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Paving the way for a New Neighbourhood Instrument

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I. INTRODUCTION

1. In its Communication “Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours”¹ (hereafter “the Wider Europe Communication”), the Commission proposed that “the European Union should aim to develop a zone of prosperity and a friendly neighbourhood ... with whom the European Union enjoys close, peaceful and co-operative relations.” “... Over the coming decade and beyond, the Union’s capacity to provide security, stability and sustainable development to its citizens will no longer be distinguishable from its interest in close co-operation with the neighbours.” “The development of such a policy is a logical consequence of enlargement, which, as stated in the Communication “gives new impetus to the effort of drawing closer to the 385 million inhabitants of the countries who will find themselves on the external land and sea border, namely Russia, the Western NIS, and the Southern Mediterranean.”
2. One of the elements of the Wider Europe Communication was the specific possibility of creating a new Neighbourhood Instrument, “which builds on the experience of promoting cross-border co-operation within the PHARE, Tacis and INTERREG programmes”, and which could focus “on ensuring the smooth functioning and secure management of the future Eastern and Mediterranean borders, promoting sustainable economic and social development of the border regions and pursuing regional and transnational co-operation”. The new Instrument could also “help to avoid drawing new dividing lines in Europe and to promote stability and prosperity within and beyond the new borders of the Union.” The Wider Europe Communication also emphasises that cross-border cultural links gain additional importance in the context of proximity.

The General Affairs and External Relations Council in June 2003 welcomed the Wider Europe Communication and invited the Commission to present a Communication on the concept of a new Neighbourhood Instrument as well as examining measures to improve interoperability between the different instruments. The Thessaloniki European Council endorsed these conclusions.

3. The Commission has examined the possibility of creating such an Instrument, using as a starting point the co-ordination work that has been taken forward in recent years between INTERREG, PHARE and Tacis. In order to ensure a comprehensive approach, the Instrument should also cover those neighbouring countries which benefit from CARDS and Euro-Med partnership, even though the Western Balkans fall outside the political scope of the Wider Europe Communication. Following the accession of Bulgaria and Romania to the European Union, their borders with the Western NIS and the Western Balkans will be future external borders of the Union, and are therefore also considered. The Wider Europe Communication does not bring Turkey within the scope of this Instrument, since Turkey benefits from a close relationship with the EU which goes well beyond the relationship between the EU and non-candidate neighbours.
4. This Communication provides an assessment of the possibilities of creating a new Neighbourhood Instrument. Taking into account the short-term constraints in the co-

¹ COM(2003) 104, 11 March 2003

ordination between existing financial instruments (INTERREG, PHARE Cross-border Co-operation Programme, Tacis Cross-border Co-operation Programme, CARDS and Meda), the Commission proposes that a two-step approach should be adopted. An initial phase from 2004-2006 will focus on significantly improving co-ordination between the various financing instruments concerned within the existing legislative and financial framework. In a second phase, for the period after 2006, the Commission intends to propose a new legal instrument addressing the common challenges identified in the Wider Europe Communication.

5. This Communication is divided into four sections. After this introduction, a second section identifies the key objectives, while the third section describes the current situation in relation to the existing co-operation instruments. The fourth section firstly sets out the practical steps that the Commission intends to implement immediately for the period up to 2006, in order to strengthen co-operation activities along the external border within the current legal framework, and then provides an initial analysis of further options for the period post-2006 by identifying key issues to be examined in relation to the creation of a future new Neighbourhood Instrument. The final section describes the actions to be taken in order to implement the proposals set out in the Communication.

II. OBJECTIVES

6. The positive impact of enlargement on current and future Member States and on neighbouring countries will be considerable. At the same time the new opportunities brought by enlargement will be accompanied by new challenges: existing differences in living standards across the Union's borders with its neighbours may be accentuated as a result of faster growth in the new Member States than in their external neighbours; common challenges in fields such as the environment, public health, and the prevention of and fight against organised crime will have to be addressed; efficient and secure border management will be essential both to protect our shared borders and to facilitate legitimate trade and passage. No less importantly, the long-standing cultural links across these borders should be enhanced rather than hindered.

