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ECONOMIC, COMMERCIAL, TECHNOLOGICAL AND ENVIRONMENTAL
AFFAIRS COMMITTEE**

**REPORT ON
"SHAPING A EUROPEAN ECONOMIC SPACE"**

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I. INTRODUCTION

1. Current integration and cooperation processes in Europe are focused on a vision of creating a common economic space stretching from the Urals to the Atlantic.
2. The overall objective of shaping a European economic space is to avoid the creation of new dividing lines and prosperity gaps in Europe particular in view of an enlarged European Union.
3. Such a project envisages integration between economies of widely disparate sizes and levels of development and this deepened integration in Europe is premised on processes of market reform and democratisation that have swept Europe over the past couple of decades.
4. Observation of hemispheric integration processes in Europe raises a number of interesting questions about the relationship between subregional organisations such as the BSEC and the wider regionalistic project. Regional economic integration is crucial to this effect as it helps to create political stability and it can unleash domestic economic dynamism as well as enhance FDI, international technology transfer etc.
5. The 1992 Summit Declaration on the establishment of the BSEC stressed the member states' determination to develop economic cooperation as a contribution to a Europe-wide economic area, as well as to the achievement of a higher degree of integration of the participating states into the world economy by continuing efforts to further reduce or eliminate obstacles of all kinds.
6. This aim has been constantly carried along in the final documents of the BSEC High Level Meetings, the Ministerial Meetings, PABSEC, BSEC Business Council and BSEC subsidiary bodies' meetings, taking a more articulate shape at each consecutive stage.
7. This Report and its accompanying Recommendation are timely prepared by PABSEC to contribute to the debate over the shaping of a wider Europe. It is based on a number of official documents of the BSEC and other organisations as well as on the contributions of the Hellenic and Romanian delegations to the PABSEC.

II. ELEMENTS OF A EUROPEAN ECONOMIC SPACE

8. The basic idea of the creation of a European economic space is the provision of the conditions for the so-called four freedoms: the free movement of goods, services, capital and people across Europe on the basis of compatible or harmonised rules.
9. The term European economic space dates back in 1984 when a declaration by a ministerial meeting of the European Economic Community (EEC) - European Free Trade Area (EFTA)¹ mentioned the establishment of a European Economic Space (later Area). This has been implemented through the removal of obstacles to trade, the establishment of institutions and later on by measures on the extension of the Single Market of the EU and the *acquis communautaire* to the EFTA countries. In addition to internal market legislation the final Agreement signed in 1992 includes horizontal policies intended to strengthen the Internal Market. These additional fields of cooperation include research and development, statistics, education, social policy, the environment, consumer protection, tourism, small and medium-sized enterprises, culture, information services and audio-visual services.

1 Today EFTA includes Iceland, Leichtenstein and Norway

10. The term European economic space has been used since then in a more flexible way to describe the long-term goal of a number of multilateral agreements signed among European states in the field of economic cooperation. A single economic space in Europe is still a prerequisite. Several cooperation models exist (e.g. EFTA, Barcelona process, CEFTA) which aim at deepening economic integration but nevertheless they imply a diversification of institutional and legal obligations of the European states. The creation of a European economic space is not only an issue of legal approximation. It goes beyond trade and investment measures, to building infrastructure, sound environment, a unified technology space and social cohesion.

11. The most sophisticated model of integration is the EU internal market which is based on 'four freedoms' of goods, people, services and capital all within a single regime of competition rules. The extraterritorial impact of the EU single market on neighbours, partners and competitors has been powerful. The alignment of several non EU members with the EU single market, reveals the soft boundaries of a European economy that never coincided with the political boundaries of the EU. At the same time several integration models at the subregional level aim at bringing the economies of the European states closer.

12. The EU – Mediterranean cooperation, *Barcelona process* launched in 1995 was connected to the North-West enlargement of the EU and its objective is the creation of a Free Trade Zone by 2010.² It includes a web of bilateral and multilateral approaches with emphasis placed on market relations between Mediterranean countries while it envisages free trade agreements not only for goods sector but also for services. With Turkey this goal is also achieved through the Customs Union agreement of 1995.

