

**INTRODUCTION**

Not only has there been a tremendous growth within the Community of internal policies, such as those for the single market or to meet environmental objectives, but the EC has also opened itself increasingly towards the rest of the world. It is a staunch supporter of human rights, free trade and sustainable development; and takes a proactive role, wherever its competences allow, in international fora. Since the EU Treaty came into force, the Member States have had the facility of the Common Foreign and Security Policy for joint statements on foreign and defence policy issues.

In particular, the EU continues to play a role in the G7/8 level of international diplomacy, as well as in the World Trade Organisation (WTO), the General Agreement on Trade in Service (GATS), the World Customs Organisation, and the various agencies and conventions of the United Nations (such as the Kyoto Protocol - Chapter Eight); and in the sectoral organisations such as the International Maritime Organisation (Chapter Ten), and the International Civil Aviation Organisation (Chapter Nine) which, without a doubt, are the most significant fora for relations between the EU and third countries for issues in those areas.

The Community's most important international relations, politically and economically, are those with its neighbours in Central and Eastern Europe. So important are these relations for the future of Europe, that the Community has embarked on its most ambitious enlargement project yet (Chapter Fifteen). Slightly further afield, relations with the ex-Soviet republics are also considered vital to the future prosperity and stability of Europe. Even prior to the break-up of the Soviet Union, the Community began forging a new relationship with the region, and then, in the early 1990s, it developed the Tacis programme of technical assistance to encourage the process of restructuring and modernisation. Although considerable attention was given to Russia and Ukraine due to their size and geographic location within Europe, the Tacis programme embraced all the New Independent States (NIS) and even Mongolia. The bilateral relationships evolved further with the signing of Partnership and Cooperation Agreements (PCAs), the first of which came into force in 1997.

As a counterbalance to the attention being paid to Eastern Europe, the EU began, in the mid-1990s, to shore up its efforts towards the Mediterranean countries. In a pattern similar to that followed with the CEEC, it adopted the Meda programme of assistance and began a process of negotiating and signing a new generation of agreements with individual countries. Although the transport sector was given priority in the Barcelona Declaration, the two sides have taken a few years to make progress in this particular area.

The EU, naturally, has a very close relationship with the EFTA countries. This closeness has been given practical form through the European Economic Area Agreement, which, in effect, extends the EU's single market to embrace Norway, Liechtenstein and Iceland, but, crucially, not Switzerland. Yet, it is with Switzerland, that the EU's transport relationship is the most complex and important: a bilateral agreement for a large chunk of the single market *acquis* was held up for years because of a dispute over alpine transit.

In terms of trade, the US is the EU's most important partner and competitor for international business. Generally speaking, relations between the two remain amicable and positive, although, every now and then, a row erupts, such as that over bananas or the EU's plans to outlaw hushkitted aircraft. There are a number of ongoing transport-related difficulties, concerning open skies for example (Chapter Three), the environmental aspects of aviation (Chapter Nine) and shipbuilding (Chapter Four). However, the Commission also believes that the US maintains a large number of protective rules and regulations - several in the transport area - which hinder the ability of Community firms to do business on US territory. In order to highlight these problems, the Commission publishes an annual report on US trade barriers.

The main aim of this chapter is to give an overview of the transport elements found in the Community's relations with the NIS, the Mediterranean countries, EFTA, and the US. The EU has many other bilateral relationships with other countries and regions in the world, but transport is rarely an important element. In 1999, however, the Commission embarked on a new phase of seeking to develop more open bilateral maritime relations with some key trading nations, such as China, India and Brazil (Chapter Four).

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### *Relations with Japan*

With regard to Japan, the EU does hold regular summits and lower level meetings, but only once or twice in recent times have transport issues risen to any prominence. In the mid-1990s, there was a dispute over stevedoring practices at Japanese ports, and the European Commission eventually took it to the WTO. However, progress was rather slow and it was only when the US, also suffering from the same problem, weighed in with retaliatory measures, that Japan offered to mend its ways. In 1998, the European Commission complained to Japan about unfair allocation of slots at Narita airport; however, on this occasion, the US, which had just concluded an open skies agreement with Japan, was not at hand to support the EU case. More recently, the Commission has secured an agreement on the future fuel efficiency of vehicles made in Japan for export to the EU (Chapter Eleven).

## ENCOURAGING REFORM AND MODERNISATION IN THE NIS

Although not on a pathway towards accession, the NIS have benefited from considerable EU political and financial support since the Soviet Union disintegrated. The Tacis programme was launched, with a Council Regulation in 1991, to provide the region with technical assistance. Over the period 1991-97, the EU allocated Ecu3.286bn to the programme (of which around 7% was for transport). Moreover, for the 1996-99 cycle, the EU has said it will commit a further Ecu2.2bn (of which around Ecu1bn was allocated in 1996 and 1997). These figures make the EU the world's largest provider of technical assistance to the NIS region.

