

Europe's Neighbourhood from a Territorial Perspective

Report from the ESPON Internal Seminar

5-6 December 2012 in Paphos - Cyprus



ESPON 2013 Programme

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Preface

Territorial development in Europe and its neighbouring areas are linked and increasingly interdependent in today's changing world.

Improving the mutual understanding of territorial development processes and trends offers an opportunity for an intensified dialogue between Europe and its neighbourhood on common objectives, challenges, development potentials and cooperation.

In the Territorial Agenda of the European Union 2020, EU ministers responsible for territorial development and spatial planning identified a need to deepen and widen integration across the external borders of the EU. So far European Neighbourhood Policy has taken the form of a series of bi-lateral agreements with countries to the east and south of the EU in order to promote prosperity, stability and security at its borders. The European Neighbourhood Policy Instrument is a mechanism for funding co-operation and development. Overall, EU policies are driven by the Europe 2020 Strategy which aims for “smart, sustainable and inclusive growth” as the path to recovery from the economic crisis.

Alongside these policies and aims there are myriads of commercial contacts, movements of people and flows of traffic and energy. This “functional region of Europe”, which goes beyond the borders of the EU, is becoming increasingly important. Successive EU enlargements have brought countries closer to the EU and they have an increasing impact on the EU's development.

It is therefore timely to look at Europe's neighbourhood in territorial terms. Territorial evidence for European policy making is needed, but the territorial approach can also inform development decisions in countries in the neighbourhood. We need insights on how developments in the European neighbourhood influence territorial development in Europe, and ideas on collaboration possibilities between Europe and its neighbourhood. In this way, territorial evidence can help to strengthen co-operation with neighbouring areas on issues and in places where there is scope for synergies. Closer working with the neighbourhood offers the potential to increase Europe's competitiveness in the global economy contributing to growth and jobs. It is also essential for the sustainable management of natural resources such as the seas and oceans around our continent, biodiversity conservation, as well as tackling pollution and promoting environmental protection.

To further explore the neighbourhood dimension of European territorial development, ESPON organised a seminar in Cyprus, 5-6 December 2012. The seminar theme was “Territorial Development Opportunities in Europe and its neighbourhood to Foster Global Competitiveness”. With around 200 participants, including researchers from ESPON projects, policy makers from the ESPON Monitoring Committee, representatives from ESPON Contact Points, as well as stakeholders and practitioners active in the neighbourhood, the seminar explored ESPON knowledge for better understanding the role, position and influence of European regions, cities and its neighbourhood in the global economy. The seminar offered a good opportunity for a dialogue between policy makers, practitioners and researchers on territorial development opportunities and strategic options, including co-operation activities that could promote Europe's competitiveness and territorial integration in the long term.

The present report is based on the presentations and discussions during the seminar. It presents some of the main ESPON findings in the field and the main issues discussed at the seminar and in its various workshops. The factsheet in the beginning of the report presents some comparable facts and figures on neighbouring countries. The first chapter sets the scene by looking at EU neighbourhood policies and different understandings and definitions of the European neighbourhood. The second chapter highlights ESPON findings that are relevant for discussing the neighbourhood. The third chapter provides a summary of the main territorial dimensions of the neighbourhood developments discussed in Paphos. Each sub-chapter of the third chapter ends with a text box highlighting some statements or questions raised by participants during the seminar.

Peter Mehlbye

Director of the ESPON Coordination Unit

Executive Summary

The Cyprus EU Presidency emphasised the importance Europe's neighbourhood areas. In this context ESPON organised a seminar in Paphos discussing the territorial dimension of Europe's neighbourhood.

Territorial development in Europe and its neighbouring areas impact upon each other. Key concerns include economy and trade, demographic developments and migration, global transport as well as short sea shipping, energy, environmental concerns and climate change. From a territorial perspective this discussion revealed the following findings:

- **Europe's interest in its neighbourhood is growing** both in terms of trade and territorial co-operation. However, Northern America still is the main trading partner.
- **Europe's neighbourhood is very diverse** and not only defined by geographical proximity. Therefore a more nuanced understanding of the territorial diversity and the different neighbourhood areas is needed.
- **Rapidly growing global cities in the neighbourhood** already have strong links with major urban areas in Europe. Such links are likely to increase because of the market opportunities and human capital that are on offer.
- **Territorial concentration trends** are visible both in Europe and its neighbouring areas. Many neighbourhood countries, such as Algeria, Egypt or Turkey, have deep and growing regional disparities in terms of population development and also wealth. This poses questions with regard to the objective of territorial cohesion at different scales, both between Europe and its neighbourhood, within Europe and within neighbourhood countries.
- **Strong competitors** are emerging in some neighbouring countries. The role of some metropolitan and port regions in the neighbourhood is changing from a source for unskilled migrant labour to a destination for highly skilled labour emigration, or to a competitor for international trade links and transport hubs.
- **Demographic trends differ strongly** between Europe and its southern neighbours. While many European regions are ageing, most southern neighbours have a young and vibrant population. In contrast eastern neighbours' demography is very similar to that in eastern parts of the EU.
- **The EU is energy-dependent**, and energy resources are important economic features of many neighbouring regions. Some neighbouring areas and regions in the periphery of the EU may benefit from the exploitation of new sources, new technologies and new pipelines.
- **The need for more territorial evidence on the wider European neighbourhood** is clearly highlighted throughout the report. A better understanding of the diversity and economic realities of neighbouring cities, regions and countries will be an advantage for European territorial development.

The report ends with a suggestion from seminar participants to enhance cooperation with stakeholders in the neighbourhood areas in order to deepen the territorial knowledge on Europe and its neighbourhood.

Facts and Figures about countries in the European Neighbourhood

Coverage:	<p>23 countries i.e.:</p> <ul style="list-style-type: none"> • Faroe Islands and Greenland (to Denmark) (Northern neighbourhood); • Russia, Ukraine, Belarus, Moldova (Eastern neighbourhood); • Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo (under the UNSCR 1244/99), the former Yugoslav Republic of Macedonia and Albania (South-Eastern neighbourhood); • Morocco, Algeria, Tunisia, Libya, Egypt, Jordan, the occupied Palestinian territory, Israel, Lebanon, Syria and Turkey (Mediterranean neighbourhood). • <i>NB:</i> Armenia, Azerbaijan and Georgia are not covered by the ITAN project
Total territory:	<p>25 million km² (neighbouring Arctic areas of Canada not included), ranging from 1400 km² in Faroe Islands to 16.6 million km² in Russia.</p>
Share of world GDP at current prices	<p>3.4% in 1994 → 5.8% in 2011.</p> <ul style="list-style-type: none"> • Northern neighbourhood = 0,008% → 0.005% • Eastern neighbourhood = 1.7% → 3.0% • South-Eastern neighbourhood = 0.2% → 0.2% • Mediterranean neighbourhood = 1.5% → 2.5% • <i>NB:</i> Armenia, Azerbaijan and Georgia = 0.03% → 0.13%
GDP per capita:	<p>1 487 €/hab. in 1994 → 5 839 €/hab. in 2011 (ranging from < 737 € in Palestinian territories to 33 180 € in the Faroe)</p> <ul style="list-style-type: none"> • Northern neighbourhood = 15 645 → 24 200 € • Eastern neighbourhood = 1 598 → 7 662 € • South-Eastern neighbourhood = 1 417 → 5 136 € • Mediterranean neighbourhood = 1 378 → 4 603 € • <i>NB:</i> Armenia, Azerbaijan and Georgia = 335 → 3 873 €
Average annual development of GDP per capita:	<p>8.4% between 1994 and 2011 (ranging from -1,0% in Palestinian terr. to 16,4% in Bosnia-Herz.)</p> <ul style="list-style-type: none"> • Northern neighbourhood = 2.6% • Eastern neighbourhood = 9.7% • South-Eastern neighbourhood = 7.9% • Mediterranean neighbourhood = 7.4% • <i>NB:</i> Armenia, Azerbaijan and Georgia = 15.5%
Share of world population:	<p>8.1% in 1994 → 7.3% in 2011</p> <ul style="list-style-type: none"> • Northern neighbourhood = 0,002 → 0,002% • Eastern neighbourhood = 3.8 → 2.9% • South-Eastern neighbourhood = 0.4 → 0.3% • Mediterranean neighbourhood = 3.9 → 4.1% • <i>NB:</i> Armenia, Azerbaijan and Georgia = 0.3 → 0.2%

