ul>	<ul style="list-style-type: none"> <li>• Perspectives for lawful migration and movement of persons</li> <li>• Greater efforts to promote human rights, further cultural cooperation and enhance mutual understanding</li> <li>• Integration into transport, energy and telecommunications networks and the European Research Area</li> </ul>

Source: own illustration, on basis of: Communication from the Commission, Wider Europe, op. cit., note 2, pp.10 – 15.

Basic principles within the common ENP approach towards the whole neighbourhood are the differentiation and conditionality approaches, retained from the enlargement policy in order to reduce imbalances between the EU and its neighbours. In addition, joint ownership is introduced as a further constituting principle of the ENP.

The differentiation approach is realized through the so called ‘Action Plans’, which are to be elaborated jointly by the Commission and the country concerned and approved by the Cooperation or Association Council. Action Plans set out the objectives and priorities to be pursued during a certain period as well as concrete benchmarks and timetables for their achievement. In order to assess the progress of the Action Plans, annual Progress Reports reviewing the achievements shall be published. The element of joint ownership becomes visible by the fact that the Action Plans are elaborated jointly between the partners, and hence “there can be no question of asking partners to accept a pre-determined set of priorities”. However, this principle seems to collide with the principle of conditionality, which is also meant to be maintained through the setting up of benchmarks in the Action Plans. The communications of the Commission from 2003 and 2004 make the following statements regarding conditionality:

Engagement should therefore be introduced **progressively**, and be **conditional on meeting agreed targets for reform** emphasis in the original.

Whenever future macro financial assistance operations and other operation spursuing macro-economic objectives are negotiated with the ENP partner countries, the Commission considers that the conditionality element should draw on the economic priorities and measures of the



Action Plans, ensuring that this type of assistance is an additional incentive to pursue political and economic reform.

That conditionality already applies outside the Action Plans is apparent in the cases of Belarus and Libya, who are still not eligible to benefit fully from ENP programmes with whom no Action Plan has been concluded so far. Also in two further cases, namely Algeria and Syria, no Action Plan has been concluded yet. However, in the case of Algeria, relations with the EU have been based on an Association Agreement (AA) since 2005 which is now about to be implemented; with Syria on the other hand, an AA has been elaborated in 2008, but the signing process has not begun. Perhaps the most important tool concerning the ENP is its financing instrument, the European Neighbourhood and Partnership Instrument (ENPI) that replaced several old financial assistance instruments (Table 2). Amongst these, are the Community assistance programme for the *Mediterranean countries (MEDA)* and the *Community Technical Assistance programme for the Commonwealth of Independent States (TACIS)*. These programmes are now replaced by multi-country programmes, which apply to the respective countries in the Southern and Eastern region; there is also an Inter-Regional Programme set up.

**Table 2: ENP Indicative Allocations for the period of 2007-2010 (in mil. €)**

<b>Multi-country programmes</b>		<b>Total 827.6</b>
Inter-Regional Programme		260.8
Regional Programme – South		343.3
Regional Programme – East		223.5
<b>Country programmes</b>		<b>Total</b>
<b>4,116.5</b>		
Southern ENP partners (10)		2,962
Eastern ENP partners (6)		1,034.5
Russian Federation		120
<b>Cross-border Cooperation Programmes</b>		<b>277.1</b>
<b>Governance Facility &amp; Neighbourhood Investment Fund</b>		<b>400</b>
<b>Total</b>		<b>5,621.20</b>

Source: own illustration, based on: Commission of the European Communities, European Neighbourhood and Partnership Instrument (ENPI) Funding 2007-2013, available at: [http://ec.europa.eu/world/enp/funding\\_en.htm](http://ec.europa.eu/world/enp/funding_en.htm), (consulted on: 23.04.2010).

The greater part of the funding, however, is given to the individual countries through the respective Country programmes, where Russia also, due to its former participation in TACIS is still the recipient of some funds. Finally, there is also funding planned for Cross-border Cooperation Programmes and an investment fund has been established (Table 2).

### **Further Evolution of the ENP**

In addition to several Progress Reports which have drawn overall conclusions regarding the implementation of the ENP, the policy itself has already been revised by two further communications of the Commission, entitled 'Strengthening the ENP' (2006) and 'A Strong European Neighbourhood Policy' (2007). These documents took stock of the achievements and setbacks of the policy. What is more, many proposals of how to strengthen and further develop the ENP in order to make it work more effectively have been produced. These proposals touch upon, for example, topics like further economic integration, mobility and the management of migration, strengthening political dialogue and tackling regional conflicts to name only a few. Alongside the communication of 2006, several non-papers were published by the Commission, one of them specifically concerning the further possible economic integration of the EU's neighbourhood. In this paper, the idea of a so called 'Neighbourhood Economic Community' (NEC) was presented, and it was stated, that "the ultimate realisation of a NEC would be the creation of an area of economic integration common to the EC and its neighbouring ENP partners". It seems that the EU wants to increase the incentives available for the ENP countries by giving them the perspective of full integration into the common market without giving them access to the actual EU institutions.



## **2. Promoting the free movement of people between the EU and its Neighbourhood**

One of the main foreign policy aims of the European Union is to avoid the creation of dividing lines between the EU and neighbouring countries. This policy paper assesses the extent to which the EU's visa regime is consistent with this ambition. Towards the Eastern neighbours and the former Yugoslavian states the EU has thus successfully managed to close the gap between its approach in visa matters and its foreign policy goals.

### **The European Union's visa Policy towards the Neighbouring Countries**

The European Union's common visa policy first and foremost covers short-stay visas valid for a period of up to three months. Visas for longer stays and other purposes are issued following national rules.

Visa requirements work as a barrier to the free movement of persons across borders. In some cases visa obligations are driven by foreign policy goals as politically motivated sanctions or signals of discontent. An important element of the common visa policy is reciprocity. Third countries not on the EU visa list should in a similar way not maintain a visa requirement for any member state. Citizens of Canada and the United States, for example, do not need a visa to travel to Europe. Yet some EU nationals are still obliged to obtain a visa in order to enter these two countries. Ensuring reciprocity is a key concern, especially of the member states not benefiting from visa-free travel to the same extent as the other EU countries.

22 EU member states and 3 non-EU states (Iceland, Norway and Switzerland) participate in the common Schengen visa policy. This further complicates the free movement of people into and within the European Union.