THE EXTERNAL BORDERS OF THE ENLARGED EUROPEAN UNION AFTER 2006

In the East, the future eastern border of the EU with the NIS will be between eight Member States and four neighbouring countries. This land border will run from the Barents Sea in the North to the Black Sea in the South, stretching over 5000 km and covering regions with very different geographic, economic and social characteristics. The poverty gap on this border is substantial. Cultural ties on these borders are particularly important as the communities have a long history of living together across borders which have moved back and forth many times.

In the South-east, the future borders will concern the five Western Balkan countries, surrounded by six Member States. These countries have had historical links for many centuries. The current economic exchanges and the experience of legal development and the public administration reform process in the accession countries constitute the major interests for this type of co-operation.

In the South, the border between the European Union and the Eastern and Southern Mediterranean countries is almost exclusively maritime in nature and will be between eight

Member States and ten neighbouring countries. It covers the length of the Mediterranean Sea (c. 5500 km) with the various maritime crossings varying significantly in distance. It is characterised by a significant development gap between the North and South of the Mediterranean but has close historical, cultural and human links.

7. Although the political, economic and social context varies from border to border (see box below), the key co-operation objectives to be addressed are broadly valid for all. The approach to be followed under the future new Neighbourhood Instrument should thus be applied equally, *mutatis mutandis*, to the current and future EU/Western NIS borders, EU/Western Balkans borders and EU/Mediterranean borders.

8. Within the broader context of the Wider Europe Communication, the above considerations suggest the following issues as relevant objectives both for the future new Neighbourhood Instrument, as well as for a first transitional phase.

8.1. *Promoting sustainable economic and social development in the border areas*

Closer co-operation between the European Union and its neighbours should help to accelerate economic and social development and poverty reduction in the border areas by increasing trade and investment flows, enhancing cross-border co-operation on economic and social policy issues, promoting co-operation in the fields of transport and energy, and integrating the neighbouring countries more deeply into wider European co-operation.

As a rule, proximity to EU markets will increase the economic attractiveness of external neighbouring areas and create new opportunities for them. Currently, these regions often have natural economic advantages such as cheaper labour and lower transport costs.

8.2. *Working together to address common challenges, in fields such as environment, public health, and the prevention of and fight against organised crime*

As indicated in the Wider Europe Communication, “threats to mutual security, whether from the trans-border dimension of environmental and nuclear hazards, communicable diseases, illegal immigration, trafficking, organised crime or terrorist networks, will require joint approaches in order to be addressed comprehensively.” While broader international co-operation is required to address many of these issues, regional and cross-border co-operation have an important role, and this should be specifically taken up by the new Instrument.

8.3. *Ensuring efficient and secure borders*

Efficient border management is essential for joint prosperity and security. Facilitating trade and passage, while securing European Union borders against smuggling, trafficking, organised crime (including terrorist threats) and illegal immigration (including transit migration), will be of crucial importance. Regional and cross-border co-operation can assist in facing these challenges, although action at national level will also be required.

8.4. *Promoting local, “people-to-people” type actions*

Bearing in mind the long-standing social and cultural links across the external borders of the Union, it is important that the new external EU border is not seen as a barrier to existing contact and co-operation at the local level. This type of co-operation has a long-standing tradition in particular on the land borders of the enlarged Union. Therefore, cross-border contacts at regional and local level should be encouraged, enhancing exchanges and deepening economic, social, cultural and educational co-operation between local communities.

This Instrument should complement and be coherent with other relevant EU policies and instruments, including national financial assistance programmes, as well as specific sectoral policies and instruments (e.g. Schengen Facility, EQUAL, TEMPUS, etc.).

III. STATE-OF-PLAY OF CURRENT CO-OPERATION

9. At present, co-operation on the external and future external borders of the European Union is supported by a variety of instruments (see box below). These instruments are governed by different regulations, and thus operate with different project identification, selection and implementation procedures, making it difficult to implement genuine joint projects (i.e. those serving a joint objective and operating on both sides of the border at the same time). This diversity of instruments and procedures, and the consequent weaknesses in implementation have led to frequent criticism by the Court of Auditors, the European Parliament and the Council.