13. The *Europe Agreements* provide the framework for bilateral relations between the European Union and its member states on the one hand and the partner countries on the other (such as Bulgaria and Romania). The Europe Agreements cover trade-related issues, political dialogue, legal approximation and other areas of cooperation, including industry, environment, transport and customs. They aim progressively to establish a free-trade area between the EU and the associated countries over a given period, on the basis of reciprocity but applied in an asymmetric manner (i.e. more rapid liberalisation on the EU side than on the side of the associated countries). The Europe Agreements aim to establish free trade in industrial products over a gradual, transition period. As a result, industrial products from the associated countries have had virtually free access to the EU since the beginning of 1995, with restrictions in only a few sectors, such as agriculture and textiles. In addition to the liberalisation of trade, the Europe Agreements also contain provisions regarding the free movement of services, payments and capital in respect of trade and investments, and the free movement of workers. When establishing and operating in the territory of the other party, enterprises must receive treatment not less favourable than national enterprises. Under the Agreements, the partner countries also commit themselves to approximating their legislation to that of the European Union, particularly in the areas relevant to the internal market. This includes applying legislation favouring competition and applying state-aid rulings, which are compatible with comparable legislation in the EU. Legislation will also have to be introduced which provides

² It includes the countries of the 12 Mediterranean Partners, situated in the Southern and Eastern Mediterranean are Morocco, Algeria, Tunisia (Maghreb); Egypt, Israel, Jordan, the Palestinian Authority, Lebanon, Syria (Mashrek); Turkey, Cyprus and Malta.

similar levels of protection to intellectual, industrial and commercial property. Phare is identified in the Europe Agreements as the financial instrument specifically aimed at helping achieve the objectives of the Europe Agreements.

14. The *Partnership and Cooperation Agreements (PCA)* (signed with Armenia, Azerbaijan, Georgia, Moldova, Russia, Ukraine) provide for trade liberalisation and cooperation in a wide range of areas. Tacis is the main financial and technical assistance instrument supporting the implementation of the PCA and providing grant assistance for projects in priority areas that are defined on a biannual basis. In contrast to contractual relations with all the EU's other neighbouring states, the *Partnership and Cooperation Agreements* in force grant neither preferential treatment for trade, nor a timetable for regulatory approximation.

15. Another agreement is the one on 'EU – Russia Common Economic Space' which was launched in 2000 and its contents are still under elaboration. It is based on the idea of improving the free movement of goods, services, capital and people between Russia and the EU and it is part of the Common Strategy of the EU towards Russia.

16. The *Stabilisation and Association Agreements* (signed among others with Albania) focus on key democratic principles and the core elements which are at the heart of the EU single market. Through a free trade area with the EU and the associated disciplines (competition and state aid rules, intellectual property etc) and benefits (e.g. rights of establishment), this process will allow the economies of the region to begin to integrate with the EU's. For those areas where the agreements do not impose specific obligations related to the *acquis communautaire*, there are provisions for detailed co-operation and discussion with the EU which again have the purpose of helping each country move closer to EU standards.

17. Regional integration projects in the former Soviet Union area such as the Eurasian Economic Community are not models on the basis of EU but they might have implications in the shaping of a Pan-European economy.

18. In addition to those agreements of a regional scope which bear significant economic impact, economic integration in a Pan-European level is driven by a number of broader developments already under way:

- WTO regulatory regimes and the accession of the new independent states in the WTO
- EU enlargement to reach the number of 25 countries with a combined population of more than 450 million and GDP of Euro 10000 billion
- Fostering of market economy and liberal economic policies in the former centrally planned economies

19. At the same time, developed/western countries provide substantial support for the reduction of economic disparities through:

- Policy discussions such as under the Partnership and Cooperation Agreements
- Technical Assistance such as TACIS and Phare
- Assistance by International Financial Institutions

20. The main characteristics of the new economic environment in Europe are the dominance of the market, the contraction of the public sector, the increase in the interactions and interdependence among states throughout the continent as well as the social forces which determine the form, the limits and the pace of this interaction.

III. BSEC's PLACE IN THE EVOLVING EUROPEAN ECONOMY

21. BSEC countries cover a significant part of the European economy. First, in terms of size, the BSEC countries occupy an area of 20 million sq. km. and include a population of 330 million people. They have an annual foreign trade exceeding US\$300bn and possess large energy resources (crude oil, natural gas, nuclear energy). Second, in terms of economic size or capacity, we observe that the BSEC countries have a GDP figure of approximately 800 billions USD (prices of 1998). Third, in terms of performance in the period 1989 - 1999 the EU has increased its GDP by about 22% which accounts to an average annual growth rate of about 2%. On the other hand, the BSEC countries present a highly differentiated picture but GDP has shown real growth for all BSEC countries starting with the year 2000 (e.g. Albania 7.8%, Armenia 6.0%, Azerbaijan 11.1%, Romania 1.8%, Ukraine 5.9%).³ Fourth, in terms of welfare the BSEC countries are still far behind the EU level, which is higher than 22 thousand USD (measured by 1998 GNP per capita).