**Figure 2:** below illustrates the EU's current visa policy towards the neighbouring countries



**Figure 2:** EU's visa policy as of 2011 towards the neighbouring countries

## EU's Eastern borders

All the countries on the EU's Eastern borders – Moldova, Ukraine, Belarus and Russia – are on the common visa list. The EU has, however, concluded visa facilitation agreements with all these states except for Belarus. The agreements should make it significantly easier to obtain a visa by reducing fees, lessening documentary requirements and even removing the visa requirement for some categories of applicants. Their effect in practice has, however, not been studied in detail. Because of their special position in the Schengen cooperation Denmark, Norway, Iceland and Switzerland are not bound by the facilitation rules but have in some cases negotiated parallel agreements. The EU has further opened long-term talks on visa-free travel for Moldova and Ukraine. Thus, EU's visa policy towards the Eastern countries is in general on a liberalizing track. Belarus, however, is so far an important exception to this trend. The tendency towards increased free movement for the other Eastern countries makes this gradually more apparent.

## **Caucasus**

The Caucasus states all face a visa requirement without any liberalisation. Recently, the European Commission has signalled intent to commence visa facilitation talks with Azerbaijan as part of an agreement over energy supplies. Yet for several of these countries a visa is required even for transits across European territory. This indicates that an increased fear of potential irregular migration and perhaps also organized crime is attributed to parts of this region.

## **Balkans**

The EU does not require a visa for any Balkan country but Kosovo. This is a new development. In a gradual process over the last years visa requirements have been lifted for this group of countries as part of EU enlargement negotiations. Visa facilitation agreements were first agreed upon followed by altogether visa-free travel.

## **Northern Africa and Middle-East**

All the neighbouring Northern African and Middle-Eastern countries face a visa requirement. The only exception is Israel. Although Turkey pursues enlargement negotiations a visa obligation is still in place. This does not look set to change as these talks are currently stalled. The lack of liberalisation initiatives in this region would seem problematic to the extent it could paint a picture of Europe as unduly concerned with the movement of people from this particular group of countries. This potential for a negative interpretation is facilitated by the lack of a publicly available systematic and coherent overview of the criteria and arguments which are deemed to justify the more restrictive current policy towards this group of countries.

## ***European Foreign Policy Goals In the Neighbourhood***

EU relations with the neighbouring countries close to the four seas take place either within the EU enlargement policy (Western Balkans and Turkey), the European neighbourhood policy (Eastern, South Caucasian, Middle Eastern and North African countries), bilaterally (Russia) or under the Central Asia Strategy.



## **Enlargement Policy**

The countries of the Western Balkans and Turkey are covered by the EU Enlargement Policy either as candidate countries or as potential candidate countries. The goal of the EU Enlargement Policy is the eventual accession of these countries to the EU. This is conditional on these countries undertaking the required reforms and adopting the EU acquis (the body of EU laws and policies). Relations between the EU and these countries take place bilaterally and are based on differentiation.

In the enlargement policy, EU visa policy is used both as an integration tool furthering closer contact and a conditionality instrument pushing candidate countries to adopt the EU acquis on migration control. Enlargement negotiations with Turkey are, as stated, currently stalled and Turkey is at the moment the only candidate country which is on the EU visa 'black' list and with which the EU has no visa facilitation agreement. Turkey has recently finalised negotiations on a readmission agreement with the EU, a pre-condition for visa facilitation. Its visa policy, however, diverges widely from that of the EU.

## **The partnership with Russia**

Russia declined to participate in the ENP, and relations between the EU and Russia consequently take place bilaterally under a Partnership and Cooperation Agreement. In the context of facilitating movement, it was decided, inter alia, to examine the conditions for visa-free travel as a long-term perspective. Since 2007, visa facilitation and readmission agreements are in force between the EU and Russia. Visa free travel, on which Russia has been insisting as part of the EU-Russia 'strategic partnership', has been approached cautiously by the European Union as it triggers preoccupations with regard to irregular migration flows not only from Russia but also from former soviet republics and division between the Member States.

## **Central Asia**

The European Union has Partnership and Cooperation Agreements with Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In 2007 the EU adopted the Central Asia Strategy reflecting the increasing importance of this region for Europe in terms of security, governance and energy. Cooperation is envisaged in a number of areas but eased mobility to the EU is not an issue which is covered.

In conclusion, EU visa policy towards the neighbouring countries currently follows two tracks. The first is a liberalisation towards the Balkans as part of enlargement negotiations, and a still easier access for nationals of countries to the East. The second is a continued and more restrictive emphasis on requiring visas, without much facilitation, towards Southern and Central-Asian countries.

Within the common policy, furthermore, the opt-outs and opt-ins complicate the free movement of people into and within Europe. This creates some additional potential dividing lines. The United Kingdom and Ireland pursue their own policy and their visas are not valid for travel in the Schengen area and vice versa. Denmark, Iceland, Norway and Switzerland take part in the policy but are not obliged to implement the same facilitation agreements. Cyprus, Romania and Bulgaria finally only partially participate and thus do not yet issue visas valid for the entire Schengen territory though they follow the same visa list.

The common visa policy is thereby partly consistent with the EU's wider foreign policy goals in the neighbourhood. In the case of the Eastern and Balkan countries there is no longer a wide difference between the visa requirements and the goal of avoiding the creation of undue barriers. The political ambitions have, however, not yet been realised in the case of the Southern neighbours.



### **3. The Eastern Partnership and the ENP**

As already mentioned, the EaP is to be understood as complementary to existing policy frameworks. With regards to the ENP, it can be stated, however, that the EaP clearly builds on it and aims to strengthen its bilateral dimension while adding multilateral activities. This attempt to try to be coherent with the ENP, but also to broaden its scope becomes clear when noting that participating in the ENP is a prerequisite for participation in the EaP. Furthermore, it is clearly stated in the documents setting up the EaP that it is to be seen as a specific Eastern dimension of the European Neighbourhood Policy. In this regard, the ties referring to the very beginnings of plans concerning the partnership, that was meant to be an ENP, can still be recognized.

Regarding finances, the EaP relies on and is embedded in the ENP financing framework, which has been increased specifically for the EaP by €600 million until 2013. The additional funds are foreseen for Institution Building Programmes, Pilot regional development programmes and the implementation of the Eastern Partnership Multilateral dimensions. The logic behind supplementary financing, that of conditionality or, how Longhurst and Nies call it, referring to the Commission's logic, is a more for more approach. The EaP manages, from their point of view, to show that partners can only expect to get more from the EU, if they, themselves give more of a sustained commitment to reform, what was not the case and therefore the core problem of the ENP. Since the EaP is based to such a large degree on the ENP and may appear as a mere followup, the additional funding provided by the new framework seems to be the only real change to some authors when compared to the ENP.

