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COMMUNICATION FROM THE COMMISSION
ON THE IMPACT OF ENLARGEMENT ON REGIONS BORDERING
CANDIDATE COUNTRIES

COMMUNITY ACTION FOR BORDER REGIONS

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Executive Summary

Enlargement of the European Union (EU) is a historical opportunity for peace and prosperity in Europe. A key factor for the success of enlargement is the support of Europe's citizens, both in the EU and in the candidate countries.

Even though the candidate countries have made impressive progress in modernising their economies in recent years, the economic gap between existing Member States and candidate countries remains considerable. This economic divide is especially visible along large parts of the EU's border with candidate countries. In the context of the on-going accession negotiations, the situation has in particular been taken into account in the EU common position on the free movement of workers, which has been accepted (with certain negotiated adaptations) by a number of candidate countries. It is expected that the agreed solution (including a transition period, a review mechanism, safeguards and declarations of the Member States) will facilitate the smooth liberalisation of the movement of workers and pave the way for an early accession, albeit with some restrictions. Similarly, safeguard clauses have been proposed for the provision of certain services and agreed with certain candidate countries.

In 2000, the Commission announced an analysis of the economic situation of regions bordering candidate countries in its Communication Strategy for Enlargement and the Nice European Council called upon the Commission to propose a programme to strengthen the competitiveness of border regions. The Commission has subsequently undertaken a thorough analysis of border regions covering three main areas:

- the socio-economic situation of border regions and the likely effects of enlargement;
- existing Community support to border regions;
- possible measures to strengthen the competitiveness of border regions.

The analysis shows that the regions bordering candidate countries in Germany, Austria, Greece, Italy and Finland are highly heterogeneous in terms of their socio-economic development and competitiveness. For example, unemployment is more than double the EU average in some parts of the German regions bordering Poland, but it is only about half the EU average in the Italian regions bordering Slovenia. While border regions are, in principle, in a position to benefit from enlargement in the medium-term due to increased integration with the emerging economies of Central and Eastern Europe, the nature and extent of necessary adjustments in the enlargement process are different in each border region. Many border regions lag behind the EU average in the area of infrastructure (e.g. missing links) and economic restructuring, with several regions featuring a relatively high degree of employment in agriculture or in traditional industries and an underdeveloped service sector. On the whole, the most disadvantaged regions are the Greek border regions, the new German Länder Brandenburg, Mecklenburg-Vorpommern and Sachsen, and Burgenland in Austria.

Most border regions receive substantial support from the Structural Funds under Objective 1 and 2 and through the Community Initiatives INTERREG, EQUAL, LEADER+ and URBAN. As regards INTERREG, the Berlin European Council

concluded that this programme should give due attention to cross-border activities, in particular in the perspective of enlargement, and to Member States which have extensive frontiers with the applicant countries. In the period 2000-2006, a total of € 16 billion are available to Objective 1 and 2 areas adjacent to candidate countries in Germany (Bavaria, Mecklenburg-Vorpommern, Sachsen, Brandenburg and Berlin), Austria (Burgenland, Steiermark, Oberösterreich, Niederösterreich and Kärnten), Greece (Eastern Macedonia-Thrace, Central Macedonia, the Northern and Southern Aegean regions as well as Crete), Italy (Friuli-Venezia Giulia and Veneto) and Finland (Uusimaa and Etelä-Suomi). Of the five Member States concerned, Germany receives by far the largest share of Objective 1 and 2 aid. Nearly all border regions are also eligible for national regional aid under state aid rules and therefore benefit from a preferential treatment compared to non-assisted areas (i.e. higher aid intensities to support investment, research and development, training activities of firms, employment creation etc.)

The degree of support available to border regions is therefore considerably higher than the aid given to the Mediterranean regions of the Community prior to the accession of Spain and Portugal in 1986, when structural policies were not yet sufficiently developed. In 1985, the Council adopted the “Integrated Mediterranean Programme” which allocated some 4.1 billion Ecus over seven years to development of affected regions of France, Italy and Greece.

Taking the diverse situations of border regions and the existing support into account, the Commission has identified a range of different actions which can help to ensure a smooth transition of border regions and to sustain public support for enlargement. These actions include new measures as well as a better co-ordination of existing policies. In order to be fully effective, and with regard to the principle of subsidiarity, these Community actions will need to be complemented by measures at the national and the regional levels.

The Commission’s main recommendations are:

- Higher investment in transport infrastructure in the framework of the trans-European network (TEN) through an increase in the maximum level of Community support for TEN-projects to 20% (subject to a change in the TEN financial regulation) and with special financial assistance for TEN projects in border regions amounting to € 150 million in the period 2003-2006.
- A proposal for a re-orientation of structural instruments to maximise the impact of Community financial assistance.
- Co-operation activities for small and medium sized enterprises (SMEs) funded through a specific € 15 million pilot project initiated by the European Parliament for the period 2001-2002.
- Community support of up to € 20 million for networking measures between border regions and candidate countries in the framework of INTERREG.
- Better co-ordination of the INTERREG III A and Phare Cross-Border-Co-operation programmes, in line with the Commission’s proposals announced in its Phare Review Communication of October 2000.

- A proposal to modify of the Phare-CBC Regulation by the end of 2002 with a view to:
 - fully align the priority topics under Phare CBC and INTERREG A;
 - facilitate the co-financing for transnational (INTERREG B) or interregional (INTERREG C) co-operation projects in well-founded cases.
- A special programme of the European Investment Bank (EIB) to support environmental and transport infrastructure projects in neighbouring regions of candidate countries.
- A proposal to dedicate an additional € 10 million of Community support to targeted « people-to-people » youth exchanges, voluntary service and training and information activities in border regions, within the framework of the YOUTH programme.
- Making full use of the flexibility provided by existing state aid rules on the geographical eligibility and intensity of state aid for regional purposes, and with respect to risk capital for the creation and initial development of businesses.
- A proposal to re-focus existing rural development programmes to improve the competitiveness and diversification of activities in border areas.
- Prioritisation of border regions within the Information Strategy on Enlargement.
- Creation of a working group of the relevant services within the Commission which should co-ordinate and follow-up the proposed actions and function as a contact point.

The Commission will pursue these actions as a single Community Action for Border Regions. This Community Action should also contribute to a better information policy in border regions, highlighting new opportunities for cross-border co-operation and economic integration with the candidate countries. Furthermore, the Commission, in conjunction with the Member States, will continue to monitor the social and economic impact of enlargement in the border regions with a view to further improve this Community Action.

Budgetary aspects

On top of the total expenditure already devoted to border regions notably under the Structural Funds, the Commission proposes to dedicate an additional € 195 million for border regions with applicant countries in the period 2001-2006. The realisation of these funds – in part by re-allocation, in part by an increase in the budget - is subject to approval by the budgetary authority. The Commission presents its proposals within the framework of the financial perspective 2000-2006 and having taken into account the results of its analysis :

On the one hand, border regions are highly diversified in terms of their socio-economic situation. The Structural Funds implemented in accordance with the conclusions of the European Council of Berlin take this diversity into account (i.e. differences between Objective 1 and Objective 2) and are adapted to the specific needs of regions especially affected by enlargement (particular effort in the framework INTERREG III A).

On the other hand, a complementary effort is needed as a lever for the realisation of certain projects of Community interest as regards EU enlargement (bottlenecks of the European networks of transport in border areas) or certain "additional measures" (e.g. mobility and intercultural learning activities in cross border regions) which are not sufficiently covered by existing programmes. Such measures are of major importance to bring the citizens of the enlarged European Union closer together.

