

Activities undertaken by the EC to alleviate the economic situation in the Western Balkans

The European Council in Thessaloniki (June 19-20, 2003) confirmed the European perspective of the five countries of the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, former Yugoslav Republic of Macedonia and Serbia and Montenegro) and underlined the European Union's determination to support their efforts to move closer to the European Union.

The Stabilisation and Association process remains the policy framework to help these countries along the way and is recognised and supported by the whole of the international community and by the countries of the region. It is an entry strategy, introducing European values, principles and standards in the region. The process and the prospects it offers are serving as the anchor for reform in the Western Balkans in the same way the accession process has in Central and Eastern Europe.

The European Council adopted in Thessaloniki 'The Thessaloniki agenda for the Western Balkans: moving towards European Integration' which represents a new important step in the privileged relationships between the EU and the Western Balkans. The Thessaloniki agenda has become a shared agenda and all the 5 Western Balkan countries are committed to its implementation.

Economic prosperity is recognised as essential for the long-term stability in the region. Whilst urging the countries of the region to maintain and expand hard-won gains in macro-economic stability, to accelerate the momentum of structural reforms, to promote good governance and to create a business environment conducive to private economic activity and foreign investment, the EU will continue to provide assistance in this area, in co-ordination with other donors and in particular the International Financial Institutions.

In November 2000, following an initiative by the Commission, the EU unilaterally granted almost free access to its markets for practically all goods from the Western Balkans.¹ The aim was to boost the general level of imports from the Western Balkan countries, which was very low at that point, and thereby to encourage economic growth in the region.

A first assessment of the introduction of the European Union's trade measures shows encouraging results, although much remains to be done to increase the export potential further. During the last few years, the rate of growth in exports from the Western Balkans to the EU has outpaced the increase in exports from the region to the rest of the world. However, the level of exports remains relatively low. Trade with the candidate countries is important (especially with Slovenia) and represents almost 20% of total trade for the region. Intra-regional trade remains low, at about 6% of total trade. Still, it is essential to BiH, representing some 20% of its total.

¹ Council Regulation (EC) No 2007/2000 (as of September 2000), amended by Regulations (EC) No 2563/2000 and 2487/2001. These provisions were by and large included in the agreements signed with Croatia and FYROM.

The trade regime has served as a catalyst to the development of a network of free-trade agreements between the countries of the region (including Bulgaria and Romania) under the auspices of the Stability Pact's working group on trade liberalisation. When fully implemented, these agreements are expected to boost intra-regional trade, to enhance efficiency, increase competition and to enable economies of scale. In view of the small size of the countries' economies, regional trade integration is also expected to attract further Foreign Direct Investment (FDI) to the region.

The Commission will develop its assistance and other possible measures to improve the countries' ability to take advantage of these liberal trade measures. The creation of a free trade area in the region in the medium term would be desirable since it would enable the countries to reap additional benefits of trade liberalisation. An extension of the system on pan-European diagonal cumulation of origin to the countries of the region – subject to it being applied in a manner which is fully consistent with all relevant community policies - would also serve this purpose. In addition, it would constitute a further step towards promoting greater intra-regional trade, which is essential for their economic development and would require increased co-operation and mutual trust, thereby supporting the overall objective of the Stabilisation and Association process. The countries' different stages of preparation would require a step-by-step approach so that only those countries which fulfil all the requirements prescribed could join the system, including having the capacity to manage and control such a system. A Stabilisation and Association Agreement or an Interim Agreement would first need to be in place for a country to participate in the system.

Small and medium-sized enterprises are a key source of jobs, innovation and wealth and are essential for transforming centrally planned economies into competitive market economies. Consequently, it is important to improve the environment in which small and medium-sized enterprises operate. Commitment by the Western Balkans countries to the principles enshrined in the European Charter for Small Enterprises would serve this purpose. It would allow them to share good practice with other European countries. In the economic sphere, the Commission also proposes to hold regular economic dialogue with each country.

Regional co-operation remains a cornerstone of the European Union's policy for the region. The European Union is built on a deeply rooted foundation of regional co-operation. Based on the EU's own experience of the benefits of regional co-operation – that political understanding, economic and social prosperity all depend on it – it believes that the countries of the Western Balkans would benefit significantly from closer co-operation. Regional co-operation is also an integral part of the preparation for integration into European structures. Each country's contribution to achieving regional objectives will help determine its readiness to take on the demands of full integration into the EU.

Developments in the past years provide reason to be optimistic. Much progress has been made, in particular in the fields of energy, trade and transport, with support from the CARDS programme. One of the specific objectives of the SAP is the integration of the Western Balkans countries into pan-European infrastructure networks helping the countries involved to develop infrastructure strategies with an international

dimension encompassing both opening of markets and development of interconnected infrastructures. In particular:

The Danube Co-operation Process and Sava River Basin Co-operation: The Danube Co-operation Process was established by 13 countries in Vienna in May 2002 – including BiH, Croatia, Serbia and Montenegro and the former Yugoslav Republic of Macedonia (as an observer). The Framework Agreement on the Sava River Basin – signed by BiH, Croatia, Serbia and Montenegro and Slovenia in December 2002 – is a good example of countries taking regional ownership of an issue, and translating potential into reality. It focuses primarily on water management, navigation and environmental protection. An action plan is now to be finalised and implementation begin.