EU INSTRUMENTS PROMOTING CROSS BORDER AND SUB-REGIONAL/TRANSNATIONAL CO-OPERATION

- The **INTERREG Community Initiative**², a financial instrument within the framework of the European Union’s Structural Funds, supports cross-border and transnational co-operation among Member States and neighbouring countries. Although INTERREG programmes involve neighbouring countries directly, Structural Funds can only be used inside the Union. INTERREG programmes at the European Union’s external border therefore require a source of finance for activities taking place within the neighbouring country.
- In the framework of the pre-accession driven PHARE instrument in the candidate countries, the **PHARE CBC programmes**³ support cross-border co-operation with Member States and between the candidate countries. So far, cross-border co-operation on candidate countries’ external borders has been financed through national PHARE programmes. For the period 2004-2006, the geographical scope of PHARE CBC will be extended to cover the external borders of Bulgaria and Romania.
- In the NIS countries the **Tacis CBC programme**⁴ supports cross-border co-operation in the western border regions of Russia, Belarus, Ukraine and Moldova. Of particular

² Council Regulation (EC) No 1260/1999 of 26 June 1999 and the INTERREG III Guidelines, OJ C143, 23 May 2000

³ Commission Regulation (EC) No 2760/98 of 18 December 1998

⁴ Council Regulation (EC, Euratom) No 99/200 of 29 December 1999

relevance in the present context is the “Small Project Facility”, which has provided increasing support for cross-border and other co-operation initiatives with INTERREG.

- In the Western Balkans, **CARDS**⁵ is a key instrument of the Stabilisation and Association process and supports a range of activities in this regard. The CARDS regulation identifies the goal of fostering regional, transnational, cross-border and interregional co-operation among the recipient countries, between them and the European Union and between the recipient countries and other countries of the region. No cross-border co-operation programme yet exists in the CARDS framework.
- In the Mediterranean, the **Meda programme**⁶ provides support for regional co-operation in the broader sense between countries on the southern and eastern shore of the Mediterranean but has not as yet funded direct co-operation activities with Member States.

10. The current legal frameworks and procedures for this co-operation have been effective in their own right, but have created a number of difficulties, which limit the impact of co-operation along the external borders. These difficulties arise from the fundamentally diverging systems applied to the financial management of Community funds, implying different roles and responsibilities for the Commission and the national, regional or local authorities. Differences arise, in particular, in the mismatched levels of funding, the programming process (separate programming exercises), project selection (separate assessment and selection processes and decision procedures), project implementation (different rules governing internal and external procurement processes), and project monitoring (different reporting, monitoring and evaluation procedures).

IV. TOWARDS A NEIGHBOURHOOD INSTRUMENT: A TWO PHASE APPROACH

11. The Commission has made considerable progress in improving co-ordination between INTERREG and PHARE CBC, where joint co-ordination structures, joint programming and selection procedures have been in place for several years. Progress has also been made in co-ordinating INTERREG and Tacis CBC, notably on the Finnish/Russian border. The impact of such co-ordination measures will always be constrained by the existence of different legal and budgetary frameworks. The concept of a new Neighbourhood Instrument offers the opportunity to develop a single approach to co-operation across the external borders of the Union, which would resolve the problems faced at present.
12. However, a new Neighbourhood Instrument raises a number of significant legal and budgetary questions related in particular, to the present separation between external and internal funding sources. These cannot be resolved immediately. In addition, given that the current financial perspectives extend to the end of 2006, and taking account of the fact that financial commitments have already been made for some instruments up to that date, the Commission intends to proceed in two separate phases: the initial phase, up to 2006, should involve working within the existing legal framework and should seek in a pragmatic and dynamic way to improve current procedures and increase the effectiveness and visibility of co-operation. A more far-

⁵ Council Regulation (EC) No 2666/2000 of 5 December 2000

⁶ Council Regulation (EC) No 2698/2000 of 27 November 2000

reaching solution, involving the creation of a new Neighbourhood Instrument should be sought for the period from 2007 onwards, following an assessment of the relevant legal and budgetary issues.

