

## **THE EUROPEAN UNION'S NEW EASTERN NEIGHBOURS**

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Map of the European Union and its neighbours



## Foreword

In April 2004 the Minister of Foreign Affairs asked the Advisory Council on International Affairs (AIV) to produce an advisory report on the future policy of the European Union towards its eastern neighbours after enlargement. The text of the request for advice is included as Annexe I.

The report was prepared by a working group composed of members of the AIV, the European Integration Committee (CEI), the Peace and Security Committee (CVV) and the Development Cooperation Committee (COS). Membership of the working group was as follows: Prof. J.Q.T. Rood (Chair, CEI), Prof. M.G.W. den Boer (CEI), A.C. van Es (AIV), Prof. F.J.M. Feldbrugge (CVV), Dr P. van Ham (CVV), A.P.R. Jacobovits de Szeged (CVV), Mr F.D. van Loon (COS), N.W. Meuter-Dijkers (CEI), Prof. B.A.G.M. Tromp (CVV) and Prof. J.W. de Zwaan (CEI).

The Executive Secretary was Dr S. Volbeda (Secretary of the CEI). During its work the working group was also able to call upon the knowledge and experience of A.M. van der Togt and of T.M. Röling (civil service liaison officer, Southeast and Eastern Europe and Matra Programme Department, Eastern Europe Division (DZO/OE)). The Secretariat was assisted successively by the trainees Saskia Everts, Melchior Bussink and Noor Hulskamp.

In preparing the advisory report the working group talked to a large number of people in Brussels, Warsaw, Moscow and Kiev. A list of the persons interviewed can be found in Annexe II. Discussions were also held with a number of experts, such as J.W. van der Meulen of the Clingendael Institute, R.J.J. Martens, T.T. Nieuwenhuizen and A. Oosterhoff of the Ministry of Economic Affairs, and L.P.M. van Geel of the Ministry of Foreign Affairs (Matra Programme). The AIV would like to express its appreciation to everyone who contributed to the report for their assistance; in this connection we would like to extend particular thanks to the Dutch Embassies in Warsaw, Moscow, Kiev and Brussels.

The report was adopted by the AIV on 8 July 2005.



# I Introduction and questions to be answered in the report

In May 2004 the European Commission formulated a new policy framework for the development and intensification of relations with the Union's neighbours. This framework, the European Neighbourhood Policy (ENP), was set out in a *Strategy Paper*.<sup>1</sup> The European Neighbourhood Policy builds on the policy that was and continues to be pursued with regard to the Mediterranean countries under the Barcelona Process and the policy launched in regard to the eastern European countries in the context of the Partnership and Cooperation Agreements. The goal of the ENP is to make policy towards these countries more coherent and more effective. This applies to all the neighbouring countries, irrespective of whether they are on the eastern or southern borders of the European Union (EU).<sup>2</sup> The ENP does not, however, apply to the candidate or potential candidate countries, such as Bulgaria, Romania, the countries of the western Balkans and Turkey.<sup>3</sup>

The main motives underlying the launch of a differentiated neighbourhood policy are to prevent the emergence of new dividing lines between the Union and the neighbouring regions and to strengthen political stability in the neighbouring countries.<sup>4</sup> Over the coming decades the EU plans to cooperate closely with its neighbours to ensure peace, security, stability and sustainable development for its citizens. The Union's aim is to have good neighbourly relations, 'to create a ring of friendly states'<sup>5</sup> with which it can enjoy close, peaceful and cooperative relations. In order to achieve this, the countries concerned need political, economic and institutional reform, which must be based on common values, in particular those of security, democracy, the principle of the rule of law and a stable market economy. In exchange for tangible results in these areas the EU is prepared to offer its neighbours the prospect of greater economic integration into the EU. However for that to occur the countries concerned will need to adapt their legislation to bring it in line with the Union's 'acquis'<sup>6</sup> What the Union has in mind in particular is participation in the internal market through further integration, together

1 European Neighbourhood Policy, Strategy Paper, Communication from the Commission, COM(2004) 373 final, 12.5.2004. Hyperlink to website for all ENP documents:  
<[http://www.europa.eu.int/comm/world/enp/document\\_en.htm](http://www.europa.eu.int/comm/world/enp/document_en.htm)>.

2 Russia is the only neighbour not covered by the ENP. A specific policy was drawn up for Russia at the EU-Russia summit on 1 May 2005 within the framework of the 'four common spaces'.  
Website: <[http://www.europa.eu.int/comm/external\\_relations/russia/summit\\_05\\_05/index.htm](http://www.europa.eu.int/comm/external_relations/russia/summit_05_05/index.htm)>.

3 Websites: <[http://www.europa.eu.int/comm/world/enp/index\\_en.htm](http://www.europa.eu.int/comm/world/enp/index_en.htm)> and  
<[http://www.europa.eu.int/comm/world/enp/faq\\_en.htm#2.1](http://www.europa.eu.int/comm/world/enp/faq_en.htm#2.1)>.

4 Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, Communication from the Commission to the Council and the European Parliament, COM(2003) 104 final, Brussels 11.3.2003, Chapter I.

5 Op. cit.

6 The body of European Union law.

with liberalisation in the area of 'the four freedoms' – the free movement of persons, goods, services and capital.<sup>7</sup>

In this respect the structure of the ENP is consistent with the broad aims that typify the Union's external policy, which are to contribute to peace, security, sustainable development, solidarity and mutual respect among peoples, free and fair trade, the eradication of poverty, the protection of human rights and in particular children's rights, as well as strict observance and development of international law.<sup>8</sup>

The purpose of the European Neighbourhood Policy is to give practical effect to these policy principles in the neighbouring countries. The eastern neighbours have already committed themselves to the United Nations (UN) conventions on human rights and to the International Labour Organisation (ILO) conventions on labour rights, and they are members of the Council of Europe and of the Organisation for Security and Cooperation in Europe (OSCE).

#### *Questions to be answered in the report*

The central issue in the request for advice concerns the direction the European Neighbourhood Policy should take towards the EU's new eastern neighbours and how it should be implemented. Specifically, it poses the following questions:

- *Will the EU's European Neighbourhood Policy (ENP) be able to achieve its objectives, such as the development of stable and steady relations with the neighbouring countries based on the principles of the rule of law, democracy and a market economy, without offering them the prospect of accession in the foreseeable future? To what extent can these objectives be achieved?*
- *Is intensification of the ENP necessary and possible, and if so, for which elements of it?*
- *How does the ENP relate to, or how should it relate to, the efforts of other actors and donors?*
- *In what areas of the ENP could the Netherlands, either in the EU context or bilaterally, contribute (or contribute further) to deepening of relations with the countries concerned?*

In addition, the request for advice, the full text of which is included as Annexe I to this document, contains a large number of detailed questions about *the instruments to be used, the legal framework, about economic transformation and about the relationship of the EU, the Netherlands and the neighbouring countries with Russia.*

#### *Which neighbouring countries?*

This report is concerned with the European Union's new eastern neighbours, which it gained as a result of the accession of ten new member states on 1 May 2004. Looking ahead to the accession of Romania and Bulgaria – anticipated in 2007 – and possibly of Turkey at a later date, the report deals with the following six countries: **Belarus, Ukraine, Moldova, Georgia, Armenia and Azerbaijan.** The EU has concluded Partnership

7 Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, Communication from the Commission to the Council and the European Parliament, COM(2003) 104 final, Brussels 11.3.2003, Chapter I.

8 State of the European Union 2005, Ministry of Foreign Affairs, The Hague, 21 September 2004, p. 45.



and Cooperation Agreements (PCAs) with all its eastern neighbours. Only the agreement with Belarus is not in force.

This report does not deal with these countries as a group. This is because the Advisory Council on International Affairs (AIV), like the European Commission, believes that a different approach is required for each country.

Geographically these countries are very different from one another. Their internal political and economic problems vary widely, with Ukraine being the largest and richest, and Moldova the smallest and poorest. All six of them were formerly part of the Soviet Union. **Russia**, because of its border with Finland, has been an eastern neighbour of the EU for quite some time now and is only referred to in this report as the 'other neighbour' of the ENP countries'. The report devotes particular attention to Ukraine and Moldova because of recent political developments there.

#### *Membership?*

An important point considered by the report is the question of possible future EU membership of the countries in eastern Europe and the southern Caucasus; a separate chapter is devoted to this issue.

In the Central European countries, a realistic prospect of membership proved to be a significant catalyst in the process of political and economic reform needed to satisfy the conditions for membership. In contrast, it is a basic tenet of the ENP that membership of the EU is not on the agenda *within the foreseeable future*. In this respect the European Neighbourhood Policy differs fundamentally from the policy pursued towards the Central European countries, which was specifically aimed at preparing them for EU membership.

In the absence of such a prospect the question arises of whether the ENP and its associated instruments can actually be effective. Is the European Neighbourhood Policy tenable in the long run without the enforced discipline brought about by the prospect of EU accession? This question is particularly relevant in the light of the political developments following the presidential elections in Ukraine in October and December 2004, which elicited a statement from the European Parliament that Ukraine should be offered the prospect of membership, even if it is only realistic in the longer term.<sup>9</sup> Moreover, the anticipated accession of Romania in 2007 is expected to move the membership of Moldova further up the agenda, while membership of Turkey would dramatically alter relations with the countries in the southern Caucasus.

The report is also written in the context of tension between the call for consolidation of the internal integration process of the Union on the one hand and aspirations in the neighbouring countries on the other. It was drawn up during a period that was politically very dynamic in several of the countries concerned, particularly Ukraine, Moldova and Georgia. The increased call for democratisation and economic reform in such countries is a challenge to the Union's ability to shape its relations with them so as to make an

9 On 13 January 2005 the European Parliament adopted a resolution, in which it asked the Council of the European Union, the European Commission and the Member States to 'consider other forms of cooperation with Ukraine, in addition to the European Neighbourhood Policy, so that the country can have a clear European perspective and might in due course be able to join the European Union.' See also the press report of 13 January 2005 on the EU parliament website: <<http://www.europarl.eu.int>>.

effective contribution to the process of reform. It is from this point of view that the issue of prospective membership should be discussed. However, as the events surrounding the ratification of the Treaty for a European Constitution have shown, there are turbulent political developments taking place in the Union itself. While the Union faces an external challenge to open itself up to more new member states, the negative results of the referenda in France and the Netherlands<sup>10</sup> indicate that a period of consolidation is necessary in order to increase public support for integration. That, at any rate, is the position taken by the Dutch government and the House of Representatives in response to the referendum result in the Netherlands. Consolidation is also important in order to be able to handle the accession of the Central European countries in May 2004 and to prepare the Union administratively and organisationally for the enlargement rounds that are already on the agenda, namely the accession of Romania and Bulgaria, expected in 2007, of the countries of the western Balkans and, in the longer term, of Turkey.

#### *Other actors*

Because of the complexity of the subject and the number of countries involved, other actors involved in the region are mentioned only briefly in the report. It is also beyond the scope of this report to give a full overview of the activities of the individual Member States in each of the countries concerned or of the work of other bilateral donors active in this region. Likewise, the activities of multilateral donors and international financial institutions, such as the European Bank for Reconstruction and Development (EBRD), the World Bank and the International Monetary Fund (IMF) are given only a brief mention, as are the roles of the Council of Europe, the Organisation for Security and Cooperation in Europe (OSCE) and the North Atlantic Treaty Organisation (NATO).

#### *Summary of contents*

Chapter II examines the geopolitical conditions and explains why the EU has developed a neighbourhood policy for this region. It briefly places the developments in their historical context and discusses the role played by Russia. It also gives an overview of the socioeconomic and political situation in the six countries under discussion. At the end of the report is an annexe containing maps and some key statistics for each country.

Chapter III first examines the connection between the transformation to democracy and the rule of law and the process of transition to a market economy. The challenge facing the European Neighbourhood Policy is to encourage these two interlinked processes. The neighbourhood policy itself is dealt with next, along with the instruments the ENP will use to stimulate the transformation process. We then touch on the Netherlands' bilateral policy and briefly mention other actors and donors. Finally, border issues are dealt with, since a number of difficulties are expected in that regard in the near future.

Chapter IV deals with the prospects of accession. For Ukraine in particular this issue is highly politically charged, but it is also a hot topic in Moldova. For the trans-Caucasian states the prospect of accession is more distant. The chapter looks at the desirability of making the prospect of membership more tangible, against the background of the tension, mentioned above, between the need for internal consolidation of the Union and the challenge posed by the political dynamics in the new neighbouring countries.

<sup>10</sup> Referenda on the Treaty for a European Constitution were held in France on 29 May 2005 and in the Netherlands on 1 June 2005.

Chapter V draws conclusions about the opportunities for the EU to influence the democratic and economic development of its eastern neighbours and formulates recommendations for those fields in which intensification of EU policy is possible and desirable. It also deals with the question of which areas of the Netherlands' bilateral policy could be supportive in this context.

## II The geopolitical perspective

### The EU and eastern Europe

The enlargement of the EU resulting from accession of the Central European countries, combined with the prospect of further enlargement to take in Romania, Bulgaria and Turkey, has prompted the EU to bring its existing relations with countries in regions bordering on the Union into a new framework – the European Neighbourhood Policy (ENP) – and to give priority to the development of special relations with those countries.

As stated in the Introduction, the goal of the ENP is to ensure that the region on which the Union borders is stable and secure. Long-term stability and security in the region depend on the countries concerned upholding the rule of law, having an operational democratic system and pursuing economic development based on market principles. The promotion and embedding of the rule of law, of the process of democratisation and of reform of the economic system are, for that reason, major objectives of the ENP. Although these objectives apply to the whole of the Union's external policy they are of particular importance where the Union's *immediate* neighbours are concerned.

What happens in these neighbouring countries will have a great impact on the Union. Our primary need is to ensure security and stability on our own borders. The new common border with Belarus and Ukraine (and, in the longer term, with Moldova and the countries of the Caucasus) and the lengthening of the existing border with Russia make it essential to strengthen our relations with these countries in order to eliminate a number of (pre-existing or potential) transnational problems. These problems are closely linked with their socioeconomic conditions (poor in many respects), poor governance, fragile state structures and political instability. The shifting of the border has brought such problems much closer, along with an increased risk that they could spread to EU territory. These problems include organised crime, illegal migration, the aftermath of ethnic conflicts and cross-frontier air, water and soil pollution.

Apart from the risks mentioned above there is also the simple fact that, like it or not, the EU will find it difficult to stand aloof from any instability in the adjoining region. To do so would be inconsistent with the political ambitions of EU foreign policy. Moreover, as the recent presidential elections in Ukraine showed, the EU is expected to play an active part in resolving political impasses in the region. This expectation has grown even stronger since the accession of the Central European countries, which have close ties with the new neighbours, due partly to the presence of their 'own' minorities on each other's territory. Given these circumstances it is highly unlikely that the EU would be able to stand apart from any political instability resulting from ethnic or other internal tensions in these countries – a fact that underscores the importance to the EU of peace and stability in the region.<sup>11</sup>

Besides the need for security and stability the EU has growing economic interests in the region, with many economic links now developing between the Union and its new neighbours. The most obvious economic interest concerns the trade in and transit of

11 See also: Report of the GAERC ('Gymnich') Informal Meeting, 15-16 April 2005, Letter to the House of Representatives DIE-163/05, 19 April 2005.

oil and gas, of which the EU is a major user. A number of different studies indicate that the Union's energy dependence will increase significantly over the coming decades.<sup>12</sup> The AIV and the National Energy Council are currently preparing a joint advisory report on this important subject. In addition to the Middle East, Russia, the region around the Caspian Sea, the Caucasus, and Central Asia are all growing in importance as transit countries and/or as suppliers of fossil fuels. This means that the Union has a strong interest in the security and stability of those areas and in having good relations with the countries concerned to ensure a secure and assured chain of supply of oil and gas (i.e. extraction, export and transit). Any interruption in the EU's energy supply would not only cause us great economic damage but also raise some serious dilemmas for the Union's stance towards the region. For this reason it is important for the Union to be involved in major infrastructure and other projects in the energy field and in related decision making so that it can ensure that its own energy supplies are secure. Pipeline construction in Ukraine and Georgia is of particular strategic importance.

Other economic ties are being forged through EU companies investing heavily in the region. In their trade policies, these countries are increasingly orienting themselves towards the European internal market. Furthermore, the EU and its Member States are their major aid donors. Strengthening economic and financial relations between the EU and its neighbours – especially in the form of trade access to the European internal market – is essential to these countries' further economic development and to continuation of their economic reform process. There is also reciprocity between economic reform and the strengthening of political stability (see Chapter III of this report). For the EU, although the total economic significance of these countries (expressed in volume of trade and foreign investments) is small at present, they have great potential for economic growth – something they have in common with the new Member States in Central Europe. In other words, it is reasonable to expect that as soon as the market economy begins to operate in these countries, economic growth will increase and a major market for the EU will be created.<sup>13</sup>

Finally, the importance of strengthening relations with neighbouring countries must also be seen in the light of the fact that the enlargement process involving the Central European countries has in any case created new borders between the Union and its neighbours.<sup>14</sup> The economic boost brought about in those new Member States by accession will therefore highlight and increase differences in prosperity between them and their neighbours. Enlargement may also end up altering trade flows and disrupting old pat-

12 Study on Energy Supply Security and Geopolitics, Clingendael International Energy Programme, The Hague, January 2004. See also: *Gas for Tomorrow*, a report by the National Energy Council on the Netherlands' policy options in a changing global and European gas market. National Energy Council, The Hague, January 2005.

