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P. B. Orskov



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THE EUROPEAN UNION**

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Subject: 2003 Annual Progress Report on the implementation of the Northern
Dimension Action Plan

Delegations will find attached the 2003 Annual Progress Report on the implementation of the Northern Dimension Action Plan ¹ prepared by the Commission and revised by the Eastern Europe and Central Asia Working Party.

¹ The document was received in English only.

2003 Annual Progress Report

On the implementation of the Northern Dimension Action Plan

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1. INTRODUCTION

The "Full Report on Northern Dimension Policies"² endorsed by the Gothenburg European Council in June 2001 asked the European Commission to produce "[...] *Annual Progress Reports to take stock of the implementation of the Action Plan and further development of the ND initiative [...] at the end of each year, beginning in 2002*".

The 2003 Progress Report aims to give an overview of the most important steps taken by the Commission in the last months to implement the Northern Dimension Action Plan³ endorsed by the European Council meeting in Feira (Portugal) in June 2000. The present Report principally updates the information provided by the Commission in the *2002 Annual Progress Report*⁴ and covers the period from summer 2002 to autumn 2003.

In the pages that follow, due attention is obviously paid to the elaboration of the Second Northern Dimension Action Plan 2004-2006, the preparations for which began during the Danish Presidency of the Council in the second semester of 2002. This information is provided in the initial chapter concerning the political framework. Following this section, updates are given on the most relevant sectors, following the same thematic structure as the Second Northern Dimension Action Plan.

2. THE POLITICAL FRAMEWORK

2.1.1. EU Enlargement

The most important political event in the Northern Dimension region during the period covered by the present report was the conclusion of EU accession negotiations with i.a. Estonia, Latvia, Lithuania and Poland in December 2002. The Accession Treaty was signed on 16 April 2003, and accession will take place on 1 May 2004. Intense accession preparations in all sectors covered by the Northern Dimension continued during the period under review, with the objective of fully meeting the accession criteria by 1 May 2004.

Over the last months, the EU has continued its support to the acceding countries from the Northern Dimension region. In 2002, Phare allocated €33.4 million to Estonia, €36.3 million to Latvia, €147.6 million to Lithuania and €451.7 million to Poland. The 2002 ISPA (Instrument for Structural Policies for Pre-accession) contribution to the four countries amounted to €30.4 million for Estonia, €46.5 million for Latvia, €61.2 million for Lithuania and €362.8 million for Poland. In the same year, SAPARD (Special Pre-Accession Programme for Agriculture and Rural Development) allocated €12.9 million to Estonia, €23.3 million to Latvia, €31.8 million to Lithuania and €179.9 million to Poland. Budget allocations for the three pre-accession instruments for the four countries total €1,440 million.

2.1.2. The Second Northern Dimension Action Plan 2004-06.

Reflection on the Second Northern Dimension Action Plan started on 28 August 2002 in Ilulissat (Greenland), at a Ministerial Conference organised by the Danish Presidency of the Council. This was followed by the third Foreign Affairs Minister's Conference on the Northern

² 9804/01, 12 June 2001. The Report was prepared by the Swedish Presidency, in co-operation with the Commission. Available at: http://europa.eu.int/comm/external_relations/north_dim/doc/full_report.pdf

³ "Action Plan for the Northern Dimension with external and cross-border policies of the European Union 2000-2003", 9401/00, 13 June 2000. Available at: http://europa.eu.int/comm/external_relations/north_dim/ndap/06_00_en.pdf.

⁴ SEC(2002) 1296 of 26 November 2002, available at: http://europa.eu.int/comm/external_relations/north_dim/doc/progrep02.pdf.

Dimension held in Luxembourg on 21 October 2002. The Luxembourg Conference adopted the Guidelines for the Second ND Action Plan⁵, and asked the Commission to submit to the Council its proposals based on those guidelines for a Second Northern Dimension Action Plan. Before drafting the document, the Commission undertook a very wide-ranging consultation process, so as to involve relevant partners in the elaboration of the Commission proposal to the Council.⁶

The Commission Working Paper outlining such proposals was published on 10 June 2003⁷ and provided the basis for the Council discussion that took place both before and after the summer break. On 16 September 2003, the Italian Presidency organised a working luncheon to discuss the Action Plan with the Russian Federation, Norway and Iceland, the only three partner countries remaining outside the EU after the upcoming enlargement.

The Second Northern Dimension Action Plan, as amended by the Council, was finally approved by the General Affairs Council of 29 September 2003, and was subsequently endorsed by the European Council meeting in Brussels on 16 and 17 October 2003⁸.

It sets out a framework of priorities, objectives and actions to be pursued in the implementation of the Northern Dimension of the external and cross-border policies of the European Union over the period 2004-2006.

The document focuses on five priority sectors: economy, business and infrastructure; human resources, education, culture, scientific research and public health; environment, nuclear safety and natural resources and justice and home affairs. The Action Plan also stresses the need to pay special attention to areas of the Northern Dimension region with particular development needs, such as the Arctic and sub-Arctic areas, and the Kaliningrad region.

2.1.3. EU Institutions

During the preparations for the Second Northern Dimension Action Plan, the Commission conducted a very close dialogue with other EU institutions on Northern Dimension-related themes.

On 16 January 2003, the European Parliament discussed and approved, in the presence of Commissioner Chris Patten, a resolution on the Northern Dimension, the main elements of which were incorporated by the Commission in its proposal to the Council.

The European Economic and Social Committee held the Second Northern Dimension Forum on 19 March 2003. This provided a lively debate with the participation of representatives from enterprise, trade unions and social organisations.

On 18 July and 9 October 2003, the Commission participated in discussions concerning the Committee of the Regions' opinion on the Second Northern Dimension Action Plan; this opinion was adopted in the plenary meeting of 9 October 2003⁹.

⁵ The document is available at:

http://europa.eu.int/comm/external_relations/north_dim/doc/guidelines02.pdf.

⁶ All written contributions submitted to the Commission in the frame of these consultations can be found at:

http://europa.eu.int/comm/external_relations/north_dim/ndap/docsap2.htm.

⁷ *The Second Northern Dimension Action Plan 2004-06*, Commission Working Document COM(2003)343 final, 10 June 2003, available at

http://europa.eu.int/comm/external_relations/north_dim/ndap/docsap2.htm.

⁸ Excerpts of the Conclusions of both the General Affairs Council and European Council and the final text of the Second Northern Dimension Action Plan can be found at:

http://europa.eu.int/comm/external_relations/north_dim/news/ec_concl1003.htm.

⁹ The opinion is available at:

http://coropinions.cor.eu.int/CORopinionDocument.aspx?identifier=cdr\comm.relext2002-06\dossiers\relex-011\cdr102-2003_fin_ac.doc&language=EN

Finally, in its plenary sitting in Strasbourg on 20 November 2003, the European Parliament discussed and adopted a resolution on the Northern Dimension which welcomed the adoption of the Second Northern Dimension Action Plan, and provided political guidance for the period of its implementation.

2.1.4. Russia

A number of Northern Dimension-related issues have been discussed at bilateral level with the Russian Federation in the past months. At the EU-Russia Summit in St. Petersburg on 31 May 2003, it was agreed to reinforce the bilateral cooperation through the creation of a common economic space, a common space of freedom, security and justice, a space of co-operation in the field of external security, as well as a space of research and education including cultural aspects. Many of the ND issues will be discussed in the context of the development of these spaces.

Concerning sectoral issues, the signature of the MNEPR Agreement on 21 May 2003 underlined the importance of the EU-Russia cooperation in environmental matters.

Discussions on nuclear safety will continue. Other issues addressed since the last ND progress report include Justice and Home Affairs, Kaliningrad, cooperation in the field of energy, science and technology and cooperation in the field of commercial relations. Those issues are discussed in the relevant bodies of the Partnership and Cooperation Agreement (PCA).

The Joint Statement on Kaliningrad agreed at the EU/Russia Summit on 11 November 2002 established a new facilitated transit regime to and from Kaliningrad through the EU. The new facilitated transit regime has been in effect since July 2003, and is functioning well. As part of the commitment to intensify co-operation to promote the social and economic development of the Region as a whole, and in addition to the existing financial assistance, the Commission has established a €25 million special programme for Kaliningrad under the 2004-06 Tacis programme.

2.1.5. Regional Bodies

During the period covered by the present report, the Commission continued to cooperate closely with the most important regional bodies dealing with Northern Dimension issues. The most relevant events attended by Commission representatives include *inter alia* (this list is not exhaustive): the 3rd Arctic Council Ministerial Meeting, held in Inari (Finland) on 9-10 October 2002; the 12th Ministerial Meeting of the Council of the Baltic Sea States convened in Pori (Finland) on 10-11 June 2003; and the 9th session of the Barents Euro-Arctic Council which took place in Umeå (Sweden) on 2-3 October 2003.