1. Introduction

Enlargement of the European Union is a historical opportunity for peace and prosperity in Europe. The EU is already benefiting from increased trade with candidate countries. Enlargement will further increase economic integration between the present and future EU Member States, creating economies of scale and comparative advantages in an expanded market.

In order to prepare for enlargement, the EU has set out three essential conditions for accomplishing the accession of new Member States: the financial framework (decided by the Berlin European Council), institutional reform and compliance of the candidate countries with the accession criteria decided at the Copenhagen and Madrid European Councils. The approval by the Nice European Council of the enlargement strategy including the "road map" for enlargement put forward by the European Parliament and the Commission should allow enlargement negotiations to be concluded rapidly. The Göteborg European Council has confirmed that the road map should make it possible to conclude negotiations by the end of 2002 for those candidate countries that are ready.

Ratification of accession by the Member States and candidate countries as well as the approval of the European Parliament require that overall public opinion is favourable to enlargement¹. There is, however, a widespread concern that the opening of the internal market will lead to increased competition, in particular in border regions. While border regions may be affected more quickly and more intensively by enlargement than other regions, their proximity to candidate countries will offer new possibilities, for example through increased division of labour with candidate countries. Border regions could thus become new growth areas with positive economic spread-effects on both sides of the border.

Information and communication measures regarding enlargement need to be reinforced in the Member States and candidate countries. This applies especially to border regions. The Commission's "Communication Strategy for Enlargement" of 2000 underlines that "the people in the regions bordering the candidate countries need to be reassured of the positive effects of enlargement" and announced an objective analysis of the socio-economic situation in border regions and of the available structural measures. The Nice European Council called upon the Commission to "propose a programme for the frontier regions in order to strengthen their economic competitiveness" and the Göteborg European Council acknowledged that this Communication would be presented shortly.

¹ Recent EUROBAROMETER opinion polls (Autumn 2000) in the EU-15 give an approval rate of 44% in favour of enlargement and 35% against. However, more people are against enlargement than for it in Germany, Austria, France and the United Kingdom.

2. The economic situation of border regions

2.1 Definition of border regions

For the purpose of the analysis, this Communication defines border regions as regions at the NUTS II level² bordering (by land or sea) candidate countries currently negotiating accession which contain cross-border programmes under INTERREG III A in the period 2000-2006; this also includes regions enclosed by such regions (see map in Annex x).³ This working definition of border regions has been chosen because the cross-border effects of enlargement are likely to spread beyond the immediate border areas (NUTS III level). Appropriate regional socio-economic data on a comparative basis are available only at the NUTS II level.

According to this definition, there are 23 border regions in the EU:

- Two in Finland: Uusimaa, Etelä-Suomi.
- Eight in Germany: Niederbayern, Oberpfalz, Oberfranken, Brandenburg, Berlin, Mecklenburg-Vorpommern, Chemnitz, Dresden.
- Six in Austria: Burgenland, Niederösterreich, Wien, Kärnten, Steiermark, Oberösterreich.
- Two in Italy: Veneto, Friuli-Venezia Giulia.
- Five in Greece: Anatoliki Makedonia – Thraki, Kentriki Makedonia, Voreio Aigaio, Notio Aigaio, and Kriti.

2.2 Comparative analysis of border regions

There are striking differences between border regions in terms of socio-economic development. Overall, three groups of regions can be identified: The Greek mainland border regions face by far the most difficult situation in terms of income, labour market dynamics, infrastructure and human capital. The second group consists of Greek Aegean border regions, the new German Länder which lag behind in terms of economic performance and suffer from the persistence of high unemployment rates; the Burgenland also belongs to this group in terms of income (GDP) per capita. All other border regions (in Germany, Austria, Finland and Italy) are fairly well developed compared both to the EU as well as to their respective national average. A more comprehensive analysis reveals the following picture:

² The Nomenclature of Territorial Units for Statistics (NUTS) was established by Eurostat to provide a single uniform breakdown of territorial units for the production of regional statistics for the EU.

³ This definition does not prejudice the delineation of certain Community policies at a lower level than NUTS II.

Comparison at the national level

In **Finland**, a clear distinction can be made between the Uusimaa (capital region) and the Etelä-Suomi region. Whereas per capita income is substantially higher than the national average in Uusimaa (102% and 141%, respectively)⁴, it is slightly below the national average in the Etelä-Suomi (93%). Unemployment is below the national average in Uusimaa (7.0%), but it exceeds the national average in Etelä-Suomi (12.3%).

In the case of the **German** border regions, a clear distinction can be drawn between the new German Länder and the regions of Bavaria. While per capita income (GDP) in the new German Länder only reaches two thirds of the national average (70% vs. 108%), it is just below the national average in the Bavarian border regions (99%). Berlin has a higher GDP per capita than the border regions, except for Oberfranken, but it is lower than the national average. Also in terms of real GDP growth there are notable differences between border regions. The new German Länder bordering Poland have all experienced very high real GDP growth together with continuing high unemployment. The unemployment rate in the new Länder is almost double the German average (16.4% and 8.9% respectively). In contrast real GDP growth in the Bavarian border regions is lower than both the German average and the average in Bavaria, except in Niederbayern which has experienced a higher GDP growth. However, the employment rate in the Bavarian border regions is notably higher than the national average (approx. 70% vs. 65.4% for Germany as a whole), while the unemployment rate is lower than the German average (5.5%). While the new Länder suffer mainly from low industrial competitiveness and outdated infrastructure, most of the Bavarian border regions (but also Mecklenburg-Vorpommern) are characterised by structural deficits which are typical of rural regions with a high degree of agricultural employment.

Economic development has been positive in all **Austrian** border regions in the 1990s. With the exception of Vienna, per capita income lies below the national average (112%) in all Austrian border regions. It is notably lower in Burgenland (69%), and to a lesser extent in Kärnten and Steiermark (92% and 90%). Only Vienna, Kärnten and Steiermark have unemployment levels higher than the national average (5.9%, 4.7% and 4.1%, respectively). With the exception of Vienna, the Austrian border regions generally feature a higher share of agricultural employment and a lower share in services compared to the national average.

On the whole, **Italy's** border regions are in a favourable position compared to the national average. Per capita income in Veneto and Friuli-Venezia Giulia is some 20% higher than the national average (101%). Unemployment in both regions is only half the national average (11.7%).

Most **Greek** border regions experienced positive real GDP growth above the national average in the 1990s. The rural and mountainous border region of Anatoliki Makedonia features a below-average per capita income (55%) and an above-average unemployment rate (12.8%). In contrast, unemployment and per capita income levels are close to the national average (11.7%, 66%) in Kentriki Makedonia (11.7% and 68%). The situation is

⁴ All figures are represented in terms of percent of the EU average in 1998, adjusted by purchasing power standards (PPS)

somewhat different in Voreio Aigaio, Notio Aigaio as well as Kriti. Unemployment rates are lower than the national average in all three regions (11.3%, 7.3% and 7.3%). Per capita income is higher than the national average in Notio Aigaio and Kriti (77% and 67%), but it is lower in Voreio Aigaio (61%). Greece's interior border regions suffer from major infrastructure deficits, in particular an underdeveloped transport system.

Comparison at the EU level

Income

While per capita income in the border regions is relatively high in Italy, Finland, most Austrian regions and Bavaria, it is lower than 75% of the EU average in the new German Länder, Greece and Burgenland.