13 The latter must still be regarded as a long-term prospect: the combined GDP of the six eastern neighbours amounts to only approx. 20% of that of the Netherlands. This shows that the economic importance of these countries to the EU is at present negligible.

14 See also J.W. van der Meulen et al., *Buurschap houden; de betrekkingen van de EU met de aangrenzende Oost-Europese landen* ('Maintaining good relations: EU relations with the adjoining eastern European countries') Clingendael Institute, The Hague, February 2004.

terns of cross-border economic and cultural contacts and activities.<sup>15</sup> If the new Member States join the Schengen area, this disruptive effect will increase, as their existing bilateral arrangements for visa facilities will have to be cancelled and replaced by the EU's 'hard' external border (see also Chapter III).

The ENP aims to avoid the emergence of new dividing lines in Europe and to limit, as far as possible, the damage caused by unequal development. The new borders should not be allowed to bring about a 'fortress Europe' that attempts to shield itself from the world around it. Quite the opposite: the aim, in line with the basic principles of European foreign policy, is to strengthen the security and stability of the EU in its immediate surroundings by using a wide range of external policy instruments. To quote the European Security Strategy, the goal is to create 'a ring of well-governed countries' around the EU.<sup>16</sup> In this regard the AIV has not only looked at the interests at stake but also (see below) looked at the political playing field in which the ENP must be implemented.

In the first place, this playing field consists of the neighbouring countries themselves. As these are former Soviet states that do not in all cases have a deeply-rooted tradition of sovereignty, it is appropriate for this report to be cautious in expressing any opinion on the policy to be implemented in the medium and longer term. Whereas it is true that the aim of European policy is to contribute to the establishment of stable relations with the countries concerned, at the same time history (in some cases, recent history) shows that (internal) political conditions in countries in this region are unstable. With poorly-developed state structures, fluid borders and the existence of large, and in some cases cross-frontier, ethnic groupings and/or minorities, it is difficult to make predictions about the future political development of the region.

This uncertainty is partly due to weak governance structures. Some of the countries are fragile states.<sup>17</sup> This fragility manifests itself in a number of different ways. In Belarus it takes the form of an absence of legitimacy, connected with a poorly-developed, dictatorial political system in which democracy and respect for the rule of law and human rights are violated by the state. Elsewhere, on many fronts, we see inadequate governmental systems that have neither the capacity nor the experience and know how essential to govern effectively in accordance with the basic principles of good governance. Moreover, it has to be admitted that the central government in some of the ENP countries (Moldova, Georgia, Azerbaijan) does not have complete control of all its territory. These problems lead to political instability, widespread corruption, marked social inequality and a brain drain, particularly of young people.

The position of the countries concerned cannot be viewed in isolation from that of Russia. Although economic ties with Russia have loosened and its significance as a trad-

15 Europe as a Cultural Project, European Cultural Foundation, Amsterdam, 2005, p. 20.

16 Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, Communication from the Commission to the Council and the European Parliament, COM(2003) 104 final, Brussels 11.3.2003, Chapter I.

17 Failing States: a global responsibility, Advisory Council on International Affairs and Advisory Committee on Issues of Public International Law, AIV/CAVV report no. 35, The Hague, May 2004. See also the government response of 11 March 2005.

ing partner has decreased, it still holds a dominant position in the region. For a number of reasons, including its military presence in some of the ENP countries, its neighbours' dependence on Russian gas and electricity, and the presence of (often substantial) Russian minorities in these countries, Russia's role is crucial. This is especially true of its direct involvement in certain regional conflicts, which cannot be resolved without Russian cooperation. Attention should also be drawn to the very close cultural and historical ties between Russia and some of the countries in the region, such as Ukraine.

In its policy towards the ENP countries the EU has no option but to take account of Russia and Russian interests. As already noted, Russian cooperation is crucial to resolving the territorial conflicts in some of the ENP countries (Georgia, Moldova). Failure to deal with these conflicts properly will, in turn, store up serious problems for the future for those countries and hinder their integration into Euro-Atlantic structures. It is also clear that, like it or not, Russia exerts a significant political influence on developments in this region and is prepared to use that influence if its interests are threatened. The EU has a lot to gain from good bilateral relations with Russia, not least because of our growing energy dependence.

Viewed from the above perspective, relations between the Union and the ENP countries could be represented as one side of a triangle, where the corners represent the ENP countries, Russia and the European Union respectively. The existence of this trilateral relationship means that in its policy towards its ENP partners the EU has to have constant regard to Russian views and interests, although never at the expense of its new neighbours.

It is encouraging, however, that the Russian position is not static; development and dynamism can be seen on all three sides, including the Russian side. Having initially set up the Commonwealth of Independent States (CIS) as a means of maintaining its old ties, Russia subsequently opted for a more assertive bilateral approach to its close neighbours – an approach that came into sharp focus during the Ukraine crisis. More recently, however, a more pragmatic approach seems to have been preferred, in which it acknowledges the right of its neighbours, as sovereign states, to seek closer ties with or pursue accession to the EU, provided that Russian interests are taken into account. Moscow's current formula is that such rapprochement with the EU must not be allowed to lead to the emergence of a new wall or dividing line between Russia and its neighbours.

This more open stance allows the EU an opportunity to develop relations with Russia further, both in regard to bilateral questions and on policy towards ENP countries. On 1 December 1997 a Partnership and Cooperation Agreement (PCA) was signed with Russia,<sup>18</sup> thereby making the country eligible for substantial EU aid programmes. The EU/Russia summit in St Petersburg in May 2003 took the first steps towards formulating a strategic policy of the 'four common spaces', further details of which were agreed at the EU/Russia summit in Moscow on 10 May 2005.<sup>19</sup> The agreement constitutes, as it were, the European-Russian side of the trilateral relationship described above. This initiative accommodates Russia's express wish to develop a privileged relationship

18 Website: <[http://www.europa.eu.int/comm/external\\_relations/ceeca/pca/](http://www.europa.eu.int/comm/external_relations/ceeca/pca/)>.

19 Website: <[http://www.europa.eu.int/comm/external\\_relations/russia/summit\\_05\\_05/index.htm](http://www.europa.eu.int/comm/external_relations/russia/summit_05_05/index.htm)>.

with the EU based on equality of status. The four spaces are (i) economy, (ii) freedom, security and justice, (iii) external security and (iv) research, education and culture. All matters of mutual interest can be discussed within the framework of these four spaces. For the Union the four spaces provide an instrument to shape the trilateral relations in a balanced way, respecting both Russian interests and the interests of the ENP countries. While due importance must be accorded to Russia's wish to avoid being faced with a new dividing line in Europe, it is also fair to expect Russia to stand by its word and not impede the process of democratisation and economic reform in the neighbouring countries. Ultimately it is hoped that Russia, too, will realise that the existence of stable and prosperous neighbours is in the common interest and will also benefit relations between itself and the EU.

Finally, any analysis of the playing field must include mention of the special position of the United States. As is clear from the recent visit by President George W. Bush to Georgia,<sup>20</sup> and from statements about Belarus made by US Secretary of State Condoleezza Rice,<sup>21</sup> the US takes a particular interest in developments in the region. Support for democratic reforms and regimes is, of course, consistent with the US's current foreign policy, but the American position also has to do with its major economic interests in the energy sector and the role that the countries concerned play (or could play) in the fight against international terrorism. The US also has something to offer in return. Moral and political support from the only superpower is always welcome as a counterbalance to Moscow, which is still distrusted. NATO membership, or close ties with NATO, is a major foreign policy objective of a number of countries, including Ukraine and Georgia, and the road to achieving the objective starts in Washington. Finally, there is the enticing prospect of financial and economic support and American investment.

The role of America is also of great significance to the EU – not as a competitor, but as a partner. It is of the greatest importance that the actions of the Union and the US, whether in the context of NATO or otherwise, should be in harmony, particularly in regard to relations with Russia. This will ensure that the greatest benefit is obtained from the two parties' involvement.

Surveying this political playing field, we can conclude that the opportunities for the EU to actually influence developments in the region formed by the eastern ENP countries should not be underestimated. In particular, the recent changes in Ukraine and Georgia have created a new momentum in a region in which the Union, until recently, showed little interest. That momentum offers the chance of a structural revolution in favour of democracy and a market economy in those countries.

The EU's special position and responsibility are not, however, founded purely on the hopes that the countries in question have of it. The Union itself also has significant political and economic interests at stake. Although not the only actor in the region – NATO, the OSCE, the Council of Europe, the World Bank, the IMF and the EBRD also play an important role, as do Russia and the US – the EU is both a very important donor and a market for these countries and, because of its proximity and its wide

20 On 10 May 2005. See website: <<http://www.whitehouse.gov/news/releases/2005/05/20050510-2.html>>.

21 Website: <<http://www.state.gov/secretary/rm/2005/40991.htm>>.



range of foreign policy instruments, is potentially a political player of considerable stature.

To put matters differently, developments in this region need to be looked at from a broader politico-strategic perspective to accord them their true historical significance. In other words, it is more than just 'business as usual'. The EU expresses this fact in the ENP, which is discussed in Chapter III. First, however, the following sections give a brief outline of the situation in each of the six neighbouring countries highlighted in this report.

## **Overviews of the countries concerned**

### *Comparison of some key figures*

Annexe III contains an overview, a map and some key figures for each country. Here is a brief selection from it:

Ukraine has a population of almost 48 million and a GDP of 49.5 billion USD. By way of comparison, Belarus, with one-third the area of Ukraine, has a population of 10 million and a GDP of 17.5 billion USD. The other countries cover areas of between a sixth and a twentieth of that of Ukraine. Azerbaijan has 8 million inhabitants and a GDP of 7.1 billion USD. Georgia has a population of 5 million and a GDP of 3.9 billion USD. Moldova's population is 4.5 million and its GDP is only 2 billion USD. Armenia has a population of 3 million and a GDP of 2.8 billion USD.

### *Ukraine*

After Russia, Ukraine is the largest and richest of the EU's eastern neighbours. Roughly half of the population have Ukrainian as their primary language, while the other half speak mainly Russian. A thousand years ago the Ukrainian capital, Kiev, was the centre of a great Eastern Slavic empire, in which the Russian state has its origins. This fact is still of great importance to Russia's perception of its relationship with Ukraine. With the dissolution of the Soviet Union in 1991, the country became independent, and in 1992 the Crimea gained a measure of cultural and economic autonomy under the sovereign authority of Ukraine.

In 1996 Ukraine adopted a democratic constitution that provided for a pluralist political system and protection of fundamental human rights, such as religious freedom and freedom of expression. Following the recent elections in October and December 2004 and the subsequent peaceful Orange Revolution, the reformist Viktor Yushchenko became president. The live news coverage of the Orange Revolution by state television played a significant part in this. There was a great deal of mediation by the EU and two of the Member States, Lithuania and Poland,<sup>22</sup> as well as by the Russians, to avoid bloodshed and find a political solution.<sup>23</sup> Parliamentary elections will be held in March 2006 and the general view is that these will be the litmus test for the government that took office after the Orange Revolution.

22 Both Ukraine and Belarus have significant Polish minorities because a large part of their territory belonged to Poland pre 1945.

23 International Herald Tribune, 18 January 2005.

The current Ukrainian president, like his predecessor, has expressed an aspiration for his country to join the EU. On 1 March 1998 the EU concluded a Partnership and Cooperation Agreement (PCA) with Ukraine. A PCA is the basis for opening up access to the EU's aid programmes.<sup>24</sup> For the purposes of the ENP the European Commission has compiled a country report on Ukraine,<sup>25</sup> in preparation for drawing up an Action Plan (AP).<sup>26</sup> Ukraine is also currently involved in negotiations to join the World Trade Organisation (WTO),<sup>27</sup> membership of which is regarded as a priority, with a view to subsequently joining a free trade zone with the EU. However, one of the difficulties in achieving this is that certain key sectors of the economy, such as the heavy industry in the Don Basin and the energy sector, are not sufficiently liberalised. In addition, the government wants to begin modernising the machinery of government and to tackle the large scale corruption. Efforts to deal with corruption are seriously hampered by the scale of the shadow economy.<sup>28</sup> One of the priorities, therefore, is to improve the system for registering agricultural land. There are also high hopes of the new oil pipeline when it is completed. If Ukraine is successful in carrying through the reforms it could in due course – given its level of development, population and size – easily become the largest recipient of EU support.

The Netherlands and Ukraine have agreed bilaterally a joint action programme for 2004-2006, including political dialogue and economic cooperation. The plan covers a large number of areas such as agriculture, transport, energy, environmental protection, banking, customs, taxation, the fight against terrorism, social issues, health care, justice, defence, science and technology, education, media and culture.<sup>29</sup>

#### *Belarus*

Like other former Soviet states, Belarus gained independence in 1991. The government is a dictatorship, whose current president, Alexander Lukashenko, was elected for five years in 1994 and re-elected in 1999. By means of a referendum in 2004 he created the possibility of remaining in office for more than two terms.<sup>30</sup> Presidential elections are due in 2006, or if brought forward, some time in 2005.

24 See the next chapter for further details.

25 Website: <[http://www.europa.eu.int/comm/world/enp/pdf/country/Ukraine\\_11\\_May\\_EN.pdf](http://www.europa.eu.int/comm/world/enp/pdf/country/Ukraine_11_May_EN.pdf)>.

26 Website:  
<[http://www.europa.eu.int/comm/world/enp/pdf/action\\_plans/Proposed\\_Action\\_Plan\\_EU-Ukraine.pdf](http://www.europa.eu.int/comm/world/enp/pdf/action_plans/Proposed_Action_Plan_EU-Ukraine.pdf)>.

27 The economic space (Single Economic Space) planned by the previous government between Russia, Belarus, Ukraine and Kazakhstan never came to fruition and is no longer regarded as a priority.

28 Economist Intelligence Unit, Country Briefing on Ukraine: estimate based on electricity consumption. The Stefan Batory Foundation, a think tank in Warsaw, also expects full integration to be a long-term process at best. See *Will the Orange Revolution bear fruit?*, Stefan Batory Foundation, Warsaw, May 2005.

29 Joint Action Programme for 2004-2006 between the Kingdom of the Netherlands and Ukraine's Cabinet of Ministers, 19 April 2004.

30 "Misdaad zonder grenzen, Criminaliteitsbeeldanalyse Oost-Europa 2002-2003" ("Cross-border Crime, a Crime Pattern Analysis of Eastern Europe"), Police, September 2004, p. 75.

Foreign assistance to civil society organisations is subject to severe restrictions and recent developments point towards increasing repression in a number of areas: a new law banning organisations from accepting financial support from foreign sources (since 1 February 2005); a bill to reform the media that prohibits assistance from outside the country and constitutes a *de facto* re-imposition of censorship; a new law on internal security forces which permits harsher crackdowns on demonstrations; restrictions on foreign travel for students and a freeze on reforms that would have brought the education system more into line with Western systems. The president has also expanded the secret police. In January 2005, US Secretary of State Condoleezza Rice called Belarus an 'outpost of tyranny'.<sup>31</sup> Earlier in this chapter the country was described as a fragile state in which there is 'an absence of legitimacy, connected with a poorly-developed, dictatorial political system in which democracy and respect for the rule of law and human rights are violated by the state'.<sup>32</sup>

For years Belarus has sought closer ties with Russia, but plans for adopting a common currency and for other forms of cooperation (such as the plan of 2003 to form a single economic space with Russia, Ukraine and Kazakhstan) have failed to materialise. While Russia and Ukraine are now preparing to join the WTO, Belarus has re-introduced price controls, a fixed exchange rate and state influence in the management of companies. Managers are also faced with a whole raft of restrictive regulations, some of which have retroactive effect. Approximately 80% of industry is under state ownership.

The EU signed a PCA with Belarus on 1 March 1995 but neither this nor the Interim Agreement are in force. Nevertheless, the EU's TACIS programme provides a limited level of support to government-approved non governmental organisations (NGOs) aimed at democratic bodies, including human rights organisations.