### **The Tacis programme of technical assistance**

#### *Early Tacis transport projects*

Initially, Tacis had one main objective: the transition of the beneficiary countries to a market economy. However, the Regulation was updated in 1993 and its objective was extended to include the aim of reinforcing democracy. In the 1993-95 indicative programmes, Belarus, Moldova, Russia and Ukraine opted to make transport one of their priorities for Tacis grants. Contracts signed in Belarus included one for technical reform of the road building industry and another for technical assistance to Belarussian Railways, (subsequently, though, political developments led to delays and a scaling down of the EU's involvement in the country). A smallish project in Moldova was aimed at the restructuring and commercialisation of Air Moldova.

In Russia, broad support was provided by the EC, with projects in the air, road, rail and ports sectors, and in space navigation and transport economics. In 1995, for example, particular emphasis was placed on northwest Russia where the ports of Murmansk and Archangelsk, and their hinterlands, were chosen for assistance to improve the handling of goods, traffic forecasting and staff training. In Ukraine, the Black Sea ports were a focus for restructuring, as was the establishment of a viable international airline, and Ukrainian Railways.

#### *Revision of the Tacis Regulation*

In June 1996, the Council approved a new Tacis Regulation - valid until the end of 1999 - implementing two important changes: the programme was given a supporting role in the context of the PCAs; and the use of 10% of funds was authorised for investment purposes. Tacis now has three main mechanisms for delivering its assistance: the national programmes (which absorb 60% of the funds), the regional programmes, and the facilities programmes. Of these, the regional programme is probably the most important in terms of transport.

In their 1996-99 national programmes, most of the NIS did not specify transport as a priority. However, both Kyrgyzstan and Kazakhstan identified basic infrastructure, including transport, as one area for support; Turkmenistan selected transport sector reform as important; and Belarus and Moldova continued to receive support for some transport projects, as did Russia and Ukraine. In Russia, for example, four new transport projects were identified for funding in 1997: three concerning freight transport (following a policy of trying to ease the flow of goods between the EU and Russia), and one aimed at modernising Moscow's international airport.

### **The regional programme - focused on Traceca**

Projects for the regional programmes are selected and chosen annually at a meeting, chaired by the Commission, of the NIS coordinating unit representatives. The process has, though, encountered difficulties - largely as a result of the different interests and political weights of the various NIS members. Within the transport sector, Traceca (the transport Corridor from Central Asia to Europe) is probably the most important and perhaps successful programme. It has been a focus for many of the individual NIS Tacis transport projects since 1993. By mid-1999, some Eur34m had been granted to 28 Traceca technical assistance schemes, and Eur28m to 11 actual investment projects.

The Commission said, in its 1997 Tacis annual report, that the route from Europe, across the Black Sea, through the Caucasus and the Caspian Sea, to Central Asia, was the shortest distance

and “could become the fastest and cheapest route from Central Asia to deep sea shipping able to serve world markets”. The Traceca programme fostered physical links between countries to ease trade and communications, it observed, and catalysed support from international donor and lending organisations and private investors. The EBRD had committed \$200m in loans for projects on the Traceca routes, the report added.

The Traceca projects approved in 1997, for example, give a good idea of the range and extent of this Tacis regional programme: Ecu2.5m to facilitate reconstruction of the Red Bridge, on the border between Azerbaijan and Georgia; Ecu2.5m towards providing assistance in planning cost-effective winter road maintenance systems across the Traceca region; Ecu2m for feasibility studies into the electrification of Central Asian railway infrastructures; Ecu1.5m to finance a feasibility study aimed at renewing terminal facilities in the ports of Poti and Batoumi in Georgia; an Ecu0.75m project to improve coordination on the transport programme between the Traceca states and the EU; and an Ecu0.75m project to help renovate the Turkmenbashi seaport.

*Traceca projects approved in 1997*

In September 1998, the whole Traceca concept took a significant step forward when a conference, attended by heads of government and high level ministers (from, among others, Georgia, Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tadjikistan, Ukraine, and Uzbekistan), announced the restoration of the “Historic Silk Route”. The main purpose of the meeting was to sign the newly developed “Basic Multilateral Agreement on International Transport for the Development of the Transport Corridor Europe - Caucasus - Asia” and its technical annexes on international rail transport, international road transport, international commercial maritime navigation, and customs procedures and documentation handling. Its goals are as follows:

*The goals of the Historic Silk Route*

- to develop economic relations, trade and transport communication in Europe, the Black Sea region, the Caucasus, the Caspian Sea region, and Asia;
- to ensure access to the world market of road, rail transport and commercial navigation;
- to ensure traffic security, cargo safety and environment protection;
- to harmonise transport policy and legal structures in the field of transport;
- to create equal conditions of competition for transport operations.