Employment situation

Unemployment is substantially higher than the EU average (9.4%) in the new German Länder (16.4%), the Greek border regions (10.8%) as well as in one Finnish border region (12.3%). By contrast, unemployment in the border regions of Austria (3.9%), Bavaria (5.5%) and Italy (5.2%) is relatively low compared to the EU average. High youth and female unemployment also reflect an inadequate rate of new job creation. In Finland, economic changes in the early 1990s related to the collapse of trade with the former Soviet Union caused a sharp reduction in employment, but the situation has now improved.

Infrastructure development

Border regions show significant differences regarding infrastructure development. For example, in Greece the motorway network is almost entirely concentrated around Athens and there are no motorways at all in several northern areas bordering candidate countries.

Education levels

Levels of education are relatively low in the Greek and Italian border regions where over 50% of the population aged 25 to 59 have no educational qualifications beyond the compulsory elementary level.

Border regions at the aggregate level

As the previous comparisons have shown, the problems of border regions vary considerably from one region to another. For the purpose of the analysis, it is useful to examine their socio-economic situation at the aggregate level

Income and productivity

In terms of income, border regions almost reach the EU average. Their average income per capita was 96% of the EU average in 1998. The somewhat lower level of income per capita in border regions is mainly due to lower productivity. The slightly poorer performance is linked to a concentration of the less productive sectors: compared to the EU average, border regions are characterised by a higher concentration of employment in

agriculture, an above average concentration in industry and a lower concentration in services.

Employment situation

Recent employment growth has reduced unemployment significantly. In 1999, the average unemployment rate in border regions was almost in line with the EU average (9.7% and 9.4% respectively). The average employment rate in border regions was slightly lower than the corresponding rate of the EU (60.4% and 62.8%).

RTD and human capital

As regards indicators of research and technological development (RTD), the ratio of gross expenditure on RTD to GDP is lower in border regions (1.6%) than in the EU as a whole (1.9%). As regards human capital the level of education and training in border regions is generally well developed compared to the EU average.

2.3 Potential effects of enlargement on border regions

Per capita income and productivity in all EU border regions are higher than in the neighbouring regions of the candidate countries, exception for Bratislava. As regards general unemployment and youth unemployment, the overall situation also tends to be better in the EU border regions, with some exceptions in the new German Länder. Cross-border economic relations between neighbouring regions are likely to intensify after enlargement, especially where economic centres are located in close proximity on both sides of the border.

Indeed, the regions of candidate countries bordering the EU have already benefited from their location since transition began. In 1998, the average per capita income in these regions was notably higher than the average per capita income of candidate countries (53% and 44%⁵ respectively). Proximity to the EU, relatively well developed infrastructure and low labour costs have all contributed to stimulate markets and encourage investment. In addition, they have also benefited from increased trade and tourism.

The available statistics do not, however, suggest that the gradual opening of Community borders to candidate countries during the 1990s has had a negative impact on border regions. For example, per capita income levels in the Austrian border regions have increased significantly between 1991 and 1996 while in Bavaria, average per capita income has remained fairly stable throughout that period.

Migration

The income gap between the EU and candidate countries has led to fears of large migration flows into the EU.

Previous experience with the introduction of free movement of workers after the accession of Spain and Portugal in 1986 as well as recent estimates suggest that long-term

⁵ 1998 figures in percent of an enlarged EU-26 average, adjusted by purchasing power standards.

migration from candidate countries towards the EU may only be in the order of 1% of the present EU population⁶. Moreover, the phased introduction of labour mobility and the provision of services will further reduce potential to migrate.

Candidate countries will benefit from comprehensive support from the Structural Funds after accession⁷. This will help them to catch up in economic terms, which will in turn reduce potential migration after the transitional phase.

However, the available research also concludes that migration and cross-border commuting will vary considerably between regions, in particular between different border regions. Estimates of long-term cross-border commuting in border regions vary between 1 and 8 % of their respective labour force.

On the whole, migration and cross-border commuting will probably continue to affect Germany and Austria more than other EU Member States. In Germany, migration into border regions is mainly focused along the border of Bavaria with the Czech Republic. By contrast, the share of migrants in the new German Länder - even in the immediate border areas - tends to be lower than the national average⁸. Many migrants from candidate countries move to the more centrally located prosperous conurbations of Germany. The situation in Austria is rather different, because Austria shares borders with four candidate countries and some of its main economic centres are located close to these borders. Vienna, Graz and Linz and a number of other important regional centres are within a short drive from the borders.

As regards the possible long-term term effects of migration, it should be noted that past immigration has had little effect on indigenous unemployment. Any negative impact on wages has been fairly limited. Immigration may even help to limit the adverse effects of declining and ageing populations on living standards and budget deficits in the Member States.

Economic integration

The integration of border economies has been one of the main positive effects of the single market. Border regions may therefore be expected to benefit from enlargement in the medium and long term. However, in the short term, they may need to adjust more than other regions to rapidly changing market conditions. In particular rural border areas might experience greater competitive pressure in the initial phases of integration. These effects are likely to be limited in the agricultural sector of the current Member States, since in general agriculture in the CEECs is characterised by low production and quality standards and significant restructuring of the agriculture and food industry is still required

⁶ Outlined in the Commission Information Note of 6 March 2001 on the free movement on workers in the context of enlargement.

⁷ The table containing the EU-21 financial framework annexed to the Presidency Conclusions of Berlin earmarks € 39.5 billion for structural actions for new Member States for the period 2002 to 2006.

⁸ See The Impact of EU Enlargement of Cohesion, DIW and EPRC, Berlin and Glasgow, March 2001

Much of the competitive pressure generally associated with enlargement is, however, already noticeable since the EU has lifted most customs duties and quantitative restrictions in the trade of industrial and a substantial number of agricultural products with candidate countries.

Some of the smaller towns in the German, Austrian and Italian border regions have already experienced increased competition in the retail trade and certain services.

In general, human capital-intensive and technologically advanced sectors in the border regions are likely to benefit from enlargement, while labour-intensive sectors are likely to face increased competition from cheap labour. This generally applies to agriculture, industry and services. In the case of agriculture, Central Europeans have already joined the workforce in border regions in large numbers as seasonal workers, which has helped to overcome short-term labour shortages.

3. Existing Community policies

Border regions benefit from a number of Community-wide policies including the Economic Policy co-ordination strategy, the European Employment Strategy, initiatives in the area of discrimination, social inclusion and gender equality. Moreover, they benefit from Community financial assistance *inter alia* through the Cohesion and Structural Funds, the Trans-European Network, the EIB and EIF, the 5th Research & Development Framework Programme, LIFE (environment), Leonardo, Socrates, Youth and assistance for SMEs.

Furthermore, nearly all EU border regions at NUTS III level are currently eligible for national regional aid under state aid rules and may therefore benefit from a preferential treatment compared to non-assisted areas (e.g: higher aid intensities to support investment (including in the agricultural sector), research and development, training by firms, employment creation, etc.

3.1 Community financial instruments

Structural Funds – Objectives 1 and 2

The Structural Funds are the most important source of Community regional aid with a significant impact upon border regions. The new German Länder, all border regions of Greece, and the Burgenland have Objective 1 status. Several areas adjacent to candidate countries in Germany, Austria, Italy and Finland receive assistance under Objective 2 and partially under Objective 3 status.

The **Finnish** regions of Uusimaa and Etelä-Suomi, Uusimaa and East Uusimaa bordering the Baltic candidate countries are eligible for Objective 2 funding and will receive some € 218 million in the period 2000-2006.