Total population:	<p>454 million in 1994 → 508 million in 2011 (ranging from 0.04 million in Faroe to 142 million in Russia)</p> <ul style="list-style-type: none"> Northern neighbourhood = 0,1 million (2011) Eastern neighbourhood = 200,6 million (2011) South-Eastern neighbourhood = 23,1 million (2011) Mediterranean neighbourhood = 284,6 million (2011) NB: Armenia, Azerbaijan and Georgia = 16,8 million (2011)
Population development (annual growth):	<p>+0.7 % between 1994 and 2011 (ranging from -0.7 % in Ukraine to +2.5 % in Cyprus)</p> <ul style="list-style-type: none"> Northern neighbourhood = 0.3% Eastern neighbourhood = - 0.4% South-Eastern neighbourhood = - 0.1% Mediterranean neighbourhood = 1.6% NB: Armenia, Azerbaijan and Georgia = 0.4%
Proportion of population aged 0-14 years and 65 years and more:	<p>0-14 year old: 29,3% (1994) → 22,9% (2011) 65 and more: 8,2% (1994) → 8,9% (2011)</p> <ul style="list-style-type: none"> Northern neighbourhood = na Eastern neighbourhood = 21,6% → 15,1%; and 12,2% → 13,4% South-Eastern neighbourhood = 21,4% → 15,8%; and 9,1% → 12,9% Mediterranean neighbourhood = 37,9% → 29,0%; and 4,2% → 5,5% NB: Armenia, Azerbaijan and Georgia = 30,3% → 19,6%; 7,2% → 9,4%
Population density:	<p>21 inhabitants per km² in 2011 (ranging from 0.1 in Greenland to 668 in Palestinian territories)</p> <ul style="list-style-type: none"> Northern neighbourhood = 0,3 hab. per km² Eastern neighbourhood = 12 hab. per km² South-Eastern neighbourhood = 85 hab. per km² Mediterranean neighbourhood = 42 hab. per km² NB: Armenia, Azerbaijan and Georgia = 93 hab. per km²
Investment (Gross capital formation) as % of GDP:	<p>Approx. 25 % in 2011 (ranging from 15% Israel to 41 % in Algeria)</p>
Greenhouse Gas emissions per capita:	<p>7,9 tons CO₂ equivalent in 2010 [CO₂, Methane, and Nitrous oxide, that is 98% of the world greenhouse gas emissions] (ranging from 0.5 tons in Palestinian territories to 15.3 tons in Russia)</p> <ul style="list-style-type: none"> Northern neighbourhood = 12,2 t. per capita Eastern neighbourhood = 13,1 t. per capita South-Eastern neighbourhood = 6,4 t. per capita Mediterranean neighbourhood = 4,4 t. per capita NB: Armenia, Azerbaijan and Georgia = 5,5 t. per capita

Greenhouse Gas emissions per GDP in Millions of Euro:	<p>1 000 tons CO₂ equivalent in 2010 (ranging from 298 tons in Israel to 2186 tons in Ukraine)</p> <ul style="list-style-type: none"> Northern neighbourhood = 370 t. Eastern neighbourhood = 1 262 t. South-Eastern neighbourhood = 913 t. Mediterranean neighbourhood = 702 t. NB: Armenia, Azerbaijan and Georgia = 1 044 t.
Human Development index:	<p>0.717 in 2011 [non demographically weighted average] (ranging from 0.582 for Morocco to 0.888 for Israel)</p> <ul style="list-style-type: none"> Northern neighbourhood = na Eastern neighbourhood = 0.722 (2011) South-Eastern neighbourhood = 0.756 (2011) Mediterranean neighbourhood = 0.565 (1990) → 0.698 (2011) NB: Armenia, Azerbaijan and Georgia = 0.717 (2011)
Share of the neighbourhoods in the European countries relations and flows	<p>Airflows (2012) : 7,1% Trade of goods (exports plus imports): 5,5% (1996) → 7,5% (2011) Immigrations (foreign residents in the EU countries, 2010): 29,8% Energy supply (2010) 32,5%</p>

Notes:

- “GDP 1994”: 1998 for Faroe, 2000 for Kosovo (under the UN resolution 1244/99) and Montenegro, 1997 for Serbia.
- “GDP 2011”: 2009 for Faroe, Greenland and Libya, 2010 for Ukraine, 2005 for Palestinian territories
- GDP converted from USD to € on February 7th, 2013: 1€ = 1,35610 USD
- “Greenhouse gas emissions”: CO₂ 2009, Nitrous oxide 2010, Methane 2010; HFC, PFC, SF₆ are excluded (but they only represent 2% for the total at world scale); only CO₂ available for Faroe, Greenland, Montenegro and Palestinian territories (but Methane and Nitrous oxide represent small emissions compared to CO₂); Kosovo (under the UN resolution 1244/99): no data at all.
- Trade of goods : source: IMF
- Energy supply: source Chelem DB
- Airflows: source Official Airline Guide DB
- The European countries = EU27 + Iceland, Liechtenstein, Norway and Switzerland
- All other data: source World Bank

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Part 1. Approaching Europe's neighbourhood

Today a wider territorial perspective is necessary, as no place can develop in isolation. Networks extend beyond Europe and impact on European territory. New markets are explored by businesses, leading to new flows and changing patterns of flows. Competition of private business and competition for attracting investments into one's city or region are increasingly worldwide and are not a zero-sum-game within Europe or a country. Interdependencies between different places, and global openness, are becoming increasingly important. This has been illustrated by the challenges from climate change and the world financial crisis. Population development, labour force, economic specialisation, trade, energy, the role of cities, migration or environmental challenges need to be viewed in a wider global and neighbourhood perspective. The external borders of the EU remain in flux, as further countries move into membership, whilst others become candidates for membership. At the same time, globalisation has led to increasingly intense interactions between places in Europe and cities and regions far beyond political borders and administrative boundaries. Public agencies, private businesses and non-governmental organisations within Europe navigate their relationships with the wider world within these broad parameters.

Europe's "neighbourhood", the geographical area around Europe, is significant for the way that Europe, its Member States, regions and cities develop. Similarly, what happens in Europe and its different regions has impacts on development in the neighbourhood. However, there is a need for a more in-depth analysis of these relationships, and an evidence base to underpin decisions about where best to invest, or where the preconditions for fruitful cross-border co-operation are most promising.

The ESPON Seminar in Cyprus in December 2012 took an important initiative in focusing on the relation of Europe with its neighbourhood. This report draws together the evidence and debates from that event. It is therefore a first step towards a territorial perspective on Europe's neighbourhood.

1.1 Policies related to the European neighbourhood

There is a European Neighbourhood Policy (ENP). However, it has developed without a territorial perspective. It provides a general framework for security and co-operation and to support development. It mainly promotes trade or cultural co-operation, but it does not reflect on where and on how such actions impact on specific territories either within Europe or (except at the level of the nation state) within the neighbourhood. It focuses on prosperity, stability and security issues, but without explicit territorial objectives, such as moving towards greater territorial cohesion. Concepts such as "territorial capital", which try to focus on the place-based interplay of human capital, environmental assets, and connections internally and externally, are absent. However, the European Neighbourhood and Partnership Instrument provides an important financial instrument under which a wide range of actions can be taken.

The increased European interest in the neighbourhood can be found in a number of other policies and documents. The Europe 2020 Strategy, through which the EU sets the framework for economic recovery from the crisis, makes reference to the neighbourhood, but

without a territorial perspective. Thus it says that “Expanding the area where EU rules are applied will create new opportunities for the EU and its neighbours”.