By mid-1999, five national parliaments had ratified the agreement.

*The Tacis programme facilities*

Tacis also operates through some 20 different ‘facilities’ which were originally developed to meet a specific type of assistance need or to service a specific target group. The Commission believes these facilities, which are often managed under framework contracts, can satisfy demands for assistance more quickly. They include facilities for education, training, and work on standards and customs cooperation. In terms of this latter, there have been twinning projects between customs officers in Russia and Finland, and a multilateral “East and West customs codes” project bringing together six NIS to help create primary customs legislation based on international standards.

### **The evolution of the Tacis programme and its evaluation**

The basic tools for transferring know-how through Tacis have evolved over time. The original instruments - policy advice, institution building, design of legal/regulatory frameworks, training - have all been extended with new instruments. These include the use of advisory and consultancy

<b>Tacis funds for transport (Ecu m)</b>								
	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>Total</b>
Baltic States	4.0							4.0
Belarus	2.24	1.0	2.0	1.3				6.54
Georgia	0.73							0.73
Kyrgyzstan							1.7	1.7
Moldova				0.6				0.6
Russia	32.87	14.25	13.55	13.9	12.6	8.5	7.0	102.67
Ukraine	4.89	7.26						17.37
Uzbekistan	0.29	1.68						1.97
Regional	4.78	9.0	14.0	7.0	8.5	34.5	10.0	87.78
<b>Total</b>	<b>49.80</b>	<b>33.19</b>	<b>32.77</b>	<b>22.80</b>	<b>21.10</b>	<b>43.0</b>	<b>20.70</b>	<b>223.36</b>

*Source: COM/98/416*

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teams, development of the legal/regulatory frameworks, and the setting up of partnerships, networks, and twinning pilot projects.

### *Criticism of the Tacis programme from the EP and Court of Auditors*

There has, though, been substantial criticism of Tacis over the years, from the European Parliament and from the EU's Court of Auditors, especially with regard to delays in project implementation. In response, the Commission published, in mid-1997, a detailed evaluation of the programme. It concluded that Tacis was making a relevant contribution to its objectives, although there had been some shortcomings in terms of management efficiency, transparency and an over-emphasis by Commission services and EU institutions on financial and administrative procedures.

A part of the evaluation looked at the contribution made by the programmes to sectoral reform. It concluded that, for transport, the feasibility studies and master plans, funded by the programme, provided considerable insight but that they had had "little impact on the capacities of the transport organisations involved". It also criticised the fact that partner organisations had, in some cases, not been involved in the planning of the studies and had been restricted to delivering information needed by the consultants. The report did, though, accept that the programme had contributed to the "beginning of a dialogue between the EU and NIS partners on investment", and it approved the reorientation of the programme towards inter-state projects, such as Traceca. The evaluation highlighted and praised an early Traceca management training project involving seminars and study tours to Europe.

### *New revision of the Tacis programme*

In December 1998, the Commission put forward a proposal for a revision of the Tacis programme, beyond 1999. It suggested that the new priorities be as follows: greater concentration of the assistance to achieve maximum impact; clearly differentiated country programmes; and support for the objectives of the PCAs. The Commission said these objectives will be promoted through improved implementation of the assistance, notably, by a move from demand-driven to dialogue-driven programming; increased promotion of investment; an increase in the number of assistance instruments available, including more use of twinings between EU and NIS institutions and industrial cooperation; and improvements in the quality of the assistance, notably through the creation of an incentive scheme.

### *Examples of EBRD loans for transport projects*

It is worth drawing attention to the role of the European Bank for Reconstruction and Development (EBRD) which has helped finance a number of transport projects in the NIS, often following feasibility studies financed by Tacis. In 1998, most of its transport loans went to projects in the CEEC, but there was an Ecu17.1m loan for the Georgian railways, and an Ecu7.7m loan for refurbishment of Chisinau airport in Moldova. In 1997, two loans went to Turkmenistan, Ecu43.5m for road improvements, and Ecu27.2m for modernising the bulk and ferry terminals at Turkmenbashi. In its 1997 annual report, the EBRD noted that the Turkmenistan projects both involved internationally-tendered civil works, and would be giving the country its first experience of open tendering in the construction sector.

## Strategic policies towards Ukraine and Russia

The Tacis programme is likely to remain an important aspect of the EU's relationships with the NIS for many years to come; however, the link between each of the individual countries and the EU has evolved significantly, throughout the 1990s, into something more important than that simply of donor and recipient.

