

The EU and eastern Europe and central Asia (EECA)

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1. Introduction

This paper examines EU policies and institutions affecting the 12 countries of the former Soviet Union.

- The EU has a general [European Neighbourhood Policy](#) (ENP) covering countries on or near its eastern and southern borders. The eastern countries covered are Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. These countries are also part of the [Eastern Partnership](#) (EP).
- Russia is not covered by the ENP or the EP but is the subject of a specific [Strategic Partnership](#)
- The other former Soviet Union countries - Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan - are not covered by the ENP or the EP, but by a general [Central Asia Strategy](#)
- Other EU policies and initiatives, especially on energy, also affect countries in all these areas especially the [Energy Community Treaty](#), the Inogate programme, and the [Energy Charter Treaty](#).
- The activities of the EU development banks, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), also affect public services in the region. It is also important to note the presence of the Commonwealth of Independent States (CIS), to which most countries in the region belong.

Chart A. European neighbourhood, eastern partnership and Russia



2. European Neighbourhood Policy (ENP)

2.1. Background

The EU neighbourhood policy (ENP - http://ec.europa.eu/europeaid/where/neighbourhood/index_en.htm) was introduced in 2003. It is intended to develop economic and political relationships with neighbouring countries in the Mediterranean, middle east, and former Soviet Union, but without offering the prospect of future full membership of the EU.

Neighbourhood countries are offered two key benefits under the ENP: access to the EU internal market, through preferential trade arrangements, and financial benefits from grants and loans under the [European Neighbourhood and Partnership Instrument](#) (ENPI), which had a budget of €12 billion for the seven-year period 2007-2013.

The relations with individual countries have been governed by bi-lateral association agreements between the EU and each country, most of which were agreed in the early 2000s. The EU is now seeking to replace these with ‘deep and comprehensive free trade agreements’ (DCFTAs – see below)

The economic, political and security objectives of the ENP are principally:

- A policy for limiting future membership of the EU
- Establishing an EU-centred economic zone
- Encouraging political reforms and improving regional security
- Enforcing EU policies on immigration
- Extending the EU’s political influence
- Strengthening links with energy suppliers

The ENP agreements include a range of measures which have potential impact on public services, including the liberalisation of trade in services, the reduction and elimination of state aid, general policies of privatisation, and restructuring and privatisation in specific sectors including electricity, water and health. There is also a social dimension in the action plans, which is relatively weak, but the political elements of the action plans include proposals for extension of human rights, including trade union rights.

2.2. Eastern Partnership (EP)

The Eastern Partnership (http://eeas.europa.eu/eastern/index_en.htm) was launched in 2009 in an effort “to help promote political and economic reforms and assist the countries of the region to move closer to the EU”.

The EP has run into political difficulties, for two reasons. Firstly, there are contradictions between EU objectives: on the one hand, to have greater influence and trade in the region, and on the other, to require greater human rights and democracy. Secondly, the partnership is slow to deliver the objectives of partner countries, including visa liberalisation and the possibility of future membership of the EU. After the partnership meeting in July 2012 the EU representative stated that: “There was frank and open discussion on the progress made so far and the remaining challenges. It has helped us better understand the problems our partners are facing.”ⁱⁱ

There is a civil society forum linked to the EP, but unions have not been active in it. In early 2012 it produced an extremely unhelpful report on public administration in the eastern partnership countries. The report uses discredited indicators from the World Bank, including one on ‘ease of doing business’ which gives countries a good score for suppressing trade union rights: the report thus praises Georgia “Georgia has ensured the best regulatory quality among the EaP economies, which is obviously attributable to deregulation measures in favour of private entrepreneurs”ⁱⁱⁱ

2.3. ‘Deep and comprehensive free trade agreements’

The EU is now negotiating new agreements with partner countries in the EP, known as deep and comprehensive free trade agreements (DCFTAs), to help “accelerate political association and deepen economic integration”.^{iv} None have yet been finalised, although negotiations with Ukraine are closest to completion.