Throughout the period under review, the Commission regularly attended the Committees of Senior Officials of the CBSS and BEAC, and the Senior Arctic Officials meetings in the frame of the Arctic Council.

On 6-7 March 2003, the Commission hosted a special Brussels session of the CBSS Committee of Senior Officials. This was open to the participation of the Chairpersons of the Committees of Senior Officials (or equivalent bodies) of the Arctic Council, the Barents Euro-Arctic Council and the Nordic Council of Ministers.

The Commission regularly attended the meetings of a number of specialised bodies created within the framework of the above-mentioned regional bodies, such as the CBSS Task Forces on Organised Crime and Communicable Diseases. A Commission representative participated in the meeting of the Ministers of Environment of the CBSS, the Barents Euro-Arctic Council and the Nordic Council of Ministers that took place in Luleå (Sweden) on 28-29 August 2003.

2.1.6. Canada

At the EU-Canada Summit, held on 19 December 2002 in Ottawa, it was decided to carry out a comprehensive review of the EU-Canada relationship with a view to agreeing joint conclusions at the next EU-Canada Summit. In the course of this review, particular emphasis would be paid to strengthening co-operation between the EU and Canada on the Northern Dimension on shared objectives in areas such as education, research, information society and public health. Special attention will be given to their common engagement in the Arctic and sub-Arctic region to clear the Barents Sea of nuclear waste, including, in particular, support by both parties for the Northern Dimension Environment Partnership. All these aspects were recalled in the 2nd Progress report on EU-Canada co-operation on Northern issues presented at the December 2002 Summit in Ottawa. A third such report will be presented in the second half of 2004.

3. PRIORITY SECTORS

3.1. ECONOMY, BUSINESS, INFRASTRUCTURE.

3.1.1. Trade, Investment Promotion and Business Co-operation

3.1.1.1. *Legal and administrative framework conducive to business development*

The development of a predictable legal and administrative environment for business via the implementation of the EU *acquis communautaire* on the Internal Market is a key aspect of the preparations for membership of Poland and the Baltic States. Equally importantly, economic cooperation and the development of trade and investment feature prominently in EU-Russia relations, notably in the Partnership and Cooperation Agreement (PCA) framework and plans for the creation of a Common European Economic Space.

Progress in approximating legislation in areas such as free movement of goods and services, competition, customs, and company law, is regularly and closely monitored under the Europe Agreements with the Acceding Countries and the PCA with Russia. In the case of the acceding countries, great emphasis is put not only on the correct transposition of directives, but also on institution-building and the strengthening of administrative capacity. The pre-accession strategy also focuses on preparing companies for competing in the enlarged Single Market.

Cooperation and support in this process continue to be offered via a wide range of programmes financed under Phare (e.g. twinning arrangements involving sister institutions and administrations in EU member states under the institution-building component; the TAIEX "one stop shop" facility for obtaining information and advice on internal market issues; Business support programme II, which helps business operators to improve capacity so as to meet the requirements of the Community legislation), and Tacis (e.g. institution building, standardisation, WTO accession).

3.1.1.2. *Removal of barriers to trade and investment*

The Sub-committees on Trade and Industry, under the PCA with Russia and the Europe Agreements, provide the framework for identifying and eliminating the most obvious barriers to trade and investment.

Following the same objective, the European Commission supports the EU-Russia Industrialists' Round Table, a business-driven process that allows EU and Russian industrialists to make joint recommendations to the European Commission and the Russian Government. These provide detailed and useful suggestions for removing specific barriers to trade and investment. Being a business-to-business forum, the Round Table process also provides for business contacts and industrial cooperation. The Round Table's activity is based on task-force

work. A new task force on Information Technology was created in 2003, in addition to the existing task forces on Trade and Investment, the Forest Industry Cluster, and Energy. In May 2003, the chairpersons of the Round Table and its Task Forces met in St Petersburg. The plenary conference is expected to take place in Moscow in December.

The Commission also gives continuous support to the implementation of recommendations from the Foreign Investment Advisory Service (part of the World Bank Group's International Finance Corporation) on the removal of the main legal and administrative barriers to investment. For example, Latvia has developed an efficient mechanism designed to remove such barriers, the Action Plan to Improve the Business Environment, which is based on regular consultations between the government, the Foreign Investors' Council, and local business associations.

3.1.1.3. Promotion of policies for entrepreneurship

The Commission's current priority is to encourage the alignment of enterprise policy in the candidate countries with the strategic goal decided at the 2000 Lisbon European Council: that the EU becomes the most competitive knowledge-based economy in the world. This has been implemented through the integration of the acceding countries into the development and implementation of EU Enterprise Policy.

3.1.1.4. European Charter for Small Enterprises

The European Charter for Small Enterprises is the key policy document aiming at encouraging the Member States and the Commission to take action to support and encourage small enterprises in ten areas: education and training for entrepreneurship; cheaper and faster start-up; better legislation and regulation; availability of skills, improving online access; getting more out of the Single Market; taxation and financial matters; strengthening the technological capacity of small enterprises; making use of successful e-business models; and developing top-class small business support and stronger, more effective representation of small enterprises' interests at Union and national level.

At the Maribor Conference, in April 2002, all the candidate countries (including Poland, Estonia, Lithuania and Latvia) adopted the Charter's principles as the basis for their action to support enterprises. The first implementation report was adopted in January 2003 and presented to the Spring European Council. The main findings show that candidate countries have made good progress in simplifying their administrative environments and in improving education and training for entrepreneurship. Areas where sustained efforts are still needed include improving SME's access to finance, strengthening their innovation and technological capacity, and ensuring that small businesses' concerns are taken into account in the policy and law-making process.

At the September 2003 Tallinn conference, a follow-up to the Maribor conference, government representatives joined representatives from the business community in the candidate countries. The conference generally concluded that candidate countries have taken a significant step forward in the Charter process. They have all started to actively implement the Charter principles in their national enterprise policies. By doing this, they have also successfully aligned their enterprise policies with the Lisbon strategic objectives and are starting to take part in the open method of co-ordination, the methodology of the EU Enterprise Policy. The Conference underlined the progress made by the countries, encouraged the exchange of good practices and issued recommendations in four selected areas related to the Charter: the use of structural funds in enterprise policy, the use of indicators, benchmarking and targets in enterprise policy, business innovation and entrepreneurship and achieving better regulation. A Round Table

meeting stressed the need to strengthen the representation of small enterprises' interests in the candidate countries.

3.1.1.5. Multi-annual Programme for Enterprise and Entrepreneurship

In addition to the implementation of the European Charter, the Commission has opened all the other instruments of the Enterprise Policy to candidate countries. Since 2002, candidate countries have been eligible to participate in all parts of the Multi-annual Programme for Enterprise and Entrepreneurship, and in particular SMEs (2001-2005)¹⁰ (MAP), namely: Working groups of 'Best procedure projects' for the identification and exchange of best practice.

The Financial Instruments managed by the European Investment Fund. Financial institutions in member and candidate countries can apply for loans in order to operate in the sphere of risk capital and lending to small enterprises.

The extension and partial renewal of the Euro Info Centre network: 28 new centres will be opened by the end of 2003 (19 in the Candidate Countries and 9 in the EU).

The network of Euro-Info-Centres, created in 1987, is the main instrument of Commission support to business cooperation. Forty-two centres presently cover the Northern Dimension region. The extension and renewal of the network scheduled for 2003 benefits, among others, Latvia (one new EIC), Lithuania (one new EIC) and Poland (two new EICs). The network may be extended to Russia if interest is shown by local authorities and the business community. The EICs implement a series of support activities for companies, namely partner search, the promotion of cooperation between networks, legal counselling and on-line services.

Finally, the Commission supports regional initiatives in the Northern Dimension countries, as illustrated by its participation in the 'General Conference of the Union of Baltic Cities' of 2003. The Conference focused on 'Business development in the New Europe: the Baltic Wave', and the Commission provided participants with an outline of European business support programmes.

3.1.1.6. The Baltic Sea Customs Conference (BSCC) since the 4th conference in Vilnius

As agreed at the Vilnius conference in 2001, the BSCC reinforced its trade co-operation and took further steps to reduce border crossing time. A working group was set up to prepare and implement time measurement at selected border crossings in the Baltic Sea region (the so-called "Laufzettel" exercise). Total border crossing and customs clearance time of more than 30,000 trucks were measured within a given timeframe. Results naturally varied due to local conditions, but it can be said that customs is not the only – and often not the main – bottleneck at the border. In many cases, more than half of the time is spent with other border authorities and/or for other purposes.

The results of the measurement were presented to a BSCC customs-trade seminar in Wroclaw in summer 2002, and to the 5th BSCC, which took place in Riga, 23-24 October 2003. In Riga, the customs Directors-General decided that, due to the changing environment (nearly all BSCC countries will be EU Member States in 2004), the conference should finish its work in its current form. The conference in Riga was thus the last of its kind.