FIRST PHASE 2004-2006: INTRODUCING NEIGHBOURHOOD PROGRAMMES

13. For the 2004-2006 period the key objective should be to build on existing progress made in co-ordinating the various instruments, while fulfilling existing commitments and obligations regarding the current programming period up to the end of 2006. In this context, the particular pre-accession needs of Bulgaria and Romania should be fully taken into account.
14. As a first step, the Commission therefore proposes for this period the introduction of **Neighbourhood Programmes** covering the external borders of the enlarged Union. These programmes will be prepared jointly by relevant stakeholders on both sides of the border. The Neighbourhood Programmes will cover a broad range of actions flowing from the objectives in point 8 above and may include, for example, infrastructure in the sectors of transport, environment, energy, border crossings, electronic communications; investments in economic and social cohesion (productive investments, human resource development, business-related infrastructure, co-operation in the fields of research and technology and innovation); people-to-people actions (like cultural and educational exchanges and co-operation); promoting the management of the movement of people and support to institution building (including justice and home affairs, border and customs management and meeting other common challenges). It should be noted however that certain issues related to proximity policy may still need to be taken up within the national programmes. In preparing the Neighbourhood Programmes, co-ordination with other current and ongoing co-operation programmes, and full coherence with the relevant country and regional strategy papers, will be assured.
15. Such Neighbourhood Programmes would permit a single application process, including a single call for proposals covering both sides of the border, and would have a joint selection process for projects. The funding for these Neighbourhood Programmes would come from the allocations already earmarked for existing programmes, and the formal decision processes would remain as at present. A list of possible Neighbourhood Programmes is given in Annex 1.
16. **INTERREG** programmes are prepared in the border areas by partnerships involving the national, regional and local level of the countries concerned. As such, they are already decentralised and could therefore form a useful basis for the Neighbourhood Programmes. The current geographical distribution of these INTERREG programmes will be an appropriate basis for the geographical scope of the Neighbourhood Programmes. These programmes include both bilateral cross-border co-operation programmes (INTERREG A) and wider sub-regional and transnational co-operation programmes (INTERREG B). The latter also allow for bilateral projects, if they are expected to have a wider transnational impact. Where programmes already exist (e.g. the Finland-Russia border), they may need to be modified in the sense of covering a broader range of objectives, and taking full account of issues and priorities on both sides of the border. In addition, the Commission will amend the INTERREG guidelines to allow the possibility of developing more direct co-operation between Member States and the Meda partners.

On the **Tacis** side, a new Strategy Paper and Indicative Programme for the Cross border co-operation Programme for 2004-2006 and the yearly action programmes thereunder will be drawn up incorporating the necessary changes required by the Neighbourhood Programmes, i.a.. separate indicative budget allocations per each Neighbourhood Programme.

For **CARDS**, the considerations required by the Neighbourhood Programmes will be incorporated into the Multiannual Indicative Regional Programme and the yearly action programmes thereunder.

For **Meda**, the multiannual indicative programming exercise for 2004-2006 will incorporate the Neighbourhood approach with specific programmes for co-operation with the Member States.

For the Bulgarian and Romanian borders with the Western NIS and Western Balkans (future external borders), **PHARE CBC** programmes will be established to cover the 2004-2006 period and will provide a useful basis for the Neighbourhood Programmes.

17. The Neighbourhood Programme approach will result in single projects operating on both sides of the border. The internal and external components of each project will therefore be implemented concurrently, rather than consecutively or separately.

NEW NEIGHBOURHOOD PROGRAMMES FOR THE EXTERNAL BORDERS

In order to create a Neighbourhood Programme including INTERREG, PHARE CBC, Tacis, CARDS and Meda, the main steps will include the following:

- A specific funding allocation, within the current financial perspectives, will be made within the relevant external instruments to the area covered by each Neighbourhood programme. The funding for the Member State(s) concerned would be fixed by the Commission decision adopting the Structural Fund element of the programme;
- The programme's priorities will take account of necessary objectives and activities on both sides of the border and the aims and objectives of the Wider Europe Communication;
- The rules governing the programme's committee structures will ensure a balanced membership from both sides of the border, and include the appropriate representation of the Commission;
- A single application process and a single selection process will operate for each programme covering both the internal and the external element of a single project;
- Procedures for a final decision on the external and internal components of the jointly selected projects, and for contracting and making payments, will remain those required by the relevant regulations;
- Procedures for monitoring, reporting and evaluation will be harmonised for both components. A system for a regular exchange of best practices and experiences on the basis of the results of the various projects should also be encouraged.