### *Common Position towards Ukraine*

At a more strategic level, the EU has developed specific policies for different regions. The Council approved, for example, a rather short Common Position under Article 12 of the EU Treaty (Article J2 at the time) in November 1994 on objectives and priorities concerning Ukraine. This was followed in 1996 by a proposal for an action plan. The Commission suggested, for example, that, as far as infrastructure is concerned, priority should be given to help Ukraine develop its multimodal transport links with those of the rest of the continent, and to develop the preparatory stage of investments in infrastructure, in collaboration with the EBRD. It stressed, however, that principal funding for vital structural investment must come from the private sector, and that this process would be aided by an improved legislative framework and better transparency of the public procurement conditions. In December that year, the Council adopted the plan along the six broad areas of action proposed by the Commission but it contained no specific details on transport actions.

One side issue, raised by the Commission in its action plan paper, concerned protectionist measures imposed by Ukraine in its aviation market: a 15% tax on the turnover gained by foreign firms' when operating routes not served by Air Ukraine. The Commission said this policy had

caused several companies to cease activities in the country, and it concluded that “the counterproductive Ukrainian policy of protectionism in air transport cannot be ignored”.

Although the Council declined to agree a similar Common Position towards Russia, despite a Commission proposal, it did approve an action plan, in 1996. Among a long list of other things, the plan called for “the development of trans-European transport and energy networks between Russia and its Central and East European neighbours and with the European Union”. Similarly, in 1995, the Commission developed a strategy for the Transcaucasian republics in which transport was considered a priority.

Much more recently, at the Helsinki European Council in December 1999, the EU approved a detailed four year common strategy (under Article 13-2 of the EU Treaty) on Ukraine. It stressed the importance of the TRACECA programme; and, on transport, it stated: “*The EU will explore the scope for working towards linking the Ukrainian transportation systems (road and rail) with the trans-European networks, and will seek mutually satisfactory ways to address transport issues. In so doing so, special care will be taken to reinforce coordination with other donors and with international financial institutions, as well as to stimulate the involvement of the private sector, which will be crucial to the success of this endeavour.*”

*Common strategy towards Ukraine*

### **The Partnership and Cooperation Agreements**

By far the most important developments, though, have been the PCAs themselves. PCAs were signed with most of the NIS between 1994-96, but, because of the delays involved in ratification, interim agreements covering the trade aspects, not subject to approval by national parliaments, were also negotiated. Some of these came into force in 1996-97. Early on in the negotiating process, the Council agreed to a more extensive mandate regarding the PCAs with the four European NIS (Russia, Ukraine, Moldova and Belarus).

In general, the PCAs create a framework for political dialogue, and set up liberalised trade conditions with Most Favoured Nation status for both sides regarding tariffs and duties. They also create the conditions for non-discrimination regarding labour, investments, and cross-border services, and set in motion a wide range of sectoral cooperation activities. They all contain some provisions concerning transport services.

The PCA with Russia, for example, which entered into force in December 1997, contains specific provisions for transport in Articles 35-43. In summary, the PCA sets liberal provisions on the establishment and operation of companies (so-called National Treatment) but exempts air, maritime and inland waterway transport. National Treatment is allowed for shipping agencies offering specified services in the field of international maritime transport. Moreover, Russian vessels are granted National Treatment when berthed at EU ports and vice versa. The two sides acknowledge the importance of developing the air and inland waterways sectors and they refer, in the PCA, to possible future agreements on mutual market access. In terms of railways, neither party is committed to unrestricted access, but they agree to try to ease customs and border clearance procedures for both freight and rolling stock. A special protocol to the PCA covers mutual administrative assistance in customs matters.

*Provisions on transport services in the Russia-EU PCA*

All the PCAs incorporate a major section on economic cooperation which includes articles on transport, customs, and environment, among others. The PCA with Russia, for example, contains the following (in Article 70) on economic cooperation in the transport sector:

*“The Parties shall develop and strengthen their cooperation in the field of transport. This cooperation shall, inter alia, aim at restructuring and modernising transport systems and networks in Russia, and developing and ensuring, where appropriate, compatibility of transportation systems in the context of achieving a more global transportation system. The cooperation shall include, inter alia:*

- the modernising of management and operations of road transport, railways, ports and airports;*
- modernisation and development of railways, waterways, road, port, airport and air navigation infrastructure including the modernisation of major routes of common interest and the trans-European links for the above modes;*
- promotion and development of multimodal transport;*
- the promotion of joint research and development programmes;*
- preparation of the legislative and institutional framework for policy development and implementation including privatisation of the transport sector.”*

*Russia-EU cooperation in the field of transport*

### **First results of Partnership and Cooperation Agreement with Russia**

A first meeting of the Russia-EU Cooperation Council, which guides the implementation of the PCA, was held in January 1998. It set a work programme which included strengthened

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cooperation on transport and, in particular, possible negotiations on inland waterways, and on customs. The then External Affairs Commissioner Hans van den Broek noted after the meeting that the Russian customs code had been approximated to the Community model and close cooperation between Finland and Russia had allowed joint controls to be established at some border crossings (largely thanks to a twinning programme under Tacis). However, he also admitted there was a problem with the TIR Carnets - authorisations for the international carriage of goods by road (issued subject to the provisions of the 1975 TIR Convention - Chapter Five) - on Russian territory, and that the Commission had put considerable pressure on Russia not to implement measures intended to suspend their use. Such measures, although aimed at countering fraud would, "hamper Community-Russian trade enormously", he said. A second meeting of the Cooperation Council was held in May 1999.