The new (DCFTAs) will have an impact both on trade union rights and on the poorest. The EU has commissioned an assessment of the impact of such an agreement on Georgia, including the social effects.^v

- The agreement is expected to lead to increases in trade, output, and – on average – wages, but also lead to higher food prices. The overall effect on people will be neutral in the short term, but the poorest – including those with low educational qualifications, the unemployed and pensioners - will experience a fall in their standard of living, mainly due to expected increases in food prices:
 - o “Most of these groups [will] experience absolute poverty increase in the short-term due to the DCFTA....the poorer strata of the population appear to benefit from DCFTA less than

those with above average incomes.....the human rights for the poorest parts of the population may come under pressure from the DCFTA.”

- The DCFTA would increase competition from abroad and so could make labour and trade union rights even worse, but at the same time it is an opportunity to build improvement in labour rights into the agreement itself:
 - o “A potential risk is a race-to-the-bottom regarding labour standards in the face of increased competitive pressure following signing of the DCFTA, unless Georgia would ratify and *de facto* implement a number of ILO Conventions on labour standards and unless clear provisions are included in the DCFTA to prevent this.”
- The overall effect of the agreement is expected to be an increase of 1.7% in public services, in line with the overall impact on the economy of Georgia, but the employment of low-skilled workers in public services will fall by 0.4%, and high-skilled workers will remain unchanged.^{vi} Reductions in trade tariffs mean a loss of government income which may result in cuts in public spending on services, though this effect is fairly small.

The study shows the great importance of public services as a source of employment. For both low-skilled and highly skilled workers, public services are the biggest employer, with utilities also important.

Chart B. Employment shares by sector in Georgia 2010

| Rank | Sector | Share in total value added (%) | Share in total skilled employment (%) | Share in total unskilled employment (%) |
|------|------------------------------------|--------------------------------|---------------------------------------|---|
| 1 | Public and other services | 30.0 | 66.6 | 23.4 |
| 2 | Trade | 15.9 | 4.5 | 13.0 |
| 3 | Other transport | 8.1 | 2.1 | 6.1 |
| 4 | Construction | 6.9 | 2.0 | 6.1 |
| 5 | Animal products | 4.9 | 0.4 | 10.3 |
| 6 | Veg, fruits, nuts, oilseeds | 4.5 | 0.4 | 9.4 |
| 7 | Business and ICT | 3.8 | 2.8 | 1.5 |
| 8 | Personal and recreational services | 3.7 | 6.8 | 3.6 |
| 9 | Utilities | 3.5 | 3.6 | 4.0 |
| 10 | Primary metals | 1.7 | 0.7 | 2.1 |
| 11 | Beverages and tobacco | 1.7 | 0.7 | 2.1 |
| 12 | Finance | 1.5 | 1.9 | 1.0 |
| 13 | Grains and Crops | 1.4 | 0.1 | 2.9 |
| 14 | Other processed food | 1.0 | 0.7 | 1.5 |
| 15 | Chemicals, rubber, plastics | 0.7 | 0.5 | 0.9 |

Source: Ecorys/Case 2012 Table 5.1 http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149666.pdf

The impact on Moldova of a DCFTA agreement is expected to be similar. There will be overall economic growth and higher wages, but the poorest will be worse off, competition could lead to downward pressure on labour and trade union rights, and government will lose revenue as a result of the abolition of tariffs. The effect on public services employment however is expected to be negative: a loss of 1.6% of jobs for less skilled workers, and a loss of 0.2% for highly skilled workers.

Although there are less problems with labour and union rights in Moldova than in Georgia, the study again emphasizes that an agreement is an opportunity to strengthen these rights:

“it is to be expected that the DCFTA will contain clauses that ensure that progress made so far is maintained and will possibly build on this progress towards a more ambitious decent work agenda. Indeed, these issues have already been addressed in the DCFTA process (before the start of the negotiations). The Moldovan Ministry of Economy ...notes an important limitation in the form of weak institutional capacity (given the insufficient number of personnel) of the Labour Inspection to carry efficient control in areas relevant for the core conventions and decent work in General”