18. Such a process will not require new financial rules, as Structural Funds will still be used inside the Union, and external funds outside. It will allow the selection of the joint projects (each with an internal and external component) to be made by the Neighbourhood Programme's selection committee in which relevant local and national officials from both sides of the border will participate.
19. Legally, the components of these programmes relating to activity within the Member States will still be INTERREG programmes, and they will therefore remain in the Structural Funds framework. The external components of these programmes will remain within the framework of the respective Regulation, and will implement the respective Strategy and Indicative and Action programmes adopted by the Commission following consultation of the relevant management committee. From the perspective of the stakeholders, however, the two components will operate as one single Neighbourhood Programme.
20. Although the Neighbourhood Programmes will operate within the current financial perspectives and programming for the years 2004-06, it is important that a sufficient volume of funding is made available to permit the real impact and visibility of these programmes, and to encourage the active involvement of stakeholders on both sides of the border. Neighbourhood Programmes must also take account of practical questions of management and absorptive capacity. Without prejudging the normal budgetary and programming processes, the Commission foresees at this stage that it should be possible, within the existing instruments and financial programming, to

propose a total volume of funding for these programmes over the period 2004-06 of the order of €55 million, representing €700m from INTERREG, €90m from PHARE, €75m from Tacis, €45m from CARDS and €45m from Meda. The Commission will present more detailed proposals on the external instrument funding per Neighbourhood Programme to the relevant Management Committees in the normal way, at a later stage.

SECOND PHASE POST-2006: A NEW NEIGHBOURHOOD INSTRUMENT

21. The approach described in the previous section provides a positive solution to many of the barriers already identified concerning the co-ordination of the various instruments. It also paves the way to establish a new Neighbourhood Instrument post 2006.
22. Such an Instrument, capable of operating on an identical footing on both sides of the EU's external border, would provide a more complete approach, allowing for a mix of cross-border and regional co-operation activity to be developed around the external border. In addition, it would address the practical difficulties that are likely to remain even after the actions described above are implemented, including restrictions on where and how funding can be used.

DIFFERENT AGENDAS FOR DIFFERENT REGIONS

A Neighbourhood Instrument for the external borders of the enlarged European Union would logically be linked to, and coherent with, the various external policy agendas and processes and should take account of the different regional priorities already developed.

In the East, the cross border dimension would be of key importance given the length of the land border. However, the Communication on Wider Europe mentions that *“New initiatives to encourage regional co-operation between Russia and the countries of the Western NIS might also be considered. These could draw upon the Northern Dimension concept to take a broader and more inclusive approach to dealing with neighbourhood issues.”*

In the Western Balkans, CARDS provides a strategic approach to the provision of assistance to the countries of the region and aims to help the Balkan countries in the process towards future membership, and to establish a strategic framework for their relations with the EU. As defined in the CARDS regulation, regional, cross-border, transnational and interregional co-operation must play a key role in this regard.

In the Mediterranean, land borders are of less significance, but short-sea crossings provide frequent and intensive connections between Member States and Southern and Eastern Mediterranean partners. Moreover, the Wider Europe Communication states that *“further regional and sub-regional co-operation and integration amongst the countries of the Southern Mediterranean will be strongly encouraged.”*

23. A Neighbourhood Instrument would combine both external policy objectives and economic and social cohesion. Such a combination of issues would offer continuity with the type of local and regional co-operation already developed successfully under INTERREG and PHARE CBC for example, while introducing into the scope of the co-operation additional, wider geopolitical objectives which will become

increasingly important after enlargement, as outlined in the Wider Europe Communication.