In **Germany**, all new Länder bordering Poland and the Czech Republic (Mecklenburg-Vorpommern, Brandenburg and Sachsen) are due to receive some € 10.4 billion between 2000 and 2006 (compared to € 8.4 billion in the period 1994-99).

Although the Operational Programmes (OPs) of the three new Länder do not contain specific measures for border regions, the infrastructure measures (€2.7 billion) and rural development measures (2.1 billion Euro) will primarily benefit border regions. Within the German aid scheme « Gemeinschaftsaufgabe », applied Länder in combination with priority 1 of the relevant OPs, productive investment focuses on the structurally least developed areas, i.e. the border regions.

Community support for Berlin amounts to roughly € 1 billion in the period 2000 to 2006. This includes Objective 1 “phasing-out” support of € 688 million to the eastern part of the Berlin in the period 2000-2005 and Objective 2 support of € 384 million to the western part of Berlin in the period 2000 to 2006.

Bavaria’s Objective 2 programme which covers the entire length of the border with the Czech Republic is due to receive some € 537 million over the period 2000-2006.

For the period 2000-2006, € 889 million have been dedicated to the six **Austrian** Bundesländer bordering candidate countries (Burgenland, Steiermark, Oberösterreich, Niederösterreich, Kärnten and Vienna) in the framework of the Objective 1 and 2 programmes (compared to € 642 million in the period 1995-1999 for Objectives 1, 2 and 5b).

Most of the Friuli-Venezia Giulia border region and parts of Veneto in **Italy** are eligible for Objective 2 funding in the period 2000-2006. Some € 97 million of Structural funding will be allocated to Friuli-Venezia Giulia and € 286 million to Veneto.

The **Greek** border regions "Eastern Macedonia - Thrace" and “Central Macedonia”, are eligible for Objective 1 funds. They will receive € 1.6 billion of Structural funding in the period 2000-2006 (compared to € 1.1 billion between 1994-99). The OP for “Eastern Macedonia” includes the completion of the Egnatia road (the section from Ardas-Ormenio to the Bulgarian border) as well as the completion of older road schemes to the Bulgarian borders. In addition, the Objective 1 programmes for the Northern and Southern Aegean as well as for Crete will receive Community assistance of € 1.2 billion in total over the period 2000-2006.

INTERREG

In line with the conclusions of the European Council of Berlin⁹ due attention has been given to cross-border activities through the INTERREG programme (€ 4.875 billion from 2000-2006), in particular regarding Member States which have extensive frontiers with the applicant countries.

INTERREG IIIA: Cross-border co-operation

The INTERREG IIIA programme for **Finland** bordering Estonia amounts to € 14 million in the 2000-2006 period.

⁹ § 40 of the Presidency conclusions of the European Council of Berlin of 24/25 March 2001.

Some € 627 million are available for INTERREG cross-border co-operation programmes in **Germany** during the period 2000-2006 (compared to approximately € 419 million in the period 1994-1999 for INTERREG II A). 67% of the German INTERREG IIIA funds (€ 421 million) are dedicated to eligible regions bordering Poland and the Czech Republic. This represents an increase of 16.7% in the average annual amounts compared to INTERREG II A. Bavaria's share of approximately € 60 million represents an increase in the average annual amounts of 196% compared to 1994-99.

As regards the **Austrian** INTERREG IIIA programmes (with the Czech Republic, Slovakia, Hungary and Slovenia), the increase is even more striking. On the basis of the additional amount for Austria specified by the Berlin summit, some € 110 million are available (compared to less than € 31 million in 1995-1999).

The financial framework of the **Italian** INTERREG IIIA programme with Slovenia has also been increased substantially. In the period 2000-2006, € 56 million are available, compared to € 15.6 million from 1994 to 1999. This represents a real increase of 209%.

As regards the **Greek** INTERREG IIIA programme with Bulgaria, some € 170 million are available from 2000 to 2006 as well as € 47 million for cross-border co-operation with Cyprus.

In total, the EU regions bordering candidate countries will receive € 818 million in the framework of their INTERREG III A programmes in the period 2000-2006 compared to € 586 million in the period 1994/5-1999.¹⁰ The main priorities of these programmes are the improvement of local infrastructure, training and human resources and economic cross-border co-operation.

INTERREG IIIB: Transnational co-operation

INTERREG IIIB contributes to territorial integration between the EU and the candidate countries. Under INTERREG IIIB, two programmes concern candidate countries: the programme for the **Baltic Sea Region**, BSR (Finland, Sweden, Denmark and parts of Germany) and the programme for the **Central, Adriatic, Danubian and South-Eastern European Space**, CADSES (Austria, Greece, parts of Germany, parts of Italy). The Baltic States and Poland have indicated their interest to participate in the BSR programme; as regards the CADSES programme, Poland, the Czech Republic, the Slovak Republic, Hungary, Slovenia, Bulgaria and Romania have expressed their interest to participate. The two programmes amount to € 97 million (BSR) and € 132 million (CADSES) until 2006.

INTERREG IIIC: Interregional co-operation

INTERREG III C is dedicated to non-contiguous regions and is intended to assist the balanced, harmonious and sustainable development of the EU and of third countries, inter alia through networking and interregional co-operation projects. Some 6% (or € 300 million) of the total INTERREG III budget are allocated to this programme.

¹⁰ The figures for 2000-2006 are planned amounts. For 1994-99, there was only one global programme for Greece. Therefore, the global amount has been split up according to the future programme.

URBAN II

Under the Community Initiative URBAN II, six cities in border regions (Neu-Brandenburg, Berlin and Luckenwalde in Germany, Wien-Erdberg and Gratz in Austria, Komitini and Iraklion in Greece) will receive a total of € 68.5 million of ERDF funds in the period 2000-2006. Although URBAN does not specifically address cross-border problems, some projects contain measures related to immigration from the accession countries.

LEADER+

All EU rural areas within border regions are, in principle, eligible for support under the Community Initiative for rural development for the period 2000-2006, LEADER+. The beneficiaries of LEADER+ are Local Action Groups representing public/private partnerships responsible for drawing up and implementing territorial development strategies. LEADER groups typically cover areas of between 10 000 to a maximum of 100 000 inhabitants.

Action 2 of LEADER+ is reserved for co-operation projects which may be either inter-regional (between LEADER+ or similar groups within the same Member State), or transnational (between LEADER+ groups within the EU and other groups in third countries). Such co-operation projects may include cross-border co-operation between rural communities in EU border regions and in candidate countries¹¹.

EQUAL

The Community Initiative EQUAL is an experimental programme aimed at promoting new means of combating all forms of discrimination and inequalities in connection to the labour market through transnational co-operation. The Initiative is funded by the ESF with EUR 2.847 million for the period 2000-06 and co-funded by the EU 15.

EQUAL is based on nine themes, which are closely linked to the European Employment Strategy. Key players in the field of employment (including administrations, NGOs and social partners) work in genuine partnership to test innovative ways of combating discrimination in the areas set out in the themes.

Project promoters from the Phare programme as well as Tacis and Meda can participate in transnational actions provided they can ensure the necessary funding. In addition, candidate countries can participate at the 'mainstreaming and dissemination activities' organised at European level that are aimed at identifying and transferring good practice into national mainstream policies and practice.