### *Surcharges on flights over Siberia*

There is a further significant transport problem with Russia which, by autumn 1999, remained unresolved - the charges imposed on European (and other) air carriers overflying Siberia. The Commission told Russia that the system of royalty payments, used to subsidise the Russian carrier Aeroflot, should be replaced with a more transparent, non-discriminatory mechanism, at least partly based on the cost of air traffic management services. During 1999, the EU joined forces with the US and the two were intending to raise the issue at G8 level.

The PCAs with Ukraine and Moldova entered into force in February and June 1998 respectively. For both PCAs, the Cooperation Councils, which met in mid-1998 for the first time, agreed work programmes including cooperation on transport and customs issues. The six PCAs with Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan and Uzbekistan came into force in July 1999.

## THE EURO-MED PARTNERSHIP - A NEW IMPETUS FOR SOUTHERN NEIGHBOURS

The Community's relations with the Mediterranean countries began to develop in the 1960s with trade agreements, and were extended in the 1970s to economic and financial cooperation. Further strengthening followed as a result of the accession of Greece, Spain and Portugal in the 1980s. In December 1990, the Council adopted a "New Mediterranean Policy" designed to make relations more dynamic and to encourage the process of opening up and reform. Then, during the mid-1990s, the EU began to focus more attention on its southern Mediterranean neighbours, partly to balance the attention paid to Eastern Europe since 1990.

### *The need for a wider pan-European market*

In October 1994, the Commission put forward a substantial Communication laying the grounds for establishing a "Euro-Mediterranean Partnership". It said there were many areas of Euro-Mediterranean interdependence, and, because of the risk of economic disintegration and socio-economic destabilisation, the Community had a vital interest in helping its Mediterranean neighbours meet the challenges they faced. The Commission advised that there was a need to integrate the Mediterranean countries into a wider pan-European market, and, in line with that process, to streamline their regulatory and economic policy framework, raise their long-term competitiveness, help them attract substantially more private investment, and accelerate their sustainable development. The December 1994 Essen European Council approved this approach, and the Cannes European Council, in mid-1995, reinforced the EU's commitment to the region and promised Ecu4.685bn in financial aid between 1995 and 1999.

In November 1995, foreign ministers from the 15 Member States and from the 12 Mediterranean countries signed the important Barcelona Declaration which formally launched the idea of the Euro-Mediterranean Partnership. It was to be implemented, the Declaration said, through a strengthened political dialogue, economic and financial cooperation, and a greater emphasis on the social, cultural and human dimension. The economic and financial cooperation was to be developed through the progressive establishment of a free trade area, and the implementation of appropriate actions in a number of relevant areas, including transport. In the Declaration, the participants stressed "the importance of developing and improving infrastructures, including through the establishment of an efficient transport system . . . [and] . . . undertake to respect the principles of international maritime law, in particular freedom to provide services in international transport and free access to international cargoes".

Indeed, a work programme, drawn up by the Barcelona Conference, listed a number of priority areas: "*The creation of an efficient air-sea multimodal transport system, through the improvement and modernisation of ports and airports, the removal of unjustified restrictions, the simplification of procedures, the improvement of maritime and air safety, the harmonisation of environmental rules at a high level, including a more effective control of pollution caused by maritime transport, and the creation of harmonised traffic management systems; . . . [and the]*

*development of east-west land links on the southern and eastern shores of the Mediterranean, and the connection of Mediterranean transport networks to the trans-European network in order to ensure their interoperability.”*

### **The Meda Regulation for grants of Ecu3.4bn**

In order to provide a comprehensive framework for the aid agreed at Cannes, the Commission proposed a Regulation - partly modelled on the Phare programme - to replace the existing financial protocols. The so-called Meda Regulation - aimed at the Maghreb countries as well as the Middle East, Cyprus, Turkey and Malta - was adopted by the Council in July and came into force in August 1996. The Regulation foresaw a three stage programming procedure: a set of general guidelines to be approved in the Council by qualified majority, with the indicative programmes and the financing proposals to be adopted by the Commission on the basis of the opinions of a management committee. The Commission put forward a draft Decision setting out guidelines for the first stage, and it was approved by the Council in December 1996.

