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A NEW EASTERN PARTNERSHIP FOR COOPERATION BETWEEN THE EU AND ITS EASTERN NEIGHBOURS

(ARMENIA, AZERBAIJAN, BELARUS, GEORGIA, MOLDOVA AND UKRAINE)

Summary

The European Commission has proposed the Eastern Partnership with the aim to enhance economic integration and energy security, promote labour mobility and ensure effective assistance for its Eastern neighbours.

BUSINESSEUROPE supports the Eastern Partnership and calls for:

- Ambitious Free Trade Agreements securing real market access for goods, services and investments.
- Effective financial assistance to accelerate reforms and facilitate the implementation of international agreements.
- Comprehensive capacity building, including for local business organisations.
- Enhanced cooperation on labour mobility and migration.
- Establishment of a multilateral platform for cooperation and common action on energy security.



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1. Introduction

The European Commission proposal for the Eastern Partnership will enhance economic integration and energy security, promote labour mobility and spur reforms. The depth of the partnership will depend on the eastern neighbours' level of commitment to the rule of law, good governance and the principles of market economy and sustainable development, as well as respect for human rights.

Although trade with the eastern neighbours only amounts to 2% of total EU trade, there is a real potential for increased trade. Between 2004 and 2007 trade between the EU and the three Eastern European neighbours (Ukraine, Belarus, Moldova) increased by more than 40% amounting to €17,473 billion in EU imports and €28,699 billion in EU exports in 2007. In the same period EU trade with the three Southern Caucasus countries (Armenia, Georgia, Azerbaijan) increased by more than 150% for imports and more than 40% for exports amounting to €8,238 billion in EU imports and €3,793 billion in EU exports in 2007. This significant increase in EU imports is partly due to the increase in energy imports from Azerbaijan into the EU. Ukraine, with whom the European Union is currently negotiating a Free Trade Agreement (FTA)¹, is the EU's largest trading partner of the six countries. EU exports to Ukraine have more than doubled since 2004, amounting to €22.4 billion in 2007, while imports from Ukraine have almost doubled in the same period reaching €12.4 billion in 2007

European companies are convinced that there is potential for further increases in trade flows provided that obstacles to trade and investment are removed through ambitious FTAs, concrete improvements to the business and investment climate, trade facilitation and a strengthening of local business organisations. Finally, the Eastern Partnership should be used as a platform for cooperation on energy.

2. Deep and comprehensive free trade agreements

BUSINESSEUROPE supports the start of the negotiations on deep and comprehensive FTAs with each of its eastern neighbours, provided that they hold WTO membership² and commit to adopting a clear set of EU rules in all trade related areas. The FTAs should include the broadest product coverage possible in both goods and services, harmonise standards and regulations and remove non-tariff barriers.

¹ BUSINESSEUROPE has submitted its position on 29 January 2008 on the EU-Ukraine FTA

² Of the six eastern neighbours only Azerbaijan and Belarus are not yet members of the WTO.



BUSINESSEUROPE also supports the longer-term goal of creating a neighbourhood economic community (a regional economic community of the EU's six eastern neighbours), to which full access to the single market will be offered as soon as sufficient regulatory approximation is achieved. A neighbourhood economic community will increase intra-trade between the six eastern neighbours and ease the economic integration process with the EU.

a) Investments

Investments in the EU's eastern neighbourhood are not significant. However, provided that the business climate is improved, obstacles to doing business are removed and regulatory alignment takes place, the investment potential would increase, creating growth and jobs in the countries. European business therefore favours the long term goal of achieving a worldwide comprehensive investment environment enhancing full transparency, non-discrimination and national treatment, free access to markets and full protection of investments through both bilateral member state investment treaties and, where relevant, EU level agreements (e.g. the Energy Charter). FTAs with the eastern neighbours should therefore build on key principles such as free access to markets, most favoured nation, transparency, national treatment and non-discrimination, and secure the highest level of protection of investments possible. The Commission should also facilitate coordination, in full agreement with member states, of bilateral investment negotiations between member states and the region as it has done in the case of Russia. Special attention should be paid to opening investment in the resource and energy sector.

b) Trade facilitation and customs

As customs duties are reduced, formalities at borders have a growing impact on the costs of trade and limit the ability of companies - especially small companies - to develop internationally. In addition, these procedures and rules can easily be misused to restrict imports for protectionist purposes. Accordingly any FTA must also assertively address the question of trade facilitation. The provisions of the agreements should be focused on the following issues to facilitate trade for both the EU and its eastern neighbours.