It has been recommended that work in the enforcement area could be covered by the Task Force for Organised Crime, and that the "Laufzettel" exercise should be extended to other countries at the future external border (Ukraine, Moldova, Belarus etc.).

¹⁰ Estonia since 19 August 2002, Latvia since 13 September 2002, Lithuania since 4 November 2002, Poland since 8 October 2002.

3.1.2. Energy

As a region with vast energy resources, the Northern Dimension Area is very important for the supply and the transit of oil and gas to the EU. In order to ensure the security of energy supplies in the coming years, a considerable level of investment will be required, both for the development of energy transport infrastructures and the exploitation of the area's vast gas resources. The Northern Dimension is an important component in the balanced development of Europe's energy infrastructure. That it is being treated as such is indicated by the Commission's Communication and proposals of December 2001 "European Energy Infrastructure" (COM(2001)775)

A further important aspect of the area's energy sector relates to the structural reforms demanded by integration of the accession countries of the region into the single European energy market. The region is facing important structural reforms due to the upcoming enlargement of the European Union, and the integration of Poland and the Baltic States into the internal EU Energy Market, in particular the internal energy market for electricity and gas, and their integration into the Trans-European Energy Network 2003.

One particular concern is to ensure the highest possible safety levels for the maritime transport of oil in the Northern Dimension region. The recent accidents of the Erika and the Prestige, have underlined the need to reassess the mode of transport of oil to the European Union, considering that approximately 90 % of EU requirements, some 600 million tonnes per year, are delivered by sea. The prospects of increasing the oil supply delivered through pipelines should be assessed where this is technically and economically feasible. This possibility will be addressed more globally in the context of the projects of common interest under the EU-Russia Energy Dialogue but should also be considered in the Northern Dimension.

3.1.2.1. *The EU-Russia Energy Dialogue*

The EU-Russia Energy Dialogue has many important implications for the Northern Dimension, a fact emphasised by the Energy Council at its May 2003 meeting.

At the October 2000 Summit, the European Union and the Russian Federation decided to initiate an energy dialogue with the objective of enabling "progress to be made in the definition of an EU-Russia energy partnership". At the October 2001 Summit, it was agreed that work should concentrate on the improvement of the energy legal framework, enhancing the security of the energy transport networks, legal security for long term supplies, new energy transport infrastructures, technology co-operation, and energy efficiency. Steady progress continues to be made in all of these areas.

In the context of the EU-Russia Energy Dialogue, the Summit of October 2001 identified a number of new energy infrastructures of "common interest", most notably the interconnection of the electricity grids, the development of the Shtokman field, the northern trans-European gas pipeline and the Yamal-Europe pipeline. The last two projects also benefit from being identified as projects under the TEN-E framework (Trans-European energy networks) and eligible to benefit from some Community financial support for feasibility studies. A feasibility study has been agreed for the northern trans-European gas pipeline project which is designed to bring Russian gas from Vyborg through the Baltic Sea to Germany, the Netherlands and ultimately the UK. It could also provide gas for Kaliningrad, and possibly for Finland and Sweden.

Discussions are also underway concerning the problems and prospects raised by the development of a wider European electricity market. These recognise the importance of not merely addressing the issue of the physical interconnection of the continental EU electricity market with the Russia/CIS market, but also issues such as equivalence in market opening

and safety and environmental standards. According to Russia's latest Energy Strategy to 2020, energy intensity in Russia is 3 times higher than the EU average. It notes that Russia's existing potential for energy savings amounts to between 360 Mtoe to 430 Mtoe, or between 39% and 47% of current energy consumption. It is estimated that 20% of these savings are realisable at costs up to €18 a tonne of oil equivalent, while 65% are realisable at costs between €18 and €45 a tonne of oil equivalent. . In this context, it has been agreed that the experience of the EU in preparing and implementing legislation designed to promote energy saving and energy efficiency will be shared with Russia.

In the framework of the EU-Russia Energy Dialogue, it has been agreed to carry out pilot projects focused on energy efficiency in the Archangelsk, Kaliningrad and Astrakhan regions. Work is now underway to produce the specifications for technical assistance projects that will be financed under the 2003 TACIS programme.

3.1.2.2. Baltic Sea Region Energy Co-operation (BASREC)

At their October 1999 conference in Helsinki, the Energy Ministers of the Baltic Sea Region countries and the European Commission decided to create the Baltic Sea Region Energy Co-operation (BASREC). Participating in BASREC are Denmark, Poland, Germany, Estonia, Latvia, Lithuania, Russia, Finland, Sweden, Norway and Iceland. The European Commission is represented by the Directorate-General for Energy and Transport. A group of Senior Energy Officials (GSEO) was established to steer BASREC's activities. The Commission participates in this group.

In December 2001, the Nordic Council of Ministers and the European Commission signed the contract for the BASREC 2002 project, which aims to promote energy co-operation in the Baltic Sea Region. The project's objectives are improving security of supply, and identifying measures for the implementation of the Kyoto Protocol via increased co-operation between the 11 countries in the region. A series of meetings of the GSEO was organised, and a BASREC ministerial conference was held in Vilnius on 19-20 November 2002. At this latter meeting, BASREC's mandate was extended until 2005.

On 29 September 2003, seven countries - Denmark, Finland, Germany, Iceland, Lithuania, Norway and Sweden - signed the Regional Testing Ground Agreement for Flexible Mechanisms of the Kyoto Protocol. The remaining BASREC countries can sign at a later date. The Testing Ground Agreement is open to other parties which have adhered to the Kyoto Protocol. This agreement aims to stimulate energy-sector climate investment projects in the Baltic Sea Region. The regional testing ground is the first scheme of this kind ever to have been implemented multilaterally on a regional basis.

The development of energy co-operation in the Baltic Sea Region is clearly important for security of supply and for the development and operation of the European energy market. This is reflected in the identification of projects of common interest in the TEN-Energy programme, and in the Commission's proposals for the revision of TEN Energy guidelines (COM(2001)775) adopted in the summer of 2003. The Baltic Ring and the above-mentioned Trans-European Gas Pipeline are recognised as priority projects in these guidelines.

In the enlarged Baltic Council of Ministers meeting of 5 September 2003 in Vilnius, the Prime Ministers of Estonia, Finland, Latvia, Lithuania and Poland, together with the Vice-President of the European Commission and the Italian Minister of Transport supported the inclusion of electricity connections between Lithuania - Poland and Estonia - Finland in the TEN Energy revised priority list.

3.1.2.3. *BALTREL and Baltic Gas*

BALTREL and Baltic Gas are two organisations composed of countries around the Baltic Sea that aim to increase co-operation in the energy sector. BALTREL and Baltic Gas were responsible for the study "Electricity and Gas in the Baltic Sea Region". The first phase of the "Electricity and Gas in the Baltic Sea Region" study (Baltic Gas) was completed in October 2001.

The second phase of the study (BALTREL) focuses on various aspects of the electricity market. The final report of the study, completed in September 2002, analyses the following issues: electricity production, exchange of electricity between the countries, security of supply, reduction of emissions, changes in market conditions and new infrastructure projects. The results were presented and discussed at the conference "Towards a common electricity Market in the Baltic Sea Region" in Helsinki on 10 September 2002.

Several other studies have been approved or are ongoing in the Northern Dimension area, such as: Kola Electricity Bridge, Scenarios for the Poland-Lithuania interconnector, Kaliningrad Energy Study, and so forth.

3.1.2.4. *Nordic Council of Ministers and Nordel action plan*

In the autumn of 2002 the Nordic Council of Ministers and Nordel developed a joint action plan regarding peak production capability and peak load in the Nordic Electricity Market. Four studies are being undertaken, to be ready by the end of 2003:

1. Price elastic demand in the spot market
2. Harmonisation of transitional arrangements
3. Harmonising legal frameworks in the Nordic countries concerning security of supply
4. New financial instruments for hedging of capacity shortage.

3.1.3. **Transport**

The improvement of the Northern Dimension area's transport infrastructure is vital for the development of the region's economy. The overall objective is to develop a multi-modal transport system improving connections within the region and with neighbouring countries.

It should be noted that, in relation to transport, a number of factors are unique to this region, such as: severe ice conditions, demand for ice-breakers during winter, expensive maintenance of land transport infrastructures, long distances and the proximity of the Arctic and sub-Arctic areas.

3.1.3.1. *Pan-European Transport Corridors and Areas*

In order to address bottlenecks and choke points in the Northern Dimension region, while at the same time creating an environmentally friendly transport network integrating accession countries, on 1 October 2003, the Commission adopted its proposal for revision of the Guidelines for the trans-European Transport Network. The proposal is based on the work by the High Level Group chaired by Mr van Miert, which proposed several projects of European Added value in both current and future Member States. The Commission added some priority projects and also highlighted the importance of the "Motorways of the Sea" concept.