The European Neighbourhood Policy

The interest in Europe's neighbourhood came into prominence in 2003 in the Commission Communication on Wider Europe. This was at a time when the EU was about to grow from 15 to 25 states. That enlargement radically changed the nature of its external border in the East. Insiders and outsiders were redefined in a profound way. For example, Baltic States once part of the USSR now looked to Scandinavia, Warsaw and Berlin, while residents of Russia now needed visas to visit them. At a time of historic voluntary unification across Europe, the EU initiative sought to guard against new dividing lines between the enlarged EU and its neighbours, and instead to strengthen the prosperity, stability and security of all.

The ENP was officially launched in 2007, when the European Neighbourhood and Partnership Instrument came into force. The aim of the ENP has been to work with Europe's neighbours to build a common space for free circulation of goods, services, capital and people. The “Arab Spring” increased EU interest in its neighbourhood and led to a renewal of the ENP in 2011.

Today, ENP works through a series of bi-lateral agreements with 16 countries around the EU's borders. These are Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Occupied Palestinian Territory, Syria, Tunisia and Ukraine. In twelve cases an Action Plan has been agreed, though by their nature these tend to become “wish lists”. The former Yugoslavian countries were not included because they were seen as being in a separate category, en route to EU membership. Similarly, Russia also has a separate set of co-operation arrangements with the EU, while accession discussions with Turkey began in 2005.

In addition there are regional and multilateral co-operation initiatives: the Eastern Partnership (2009), the Union for the Mediterranean (formerly known as the Barcelona Process, re-launched in 2008), and the Black Sea Synergy (launched in 2008).

Cohesion Policy promotes economic activity and territorial co-operation across external, as well as internal borders. Some macro-regional perspectives include neighbouring countries. The Fifth Report on Economic, Social and Territorial Cohesion highlighted the need for peripheral EU regions to improve communications and enhance transport links across borders. It recognised that the economic problems and political instability in some neighbourhood countries was itself a friction on economic growth in territory on the EU side of a border. Such situations create additional obstacles for some peripheral EU regions; overcoming them would increase the development potential of those parts of the EU territory – and of the neighbourhood. However, the Report also struck a cautionary note, observing that “cross-border co-operation can enhance welfare, but it may involve relatively high transaction costs due to different institutional systems, cultures and languages”.

The Territorial State and Perspective of the EU, produced in 2011 under the Hungarian Presidency, saw better integration with neighbouring countries as important to the achievement of the EU 2020 Strategy. However, it also identified the current fragmented set of policies and initiatives towards these diverse neighbours as a barrier. “The current territorial co-operation system is composed of three loosely co-ordinated blocks: territorial co-operation within the EU, territorial co-operation with neighbouring, candidate, and potential candidate countries, and co-operation with other countries.” Given their distance from mainland Europe, and their specific international contexts, the Outermost Regions might reasonably be considered as another category in the list. Last but not least, there are

those countries linked to the EU through history, geography, economy, and often shared borders, but whose relationship is defined through the European Free Trade Area: Switzerland, Norway and Iceland.

Likewise the Territorial Agenda of the EU, which built on the evidence drawn together in the Territorial State and Perspective, called for closer integration of Europe with its bordering regions. It described cohesion at the EU's external borders as "crucial", saying that "disparities and differences in legal, social and political systems have important consequences especially in terms of migration and trade".

The 2010 EU White Paper on Transport also set out some ambitions in relation to bordering countries. It spoke of extending "our transport and infrastructure policy to our immediate neighbours, including the preparation of mobility continuity plans to deliver closer market integration". More specifically, it spoke of co-operation with Mediterranean partners to implement a Mediterranean Maritime Strategy.

In summary, there is recognition within the EU that relationships with neighbouring countries matter. The way those relationships develop will affect economy, society and politics in Europe and in the neighbourhood. However, policy currently needs more evidence to realise the potentials that could be unlocked by more effective territorial interventions and initiatives.

1.2 The diversity of the neighbourhood

European Neighbourhood Policy has a clear definition of the neighbourhood. However, a territorial development focus is concerned with influences and interactions between places, which gives a more blurred understanding of neighbourhood. In broad terms, a territorial perspective means seeing Europe in its larger context: it is not just about an up-scaling of Europe around the edges. Territorial concepts allow us to view and define Europe's neighbourhood in different ways, as:

- (a) **Geographical proximity** – which follows the traditional understanding of neighbours being the people next door. This is the perspective in the European Neighbourhood Policy;
- (b) **The next node in a network** – which would apply the idea of a network society, where an area's neighbour is its next node in a network. This implies that an area has different neighbours, as it is integrated in different networks (trade, transport, production chains, R&D co-operations, historical and cultural links, etc.) and that these neighbours sometimes can be close by and other times on the other side of the globe; or
- (c) **System thinking** – which would concentrate on how systems work, not least ecological systems, and highlight how developments in one territory influence developments in others. This approach to neighbourhood fits the idea of interdependences and inter-linkages in a space of flows.

The last two understandings of neighbourhood focus on functional relationships, meaning that distant areas can be as, or more, important than adjacent areas. In this sense the next neighbour can be Brazil rather than a place in northern Africa, or even a location in the Gulf States.

The European neighbourhood is highly diverse, regardless of which understanding of neighbourhood is used. In particular when focusing on neighbourhood in terms of areas in close proximity, this can be seen at different geographical levels starting from the level of groupings of countries (or world macro-regions) down to the level of cities and regions. Furthermore, there is variety in the nature of the borders between Europe and the different countries in the neighbourhood.

Different world-regions as neighbours. At least four different types of neighbourhood can be identified and even within them a further shading is necessary as the countries covered differ widely, not at least in their relation to the EU. The four rough types are (a) the Northern & Eastern neighbourhood where the main links are to Russia; (b) the neighbourhood in the Middle East involving a range of very different countries such as Turkey, Israel and Syria; (c) the neighbourhood in Northern Africa along the Mediterranean Sea, and (d) more geographically distant neighbourhood areas of the Outermost Regions, as well as links to North and South America.

Even within these four broad geographical categories, there are significant differences between and within countries. For example, poor infrastructure, long distances and linguistic differences hamper territorial development in the Caribbean. Similarly, political instability and hostilities are evident in the Middle East and within parts of North Africa.

From global metropolitan to deep rural neighbours. Zooming further into the neighbourhood territories, we find a wide range of different kinds of regions. Indeed, the range and diversity is even larger than within the EU. On the one hand, the neighbourhood contains a number of cities which are even larger and more dynamic than most major urban agglomerations within the EU. Among the important nodes in the global network located in the neighbourhood are Istanbul, Moscow, Cairo and Casablanca. At the same time, the neighbourhood areas comprise also a large number of deeply rural and often poor and culturally conservative regions, for example inland areas in North African countries, or more remote regions in Turkey. As economic modernisation proceeds, neighbourhood countries are likely to become increasingly urban, and the gap between their agglomerations and the rural regions is likely to widen before narrowing.