#### **The Eastern Partnership and the Regional Context**

As previously shown, the EaP was the result of initiatives from Germany, and later Poland and Sweden, all of them Central and Northern European EU countries. There were also other countries from precisely these parts of Europe, namely Great Britain, Denmark and the Czech Republic to be the first recipients of Polish and Swedish lobbying for their project. Furthermore, it seems that the creation of the EaP was possible only because the Mediterranean sea had been founded, and for the purpose of regaining an equilibrium of initiatives involving the EU's Eastern and Southern neighbours.

Undoubtedly, the EU members do have different regional preferences towards specific neighbouring regions, a conclusion supported by the low participation of Mediterranean Heads of State or Government in the EaP's inaugurating Prague summit.

### **The External Regional Context**

The interests other than those of the EU might to be focussed in Eastern Europe and the Caucasian region can be easily surmised when recalling the war in Georgia in August 2008 and the 'gas war' in January 2009. Also, the cooperation between the EU and Ukraine, excluding Russia, in order to modernize the latter's gas transit system outraged the Kremlin. Estimations of how authentic Russian leaders' criticism is, regarding the EU's 'zone of interest' or 'sphere of influence' in Eastern Europe, vary from author to author. Some state that the EU is a "competitor in Moscow's traditional sphere of influence", while others claim that the EaP could never be "a cause for concern as it simply represents a minor addition to the European Neighbourhood Policy, which Russia was never seriously anxious about".

Nevertheless, that the EU takes Russia seriously as a partner is shown by its special relations with it, with regard to which four thematic 'common spaces' were created in 2003 and also by the fact that negotiations about a new agreement. Furthermore, the fact that the EaP cooperation can be opened to third parties allows for the possibility of momentum building in support of the inclusion of Russia.

### **Other Regional Cooperation Frameworks**

Further EU policies in Europe's Northern and Eastern sphere, both including Russia, are the *Northern Dimension (ND)* and the *Black Sea Synergy (BSS)*. The ND, "an autonomous EU foreign policy tool", was founded in 1999 and in its present composition includes the EU, Iceland, Norway and Russia. The BSS was set up by the Commission in 2007 and includes Bulgaria, Greece, Turkey, Romania and Russia as well as all non-EU EaP partners except for Belarus. It aims at bringing the non-EU partners, which are connected to the EU by different types of relations, together in a multilateral framework. Declaring the EaP a complementary approach is very much related to the BSS, as it includes five of the six Eastern partners. The BSS is therefore also mentioned in the relevant documents defining the EaP and the Council underlined in March 2009 the EU's commitment to strengthen the Black Sea Synergy and to support its implementation, noting that its focus is on regional

cooperation in the Black Sea region, whereas the Eastern Partnership focuses on approximation and will strengthen the links of partner countries with the EU.





#### **4. The EU and sub-regional multilateralism in Europe's sea basins Neighbourhood, Enlargement and Multilateral Cooperation**

Enlargement has contributed towards stability in Europe as a whole, however in some sub-regions the effect of enlargement has been contradictory, as newly created borders are causing obstacles for integration. Because of "enlargement fatigue" in most of the member states, the EU needs to diversify the policies towards her neighbours. The EU has become a major political factor in her periphery, but not all member states pay equal attention to this development. A stronger consensus among the member states about European policies in the four seas is required to implement a coherent EU policy. Besides the need to formulate different policies for the particular situations in the four seas, the EU needs to improve the conditions for the overall success of her policies in the four sea basins and promote peace and stability in her bordering region.. This will require a special emphasis on the improvement of relations with Russia and Turkey.

The process of European integration could be described as a step-by-step enlargement of European space for prosperity and peace. The development of instruments like the European Neighbourhood Policy and respective programmes like the "Union for the Mediterranean" and the "Eastern Partnership" are aimed to provide the EU with instruments to manage her relationship with her periphery and expand this space of prosperity. There is, however, no guarantee for future successes of that process. The challenge today is first of all, to preserve the attractiveness of the EU, its most important tool to create stability, in times where enlargement fatigue is the dominant mood in most of the member states. Although not every attempt to become a member of the EU has been a stabilizing factor, as the aspirations of Georgia and the Ukraine have shown, there can be no doubt that enlargement as such has been the EU's most important political mechanism.

Today's reduced ability of the EU and her member states to "absorb" new members is endangering the progress made in the last decades. Although Europe's neighbors are aware of the fact that no great round of enlargement is to be expected any time soon, the suspicion with which



potential candidates for membership have been reacting to EU proposals that don't include a membership option are an indication that many countries are still afraid of the EU's intention to create a substitute for membership.

### **EU Strategy towards the Baltic Sea**

Is the Baltic Sea regional co-operation in its highly multilateral format still relevant? The Baltic Sea region has become very different to what it was in 1991. Firstly from the EU's perspective, the Baltic Sea co-operation is no longer needed as an enlargement project. Almost all states around the Baltic Sea, except Russia, are EU members. For the EU, the Baltic Sea regional organisations can be useful as facilitators of the Union's policy-making in the region. Therefore the Baltic Sea region can be compared to the area around the North Sea, rather than Mediterranean, Black or Caspian seas. Secondly, EU-Russian relations in their current state clearly do not favour regional co-operation. The current set of Baltic Sea organisations cannot be a tool for decision-making in highly complicated EU-Russian communication, even in the context of the Baltic Sea region.

The Baltic Sea in 1992, when the *Council of the Baltic Sea States (CBSS)* was created, was a littoral region surrounded by many very different states and institutions. Only two of the countries around the sea itself Germany and Denmark belonged to the European Union and NATO. Furthermore, Iceland is a candidate for EU membership. In other words the Baltic Sea is no longer a peripheral region on the EU's borders, nor a region subject to EU enlargement. It is now almost entirely part of the EU which means that EU decision-making prevails in making policies concerning the Baltic Sea basin.

One may even argue that from the EU's perspective, the Baltic Sea region is very close to the area around the Northern Sea. The Northern Sea is surrounded mainly by EU Member states - just like the Baltic Sea – with Norway and Iceland belonging to the EEA. Even if currently the EU-outsiders Norway and Iceland – consider these organizations useful for making more contacts with Russia and a possible way of moving closer to EU decision-making.