3. EU relations with Russia and central Asian countries

3.1. Russia

The EU originally proposed to include Russia under the ENP policy, but in the mid-2000s this idea was dropped in favour of a separate relationship (EU-Russia cooperation http://ec.europa.eu/europeaid/where/neighbourhood/country-cooperation/russia/russia_en.htm). Energy is the most important issue, (after general political and security issues), because about one-third of all Europe's gas, oil and coal is imported from Russia – accounting for an even higher proportion of all Russia's exports - and the Russian electricity and gas networks are potentially a large market for European companies.^{vii}

The EU and Russia concluded a Partnership and Co-operation Agreement in 1994, and are in the process of negotiating a new agreement since 2008. This will focus on four 'common spaces' of the economy, internal security, external security, and research and education. The EU provides less than €100 million per year for projects in Russia.^{viii}

In the early 2000s the EU and Russia discussed integrating the EU and Russian electricity systems to create a single market "from Lisbon to Vladivostok", but this objective has now been abandoned. Since 2009 the EU and the CIS have set up a joint task force on trading electricity through cross-border connections, focused on the northern links between Russia and Belarus on the one hand and the Baltic and Nordic countries in the EU.^{ix}

3.2. Central Asia strategy

The EU has a separate Central Asia Strategy which covers the other CIS states - Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan (http://www.eeas.europa.eu/central_asia/index_en.htm). The region is important to the EU as a source of gas, oil and minerals, and much of the EU interest has focused on trying to develop gas and oil pipelines from the Caspian. 29% of all exports of the region go to the EU.

The EU has allocated €321 million in aid for the region during 2011-2013, including €45 million in an Investment Fund for Central Asia (IFCA), covering energy, environment, transport and social services sectors. There are Partnership and Cooperation Agreements (PCAs) with each country. There are also memoranda of understanding on energy, which relate almost entirely to gas and oil sectors.

The aid and agreements are intended by the EU to promote "the emergence of a new legal order and socioeconomic framework in the newly independent states, based broadly along the lines of the EU *acquis communautaire* and international norms and standards". The priority areas include rural development, reforms in social protection, health, and education, and strengthening public finance management.^x

The EU policy includes specific objectives relating to public services for each country. Most of these are potentially positive, but the first two for Kazakhstan are potentially negative. The objectives include:

For Kazakhstan:

- Public sector reform efforts implemented effectively.
- Improved performance and modernized financing system of the social welfare and healthcare sector
- Institutional development of public administration and civil service management modernized

For Kyrgyzstan:

- improve the quality and efficiency of public administration service delivery by combating corruption and improving the management of public finances,

For Tajikistan:

- Out-of-pocket expenditure as a percentage of total health expenditure reduced to under 60% (currently 79%).
- Budget allocation to health sector increased.

- improve the quality and efficiency of public administration service delivery by combating corruption and improving the management of public finances

For Turkmenistan:

- Upgrade public administration capacities and performance.
- Strengthen the public sector, particularly the institutions training civil servants

4. Other EU policies affecting relations with EECA countries

4.1. Energy

Other elements of EU energy policy have potential effects on public services in countries in the region.

4.1.1. Energy Community Treaty

The Energy Community Treaty <http://www.energy-community.org> effectively extends the EU internal market on electricity and gas to include countries on the south-east borders of the EU, thus requiring unbundling and liberalisation of energy systems in these countries. It originally covered the Balkan countries (Albania, Bosnia, Croatia, Kosovo, Macedonia, Montenegro, and Serbia). The objective is to create larger markets and wider opportunities for commercial electricity and gas companies.

The ECT is now being extended to include other countries in eastern Europe. Moldova joined in 2010, and Ukraine in February 2011, and so they too are now required to liberalise and unbundle their systems. In 2012 Georgia and Armenia were given observer status, and a Georgian official has stated that: “We are convinced of the benefits energy market liberalization has on social welfare, investments and security of supply....we are looking forward to Georgia considering membership to the Energy Community hopefully very soon.”^{xi}

4.1.2. Inogate

The INOGATE Programme (<http://www.inogate.org>) was set up in 2004 as part of the EU policy to encourage gas and oil pipelines from the Caspian region. It is funded by the EU and its members include all the former Soviet Union countries except Russia: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. It has adopted the objective of “converging energy markets on the basis of the principles of the EU internal energy market” with the objective of the “Gradual opening of the Partner Countries’ internal electricity, oil & gas markets”, and so reinforces, and cooperates with, the Energy Community Treaty to encourage unbundling and liberalisation of the electricity sector in each country.^{xii}

4.1.3. Energy Charter Treaty

The Energy Charter Treaty (<http://www.encharter.org>) was developed in the 1990s to provide legal protection for private companies investing in the energy sector, including electricity and gas, in countries of the former soviet union. It has been signed and ratified by all EU countries, Turkey, and most of the eastern partnership and central Asian countries - Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan , Ukraine, and Uzbekistan . However, Belarus and Russia, although they are members, have not ratified the treaty.