Pre-accession assistance for candidate countries

In parallel to the EU Structural Funds, pre-accession assistance for the candidate countries will help to reduce the income gap between these countries and the EU. Pre-accession assistance includes the programmes Phare, ISPA (the pre-accession structural

¹¹ Financial support from the LEADER+ programme is only available to the EU LEADER+ groups.

instrument in the area of transport and environmental infrastructure), and SAPARD (the pre-accession agricultural instrument) and amounts to a total of some € 3 billion per year.

The Phare for Cross Border Co-operation programme

The Phare Cross Border Co-operation programme (Phare CBC) is designed as the counterpart to INTERREG in the candidate countries. The regions of the seven candidate countries bordering the EU are designated to receive an indicative amount of € 309 million from 2000-2002 (€ 103 million per year). The average annual INTERREG allocation during the period 2000-2006 amounts to € 146 million in the EU border regions.

Phare CBC/INTERREG joint programmes for 2000-2006

The Phare CBC Regulation of December 1998 and the INTERREG III Guidelines of April 2000 introduced substantial changes in the operation of both programmes. Since 2000 neighbouring border regions in the EU and candidate countries (which are eligible for Community support) are considered as one single geographical and socio-economic entity. Eligible regions on both sides of the border are defined according to the same method (NUTS III), and eligible actions are also largely the same.

On the basis of a joint analysis of the socio-economic situation on both the EU side and the side of the border region in the candidate country, a programme for a balanced socio-economic development for the region as a whole is prepared. A joint structure, including national, regional and local representatives from the EU Member State and the candidate country, is in charge of project selection and monitoring.

Further improvements in aligning the Phare-CBC programme with INTERREG were introduced at the end of 2000 and are set out in the Commission Communication 'Phare 2000 Review – strengthening preparations for enlargement'. Improvements include multi-annual indicative financial allocations for each border region, and a more decentralised implementation of Phare projects, which should be similar in size and nature as INTERREG projects. From 2001, projects ranging between € 300 000 and € 2 million can also be funded through the Phare CBC programme (though they still need a formal endorsement by the Commission Delegation). The efficiency and results of the new mechanisms set out in the Phare 2000 Review will be examined before the end of 2002.

Assistance for participation in transnational and interregional co-operation programmes

At present Community support for the participation of the candidate countries in transnational and interregional co-operation programmes is granted via the national Phare programmes on a case by case basis.

For the Baltic Sea Region, Phare-CBC will provide co-funding for programmes supported by INTERREG IIIB; candidate countries and Member States bordering the Baltic Sea will develop a Joint Programming Document and co-ordinate it with the respective INTERREG IIIB programme with a view to merging the two documents into one Single Programming Document by the end of 2003. From 2001, a specific budgetary article has been established for co-operation in the Baltic Sea Region in the context of the Phare-CBC budget line.

3.2 State aids

The vast majority of the NUTS III regions which border candidate countries are eligible for state aid for regional purposes under Article 87(3)(a) EC or (partially) under Article 87(3)(c) EC. Only four NUTS III regions bordering accession countries do not qualify for state aid for regional purposes at the moment (Wiener Umland Nord and Süd (the suburban ring around Vienna), Neustadt a/d Waldnaab and Schwandorf (both in Bavaria)).

Under the Guidelines on national regional aid¹², a special provision is made for Article 87(3)(c) areas at NUTS III level that are adjacent to Article 87(3)(a) regions. These regions may benefit from an aid intensity for investments by large firms of 20% net, i.e. the highest aid intensity the Commission can approve for standard¹³ Article 87(3)(c)-regions.

In this context, the Commission notes that candidate countries were assimilated to Article 87(3)(a) regions for an initial period of five years by the Europe Agreements, and that this status could be prolonged by further periods of five years. In some cases (Bulgaria, Slovakia, Latvia, Lithuania, Romania), this prolongation has taken place, whereas in others it is still being examined by the Association Council.

It should be noted that until now the Association Council made the approval of all prolongations (except Bulgaria) conditional on the establishment of a regional aid map that has to be fully in line with the Commission regional aid guidelines (1998), thus ensuring equal treatment of Member States and candidate countries.

State aid for regional purposes enables Member States to provide special assistance to help businesses in the border regions to cope with the special problems of the enlargement process. However, it is important to note that state aid for regional purposes is by no means the only state aid instrument available to support the development of enterprises in border regions. Under the present state aid rules, Member States are able to grant, even outside assisted areas eligible for regional aid pursuant to Articles 87(3)(a) or (c) CE, aid for a number of other purposes, including:

- aid towards initial investment and, consultancy, participation in trade fairs and exhibitions of SMEs;
- aid towards agricultural production, marketing and rural development;
- aid towards general and specific training of company staff;
- aid towards creation and, under some conditions, maintenance of employment;
- aid to encourage investment in research and development activities of companies;
- aid towards environmental investment and to promote renewable energies;

¹² OJ C 74, 10.3.1998, p. 9

¹³ A higher aid intensity is only available for low population density areas.

- *de minimis aid* under which aid up to € 100,000 can be granted to any company¹⁴ over a three year period. The *de minimis aid* can be given also to a company which has already received aid under an approved scheme.

In each of the above cases, with the exception of *de minimis-aid*, higher levels of aid can be granted if the beneficiary is located in an Article 87(3)(a) or (c) region.

4. Community Action for Border Regions

As outlined in the previous chapters, border regions face various challenges in the enlargement process and a number of Community measures are already in place to assist these regions. While border regions are generally well placed to benefit from enlargement in the medium-term, certain sectors and businesses will have to adapt to changing economic conditions in order to remain competitive.

However, , the Commission takes the view that further action is appropriate in the border regions to ensure a smooth transition towards economic integration.

Since the effects of enlargement are likely to vary considerably in the different border regions, the Commission believes that, instead of creating one single new instrument, a combination of new and improved measures will be most effective to address the specific needs of border regions. Nevertheless, in order to maximise their impact the different measures should be co-ordinated within a single Community Action for Border Regions. This Action will also aim to provide better information on the objectives and benefits of enlargement in the border regions. The specific measures of the proposed Community Action for Border Regions are outlined in the following sections.

4.1 Increased investment in transport infrastructure

Community financial contributions in the framework of the trans-European transport network (TEN) since 1994 have proved to be of crucial importance in helping to promote major transport projects at an early stage. Moreover, the Community's TEN programme has encouraged public and private investors by demonstrating the EU's political commitment to the development of a multimodal, cross-border transport network in Europe.

Increasing the maximum Community contribution to TEN projects from 10 to 20%

The relevant Financial Regulation¹⁵ regarding TEN projects currently limits Community contributions to a maximum of 10% of the total project cost. This means that 90% of the funding for TEN projects has to be raised by national, regional or private sources, which may prove difficult in the case of costly cross-border projects with candidate countries. In order to strengthen the Union's commitment to the development of the TEN, the Commission proposes to raise the existing 10% threshold to 20% for cross-border projects where the added value to participating countries is particularly high.

¹⁴ The scope of application is defined by Commission Regulation (EC) No 69/2001 of 12.1.2001

¹⁵ Council Regulation No 2236/95/EC

Special financial assistance of € 150 million for the TEN in border regions

With a view to funding projects in border regions, the Commission proposes a special financial assistance of € 150 million in the period 2003-2006 (of which € 50 million is to be provided by re-allocation within the existing budget). The Commission suggests that the additional funding should be used towards the most urgently needed improvements in cross-border transport infrastructure.

Building links between the TEN and transport networks in candidate countries.