#### *Moldova*

Moldova also gained independence in 1991 and in 2001 became the first former Soviet state to elect a Communist Party leader, Vladimir Voronin, as president. An amendment to the constitution in 2000 limited the president's power and Moldova is a parliamentary democracy. Although Voronin's party came to power with a pro-Russian programme in 2000, in March 2005 the same party won the elections with a pro EU policy.<sup>33</sup> This U-turn<sup>34</sup> was partly motivated by disappointment about Russia's position on the conflict over Transdniestria, which was seen as an attempt by Moscow to keep the country divided and weak. In 1992 Transdniestria declared itself independent from Moldova, but not a single country has recognised it. It lies on the border between Moldova and Ukraine, on the eastern side of the River Dniester. A peacekeeping force

31 Along with Cuba, Burma, North Korea, Iran and Zimbabwe. Source: Opening Remarks by Secretary of State-Designate Dr Condoleezza Rice, Senate Foreign Relations Committee, 18 January 2005, website <<http://www.state.gov/secretary/rm/2005/40991.htm>>.

32 Including the half-million Polish minority in Belarus suspected of pro-democratic activities and subject to repressive measures, see *The Economist*, 18 June 2005, p. 26.

33 These elections were democratic, although it is possible to criticise the way the election campaign was conducted because the opposition was scarcely able to get any media attention. The Communists now have 71 of the 101 votes in the parliament.

34 Since January 2003.

of Russian, Moldovan and Transdniestrian troops is deployed there. This unresolved conflict not only hinders integration with Europe but is also an obstacle to Moldova's economic recovery, since a large proportion of its manufacturing capacity, particularly in steel and textiles, lies within the conflict area. A further problem is the illegal trade (in weapons, in particular), some of which uses the Ukrainian Black Sea port of Odessa. A large percentage of the population in this area of the country is of Russian or Ukrainian descent. There is also, in the south of Moldova, an area inhabited by ethnically Turkish Gagauzians who have a degree of autonomy under the sovereign authority of Moldova.<sup>35</sup>

Moldova borders on Romania, which has a similarly-named province, Moldavia. Before and during World War II, the majority of Moldova's present-day territory belonged to Romania.<sup>36</sup> Since Moldova gained its independence a large number of its ethnic Romanians have obtained Romanian passports.

On 1 July 1998 Moldova and the EU concluded a PCA. As in the case of Ukraine, the European Commission has compiled a country report for Moldova,<sup>37</sup> which will be used to track implementation of the Action Plan that was drawn up in the context of the ENP.<sup>38</sup> Moldova became a member of the WTO as early as July 2001. After the first wave of privatisations, many state enterprises fell into the hands of a small number of powerful individuals and privatisations then came to a standstill.<sup>39</sup> The European Commission intends to open a representation in the capital, Chisinau, in the second half of 2005. It is estimated that 10% - 20% of Moldovans are employed abroad, mostly in the Romance-language-speaking countries of the EU, but also in Russia. The remittances they send home from the EU are considerable: in 2003 they sent 200 million USD to Moldova via Western Union transfers alone.<sup>40</sup>

### *Georgia*

Among the twelve Soviet states that remained in the CIS after the secession of the Baltic states, Georgia occupies a special place. Non-communist parties had already obtained majorities in elections by 1990 and the new president, Zviad Gamsakhurdia, pursued a strongly nationalistic Georgian policy, which led to problems with sizable minorities. South Ossetia and Abkhazia, which border on Russia, both effectively seceded. The Abkhazians, who were a minority in their own territory, gained their inde-

35 "Misdaad zonder grenzen, Criminaliteitsbeeldanalyse Oost-Europa 2002-2003" ("Cross-border Crime, a Crime Pattern Analysis of Eastern Europe"), Police, September 2004, p. 86.

36 In a referendum in 1994, 94% of the population of the current Moldova voted against reunification with Romania and in favour of independence. Source: Atlantic Commission fact sheet, website: <<http://www.atlcom.nl/fsgos.htm>>.

37 Website: <[http://www.europa.eu.int/comm/world/enp/pdf/country/Moldova\\_11\\_May\\_EN.pdf](http://www.europa.eu.int/comm/world/enp/pdf/country/Moldova_11_May_EN.pdf)>.

38 Website: <[http://www.europa.eu.int/comm/world/enp/pdf/action\\_plans/Proposed\\_Action\\_Plan\\_EU-Moldova.pdf](http://www.europa.eu.int/comm/world/enp/pdf/action_plans/Proposed_Action_Plan_EU-Moldova.pdf)>.

39 State of the European Union 2005, Ministry of Foreign Affairs, The Hague, 21 September 2004, p. 56.

40 The Economist, 13 February 2003.

pendence in fierce fighting supported by North Caucasian groups acting under Russian direction and ousted a large number of the Georgians from the area.

In a situation of increasing political chaos, Gamsakhurdia was overthrown and replaced by Edvard Shevardnadze, the former USSR Minister of Foreign Affairs. Once installed, Shevardnadze successfully restored a measure of law and order and calm, but the country remained deep in economic depression. Shevardnadze was also unable to resolve the conflicts with Abkhazia and South Ossetia. In Adzharia, where a sizable minority of Georgian Muslims live, Shevardnadze was forced to accept the near-complete autonomy of the local leaders.

Initially there was little enthusiasm in Georgia for membership of the CIS, but in 1993 the country bowed to geopolitical reality. In 1995 a new constitution was adopted that gave the parliament a stronger position than those in the other CIS countries, which are characterised by highly presidential systems. After independence, modest economic growth was initially achieved with help from the IMF and the World Bank, but it could not be sustained. On 1 July 1999 a PCA was signed with the EU, after which relations with the EU were strengthened. In June 2000 Georgia became a member of the WTO.

After the Rose Revolution and the subsequent elections in late 2004, Mikhail Saakashvili was elected president. He made the fight against corruption and reform of the judicial systems his first priority, as part of which the traffic police were disbanded to put an end to the practice of random imposition of on the spot fines. This was accompanied by a public information campaign and salary rises for the newly appointed officers. One of the problems in Georgia is poor tax collection, although this appears to be improving slowly. Improving the business climate is a further major spearhead of the new policy. The economy has recently taken an upward turn and for the foreseeable future hopes are pinned on income from transit trade and from activities connected with the new oil pipeline that came into use on 25 May 2005 (see also under Azerbaijan). Up to now Georgia has been dependent on oil and gas supplies from Russia. The Russian electricity company UES acquired the whole of the important Georgian distribution network a few years ago.<sup>41</sup>

In May 2004 the crisis over the seceded region of Adzharia led to the local leader leaving office, the curtailment of smuggling and the return of the region to Georgian government control. Similar developments are hoped for in the other seceded territories.<sup>42</sup> However, little progress has been achieved with regard to Abkhazia and South Ossetia. In the north the country borders on Russia, including the conflict area of

41 The Economist, 27 November 2003.

42 The Russians used this opportunity to extend their military presence in Adzharia, at Batumi. In accordance with the agreements made at the 1999 OSCE summit in Istanbul, Russia closed two of the four military bases and reduced its weapons arsenal. Discussions about the closure of the two remaining bases at Batumi were unsuccessful and Russia now maintains that it wishes to keep these bases open as anti-terrorism centres in the fight against terrorism in the region.  
Source: NRC Handelsblad, 15 February 2005.

Chechnya.<sup>43</sup> Georgia would prefer Moscow to transfer the peacekeeping forces in Abkhazia (stationed at Sukhumi) and those in South Ossetia to the UN or the OSCE. Meanwhile, 3,000 Georgian troops have been trained by the Americans, but with the express instruction that they must not be deployed in the seceded territories. The US has taken a very active interest in developments in Georgia, which has a crucial position as a transit country for oil and gas being piped from the region around the Caspian Sea to the new Turkish port of Ceyhan.

### *Armenia*

Unlike Georgia, which was a more or less independent state until the beginning of the 19th century, Armenia lost its political independence in the Middle Ages, and until 1917 was dominated alternately by the Ottoman Empire and Iran. Along with the other two Caucasian republics, it enjoyed a brief period of independence after 1917, but was forcibly incorporated into the new Soviet state in 1921. During World War I the large Armenian population of the Ottoman Empire were victims of genocide, a fact that Turkey has failed to acknowledge to date. This failure is a serious obstacle to improvements in relations between the two countries.

Following the collapse of the Soviet Union, Armenia obtained independence in 1991. It has always remained a staunch ally of Russia within the CIS and Russia also has military bases on Armenian territory.

Since independence Armenia's internal and foreign policy has been dominated by the question of Nagorno-Karabakh. This area, populated mainly by Christian Armenians, forms an enclave in Azerbaijan and during the Soviet period it was an autonomous province of Azerbaijan.<sup>44</sup> As early as 1988, during the final stages of the Soviet Union, fighting broke out here between the Armenians and Azeris. The result is that since the cease-fire in 1994 the Armenians have controlled not only Nagorno-Karabakh, but also the corridor that separates the territory from Armenia itself.<sup>45</sup> The former president of Nagorno-Karabakh, Robert Kocharyan, won the Armenian presidential elections in 1998 and was re-elected in 2003. These Armenian elections have been heavily criticised as unfair,<sup>46</sup> and the situation with regard to freedom of the press and freedom of expression is not ideal either.

Armenia's relations with its other two neighbours, Georgia and Iran, are satisfactory. However, the economies of both Armenia and Azerbaijan are suffering as a result of the unresolved conflict between them. Turkey has closed its border with Armenia in protest, thereby isolating the Armenian economy. In 1994 Armenia began to liberalise its economy with help from the IMF, laying the foundations for the high growth figures

43 See e.g.: "Misdaad zonder grenzen, Criminaliteitsbeeldanalyse Oost-Europa 2002-2003" ("Cross-border Crime, a Crime Pattern Analysis of Eastern Europe"), Police, September 2004, p. 73 and p. 92.

44 This situation was all the more unsatisfactory for Armenia as the area of Nakhichevan, an autonomous republic sandwiched between Turkey and Armenia and inhabited by Azeris, formed an Azerbaijani enclave.

45 The area in question constitutes approximately 20% of Azeri territory.

46 "Misdaad zonder grenzen, Criminaliteitsbeeldanalyse Oost-Europa 2002-2003" ("Cross-border Crime, a Crime Pattern Analysis of Eastern Europe"), Police, September 2004, p. 89.

of the past ten years. This growth is quite remarkable as the economy is based mainly on small-scale, scarcely modernised agriculture. A PCA was signed with the EU on 1 July 1999 and in February 2003 Armenia became a member of the WTO. The country's social structure is strongly polarised and is characterised by wide differences in income. Russia has cancelled part of Armenia's foreign debt in exchange for a controlling interest in the energy sector (electricity and gas) and shares in the arms industry. Per head of the population, Armenia is one of the largest net receivers of foreign aid.

### *Azerbaijan*

The population of Azerbaijan is Muslim and is ethnically related to the Turks. After independence political development in the country progressed along the same lines as that in comparable Central Asian states: the old communist rulers (the party secretaries) had themselves elected as presidents and reinforced their authority, which was now no longer subject to Moscow's control. The unavoidable democratic ritual of elections and opposition parties presented no serious obstacle to this happening, and Geidar Aliyev, a former member of the Politburo, held the reins of power until his death, despite coup attempts in 1994 and 1995. His son Ilham succeeded him as president in 2003.

In spite of widespread human rights violations and highly fraudulent parliamentary elections, Azerbaijan, along with Armenia, was admitted as a member of the Council of Europe in 2001.<sup>47</sup> However, this has made it possible to call the authorities to account occasionally on the matter of human rights. Azerbaijan has had a PCA with the EU since 1 July 1999, but is not a member of the WTO.

Azerbaijan possesses not only considerable oil and gas reserves of its own, but also has a strategic position as a transit country for oil and gas from fields in the Caspian Sea area and has long enjoyed good relations with Iran. The country has only recently begun a programme of economic reforms and progress is slow. Widespread corruption is a problem, and there is difficulty in finding investors to expand the economic base. At present the economy is entirely dependent on the price of Caspian oil and on the pipeline that runs through Russia. The new BTC oil pipeline from Baku via Tbilisi (in Georgia) to Ceyhan in Turkey came into operation on 25 May 2005.<sup>48</sup> A new Trans Caspian gas pipeline (TCGP) is also being laid to Erzurum in Turkey, to facilitate sales to the EU. Both pipelines bypass Russia, Iran and Armenia.

47 Op cit. p. 91.

48 The Netherlands contributed to an environmental impact assessment of the laying of this pipeline and to the establishment of an extensive monitoring system involving not only the largest investor (British Petroleum) but also the three national governments concerned and local NGOs. See Letter to the House of Representatives DMW-253/05, 12 April 2005.

### **III The transformation to democracy, the rule of law and a market economy**

This chapter deals first with the links between the transformation to a democracy governed by the rule of law and the transition to a market economy. We then look at the ENP in practice; the model used and how the policy is translated into specific action points. In these, reform of public administration, improvement of the business climate and the response to challenges in those fields feature prominently. The European Neighbourhood and Partnership Instrument (ENPI) is also discussed, as are the bilateral instruments used by the Netherlands in the EU's new neighbouring countries to the east. Then follows a brief discussion about what other donors are doing. The chapter closes with a section on border issues, as a number of difficulties can be expected in that regard in the near future.

The agenda for transformation to democracy and the rule of law encompasses such matters as free and fair elections, an independent judiciary, effective protection of civil rights (in particular the freedoms of expression, association and assembly), independent media and the creation of a reliable and effective machinery of government.<sup>49</sup>

As regards what governments need to do to stimulate the transformation to a market economy, two things are important: developing the financial sector and creating a favourable climate for business. To a great extent, these two things go hand-in-hand with reforming public administration. The link between them becomes clear if we consider matters such as action on corruption and organised crime, strengthening the reliability and effectiveness of the judiciary, supervision of the banking system, transparency and integrity of the machinery of government, and regulations and administrative practices to facilitate and stimulate successful private enterprise. All these need to be supported by educational reform, a stronger civil society, and the development of a multifaceted cultural life.

All of the six countries discussed in this advisory report are in a difficult situation. The decline in prosperity in the eastern neighbouring countries in the 1990s after the collapse of the Soviet Union does not appear to have been made good yet. We cannot be any more specific about this because, owing to the fundamental change in economic system, the statistics do not admit of any proper comparisons. The loss of prosperity may be even greater than the statistics suggest, given that any transition to a market economy will always be accompanied by difficulties of adjustment. Throughout the region there is also a decline in population. Alcohol abuse is lowering the average life expectancy, of men in particular, and the birth rate is decreasing. This decline in population is aggravated by the fact that many young people are leaving to find work elsewhere, both in the EU and Russia, thereby causing a major brain drain.

Although these countries all appear calm from the outside, political stability is not firmly rooted in any of them. Throughout the region Russia has considerable influence in many ways. Most of the important transport links (rail and road links and oil and gas pipelines) run through Russia, and Russia sometimes uses the oil and gas supply to exert political pressure on its neighbours.

49 Europe. A Beautiful Idea? Nexus Institute, Ministry of Foreign Affairs, The Hague, February 2005, p. 31.



Apart from the EU there are other actors active in the six neighbouring countries. Ukraine receives a combined total of around USD 1 billion a year in loans from the World Bank and the IMF, while Armenia and Georgia each get around USD 40 million every 2 to 3 years. There are also a number of other bilateral donors – Germany and the United Kingdom in particular allocate large sums. Through its Matra and PSOM programmes the Netherlands' involvement is strongest in Ukraine. The six countries also receive macro support. The Netherlands represents Armenia, Georgia, Moldova and Ukraine (the “constituency countries”) on the boards of the World Bank and the IMF. The first three of them are so poor that they are eligible for development assistance and receive support from the Netherlands in the fields of good governance and human rights. Work is currently in progress to transfer this support to the Matra programme. These same three countries also receive macro support as part of the PRSP process they are involved in with the World Bank and the IMF.<sup>50</sup>

All these efforts are aimed at stimulating and supporting the transformation process. However, it is a huge process that requires change in many different fields and involves a crucial need to build or strengthen existing institutions. Experience with the newly-acceded Central European countries has shown that this kind of transformation can take decades.

### **The European Neighbourhood Policy (ENP)**

The ENP aims to gradually draw these countries closer to the EU, without their pursuing accession or the prospect of accession being held out to them. The EU's vision is to bring them into an economic area which will eventually be comparable to the European Economic Area (EEA),<sup>51</sup> in which Norway, Liechtenstein and Iceland participate in addition to the EU member states. The EEA countries enjoy completely free movement of goods, capital, services and persons with the EU. Despite this participation in the internal market, they have no voting rights when new EU internal market legislation is adopted or rejected, yet are still obliged to incorporate it fully into their domestic law.

The whole package of policy areas covered by the ENP is open to all the neighbouring countries, so none of these countries need feel privileged or disadvantaged. The legal framework for the ENP is constituted by the PCAs previously concluded with the EU. These agreements have a lifespan of ten years and are due for renewal in 2008 (Ukraine and Moldova) and 2009 (Georgia, Armenia, Azerbaijan). Belarus is the only country without a PCA in force (see Chapter II).