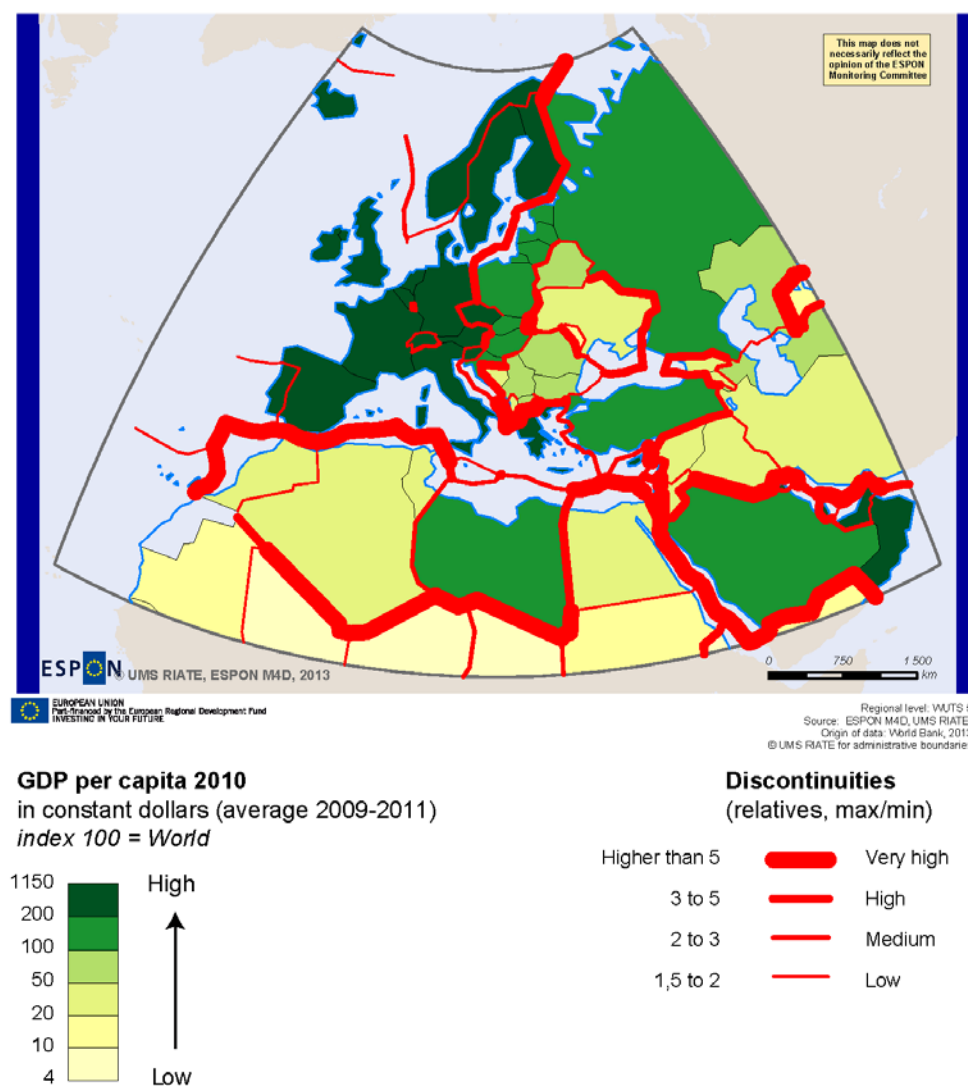
Many parts of the neighbourhood area have achieved economic development which contributed to narrowing the gaps between some of their regions and the EU. In some areas the economic crisis may imply that the gap between EU regions and neighbouring regions may widen.

Border gradients between the EU & its neighbourhood. Border gradients measure the differences on either side of a border. They show how alike – or different – conditions are between one side and the other. Overall, an analysis of border gradients along the external and internal borders of the EU underlines that there is a huge diversity between different borders. This further emphasises that the neighbourhood is not a uniform area. For some aspects, such as infant mortality, there are strong gradients along the external borders of the EU, signifying that there are big differences between health systems, technical and human resources in hospitals and in general health between EU members and their neighbouring countries. However, for employment rates, contrasts tend to be as high, or higher, along some internal borders as they are across some external borders. Such patterns challenge

the conventional thinking that sees Europe and its neighbourhood as two distinct and separate entities. Rather, the territorial systems are more complex.

Arguably, the most fundamental discontinuities remain GDP per capita, which is shown in Map 1. It reveals a complex picture. In the east the main divides do not follow the external EU borders. In the south, there is a notable EU / neighbourhood divide either side of the Mediterranean Sea, but the North African countries emerge as an intermediate category, also divided off from notably poorer countries lying to their own south.

Map 1. Border discontinuities for GDP per capita, 2010 (%)



It is equally important to recognise that neighbourhood countries are not focused exclusively on Europe. While the Sahara Desert still presents an important barrier to communication within Africa, there are political and economic institutions that connect African countries to each other, such as New Partnership for Africa's Development (NEPAD). NEPAD connects the African countries in the EU's neighbourhood to countries south of the Sahara to enhance growth, development and participation in the global economy.

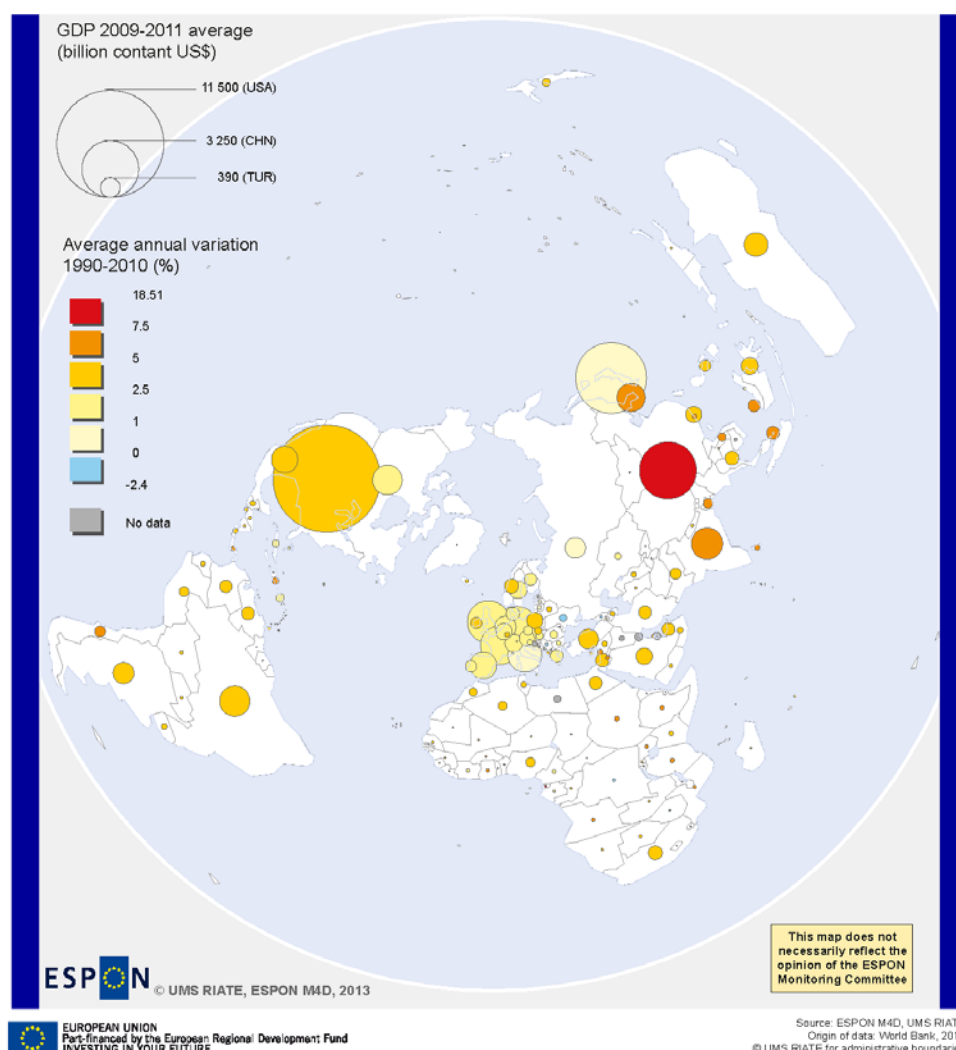
Part 2. Need for a wider perspective

The following sections present ESPON findings on Europe and its neighbourhood for selected topics. The findings presented provide a picture of the territorial diversity of the European neighbourhood.

2.1 Economy & trade – Europe's neighbourhood getting closer

A growing neighbourhood but with large disparities. Economic conditions in neighbourhood countries are in general below the EU average (Map 1). However, Europe's near and far neighbours to the east such as Russia and China are catching up as they experienced high growth rates during the last decade. Europe and most of its "distant neighbours" (USA, Japan) connected through colonial history and trade, include the lowest growth rates of GDP in the world and have even seen some declines since 2008 due to the global financial crisis.