One of the priorities of the multi-annual indicative programmes (MIP) established between Member States and the Commission for the funding of TEN projects is the development of cross-border projects with candidate countries. Of particular importance in this respect are links in candidate countries which are supported by ISPA and identified within the Transport Infrastructure Needs Assessment (TINA) network for the countries of central and eastern Europe¹⁶.

The aims of these projects is to connect major TEN links in the EU with future TEN links in candidate countries. In order to support these aims, the Commission proposes to

- promote and focus financial support on the completion of key links (adjacent to borders); the focus here should be on projects, which, due to specific geographical barriers, feature a large gap between socio-economic and financial viability;
- promote the development of a mulimodal network, including inland waterway transport, with an emphasis on railways ;
- further develop projects identified in the TEN guidelines which link Member States to the designated TINA network ; particular attention should be given to cross-border links on the Pan-European Transport Corridors ;
- promote projects which aim to reduce bottlenecks, link ports to rail and encourage investments and the upgrading of rail freight infrastructure.

4.2 Actions for SMEs and cross-border co-operation

The European Parliament has decided to devote € 10 million to a pilot project in the year 2001 (budget line B5-3003) intended to support regions and economic sectors which are particularly affected by the socio-economic costs likely to be incurred in the enlargement process. The Commission intends to prolong this action by one year with a budget of € 5 million.

The Commission proposes that out of the 2001 budget of €10 million for 2001, €7,5 million should be allocated to assistance activities such as the dissemination of dedicated information, the organisation of workshops and other meetings as an incentive for further networking between SMEs from border regions in the EU and the candidate countries, and training on accession-related topics. The remaining €2.5 million would finance support measures channelled through the network of Euro Info Centres (EICs). They

¹⁶ As outlined in the TINA Final Report, Vienna 1999.

could involve « business missions » of EU entrepreneurs to the candidate countries, seminars on aspects of the acquis that are of particular interest to entrepreneurs, and presentations on the impact of enlargement on local employment markets in the Union. The 2002 budget for the pilot project amounts to € 5 million.

4.3 Structural Policies: making the most of Community funds in border regions

The regions, Member States and the Commission will make every effort to absorb all available funds allocated in the Structural Funds programmes which have been adopted or are being adopted for the period 2000-2006. No additional funds will be available during the current programming period as the Commission is required to meet the financial perspectives agreed by the European Council of Berlin.

Reorientation of the Operational Programmes and Single Programming Documents

As indicated above (section 3.1), the assistance provided by the Structural Funds under Objectives 1 & 2 as well as INTERREG in the period 2000-2006 covers, to a large extent, the specific needs of border regions. The Structural Funds regulation 1260/99 does however offer some flexibility which could be used to tackle the problems of border regions in view of enlargement. The programmes can be adjusted in order to take different priorities better into account. Following the mid-term evaluation in 2003, the Community Support Frameworks (CSF), Operational Programmes (OP) and Single Programming Documents (SPD) will be re-examined and, if necessary, adjusted at the initiative of the Member State, or by the Commission in agreement with the Member State. The programmes may also be revised in the event of significant changes in the socio-economic situation and the labour market. Such a revision could also be considered in the light of significant changes in the border regions.

Performance reserve

4% of each national allocation of Structural Funds are held in reserve at the beginning of the programming period (“performance reserve”). By 31 December 2003 at the latest, each Member State will, in close consultation with the Commission, assess the implementation of its OPs and SPDs on the basis of the mid-term results and specific monitoring indicators. By 31 March 2004, the Commission will - on the basis of the proposals from each Member State and taking account of the mid-term evaluation - release the performance reserve to the programmes which have delivered the best results. Provided the relevant programmes meet the criteria for the allocation of the performance reserve, the Commission will examine duly any proposal from the Member State to use these resources in favour of the border areas.

Maximum Community co-financing for measures in border regions

The Commission recommends Member States to apply, where appropriate, the maximum co-financing ceiling (as laid down in Regulation 1260/99) for measures in border areas eligible under Objective 1 and 2, on the condition that the global co-financing rates specified in the programming documents are respected (SPDs, OPs and Programming Complements). The objective is to increase the impact of Structural Funds in border areas.

Innovative Actions

The beneficiaries of regional programmes of innovative actions are regions eligible in whole or in part under Objective 1 or 2. Community support is limited to a maximum of two programmes per region in the period 2000-2006. The Commission will appraise programme applications for ERDF co-financing on the basis of the criteria set out in the Guidelines on innovative actions. It will allocate between € 300.000 and € 3 million to the programmes selected. Regions adjacent to candidate countries applying for a regional programme of innovative actions may concentrate those actions in border areas. The Commission will duly consider any such proposal. Similar actions are foreseen in the context of the European Social Fund, including measures supporting local development.

4.4 Improved co-ordination between Phare-CBC and INTERREG

The Commission is currently examining cross border programme proposals submitted by Member States for support from INTERREG III. These programme proposals are to be approved in the course of the year. In some cases, the joint programme proposal is divided into several parts; regional sub-programmes are developed for the respective regions, whereby each sub-programme takes the specific situation of the region into account and presents a strategy for the region's specific needs. Regional partnership and 'bottom up approaches' are important aspects in all programme proposals. "Euroregions" play an increasing role in fostering the integration of both sides of the border.

Amounts available under the two instruments from 2000:

- Phare CBC has an annual budget of **163¹ M€** (2/3 for borders with the EU, 1/3 for borders between candidate countries), which represents about +/- **10%** of the total Phare budget.
- Interreg has an average annual budget of **146 M€** for border regions with candidate countries.

Joint programming Documents (JPDs) for Phare CBC/Interreg for 2000-2006 which were jointly prepared by partners from Member States and candidate countries are expected to be approved by the Commission in the course of 2001. These include a Joint SWOT analysis covering both sides of the border, a common strategy based on that analysis and a common set of priorities and measures.

With regard to the particular problems of border regions, the Commission will monitor closely the effects of the changes introduced under the 'Phare 2000 Review' Communication in order to achieve a better harmonisation and compatibility of Phare CBC and INTERREG.

Planned improvements include:

- A more programme-oriented approach for Phare, allowing for projects similar in size and nature to INTERREG projects, provided candidate countries are capable of implementing ‘schemes’ instead of stand alone projects. Two types of schemes should co-exist: Small Project Funds for grants below € 50 000 in areas such as culture, education, information, local economic development and employment; and schemes for grants above € 50 000, similar to actions under the national Phare programmes (Economic and Social Cohesion support) for business-related infrastructure, support to the productive sector and human resources development.
- Indicative multi-annual programming.
- Co-funding for transnational cooperation (INTERREG III B), in particular in the Baltic Sea region. For other INTERREG III programmes, co-funding from Phare national programmes may be envisaged.

Further improvements in aligning Phare CBC and INTERREG from the end of 2002 may include changing the Phare CBC Regulation with a view to

- enable a complete alignment of priority topics under Phare-CBC and INTERREG III A, as provided in point 11 and Annex II of the INTERREG Guidelines.
- facilitate the co-financing for transnational (INTERREG III B) or interregional (INTERREG III C) co-operation projects with Phare-CBC in well-founded cases.

However, a limited number of differences will remain, as Phare and the Structural Funds are still quite different in their objectives and procedures. The participation of candidate countries in INTERREG III B will strengthen co-operation between them and Member States, and of their regions – including border regions - on regional development and land-use planning; co-operation may cover the provision of information for national, regional or local authorities on regional and land-use planning policy, and, where appropriate, the provision of assistance for the formulation of such policy.