Transport: Considering the relatively small size of the individual countries and of the Western Balkans as a whole, the only realistic and sustainable approach to transport investment needs is a trans-national one. Here, the European Union is applying a methodology similar to that used in the candidate countries. Following the Transport Infrastructure Regional Study (TIRS) completed in June 2002, the Regional Balkans Infrastructure Study - Transport (REBIS) will, until June 2003, develop policies on a number of key issues, *inter alia*: identification/prioritisation of projects on a core network; reform of the various transport sectors, operational tools to support decision-making by planing authorities and investors. Memoranda of Understanding were signed in 2002 on the Pan-European Corridors VI (the Danube river) and VIII (linking Italy with Turkey via routes through Albania, Bulgaria, the former Yugoslav Republic of Macedonia and Greece) – both of critical importance for the region.

Of particular relevance has been the substantial effort devoted by the EC to the restoration of the navigation in the Danube, as a major transport route within the region itself affecting also other countries up and downstream.

Energy: Only regional co-operation can guarantee sustainable electricity supplies for all of South East Europe, levelling out seasonal fluctuations in production, providing reserve capacity for net importers, and properly functioning markets for net exporters. The signing, in Athens in November 2002, of the Memorandum of Understanding on the Regional Electricity Market in South East Europe and its integration into the European Union Internal Electricity Market represented a significant achievement. It launched the ‘Athens process’ that commits all the countries of the Western Balkans, Bulgaria, Greece, Romania and Turkey (with Austria, Italy, Hungary, Moldova and Slovenia as observers) to a medium-to-long-term plan to create the conditions for a functioning electricity market in South East Europe and alignment with the EU electricity network. Regular reports prepared by the Commission will monitor progress, using mechanisms like benchmarking and peer reviews, providing also an important benchmark for their progress in the Stabilisation and Association process. Legal alignment to the Community acquis and improved administrative capacity are essential steps to be taken. During 2003, the European Commission intends to set out the basic principles for a regional approach to the gas market in South East Europe.

As for the future, a specific agreement governing energy trade would have enormous advantages in attracting investment into this strategic sector. The Commission will endeavour to come forward with proposals for extending the Internal Energy Market to the region as a whole by the end of 2003 and will recommend to the countries that this be done on a legally binding basis.

Environment: The Western Balkan countries are actively participating in the Regional Environmental Reconstruction Programme (REReP), and increasingly co-operating with the European Environment Agency (EEA) in order to connect the Western Balkans to the European Environment Information and Observation Network (EIONET). This represents a significant increase in the level of environmental co-operation between the countries of the region as well as between them and the European Union. The Community action programme promoting environmental NGOs was extended to the Western Balkans in 2002.

Science and Technology: The European Research Area project and the launch in 2002 of the 6th RTD Framework Programme (2002-2006)² link Western Balkan policies in this area with those of the Member States and the Candidate countries. The sixth Framework Programme is open to participation by countries which have concluded the necessary agreements and is also open at project level to participation by entities from third countries and by international organisations. The participation of scientists and institutions from developing countries, Mediterranean countries, the Western Balkans as well as Russia and the newly independent states will be supported. Research priorities will address the consequences of war in the region with a special emphasis on environment and health. Further action might be considered on agricultural and industrial facilities. The requirement that projects should include at least two SAP partners and three participants from the Member States/candidate countries will directly support regional co-operation within the scientific community.

The CARDS programme will continue to be the main financial instrument to support the Stabilisation and Association Process. Following an initial focus on physical reconstruction and rehabilitation, emphasis has shifted to institution building, the strengthening of administrative capacity and justice and home affairs. While other national or regional needs might have to be addressed in the future, the Commission has proposed an increase of the CARDS budget with a view, in particular, to addressing these priorities, taking into account each country's particular needs and capacity.

In case of special need, the Community is ready to examine, in co-ordination with international financial institutions, the possibility of granting, on an exceptional basis, macro-financial assistance. This will be subject to certain conditions and will depend on the availability of financial resources.

² Decision No 1513/2002/EC of the European Parliament and of the Council of 27 June 2002 concerning the sixth framework programme of the European Community for research, technological development and demonstration activities, contributing to the creation of the European Research Area and to innovation (2002 to 2006) OJ L 232/1 29.08.02

Other regions also suffered the effect of the crisis in the Balkans. Specific assistance has been mobilised to alleviate the situation. Of particular relevance is the project '*Business Infrastructure in Odessa Oblast, Lower Danube Euroregion*' launched in January 2003 with Tacis assistance, focusing on the south west part of the Odessa Oblast and its relations with Romania and Moldova.

The primary focal points of the project are the rayons of Reni, Izmayil and Kiliya in the south west part of Odessa Oblast. These cities have suffered tremendously from the problems caused by the break up of the Soviet Union. The **closure of the Danube** (following the developments in the Balkan region) has caused an additional severe downturn for the region, especially for the shipping-related activities of Izmayil and Kiliya. This Tacis initiative intends to significantly improve cross border cooperation in that region by both increasing the number of SMEs involved in cross border activities as well as the volume of the cross border trade. The principal project partner is the Investment Promotion Bureau of the Odessa Oblast (IPB). Improving the overall regional economic climate, enhancing formal cross border cooperation and establishing an enabling regulatory framework were the main ideas behind the establishment of the Lower Danube Euroregion. Other main spheres of regional cooperation include environmental protection, employment, education, quality of life, transport infrastructures, culture, interethnic issues and fighting crime and disasters.