24. Such an Instrument should draw on lessons learned from previous experience of implementing cross-border co-operation. In particular, it should be simple to operate and, in order to engender full ownership among all concerned stakeholders, it should involve all relevant partners at European, national, regional and local level.
25. Before developing such a concept further, the critical issue to be examined concerns the legal and budgetary constraints on the integration of internal and external European Union funding. At present, Community Structural Funds cannot be used outside the European Union, and external instruments cannot be used internally. As a response to this problem, the following alternatives may be considered:
 - expanding the content and geographical scope of an existing co-operation instrument to allow these funds to be used on both sides of the external border, thus creating a Neighbourhood Instrument from an existing instrument (for example, permitting the use of INTERREG funds outside the Union);
 - creating a single new Regulation to govern a Neighbourhood Instrument to fund activities both inside and outside the Union, and be based on a single budget line. Consideration should be also given to a single instrument operating on two separate budget lines. However, in this case questions relating to joint external and internal financing of projects would need to be resolved;
 - focusing further on co-ordination between already existing instruments on the basis of the Neighbourhood Programmes proposed for 2004-2006, learning from the experience subsequently acquired, and perhaps expanding on the objectives and financing of these programmes, while further improving procedures as appropriate.
26. These long-term options require further study, and the Commission is currently examining them to assess their feasibility and the impact that they would have on co-operation along the external borders.

VI. NEXT STEPS

27. The Commission intends to introduce Neighbourhood Programmes, as described in Section IV, immediately. This will involve:
 - amending existing INTERREG programmes to take account of the Neighbourhood Programme concept;
 - ensuring that the Neighbourhood Programme concept is fully taken into account in the current preparations of INTERREG programmes in the acceding countries for their new external border programmes;
 - amending the INTERREG Guidelines to add the southern regions of Spain, France, Italy and Greece as eligible for co-operation activities with the southern Mediterranean partners so as to allow bilateral cross-border co-operation;

- adopting the Indicative Programme for Tacis CBC 2004-2006 in autumn 2003 which incorporates the changes required;
 - allocating specific funds for Neighbourhood Programme co-operation under the Multiannual Indicative Regional Programme under CARDS for 2004-2006;
 - allocating specific funds for Neighbourhood Programme co-operation under the Meda multiannual programming exercise for 2004-2006;
 - integrating the Neighbourhood Programme concept in the preparation of 2004-2006 PHARE CBC programmes at the Bulgarian and Romanian borders with Western NIS and Western Balkans.
28. The legal and budgetary issues identified in part 2 of Section IV require further reflection within the Commission before a definitive position can be established. This reflection work is already underway and will continue in the second half of 2003.
29. The Commission intends to present orientations for the next Financial Perspectives by the end of 2003. In the light of these orientations and of the Third Cohesion Report The Commission will come forward with more detailed proposals for the New Neighbourhood Instrument post-2006.

ANNEX 1

Proposed initial list of Neighbourhood Programmes

Neighbourhood Programme	Countries involved
Nord (Kolarctic)	Fin, S, N, Rus
Karelia	Fin, Rus
South-East Finland/Russia	Fin, Rus
Estonia/Latvia/Russia	EE, LV, Rus
Latvia/Lithuania/Belarus	LV, LT, Bel
Lithuania/Poland/Russia	LT, PL, Rus
Poland/Ukraine/Belarus	PL, UKR, Bel
Hungary/Slovakia/Ukraine	Hun, SLK, UKR
Slovenia/Hungary/Croatia	SLN, Hun, HR
Hungary/Romania/Serbia & Montenegro	HUN, Rom, SeM
Italy/Adriatic	I, HR, BiH, SM, ALB
Italy/Albania	I, ALB
Greece/Albania	GR, ALB
Greece/FYROM	GR, FYROM
Spain/Morocco	E, MAR
Gibraltar/Morocco	UK, MAR
Romania/Ukraine	Rom, UKR
Romania/Moldova	Rom, MOL
Bulgaria/Serbia & Montenegro	Bul, SeM
Bulgaria/FYROM	Bul, FYROM
Baltic Sea	D, DK, S, FIN, EE, LV, LT, PL, N, Rus, Bel
CADSES	D, A, I, GR, CZ, SLK, SLN, PL, HUN, ROM, BUL, HR, SeM, BiH, FYROM, ALB, UKR, MOL
Western Mediterranean	I, F, E, P, UK, Mal, (MAR, ALG, TUN)
Archimed	GR, I, Mal, Cyp, (TUR, EGY, ISR, LEB, SYR, Pal, Jor)

This list of programmes is only indicative and is based on INTERREG programmes for current and future Member States and on future PHARE CBC programmes on the external borders of the enlarged Union.