The position of Russia in Baltic Sea cooperation emerges as the key dilemma. Unlike the institutions of Baltic Sea cooperation, Russia has been very critical or even fully rejected the regional cooperation forms offered by the EU. Moscow is clearly troubled by the notion that EU-offered cooperation confronts Russia with the perspective of becoming a part of binding EU normativism. Whatever the reason, Russia has always taken a rather cautious approach to the EU-offered project-based co-operation forms like the Northern Dimension and the Euregios, openly rejected the EU's invitation to join the European Neighbourhood Policy, and sees the Eastern Partnership between the EU and Belarusia, Ukraine, Moldova and the South Caucasus countries as an open EU-invasion into Russia's legitimate sphere of influence. The situation is not eased by the fact that negotiations on the renewed EU-Russian Partnership and Cooperation Agreement are on standstill.

This situation clearly creates two mutually exclusive situations: the need to build the Baltic Sea region along the lines of EU policies, on the one hand; and the need to engage Russia in Baltic Sea decision-making, on the other. Russia is reluctant to associate with EU normativism. Russia is determined to penetrate its ambitions and national interests in EU member states and institutions in order to influence the EU decision-making on the largest possible extent. This may pose a risk scenario for EU-integration in the Baltic Sea region. Some member states may be tempted to opt for bilateral relations with Russia instead of contributing to EU's common positions and Russia-strategies.

Increasing centralisation of Russia's governance also leaves increasingly little room for effective Baltic Sea co-operation. In the 1990s the regions of Russia bordering the Baltic Sea enjoyed a certain leverage of autonomous decision-making rights. While from Russia's part all Baltic Sea related issues are effectively decided in Moscow by Russia's central authorities, it is highly questionable whether it is useful and justifiable to maintain the Baltic Sea regional institutions with Russia's participation based on the logic that Russia's administrative units North-Western Federal District, including the Murmansk, Leningrad, Pskov, Novgorod and Kaliningrad oblasts, and Karelian autonomous region – shape Russian policies in the Baltic Sea region. For the current international agenda, the Baltic Sea region is already a very limited playing ground. For instance, it is questionable from EU perspective to consider Russia the only non-EU co-operation partner in Baltic Sea regional context.

Partner countries of EU's Eastern Partnership initiative – particularly Belarus and Ukraine – have long established links of co-operation with the Baltic Sea region and the individual states in that region. It is time for all countries involved within Baltic Sea co-operation to start to think in wider terms of North European co-operation.

### **EU Strategy towards the Black Sea**

The purpose of this paper is to provide conceptual and policy tools for the re-orientation of the multilateral aspects of EU's policy towards the Black Sea area. Multilateralism in the Black Sea area has been in the strengthening, weakening rationale as the EU has exerted its influence on the overall reconfiguration of Black Sea multilateralism. Though, the relevance of the Black Sea for EU's global strategy has not been disputed, its regioness is questionable. The Black Sea and the EU are bound geographically, institutionally and economically, especially since the landmark year of 2007 that has turned the Black Sea area from merely a 'strategic bridge' into an EU, even if partly, sea.

The geopolitical significance of the Black Sea area for European security and stability has been stressed several times in official EU documents. In addition Europe's energy security is directly linked to the Black Sea as the latter constitutes a main energy corridor for Europe. EU's interests in the Black Sea may be read as a derivative of consolidating democratic governance and market economy, transnational security, managing unresolved conflicts as well as maintaining access to energy resources and balancing Russia. These enduring interests explain why the EU accords the Black Sea great attention.

As a result, and due to the region's internal, political and economic fragmentation, the EU was late to draft a regional policy, the latter being put together only in 2007 during EU's reach to the western Black Sea shore. The initiation of the **Black Sea Synergy** constitutes less of a comprehensive and conventional policy and more of a common approach to focus attention to the regional level and an effort on EU's side to invigorate ongoing cooperation in the area. Multilateral cooperation of the Black Sea states with the EU is still largely confined to sectoral initiatives such as the *Interstate Oil and Gas Transport to Europe (INOGATE)*, the *Transport Corridor Europe-Caucasus-Asia (TRACECA)*, and the *Danube-Black Sea Environmental Task force (DABLAS)*.

In some cases, concern over NATO presence in the Black Sea and its possible impact on the existing regime has underpinned maritime and naval cooperation among the two largest naval powers in the Black Sea: Turkey and Russia. Local powers' relations with EU, US and Russia bear significant side effects on the wider Black Sea dynamics. Indicatively, the *Black Sea Economic Cooperation (BSEC)* has presented its own rationale for BSEC-EU Interaction while the Council of Europe has launched (in 2006) two Black Sea initiatives; the Black Sea Euroregion and the Kiev initiative. Given the Black Sea's extant geopolitical conditions, the regional project seems weak as it depends heavily on a common understanding being established between the largest powers on Black Sea shores, the EU, Russia and Turkey. EU's impact on subregional cooperation in the Black Sea has been conditioned by two overarching policy concerns, the enlargement process or the EU aspirations of almost all its neighbours, and what is generally called the 'Russian awareness' factor. Current discussion on EU's multilateral approach towards the Black Sea evolves around the implementation of the Black Sea Synergy and the Eastern Partnership. The **Black Sea Synergy (BSS)** marked the first attempt to strengthen the multilateral Eastern track of the ENP, putting emphasis on intra-regional cooperation including Turkey and Russia. The EaP encourages the partners to cooperate in four thematic areas, namely democracy, good governance and stability; economic integration and convergence with EU sectoral policies; energy security; and contacts between people. The almost synchronous initiation of the **BSS** and the EaP indicates also the diverse lenses through which the EU states view regional cooperation in the eastern neighbourhood. Another important, but not fully developed, EU tool has been the Black Sea Basin ENP Cross-Border Cooperation programme (21.3 million euro for 2007-2013) which targets the Black Sea coastal and adjacent regions.

The EU's gravitational pull has been a major force shaping subregional dynamics in the Black Sea area. The EU has been a normative, civil power and has performed as a model of cooperation. The impact of the EU on subregional cooperation has been ambivalent. In conclusion, EU's Black Sea multilateral policy only complements a much stronger bilateral web of relations of the EU with its eastern neighbours. The EU should consider beyond enlargement how it strategically wishes to shape Europe and how the Black Sea neighborhood can best be an integral part of it. Third, twenty years of regional institutionalization has fostered the

actorness of the Black Sea as a regional entity. The Black Sea is now perceived as a European concept, implying new policy options and funding opportunities.