22. The relations of BSEC with the EU are characterised by asymmetry and bilateralism. Trade relations are developing rapidly but asymmetrically. The EU is the main trading partner of BSEC and an important source of investments. It has become the main commercial partner of the BSEC group. For the period 1993-1999, the EU represented more than 39% of the total commercial exchanges of the BSEC group, 38% of their exports and 48% of their imports. Trade balance with the EU for most BSEC countries has a deficit for the second with the only exception that of Russia and Azerbaijan which has a surplus due to their exports of hydrocarbons. The BSEC group is not a major trade partner of the EU as for the period 1993-1999 at an average it represented approximately 3% of EU's total commercial exchanges, or 3.2% of its exports and 2.6% of its imports. As far as FDI is concerned, the EU is a major source of capital. The share of the EU countries on the total FDI stock in the BSEC region is approximately 40%.

23. The BSEC countries are benefited by technical assistance by a large number of programs. In aggregate form only for the first five years of BSEC's functioning, the BSEC countries received from the EU 2,589 million Euro (excepting aid to Turkey, as associate member of EU). Of them 419 million Euro were directed to the support of regional development and cooperation in the Black Sea Basin. In 2000 this amount had reached 700 million Euro. The large part is used by the countries - participants of BSEC for the development of infrastructure, including construction or reconstruction of international network, highways, ports, gas and oil pipelines and communication systems. Nevertheless, the assistance directed to the BSEC region as a whole has been limited compared to the assistance directed to other regions of Europe (e.g. Western Balkans) or the real needs of the region.

24. The BSEC and the EU have not elaborated a concept or clear vision of strategic goals in their long-term relations. The only effort of forming a strategy has been the 'Platform for Cooperation between the EU and the BSEC', elaborated by the latter in June 1999. Their relations are based on a web of bilateral agreements rather than a single approach. Greece is a full-fledged member of the EU; Turkey is an Associate member in a Customs Union with it; Bulgaria and Romania have signed Europe Agreements; Azerbaijan, Armenia, Georgia, Moldova, Russian Federation and Ukraine have signed Partnership and Cooperation Agreements; Albania has signed Trade, Commercial and Economic Cooperation Agreement while it is negotiating a

³ EBRD, *Transition Report update 2002*, May 2002

Stabilisation and Association Agreement. The European Commission has proposed (1997) that a more comprehensive cooperation between the EU and the BSEC develops in four main directions: i) development of infrastructure (transportation, energy and telecommunications), ii) commercial cooperation and investments facilitation, iii) sustainable development, environment and nuclear energy and iv) fight of organised crime.

25. The web of bilateral agreements between the EU and individual BSEC countries fosters a free trade regime in the area. Turkey has already a Customs Union with the EU since 1995 and Bulgaria and Romania are modifying their foreign trade regimes so that they conform to the requirements of the European Customs Union and thus create a zone of free trade with the countries of the EU. The agreements of EU with Russia, Ukraine and Moldova contain provisions supposing a beginning of negotiations on the creation of bilateral free trade zone with the European Union in the long term. The *Partnership and Cooperation Agreements (PCA)* with Armenia, Azerbaijan and Georgia also provide for trade liberalisation and cooperation in a wide range of areas.

26. The BSEC countries regard the European integration as an objective and logical process in Europe's evolution contribution to stability and economic prosperity on the European continent. This determines BSEC's positive attitude towards the EU enlargement though it is recognised that it creates new challenges. A general concern of BSEC is that the EU enlargement could widen the gap between the EU and some of the BSEC countries. Analysts believe that the combined macroeconomic effects of the EU enlargement will in general be favourable, although its near and medium - term impact might confront BSEC with additional problems - increased EU protectionism or discrimination against BSEC's exports of finished goods, difficulties for BSEC's access to the European markets etc. Concerns about the impact of the EU enlargement involve both customs tariffs and non-tariff trade barriers which might remain or even increase.