Map 2. Evolution of GDP per capita in the world, 1990-2010



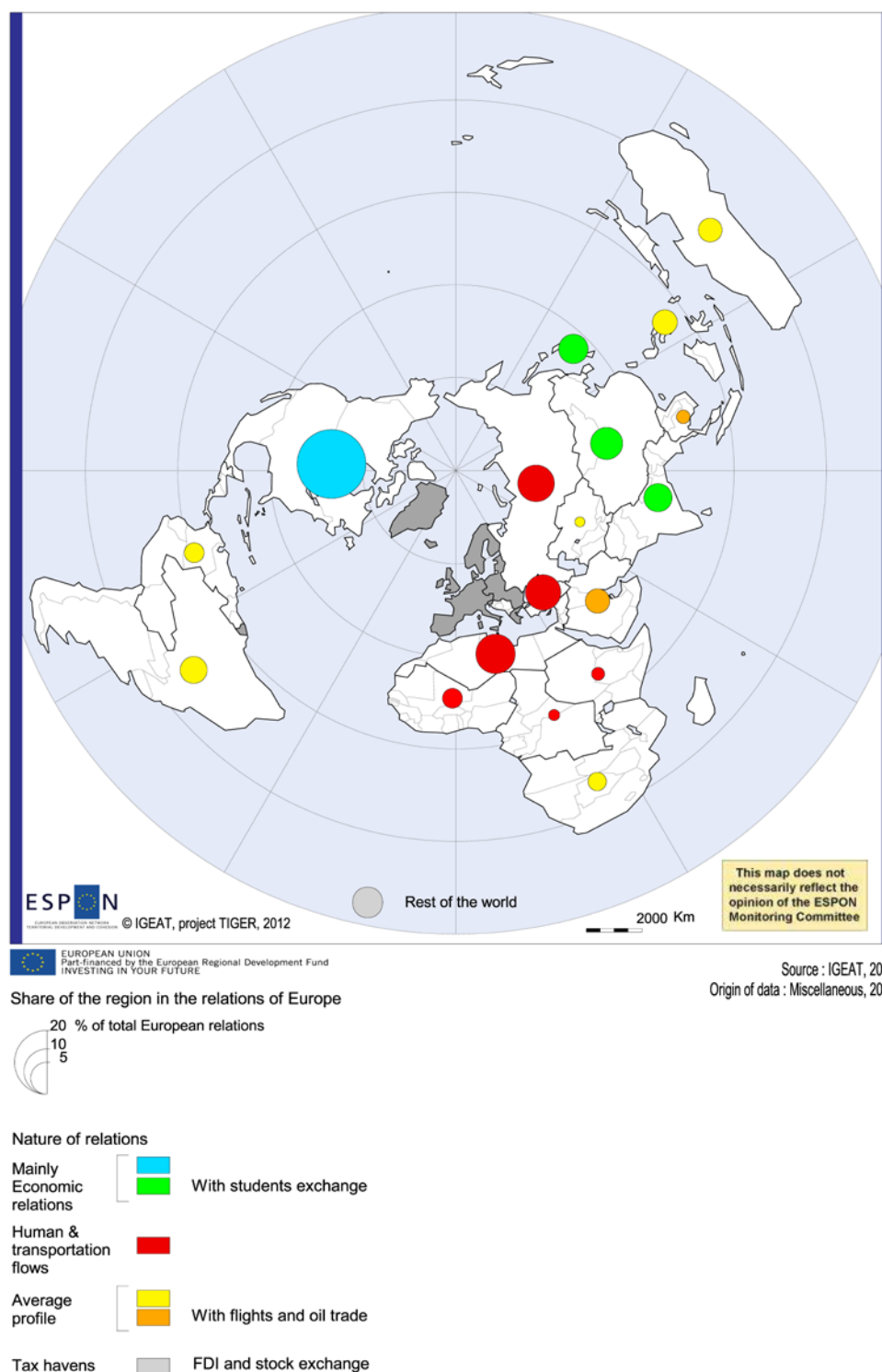
Europe is still a main pole of concentration of economic wealth, but there are significant disparities and trends in economic development “on its doorstep”. In particular some neighbours in the East achieved greater economic dynamism than Europe in recent times. This situation points to economic opportunities in the future if neighbourhood countries can sustain these growth rates, even allowing for the fact that they have been starting from a low base by EU standards.

The increasing wealth in Europe’s Eastern neighbourhood is also linked to global flows of goods, people, knowledge, services and finances. Different places develop different relations with each other based on existing patterns and types of flows, or the flows they would like to see in future.

Europe is losing ground in global trade. Between 1968 and 2007, trade within the Single European Market has increased from 12% (as a share of GDP) to 42%, whereas external trade (as a share of GDP) has increased much less, from 9% to 21%. However with this figure on external trade in 2007, the EU ranks rather low in comparison to other world regional blocks such as 86% for the Association of Southeast Asian Nations (ASEAN), and 23% for the Southern Common Market (MERCOSUR). Overall, this illustrates a shift in the global economy from the “old core countries” of Europe, Northern America and Japan towards Eastern Asia and especially China.

The closer neighbourhood is very important for Europe in terms of human and transportation flows. The closer neighbourhood, Russia, the Middle East and North Africa, are relevant in human and transportation flows, and to a lesser extent in trade of goods (Map 2). Though Sub-Saharan Africa is much less important for Europe than countries neighbouring Europe, as measured by the share of this region in all relations of Europe, its relations with Europe are also focused mainly on human and transportation flows. In the total share, North America appears as the most relevant but mainly for economic relations. In Map 2 the size of the circle gives the average weight of each world macro-region in the extra-continental relations of Europe; while the colour is the result of a classification that takes into consideration the importance of these regions for Europe, but also the nature of the links.

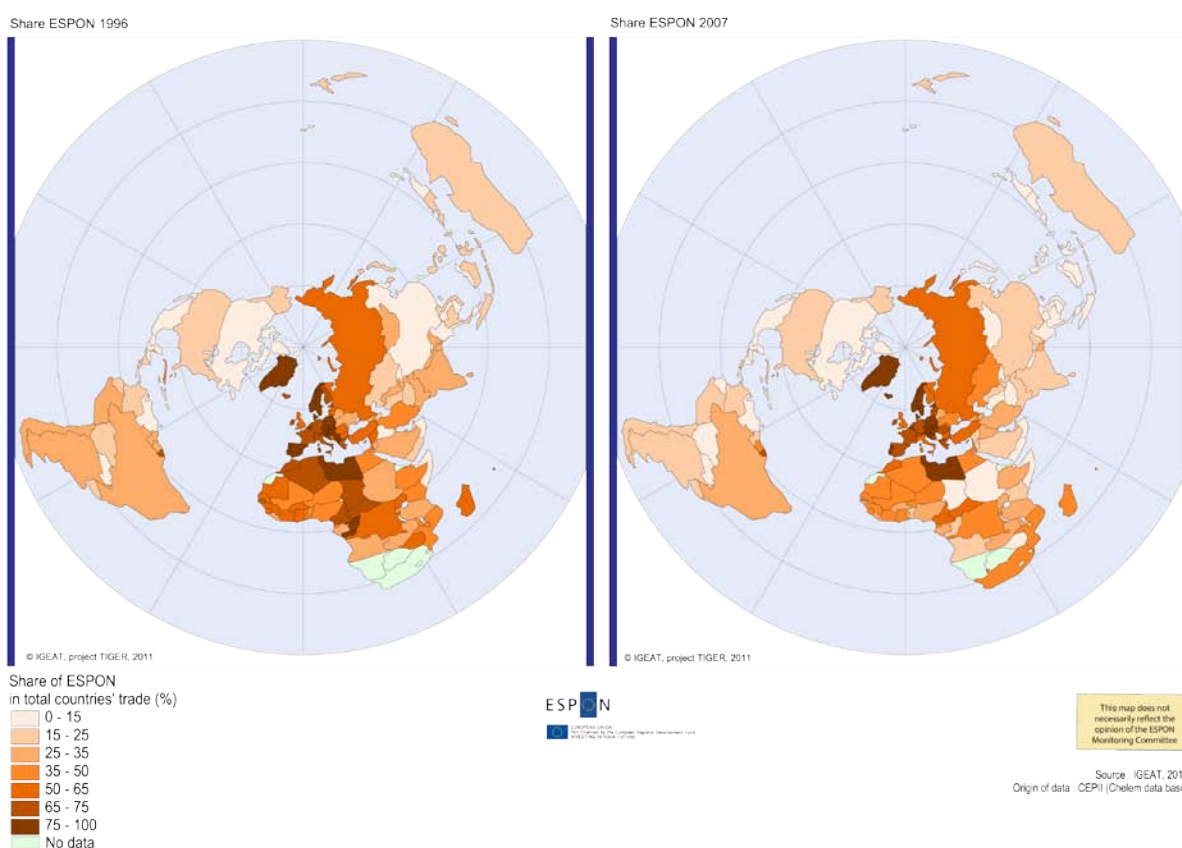
Map 3. Regions of the world: importance for Europe and nature of relations, 2012