### **EU Strategy towards the Caspian sea**

Several factors make the Caspian Sea Basin important for EU interests. EU energy demand is growing dramatically. North Sea oil and gas fields have already been exploited beyond their peak, leaving Europe dependent on non-EU countries for future supply. Caspian reserves can complement energy supplies from Russia and the Middle East. The EU also needs to diversify energy import transportation routes. Historically, the region around the Caspian Sea has lacked a unifying identity, whether political or economic. The existing littoral countries represent different types of states. Russia and Kazakhstan are members of the *Collective Security Treaty Organization (CSTO)*. Azerbaijan, Kazakhstan and Russia became partners of the European Union; Azerbaijan and Russia are members of the Council of Europe. The aforementioned geo-strategic and geo-political differences and opposing interests, which are characteristic for the coastal countries, create difficulties for regional cooperation in the Caspian Basin. The main problem is linked to the vague legal status of the Caspian Sea. Others expect some limited growth in cooperation, arguing that the trilateral agreement between Azerbaijan, Kazakhstan and Russia on dividing the northern Caspian serves as a success story for regional cooperation. This so-called traditional Russia-first policy in the end resulted in increased EU dependence on Russian supplies.

True, besides these specific economic-transport projects, the EU have initiated political projects as well. Toward the end of the 1990s, the EU concluded ten Partnership and Cooperation Agreements (PCAs) with the former Soviet republics, including Russia (1997), Kazakhstan (1999) and Azerbaijan (1999). The next EU step since 2009 became a slightly new program – Eastern Partnership. In 2003, the EU, by giving a special status to Russia, signed a Strategic Partnership document with Moscow. It lacks clear goals of what exactly the EU wants to achieve in the region in political terms.”



## EU Strategy towards the Mediterranean

The Mediterranean is a particularly heterogeneous and complex space. Some of the larger socio-economic disparities also take place between the countries of the northern and southern shore of the Mediterranean. The European Union's interests require a continued engagement with Mediterranean partners, through more effective economic, security and cultural cooperation”.

The *Union of the Mediterranean (UfM)* stands out as a priority for the EU and a fertile ground for its promotion of multilateralism and regional cooperation, but the very consideration of the Mediterranean as a region, or as a meeting place between several regions, remains a contested issue.

The EU has promoted multilateral cooperation in the Mediterranean but rather than opting for bi-regional dialogues (the euro-Arab dialogue) or focusing on supporting endogenous multilateral endeavours in its southern Neighbourhood, the EU has placed itself in the very centre of euro-Mediterranean relations. In the Euro-Mediterranean Partnership, the EU, and particularly the European Commission, played a leading role and, consequently, the multilateral approach of the EU in the Mediterranean was not only euro-centric in its geographical scope (it left behind the Arab countries east of Jordan) but also asymmetric in terms of financial capacity and political leverage. The EU has also aimed to promote the development of greater economic integration among the members of the euro-Mediterranean space. Since 1995, there has always been tension between multilateralism and bilateralism, which has been covered extensively by scholarly debates on euro-Mediterranean relations. As said before, *the Union for the Mediterranean (UfM)* has combined multilateral and bilateral cooperation frameworks.





## 5. Regional Trade Agreements

The EU had a substantial history of regionally based trade arrangements and was actively considering a number of extensions, there was a lack of long-term vision about the consequences of regionalism which needed to be redressed with urgency. The EU had operated a complex, three-tier system of trade relations with third countries. The **first** tier included countries enjoying preferential access to the EU market. The **second** contained countries treated purely on a most-favoured-nation (MFN) basis. The last tier consisted of countries granted access on a less-than-MFN basis. Currently, the MFN tier consists of only six countries (Australia, Canada, Japan, New Zealand, Taiwan and the United States), and the less-than-MFN tier contains only one country (North Korea). All the other countries belong to the preferential tier.

Surprisingly, however, despite maintaining preferential trade arrangements with virtually all countries of the world, preferential trade accounted for no more than 25% of total EU trade. This low share of preferential trade was attributable to two factors. The **first** was the high proportion of non-dutiable trade: 30% of the total value of EU imports was accounted for by products with zero MFN rates. The **second** explanation lay in administrative rules. All EU preferential trade arrangements were subject to three types of administrative regulation which limited their preferential value: product exclusion, origin rules and tariff quotas.

EU regionalism appeared to come in waves. Until recently, new developments had involved exclusively potential EU members, including EFTA countries, Central and East European countries, and Turkey. By contrast, a new wave was now underway, involving recent or prospective agreements either with non-European countries, such as the Mediterranean countries, Mexico, South Africa and MERCOSUR, or with CIS members, such as Russia and Ukraine, which were unlikely to join the EU in the foreseeable future.

None the less, these successive waves of regionalism shared the same economic determinants, albeit to a different extent. **First** there was a demand in non-EU countries for such arrangements. This demand arose

partly from the 'domino effects' associated with the deepening and the widening of the EU and partly from the economic reforms undertaken by the non-EU countries themselves. **Second**, there was a willingness on the part of the EU to supply RTAs. This stemmed partly from a desire for preferential access to third markets and partly from a wish to promote regional stability.

The potential extension of RTAs to non-candidate countries constituted a radical departure from past EU behaviour. This new trend reflected some grand design, however, and submitted instead that the EU's thrust towards regionalism stood at a crossroads with three possible options. The **first** would involve the construction of an EU-centred free-trade area, which might comprise at some stage 20–25 nations from Eastern Europe, the Mediterranean and Africa, in addition to the 25–30 EU members. Going down this track might result in the demise of the multilateral trading system. The **second** option consisted of seeking global free trade by a given year, say 2010. The **third** would combine elements of the first two options, seeking to facilitate harmonious coexistence between regionalism and multilateralism. This would imply a substantial strengthening of GATT Article XXIV, aimed at minimizing the discriminatory aspect of RTAs

The existence of these options underlined the urgent need for the EU to reflect on the regionalism process and to formulate a long-term vision regarding its consequences. This urgency was not lessened by the failure of President Clinton to secure 'fast-track' legislation, which would have facilitated plans to create a Free Trade Area of the Americas.

### **Evolution of the EU's Trade Policies**

Regionalism through *Regional Trade Agreements (RTAs)* or *Free Trade Agreements (FTAs)* has been widely discussed among trade economists since the 1950s. In the pioneering theoretical approach on the subject, Viner introduced the concepts 'trade creation' and 'trade diversion' and stressed the discriminatory aspects of regional trade liberalization. His claim was that, bilateral or regional economic integration can create trade by lowering tariffs and thereby reducing prices, but it can also lead to

trade diversion for the countries outside the trade agreement. Thus, regional or bilateral trade agreements increase the exports of the signatory countries at the expense of third countries.