The backbone of the transport infrastructures in the Northern Dimension Area is the Pan-European Transport Network. This consists of the following components:

- The Trans-European Transport network on the territory of the EU (TEN-T);
- The Pan-European Transport Corridors in the accession countries and in the CIS;
- Pan-European Transport Area covering maritime transport.

The Northern Dimension involves Pan-European Transport Corridors I and IX and the Barents Euro-Arctic Pan-European Transport Area.

The budget for projects in EU territory is provided by the Trans-European transport Network budget, while TACIS, ISPA, INTERREG and PHARE programmes support activities in non-EU countries.

The Northern Dimension action plan 2004-2006 aims at strengthened implementation of *Pan-European Corridors and Areas*, notably Pan-European Corridors I and IA (Helsinki to Warsaw and to Gdansk, via Tallinn, Riga and Kaunas), and Corridor IX (Helsinki to St Petersburg, Moscow and Pskov, Kiev, and on to Chisinau and to Alexandroupolis), as well as the links from Kaliningrad and Klaipeda via Vilnius to Minsk. The Pan-European Corridors and Areas concept will be revised as, after enlargement, two thirds of the Corridors and Areas will be inside EU territory. Discussions on the future of the Pan-European Corridors and Areas started at the Euro-Asian International Transport Conference, held in St. Petersburg in September 2003. The discussions on Pan-European Corridors and Areas continued at the seminar jointly organised by the EC/EIB/UNECE and ECMT on "Transport infrastructure development for a wider Europe" in Paris on November 27-28, 2003. At this event it was decided that the Commission will take the lead in proposing a new Corridors and Areas concept next year.

The Pan-European Corridors and Areas were also discussed at a meeting convened on 5 September 2003 in Vilnius by the Lithuanian Prime Minister, Chairman of the Baltic Council of Ministers. The Prime Ministers of Estonia, Finland, Latvia and Poland, together with the Vice-President of the European Commission and the Italian Minister of Transport attended the meeting.

The development of the satellite navigation system GALILEO holds great potential for the transport infrastructure in the northern region. The signal from the GALILEO network of satellites will be received perfectly all over the world, and notably in the regions located at high latitudes. It should be noted that the satellite navigation systems currently in use do not have such capabilities in extreme latitudes. The Nordic region will thus benefit particularly from the full implementation of the GALILEO system.

3.1.3.2. *Maritime Safety*

The loss of the *Prestige* in November 2002, and problems concerning single-hull oil tankers in the Baltic / Gulf of Finland area in the winter of 2002-3, have made the issue of maritime safety one of the highest political priorities for the Baltic Member States of the EU.

In addition, strict maritime safety standards preventing the risk of major environmental catastrophes in the very sensitive Northern Sea area are required.

The problems in the Baltic Sea were discussed at the Copenhagen European Council and at the CBSS and HELCOM ministers' level, and are being considered in the framework of the EU-Russia co-operation agreement. HELCOM has created a specific working group to improve co-operation with Russia with respect to winter navigation conditions.

The total volume of seaborne cargo in the Gulf of Finland amounts to 130 millions tons per year. There is considerable passenger traffic, especially between Helsinki and Tallinn. At present there are over 60 crossings a day and the number of passengers is about 6 million a year. In 2001, some 32,000 vessels entered the Gulf of Finland ports and this figure is expected to exceed 50,000 vessels by 2015.

Furthermore, the planned expansion of oil export capacity in the region means that over the next couple of years oil traffic volumes will intensify dramatically. All the authorities in the area have repeatedly expressed their concerns on maritime safety conditions as oil exports expand

and seaborne shipments increase, with activity centred on St Petersburg and Primorsk in Russia and Estonia's Muuga terminal near Tallinn.

The situation is aggravated in winter time. Fears arose during the 2002-2003 winter over the risk of a maritime environmental disaster as the coldest spell in 40 years froze shipping lanes in the Gulf of Finland. Pack ice in the Gulf of Finland and the Gulf of Bothnia reached thicknesses of more than 80 cm and heavy ice flows hampered shipping and several tankers were trapped in ice in the Gulf of Finland and stretched the region's ice breaking fleet to its limits. Maritime authorities found that some of those tankers were not built to cope with the region's extreme conditions and could crack under pressure from the frozen sea.

The importance of the Gulf of Finland as a transportation corridor will increase in the next few years as a consequence of the Baltic States' accession to the Union. Coastal regions such as those around Tallinn or Copenhagen are known to be accident hot spots. HELCOM has pointed to the fact that the statistical risk of accidents is growing in line with the increasing density of shipping in the area.

Because ice navigation conditions cause such a problem to Russian oil tankers exporting oil from the Baltic Area, it is of the utmost importance that the NDAP supports HELCOM's efforts to achieve a compromise with the Russian Federation.

3.1.4. Telecommunications and Information Society

Information and communication technology (ICT) will play a crucial role in the development of a prosperous and sustainable Northern Dimension region in the coming years. EU enlargement gives added importance to co-operation in this field. The Northern Dimension region has a solid basis for developing a leading knowledge-based economy in the field of the Information Society and elsewhere. Building an open, inclusive and democratic Information Society in all parts of the region poses a fundamental challenge. It is also of utmost importance to create the optimal framework conditions for investments and business development in the ICT and telecommunications sector.

The Northern eDimension Action Plan (NeDAP) offers a platform and a tool to accelerate the transition to the Information Society in the Northern region, as well as to establish closer co-operation on these issues with the Russian Federation.

3.1.4.1. NeDAP (Northern eDimension Action Plan)

A dynamic framework for dialogue and co-operation in the region has been created through the Northern eDimension Action Plan, NeDAP¹¹. Implementation of the action plan is co-ordinated by a steering committee "Senior Officials for the Information Society" (SOIS). Sweden chaired the SOIS committee in 2002, while Latvia holds the chairmanship in 2003. A seventh action line¹² on eEnvironment was established in November 2002, led by the UN-related institution, GRID Arendal of UNEP. In addition, key members of the cross-border project *eKarelia* participate in NeD-events. An extensive network of experts has thus been formed under the Northern eDimension umbrella.

3.1.4.2. Activities and Projects

- SOIS meetings

¹¹ The Information Society Ministers from the Council of Baltic Sea States adopted NeDAP in September 2001, to strengthen the Baltic Sea region's position in the Information Society. NeDAP builds upon the EU Northern Dimension Action Plan as well as eEurope and eEurope +.

¹² Adding to the six action lines established in 2001: High-speed research networks and interconnection (lead by Norway), ICT-Security (Estonia), eSkills (Germany and Finland), eCommerce (Russia), eGovernment (Sweden) and eIndicators (Denmark).

The steering committee met four times in 2002 and 2003: Latvia (Riga), June 2002, Finland (Pori) November 2002, Latvia (Riga) April 2003, Lithuania (Vilnius) October 2003.

- Workshops

Workshops have been organised on the following topics, each gathering 30-100 participants from government services, research institutions and industry:

- eSecurity, Tallinn, January 2002
- eGovernment, Stockholm, March 2002
- eKarelia, Brussels, March 2002
- St Petersburg, May 2002 to develop project proposals for Tacis funding
- eSecurity and eGovernment, Riga, June 2002
- "Cross-border Certificate Services and Electronic Procurement", Tallinn June 2003

- Projects

The following projects under the NeDAP umbrella were financed by the Tacis programme in 2002 and 2003, each with a budget of 1,5-4,5 million Euro:

- **"e-Karelia"** focusing on the use of advanced information technology to stimulate economic growth in the Karelia region. Implementation of the project is expected to start before June 2004, following an open tender.
- **eIndicators** - benchmarking exercises and developing indicators in the Information Society field among EU Member States and candidate countries are to be extended to Russia through the project "New Information Society Indicators for Russia". Statistics Denmark is responsible for the implementation of the project.
- **"eSkills for Russian SMEs"** aiming at facilitating innovative methods and approaches to promote the use of ICT in business processes, and to address the ICT skills shortages in Russian companies through benchmarking, skills and competence audits and subsequent training. A first phase of the project will be implemented after open tender early in 2004, followed by a second phase (financed by the Tacis programme in 2003).
- **"High Speed Research Networks and Interconnection"** – upgrading the connection between Russian and international research networks. The link between RUNNet and Nordunet will be upgraded from 155 Mbit to 622 Mbit. Remote Russian research networks and the Moscow network backbone will also be upgraded.

3.1.4.3. *Other events*

Participants in the NeDAP network have played an active role in organising and presenting NeDAP at several larger events focusing on Information Society in the region, including the annual conference "Baltic IT & Telecommunications Forum" in Riga April 2002 and 2003, which brought together 700-800 participants from government services, research institutions and industry. NeDAP was presented at the first plenary session in 2002. Commissioner Liikanen presented NeDAP at the conference on the Northern eDimension in Pori, Finland, November 2002 to around 500 participants.