Europe increases its influence on the neighbourhood. The global influence of Europe has been more focused towards its neighbourhood during the past decades. In functional terms there is a strong relation between some regions in the neighbourhood and Europe. This trend is shown by the share of trade with European countries, which is higher in neighbouring countries such as Tunisia or Libya than in EU Member States such as the UK, France or Germany.

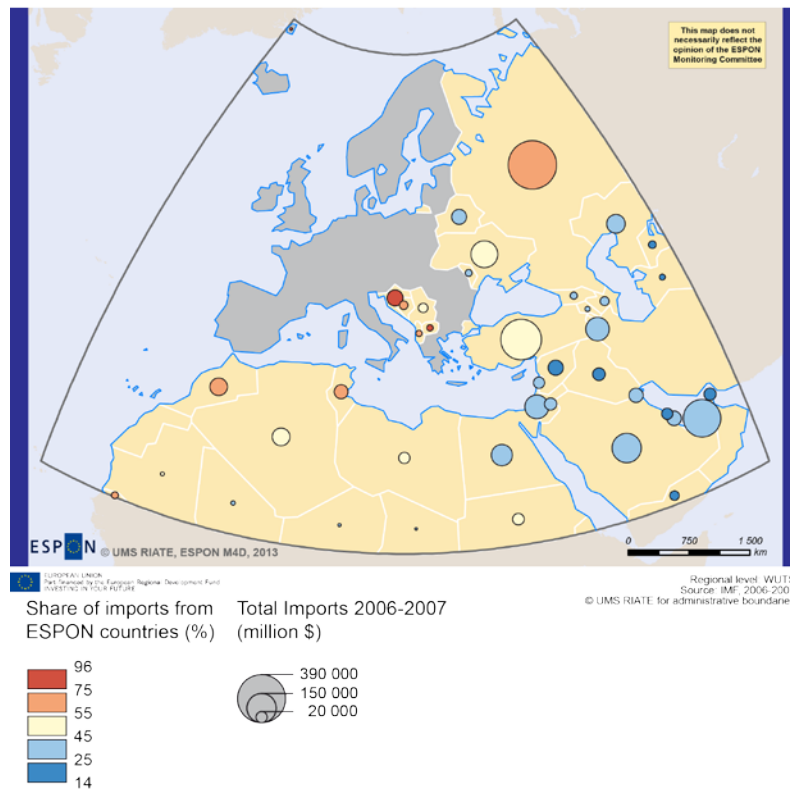
This defines a large functional Europe that includes Northern Africa (migratory flows, daily relations, trade), the near-East, Turkey in particular, and the former USSR Republics, mainly because of intense economic relations. Beyond this immediate eastern and southern neighbourhood, the importance of Europe is decreasing. For Sub-Saharan Africa, the importance of Europe is very heterogeneous from one country to another and from one area to another: Europe is still attractive and remains the main origin of inwards FDI, but the weight of Europe in this region has dramatically decreased in trade or migrations. Europe remains important for North America, especially when firms are considered (FDI and networks of advanced service firms). In contrast, the influence of Europe is quite low in Asia, in nearly all sorts of flows, except for students.

Map 4. Weight of Europe in the trade of countries, 1996 - 2007

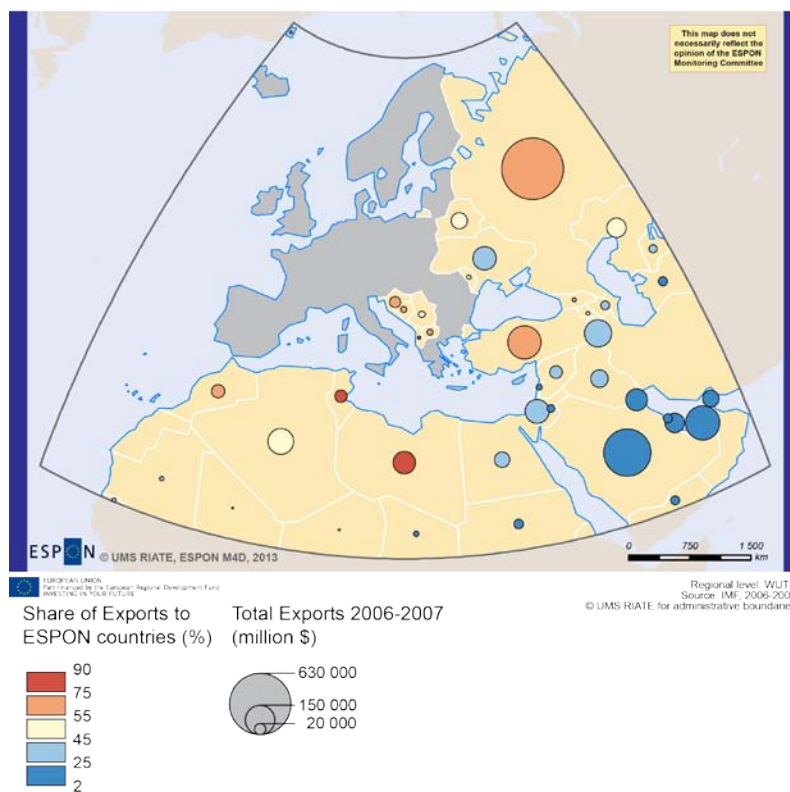


Trade with Europe is mainly important for countries in the near neighbourhood, just as trade with near neighbourhood countries is important for Europe. European trade is particularly significant for the Maghreb countries, Turkey and Russia which import and export more products from and to Europe than other parts of the world.

Map 5. Importance of Europe in the imports of European neighbourhood countries, 2006-2007