27. All these concerns notwithstanding, the enlargement of the EU could bring benefits to the BSEC as one of its consequences will be the extension of BSEC's immediate borders with the EU which would encourage various forms of border and regional cooperation. At the same time the expansion of single rules and regulations would facilitate activities of companies from the BSEC region. BSEC's inclusion into the European economic space can be fostered by the EU enlargement for an enlarged EU has no reasonable interest to have a hostile or alien power on its eastern borders. Just the opposite -only politically and economically cooperative BSEC countries with a liberal market economy and democratic institutions, will suit strategic interests of the EU.

IV. BSEC's CONTRIBUTION TO THE CREATION OF A EUROPEAN ECONOMIC SPACE

28. Integration within the European economy constitutes a strategic, long-term goal of BSEC since its establishment. The Istanbul Declaration of June 25, 1992 confirmed the intention of the participating states to develop economic cooperation as a contribution to the establishment of a Europe-wide economic area.

29. Guided by the goal to contribute to the formation of the new European architecture, the BSEC drew up in 1999 a *BSEC-EU Platform of Cooperation*. This defines the means of cooperation for implementing the strategic objectives of the

BSEC for closer integration in the economic area constituted by the BSEC and the EU. Priority was given to the development of a balanced, mutually beneficial cooperation between the BSEC and the EU in the following areas:

- development of network infrastructure (transport, energy and telecommunications);
- trade and creation of favourable conditions for foreign direct investments;
- sustainable development and protection of the environment, including nuclear safety;
- science and technology;
- combating terrorism and different forms of organized crime.

30. Regional cooperation particularly in the first two priority areas mentioned above has consequences in fostering a European economic space. In fact, the obstacles of integrating within the European economic structures have constituted at the same time the fields where BSEC has become more active. *The BSEC Economic Agenda* which was adopted in April 2001 specifies the priority areas of cooperation which aim at facilitating free movement of goods, services, people and capital. The creation of a European economic space requires cooperation in: i) infrastructure development so that distances are reduced, ii) trade liberalisation, iii) investment facilitation and iv) legislative harmonisation.

31. By studying the geographic characteristics of the transition countries, we observe that some of them enjoy more favourable conditions than others. On the one hand, the countries of Central Europe border directly on the developed countries of Western Europe, ensuring immediate and swift access to their markets. On the other hand, several of the BSEC countries do not share these common borders and are found at a considerable distance from the economic centres of Western Europe. Given the geographic distance that separate several of the BSEC countries with the Western European markets, **infrastructure development** has attracted considerable attention. The development of a transport infrastructure in the Black Sea region with the purpose of relative decreasing distances has been a prerequisite of linking the markets of the EU and the BSEC countries. In the field of infrastructure close cooperation among the eleven BSEC countries has evolved primarily through making use of infrastructure programs financed by the international community in the fields of communication, transportation and energy networks. The aim of cooperation is to reduce regional disparities and to link the BSEC region's transport infrastructure to European and Asian Networks through Black Sea PETrA, TRACECA and other projects and programs. Guided by the relevant instructions of the BSEC Council of Ministers (Kyiv, 25 April 2002), the PERMIS has established working contacts with the IGC TRACECA while a Draft Cooperation Agreement between the Organization of the Black Sea Economic Cooperation (BSEC) and the Intergovernmental Commission of Transport Corridor Europe-Caucasus-Asia (IGC TRACECA) is prepared. The expansion of the Trans-European networks to all of BSEC countries including transport and energy creates a solid ground of the integration of European markets.

32. The eleven BSEC countries coordinate their transport policies through the *Transport Action Plan* (30 March 2001) designed for a five-year period. On 6 March 2002 in Kyiv, eight Member States signed also the *Memorandum of Understanding on Facilitation of Road Transport of Goods in the BSEC Region*. Armenia signed the MoU on 5 November 2002 bringing in this way at nine the number of signatories Member States. A unique concept that BSEC has promoted is the *Black Sea Ring*

Corridor which encompasses operation and interaction of different modes of transport, maritime policies, cooperation of different organisations, initiatives and programmes, harmonization of transport legislation and introduction of new technologies.