The objective of the ENP is to create stable and balanced relations with the neighbouring countries and to encourage those countries to develop into prosperous, free-market democracies governed by the rule of law. The policy covers the whole realm of the four freedoms. Translating the ENP into practice could therefore involve *any* measures that promote the free movement of persons, goods, services and capital, or, in short, any measures conducive to participation in the internal market. In addition to economic issues the policy also covers anything that stimulates transformation to democracy and the rule of law. This breadth of scope is also the policy's strength, because it takes full

50 Letter to the House of Representatives DZO-128/04, 18 May 2004.

51 European Economic Area; this agreement entered into force on 1 January 1994.

account of the strong links between the transformation processes in the various policy areas. However, clear priorities obviously need to be set, preferably such as to accord with the policy priorities of the country in question, thereby facilitating effective coordination of the various aid monies at local level. This is a point that should not be underestimated.

It is important, then, that each country should choose for itself the areas in which it wants to take advantage of EU aid and what it wants to prioritise. This will increase the feeling of ownership and contribute to the ENP's effectiveness. Given the vast differences that exist between the neighbouring countries, there is good reason to take this country-specific approach. Each country will negotiate directly with the EU and the outcome will be recorded in an action plan (AP) that is updated periodically. Action plans for Ukraine and Moldova were among the first to be submitted to the General Affairs and External Relations Council of the European Union (GAERC) in December 2004.<sup>52</sup> Both plans were accepted by the GAERC,<sup>53</sup> and in the spring of 2005 they were approved by the Cooperation Councils of the EU and the countries concerned. Following the elections in Ukraine the GAERC adopted conclusions aimed at accelerating the implementation of a number of priority elements of the AP,<sup>54</sup> in line with the wishes of the new government that was inaugurated in February 2005. Ukraine has now drawn up concrete plans for the AP's rapid implementation.

One new aspect of the ENP is that it is based on the principles of results-based management, which has now been adopted by most donors. This means that decisions about follow-on funding are always taken on the basis of results achieved. It was for this reason that the European Commission drew up evaluations for each country (the country reports). These are needed as a starting point to assess subsequent progress, while also forming the basis for drawing up action plans. Priorities and pace will be determined by the countries themselves. In the future the Commission will also produce regular progress reports, based partly on reports from the government of the partner country and information from the EU's special representative there. These are the means by which results-based management will be put into effect. This approach was not yet in use at the time of the EU accessions in 2004.<sup>55</sup>

As regards the free movement of goods the APs include membership of the WTO, trade preferences (leading to free trade agreements), economic liberalisation, openness of markets and improving cross-border communications. Experience has shown that encouraging reciprocal trade between countries is a good first step towards stimulating economic growth. This is why the EU regards accession to the WTO as a prime require-

52 See the website: <[http://www.Europe.eu.int/comm/world/enp/document\\_en.htm](http://www.Europe.eu.int/comm/world/enp/document_en.htm)> for all relevant ENP documents, including the action plans for Ukraine and Moldova.

53 Presidency conclusions, Council of the European Union, (OR.en) 16238/04, 17.12.2004, Website: <[http://www.Europe.eu.int/comm/world/enp/document\\_en.htm](http://www.Europe.eu.int/comm/world/enp/document_en.htm)>.

54 The "10 point plan". GAERC conclusions 5799/05, 28.1.2005.

55 The Netherlands' bilateral policy on the accession countries was not yet results-based either. See: An Enlarged Europe Policy, Evaluation of the Dutch Policy concerning the Accession of Central European Countries to the EU 1997-2003 (Country Case Studies Hungary, Lithuania, Poland and Romania), Policy and Operations Evaluation Department (IOB) The Hague May 2005.

ment.<sup>56</sup> Although WTO membership is regarded as a good first step, liberalising trade is not in itself a sufficient condition for economic growth. This is because the EU imposes quality requirements, such as regulations to protect public health or the environment. These require the existence of a properly-organised customs service and reliable institutions which can carry out quality controls during the production cycle, the storage stage and throughout the transport chain.<sup>57</sup> Additional investment in these areas is therefore needed.

Other essential requirements in the process of transformation to a market economy, in addition to WTO membership, are development of the financial sector, improving the climate for business, tackling corruption and encouraging the creation of independent bodies to monitor competition and quality control. There is also a need to modernise the taxation system and make it transparent.

The free movement of persons requires attention to issues such as visa facilitation and border control, but action is also needed in the field of justice and home affairs. The effectiveness of government bodies needs to be improved in order to successfully combat problems such as migration pressure, trafficking in human beings and terrorism. The free movement of services involves many of the same issues as the free movement of goods. But in addition to economic matters, many issues require attention in the field of political transformation: free elections, support for the formation of political parties, decentralisation of government, human rights, freedom of the media, strengthening of civil society organisations and mediation in conflict. There are also many improvements that need to be made in areas such as the environment, research and innovation, which involve not only material things but also, for example, cultural, educational and social exchanges.<sup>58</sup>

In the APs for Ukraine and Moldova, which were signed in February 2005, the ENP has created new opportunities for accelerating and intensifying political cooperation. The APs for the trans-Caucasian states are still at the preparatory stage. In concrete terms, the APs for Ukraine and Moldova translate the ENP guidelines into: strengthening the stability and effectiveness of institutions that guarantee democracy and respect for legislation; compliance with the OSCE guidelines for democratic presidential and parliamentary elections; guaranteeing respect for the freedom of the media and for freedom of expression; cooperation on security in the border areas and seeking a peaceful solution to the Transdnistria dispute; improvement of the investment climate through structural reform, by fighting corruption and by encouraging transparency in business; adapting laws and regulations in line with EU law; and increasing the countries' civil service and judicial capacity.

56 As members of the WTO the countries can benefit from the low customs tariffs which the member states apply to each other and which may not be raised unilaterally. The next step is to enter into free trade agreements which abolish barriers for the majority of trade between them. WTO rules require *substantially all the trade* to be covered by favourable arrangements; the EU deems this to mean 95% of all trade, including the trade in agricultural produce.

57 The requirements are stricter for participation in the EEA (internal market) than for WTO membership; this means that participating countries need to have the same level of regulation as Norway or Iceland.

58 See also: State of the European Union 2004-2005, Ministry of Foreign Affairs, The Hague, 2004, p. 47.

As well as implementation of these general points, the following specific issues are on the agenda for Ukraine: creation of opportunities for international consultation on crisis management; strengthening of cooperation on disarmament and non-proliferation issues; entry into dialogue on visa procedures; implementation of the Memorandum of Understanding on the closing of Chernobyl nuclear power station; accession to the WTO; the removal of bilateral trade restrictions and the introduction of liberalising regulations; reform of the taxation system and improvements of financial management in government; and encouraging open discussion of employment issues such as discrimination against foreign workers on the basis of their nationality.

With Moldova specific guidelines have been agreed which may be helpful in resolving the regional conflict over Transdnistria. They include working on sound border controls for Moldova as a whole and more effective action against organised crime, in particular the smuggling of human beings. The guidelines also specifically mention continuing cooperation with the international financial institutions, the implementation of a poverty reduction policy in conjunction with a policy to increase economic growth and tax revenues, and reform of the bodies responsible for supervising goods produced in the country.

The wide range of topics covered by the APs are all potentially eligible for funding through the ENPI. The next section looks closer at the development of this instrument, which will be operational from 2007. The current instruments, which will remain in place until then, are also discussed.

### **The European Neighbourhood and Partnership Instrument (ENPI)**

The financial instrument ENPI will be available from 2007. Until that time, the existing funds developed for technical assistance, TACIS (for the CIS countries), and for inter-regional cooperation within the EU (INTERREG) will continue to be available.<sup>59</sup> The ENPI will also be open to Russia.

#### *TACIS*

TACIS<sup>60</sup> (Technical Assistance to the Commonwealth of Independent States) was set up in 1991 to support the process of economic and political reform in the CIS countries. The EU's aim with TACIS was to facilitate the transition to a market economy and to strengthen democracy in the CIS countries. The programme offers support in the form of grants to encourage the exchange of knowledge and experience through partnerships, cooperation and networks at every level. TACIS works on a country-specific basis and the countries can determine their priorities and the pace of progress themselves.

Between 1991 and 1999 TACIS support totalled EUR 4.2 billion. Since 1996 TACIS has paid more attention to multiannual programming and cross-border infrastructure projects, while democratic values and respect for minorities have been made preconditions for the financing of projects. Technical assistance is being provided at more than ten sites in the CIS in the field of nuclear safety. The current TACIS programme is for the period 2000-2006, with a budget of EUR 3.1 billion. In this final programme

59 Unfortunately the EU has not evaluated any of these programmes.

60 Website: <[http://www.Europe.eu.int/comm/external\\_relations/ceeca/tacis/](http://www.Europe.eu.int/comm/external_relations/ceeca/tacis/)>.

period, TACIS is encouraging, more than before, investment by European small and medium-sized enterprises by providing financial guarantees, carrying out studies and arranging contacts.

#### *INTERREG*

In the field of interregional cooperation within the EU, INTERREG<sup>61</sup> provides technical assistance designed to strengthen social and economic cohesion throughout the European Union in the period 2000-2006. INTERREG supports cross-border, transnational and interregional cooperation and its objective is to foster the balanced development of the entire EU territory. INTERREG focuses on activities relating to borders and border areas between the individual member states and between the European Union and non-member states. The budget for the period 2000-2006 is EUR 4.8 billion, more than half of which is earmarked for the regional development of border areas. INTERREG's major focus is on the external borders of the European Union resulting from the recent enlargement, and cooperation within and with the remoter border areas of the EU.

Although the positive effects of these two instruments have been recognised, both have also been criticised because of problems with coordination and effectiveness of the various aid flows. The new instrument, the European Neighbourhood and Partnership Instrument (ENPI), discussed below, will attempt to overcome these fundamental difficulties. Additionally, the procedures for submitting and administering applications, especially for non-governmental organisations, are criticised for being too complicated and placing too great a strain on their implementation capacity. The procedures also take a long time – often too long for smaller organisations. This explains why the EU is frequently unable to spend its aid budgets in full. The creation of the possibility of funding at the preparatory stage, to enable thorough project proposals to be worked out, would be a welcome improvement and would help resolve the latter problem.

#### *ENPI*

The current instruments will cease to be used once the new policy instrument is available in 2007. The European Neighbourhood and Partnership Instrument (ENPI) will also replace MEDA,<sup>62</sup> the programme for the provision of aid to southern neighbouring countries. EuropeAid, the office that manages these aid funds, is involved in a major tidy-up operation, converting its plethora of geographical and thematic instruments (35 in all), 90-odd budget lines and numerous implementation modalities into just six instruments, one of which will be the ENPI. The objective of this operation is to greatly simplify aid policy, thereby improving both coordination and effectiveness.

The new ENPI instrument is founded on the principles of policy coherence, allocation of resources on the basis of results achieved, and better dialogue with partners and other donors. As part of this simplification process, the number of conditions for the submission of applications has also been greatly reduced, thus making the resource allocation process faster and more efficient.

61 Website: <[http://www.Europe.eu.int/comm/regional\\_policy/interreg3/index\\_en.htm](http://www.Europe.eu.int/comm/regional_policy/interreg3/index_en.htm)>.

62 Euro-Mediterranean Partnership Programme. Websites:

<[http://www.Europe.eu.int/comm/external\\_relations/euromed/meda.htm](http://www.Europe.eu.int/comm/external_relations/euromed/meda.htm)> and

<[http://www.Europe.eu.int/comm/regional\\_policy/interreg3/index\\_en.htm](http://www.Europe.eu.int/comm/regional_policy/interreg3/index_en.htm)>.

There is a proposal on the table to increase the budget from approximately EUR 9 billion at present (for TACIS and MEDA) to nearly EUR 15 billion for all the neighbouring countries of the EU together for the budget period 2007-2013.<sup>63</sup> No country ceilings would be imposed, which means that there would be budgetary flexibility (scope to switch funds between budgets), depending on results achieved.

### **Dutch bilateral programmes**

The Netherlands has two bilateral programmes which were originally developed for the 2004 accession countries and which are now being deployed in the new neighbouring countries. They are the Social Transformation Programme (Matra), which is managed by the Ministry of Foreign Affairs and is directed at social, societal and political transformation, and the Emerging Markets Cooperation Programme (PSOM), run by the Directorate-General for International Cooperation.

The Ministry of Economic Affairs makes a financial contribution to the PSOM for Ukraine, while the programmes in Armenia, Georgia and Moldova are funded from the budget managed by the Directorate-General for International Cooperation. The PSOM is not operational in Belarus or Azerbaijan. The Eastern Europe Cooperation Programme (PECO) of the Ministry of Economic Affairs was integrated into the PSOM on 1 June 2005.<sup>64</sup> Proposals to review all of that Ministry's instruments were sent to the House of Representatives in June 2005 and will be discussed after the summer recess. The future bilateral programme of the Ministry of Economic Affairs will focus on developing a small number of growth markets.

The Matra programme, which received a favourable evaluation,<sup>65</sup> has a policy document approved by the House of Representatives<sup>66</sup> and an annual budget allocation of EUR 50 million. The main features of the programme are its flexibility, demand-driven ethos and long-term vision.<sup>67</sup> The programme is being implemented in the potential member state of Serbia and Montenegro in addition to the accession countries and,

63 Proposal for a regulation of the European Parliament and of the Council, laying down general provisions establishing a European Neighbourhood and Partnership Instrument (presented by the Commission), Commission of the European Communities, COM(2004) 628 final, Brussels, 29.9.2004. See also: European Neighbourhood Policy: Economic Review of ENP Countries, European Commission, European Economy Occasional Papers, no. 18, April 2005. At the Council meeting of 16-17 June 2005 the member states were unable to agree on the whole EU budget, which will be on the agenda again under the next (British) Presidency (Conclusions Luxembourg Presidency: Council of the European Union, (Or.fr) 10255/05, Brussels, 18.6.2005).

64 See also: Letter to the House of Representatives from the Ministry of Economic Affairs, 11 October 2004.

65 Diamonds and Coals, Evaluation of the Matra programme of assistance to Central and Eastern Europe 1994-1997, Policy and Operations Evaluation Department evaluation no. 279, Ministry of Foreign Affairs, The Hague, 1999.

66 Letter to the House of Representatives, DZO-UM/1064/2004, 21 September 2004.

67 See also the recommendations in: *Een uitgebreid Europabeleid*, Policy and Operations Evaluation Department evaluation no. 299, The Hague 2005.

following the model set by the ENP, will eventually be expanded to include both the eastern and the southern neighbouring countries. The programme focuses particularly on strengthening networks through twinning with organisations in the Netherlands. The purpose is to enable Dutch organisations to become acquainted with organisations elsewhere. At the same time it simplifies management of the programme by entrusting it to the Dutch partner (to which Dutch management rules apply). These rules have not become any simpler in recent years and, what is more, project periods are often too short to allow long-term objectives to be met.

In addition to the Matra programme and the PSOM, non-governmental Dutch development organisations are active in the EU's eastern neighbouring countries, particularly in the poorer ones. The Netherlands Management Cooperation Programme (PUM) run by the Dutch employers' organisation the VNO/NCW<sup>68</sup> is also open to the EU's new eastern neighbours. Furthermore, a number of organisations, such as De Nederlandse Bank and the Court of Audit, are involved in capacity building with their counterpart institutions in the constituency countries. The Dutch embassies, like those of a number of other member states, also manage a delegated budget for 'small embassy projects', which are an ideal vehicle for responding promptly to new initiatives.

### **Programmes of other donors**

Other EU member states are also active in the eastern neighbouring countries. Apart from bilateral support from countries such as France, Germany, the United Kingdom, the Netherlands and the United States, a significant proportion of foreign financial aid has come about as a result of the multilateral policy of international financial institutions, the most important of which are the World Bank and the International Monetary Fund. The regional development bank EBRD is also active,<sup>69</sup> and a number of bilateral donors have developed their own programmes.<sup>70</sup> France focuses mainly on cultural exchanges, while Germany mainly provides financial and technical assistance. The United Kingdom, along with the northern countries of the EU, is active in the field of human rights, democratic institutions, justice, supporting civil society and fighting corruption. American bilateral aid invests principally in justice and tackling crime. It is estimated, for example, that Armenia receives around USD 100 million a year from the US, not including aid to the military and the intelligence service.

The World Bank group and the IMF complement each other in the ways they seek to meet their objectives: the World Bank concentrates on economic development and poverty reduction in the long term, while the IMF focuses on promoting the stability of the international financial system. Both organisations use a wide range of instruments to implement their plans, including loans, technical assistance, policy advice and

68 This programme is co-financed by the Ministries of Foreign and Economic Affairs and implemented by the VNO/NCW.

69 This bank makes an annual investment of EUR 3.8 billion in private and public sector projects to promote the transition to sustainable development in a market economy in Europe and Central Asia. Website: <<http://www.ebrd.com/index.htm>>.