- minimisation and/or elimination of fees and charges;
- procedures for legal recourse and appeal, complaint or mediation services in the case of disputes with customs;
- establishment of a single window;
- publication of trade regulations;
- accelerated and simplified procedures for release and customs clearance of goods;
- measures to combat corruption and counterfeit trade.

3. Improved conditions for business

Business plays a key role in the deepening of economic and political relations between the EU and its eastern neighbours. However, according to the annual World Bank



report on doing business in the world³, there are significant obstacles to doing business in some of the six countries. EU financial assistance must aim to secure the implementation of reforms to improve the business climate by supporting comprehensive institution-building and capacity building. Any financial assistance must be conditional on the implementation of reforms. The European Commission should also take up these indicators in the ENP Action Plans, to monitor annual progress.

a) Regulatory alignment

Increased trade relations also require that the EU and its neighbours make the necessary regulatory alignments. High priority should be given to strengthening provisions on mutual recognition and the protection of intellectual property rights. The integration process should also include the promotion of the better regulation agenda to reduce red tape. As a natural step in the integration process between the EU and its eastern neighbours, BUSINESSEUROPE supports talks on visa facilitation and labour mobility. Facilities for business travel, which has almost no impact on immigration, should be fast-tracked in the negotiations.

b) Implementation of commitments

BUSINESSEUROPE is concerned about the level of implementation and enforcement of international commitments in the Eastern Partnership countries. If the EU and its neighbours are to negotiate an ambitious FTAs it is of highest importance for European business that the enforcement of international commitments is secured. Therefore, more resources for capacity-building should be allocated by the EU to facilitate the implementation process and subsequent compliance in the eastern neighbours. As other international institutions such as the World Bank are also supporting the reform process in the region, it is important that conditionality of capacity-building is coordinated between the EU and the relevant international institutions.

c) Local business organisations

Furthermore, the European Commission should aim to strengthen local business organisations in the region, which play a key role in advocating reform. Business organisations from EU member states can make a valuable contribution to such capacity-building by sharing their knowledge. The European Commission should install programs similar to DG Enlargement's *Business and Support Programme* for Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

4. More cooperation on energy

BUSINESSEUROPE welcomes the Commission proposal to step up energy relations with the eastern neighbours. Energy security and avoid disruptions of energy supplies is a key priority to European business. The Eastern Partnership should therefore be used to establish measures for better absorbing unexpected disruptions of gas in the future. The first step should be to establish an early warning system building on

³ Link to World Bank report on doing business: <http://www.doingbusiness.org> (2009): Georgia (15); Azerbaijan (33); Armenia (44); Belarus (85); Moldova (103); Ukraine (145).



transparency. The next step is to build the necessary infrastructure interconnection so that energy can be distributed from storage facilities to countries in need. BUSINESSEUROPE is of the opinion that public-private partnerships could contribute in the financing of the projects.

It would be a natural and important step for the cooperation within the Eastern Partnership on energy issues that the EU's eastern neighbours become part of the European Energy Community (EEC). So far the EU has launched negotiations with Ukraine and Moldova and these should be speeded up. It should be a clear ambition of the EU to include the rest of the eastern neighbours in the EEC in the nearest possible future.

Another way of enhancing energy security is to diversify energy supplies and suppliers, and enhance energy efficiency. In this regard, the EU and its eastern neighbours all have something to contribute. The Southern Caucasus is a region rich in oil and gas and both Eastern Europe and the Southern Caucasus are important for transit of oil and gas. European companies can provide knowledge and technological capacity to increase energy efficiency. Thus, cooperation taking its outset in these key assets could contribute to increasing energy security for the EU and its neighbours.

5. Conclusion

The European business community and its eastern counterparts have a strong mutual interest in developing and strengthening their common economic ties. BUSINESSEUROPE will work to promote economic cooperation with its Eastern European and southern Caucasian counterparts as well as with the EU and governments of its eastern neighbours.