The formation of the *European Economic Community (EEC)* in 1957 and *European Free Trade Association (EFTA)* in 1960 became the first remarkable examples of regional trade agreements. On the other side of the Atlantic, the US was keeping a multilateralist approach to trade liberalization, based on the negotiated rules of the *General Agreement on Tariffs and Trade (GATT)*. Following, the **second** wave of regionalism' started after the failure of the GATT multilateral trade negotiations in November 1982, whereas this time the US changed its position and favored RTAs. This regionalism wave affected both developed and developing countries and led to the formation of several regional groupings including the EU, NAFTA and Mercosur. Hence the EU, itself an example of a regional integration, has been an early promoter of regional trade agreements, and the 1970s and the 1990s witnessed several preferential trade agreements of the EU with different countries.

However, in the mid 1990s, the EU turned its attention to multilateralism. The conclusion of the Uruguay Round of multilateral trade negotiations in 1994, and the establishment of the WTO in 1995 to provide the institutional support to the multilateral trade agreements, flourished the expectations that a world trading system based on common rules and multilateral liberalization can be formed. EU's steer towards multilateralism was reinforced when Romano Prodi, the president of the EC, appointed Pascal Lamy as the European Commissioner for Trade in 1999. Lamy was a strict proponent of multilateralism and during his period as the Commissioner, the EU maintained an effective suspension on the opening of bilateral or regional negotiations to conclude FTAs, and championed the multilateral trading system. Lamy (2002) explained this policy as one "pursuing all existing mandates for regional negotiations with vigour and fairness, but not to begin any new negotiations". The EU had announced its strict loyalty to the completion of a comprehensive multilateral round of the WTO, but certain developments were creating some disturbances in this trade policy stance.

Even Lamy argued, in the Trade Policy Assessment document that summarizes his five-year term as the Trade Commissioner, that, “our arguments in favour of a better regulated multilateral world have been less effective.

## **Trade agreements in the international economy**

An important feature of international trade arrangements between countries over the last two decades has been a significant expansion of **regional trade agreements (RTAs)** across the global economy. Some of these agreements are simply free-trade agreements which involve a reduction in current tariff and non-tariff import controls so as to liberalise trade in goods and services between countries. The most sophisticated RTAs go beyond traditional trade policy mechanisms, to include regional rules on flows of investment, co-ordination of competition policies, agreements on environmental policies and the free movement of labour.

### **Examples of regional trade agreements:**

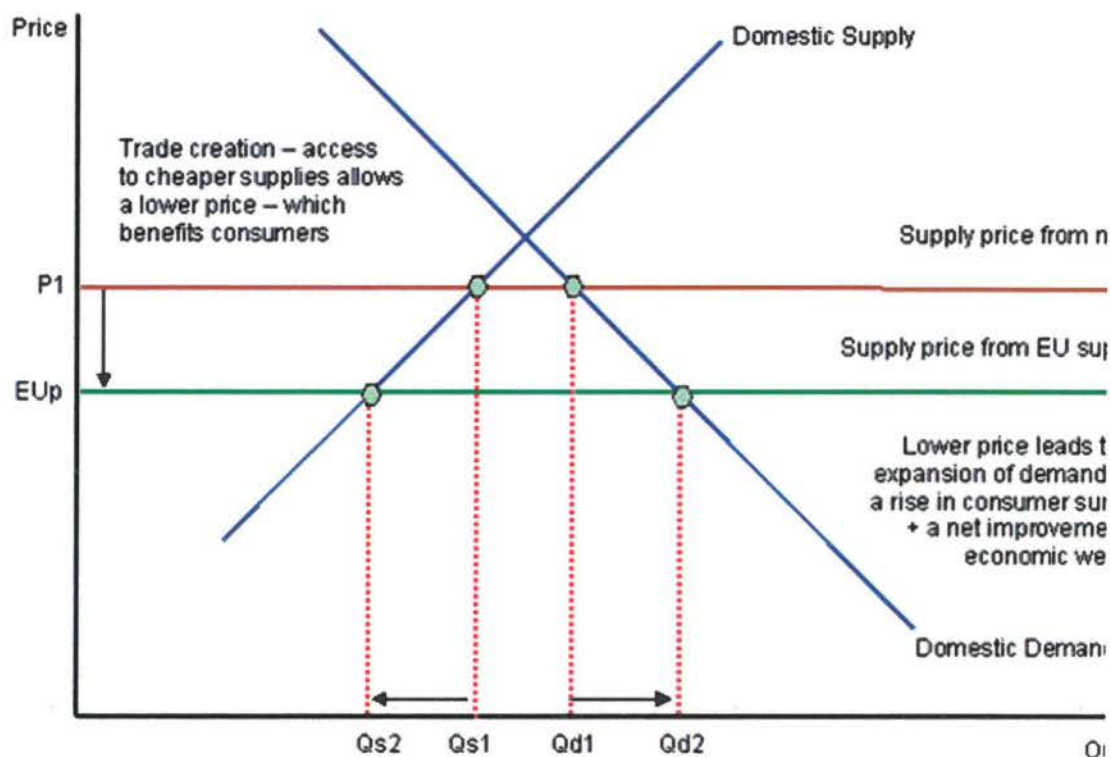
- The *European Union (EU)*
- The *European Free Trade Area (EFTA)*
- The *North American Free Trade Agreement (NAFTA)* – created in 1994
- *Mercosur - a customs union between Brazil, Argentina, Uruguay, Paraguay and Venezuela*
- The *Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA)*
- The *Common Market of Eastern and Southern Africa (COMESA)*
- The *South Asian Free Trade Area (SAFTA)* created in January 2006 and containing countries such as India and Pakistan.

### **Trade Creation**

This involves a **shift in domestic consumer spending** from a higher cost domestic source to a lower cost partner source within the EU, as a result of the abolition tariffs on intra-union trade. So for example UK households may switch their spending on car and home insurance away from a higher priced UK supplier towards a French insurance company operating in the UK market.