70 Many donors, including the Netherlands, also support the work of the IFIs in specific areas with bilateral trust funds.

capacity building.<sup>71</sup> The World Bank, in cooperation with the relevant national governments, other donors and civil society representatives, draws up work plans (Country Assistance Strategies - CASs), which serve as a guide to providing assistance in the relevant countries and are updated annually. For the poorest countries, struggling with too much foreign debt, Poverty Reduction Strategy Programs (PRSPs) are drawn up with input from the countries concerned, after they have provided evidence of good conduct.<sup>72</sup> Once a country has done so, it becomes eligible for debt forgiveness or cancellation. In recent years the World Bank's policy, both for the CASs and the PRSPs, has been shifting increasingly towards a country focus, where the country itself sets the priorities. The EU's new European Neighbourhood Policy takes a similar approach. The poorer countries such as Armenia, Georgia and Moldova are also eligible for soft loans from the International Development Association (IDA), which is part of the World Bank Group. The total amount lent by the World Bank to the new eastern neighbouring countries since 1992 is nearly 7 billion dollars, with Ukraine being by far the biggest borrower.<sup>73</sup>

Like the World Bank, the IMF provides financial assistance to countries that are having problems with their balance of payments. A specific programme, the Poverty Reduction and Growth Facility (PRGF), is in place for the poorest countries. This programme was set up on the basis of the PRSPs. The interest on a PRGF loan is only 0.5% a year and the loan can be repaid over a period of ten years. As well as loans and policy assistance both the World Bank and the IMF offer programmes for capacity building to numerous local organisations in a wide range of areas.<sup>74</sup>

### **Border issues**

The EU rightly wants to prevent the emergence of new dividing lines at the borders of the enlarged Union. Nevertheless combating cross-border crime, including corruption, trafficking of human beings and terrorism, is a major concern. In the Schengen area of the EU people can travel from one country to the next without any passport checks. Its external borders are part of Community territory,<sup>75</sup> and in order to facilitate the free movement of persons, controls along these external borders have been tightened up. The more rigorous controls are intended to combat illegal immigration, terrorism, traf-

71 In addition to this the World Bank Group provides venture capital to the private sector via the International Finance Corporation and administers a guarantee fund (Multilateral Investment Guarantee Agency).

72 Once they can prove they have been pursuing a sound financial policy for a number of years.

73 Armenia: USD 820 million (1992-2004), Azerbaijan: USD 622 million (1995-2004), Belarus: USD 193 million (1994-2004), Georgia: USD 773 million (1995-2004), Moldova: USD 592 million (1993-2004), Ukraine: USD 4 billion (1992-2003). See also the website <<http://www.web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT>>. See also the website <<http://www.imf.org/external/np/exr/facts/poor.htm>>.

74 See also the website: <<http://www.imf.org/external/np/exr/facts/poor.htm>>.

75 The Schengen cooperation agreements were incorporated into EU law on entry into force of the Treaty of Amsterdam on 1 May 1999.



ficking of human beings and other forms of organised crime in the EU.<sup>76</sup> With the accession of the ten new member states on 1 May 2004, transitional arrangements were made to enable them to organise controls along the EU's external borders in accordance with Community regulations (which include a Common Manual on External Borders). Until these new border checks are in place, the controls between the old and the new member states will be retained.

Problems arise in cases where accession countries had bilateral agreements on flexible border controls with neighbouring countries which have not joined the EU. This is the case in Poland (with Belarus and Ukraine), Hungary (with Romania) and Slovenia (with Croatia).<sup>77</sup> There may also be problems in Romania (with Moldova). The agreements that Hungary and Slovenia made in the past are not a problem, because Romanians and Croats no longer need a visa to enter the EU. The situation is different, however, for the agreements that Poland has made, particularly because Poland's borders with Belarus and Ukraine are sensitive as regards illegal immigration, human trafficking, the trade in stolen cars and other forms of organised crime.<sup>78</sup> The European Commission deals with this issue in the memorandum 'Towards integrated management of the external borders of the Member States of the European Union',<sup>79</sup> in particular with regard to local border traffic. The Convention of 1990 implementing the Schengen agreement had previously provided ways of organising local border traffic, but none of them has been used thus far. The ENP advocates an efficient and user-friendly system for local border traffic,<sup>80</sup> and the European Commission states that it wishes to prevent the emergence of new dividing lines at the borders of the enlarged EU.<sup>81</sup>

76 'Misdaad zonder grenzen, Criminaliteitsbeeldanalyse Oost-Europa 2002-2003' ('Cross-border Crime, a Crime Pattern Analysis of Eastern Europe'), Police, September 2004, p. 38.

77 In the near future something similar may happen in respect of border crossings from Moldova to Romania.

78 Misdaad zonder grenzen, Criminaliteitsbeeldanalyse Oost-Europa 2002-2003 ('Cross-border Crime, a Crime Pattern Analysis of Eastern Europe'), Police, September 2004, p. 78.

79 COM(2002)233, 7.5.2002, pp. 14 and 26. See also 'On the development of a common policy on illegal immigration, smuggling and trafficking of human beings, external borders and the return of illegal residents', European Commission, COM(2003) 323 def., 3.6.2003, p. 8.

80 Local border traffic is defined in the Commission proposal as: 'the regular crossing of the external land border of a Member State by persons lawfully resident in the border area of a neighbouring third country, in order to stay in the border area of that Member State for a period which cannot exceed the time limits set in this Regulation.' - Article 3 (c) . 'Border area' means an area which does not extend to more than 50 kilometres in a straight line from the frontier - Article 3 (b).

81 COM(2003) 104 def., 11.3.2003, COM(2003) 393 def., 1.7.2003, p. 11 and par. 8.3 and COM(2004) 373 def., 12.5.2004, p. 16.

In its *Strategy Paper* of 12 May 2004 the Commission refers to two proposals for Regulations which it submitted in August 2003 in relation to local border traffic.<sup>82</sup> Under the *first* proposal,<sup>83</sup> border residents not requiring a visa (nationals of third countries) may cross the borders of a neighbouring member state if they are in possession of a valid identity card or specific border crossing permit.<sup>84</sup> They may then stay in the border area of the neighbouring Member State for up to seven consecutive days, while the total duration of their successive visits in that Member State must not exceed three months within any half-year period.<sup>85</sup> The introduction of a specific visa is proposed for border residents requiring a visa.<sup>86</sup> In both cases the member states may, for the purposes of implementing the regime of local border traffic, conclude agreements with third countries 'in conformity with the rules set out in this Regulation'.<sup>87</sup> The Commission's *second* proposal<sup>88</sup> is that the regime of its first proposal be applied to the temporary external land borders between member states, i.e. between old and new member states, as well as between the new member states.<sup>89</sup>

82 The Commission explains that accepting the proposals will "... make it possible for border area populations to maintain traditional contacts without encountering excessive administrative obstacles". The Commission goes on: "The EU may also consider possibilities for visa facilitation. Facilitation by one side will need to be matched by effective actions by the other." The relevant Commission proposals have been incorporated into the Proposal for a Council Regulation on the establishment of a regime of local border traffic at the external land borders of the Member States, European Commission, COM(2003) 502 of 14.8.2003, p. 17.

83 Proposal for a Council Regulation on the establishment of a regime of local border traffic at the external land borders of the Member States, European Commission, COM(2003) 502 of 14.8.2003. Local border traffic is defined as: "the regular crossing of the external land border of a Member State by persons lawfully resident in the border area of a neighbouring third country, in order to stay in the border area of that Member State for a period which cannot exceed the time limits set in this Regulation." - Article 3 (c). 'Border area' means an area which does not extend to more than 50 kilometres in a straight line from the frontier - Article 3 (b).

84 Op cit. Articles 5 and 6.

85 Op. cit. Article 7. The second paragraph states that an extension of the time limits may be envisaged in exceptional circumstances.

86 Op. cit. Article 9.

87 Op. cit. Article 17.

88 Proposal for a Regulation on the establishment of a regime of local border traffic at the temporary external borders between the Member States (also included in COM (2003) 502 of 14.8.2003).

89 Op. cit. Article 1.

It should be noted in relation to these proposals on local border traffic that, as part of the latest enlargement, the EU developed special transit documents for Russians who wish to travel to Kaliningrad via Lithuania.<sup>90</sup> The EU has previously made special arrangements for Spain (for Morocco and the Spanish enclaves of Ceuta and Melilla) and for Portugal (for readmitting Brazilian nationals who entered another member state from Portugal under the visa waiver scheme). These cases involved only small numbers of people, but the situation as regards border traffic between Poland and Belarus/Ukraine would appear to be different. Furthermore, since this border is more sensitive as regards security issues,<sup>91</sup> relaxing border controls does not seem to be the most appropriate course of action.

A number of ENP countries, including Ukraine, are known to have expressed a wish for certain categories of people (such as businesspeople, students or diplomats) to be allowed to enter the EU without a visa. The EU's reaction to this has been rather unforthcoming because it is not always clear whether people are actually the 'businesspeople', 'diplomats' or 'students' they claim to be. Furthermore, in practice it is not so much the visa requirement itself that is an obstacle, as the length of time, complexity (and cost) of the procedures. It should be noted that the European Union is the competent authority for short-term visas,<sup>92</sup> while the member states are currently still competent to issue long-term visas.<sup>93</sup>

90 See: Regulation 693/2003 and 694/2003 establishing a specific Facilitated Transit Document (FTD) and a similar document for rail passengers (FRTD) of 14 April 2003 and OJEU L 99/8-21 of 17 April 2003.

91 Poland has recently had to deal with a substantial influx of refugees and asylum seekers from Chechnya (UNHCR Warsaw).

92 Visas valid for up to three months, see Article 62 (2) (b) of the EC Treaty.

93 Visas valid for over three months, see Article 63 (3) of the EC Treaty.

## IV A prospect of accession for the eastern European ENP countries?

In this report, the AIV has also addressed the question of possible future EU membership in the case of the eastern ENP countries, although it is aware that neither the Union nor the Dutch government views the ENP as preparation for membership. The government said so explicitly in a recent memorandum: 'the ENP is emphatically not a gateway to candidature for membership for these countries'.<sup>94</sup> This view echoes the position taken by the European Commission, which has stressed the same point.<sup>95</sup> In that respect the ENP differs fundamentally from the pre accession arrangements followed in regard to the Central and Eastern European candidate countries. In short, the ENP cannot be taken as the basis for any concrete expectations of membership.

This does not mean that the countries concerned *cannot* become members of the EU. The government memorandum mentioned above expresses this point succinctly when it states, referring to the Treaty on European Union, that the southern ENP countries are in any event *not* European, but that possible membership applications from Ukraine, Moldova and Belarus would be 'difficult to reject on geographical grounds'. Consequently, providing that they comply with the fundamental principles of the Union, they can apply for membership under Article 49 of the EU Treaty. If the countries concerned believe they can meet the Copenhagen criteria, applications are possible in principle. On the question of whether the three trans Caucasian countries covered by this report also belong geographically to the continent of Europe and might therefore also become members of the Union in due course, the government is non-committal. In that context it should also be noted that political as well as geographical considerations play a large part in the decision of whether to allow countries to accede to the Union.<sup>96</sup>

In the view of the Dutch government, as set out in the above-mentioned memorandum, the accession of Belarus, Ukraine and Moldova is not a matter for discussion in the foreseeable future. For this reason it regards the ENP *currently* to be the appropriate instrument for developing and deepening relations between the EU and its neighbours in accordance with the objectives set out in the introduction to this report, i.e. with a view to strengthening security and stability in the region.<sup>97</sup>

94 Grenzen van de Europese Unie ('Borders of the European Union'), Memorandum to the House of Representatives, ref. DIE-96/05, 17 March 2005.

95 European Neighbourhood Policy, Strategy Paper, Communication from the Commission COM(2004) 373 final, 12.5.2004. See also website: <[http://www.europa.eu.int/comm/world/enp/index\\_en.htm](http://www.europa.eu.int/comm/world/enp/index_en.htm)>.

96 Thus, the other eastern neighbours of the EU, including Russia but excepting Belarus, became members of the Council of Europe in 1995 or later. See also website: <[http://www.coe.int/T/e/com/about\\_coe/member\\_states/default.asp](http://www.coe.int/T/e/com/about_coe/member_states/default.asp)>.

97 In its approach, the government is building on the line set out in 'The State of the European Union, 2002, Ministry of Foreign Affairs, The Hague, September 2001', Chapter I of which, 'From Marrakesh to Murmansk', presents a study of the relations of the newly enlarged Union with its neighbours.

The main reason for the Dutch government adopting this position is its desire to achieve the consolidation of the Union. In its memorandum entitled *Grenzen van Europese Unie*,<sup>98</sup> the government points out the need to allow time for the recent and forthcoming enlargements to be assimilated. The forthcoming enlargements consist of the anticipated accession of (a) Romania and Bulgaria in 2007, (b) the accession at a later date of the countries of the Western Balkans with which a Stability and Association Agreement (SAA) has been concluded,<sup>99</sup> and (c) Turkey, in the more distant future. These factors (the need for consolidation and assimilation) weigh even more heavily after the 'No' votes in the referenda in France and the Netherlands, as was apparent in the debate between the government and the House of Representatives. The rejection of the proposed European Constitution by two of the Union's founding members reinforces the government's previously expressed desire for consolidation and necessitates a period of reflection on the nature and direction of integration process. The AIV endorses this view in its advisory report *Positionering van Nederland*,<sup>100</sup> which examines the serious problems that cast a shadow over the future development of the EU and that could even jeopardise the results achieved so far. In consequence it suggests in that report that the opportuneness of and the time for future enlargement should be looked at in the light of the need to reinforce the Union's own absorption capacity.

The AIV thus endorses the government's view that this is not the time to hold out the definite prospect of accession to the eastern ENP countries.<sup>101</sup> At the same time, the AIV appreciates the government's assertion that Ukraine, Moldova and Belarus are part of Europe from a geographical point of view and could therefore submit membership applications. In the light of the aspirations of Ukraine and Moldova, the AIV considers this to be a reasonable position to adopt.

The AIV's conclusion is that the question of these countries' possible membership requires a long term strategy. The widespread desire to put matters in order within the Union and achieve a measure of consolidation will not diminish the aspirations of Ukraine and Moldova, however. Both countries have set membership of the EU as the top priority of their foreign policy, so membership of the Union is on the political agenda. Ukraine, with the support of EU member states such as Poland and the Baltic

98 *Grenzen van de Europese Unie* ("Borders of the European Union"), Letter to the House of Representatives, reference DIE-96/05, 17 March 2005.

99 The Stability and Association Agreements (SAAs) were concluded with the countries of the Western Balkans, which have the prospect of accession. See website: <[http://www.europa.eu.int/comm/external\\_relations/see/sap](http://www.europa.eu.int/comm/external_relations/see/sap)>.

100 'Positionering van Nederland', AIV advisory report, Ministry of Foreign Affairs, The Hague, to be published in August 2005.

101 Research into voting behaviour during the referendum on the Treaty on a Constitution for Europe shows that neither the possible accession of Turkey nor any further enlargement were major factors in the 'No' vote in either the Netherlands or France. See European Commission, 'The European Constitution: post-referendum survey in the Netherlands', June 2005. A similar publication relating to the French referendum can be found on the website: <[http://www.europa.eu.int/comm/public\\_opinion/index\\_en.htm](http://www.europa.eu.int/comm/public_opinion/index_en.htm)>. Public opinion on enlargement in other member states is unclear, so further Europe-wide research is needed to clarify the position.

countries,<sup>102</sup> will put continuing pressure on the Union to admit it.<sup>103</sup> The Council therefore believes there is no reason to believe that by keeping silent on the issue of membership, the Union can avoid an ongoing discussion about securing the prospect of accession. That discussion has already begun and will continue as long as the Union fails to provide clarity on the issue.

In advocating the need for a long-term strategy, one factor that weighs heavily in the AIV's considerations is that the Union has raised expectations, especially in relation to Ukraine, by becoming directly involved in resolving the crisis over the presidential elections. This reinforced that country's belief, at least, that it is an inseparable part of Europe. Too cool a position with regard to future membership would lead to disappointment and could even undermine the position of reformists within the country.

It has also rightly been noted that the prospect of accession has proved to be a crucial stimulus in bringing about essential reforms in the fields of democracy, the rule of law and a market economy – surely the fundamental objectives in promoting the further development of relations between the Union and its neighbours. The belief that this would be so has been at the heart of the enlargement policy pursued by the Union since the end of the Cold War, and experience gained thus far with regard to Turkey and the countries of Central and Eastern Europe supports it. The conditionality attached to membership was an essential catalyst for these countries. Looking ahead, the AIV sees no reason to believe that it should be any different in the case of the eastern ENP countries, Ukraine and Moldova in particular.