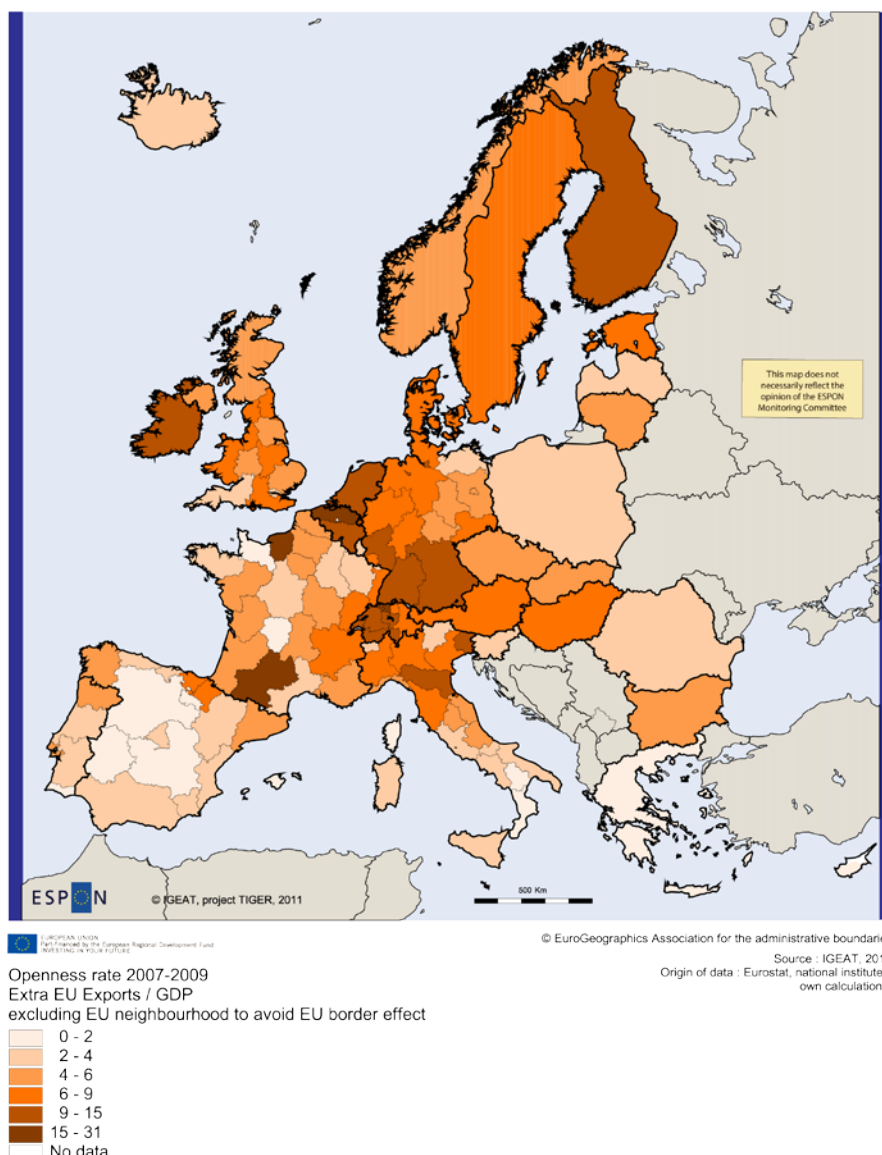
Map 6. Importance of Europe in the exports of European neighbourhood countries, 2006-2007



European regions are not equally involved in international trade. There is a great diversity amongst European regions in their openness to extra-EU trade. In general, openness to globalisation is related to competitiveness, notably in products with high technological content. Looking at extra-European exports (excluding also the direct EU neighbourhood) as a share of the regional GDP, the figures vary from 0.1% in Corsica to 31% for Flanders. In 2007-2009 the most open economies were Belgium, two French regions (Midi-Pyrénées & Haut Normandie), Ireland, Finland, the Netherlands, most of Southern Germany, large parts of Switzerland and two Italian regions (Friuli-Venezia Giulia and Emilia Romagna).

This difference in openness to extra-EU trade implies that global trends affect regional economies across Europe rather differently. However, the economic performance of European regions and cities in the last ten years is not directly related to their participation in the global economy and its networks. Meanwhile, there are growing international players in the EU neighbourhood in terms of global trade, notably Russia, Turkey, Tunisia and Morocco.

Map 7. Openness of European regions to extra-EU trade, 2007-2009



2.2 Demography – Ageing Europe and some youthful neighbourhood countries

Following the economic upswing in a number of neighbouring areas, migration patterns have started to change slowly. Still, GDP discontinuities between Europe and its neighbourhood are largest in the southern neighbourhood, releasing northbound migration pressure. However, single growth poles in the European neighbourhood have already started to transform from sources of unqualified immigrants to Europe to destinations for highly skilled migrations from Europe.

Different demographic profiles of Europe and its southern neighbours will further influence the economic development opportunities and migration patterns over the coming decades. The contrasting demographic developments between youthful, “child-heavy” North Africa and the aging EU is striking. Adding in the uneven regional patterns of migration, one sees a Europe comprising in the east of shrinking cities and regions, but in the west metropolitan growth fuelled by young migrants.

Ageing Europe. Europe’s population is increasing slowly, but it is also ageing. In 2030, the median age in some regions will exceed 50 years. Although, the picture across Europe is not even, many parts of the EU seem likely to face an increasing dependency ratio. A higher proportion of the population will be in the older age groups and not economically active, and so dependent on a relatively smaller proportion of the working age population.

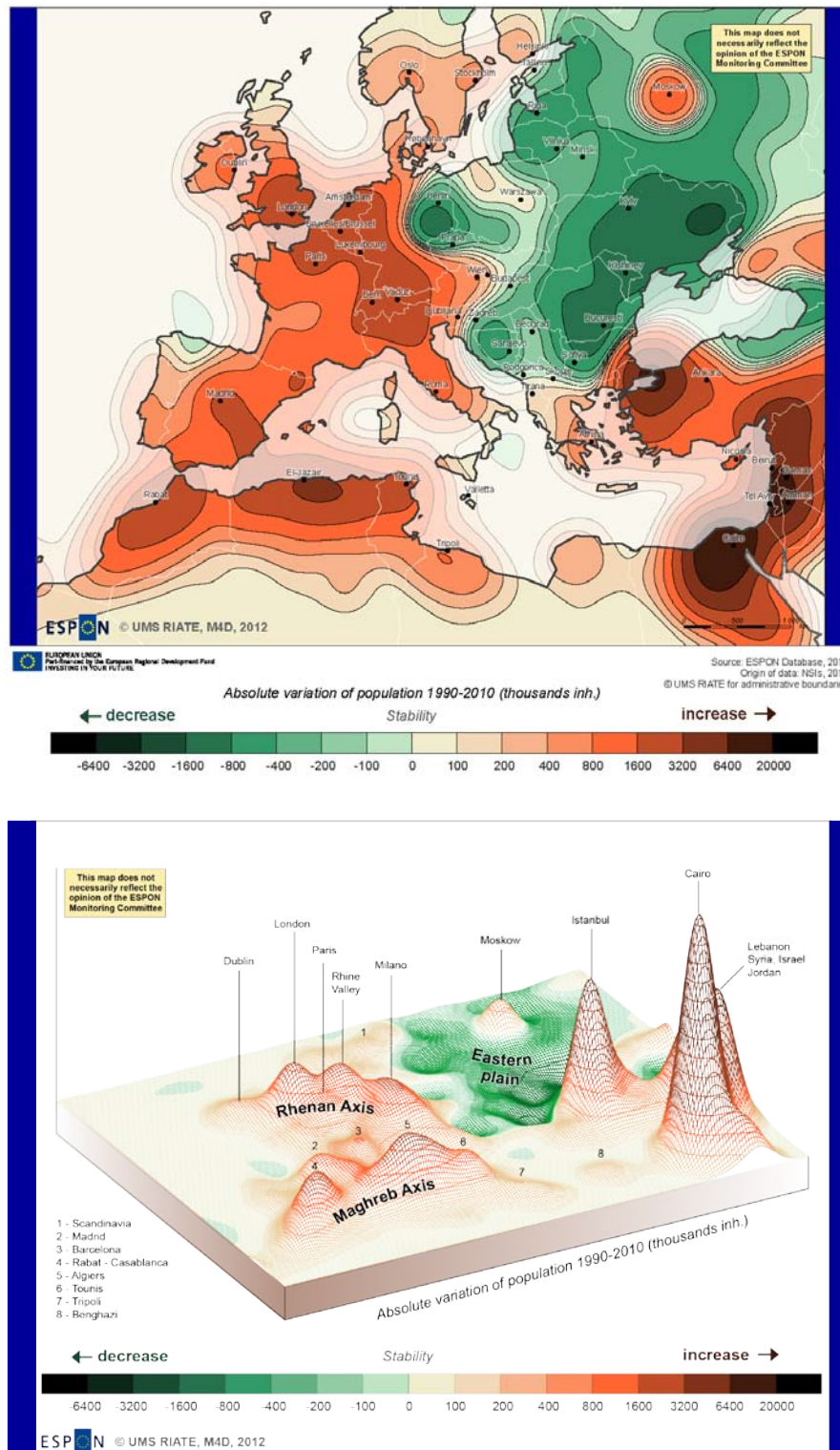
Ageing to the east but young southern neighbours. The demographic picture of the neighbourhood is complex. To the east, the situation is much the same as it is in the EU, especially in eastern Member States. Countries such as Russia (except for growth in Moscow), Belorussia, Ukraine, and Moldova show similar negative demographic trends as Latvia, Lithuania, Estonia, Bulgaria and Romania. However, the picture in Turkey and the Middle East is very different, as it is across North Africa. In terms of the age structure of the population these places are “child heavy”, and there is a divergence from the situation in ageing Europe, although the two patterns are converging as medical advances increase life expectancy. However, for the next two decades, the youthful age structure of the southern neighbourhood has been described as a “demographic gift”.