33. **Trade and investment facilitation** is the machinery of shaping a Pan-European economic area and it has been identified as the first priority of regional cooperation in BSEC. At the 5th MMFA in Athens on 14 April 1995, the Ministers decided to launch a study on possible elimination of trade barriers between the Black Sea countries, in conformity with the WTO system. The BSEC Special Meeting of Ministers of Foreign Affairs with the participation of the Ministers responsible for Economic Affairs on 7 February 1997 in Istanbul adopted the '*Declaration of Intent for the Establishment of the BSEC Free Trade Area*', declaring that it is timely to start the examination of the ways and means to establish progressively a BSEC Free Trade Area as part of the European architecture through free trade arrangements between the members of the BSEC. In line with the Declaration of Intent for the Establishment of a BSEC Free Trade Area, preliminary consultations have been held between the European Commission and BSEC PERMIS on the subject. **The BSEC Free Trade Area** will be a complementary trade formation that will prepare the BSEC countries for their eventual integration into an enlarged Europe. Therefore, the project of the BSEC Free Trade Area is not only important for the direct economic benefits it is expected to provide to the member countries (increased intra-regional trade, increased foreign investment, increased efficiency among the productive sectors of the BSEC countries), but also as the step that will prepare BSEC to become an integral part in a larger European economic space.

34. In order to realise the free trade area, the BSEC has been taking slow steps focusing on a) procedures to eliminate quantitative restrictions and measures with equivalent effect on trade in BSEC region and b) joint activities towards harmonising cross-border and customs regulations with the aim of facilitating the trade within the BSEC region. The relevant BSEC Working Group has been examining the possibilities of simplification of procedure in international trade by unification and standardisation of documents in foreign trade based on United Nations Layout Key for Trade Documents.

35. The same approach of transplanting the rules of the WTO into the region – given the fact that not all BSEC countries are yet WTO members- is applied in the field of investments. The member states have agreed on basic principles of investment collaboration but on a non-binding basis: transparency, non-discrimination, investment stimulation, investment control, exportation and compensation, convertibility, entry and sojourn of key members, eliminating of restriction for exporting capital, investors conduct, settlement of disputes.⁴ Furthermore, in cooperation with the OECD and the BSEC Business Council, the BSEC has designed a concept to promote investments in the BSEC region (approved at the meeting of Ministers of the Member States responsible for SME's in Istanbul, 27 September 2001) called the "Black Sea Investment Initiative" (BSII).

36. A Europe wide economic area is not possible without a vibrant **business community** whose role is that of the locomotive of economic integration. With the

⁴ 'Basic Principles of Investment Collaboration in the Black Sea Economic Cooperation', BSEC MMFA, Moscow, 25 October 1996.

view to facilitate business activities in the region and in particular to facilitate circulation of business, the BSEC concluded in April 2003 an *Agreement on Simplification of Visa Procedures for the Businessmen Nationals of the BSEC Member States*. Furthermore it has been elaborating an *Agreement on Simplification of Visa Procedures for Professional Drivers Nationals of the BSEC Member States* and instructed the said Ad-Hoc Expert Group to continue its work in negotiating and finalizing the said Draft Agreement.

37. **Legislative harmonisation** has two aspects. One aspect is about intra-BSEC harmonisation among the member states so that economic cooperation is possible. This takes place within the Working Groups of the BSEC where the member states exchange information on their national legislation and coordinate policies and reforms. The second aspect concerns legislative harmonisation between BSEC countries and the EU to the degree that some of BSEC members are already characterised as candidate countries for EU membership as well as incorporation of world standards and international regulations involving trade and other economy related activities. The majority of BSEC states are undergoing an unprecedented reform and building of their legal and administrative systems, making thus the process of legislative harmonisation a particularly challenging one. Increasingly the inclusion of the BSEC states in international trade and economic organisations such as the WTO has increased the compatibility of their economic regimes.

38. Given the plurality of subregional organizations in Europe, regular and constructed **dialogue** among them has become necessary for the realization of a common economic area. The BSEC has promoted the idea of a unified European economic area through developing cooperation with other relevant organizations and fora, such as: the Central European Initiative, Southern European Cooperative Initiative, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Council of Baltic Sea States and the Nordic Council of Ministers.

The assets of the BSEC region

39. The establishment of a European economic space will not be possible neither sustainable without the integration of the BSEC markets.

40. What is of utmost importance for the whole European economy is the *energy* significance of BSEC either as an energy source or as an energy corridor. EU's energy needs will increase and there is an expected 70% import dependency in 2020 (compared to 50% in 2000). BSEC may assume its share of responsibility for the European energy security, specifically taking into account the resources, geographic proximity and stability in supply and heavy investment already done in the relevant infrastructure.