The knowledge that the process of actually achieving membership will be a protracted one for these countries should not be an obstacle to taking the first, preliminary steps. The example of Turkey illustrates this: in 1999<sup>104</sup> it was offered an initial prospect of membership in concrete terms, conditional on the implementation of political reforms in particular. Six years later, this condition has been fulfilled to the extent that there is now sufficient confidence to begin negotiations on accession, although based on the assumption that Turkey will definitely not accede to the Union before 2014. In short, accession is almost by definition a process that takes many years, especially in the case of countries that still need to carry through radical reforms to fulfil both the political and economic conditions for membership. To put it differently, the fact that the process of accession is *lengthy* is no argument for withholding the prospect of membership, particularly when it is believed (see above) that this prospect could actually shorten the process.

102 The government rightly points out that opinions on this matter are divided within the Union. In particular, Poland and the Baltic member states favour offering the prospect of membership in concrete terms in the context of ENP. The AIV was able to confirm this during a visit to Warsaw.

103 At the same time the possibility should not be ruled out that the US will openly advocate, and support, Ukraine's accession to the Union (if only as an alternative to, and/or means of paving the way to, full NATO membership).

104 Depending on the criteria used, 1963 is also sometimes regarded as the starting date. That was when Turkey concluded its first trade agreement with the EEC. See 'The position of the European Union vis-à-vis Turkey from 1963 to June 2004', Addendum to AIV advisory report no. 37, The Hague, July 2004.

The AIV would also point out that the prospect of membership is a natural extension of the approach and/or strategy used in the *Action Plans*. After all, the practical details of the neighbourhood policy, as set out in country specific plans, require radical changes to each country's laws and policy in a wide range of areas in order to bring them into line with the Union's *acquis*. Although they are making these changes at their own request, at their own pace, and according to their own priorities, that does not alter the fact that they will be adopting European legislation in numerous areas. In this respect the ENP is in keeping with the policy that was pursued towards the Central and Eastern European countries, the difference being that the eastern neighbours are not being offered the prospect of membership. It is the opinion of the AIV, however, that before any actual prospect of membership is held out, the countries concerned must have made genuine headway in implementing the APs and visible progress in the reform process, including the resolution of existing regional conflicts.

Finally, if the EU adopts a very cautious position with regard to the future membership of its eastern neighbours, it could upset the balance of the trilateral relationship between the EU, the EU's eastern neighbours and Russia. Such a position could easily be construed as signalling the Union's detachment in regard to this region, and might be interpreted as an implicit suggestion to the other two parties that they should strengthen their mutual relations. This last point underlines the fact that neither the countries concerned nor the relations between the Union and Russia would derive any benefit from a situation in which the future status of the ENP countries, Ukraine and Moldova in particular, remains unclear for a long period of time.

On this point the AIV also notes that there has been a clear evolution in the EU's accession policy, with – in the case of Romania and Turkey, for example – the conditions being tightened further (both in terms of substance and timescale) and applied more strictly.

Based on the above considerations, the AIV believes that the ENP's objectives are ultimately best served by the EU adopting a clear position on these countries' aspirations for membership. At the same time, the AIV is aware that because of the failure to ratify the Treaty on a Constitution for Europe, this is not the time to offer a more concrete prospect of accession. The need to strengthen the Union's absorption capacity is also a factor. However, neither of these difficulties detracts from the importance of the earlier arguments. For this reason, the AIV urges the Union to make systematic efforts within the context of the ENP, particularly in Ukraine and Moldova, to stimulate the process of market economic reform, strengthen the rule of law and ensure transition to democracy. Progress in these areas is in any case a precondition for deepening relations with the countries concerned.

To this end a staged plan should be drawn up and used to determine, on the basis of clear criteria, whether progress has been made. To meet the aspirations of these countries, the AIV believes that consideration should also be given to continuing existing cooperation on the basis of a new institutional footing, subject to satisfactory progress in the reform process. An appropriate time for this would be when the existing Partnership and Cooperation Agreements (PCAs) expire in 2008/2009. It is conceivable that these could be converted into Stability and Association Agreements (SAAs).<sup>105</sup>

105 The 'Stability and Association Agreements' (SAAs) were concluded with the countries of the Western Balkans. See website: <[http://www.europa.eu.int/comm/external\\_relations/see/sap](http://www.europa.eu.int/comm/external_relations/see/sap)>.

One might then go on to ask whether the arguments set out above should not perhaps apply equally to countries such as Georgia and Armenia, which have similar aspirations to Ukraine and Moldova. In answering this question, it should be borne in mind that, set against the above arguments in favour of a particular strategy for Ukraine and Moldova, there are also certain counter-arguments, and that the outcome of deliberations on this question might therefore be different in the case of Georgia and Armenia. Some of those counter-arguments are:

1. The geographical criterion: this is not just a matter of location, but of history. Not only are Ukraine and Moldova undeniably situated in Europe; they have also been involved in European history for centuries. The situation with regard to Georgia and Armenia is completely different; they lie on the outer edge and historically are linked most closely with Turkey and Iran, to a lesser extent with Russia, and scarcely at all with Europe.
2. Political and economic stability: the EU can certainly have a favourable effect on these factors. However, it cannot be denied that great caution is called for in relations with countries characterised by a considerable degree of political or economic instability and weakness in the rule of law. In this regard there is some reason for concern with regard to Ukraine and Moldova, but even more with regard to Georgia and Armenia.
3. When looking at all the relations discussed here, Russia's position must necessarily be taken into account. Not because Russia is entitled to any privileged status, but because good relations with Russia are important to the EU, and they are even more important to the non Russian former Soviet states.



## **V Conclusions and recommendations**

### **The interests of the European Union and the Netherlands in a geopolitical perspective**

The European Union has a broad range of foreign policy objectives. Using every policy instrument at its disposal, the Union seeks to promote international peace and security, sustainable development, solidarity and mutual respect among peoples, free and fair trade, the eradication of poverty, the protection of human rights and the strict enforcement and ongoing development of international law.<sup>106</sup> These objectives lie at the heart of the European Neighbourhood Policy (ENP), which forms the subject of this AIV report, with particular interest in Eastern Europe. As stated in the introduction, the ENP and the associated policy instruments are vehicles for improving relations with ENP countries. The immediate goal is to contribute to stability and security in the areas bordering the expanding Union. To that end, the ENP aims to support and encourage democratisation, strengthen the rule of law and initiate economic reforms in the countries in question. The Union is not alone in its ambitions. As mentioned above, a great many international organisations are operating in these same countries. These organisations include the World Bank, the IMF, the EBRD, the Council of Europe and the OSCE. In ratifying the UN human rights conventions and the ILO conventions, the countries in question have committed themselves to upholding the fundamental principles of the rule of law. In addition to these multilateral efforts, there are numerous bilateral partnerships, such as those under the auspices of Dutch programmes like Matra and PSO.

In chapter II of this report, the AIV indicated that a number of vital interests of the Union (and, by extension, the Netherlands) would be served by strengthening relations with our neighbours to the east. Besides the immediate political significance of security and stability, there is also a need to jointly tackle transnational problems (both pre-existing and potential). What is more, these new neighbours can also become important trading partners. The Union is already an important export market and investment partner for these countries. In that connection, it is important to mention the Union's growing need for energy. Given that many of the eastern neighbours (including Russia) are energy-exporting countries or transit countries, cooperation with our neighbours will be crucial if we are to secure our own energy supplies.

Since the ENP was first launched, major political developments have taken place in a number of partner countries. Reformist governments have come to power in Ukraine, Georgia and Moldova. These developments not only underscore the need to strengthen relations with these countries, they also offer the EU new opportunities for advancing the political reform process. In view of the close historical and cultural ties between these countries and EU member states and given the organisation's role as a major donor, trading partner and investor, the Union is in an excellent position to capitalise on these developments and deepen relations in furtherance of its avowed objectives.

<sup>106</sup> Ministry of Foreign Affairs, State of the European Union (2005), The Hague, 21 September 2004, p. 45.

*For these reasons the AIV stresses the importance of a broad-based neighbourhood policy for both the EU and the Netherlands. Whenever possible, this policy should be intensified and accelerated in response to political developments in the countries concerned, as was done in Ukraine.*

### **The European Neighbourhood Policy (ENP)**

In principle, the structure of the ENP, as established by the Union in 2004 and elaborated on in the subsequent action plans, offers good opportunities for responding to political developments in the EU's eastern neighbours and promoting the Union's interests by strengthening relations with these countries and stimulating democratisation and market reforms, thus making a real contribution to stability and security. At the same time, there are clearly major differences among the eastern ENP countries. This means that the details of the policy will have to be worked out from country to country, depending on its needs and those of the EU.

*In general the AIV endorses the Union's approach as set out in the ENP, particularly the **programmatic character** of its objectives, the **broad** use of resources and instruments and the **country-specific strategy**, which allows the countries concerned to set **priorities on the basis of their own needs**. In the view of the AIV, the decision to allow the countries to set their own priorities and implement policy will go a long way to maximising the ENP's chances of success.*

To take advantage of the possibilities opened up by the ENP, the AIV recommends the following:

#### *Recommendation 1*

*The EU needs to take the lead in coordinating and harmonising the multilateral and bilateral aid programmes in the relevant countries. Considering the nature and size of the aid and the scope of the policy instruments at its disposal, the Union is the obvious organisation to increase the coherence and effectiveness of aid efforts, in accordance with stated policy priorities.*

#### *Recommendation 2*

*In order to increase the effectiveness of the ENP and the action plans, the AIV feels that priorities should be stated more clearly in the broadly formulated cluster of topics that typifies the policy. Of course, these priorities will differ from place to place and, in keeping with the principle of ownership, they will have to be identified in close consultation with the governments and parliaments of the ENP countries.*

#### *Recommendation 3*

*In view of the firm link between institutional capacity-building in the public sector and market reforms, the AIV would argue that in this phase the focus should be not only on strengthening the democratic system and promoting the rule of law and civil society but also on bolstering the institutions that will be critical for improving the investment and business climate and liberalising trade. Specifically, this will mean providing help and support for the financial sector, fighting corruption and strengthening the customs agency and audit office. The presence of effective institutions and regulations in these areas is a prerequisite for the continued integration of these countries into the European internal market. At this stage, support for economic development*

and good governance should be a higher priority than acceptance of the *acquis communautaire*.<sup>107</sup>

#### *Recommendation 4*

*The AIV believes that the ENP and the various bilateral efforts (see below) should make greater use of exchange programmes. These programmes, which can make a major contribution to the transfer and expansion of knowledge and experience, should be opened to a wide variety of target groups, from businesspeople to government officials, from politicians to students. The AIV would recommend increasing the opportunities for exchange between EU member states and ENP countries. In the process, an effort should be made to determine whether these countries could be admitted to existing EU exchange programmes, such as the Erasmus programme.*

### **Regional conflicts**

In a number of countries involved in the programme, the national government does not exercise control over the entire territory. This is the case in Azerbaijan, Georgia and Moldova. This lack of control translates into 'frozen conflicts', which are hard to resolve and a source of political instability. Achieving the ENP's objectives will depend on ending these conflicts. If ENP countries are to have any hope of joining the Union one day, an acceptable settlement must be found. A subsidiary goal of the ENP and the associated action plans (Moldova) is resolving these types of conflicts. With that in mind, the EU has appointed two special representatives, for the Caucasus and for Moldova. Obviously, a political solution to these conflicts is contingent on a cooperative attitude on the part of Russia, which is directly involved in all these conflicts, both politically and militarily, whether in the form of an outright military presence or through its involvement in so-called peacekeeping forces.

#### *Recommendation 5*

*The AIV would encourage the EU to take an active role in resolving these frozen conflicts. Active involvement is consistent with the objectives of the ENP and the ambitions of the Union's foreign policy, as set down in the European Security Strategy and elsewhere. The ENP action plans must serve to move all parties closer to workable solutions to these conflicts. This presupposes a maximum effort on the part of the Union's special representatives for the countries/regions in question. If any progress is to be made, the EU must ensure that Russia is a full partner in any peace talks. One way of doing this is through political dialogue.*

### **The European Neighbourhood Policy Instruments (ENPI)**

The AIV welcomes the EU's initiative to radically simplify the procedure for spending aid money as part of a larger effort to cut back on the number of regulations (budget lines) and instruments. The AIV also supports the resolution to substantially increase financial support for ENP countries and would urge the government to ensure that this increase finds its way into the Union's multi-annual budget. The European Commission was right to suggest that there should be no ceilings on aid based on country or category of applicant (governmental vs. non-governmental). The absence of such ceilings will encourage the efficient and effective use of resources. This process of simplifica-

<sup>107</sup> See also J.W. van der Meulen, 'Westelijke Balkan als testcase voor de Europese Unie', *Internationale Spectator* 59 (6), 2005, pp. 319-324.

tion is badly needed, since experience has shown that both governmental agencies and NGOs are frequently incapable of following all the myriad rules governing the submission of plans. Given this, it is hardly surprising that the EU has had difficulty spending available resources in a timely manner. The AIV is pleased to see that the action plans now make use of a result-based progress system, in which advancement to the next phase is dependent on performance in earlier phases.

*Recommendation 6*

*The AIV stresses the need for rationalisation of EuropeAid and would advise the Netherlands, through the European Council and the European Parliament, to ensure that these reforms actually lead to the faster and simpler allocation of resources, contingent on the progress made in implementing the action plans.*

*Recommendation 7*

*In the light of EU and Dutch interests in the region, it is crucial that sufficient financial resources are available for implementing the ENP. The AIV would urge the Dutch government, in the negotiations surrounding the Union's 2007-2013 financial framework, to ensure that the necessary resources are set aside, so the Union can respond adequately to developments in the region.*

An ongoing problem is the length of time between (a) the formulation and submission of project proposals for political and economic reforms and (b) the eventual allocation of resources for these projects. The AIV feels that this time gap should be reduced. One way of doing this would be to release funds on a limited scale at the preliminary stage to support the formulation of solid, well-thought-out proposals for projects and programmes. At the same time this would also increase the capacity for timely action, when unexpected opportunities for supporting political and/or economic reforms arise. On the basis of various discussions, particularly in Ukraine, the AIV has concluded that a lack of decisiveness has prevented the Union from responding effectively, particularly in the wake of that country's Orange Revolution. Since developments in the countries concerned are influenced primarily by internal political and economic factors, it is crucial to respond swiftly to political trends in the region and seize opportunities to deploy the policy instruments of the EU and its member states.<sup>108</sup>

*Recommendation 8*

*The AIV believes that the policy instruments used by the EU and its member states must be made more responsive to current developments. Supplementary to the ENPI, the AIV would strongly advise making funds available on a small scale in the planning stages, for the purpose of formulating well-thought-out project proposals. In matters of project funding, the AIV recommends delegating more authority, professional implementing capacity and resources to the EU missions in the countries in question.*

## **Bilateral aid**

The Netherlands has two complementary, bilateral programmes relevant to the EU's eastern neighbours. The first of these is the Social Transformation Programme (Matra), which is managed by the Ministry of Foreign Affairs. The second is the Emerging Mar-

<sup>108</sup> Please refer to the conclusions of the conference 'European Union and the South Caucasus: Opportunities for Intensified Engagement', European Centre for Conflict Prevention and the Ministry of Foreign Affairs of the Netherlands, 24-26 May 2004, p. 5.

kets Cooperation Programme (PSOM), which is run by the Directorate-General for International Cooperation and which receives supplementary contributions from the Ministry of Economic Affairs for the part of the programme dealing with Ukraine. The Eastern Europe Cooperation Programme (PEP), previously operated by the Ministry of Economic Affairs, merged with the PSOM on 1 June 2005. Following a positive evaluation, parliament has approved a new policy framework for Matra along with a budget of 50 million. The AIV applauds the programme's flexibility, its demand-driven ethos, its long-term vision and the coordination of its policies with the ENP, thereby setting the stage for an expansion of the programme to the Union's eastern and southern neighbours. In this way, aid efforts are keeping pace with the enlargement of the EU. In addition to the aforementioned programmes, numerous aid programmes and initiatives aimed at supporting a wide range of activities have been launched by cofinancing organisations, the business community, other government authorities and civil society organisations. Through these initiatives, numerous organisations are involved in exchange programmes in the fields of education, health care and culture, municipal cooperation, law enforcement, banking and government auditing. The AIV welcomes this development, provided the programmes address the priorities identified by the recipient countries in the ENP action plans. It is encouraging to see that both bilateral programmes are concentrating more on the eastern ENP countries. By uniting the various strands of the Dutch development effort, this extra attention will benefit the constituency represented by the Netherlands at the World Bank and the IMF. The Netherlands also has a material interest in safeguarding the production and transportation of energy from this region.