3.1.4.4. *Future focus*

The SOIS committee has evaluated NeDAP's progress made so far, as well as its objectives, focus areas and organisation. All SOIS-members highlighted the importance of NeDAP as a tool for facilitating cross-border co-operation and knowledge-sharing in the region. The committee therefore agreed that NeDAP should be followed-up after the initial 2002-2004

period. A working group has been established to develop a draft follow-up plan to be presented to the Information Society Ministers in the Council of Baltic Sea States in September 2004. Relevant policy development such as EU enlargement, The Northern Dimension Action Plan (2004-2006) and the Commission's Wider Europe - New Neighbourhood Initiative will be taken into account.

3.1.5. European Investment Bank (EIB) lending in the Northern Dimension region

On 13 October the Commission adopted a report on the mid-term review of the EIB's general external lending mandate (COM(2003) 603). In it, the Commission proposed an extension of EIB lending to Russia and the Western NIS for 2004-6 in the context of EU's Wider Europe - Neighbourhood policy.

On the basis of this proposal the ECOFIN Council of 25 November 2003 agreed on an additional allocation of €500 million for lending to Russia and the Western NIS in the period 2004-06, in areas of EIB comparative advantage (i.e. environment, transport, telecommunications, energy infrastructure on priority TEN axes with a cross-border aspect for an EU Member State). This mandate shall be subject to appropriate conditionality consistent notably with EU high-level agreements on political and macro-economic aspects, and involve appropriate work sharing between the EIB and EBRD.

While this decision goes well beyond the geographic scope of the Northern Dimension (including also Ukraine, Moldova and eventually Belarus), it is clear that this should also permit a significant EIB participation in activities relevant to the Northern Dimension.

3.2. SCIENTIFIC RESEARCH AND PUBLIC HEALTH

3.2.1. Scientific Research

During the past year, both the Joint Research Centre (JRC) and the Commission's Directorate-General for Research have carried out a number of activities relevant to the Northern Dimension. Special attention has been paid to Arctic themes, forest monitoring, energy security, soil protection and mapping.

The 6th Framework Programme, which covers activities in the field of research, technological development and demonstration for the period 2002 to 2006, offers wide possibilities for research initiatives which address the problematic of the Northern Dimension, in line with the experience of the 5th FP.

Concerning research activities open to third countries, the framework of cooperation with Russia and the NIS has been a promising and useful tool for RTD initiatives concerning the Northern Dimension. Within the EURATOM programme co-operative projects have been developed in radiation protection concerning the effects on health and the environment of radioactive contamination around Chernobyl and the Mayak facilities in the Ural. Other projects are connected to reactor safety and to management of high level radioactive waste. The INCO Copernicus projects launched within the 5th FP concluded with very interesting results (especially projects concerning the White Sea environmental protection, environmental protection from ionising contaminations in the Arctic, simulation scenarios for potential radioactivity spreading from rivers and external sources in the Russian arctic coastal zone, satellite hydrographic monitoring and assessment of environmental trends along the Russian arctic coast).

Within the new FP, Specific Support Actions concerning the monitoring of the White sea marine ecosystem, and the working environment in the northern dimension (a cross-border initiative between the Baltic states and Kaliningrad) have been submitted for evaluation and might receive financial support. A new INCO NIS initiative should be launched at the

beginning of December 2003, providing EU and NIS researchers with further opportunities for RDT initiatives concerning the Northern Dimension.

Based on a bottom-up approach, the International Association for Co-operation with the Scientists of the New Independent States of the former Soviet Union (INTAS) has not specifically sought in its calls for proposals to keep pace with the activities under the "Northern Dimension" heading. However, as all Baltic and Scandinavian countries (including the non-EU members Estonia, Iceland, Latvia, Lithuania, Norway and Poland) are INTAS members, and Russia is a key partner country in INTAS activities, INTAS calls have resulted in a number of research projects which could be relevant to the Northern dimension (e.g. on the sociology of law in Russia or on virology).

Furthermore, in the context of its 2001 "Pollution" thematic call, INTAS currently funds 20 projects, dealing (amongst others) with air pollutants, industrial waste-water treatment, remediation of heavy metal or oil-contaminated soils, and ecological monitoring.

3.2.2. The Joint Research Centre of the European Commission

In response to the INCO Programme's Call for Proposals, a Russian-EU proposal for a Specific Support Action, entitled Environmental Network for the European North and the Russian Arctic (ENRA), was submitted in September 2003. Co-ordinated by a Russian partner and with the participation of 10 other scientific organisations, the proposal focuses on major issues of environmental protection, and has a geographical reach from northern Europe to eastern Siberia.

A further Specific Support Action proposal, entitled *Measurements and Modelling of Methane (CH₄) in the Russian-Baltic Region*, was also submitted in September in response to the Global 2 Call for Proposals, and relating to the action on ENRICH (European Network for Research In Global CHange).

Following Russian Government's approval of Russia's engagement in the International Polar Year, in April 2003 Russia produced its national concept of the event. This was widely distributed and received many favourable comments in view of its coverage of important pan-Arctic issues: climate-related polar research; environmental protection; indigenous peoples; natural resources; technologies; and transport. Furthermore, the Russian National Working Group is organising an international meeting to be held in St Petersburg in January 2004 to advance the planning of the event.

The JRC and DG Research have co-operated in organising two meetings (in Moscow and Brussels) in support of planning for the International Polar Year (2007). These further developed the proposals established at the EU-Russia-Canada-US Arctic Workshop, held on 25-27 October 2001, where Dr. Artur Chilingarov, Vice-Chairman of the Russian Duma, proposed the idea of a broad international co-operation for the International Polar Year. As a result of the two meetings, the 2nd Call for Proposals in July 2003 included a Specific Support Action for an EU-Russian partnership in climate-related polar research to help set up the International Polar Year.

The JRC is ready to consider contributions to international co-operative efforts to support the International Polar Year in the following areas of competence: forest and tundra mapping; environmental protection aspects of hydrocarbon exploitation and transport; monitoring and measurements of permafrost and wetlands; and fisheries monitoring in the Barents Sea region. An EU-Russian project proposal called SAPITS (SAfety of northern PIpelines and associated Transport Systems) is currently being considered for inclusion in the TACIS Action Programme for Russia (2004). The proposal focuses on an integrated approach of ground-

based and satellite-based techniques for monitoring vulnerable trunk gas pipeline sections in NW Siberia.

The European Commission's Joint Research Centre and the Russian Academy of Science's Centre for Forest Ecology and Productivity have produced a new 1 km spatial resolution land cover map of Eurasia from satellite imagery collected by the SPOT4 satellite's VEGETATION sensor during 1999 and 2000. The legend for this new map is designed to serve users from science programmes, policy makers, environmental convention secretariats, non-governmental organisations, development-aid projects, and the national forest service. The land cover map is complemented by a database documenting the daily occurrence and extent of fires throughout the northern region. Both the map and the burnt area data base are also integrated into global data sets with the North America and Northern Europe sectors being generated by local partners in the context of a global partnership. There is thus consistency and comparability of land cover and fire information throughout the Northern Dimensions area of interest.

3.2.3. Public Health

The European Commission, Health and Consumer Protection Directorate-General have been active participants in the work of the Task Force on Communicable Disease Control in the Baltic Sea Region. During the period under review, the Task Force met twice, and the Group of Senior Health Officials four times.

The Task Force reported to the Heads of Governments at the Baltic Sea States Summit in St Petersburg on 10 June 2002. The mandate was confirmed a further two years.

The Heads of Government issued a separate statement, and the Task Force has taken its concerns into account, and seeks to address them. The areas of activities receiving intensified attention during the time period indicated were 'Prison health' and 'Training in public health'. However, the main task of the initiative is project development and implementation. At the beginning of 2002, 64 projects were registered in the database, of which 22 had been approved. By the end of 2002, the total was 153, of which 95 had been approved. The total funding for projects, training, and other Task Force activities during 2002 was €8 million. During 2003 the Task Force has focused on quality assurance, follow up, and completion of smaller short-term projects. At the time of writing, the total number of projects in the database is 158.

At the end of 2002, the Fridtjof Nansen Institute (Oslo, Norway) began a contextual evaluation of the Task Force. This should provide an analysis of the political, cultural, financial, structural, and historical factors that have influenced the implementation of activities within the Task Force framework. The evaluation report will be ready by spring 2004.

During 2003, the continuation of the Task Force was discussed in the light of the Second EU Northern Dimension Action Plan (2004-2006) and the ND Partnership in Public Health and Social Well-being.