Their involvement in INTERREG III C would allow regional and local authorities, including those from border regions, to exchange experience and engage in networking concerning, e.g. mainstream Structural Funds’ activities, urban development and innovative actions such as a regional economy based on technological innovation.

As there is only modest support available, a limited percentage of Phare-CBC may be used for the participation in INTERREG III B or III C-type actions.

In line with the ‘Phare 2000 Review’, the Commission proposes extending the indicative multi-annual programming to cover the period 2002 - 2006 for Phare-CBC, so as to cover the full lifetime of the Joint Programming Documents. Where necessary, minor modifications to these documents could be inserted in order to put multi-annual programming into practice for the years 2003 – 2006 or from 2003 until accession.

Taken together, these measures should result in a more effective application of the INTERREG and Phare-CBC programmes in the interest of border regions and their populations.

Networking in EU border regions

Paragraph 53 of the INTERREG Guidelines sets aside € 47 million for networking and other activities to support the implementation of the three strands of the INTERREG initiative. The Structural Funds Regulation (No. 1260/1999) and the INTERREG III Guidelines emphasise the importance of co-operation efforts along external borders especially those with the accession candidates. The Commission therefore proposes to earmark up to € 20 of these funds for actions encouraging and facilitating co-operation in border regions. This support could be used for networks, information activities, support to project development etc.

Eligibility of areas adjacent to border areas

Under current INTERREG guidelines, the city of Vienna is only eligible for a cross-border programme with Slovakia (see Art. 10 of the INTERREG guidelines defining eligible areas). It is not eligible for programmes with the Czech Republic and Hungary.

In view of its unique geographical position in close proximity to the border areas of Slovakia, Hungary and the Czech Republic, the Commission agrees to the inclusion of Vienna in the INTERREG III A programmes with Hungary and the Czech Republic. The particular role of Vienna in economic relations and administrative co-ordination with border areas of candidate countries militates in favour of this inclusion. The details will be discussed with the Austrian authorities and set out in a modification to the INTERREG guidelines, after consulting the neighbouring countries and taking into account the specific needs of the bordering Länder.

In addition, the Commission recalls the possibility to make use of the flexibility contained in the INTERREG guidelines to allocate part of the programme resources to areas adjoining those areas at the NUTS III level eligible under INTERREG III A. If used effectively, this flexibility should meet the needs of metropolitan areas which are potentially affected by enlargement.

Application of the “principle of territoriality” of INTERREG

In order to improve co-operation between INTERREG and Phare-CBC, the Commission will also examine the possibilities of making the “principle of territoriality” less rigid in application. This means that currently only projects or those parts of projects which are physically located in EU territory may be funded by INTERREG. In particular, the Commission will examine under which circumstances INTERREG alone could fund entire projects which are partly located outside EU territory, such as bridges which span a border, and projects which do not involve investment in physical infrastructure, e.g. cultural exchanges with a border area in a candidate country.

4.5 Special EIB programme for environmental and transport projects

One of the major problems identified in the border regions is a lack of adequate transport and environmental infrastructure. Phare-CBC and INTERREG currently support cross-border infrastructure projects through grants. Larger investments are supported by ISPA and in Member States by the ERDF and the TEN-transport budget.

The European Investment Bank (EIB) is already very active in the Member States, often in projects supported by Community grant aid. The EIB's involvement in candidate countries has been rather limited in the past, but is now gradually increasing. One problem is that candidate countries have less funds available for smaller transport infrastructure and environmental projects. This has been identified as a major deficit in the successful completion of cross-border projects. The lack of matching funds on the side of candidate countries could, at least in part, be remedied through a combination of grant money and EIB lending. Moreover, the combination with EIB funding would bring in additional leverage to grants from Phare and help authorities in the border regions to develop regional and local infrastructure. In particular, a gradual opening of the municipal lending market in candidate countries would also be prepared in time for enlargement.

The Commission will therefore make a proposal to use an initial Phare envelope of up to € 50 million to develop in combination with the EIB such a municipal lending facility for transport and environmental projects, provided they form part of an integrated industrial restructuring programme or regional development plan.

The EIB loans could thus be used towards co-financing requirements at the project level in border regions. This could either take the form of an additional facility which would allow EIB loans to be added to existing INTERREG and Phare-CBC funds in the context of joint programmes, or a of co-ordinated (but separate) facility, provided it takes due account of regional development plans/restructuring programmes.

The Commission invites Member States to examine whether, in accordance with article 10 of the Structural Funds Regulation No 1260/99, the Joint Programming Documents for INTERREG IIIA/Phare-CBC could ensure better co-ordination with assistance from the EIB.

At a later stage, and in order to decrease existing regional imbalances within the candidate countries, such a municipal lending facility could be extended to other regions in candidate countries (beyond the border regions).

4.6 Measures for the development of the agricultural sector in border regions

Certain policy initiatives in the agricultural and rural fields may also be required to counter-balance possible negative effects of enlargement in border regions:

- In border regions where farms suffer from low competitiveness particularly in certain product sectors, existing rural development programmes could be re-orientated to focus increased investment, training and marketing activities on the affected areas. Moreover, increased support could be directed to the diversification of the economic

activities, on and off the farms. Within the framework of Council Regulation 1257/1999, Member States would have to decide whether specific actions were necessary, on the basis inter alia of the mid-term evaluation of these programmes.

Member States' could intensify their rural development activities in border regions using the modulation instrument set out in Article 4 of Council Regulation (EC) No 1259/1999. The Community funds concerned would be available to Member States as additional Community support for measures in the fields of early retirement, agri-environment and afforestation as defined in Council Regulation (EC) No 1257/1999 as well as for measures in favour of less favoured areas and areas with environmental restrictions."

- The LEADER+ programme could be used by the Member States to encourage cross-border co-operation between rural communities on both sides of the border.
- According to the eligible measures mentioned in point 1 of Annex II of the Guidelines INTERREG IIIA projects could promote rural development. These projects might be matched by Phare-CBC or SAPARD projects in the candidate countries. Overlap between the different programmes will, however, have to be avoided. The INTERREG projects will have to apply the strict rules of Reg. 1257/1999 to measures in connection with products of Annex I of the Treaty.
- Particular attention needs to be given to the restructuring and rural development process in the candidate countries, both pre- and post-accession. Since most border regions of the new Member States will have Objective 1 status, there should be considerable scope to enhance cross-border co-operation with former EU border regions with experience of Objective 1 status.

4.7 Community education, training and youth programmes

Candidate countries participate in Community programmes in the area of education and training including Socrates (education), Leonardo (vocational training), Youth (informal education and mobility), on the same basis as Member States. Actions supported by these programmes include partners from different Member States and candidate countries.

Though not specifically designed for cross-border co-operation, these programmes enhance the promotion of the educational and training dimensions related to the preparation of enlargement. Special efforts should also be made by the relevant national authorities and, where appropriate, by the respective programme agencies, to maximise the use of these programmes in border regions. Information campaigns could be organised jointly by educational institutions and programme agencies in border regions and neighbouring regions in the candidate countries.

In addition to those activities, the Commission proposes to allocate an additional financial envelope of € 10 million in the period 2003-2006 to the YOUTH programme, on the basis of the current legal basis and the current decentralised management framework.

Amongst the Community education and training programmes, the YOUTH programme has been identified as the most appropriate to foster intercultural learning and co-operation among cross-border regions.