The ECT gives companies stronger legal grounds for making claims against a country which chooses to renationalise an energy company. The treaty, like most bilateral investment treaties, says compensation must be paid if any ‘investments’ are nationalised, and that compensation can also be claimed for ‘measure shaving effect equivalent to nationalisation’. Over 30 claims for compensation have been made under the treaty.^{xiii}

4.2. Trade and WTO

In the past, the EU has used the association agreements with neighboring countries to introduce freer trade rules more like those of the World Trade Organisation (WTO – www.wto.org). Within the WTO, the EU has actively promoted the application of the rules on trade in services (known as GATs) to public services such as water, which was successfully resisted by many countries.

Most of the countries in the region are now members of the WTO or applying to join. In August 2012 Russia joined the WTO; Armenia, Georgia, Kyrgyzstan, Moldova, and Ukraine are already members of the WTO; Azerbaijan, Belarus, Kazakhstan, Tajikistan and Uzbekistan are applying to join. Turkmenistan is one of the few countries left in the world which is neither a member nor an applicant.

The EU has also promoted a government procurement agreement (GPA) through the WTO, which requires countries to open up bidding for public services to foreign companies: the EU has specified that this includes refuse collection and sewerage contracts. Members of the WTO are not obliged to sign the GPA, and most of those who have are European countries, but Armenia has done so; Georgia, Kyrgyzstan, Moldova and Ukraine are negotiating to join; and the EU has publicly encouraged Russia to sign up, now it is a WTO member.^{xiv}

5. Other bodies

5.1. EIB

The EIB (www.eib.org) is the development bank of the EU. It is the largest financier of infrastructure projects in the EU, especially road and rail transport, but also including projects in energy, water and waste sectors. It is active both within the EU and internationally, including the EECA region.^{xv} It has a strong policy of promoting PPPs: it finances many PPPs, creates special funds for PPPs, has set up a PPP Expertise sector, and runs EU projects to facilitate using PPPs with infrastructure funding.^{xvi}

Table 1. EIB loans to EECA countries 2007 to 2012

| Countries | Euros |
|--------------------------------------|---------------|
| Armenia | 58,066,000 |
| Azerbaijan | 0 |
| Georgia | 385,000,000 |
| Moldova, Republic of | 272,000,000 |
| Russian Federation | 482,500,000 |
| Ukraine | 1,090,540,000 |
| Total Amount | 2,288,106,000 |

5.2. EBRD

The EBRD (www.ebrd.org) was set up specifically to provide development finance for the countries of eastern Europe in transition from communist states to market economies.^{xvii} The EBRD has a long history, since the mid-1990s, of directly financing private sector projects by west European multinational companies, especially in water. It also actively promotes and supports PPPs.^{xviii} However more recently the EBRD has been financing large loans for municipal water and waste systems.

Table 2. EBRD public projects in water and sanitation in the region

| | | |
|-------------|------------------------|---|
| 14 Jan 2011 | Armenia | Armenian Small Municipalities Water Project |
| 19 Apr 2010 | Bosnia and Herzegovina | Sarajevo Canton Water and Wastewater Project |
| 23 Feb 2010 | Moldova | Moldova - Water Utilities Development Programme |

5.3. CIS

Most of the former Soviet Union countries are members or associate members of the Commonwealth of Independent States (CIS), except for Georgia. The CIS was formed after the collapse of the USSR and includes Armenia, Azerbaijan, Belarus, Georgia, Moldova, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. Turkmenistan and Ukraine are 'unofficial' members, but Georgia formally left in 2009.