41. A significant asset of the BSEC region is its projected population increase. In economic terms this means that a fast developing and dynamic *market* will be increasingly attracting inward investment while adding to the economic power and weight of the BSEC economies. Population increase coupled with the expected *growth of GDP/per capita* (thus the purchasing power) makes BSEC countries not only lucrative markets but also a factor for the expansion and growth of the whole European economy.

42. BSEC has a significant location-specific advantage due to its unique *geographic location* at the crossroads of Europe and Asia. In a globalised economy frontier zones

may be transformed from peripheral economic areas to the springs of global-reach economic activities. BSEC's physical extension from Europe to Asia makes it an economic bridge towards the newly emerged economies of Central Asia and the fast growing Asian markets. BSEC countries lying next to vast energy resources, empowered with skilled and educated labour and with huge technological basis and potential may host significant capital and production.

43. One of the most significant assets of the BSEC region is its *technological and scientific potential*. Due to the transition problems, the countries of the BSEC have not been able to fully utilise this potential, nevertheless the region constitutes a significant scientific resource for the whole Europe.

V. THE WAY FORWARD

44. *What are the main aspects of shaping a European economic space?* As the European Commission argues in its Communication on the 'Wider Europe' (EC, March 2003) all the neighbouring countries of an enlarged EU should be offered the prospect of a stake in the EU internal market and further integration and liberalisation to promote the free movement of persons, goods, services and capital. In line with the 'Wider Europe' approach the European economic space will be shaped among others by:

45. *Extension of the internal market and regulatory structures.* Common rules and standards to ensure that European countries can access and reap benefits of the internal market. The *acquis communautaire* could serve as a model for countries undertaking reforms. The Association and Partnership and Cooperation Agreements (PCAs) set in broad terms an agenda for legislative and regulatory approximation but without timetables. In developing a Europe wide economy, the agenda should draw upon the experience of the initiative of a Common European Economic Space launched with Russia but possibilities should be explored for a deeper and broader timetable for legislative approximation between EU and the other neighbouring newly independent states.

46. *Preferential trade relations and market liberalisation.* Market liberalisation is a key component for economic integration. Free trade agreements signed between the EU and several countries (such as within the Barcelona process) should cover more fully the goods and services sections. Creating a more integrated market requires that all European states conclude agreements of a similar depth among themselves. For Russia and other NIS (such as Ukraine, Moldova) Free Trade Areas are envisaged in the PCAs but with no timetable attached. More clear objectives could be developed and measures should be taken that liberalisation actually helps economic development.

47. *Lawful migration and Movement of Persons.* Free movement of people and labour is a foundation of a European economic space and it remains a long term objective. The impact of ageing and demographic decline, globalisation and specialisation means that all Europe and in particular the EU would benefit from free movement of labour according to the needs that exist. Thus there is a need for an efficient and friendly system for small border traffic that have legitimate and valid grounds for regularly crossing the EU borders. At the same time the EU should assist in reinforcing the neighbouring countries' efforts to combat illegal migration and establish efficient mechanisms of transit.

48. *Integration into Transport, Energy and Telecommunications networks and the European Research Area.* Full integration of the European market requires compatible and interconnected infrastructure and networks as well as harmonised regulatory environments. EU policies such as Trans-European Networks, Galileo and other should draw upon strategies for bringing closer the several subregions of Europe.

49. *New Instruments for Investment Promotion and Protection.* A stronger and more stable climate for foreign investment is critical to reducing the wealth gap that exists between the Western and Eastern parts of Europe. Future agreements with the EU could include reciprocal provisions granting companies national treatment for their operation as well as strengthening the protection framework. At the same time domestic investment should be encouraged.

50. *Support of integration into the Global Trade System.* WTO membership is an integral part of expanding trade and investment links. WTO negotiations with the applicant countries - e.g. Russia, Ukraine- should be assisted by the EU so as to prepare the grounds for accession on acceptable terms.

51. *Cross-border cooperation.* Proximity talks should further encourage cross-border and transnational cooperation. This should include the strengthening of all forms of economic, legal and social cooperation across the borders. The EU could consider the possibility of creating a new instrument for its neighbours which builds on the positive experience of promoting cross-border cooperation within the Phare, Tacis and INTERREG programs.