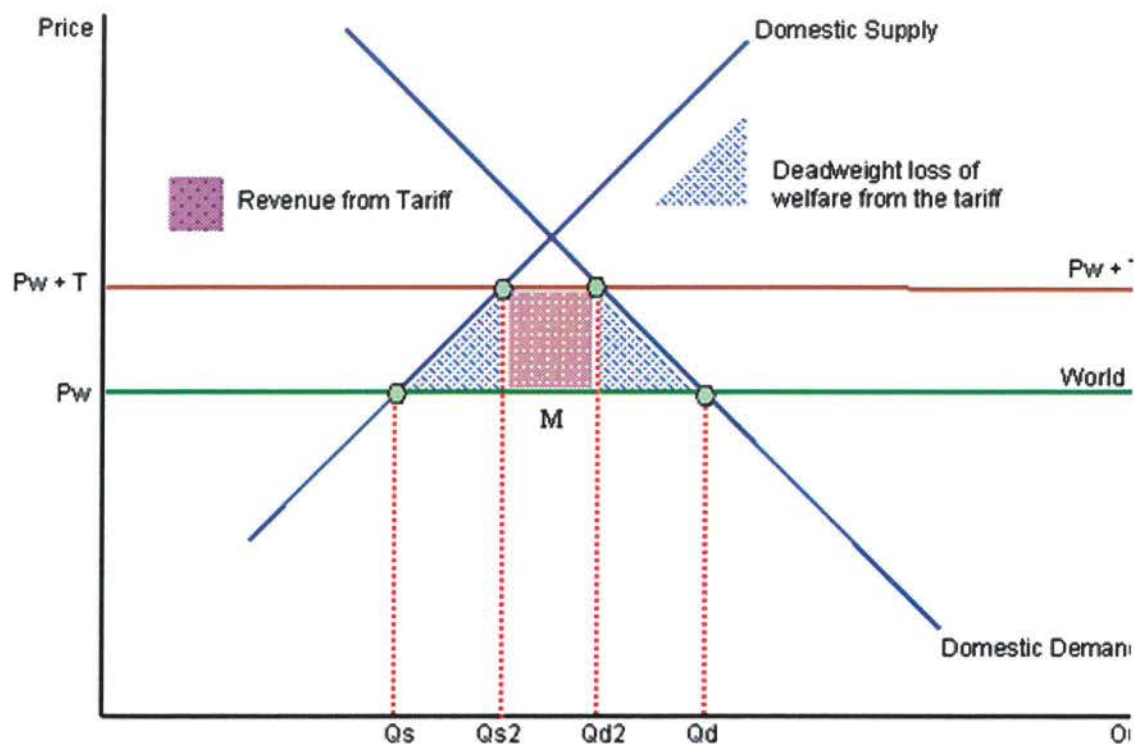


Similarly, Western European car manufacturers may be able to find and then benefit from a cheaper source of glass or rubber for tyres from other countries within the customs union than if they were reliant on domestic supply sources with trade restrictions in place. Trade creation should stimulate an increase in EU trade within the customs union and should, in theory, lead to an improvement in the efficient allocation of scarce resources and gains in consumer and producer welfare.



## Trade Diversion

Trade diversion is best described as a shift in domestic consumer spending from a lower cost world source to a higher cost partner source as a result of the elimination of tariffs on imports from the partner. The common external tariff on many goods and services coming into the EU makes imports more expensive. This can lead to higher costs for producers and higher prices for consumers if previously they had access to lower price supply from a non-EU country. The diagram next illustrates the potential welfare consequences of imposing an import tariff on goods and services coming into the European Union.



In general, protectionism in the forms of an import tariff results in a deadweight social loss of welfare. Only short term protectionist measures, like those to protect infant industries, can be defended robustly in terms of efficiency. The common external tariff will have resulted in some deadweight social loss if it has in total raised tariffs between EU countries and those outside the EU.

The overall effect of a customs union on the economic welfare of citizens in a country depends on whether the customs union creates effects that are mainly trade creating or trade diverting.

## New Trade Policy of the EU: Focus on FTAs

Regarding the fact that the biggest competitor, the US, has been pursuing FTAs with many countries, especially with developed and emerging markets in East Asia, the EU had to act as soon as possible to avoid trade diversion and a shift in the EU's trade strategy had already become inevitable. With the suspension of the *Doha Development Agenda (DDA)*, multilateralist position of the EU has lost its ground and the Commission has been forced to change its trade policy focus.

The European Commission revealed a new trade policy strategy in October 2006, under which the EU would pursue bilateral FTAs with major economies in order to secure the market access and competitiveness of European companies in important markets. The core of the new trade strategy of the EU has been summarized by the Commission as: **“rejection of protectionism at home, accompanied by activism in creating open markets and fair conditions for trade abroad”**.

The new trade policy strategy primarily focuses on the need to identify and remove tariff and *non-tariff barriers (NTBs)* to market access for goods and services that are important for the European exporters.

The FTA strategy constitutes a very important part of this trade policy. The EU already has quite a large number of bilateral deals: *the agreements with the EFTA countries, the customs union with Turkey, the goods agreements with the Euromed countries and the preferential arrangements offered to the sub-Saharan African, Caribbean and Pacific (ACP) countries. The EU had also signed FTAs with Chile, Mexico and South Africa.*

The European Commission defines the key economic criteria for new FTA partners as market potential and the level of protection against EU export interests. In this sense, the Commission defines ASEAN, Korea and Mercosur as prior FTA partners, and India, Russia and the Gulf Cooperation Council as countries of direct interest. . The EU's new FTA strategy aims at the highest possible degree of trade, investment, and

services liberalization, in addition to a ban on export taxes and quantitative import restrictions.

The trade policy change in the EU raised the concerns that the EU was shifting its attention from the *World Trading Organization (WTO)* to bilateral agreements, would become more difficult. After the announcement of its new FTA strategy, the EU has instantly given pace to its efforts for signing FTAs. Currently, the following can be listed as the key EU bilateral agreements:

- **Economic Partnership Agreements in negotiation with ACP countries**
- **Free Trade Agreements with EFTA, EEA, Euromed, Mercosur  
Mexico, Chile and South Africa**
- **Customs Unions with Turkey, Andorra and San Marino**
- **Partnership and Cooperation Agreements with Russia and Ukraine**

The EU is also seeking to negotiate FTA agreements with Russia and the Andean and Central American countries. There are also FTA proposals to the EU from several countries including Japan and Pakistan. In the appendix, we display summarized tables for the trade indicators of the EU with its target FTA partners and those for the previous FTA partners from 2000 to 2006.