*Recommendation 9*

*Following up on the recommendations on the way the ENP is run, the AIV would urge the Dutch government to simplify the management of the programmes as much as possible.*

*Recommendation 10*

*In the view of the AIV, it is extremely important for the implementation of the bilateral programmes that the budgets for both Matra and PSOM are large enough to enable the Netherlands to make a substantial, long-term contribution to the process of economic and political reform in the region. In pursuing these goals, the Netherlands can draw on the experience it has acquired in its relations with the former candidate states, in terms of approach and policy instruments.*

*Recommendation 11*

*The AIV believes that bilateral programmes should complement the ENP and that such programmes should be coordinated with the ENP as well as with the line ministries. The AIV would also like to see these programmes play a role in the preliminary stages of the ENPI project formulation.*

### **Border issues and visa facilitation**

Besides aiding these countries in their transformation into free-market democracies which respect the rule of law, the neighbourhood policy also aims to achieve regional integration among the neighbouring countries and cross-border integration between the neighbouring countries and EU member states, mainly with a view to preventing the appearance of unnecessary new divisions in Europe. At the same time, the AIV predicts that the principle of free movement of people and goods within the Schengen zone will necessitate tighter controls at the external borders.

*Recommendation 12*

*Free movement of people within the Schengen zone will necessitate tighter controls at the external borders. The AIV would recommend mitigating the repercussions of this development by granting flexible arrangements for local cross-border traffic whenever possible. Proposals to that effect by the Commission could serve as an inspiration for such a move.<sup>109</sup>*

As to requests for visa facilitation by ENP countries, it is imperative that short-term visa policy remain an EC affair. For the time being, long-term visa policy will remain a matter for the individual member states, though in practice it is not so much the visa requirement itself that is an obstacle as the length of time, complexity and cost of processing the applications, a task that is carried out at national level. With a view to accelerating and simplifying the process, member states could make more specific coordination agreements. At the same time, they could discuss reasonable fees for issuing visas. To an extent, these types of issues can be seen as an outgrowth of the desire for more exchange programmes.

*Recommendation 13*

*With respect to both short and long-term visas, the AIV would advise the Dutch government to join other member states in reflecting on ways of coordinating policies more closely, in the hope of accelerating and simplifying the application-processing procedures at national level.*

**The role of Russia**

As stressed in chapter II, this report treats Russia as the ENP countries' other neighbour and thus as an integral component of a triangular relationship. Russia occupies a crucial position in this relationship for a number of reasons, including its military presence, economic relations, its neighbours' dependence on Russian deliveries of gas, oil and electricity and the presence of (often substantial) Russian minorities in these countries. Russia would like to see its special position recognised and its interests in the region respected. Russia's unique position in the region is evidenced by its avowed lack of interest in EU membership and its decision to develop its own form of partnership with the Union, distinct from the ENP.<sup>110</sup> This partnership coalesced around the policy framework known as the 'four common spaces', which was agreed at the EU-Russia summit on 10 May 2005 in Moscow.<sup>111</sup> These spaces – the product of an initiative dating back to the St Petersburg Summit in 2003 – flesh out and build upon the EU-Russia Partnership and Cooperation Agreement (PCA), which will come up for renewal in 2007. Although the subject of the four common spaces lies outside the scope of the ENP, Russia is still eligible to receive funding for ENPI projects. It is also

109 Proposal for a Council regulation on the establishment of a regime of local border traffic at the external land borders of the Member States, COM(2003) 502, 14 August 2003.

110 The question of whether Russia will ever become a member of the European Union lies outside the scope of this report. The AIV would observe that Russia has never shown any aspirations in that direction. Given Russia's location and size, there is reason to doubt whether membership is a realistic possibility.

111 Website: <<http://www.eu2005.lu>> Relations EU-Russia.

important for the EU to continue its policy of developing programmes with the countries and regions on the other side of its borders.

It is not only Russia that has major interests in the region. Within the triangular relationship described in chapter II, there are also essential interests and issues at stake for the Union. A good and balanced relationship with and an active role for Russia are critical, particularly when it comes to resolving the various frozen conflicts discussed above.

The EU's growing dependence on Russian gas and oil and increasing competition in the Asian energy market from rising economies in the east (especially those of China and India) only underscores the need for an effective strategy for Russia within the framework of the Union's neighbourhood policy. To ensure the success of this strategy, the Union will have to be open with Russia and their common neighbours and take genuine account of Russian interests in the region. Given Russia's unique position and the interests at stake for the Union, one wonders if the European-Russian relationship might benefit from the creation of new consultative structures, which would go beyond the institutions established under the current PCA. There is already a precedent for this, namely the special relationship the Union is developing with other major players on the world stage, such as the US and China. The Russia-NATO Council is another possible example. Further institutional solidification of the European-Russian relationship rests on the importance of keeping Russia fully involved and reconciling it to the overtures its neighbours have been making towards the EU. The AIV would argue that the policy of four common spaces should be fleshed out, not only in terms of substance but also with respect to its institutional implications. It would be useful to examine the possibility of creating a special consultative structure for the Union and Russia to discuss issues of mutual interest.

#### *Recommendation 14*

*With respect to Russia, the AIV urges the Netherlands and the EU to pursue a policy of openness, in order to eliminate any distrust of the ENP early on. The Union must strive to ensure that Russia is fully involved in any attempts to resolve regional conflicts. The AIV would recommend exploring various special consultative structures that could further this objective. The AIV would urgently suggest allowing Russia to participate fully in the ENPI for the purpose of developing programmes in those parts of Russia that border the EU. Finally, it is crucial for the Union's long-term energy security that the EU as a whole regard these issues from a strategic standpoint and accord them a high priority in developing the agreed economic space with Russia.*

#### **Prospects for accession**

In chapter IV, the AIV discussed the prospects for accession for the eastern ENP countries, particularly Ukraine and Moldova. Considering the political developments inside the Union, now is not the time to discuss this issue in any detail. Having said this, there remain compelling reasons to deepen relations with these countries, following recent political developments there. At some point they will apply for EU membership. For that reason, the AIV advocates devising a long-term strategy on the basis of the ENP for intensifying relations with these countries. This strategy, which would be contingent on further political and economic reforms, could even culminate in a new partner-

ship relationship, a successor to the existing PCAs. There are several important reasons for considering such an approach: these countries border on the Union or will do so in the near future; they are part of Europe in a cultural, historical and geographical sense; and they have expressed a desire to join the Union. The most important factor of all, however, is that the prospect of membership, even if it lies in the very distant future, can make a significant contribution to the process of political and economic transformation. Yet ultimately it is up to the countries themselves to bring forward the prospect of EU membership. And should this prospect ever become concrete, it cannot be emphasised enough that these countries will be held to the same standards as any other candidate country.

#### *Recommendation 15*

*In the light of the difficulties surrounding the ratification of the constitutional treaty and concern about the Union's absorption capacity, the AIV recognises the need for a period of reflection on the future development of the EU. The same applies to the membership prospects for the eastern ENP countries, particularly Ukraine and Moldova. This is not the time for the Union to discuss membership with these countries in concrete terms. In the view of the AIV this in no way diminishes the arguments put forward in chapter IV supporting these countries' aspirations to join the Union. For that reason the AIV would urge the government to remain alert to this issue. In particular, the AIV would advise the government to do all it can to encourage a long-term EU strategy for Ukraine and Moldova in order to further intensify relations and possibly lay the groundwork for new institutions. The AIV feels that the expiry of the current cooperation and partnership agreements with these countries would be the most appropriate time for this.*

#### *Recommendation 16*

*With respect to the debate on EU enlargement, the AIV would advise the government to be mindful of the level of popular support for enlargement among the current member states. However this is not to say that the government should not make its own decisions. It is the AIV's belief that the government is responsible for providing information and stimulating debate on this matter.*

#### *Recommendation 17*

*For the Transcaucasus region, the AIV recommends continuing the ENP, on the basis of the existing partnership and cooperation agreements. The ENP is an adequate framework for responding to political developments in the countries concerned.*

For the EU as a community of values, chief among them protecting human rights, the relationship with Belarus is of particular significance. Clearly, in the present circumstances the opportunities for the EU and the Netherlands to improve the human rights situation there are, in practical terms, very limited. And yet, this is precisely why it is so important to keep a close eye on developments there and maintain contacts with groups that can offer a counterbalance to an ever harsher dictatorship. It is crucial to have a targeted aid programme that can spring into action the moment a new, more democratic government takes office, as happened recently in Kyrgyzstan. The Union needs to coordinate its efforts with the international organisations that have a special responsibility on the European continent and experience with human rights enforcement: the Council of Europe and the OSCE. The same applies to the bilateral contacts, which are often critical for supporting the forces of democratisation in these difficult circumstances.



## **Annexes**

**Annexe I**

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on International Affairs  
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*Date* 30 March 2004  
*Our ref.* DZO-74/04  
*Page* 1/1  
*Encl.* 1  
*Re* Request for advice on future  
EU policy towards its eastern  
neighbours after enlargement  
*Cc*

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Dear Mr Korthals Altes,

It is with great pleasure that I hereby submit to you, in conjunction with the Minister for European Affairs, a request for advice on future EU policy towards its eastern neighbours after enlargement.

Your advisory report will be particularly important in the context of the Dutch presidency of the European Union in the second half of 2004. I intend to include a separate chapter in The State of the European Union 2005 updating the chapter in The State of the European Union 2002 entitled "From Marrakesh to Murmansk". I would be very grateful if your advisory report were to be ready in the early stages of the Dutch presidency.

I look forward to your report with great interest.

Bernard Bot  
Minister of Foreign Affairs of the Kingdom of the Netherlands

## **Request for advice on future EU policy towards its eastern neighbours after enlargement**

### ***Introduction***

Over the last two years, a debate has gradually got under way within the European Union about its policy towards those of its new neighbours that will not be included in the process of enlargement in the near future. Of central concern in this debate is ensuring that enlargement does not create new dividing lines in Europe.

In March 2003, the European Commission published its Communication “Wider Europe – New Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours”. Looking ahead to the enlargement of the Union in 2004, the Commission stated that the EU could only be successful in the future as an area of stability, prosperity and progress if the positive developments within the EU radiated beyond its borders.

In order to achieve this, the EU needed to promote shared values and strengthen partnerships, so that the countries concerned would be better equipped to work with the Union in tackling a wide range of common challenges. The EU would also need to encourage a gradual internal transformation in these countries, moving them in the same direction as the European Union.

The Communication does not express an opinion on their prospects for accession. This is intentional. The Communication focuses on promoting many different forms of cooperation and integration, leaving aside the question of EU membership.

The Commission later published a second Communication – also in 2003 – that is relevant in this context, entitled “Paving the Way for a New Neighbourhood Instrument”. It focuses on the further development of the financial instruments that the EU requires to promote closer cooperation. In so doing it takes into account the expiry of existing contractual arrangements such as the Partnership and Cooperation Agreements (PCAs) (from 2007), the current TACIS regulation (in 2006) and the current financial perspectives (in 2006). It also allows for the phasing out of instruments applicable to member states joining the EU in 2004 or 2007.

Although the Commission’s Communication is intended to provide an integrated framework for relations with neighbouring countries, it focuses on two different regions which each face specific issues:

- the eastern European region: especially Ukraine, Moldova and Belarus, giving consideration to the Russian Federation primarily in terms of its influence on these three countries. The possibility of including the countries of the southern Caucasus under this heading is being examined. A decision on whether to do so will have to be taken during the Irish presidency;
- the Mediterranean region.

The need to differentiate both between different parts of regions and between forms of cooperation with individual countries is repeatedly underlined. The Communication also discusses the need to build on existing forms of cooperation between the EU and the countries concerned. The Commission’s proposals were broadly endorsed by the General Affairs and External Relations Council (GAERC) of 16 June 2003.

In addition, the EU security strategy adopted at the European Council of 12-13 December 2003 refers specifically to the importance of economic and political cooperation with neighbouring countries in order to create a secure environment along the EU's borders.

In early May 2004, the Commission will present the first individual action plans for a number of new neighbours, where necessary in close cooperation with the High Representative for the CFSP. Agreement on these plans will in due course need to be reached with the countries concerned. The June 2004 GAERC will need to discuss these action plans and other Commission initiatives in this field.

The Wider Europe initiative is now called the European Neighbourhood Policy. The central question in this request for advice concerns the direction the European Neighbourhood Policy should take and how it should be implemented. This request will focus primarily on policy towards Ukraine, Moldova and Belarus. The role of the Russian Federation is addressed separately, and a number of specific questions are posed. These countries are sufficiently interconnected for it to be meaningful to consider them as a single region. Finally, this request touches on the possibility of extending the European Neighbourhood Policy to include the southern Caucasus, as this question has been given added impetus by recent developments in Georgia.

### ***Supporting transformation***

As the prospect of accession no longer features explicitly in the EU's policy towards its new neighbours, effective "conditionality" will have to be built into it in some way, in order to encourage and support the transformation to a market economy, democracy and the rule of law. In the case of the central and eastern European countries acceding in 2004 or 2007, the prospect of joining the EU has turned out to be the best incentive for these countries to "sell" unpopular measures to their citizens in the short term. How can we, without holding out the prospect of EU accession, effectively encourage a degree of policy convergence on either side of the EU's borders?

On this question, you may wish to address the following points:

- Should the current PCAs (which apply for ten years and expire around 2007 for most countries) with the countries in question be replaced by a new kind of contractual relationship? If so, in what areas do additional arrangements need to be agreed? It is worth noting here that, in practice, most countries do not seem to be using the current PCAs to maximum effect. How can we encourage them to actually implement any new bilaterally agreed benchmarks and action plans?
- What kind of instruments would be most effective as the EU seeks to assist the countries concerned in their transformation? The current TACIS regulation expires in 2006. At the moment – primarily for cross-border regional cooperation – elements of PHARE (which is being phased out with the accession of the countries concerned), Interreg and other instruments are being looked at.
- Can forms of regional cross-border cooperation such as the Northern Dimension initiative or the Stability Pact for the Balkans serve as models for a new Eastern Dimension (which Poland, among other countries, is in favour of)?
- How should the scope of EU support be defined in respect of the efforts of other international organisations (World Bank, EBRD, NATO, the Council of Europe and the OSCE) in the same countries to foster successful transformation?

- How can we ensure that, as far as possible, EU support and comparable bilateral support from member states are coordinated?
- How can we make best use of the knowledge and experience that the new member states (e.g. Poland, Lithuania and Hungary) have gained in transforming their countries successfully?

### ***Perspectives on specific countries***

When considering differentiation and the elaboration of the Wider Europe/European Neighbourhood Policy, we need to take careful account of the experiences of the countries concerned over the past ten years in their relationship with the EU, and of how they think these relationships should develop in the future.

The EU has a structured relationship with *Ukraine* in the form of a Partnership and Cooperation Agreement. A joint evaluation recently showed clear room for improvement in the implementation of this agreement in a number of areas. The benchmarks have, to a certain degree, already been agreed in the area of justice and home affairs. In addition, one of the EU's first common strategies was for Ukraine. There are serious doubts about the effectiveness of this instrument. Although the scope for cooperation within the existing structures has by no means been exhausted, Ukraine has consistently sought to work towards a contractual relationship and would like to have the prospect of ultimate accession to the EU set down on record in some way. The current aim is a form of Association Agreement enabling Ukraine to grow closer to the EU in due course. In Poland, Ukraine has an advocate for its case in post-enlargement Europe.

A Partnership and Cooperation Agreement currently also exists with Moldova. In addition, the EU is backing the OSCE's efforts to resolve the Transdniestrian conflict. After Romania's accession to the EU, which is scheduled to take place in 2007, Moldova will become an immediate neighbour of the EU. Moreover, the relationship with Romania (whose territory, prior to the Second World War, included a large part of what is now Moldova) could also have repercussions within the EU if the Transdniestrian conflict is not resolved by 2007. Moldova participates in the Stability Pact for Southeast Europe. It would like its future relationship with the EU to develop along similar lines to that of other participants in the Stability Pact, i.e. the Balkan countries. A clear prospect of accession in due course has been held out to the Balkan countries. Should Moldova therefore also be offered the prospect of a Stabilisation and Association Agreement and, if so, on what conditions?

The most problematic relationship is that with *Belarus*. Because of the authoritarian regime in Minsk, the EU has adopted a restrictive policy based on the relevant Council conclusions of 1997. The EU agreed an internal benchmark paper in 2002, which set out how the EU can respond with positive measures to concrete steps taken by the authorities in Minsk on the path of political and economic reform. To date, however, Minsk has made no move in the direction envisaged by the EU. Belarus's application for membership of the Council of Europe has been frozen for some time. Nor is there a PCA with the EU. A debate has again begun within the EU on how (possibly based on Wider Europe) it can influence developments and, for example, continue to support civil society and free media.

Please put forward specific recommendations for each country, both in light of the above questions about promoting successful transformation and with reference to the questions presented below concerning opportunities for further integration within wider European and Euro-Atlantic structures.