52. *What economic relationship may develop between the EU and the BSEC in the future?* An EU - BSEC medium/long term economic cooperation strategy commensurate with the size and complementarity of the EU and BSEC economies, as well as their geographic proximity and the overall EU-BSEC strategic partnership.

53. In broad terms, the overall aim of the European economic space for BSEC is to link the EU and the BSEC in a privileged relationship focussing on regulatory and legislative convergence and trade and investment facilitation. The broad objective of regulatory convergence is in itself a desirable goal that should bring substantial benefits to both the EU and the BSEC not least in permitting economic agents to operate subject to common rules and conditions.

54. As the *BSEC Economic Agenda* stipulates "taking into account the geo-political importance and the large economic potential of the BSEC area, both the BSEC and the EU should have a major interest in promoting prosperity and political stability in the region. To this end BSEC member states should maintain an intensive political dialogue with the EU with a view to accelerate the process of membership of these countries in EU".

55. It seems that strategic goals of closer Partnership of BSEC and the EU points to the necessity of a special relationship which will suit interests of both parties and that would set up a ground for partnership. Such a partnership should be complementary to the bilateral agreements that EU has conducted with each BSEC member but should aim at their harmonisation.

56. Measures to enhance BSEC – EU economic partnership, particularly BSEC's integration into a European economic space open up a wide range of areas for dialogue:

- i) Conclusion of a web of multilateral agreements between the BSEC states on commercial, investment related agreements, services and labor force with the view to forging a harmonious economic regime in the BSEC area and facilitating the integration of the Black Sea region in the European economy;
- ii) Development of actions for reducing the costs of EU enlargement for the BSEC region;
- iii) Encouragement of market economy reforms in BSEC region as well as gradual integration of the legal and economic systems of the EU - BSEC;
- iv) Placing as a long term goal the establishment of an EU – BSEC free trade area. The EU should develop new initiatives to grant better market access in line with WTO obligations for countries which do not possess the competitive strength or administrative capacity to take on the reciprocal obligations of Free Trade Agreement with the EU yet (e.g. Moldova, Armenia, Georgia);
- v) Undertaking structural reforms to improve business conditions for European firms operating in BSEC;
Promotion of BSEC business into the European economic environment and elimination of barriers and obstacles for access of BSEC companies to the EU markets;
The creation of a BSEC - EU business dialogue via the establishment of EU - BSEC Industrialists' Round Tables and the utilisation of the BSEC Business Council which could attract to the process in addition to representatives of the industrial sector, representatives of such sectors such as trade, finance, etc.;
- vi) Opening up of an energy dialogue by utilizing existing regional fora such as the BSEC Working Group on energy and the EU funded Black Sea Energy Centre;
- vii) Improving visa regimes and considering measures on labor force mobility and legal migration;
Expanding cooperation in technological and scientific fields and examining the possibility of expanding programs such as e-Europe to cover the BSEC states;
- viii) Creating of special programs – supported by the EU and BSEC and with a regional focus –of promoting cooperation in high tech industries: energy production, telecommunications and information technologies, transport systems;
- ix) Taking at the EU level a decision on the stable and sufficient funding of BSEC which is of special importance for EU-BSEC relations in the light of the EU enlargement. Introduction of appropriate adjustments to existing EU assistance programs would constitute as a useful step;

57. In view of the ongoing economic transformation of the region, a permanent relationship with the European Bank for Reconstruction and Development could be envisaged. Through this permanent link the BSEC could follow up and participate in the implementation of concrete projects while improve the coordination of the programs funded by the EU. The BSEC's financial body, the Black Sea Trade and Development Bank could be utilised in this respect as the focal point of the interaction.

VI. CONCLUSIONS

58. The future of the European economic space will be undoubtedly influenced by the European Union' s deepening and enlargement processes as the EU constitutes the most advanced economic and political union not only in our continent but in the rest of the world. On the other hand, it will be shaped by the preferences and policy choices of the countries that will remain outside an enlarged EU.

59. The overall aim is to bring the economies of all European countries - including the rules and regulations within which they operate - closer together. The creation of a European economic space should not be seen as an end to itself nor as a strictly (macro)economic or normative process. It goes beyond legislative approximation and the formation of free trade zones to a common technological and social space and to the welfare of all peoples of Europe and their prosperity in a continent without divisions.