## General Conclusion and Points of Criticism

The ENP was established to replace several other policy frameworks relating to the EU's expanding neighbourhood and applies to 16 countries, of which only 14 can fully benefit from it so far. Besides the coherent framework which is set up for the neighbourhood that is why Triantaphyllou and Tsantoulis call the ENP a "catch-all approach" it incorporates a strong component of differentiation, which is implemented through bilaterally concluded Action Plans with the respective partners, building on and further developing formerly concluded bilateral agreements between the EU and their partners.

Whereas some authors commend the ENP and its elements there is also some criticism put forth:

- *The offers and incentives made by the EU towards the partner countries are not concrete enough and therefore may not produce the same positive results as the prospective of EU membership in the case of other states;*
- *Despite the setup of individual Action Plans with objectives and timelines, these are criticized as being too vague and not prioritized enough;*
- *The ENP could not fill the gaps that already existed in other regional frameworks, such as the EMP;*
- *Despite the establishment of the co-ownership approach, asymmetries remain, and are even aggravated through the lack of regional cooperation amongst the partners.*

A final point of criticism that is brought forward by some authors is the large variety of countries that are included in the ENP. These critics describe the ENP as "the mixing of the southern and eastern neighbourhoods into one pot", which leads Noutcheva and Emerson to the conclusion that actually two different neighbourhoods, a Southern and an Eastern one, exist, in terms of geography, political system and cultural and economical elements. Comelli also criticises that, concerning possible future membership, no distinctions are made in the ENP between different countries, which "could cause disappointment in those European countries that have clearly stated their desire to join the Union"; this is especially the case for Ukraine, whose leaders were indeed disappointed about the lack of an enlargement perspective in the ENP.



It seems that the ENP, despite promoting differentiation as one of its main components, is still inaccurately perceived as a 'one-size-fits-all approach'. By drawing attention to the differences between a Southern and Eastern neighbourhood, critics of the ENP call not only for individual, bilateral differentiation, but also for regional or subregional approaches..

The EaP, inaugurated in May 2009, has developed into a new policy framework for six Eastern neighbours of the EU, is it designed to follow on from and complement other frameworks that are already in place such as the BSS and the ENP. It strongly builds upon the ENP and follows the logic of the enlargement policy by maintaining the principle of conditionality. Besides strengthening the bilateral ties with partners, notably existing within the ENP, the EaP further aims to add a regional, multilateral component to relations amongst the partners such as the BSS has already initiated.

Accordingly, many observers question how much extra value the EaP brings, since it is said to duplicate "already existing mechanisms, such as trade agreements, energy deals, and assistance for civil society or student exchanges". For the critics, it is obvious that the EaP offers nothing that was not possible through the implementation of the ENP and therefore, it would have been far more sensible to analyse the progress of the ENP critically and only then draft a new initiative to overcome the shortcomings of existing mechanisms and policies.

More concretely, the EaP has been criticized for giving Belarus the chance to participate in it when real political reforms are still not in sight in this country, because resolution mechanisms for the regional conflicts have not been included well enough and for not clarifying properly whether Russia or not would be able to join some EaP actions, and, if yes, on the basis of which invitation process.

There was some criticism of the EaP from some of the Eastern partners, in particular Ukraine, because the EaP groups together countries that are at different stages in terms of their integration processes with the EU, and because for Ukraine, "any form of neighbourhood policy without membership perspective cannot satisfy".

While many recommendations have been accepted or implemented, for example, proposals for cooperation in certain fields, for a clear conditionality component and for additional funding, others, such as a

clear membership perspective or a clear commitment to conflict resolutions with regards to the persisting problem of unresolved regional conflicts, remain outside the sphere of the EaP.

What becomes clear is that an attempt has been made to create an ENP, by further strengthening the ENP's bilateral component and adding a multilateral one. How successful the EaP will be in achieving these goals remains to be seen.

The complex political, economical and cultural conditions of the four seas basins requires a multilateral policy approach. The task is especially challenging because the EU is required to interact with a variety of actors, from official government. While encouraging local actors and supporting already existing formats of cooperation, the EU will nevertheless need to strengthen the political commitment of the entire Union, if she wants to mobilise her political weight. In avoiding overlapping structures and better funding for regional programmes, the EU can make her instruments more efficient.

By conducting sub-regional policies in the four seas, the EU is operating in at least three out of the four basins, in politically highly sensitive environments. EU policies need thus to be characterized by consistency, not conformity. However successful the integration of new members has been conducted, it is undisputable that the EU's economic weight is not reflected in the security structure on her periphery, where, as in the case of Russia and the Caspian and the U.S. in case of the Mediterranean Sea, other countries are taking the lead. That is not to say that the EU should try to militarize her policies, especially because the very reason for her political attractiveness can be found in her "soft power" and the fact that the EU has not been using classical "power politics" to achieve her objectives.

It is nevertheless remarkable that although the EU is a major economic actor in all four seas, her role as a provider of security is limited. The complicated decision-making process as well as different threat perceptions and regional priorities among member states are among the reasons for this development. The conflict between leading member states about the right strategy in Libya is again indicative of how persistent national political ratios are. Without a common defense policy, the EU will not be able to use her forces efficiently, neither militarily nor politically. This is especially painful in times where new structures of multilateral security-cooperation are being developed.

The well-being of the entire European Union is to a high degree dependent on the ability to manage relations with her neighbours. The four sea basins are therefore testing the EU's ability to multitask political, economical and cultural policies within different political environments and fractured and sometimes overlapping institutional frameworks. But the real test is not about the EU's management skills, it is about the ability to develop a policy that would enable the European Union to spread peace and prosperity in times where her most successful tool, enlargement, is- at least for the near future- not available.

This overview has demonstrated that FTAS play a key role in the EU's trade policy. The general set-up of EU trade policy, as expressed in the Commission's Communication and the reactions of the Parliament and Council illustrate the central place of FTAs in the EU's policy, and the extension of EU competence to include investment and particularly investment protection will bring a new dimension to EU FTA activity.

The approval of the EU FTA and the safeguard regulation which accompanies it is a pathdevelopment which will in procedural terms set the context for future EU agreements. Furthermore, as surveyed in this overview, the EU's ongoing FTA activities are both ambitious and comprehensive and are attracting even more interest. For example Spurred on, undoubtedly by the EU-Korea agreement, Japan is seeking to engage the EU in negotiations on an FTA. Taken together, all of this activity is likely to fulfil the expectations in the Commission's Communication and add in a tangible manner to growth in EU GDP.







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