About Ecu3.4bn, three-quarters of the sum allocated by Cannes to the Mediterranean countries, is earmarked for distribution through the Meda programme, and some 90% of that is channelled bilaterally to the partners. The other 10% of the resources are devoted to regional activities. Meda resources are subject to programming: three year national indicative programmes are drawn up jointly for the bilateral channel, and a regional indicative programme covers the multilateral activities. An evaluation of the programme, summarised in the 1998 annual report, said that the indicative programming had shown a gradual improvement of coherence between projects and programmes and the Meda objectives, but that further modifications of operational conditions for decision making and monitoring were required. The Commission also noted that implementation of Meda had been characterised by lengthy and burdensome procedures.

*Problems with implementation of the Meda programme*

Furthermore, in mid-1995, the Commission brought forward a new generation of draft agreements - the Euro-Mediterranean Agreements - to frame the evolving bilateral relations with individual countries. The first of these agreements were signed with Tunisia, in 1995, and came into force in March 1998, but one with the PLO, only signed in December 1996 came into force quickly in July 1997. Israel (November 1995), Morocco (February 1996) and Jordan (November 1997) have also signed agreements, while negotiations with Egypt, Jordan, Syria and Lebanon are continuing.

Initially, and despite the Barcelona Conclusions, transport issues did not figure strongly in the Meda programme (although there were a few infrastructure projects). However, there was one regional programme, for cooperation on maritime transport. The programme's 11 projects were identified by the 27 partner countries in October 1996, and the Commission formally agreed finance, to a total of Ecu8.4m, in November 1997. Projects included MedeEuronet which aimed at bringing together differing port information systems to enable real-time exchanges of information on cargo and vessels; three training courses for dealing with oil spills; and, training and technical assistance for improvements in surveys and charts of local maritime areas.

*Regional cooperation on maritime transport*

### **Communication on Euro-Med cooperation in transport**

In early 1998, the Commission issued a Communication specifically aimed at pressing forward the transport aspect of the Euro-Mediterranean Partnership. It noted that the vast majority of freight between the EU and the Mediterranean Basin is carried by sea, while the principal mode for passenger transport is aviation, and that inter-regional movements are rather limited. Because the Euro-Med Partnership will lead to an expansion of traffic flows, not only to and from the EU, but also, indirectly, within the region itself, it argued that “adequate preparation of the Euro-Mediterranean Partnership in the transport sector” was essential.

*Priorities for transport infrastructure in the Meda region*

Where infrastructure was concerned, the Commission said, the EC should concentrate its planning and resources on projects of international, rather than purely national, importance, and give priority to the rehabilitation of existing infrastructure, rather than to new construction, and to efforts to reduce administrative bottlenecks. Moreover, it called for better coordination in network planning and in identifying projects of common interest. It said the improvement of maritime traffic flows was “the first priority”, but that efforts should also focus on improving airport infrastructure and ATM services.

Community action in terms of transport services should focus on the improvement of market access, the Commission advised. This should include the consolidation of efforts to liberalise the maritime sector (within the context of the various Euro-Med Agreements), while preliminary discussions should be held with the partner countries with a view to developing air transport



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agreements in the longer term. Other priorities, it added, should include the promotion of environmentally-friendly modes, and providing assistance in restructuring transport industries.

*The start of the Euro-Mediterranean Forum*

Subsequently, in September 1998, and under the guidance of the Commission, the Euro-Mediterranean Forum on transport was created, involving all the Member States and the Mediterranean partner countries with various international finance organisations as observers. The stated objectives of the Forum were those in the Barcelona Conclusions work programme (see above), and Forum partners were given the task of elaborating a more detailed work schedule and implementation timetable.

### EFTA - THE EUROPEAN ECONOMIC AREA AND SWITZERLAND

Norway was due to join the Community in 1972 with the UK, Ireland and Denmark, but, following a negative referendum result, did not ratify the Treaty. This failure was the spur for Norway and the other EFTA countries to set up Free Trade Agreements with the EC in 1972-73. These were progressively strengthened, until, in 1984, EFTA and the EU decided to abolish remaining barriers to trade, and to extend cooperation beyond trade. Despite agreement on many specific issues, it proved difficult for a case-by-case approach to keep pace with new Community legislation. This led to the formation of the European Economic Area (EEA): the EC's 12 Member States, Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland all signed the agreement at Oporto in May 1992.

*The world's largest trading area delayed for a year*

The EEA - with its four freedoms on goods, services, persons and capital - was hailed as the world's largest and most comprehensive trading area in the world. However, when the Swiss, who had also applied for full membership of the EC, voted, in December that year, against joining even the EEA, the launch of the world's largest trading area was delayed for a year and did not start until January 1994. Then, a year later, Austria, Finland and Sweden all joined the EU, leaving the EEA a rather burdensome framework for the Community's relationship with two small countries (Iceland and Liechtenstein) and one medium-sized country (Norway).