3.2.3.1. The ND Partnership in Public Health and Social Well-being

After meeting in September 2002 in Joensuu, Finland, the International Temporary Working Group (ITWG) was established to prepare the priorities and structure of the Partnership. The ITWG has met five times, most recently in Brussels in September 2003. 17 countries and 13 international organisations as well as the Commission are represented in the ITWG.

The ministerial meeting of the ND Partnership in Public Health and Social Well-being was held in Oslo, Norway, on 27 October 2003. Ministers of Health and Social Affairs or their representatives, the Commission and international organisations agreed on the Declaration establishing the partnership, its priorities and structures. Sweden will hold the chairmanship of the Partnership for the first two years.

3.3. ENVIRONMENT AND NUCLEAR SAFETY

3.3.1. Environment

The Commission's Directorate-General for Environment has sought to keep up the momentum of positive developments in the last reporting period. However, the objective of deepening the overall EU-Russian bilateral environmental dialogue by establishing a joint working group on sustainable development has not been achieved. The Commission has therefore focussed on encouraging Russia to deliver on its commitment to ratify the Kyoto Protocol. It is hoped that if and when Russia ratifies, there will be increased potential for developing a more effective, broader dialogue.

Much is being done to improve Maritime safety in the Baltic Sea, following environmental disasters (e.g. the Prestige, Erika and others) which were mainly caused by single-hull tankers carrying heavy-grade oils. The Commission has raised this issue with our Russian partners on a number of occasions. Finland, Estonia and Russia are jointly establishing an integrated traffic surveillance system for the Gulf of Finland.

Concrete examples of EU activities in the Northern Dimension context include TACIS projects such as the Sortavala Sewage Treatment Plant, and the improvement of water quality in Kaliningrad and the project for a wastewater treatment plant in St Petersburg. The Commission is contributing with some €22 million to the overall project (worth €120/130 million). These projects were launched in 2002 and are being implemented.

The Commission was an active participant in a meeting of the Ministers for the Environment from the 11 member governments of the Council of Baltic Sea States, which took place in Luleå on 28-29 August 2003. The Commission was asked to give enhanced priority to the implementation of the Action Plan with a clear commitment and leadership and to ensuring close cooperation between the EU and neighbouring countries, in particular Russia.

3.3.2. Nuclear Safety

At the Copenhagen European Council meeting of December 2002, Lithuania concluded its accession negotiations with the European Union Member States and subsequently signed the Accession Treaty on 16 April 2003 in Athens. The Treaty has since been ratified after a national referendum. The Act of Accession of Lithuania contains a "Protocol No. 4 on the Ignalina nuclear power plant in Lithuania" (OJ L. 236 of 23 September 2003, page 944).

Therein, acknowledging the readiness of the Union to provide adequate additional Community assistance to Lithuania efforts to decommission the Ignalina NPP, and highlighting this expression of solidarity, Lithuania committed itself to closing down Unit 1 of the Ignalina NPP before 2005, of Unit 2 by 31 December 2009 at the latest and to the subsequent decommissioning of these units. The European Union recognised that the decommissioning of this plant, which was inherited from the former Soviet Union, is of an unprecedented nature, and represents for Lithuania an exceptional financial burden not commensurate with the size and economic strength of the country.

The Union and Lithuania furthermore agreed on establishing an "Ignalina Programme" as a new financial instrument to deliver Community assistance to address the consequences of the closure and decommissioning of the Ignalina NPP. It provides for assistance of €285 million for the period 2004-2006, as well as adequate additional Community assistance beyond 2006. The said Protocol lays down further specifics of this assistance. Whilst this agreement covers the period after Lithuanian accession on 1 May 2004 to the European Union, the Community has already provided a total of € 210 million in support of the decommissioning effort from the PHARE pre-accession financial instrument's 1999-2003 programmes. The majority of this support is being delivered via the Ignalina International Decommissioning Support Fund

(IIDSF), managed by the EBRD. The Fund's Assembly of Contributors has hitherto approved grant agreements for a Decommissioning Project Management Unit, and Interim Storage Facility for RBMK spent fuel assemblies, a replacement heat and steam source for the Ignalina NPP and Visaginas town, the modernisation of the plant's technical archive, and a Solid Waste Management and Storage Facility. Furthermore, the Community is funding a number of ongoing projects providing regulatory assistance to the Lithuanian nuclear safety regulatory authority VATESI, in support of its related licensing activities.

During the reporting period, the Commission continued to allocate Community assistance in the field of nuclear safety to Lithuania. Apart from the contributions to the IIDSF, the 2002 PHARE programme included a project to assist the newly established Lithuanian radioactive waste management agency RATA in the safety assessment and upgrading of the Maisiagala repository. For the 2003 PHARE programme, the Commission has provided for financial assistance in order to (1) support VATESI in the issues related to safety culture and organisational issues specific to the pre-shutdown phase of the Ignalina NPP, and in the assessment of beyond-design-basis accidents involving RBMK-1500 reactors; (2) support RATA in establishing a central processing storage facility for institutional radioactive waste in Lithuania; and (3) allocate a contingency budget to deal with any unforeseen problem associated with the implementation of the "Diverse Second Shutdown System" in Unit 2 of the Ignalina NPP.

3.3.3. The Northern Dimension Environmental Partnership (NDEP)

Launched in 2001, the NDEP is a crucial element for concrete environmental actions within the Northern Dimension. Through its Support Fund, the NDEP provides a framework for environmental investments in Northwest Russia.

The NDEP pledging conference held in Brussels on 9 July 2002 was a key event in the setting up of the NDEP Support Fund. It was agreed to establish the NDEP Support Fund, and some €122 million was pledged by the Russian Federation and seven other countries, including €50million from the Commission. Belgium, France, Germany, the Netherlands, the UK and Canada have recently announced their pledges to the Fund.

The first Assembly of Contributors was held on 15 November 2002 and appointed Mr Hugues Mingarelli from the European Commission as Chairman. A second meeting of the Assembly took place on 13 November 2003. Upon a proposal from the NDEP Steering Group, the Assembly adopted four priority projects for the Fund's environmental window, whereas for the nuclear window it was decided to take further measures only after signature of the Multilateral Nuclear Environmental Programme in the Russian Federation (MNEPR).

Concerning the environmental window, loan agreements were signed during 2003 for the following four projects: St Petersburg South West Wastewater Treatment Plant, St Petersburg Flood Protection Barrier, St Petersburg Northern Wastewater Treatment Plant Incinerator and the Municipal Environment Programme in Leningrad oblast.

The NDEP Support Fund will make a very relevant contribution towards solving nuclear-related problems in Northwest Russia. The "nuclear window" of the Fund will help address some major challenges concerning spent nuclear fuel, the decommissioning of nuclear submarines and the upgrading of Russian nuclear power plant in the region.

The signature of the MNEPR agreement, which took place in Stockholm on 21 May 2003, can be regarded as a major breakthrough in fulfilling a crucial pre-condition for the implementation of, inter alia, NDEP-funded projects in the nuclear field. A strategic management plan for the implementation of *Nuclear Window* projects is currently in preparation, as well as the creation of a Nuclear Operations Committee. A decision on the establishment of such a committee and

possible further steps in regard to the nuclear window will be taken at the next donor Assembly meeting which will take place in mid-December 2003 in London.

3.4. CROSS-BORDER CO-OPERATION

3.4.1. INTERREG

INTERREG III is one of the European Commission's Community Initiatives and is funded by the European Regional Development Fund (ERDF). It supports cross-border, transnational and interregional co-operation across Europe, and, consequently, has a key role to play in the implementation of the Northern Dimension process. INTERREG is a decentralised initiative, and the preparation, presentation and selection of projects is undertaken at the national, regional and local levels as appropriate. The existing 5 INTERREG III programmes in the Northern Dimension area have been operating for around 2 years, with over half a billion euro in total funding available to support co-operation activities. The programmes will run until the end of 2008. Russian partners have been actively involved in the implementation of the programmes and of projects, although ERDF funding can only be used inside the European Union.

With the enlargement of the European Union, Estonia, Latvia, Lithuania and Poland will become eligible for INTERREG funding, and in the course of 2003, these countries have been preparing co-operation programmes along their borders with Russia in partnership with the Russian authorities. In addition, all 4 countries will integrate some of their INTERREG funding into the Baltic Sea transnational co-operation programme, thus increasing the co-operation possibilities of that programme.

In 2004 the INTERREG programmes on the external border of the EU will be brought together with the cross-border cooperation programmes operating on the external side of the border. In the Northern Dimension area this means that some of the INTERREG programmes will be transformed into Neighbourhood ones, supporting activities on both sides of the border. These neighbourhood programmes will pave the way for a possible new Neighbourhood Instrument to be set up after 2006.

The table below sets out the funding available under the relevant INTERREG programmes.