By encompassing a comprehensive approach through different methods and activities, the YOUTH programme promotes mobility, initiative, intercultural learning and solidarity among young people and other citizens throughout Europe. Furthermore, its largely decentralised-based management, contributes to boost political impact and visibility at national, regional and local level.

Building on the accumulated experience, the YOUTH programme can offer young people of cross-border regions innovative opportunities to develop interaction and co-operation. Many combinations are possible through youth exchanges, European voluntary service projects or training, information and cooperation activities.

4.8 Free movement of people

An EU common position has been defined in respect of the free movement of workers and at the close of the Swedish Presidency this position, with certain negotiated adaptations, was acceptable to five candidate countries.¹⁷

The information note produced by the Commission in March 2001, and the sources upon which this was based indicated that, while overall numbers of workers migrating might not be large in percentage terms, in absolute terms a disproportionate number would target Germany and Austria. It has been difficult to forecast with authority the numbers of commuters or frontier workers which could result as the data available is historical in nature with any predictions only estimates. At this stage, no reliable methodology exists for predicting future population movements and for coping with the many variables which influence such a decision (income differentials, labour market situation, cultural factors, etc.)

Thus the degree of uncertainty regarding future labour movements and the level of real sensitivities and fears in some sections of the population militated in favour of transitional arrangements in order to facilitate the smooth liberalisation of the movement of workers. The transition arrangement that has been negotiated in this key area has paved the way for an early accession, albeit with some restrictions.

The key elements of the transition arrangement, which also cover commuters or frontier workers, include a transition period, a review mechanism, safeguards and declarations by Member States. A common two-year transition period will be in place for all current Member States, during which time the principles of standstill and community preference will prevail, i.e. conditions for candidate country nationals can only improve and candidate country nationals would have a preference over non-EU labour. On the basis of a review, which will take the form of a report from the Commission to the Council, Member States must notify the Commission on whether they intend to continue applying national measures or whether they intend to apply the *acquis*. Thus, from the second year Member States may decide to apply the *acquis*. Five years after accession those current Member States maintaining national provisions may, in case of serious disturbances of the labour market or threat thereof, prolong these for a maximum of two years, after notifying the

¹⁷ Cyprus, Hungary, Latvia, Malta and Slovakia

Commission accordingly. All Member States may invoke a safeguard clause until the end of the seventh year following accession.

The Accession Treaty will include a declaration stating that current Member States shall endeavour to grant increased labour market access under national law, with a view to speed up the approximation to the *acquis*. Member States are also encouraged to liberalise even before accession.

While there are no global transitional arrangements in relation to any provision of services, two Member States¹⁸ have negotiated a safeguard mechanism in specific sensitive service sectors on their labour markets.

The chapter has been provisionally closed for three of the above countries by virtue of the inclusion of certain elements of reciprocity and a reinforced declaration. Thus for the candidate countries in question, it has been accepted that they may apply to nationals from a current Member State national measures equivalent to the measures applied by that Member State with regard to themselves. As long as a current Member State applies national measures to nationals of a new Member State, other new Member States may resort to safeguard provisions with regard to that new Member State. A tailor made solution, which is essentially a safeguard with a declaration, has been agreed in respect of Malta. No restrictions are in place for Cyprus.

4.9 State aids

Regional aid maps

In 1999-2000, the Commission approved the regional aid maps for 14 Member states for the period 2000-2006. Germany had notified its regional aid map only for the period 2000-2003, and its Commission approval therefore expires already by the end of 2003. All but 4 NUTS III areas of Member States bordering candidate countries (see 3.2) had been proposed by Member States as assisted areas and are now eligible for state aid for regional purposes. Pursuant to point 5.6 of the regional aid guidelines (1998), Member States have the possibility, if the socio-economic conditions have changed significantly, to propose adjustments to the regional aid maps during their period of validity with regard to the eligible.¹⁹ Member States may use this provision to ensure that all NUTS level III regions bordering accession countries are eligible for state aid for regional purposes (some of these NUTS III regions are currently not eligible). The Commission

¹⁸ Germany and Austria

¹⁹ The Commission notes that Germany will have to notify its regional aid map for the period 2004-2006 in any case.

will examine favourably such adjustments requested by Member States in well-founded cases. In order not to increase the population ceiling of a given Member State, the possible inclusion of new regions must, of course, be offset by the exclusion of regions with the same population.

Regional aid intensity ceiling

Not all Member states fully exploited the regional aid ceiling of 20% net the Commission can approve for Article 87(3)©-regions bordering regions eligible for regional aid under Article 87(3)(a) CE. Germany, for instance, proposed a substantially lower regional aid ceiling of 18% gross. The same Member state limited its regional aid ceiling in its assisted regions pursuant to Article 87(3)(a) EC to 35% gross, whereas the Commission could have approved regional aid ceilings between 35% net and 50% net, depending on the relative socio-economic situation of the region concerned. Adjustments to the regional aid maps pursuant to point 5.6 of the regional aid guidelines (1998), as described above, can include adjustments to the relevant regional aid intensity ceilings.

State aid and risk capital

The Commission recently²⁰ adopted its communication on state aid and risk capital. Under this communication, Member states have substantial flexibility to support the creation and initial development of new enterprises. The Commission considers that the use of risk capital might be particularly instrumental in supporting the adjustment process of border regions, in particular by financing the cooperation of firms situated in the EU border regions with firms in candidate countries.

Budgetary reinforcement of actions in favour of border regions under approved aid schemes.

In addition, Member States can make use of the existing rules allowing them to allocate more funds in the border regions within the overall budgetary allocation approved by the Commission for the respective aid scheme. They could also increase the budgetary allocation by up to 20% in order to dedicate more funds to the border regions, without having to notify the Commission.

4.10 Communication Strategy for Enlargement

There are various concerns in border regions regarding the possible negative effects of enlargement, in particular regarding uncontrolled immigration, cross-border commuting and increased competition. The analysis of border regions in this Communication has shown that many of these concerns unfounded and that, on the contrary, border regions will benefit from enlargement in the long term.

²⁰ 23.5.2001, publication in preparation

In order to address these concerns, the Commission will highlight the issue of border regions in its Communication Strategy for Enlargement. It will therefore encourage the relevant Representations and Delegations to use part of the available resources for information measures related to the situation in border regions. The Member States concerned should also ensure that information campaigns on enlargement take due account of border regions.

4.11 Commission Working Group on Border Regions

The Commission will set up a joint working group of relevant services that will co-ordinate and follow-up the actions proposed in this Communication. These actions will be pursued as a single Community Action for Border Regions, which will be co-ordinated by the working group. The group will function as a contact point and “help-desk” for inquiries.

5. Conclusion

The Community Action for Border Regions presented in this Communication covers a wide range of measures which can be applied to meet the specific needs of the different sectors concerned. The Commission proposes better co-ordination of existing instruments in border regions, use of the flexibility margin of applicable state aids rules and additional investment in specific areas, in particular transport and environmental infrastructure. A further important task is to develop an effective information and communication strategy that can help to maximise the benefits of enlargement in the border regions.

The proposed measures should help to enhance cross-border co-operation and the development of new economic regions, creating new opportunities for growth and employment on both sides of the border.

With regard to the principle of subsidiarity, this Action needs to be complemented by, and co-ordinated with, appropriate measures at the national, regional and local levels. The Commission in conjunction with the Member States will continue to monitor the social and economic impact of enlargement in the border regions with a view to further improve this Community Action. In view of the progressing accession negotiations, the proposed measures should be implemented as soon as possible.

Annex/Appendices: Table, maps