*Operating procedures of the EEA*

The overall functioning of the EEA is the responsibility of the EEA Council, composed of ministers from EFTA and the EU. The EEA Council reaches decisions by consensus and supervises the work of a Joint Committee which is responsible for day-to-day operation. A central concept of the EEA Agreement is that the economic area should have the same rules and the same conditions of competition for economic operators, thus the Agreement was designed to be dynamic and is amended on a continuous basis to ensure that relevant and acceptable Community legislation - mostly in the single market area, but also in other areas - is integrated into the EEA Agreement and into the national legislation of the three EFTA states. In order to ensure a smooth integration, the EEA partner countries are brought into discussions by the Commission, informally, at various stages in the preparation of draft legislation. During the formal legislative process, there are also mechanisms for the opinions of the EFTA side to be taken account of. Annex XIII of the EEA agreement, concerning the transport acquis, has been amended over 50 times since 1994.

### **Transposal of EU legislation in the transport area**

In 1998, for example, five Joint Committee decisions were taken concerning road transport, covering driving licences, road telematics, and increased freedom for international passenger services. (There was also one legal act on structural reform of the waterways incorporated into the EEA Agreement, but, since no EFTA-EEA country has a waterway network, it did not require implementation in any of the three countries.) In terms of civil aviation, EU legal acts concerning air carrier liability and hushkits were integrated in the EEA Agreement the same year. The EFTA-EEA countries also occasionally put out policy statements, such as one in 1998 concerning the establishment of a European Safety Aviation Authority. A further statement the same year detailed their opinion on the Commission's proposal for a harmonised approach on airport charges.

*EU agreement on extending the maritime cabotage rules to the EEA*

An important milestone was reached in EU-EFTA relations in 1997, the EFTA annual report for that year stated, when the EU's Council of Ministers finally agreed to extend the maritime cabotage rules to the EEA. Some Member States, especially Greece and Spain, had been concerned about the lack of possible reciprocity on new cabotage rules with Norway. However, Norway agreed to make a declaration that it would not alter its laws to allow vessels, listed on its liberal international register, access to EU cabotage markets. The Council and the Commission jointly agreed a statement saying that the Declaration "is an extremely important element for the Community", and that they reserve the right to reexamine the situation if Norway's position should change (Chapter Four). In 1998, EFTA also put forward a formal comment concerning the Commission's related proposals on manning requirements for regular passenger vessels.



In general, though, the EEA runs rather smoothly with transport issues rarely becoming political or being raised in the public domain. The so-called EFTA Surveillance Authority which monitors competition issues within the EEA does, occasionally, have to deal with transport-related cases. Over the years, it has implemented decisions to align the EFTA-EEA countries with the Community's limits on shipbuilding subsidies. In July 1997, it passed a decision on aid to maritime transport so as to bring the Community's 1989 guidelines, and their recent revision, into use within the EEA; (although the EEA Agreement allowed for joint application of state aid policy, it had never actually included the 1989 detailed guidelines on maritime aid). In a more specific case, the Authority wrote to Iceland and Norway, in December 1998, outlining its concerns that their tax rules favoured domestic services over flights to other states in the EEA, in contravention of the principle of freedom to provide services.

*The role of the  
EFTA Surveillance  
Authority*

### **A new framework, finally, for relations with Switzerland**

The Community's relationship with Switzerland dates back as far as 1956 when the original European Coal and Steel Community reached an agreement - linked to an internal arrangement between the then six Member States - on railway tariffs for the carriage of coal and steel through Swiss territory. Along with the other EFTA countries, though, the bilateral relationship was significantly strengthened in 1972 with a Free Trade Agreement. Because of the decision by the Swiss people in 1992 not to join the EEA, that agreement, plus various amendments (the most recent in 1997 on mutual administrative assistance in customs matters to help combat transit fraud), has remained the basis of EU-Swiss relations right through to the end of the 1990s.

However, negotiations for a more extensive bilateral accord between the two sides began soon after the referendum. Seven individual agreements were eventually drawn up covering the following areas: free movement of persons, scientific and technological cooperation, public procurement, mutual recognition of product evaluation, trade in agricultural products, air transport (Chapter Three) and land transport (Chapter Five). The EU's demand, in the land transport agreement, for fair access of 40t trucks to the Swiss alpine passes, though, caused great difficulties and held up the entire package for years. It was not until the end of 1998 that a deal was finally struck, not only with Switzerland (involving concessions by the EU on air transport), but also between the Member States on the equally controversial Eurovignette Directive to which the Swiss agreement was linked because of Austria's concerns for its own alpine passes (Chapter Eleven). The agreements were finally signed in June 1999 and are expected to come into force some time in 2001.

*Seven individual  
agreements  
including air and  
land transport*

It is worth noting that the Member States of the European Coal and Steel Community adopted a Decision, in June 1999, authorising the Commission to terminate the 1956 ECSC Agreement with Switzerland on international tariffs for the carriage of coal and steel in transit through Swiss territory because it, and the 1955 internal ECSC agreement it was based upon, had become obsolete, due to economic changes in the market.