Programme	Participating Countries	Total Funds	Total Public Funds	EU funds	National public funds	Other
INTERREG IIIA						
Nord	Fin, S, N, Rus	129	80	47	33	49
Karelia	Fin, Rus	69	56	28	28	13
S-E Finland/Russia	Fin, Rus	83	56	22	34	27
Lithuania-Poland-Kaliningrad*	LT, PL, Rus	59	59	44	15	pm
Estonia-Latvia-Russia*	EE, LV, Rus	11	11	8	3	pm
Cross-border		351	262	149	113	89
INTERREG IIIB						
Baltic Sea Region*	DK, D, Fin, S, Bel, EE, Lat, Lit, N, PL, Rus	217	181	127	54	36
Northern Periphery	Fin, S, UK, Fae, Green, N, ISL, (Rus)	50	35	21	14	15
Transnational		267	216	148	68	51
Total		618	478	297	181	140

All figures in Meuro - * provisional figures

Some INTERREG project examples include:

The project "Strategy and Action Plan for the Barents Region up to 2010" ("Barents 2010") aims to create a long-term Strategy and Action Plan for Barents co-operation. In parallel with the development of the Strategy and Action Plan, a number of Pilot Actions will be implemented. Specific problems for the development of industry in the region, focusing on the forestry, minerals and offshore sectors, will be analysed in one of the Pilot Actions proposed. Lack of co-operation between the universities in the Region should be analysed and proposals for improvement presented. Problems with Transport and Infrastructure will also be analysed in close co-operation with the INTERREG III B Baltic Sea project on Sustainable transports in the Barents region. Other problems such as those concerning water quality and biodiversity should be highlighted and proposals for improvement presented.

In the South-East Finland/Russia programme, the "Development of Co-operation between Environment Sector Companies and Educational Organisations with the aid of Innovation and Technology Centre Activity" focussed on developing technology centre co-operation between the St Petersburg (Leningrad area) and the Lahti area - Lappeenranta. More than 100 companies marketing environment technology and expertise, and 22 public environment sector organisations, operate in the area. The project provided assistance to companies and educational organisations to get networked, go global and to make use of various EU financing instruments. The project will be used to create long-term co-operation between Russian and Finnish universities, educational institutes and companies. The project will develop technology

transfer methods for utilising Finnish and Russian expertise and innovative activity. In addition, it will seek to improve the state of the environment in the border area.

The "Monument to the Winter War" project in the Karelia INTERREG programme is intended to develop military history tourism in the participating countries. The project will create a field clad with natural stones erected in memory of every soldier who died in the battles around Suomussalmi. Memorial stones will be set to all soldiers - Finnish and Soviet (Russian, Ukrainian and other nationalities). A total of about 20 000 memorial stones will be set. The project will contribute to reconciliation and understanding across the border¹³.

Following the Commission's efforts in 2001 and 2002 to improve co-ordination between the different instruments (Tacis, Phare and INTERREG) in order to facilitate the implementation of joint projects in the Northern Dimension area, this work expanded significantly through 2 new Communications adopted by the Commission in 2003.

3.4.2. Tacis Small Project Facility

Two calls for proposal were launched for the Tacis CBC Small Project Facility, the first in December 2001 for 2000-2001 budget lines (deadline for applications March 2002, before the reporting period), and the second in December 2002 for budget 2002 (deadline for applications March 2003). In the first of these, 20 projects on the Finnish-Russian border, totalling over €8.2 million, were funded. In the second call, a further 14 projects were proposed for funding. Information and training seminars, aiming at developing the capacity of the local and regional authorities have led to better quality applications, and more concrete project proposals, especially in the social and environmental sectors.

It is worth highlighting some examples:

- Social development projects: Increased number of projects in Murmansk area. The region is developing social projects, such as the fight against drugs, and improving the welfare of elderly people.
- Environmental projects: Realisation of European energy efficiency programme goals in Murmansk region, introduction of international ESCO concept for energy saving and waste utilisation for energy production.
- Local Economic Development: SME development projects in St Petersburg area, cultural tourism and rural tourism in Karelia and Murmansk areas.

The next and last Call for Proposals for Tacis CBC SPF, to be published in late December 2003, will have a total budget of €9.2 million. As explained below, taking Tacis CBC Action Programme 2004 into account, there will be a substantial increase in funding (more than triple), reflecting the adaptation of this programme into the Neighbourhood Project Facility.

Tacis CBC AP 2003 will finance a Regional Capacity Building Initiative (Spring 2004) to increase the capacity of local authorities in the eligible regions (western border areas of Belarus, Moldova, the Russian Federation and the Ukraine) in relation to the management and implementation of Neighbourhood Programmes and in project preparation. In particular, the project will seek to put in place a pipeline of cross-border development projects by assisting the final beneficiaries to prepare sound project applications for support within the framework of the Neighbourhood Programmes which will operate 2004-2006.

¹³ More information on the INTERREG Programme is available at:
http://europa.eu.int/comm/regional_policy/interreg3/index_fr.htm.

3.4.3. Phare Cross-border Co-operation

During the period under review, examination of new proposals and implementation of approved projects continued. Recent examples of such projects include:¹⁴

- The modernisation of the waste water treatment plant in Krynica Morska (PL) and sewage system in the Vistula Spit, in order to improve the water quality of the southern Baltic Sea and the Vistula River. The project (€2 million) started in October 2002 and will be finished early 2004.
- Rehabilitation and extension of water and sewage systems in the Rakvere and Kuressaare Estonian municipalities.
- Sewerage works in two Liepaja district municipalities (Latvia) contributing towards pollution reduction of the Baltic Sea.

The Phare 2000 Small Projects Funds, both in the CBC Baltic Sea Region Programme and for the Polish Eastern Border in the National Programme, €1 million Phare contribution each, have been concluded successfully and have increased the co-operation with Tacis and/or INTERREG partners in the region. For these reasons, they also have been included in the Phare programmes of 2001, 2002 and 2003.

In addition, the Phare 2003 Programme includes a new component called the future "External Border Initiative" aiming at increasing the co-operation between partners on both sides of the EU external borders. For Poland this has resulted in a project on economic cross-border co-operation (Business Related Infrastructure Project Fund), and in a "people to people" project fund. Lithuania will undertake two actions: one on the border with Belarus; the other on the border with Kaliningrad. In Estonia and in Latvia the facility will be used for strengthening project management capacity at the local level and, for preparing cross border projects for further funding; pilot projects managed by Estonia may also receive funding".

3.4.4. Coordination between INTERREG and Tacis develops with the introduction of Neighbourhood Programmes

In its Communication "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours"¹⁵ adopted in March 2003 (hereafter "the Wider Europe Communication") the European Commission proposed i.a. that "the European Union should aim to develop a zone of prosperity and a friendly neighbourhood ... with whom the European Union enjoys close, peaceful and cooperative relations."

One of the elements of the Wider Europe Communication was the specific possibility of creating a new Neighbourhood Instrument, "which builds on the experience of promoting cross-border cooperation within the Phare, Tacis and INTERREG programmes", and which could focus "on ensuring the smooth functioning and secure management of the future Eastern and Mediterranean borders, promoting sustainable economic and social development of the border regions and pursuing regional and transnational cooperation".

The starting point for the development of the new Instrument has been the co-ordination work taken forward in recent years between INTERREG, Phare and Tacis. Building on this work, while taking into account budgetary and legal constraints, the Commission suggested in its Communication "Paving the way for a New Neighbourhood Instrument"¹⁶ (hereafter "the new

¹⁴ More details on Phare CBC projects can be found on the websites of the Commission's delegations in the four candidate countries: <http://www.eiropainfo.lv/indexfla.htm> (Latvia), <http://www.eudel.lt/> (Lithuania), <http://www.europa.delpol.pl> (Poland) and <http://www.euroopaliit.ee> (Estonia).

¹⁵ "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours" (COM(2003) 104, 11 March 2003)

¹⁶ "Paving the way for a New Neighbourhood Instrument" (COM(2003) 393 final, 1 July 2003)

Neighbourhood Instrument Communication”) that a two-step approach should be adopted. An initial phase, for the period 2004-2006, focuses on significantly improving co-ordination between the various financing instruments concerned, within the existing legislative and financial framework, in the form of Neighbourhood Programmes. In a second phase, for the period after 2006, the Commission intends to examine the legal and budgetary constraints on the possibilities of creating a new legal instrument to support cross-border and transnational co-operation. A new instrument would make it possible to support external policy objectives and economic and social cohesion, building in particular on previous successful local and regional cooperation.

The following general objectives have been defined for the new Neighbourhood Instrument and the Neighbourhood Programmes:

- To promote sustainable economic and social development in the border areas;
- To contribute to working together to address common challenges, in fields such as the environment, public health, and the prevention of and fight against organised crime;
- To ensure efficient and secure borders;
- To promote local, “people-to-people” type actions.