### ***Integration of new eastern neighbours in European and Euro-Atlantic structures***

The Commission's Wider Europe Communication mentions the further integration of these countries, and does not rule out offering them a stake in the internal market. The promotion of the four freedoms (free movement of persons, goods, services and capital) is an important part of this process. In due course, neighbouring countries could take part in a wider Free Trade Area. The following questions arise:

- What scope do you see for the EU's eastern neighbours to be given a stake in the internal market and for the promotion of the four freedoms? What conditions should apply?
- Should the EU seek to reach Free Trade agreements with its eastern neighbours (following their membership of the WTO), as it has with its southern neighbours?
- What institutional frameworks would best help achieve these objectives?

In addressing these questions, consideration should also be given to the role that Russia still plays in the wider region of the former Soviet Union. The "Russian factor" is examined in more detail in the following section.

It should be noted, in the context of the EU's relationship with the Russian Federation, that the EU intends to give the four "common spaces" substance, as agreed at the EU-Russia summits in 2003 in St Petersburg and Rome:

- Common European economic space, accompanied by an intensive dialogue on energy;
- Common space of freedom, security and justice (justice and home affairs), including combating organised crime and terrorism;
- Common space of external security; cooperation in the fields of CFSP and ESDP;
- Common space on research and education, including cultural aspects.

Questions which arise in this context include:

- Should the common spaces being developed with Russia ultimately include the EU's eastern partners in the Wider Europe concept too?
- In the development of its relations with Russia, to what extent should the EU be guided by the interests of its new eastern neighbours?
- Can the EU reach agreement more readily with its new eastern neighbours than with Russia in certain areas?

### ***The relationship of the EU's new eastern neighbours with the Russian Federation***

Relations between the EU and Russia have been examined above. However, there remains another important point to be considered, i.e. the choice facing the EU's new eastern neighbours between, on the one hand, integration into Europe and Euro-Atlantic structures, and on the other hand, integration into Eastern frameworks (often dominated by Russia).

The Russian Federation has made clear its preference for a separate (and ideally privileged) relationship with the EU, rather than membership of the Union. Russia considers itself too large and too special a case (a "Eurasian" country) to join a union in which it would be just one of many members.

Russia adopts the same stance towards the Wider Europe initiative. In its Wider Europe Communication, the Commission was uncertain whether Russia itself could ultimately be an object of this exercise, rather than just an influencing factor in relations between the EU and its new eastern neighbours. Russia has since removed any uncertainty. Here too, it considers itself too large and too special a case to be considered in the Wider Europe framework. This being said, in its recent Communication on EU-Russia relations, the Commission advocated an action plan to give substance to the four common spaces, which will to some extent be comparable with the action plans currently being developed for relations with the EU's new eastern neighbours.

For the EU's new eastern neighbours, Russia is not only a very important partner, but also a power that is working towards alternative forms of integration, including economic integration, within the CIS or with a smaller number of states from the former Soviet Union. From the outset many attempts of this kind have been made within the CIS, but most have not progressed beyond the drawing board. The most recent attempt is a plan for a common economic space involving Russia, Belarus, Ukraine and Kazakhstan. In Ukraine in particular, this plan has met with considerable resistance among the political elite, given its potentially adverse effect on prospects for the hoped-for integration in European (EU) structures. Objections have also been raised in Belarus. Although Minsk is seeking closer integration with Russia (including in the framework of a Russia-Belarus Union), the conditions that Moscow has set (whereby Belarus would be a subordinate partner) appear to be unacceptable to President Lukashenko. All the countries involved in the common economic space referred to above wish to join the WTO. However, it is very doubtful whether they could do so simultaneously, given the differences in the extent to which reforms have been implemented, and in the level of these reforms.

Alongside Russian attempts to achieve a form of economic integration with a number of CIS states, Russia has in the last few years pursued a markedly more assertive foreign policy towards other CIS countries. Russia considers the CIS to be a special area of Russian interest. To date this has meant that Russia is less willing to talk about this area with third countries, including the EU, let alone cooperate with them. Russia exploits the economic dependence of CIS countries (including in the area of energy) in order to continue to exert political influence over them. In addition, Russia is gaining increasing economic influence in these countries following corporate takeovers by Russian companies.

Questions which arise on this point include:

- What stance should the EU adopt concerning integration attempts within the CIS, and in particular, what does the EU consider to be incompatible with integration in western European frameworks?
- What implications do the issues considered above have for these countries' - and Russia's - prospects for WTO membership?
- How should the EU respond to the pressure exerted by Russia on countries in Wider Europe? Should the EU give the countries concerned special support to enable them to better withstand such pressure?
- How could Europe encourage Russia to cooperate more to resolve frozen conflicts in CIS countries (in this context, especially those in Moldova/Transdnistria)?

***Enlargement of Wider Europe to include the southern Caucasus?***

The EU recently adopted a more active approach towards the southern Caucasus, as exemplified by the appointment of a Special Representative, Ambassador Heikki Talvitie from Finland. It was clear from talks with the three countries in question (Armenia, Azerbaijan and Georgia) that they wished the Wider Europe concept to be enlarged to include the southern Caucasus. The GAERC has always left the door open to such a move. Following recent developments in Georgia, it accepted that a decision would be taken on this during the Irish presidency.

The question arises here as to whether, and if so how, it is possible to differentiate between the southern Caucasian countries, and what conditionality will apply to the development of the concrete action plans. All three countries are partners of the EU in the context of a PCA and are members of the Council of Europe.



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## Annexe III

### Country Profiles<sup>1</sup>

#### Armenia

Surface Area:	29,800 km <sup>2</sup>	
Population:	2,982,904	(2005)
Population Growth:	-0.25%	(2005)

GNI:	USD 2.9 billion	(2003)
GNI per capita:	USD 950	(2003)
GDP:	USD 2.8 billion	(2003)
GDP growth:	13.9%	(2003)
PPP: <sup>2</sup>	USD 13.65 billion	(2004)
PPP per capita:	USD 4,600	(2004)
PPP growth:	9%	(2004)

Foreign debt:	USD 905 million	(2003)
Aid per capita:	USD 81.0	(2003)

WTO member since 2003



<b>Export:</b>	USD 850 million (2004)
<b>Export products:</b>	diamonds, minerals, food, fuel
<b>Export partners:</b>	Belgium 18.2%, UK 16.8%, Israel 15.7%, Russia 12.1%, Iran 7.9%, US 6.3%, Germany 5% (2003)
<b>Import:</b>	USD 1.3 billion (2004)
<b>Import products:</b>	natural gas, petroleum, tobacco products, food, diamonds
<b>Import partners:</b>	Belgium 11.6%, Russia 11.6%, Israel 11.3%, US 9.5%, Iran 8.8%, Germany 6.7%, United Arab Emirates 5.4%, Italy 4.7%, Ukraine 4.6% (2003)

- 1 Sources: World Bank Indicators for 2004, <<http://www.worldbank.org/data/countrydata/countrydata.html>>; CIA, The World Factbook, <<http://www.cia.gov/cia/publications/factbook/>>; WTO, <<http://www.wto.org/>>.
- 2 *Purchasing Power Parity* (relative GDP) is a tool for comparing the purchasing power of different national incomes. Source: The World Fact Book – Notes and Definitions, CIA, <<http://www.cia.gov/cia/publications/factbook/docs/notesanddefs.html>>.

## Azerbaijan

Surface Area:	86,600 km <sup>2</sup>	
Population:	7,911,974	(2005)
Population Growth:	0.59%	(2005)
GNI:	USD 6.7 billion	(2003)
GNI per capita:	USD 820	(2003)
GDP:	USD 7.1 billion	(2003)
GDP growth:	11.2%	(2003)
PPP:	USD 30.01 billion	(2004)
PPP per capita:	USD 3,800	(2004)
PPP growth:	9.8%	(2004)
Foreign debt:	USD 1.832 billion	(2004)
Aid per capita:	USD 36.0	(2003)

Not a member of the WTO



<b>Export:</b>	USD 3.168 billion (2004)
<b>Export products:</b>	oil and gas (90%), machinery, cotton and food
<b>Export partners:</b>	Italy 34.1%, Czech Republic 11.4%, Germany 10.5%, France 8.2%, Turkey 5.9%, Georgia 4.5%, Russia 4.5% (2003)
<b>Import:</b>	USD 3.622 billion (2004)
<b>Import products:</b>	machinery, petroleum products, food, metals, chemicals
<b>Import partners:</b>	Russia 15.5%, Turkey 12%, UK 8.7%, Germany 8.1%, China 7.8%, Ukraine 5.4%, Italy 4.6%, US 4.6%, Kazakhstan 4.3% (2003)

**Belarus**

Surface Area:	207,600 km <sup>2</sup>	
Population:	10,300,483	(2005)
Population Growth:	-0.09%	(2005)

GNI:	USD 15.8 billion	(2003)
GNI per capita:	USD 1,600	(2003)
GDP:	USD 17.5 billion	(2003)
GDP growth:	6.8%	(2003)
PPP:	USD 70.5 billion	(2004)
PPP per capita:	USD 6,800	(2004)
PPP growth:	6.4%	(2004)

Foreign debt:	USD 600 million	(2004)
Aid per capita:	USD 3.2	(2003)

Not a member of the WTO



**Export:** USD 11.47 billion (2004)

**Export products:** machinery, minerals, chemical fibres, metals, textiles, food

**Export partners:** Russia 49.1%, UK 9.4%, Poland 4.4%, Germany 4.2%, the Netherlands 4.2% (2003)

**Import:** USD 13.57 billion (2004)

**Import products:** minerals, machinery, chemicals, food, metals

**Import partners:** Russia 65.8%, Germany 7.1%, Ukraine 3.1% (2003)



## Georgia

Surface Area:	69,700 km <sup>2</sup>	
Population:	4,677,401	(2005)
Population Growth:	-0.35%	(2005)

GNI:	USD 3.9 billion	(2003)
GNI per capita:	USD 770	(2003)
GDP:	USD 4.0 billion	(2003)
GDP growth:	11.1%	(2003)
PPP:	USD 14.45 billion	(2004)
PPP per capita:	USD 3,100	(2004)
PPP growth:	9.5%	(2004)

Foreign debt:	USD 1.8 billion	(2004)
Aid per capita:	USD 42.9	(2004)

WTO member since 2000



<b>Export:</b>	USD 909.4 million (2004)
<b>Export products:</b>	scrap, machinery, chemicals, fuel (transit), citrus, tea, wine
<b>Export partners:</b>	Russia 17.7%, Turkey 17.3%, Turkmenistan 12.2%, Armenia 8.6%, Switzerland 6.9%, Ukraine 6.3%, UK 5.9% (2003)
<b>Import:</b>	USD 1.806 billion (2004)
<b>Import products:</b>	fuel, machinery, transport equipment, grain and other foods, pharmaceutical products
<b>Import partners:</b>	Russia 14%, UK 12.9%, Turkey 9.9%, Azerbaijan 8.3%, US 8%, Germany 7.3%, Ukraine 7%, France 4.9% (2003)

## Moldova

Surface Area:	33,843 km <sup>2</sup>	
Population:	4,455,421	(2005)
Population Growth:	0.22%	(2005)

GNI:	USD 2.1 billion	(2003)
GNI per capita:	USD 590	(2003)
GDP:	USD 2.0 billion	(2003)
GDP growth:	6.3%	(2003)
PPP:	USD 8.581 billion	(2004)
PPP per capita:	USD 1,900	(2004)
PPP growth:	6.8%	(2004)

Foreign debt:	USD 1.515 billion	(2003)
Aid per capita:	USD 27.5	(2003)

WTO member since 2001

<b>Export:</b>	USD 1.03 million (2004)
<b>Export products:</b>	food, textiles, machinery
<b>Export partners:</b>	Russia 39%, Romania 11.4%, Italy 10.4%, Germany 7.1%, Ukraine 7.1%, Belarus 5.2%, US 4.3% (2003)
<b>Import:</b>	USD 1.83 billion (2004)
<b>Import products:</b>	minerals and fuel (32%), machinery, chemicals, textiles (2003)
<b>Import partners:</b>	Ukraine 22%, Russia 13%, Germany 9.7%, Italy 8.3%, Romania 7% (2003)



## Ukraine

Surface Area:	603,700 km <sup>2</sup>	
Population:	47,425,336	(2005)
Population Growth:	-0.63%	(2005)

GNI:	USD 46.7 billion	(2003)
GNI per capita:	USD 970	(2003)
GDP:	USD 49.5 billion	(2003)
GDP growth:	9.4%	(2003)
PPP:	USD 299.1 billion	(2004)
PPP per capita:	USD 6,300	(2004)
PPP growth:	12%	(2004)

Foreign debt:	USD 16.37 billion	(2004)
Aid per capita:	USD 6.7	(2003)

Preparing for WTO membership



<b>Export:</b>	USD 32.91 billion (2004)
<b>Export products:</b>	Iron and other metals, fuel and petroleum products, chemicals, machinery en transport equipment, food
<b>Export partners:</b>	Russia 17.8%, Germany 5.9%, Italy 5.3%, China 4.1% (2003)
<b>Import:</b>	USD 31.45 billion (2004)
<b>Import products:</b>	energy, machinery, chemicals
<b>Import partners:</b>	Russia 35.9%, Germany 9.4%, Turkmenistan 7.2% (2003)

### Russia (the Russian Federation)

Surface Area:	17,075,200 km <sup>2</sup>
Population:	143,420,309 million (2005)
Population Growth:	-0.37% (2005)

GNI:	USD 374.9 billion (2003)
GNI per capita:	USD 2,610 (2003)
GDP:	USD 432.9 billion (2003)
GDP growth:	7.3% (2003)
PPP:	USD 1.408 trillion (2004)
PPP per capita:	USD 9,800 (2004)
PPP growth:	6.7% (2004)

Foreign debt:	USD 175.9 billion (2003)
Aid per capita:	USD 8.7 (2003)

Preparing for WTO membership



<b>Export:</b>	USD 162.5 billion (2004)
<b>Export products:</b>	petroleum and petroleum products, natural gas, wood and wood products, metals, chemicals, civil and military industrial products
<b>Export partners:</b>	Germany 7.8%, Nederland 6.5%, Italy 6.3%, China 6.2%, Belarus 5.7%, Ukraine 5.7%, US 4.6%, Switzerland 4.4% (2003)
<b>Import:</b>	USD 92.91 billion (2004)
<b>Import products:</b>	machinery, consumer goods, medicine, meat, sugar, metallurgical products
<b>Import partners:</b>	Germany 14%, Belarus 8.6%, Ukraine 7.7%, China 5.8%, US 5.2%, Kazakhstan 4.7%, Italy 4.2%, France 4.1% (2003)

## List of Abbreviations

<b>acquis</b>	acquis communautaire: EU legislation
<b>AIV</b>	Advisory Council on International Affairs
<b>AP</b>	ENP action plan
<b>GDP</b>	Gross Domestic Product
<b>GNI</b>	Gross National Income
<b>BTC</b>	Turkish ‘Baku-Tbilisi-Ceyhan’ oil pipeline
<b>CAS</b>	Country Assistance Strategy (WB)
<b>CEI</b>	European Integration Committee
<b>CIS</b>	Commonwealth of Independent States
<b>COS</b>	Development Cooperation Committee
<b>CVV</b>	Peace and Security Committee
<b>DZO/OE</b>	Southeast and Eastern Europe Department of the Ministry of Foreign Affairs, Eastern Europe Division
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EEA</b>	European Economic Area
<b>EC</b>	European Community
<b>ENP</b>	European Neighbourhood Policy
<b>ENPI</b>	European Neighbourhood Policy Instrument
<b>GAERC</b>	General Affairs and External Relations Council (of the EU)
<b>EU</b>	European Union
<b>EZ</b>	Ministry of Economic Affairs
<b>IDA</b>	International Development Association
<b>IFI</b>	International Financial Institutions
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>INTERREG</b>	Community programme for technical assistance to encourage interregional cooperation within the EU
<b>MATRA</b>	Social Transformation Programme
<b>MEDA</b>	Euro-Mediterranean Partnership Programme
<b>NATO</b>	North Atlantic Treaty Organisation
<b>NGO</b>	Non-Governmental Organisation
<b>OSCE</b>	Organisation for Security and Cooperation in Europe
<b>PCA</b>	Partnership and Cooperation Agreement (EU)
<b>PRGF</b>	Poverty Reduction Grant Facility (IMF)
<b>PRSP</b>	Poverty Reduction Strategy Process/Paper (WB)

<b>PSO</b>	Programme for Cooperation with Central and Eastern Europe
<b>PSOM</b>	Emerging Markets Cooperation Programme
<b>PUM</b>	Netherlands Senior Experts Programme
<b>SAA</b>	Stability and Association Agreement (EU)
<b>TACIS</b>	Technical Assistance to the Commonwealth of Independent States
<b>TCGP</b>	Transcaspian gas pipeline
<b>USD</b>	US dollar
<b>USSR</b>	Union of Soviet Socialist Republics
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>US</b>	United States
<b>WTO</b>	World Trade Organisation

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