### **RELATIONS WITH THE US - SIGNIFICANT TRADE BARRIERS PERSIST**

With the success of its single market, environmental and other policies, the EU's presence in the international arena escalated during the 1990s, so much so that it found the relationship with its major trading competitor - the US - increasingly complex and politically sensitive. In December 1995, the EU and the US signalled a fresh phase in their overall relations with the signing of a "New Transatlantic Agenda". It set out four major goals: promoting peace and stability, democracy and development around the world; responding to global challenges; contributing to the expansion of world trade and closer economic relations; and building bridges across the Atlantic.

*The New  
Transatlantic  
Agenda*

The 'global challenges' goal covered a number of themes including preservation of the environment, which itself ranged across several subjects, such as more coordination of negotiating positions on major global issues and "a broad and substantive dialogue on ways and means to limit and reduce global emissions of greenhouse gases, including CO<sub>2</sub>". This did not, however, lead to any agreement on the climate change strategy prior to the Kyoto conference in late 1997 (Chapter Eight).

The 'closer economic challenges' goal contained very substantial provisions which drew on the work of the Transatlantic Business Dialogue (TABD), which had been established in Seville in 1995 by the US and the EU to bring together chief executives from both regions. Efforts to intensify and extend multilateral and bilateral cooperation in the field of trade and investment were given a further boost by the adoption, at the EU-US summit in London in May 1998, of a "Transatlantic Economic Partnership".

## Chapter Sixteen

Transport policy topics, with the notable exception of aviation issues (such as open skies, alliances and hushkits, for example - Chapter Three) do not generally play a significant part in the overall EU-US relationship. In 1997, the EU and US signed an important agreement on customs cooperation and mutual assistance in customs matters (as with many other such bilateral agreements, the main aim is to improve efficiency and reduce fraud). The same year, they also signed an agreement for scientific and technical cooperation, which came into force in 1998. This has opened up the EU's Fifth RTD Framework Programme and COST actions (Chapter Fourteen) to US researchers at their own expense. At the launch of the agreement, in June 1998, a special session on transport looked at possible cooperation on intermodality, telematics and strategic enabling research; and, since then, the two sides have also included safety and environment-related topics as areas for cooperation.

Despite some progress between the two regions within the TABD and some liberalisation on procurement issues (Chapter Two), the EU does have a number of grievances concerning the US's lack of market openness. So important is the US market, that the European Commission publishes regular reports on the US barriers to trade and investment, a significant portion of which are taken up with barriers to the transport and related markets.

### The Commission's annual reports on US barriers to trade

#### *Rules on foreign ownership of US carriers*

The 1998 and 1999 reports listed, for example, a variety of areas of ongoing concern. The ownership rules contained in the Federal Aviation Act of 1958 restrict foreign stakes in US carriers to 49% overall and to 25% of voting shares, the 1999 report said, and, although the US authorities had favoured relaxing these rules in the past, they had yet to do so. The draft Aircraft Repair Station Act introduced in 1997 would, if enacted, restrict the ability of foreign repair stations to gain Federal Aviation Authority approval, and hence to service US aircraft. The Commission argued in the 1998 report that the Act does not appear to be justified on safety grounds, and could cause a conflict with commitments under GATS, which binds the US "not to introduce any market access limitation on the consumption abroad of supply of these services".

In the maritime sector, the 1999 report detailed US legislation which had continued to prohibit the use of foreign built (or rebuilt) vessels in coastal traffic, or for dredging, towing or salvaging operations. It also criticised measures which had ensured that certain types of government owned or financed cargoes may only be carried by US-flagged vessels, thus denying EU competitors access to "a very sizeable pool of US cargo". A "matter of concern" in the shipbuilding sector, it said, remains the US's failure to ratify the 1994 OECD Agreement on subsidies (Chapter Four).

#### *The restrictive Buy America provisions*

Elsewhere in the 1999 report, the Commission noted concerns about the number of discriminatory "Buy America" provisions remaining in force. One of the most obvious areas of Buy America, it said, was federal aid administered by the Department of Transportation under several different acts, including the Highway Administration Act, the Urban Mass Transit Act and the Airports Improvement Act. Under these provisions, the state had provided substantial support for transport projects with conditions which had restricted access to foreign bidders, the report said, and, as a result, European transport equipment manufacturers had been denied access "to a large and lucrative market".

Finally, it is worth noting that, during the various intensive talks in 1999 between the outgoing Transport Commissioner Neil Kinnock and the US authorities on the hushkits issue (Chapter Nine), the two sides agreed that, in order to avoid future similar disputes, it might be a good idea to set up a forum for dialogue on transport issues. Indeed, at a conference of international aviation ministers in Chicago during early December 1999, the new Transport Commissioner Loyola de Palacio and the US Secretary of State Rodney Slater announced they would start to hold biannual meetings on aviation issues.