The Neighbourhood Programmes for 2004-2006 will be developed from the existing INTERREG programmes set out in the table above (with the exception of the Northern Periphery programme, where Russia does not participate in the programme’s management structures). The programmes will be modified in early 2004 to reflect the broader sweep of the objectives described above, to incorporate Tacis funding, and to set out the new systems to allow for joint project preparation, submission and selection procedures, thus increasing the level of involvement and ownership of beneficiaries on the external side of the border.

As set out in the new Neighbourhood Instrument Communication, “the Neighbourhood Programmes will cover a broad range of actions flowing from the objectives and may include, for example, infrastructure in the sectors of transport, environment, energy, border crossings, electronic communications; investments in economic and social cohesion (productive investments, human resource development, business-related infrastructure, cooperation in the fields of research and technology and innovation); people-to-people actions (like cultural and educational exchanges and cooperation); promoting the management of the movement of people and support to institution building (including justice and home affairs, border and customs management and meeting other common challenges).” The exact nature of the projects supported will depend on project proposals brought forward by the programmes partners themselves.

The neighbourhood Programmes will contribute widely to supporting the Northern Dimension Action Plan, through the funding made available along the EU’s external borders in the Baltic Sea area through the six different Neighbourhood Programmes. Furthermore, the programmes focus on the beneficiary regions and have decentralised management structures, giving the regions influence over programme priorities and the selection of projects.

The Commission is organising a series of seminars to inform authorities and organisations about these developments. The first of these took place in Moscow on 25-26 September 2003. Information meetings are also being held with Member States and countries acceding to the Union in 2004.

3.5. JUSTICE AND HOME AFFAIRS

3.5.1. The Baltic Sea Task Force on Organised Crime

Important developments in this sector took place in the framework of the Baltic Sea Task Force on Organised Crime. This Task Force was created in 1996 at the Visby Baltic Sea States Summit in order to elaborate measures for immediate implementation and other concrete proposals to reinforce regional cooperation in this field. Russia has been an active member in the Task Force on Organised Crime from the start, participating in projects against drugs, stolen cars and illegal migration and money laundering. Moreover, Russia has also organised joint operations on car trafficking and illegal migration in the Kaliningrad area. This has contributed to confidence in the Baltic Sea area.

Russia and the Commission have both stressed the practical links between Baltic Sea Task Force cooperation and the work of the EU-Russia PCA Sub-Committee. In many ways, the work of the Baltic Sea Task Force has served as model for EU-Russia cooperation when it comes to practical matters, such as joint law enforcement cooperation. The mandate of the Task Force is expected to be prolonged until at least the end of 2006. The fact that by May 2004, the majority of the countries of the Baltic Sea region will be EU Members will be reflected in the formulation of the future mandate. Most likely there will be a greater role for Europol.

On 10 July 2001, the Council adopted a Council authorisation for the Presidency to negotiate agreements with Norway and Iceland on judicial co-operation, which was amended by a Council Decision of 19 December 2002. Pursuant to this mandate the Presidency, assisted by the Commission, is conducting negotiations with Norway and Iceland in order to conclude these agreements.

Relevant political events include: Meeting of the Task-Force on Organised Crime, 9-10 December 2002 in Copenhagen, and in Nyborg, 10-11 June 2003.

3.5.2. Kaliningrad

After negotiations between the EU, Russia, and Lithuania, a new system of legal transit between Kaliningrad and the Russian mainland was established on 1 July 2003. Practical implementation has been working well and the number of transit passengers quickly resumed to its previous level. As part of this solution, it was agreed that negotiations between the EU and Russia concerning readmission should be intensified. There is also an agreement to step-up cooperation on border management and on other related JHA-issues.

A Tacis Project on combating organised crime in Kaliningrad has been offered to Russia in order to foster cross-border co-operation between the neighbouring accession countries and the relevant authorities in the Kaliningrad in the area of Justice and Home Affairs. This project will promote a multidisciplinary approach to combating organised crime, emphasising co-operation between all different law enforcement agencies (police, customs and border guards).

3.5.3. The Baltic Sea Customs Conference (BSCC) in 2001/2002

On 21 and 22 June 2001, the Fourth Baltic Sea Customs Conference (BSCC) took place in Vilnius, Lithuania. The conference continued the work that had been started at the Third Baltic Sea Customs Conference in Gdansk in September 1999, by agreeing on concrete measures to promote regional co-operation between authorities as well as between authorities and economic operators. A Baltic Sea Customs Conference website has been created, providing valuable information and links on customs in the region. At the occasion of the 4th Baltic Sea States Summit in St Petersburg on 10 June 2002, Heads of Government requested a special report to the next summit meeting on achievements with regard to reaching the objective of a maximum

two-hour border crossing for goods. A report on this issue will be presented at the 5th BSCC in Riga in 2003.¹⁷

3.5.4. Tacis

The fight against crime has been identified as a priority of the TACIS Indicative Justice and Home Affairs Programme 2000-2003. The Regional Justice and Home Affairs programme has expanded considerably since 1997. On the basis of a feasibility study, a project to combat money laundering is under implementation, with the aim of supporting Russia's efforts to be removed from the FATF's blacklist of non-co-operative countries.

The Commission co-operates closely with the Council of Europe, the body implementing the project. Furthermore, the law enforcement academy in Dodomedovo receives Tacis assistance. The project is implemented by UNDCP and provides equipment to the academy and training to law enforcement officials from all CIS countries. Within the trans-Atlantic dialogue and in cooperation with the U.S.A., a project to combat trafficking in women is under preparation in Russia. Additionally, a specific programme aims to combat organised crime in the Kaliningrad region, and another to enhance border management capacities. In addition, the TACIS customs and cross-border programmes also contribute to the fight against crime by combating drugs trafficking, commercial fraud and corruption.

3.5.5. Phare

Examples of recent activities financed by the Phare Programme in the Baltic Countries and in Poland include:

- **Strengthening of administrative capacity:** Phare projects to strengthen judges' and courts' operational capacities. They also address the issues of cross-border surveillance, the establishment of the National Europol Bureau and the upgrade of laboratories of forensic services.
- **Drugs:** Phare projects to help the respective authorities to apply the "EU Action Plan to combat drugs".
- **Border Management:** Supplementary Investment facility to enhance the abilities of the border police to combat cross-border crimes and trafficking. Phare has also provided financing for the construction of guard and border police stations.
- **Schengen acquis:** Phare support to adopt and implement the Schengen acquis by establishing a National Schengen Information System.
- **Judicial co-operation support by twinning:** Twinners financed from Phare are active on various justice and home affairs subject areas in all candidate countries.
- **Organised Crime:** Phare support to Latvia for establishing an effective organized crime prevention framework taking into account the recommendations of the EU action plan against organised crime and the European Strategy, 'Prevention and Control of organised Crime'. The project contributes to developing a long-term strategy and an action plan. It includes the preparation of training programmes on subjects of corruption prevention, money laundering prevention, financial crimes and the development, and also specific training programmes for each institution involved. The project also addresses the issue of cross-border surveillance.
- **Border Management:** Phare support for establishing an integrated border management system involving all the border services, such as customs, police, border guards, phyto and veterinary services, coastguard, immigration police. The project will also submit proposals to

¹⁷ More information on the BSCC is available at: <http://www.toldskat.dk/balticsea/>.

the government to step up efforts to improve staffing, status, remuneration, and living conditions.

Phare has also provided co-financing for the construction of several border guard stations and the building of a veterinary and phytosanitary control post on the Eastern Border (future external EU border).

4. CONCLUSIONS

As described in the present Progress Report, the last months have witnessed significant developments in all sectors of the Northern Dimension initiative.

From a political point of view, the most important aspect is certainly the adoption of the Second Northern Dimension Action Plan, which will come into force on 1 January 2004. The support lent by EU Member States, Partner Countries, Regional Bodies and many other interlocutors to the drafting of this document confirms the Northern Dimension's increasing importance.

The implementation of the Second Northern Dimension Action Plan will certainly benefit from the introduction of the Neighbourhood Programmes, following the adoption of the Commission Communication on a new Neighbourhood Financial Instrument, another major political achievement of the last months. It should be stressed that since its inception the Northern Dimension initiative has paid much attention to the need to improve co-ordination between Community programmes operating in the region. The July Communication on a single Proximity Instrument can thus also be seen as a consequence of the efforts made by the Northern Dimension in this specific area of activity.

In the reporting period, the Commission has devoted considerable attention to the implementation of key sectoral activities: the Northern Dimension Environmental Partnership, the Northern Dimension Action Plan, the numerous cross-border projects funded by INTERREG, Tacis or Phare programmes, the projects in crucial sectors such as the environment, nuclear safety, the fight against organised crime or infectious diseases, and the encouragement of trade and business cooperation, to mention only some of the most relevant areas of intervention.

The political achievements and the positive results obtained by concrete cooperation activities lay encouraging foundations for the challenging period to come after 1 May 2004.