The CIS has created a free trade area covering all countries, and a customs union has been created between Russia, Kazakhstan and Belarus. It has also created a more ambitious Eurasian Economic Community (EurAsEC), including a common energy policy and mutual recognition of education and health services, of which Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan have become members, while Armenia, Ukraine and Moldova have observer status. In effect, EurAsEC offers members access to the markets of Russia, and lower energy prices. The CIS also publishes statistics on economic and social indicators (<http://www.cisstat.com>).^{xix}

6. Notes

- ⁱ Remarks by High Representative Catherine Ashton following the Eastern Partnership Ministerial Meeting Brussels, 23 July 2012 http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/131993.pdf
- ⁱⁱ Interview with: Alexander Duleba No political momentum for the Eastern Partnership 2012-05-11 <http://www.easternpartnership.org/community/interview/no-political-momentum-eastern-partnership>; Peter Munk Jensen 2012-04-11 The Eastern Partnership and the Danish EU Presidency: Caught between Realism and Disillusion <http://www.easternpartnership.org/publication/politics/2012-04-11/eastern-partnership-and-danish-eu-presidency-caught-between-realism-> ; <http://www.easternpartnership.org/>
- ⁱⁱⁱ Public Administration in EU Eastern Partner Countries: Comparative Report 2011 http://www.eceap.eu/ul/Vordlev_Report_2011.pdf
- ^{iv} [Eastern Partnership: A Roadmap to the autumn 2013 Summit](#)
- ^v Ecorys and Case April 2012 Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149666.pdf
- ^{vi} Table 2.4 p.A39 Ecorys and Case April 2012 Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149666.pdf
- ^{vii} http://ec.europa.eu/energy/international/security_of_supply/cooperation_en.htm Communication "The EU Energy Policy: Engaging with Partners beyond Our Borders" [COM/2011/539]
- ^{viii} EU External action: Russia http://eeas.europa.eu/russia/index_en.htm
- ^{ix} EU-Russia: the need for cross border trade and the increasing role of electricity” Olga Mikhailova 12 September 2011 <http://www.eurelectric.org/Download/ProceedingsDownload.aspx?DocumentFileID=70203>
- ^x Central Asia DCI Indicative Programme 2011-2013 http://www.eeas.europa.eu/central_asia/docs/2010_ca_mtr_en.pdf; Investment Facility for Central Asia 2010 (IFCA) http://ec.europa.eu/europeaid/documents/aap/2010/af_aap_2010_central-asia.pdf
- ^{xi} <http://www.energy-community.org> ; Georgian regulatory authority pays official visit to the Secretariat June 2012 http://www.energy-community.org/portal/page/portal/ENC_HOME/NEWS/News_Details?p_new_id=6142 ; Local Actions as pre-requisite for Regional Wholesale Market opening - *Challenges and Progress made 2012* <http://www.energy-community.org/pls/portal/docs/1660183.PDF>
- ^{xii} http://www.inogate.org/index.php?option=com_content&view=article&id=46&Itemid=72&lang=en
- ^{xiii} Expropriation Regime under the Energy Charter Treaty 2012 <http://www.encharter.org/index.php?id=556&L=0>
- ^{xiv} WTO http://www.wto.org/english/tratop_e/gproc_e/gproc_e.htm ; Markus Krajewski 2011 Public services in bilateral free trade agreements of the EU EPSU http://www.epsu.org/IMG/pdf/PublicServicesFTAs_FinalVersion-2.pdf ; EU: Barroso speech on WTO 11/89 15/12/2011 <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/11/894&format=HTML&aged=0&language=EN&guiLanguage=en>
- ^{xv} EIB Annual Report 2010 <http://www.bei.org/about/publications/annual-report-2010-activity.htm>
- ^{xvi} EIB Annual Report 2010 <http://www.bei.org/about/publications/annual-report-2010-activity.htm>
- ^{xvii} EBRD Annual report 2010 <http://www.ebrd.com/downloads/research/annual/ar10e.pdf>
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- ^{xix} http://en.wikipedia.org/wiki/Eurasian_Economic_Community ; <http://www.unescap.org/tid/aptiad/viewagreement.aspx?id=CISFTA>