In terms of demographic development, there are “hot spots” around the Bosphorus and the Eastern Mediterranean, while the eastern European neighbourhood largely faces population decline (Map 2). Given that these demographic contrasts are also mirrored in GDP per capita contrasts, and in some neighbourhood countries extreme political conflict and social unrest, migration from the south-eastern and southern neighbourhood into the EU is likely to continue, putting particular pressure on territories in the southern periphery of the EU. Nor can we ignore the flow of illegal immigrants attempting to enter into Europe.

Growing metropolitan areas in the neighbourhood. The pattern of urban growth that is occurring in the neighbourhood around the Mediterranean is increasing the concentration of population in cities around the coastline. These are the places that are closest to, and most easily reached by surface transport, from Europe’s southern periphery. While proximity does not guarantee interaction, and in a networked world surface connections are only one type of city to city linkage, there is clearly some potential for development within this geography, which in turn will increase pressure on coastal environments and the land-sea interface.

Territorial disparities within neighbourhood countries. Demographic contrasts are high within the neighbourhood countries. For example, within Turkey there are marked west / east differences, in Algeria the contrasts are between the coast and the inland regions, and in Morocco between the large cities and the rest of country. In some places, regional differences are overlaid by tribal or other social divisions.

Map 8. Absolute variation of population, 1990-2010

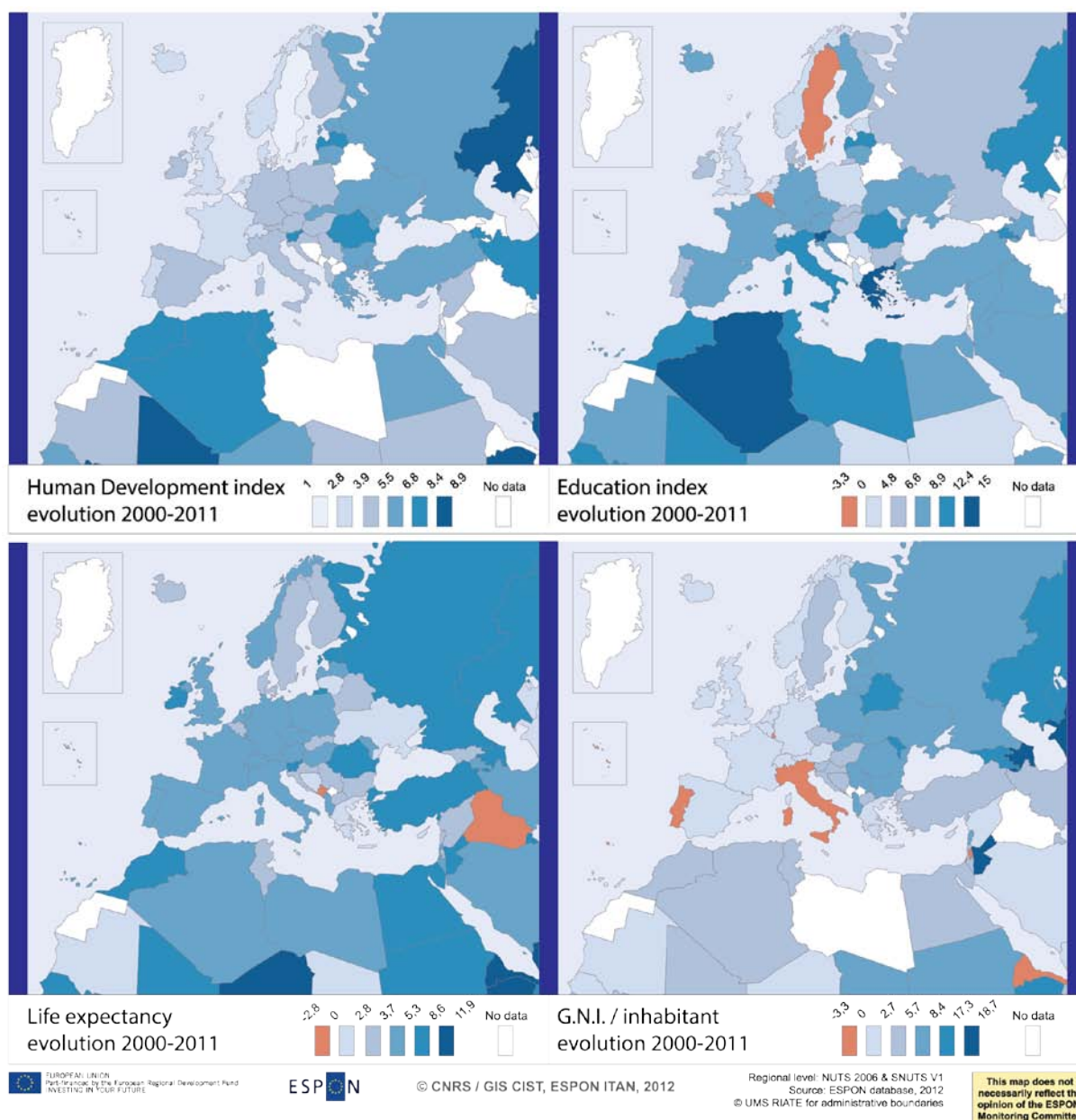


The neighbourhood's demographic growth poles are also significantly closer to some parts of Europe than to others. Cyprus and other places in south-eastern Europe, for example, are much nearer to Istanbul and to Cairo than are cities and regions in Europe's traditional "core" such as London or Paris. This may affect both the territorial push and pull effects of these hotspots, as well as European awareness of their developments. It might be hypothesized that this basic geography influences the mindset: at European level and in the large EU Member States in the north-west the neighbourhood can appear distant, whereas for states and regions around the Mediterranean, or for the Baltic States, it is a much more immediate concern.

Catching up on human development. A young population is only a real asset if other factors are favourable. In this respect, the Human Development Index (HDI) provides a good indication. The HDI measures the average achievements in a country on three basic dimensions of human development (a) a long and healthy life (measured by life expectancy at birth), (b) knowledge (measured by the adult literacy rate and the combined gross enrolment ratio for primary, secondary and tertiary schools), (c) a decent standard of living (measured by the logarithm of GDP per capita in ppp). The index is constructed by the United Nations using indicators currently available worldwide, and it is widely accepted as a useful international measure of human well-being.

The eastern neighbouring areas are recovering after the difficult 1990s and the Mediterranean neighbours keep on improving (Map 8). Overall, disparities decrease between the EU and its neighbouring areas. Looking at the education component, the Mediterranean neighbours benefit from their long-run efforts, but need further efforts to adapt to labour market needs. Regarding life expectancy, the recovery in the eastern neighbourhood concerns mainly Russia. In terms of the standard of living component, the improvements in the southern neighbourhood are not sufficient to cope with the employment needs.

Map 9. Human Development Index, 2000-2011



Neighbours do not only look towards Europe. It is also important to emphasise that Europe is not the sole focus of economic opportunity or migration from the neighbourhood. For example, the Gulf States are poles of attraction for people from North Africa and the Levant (as well as from further afield). Indeed, Europe is in competition with the rest of the world to attract talented people from its neighbourhood. As an example, only one in six high level Jordanian students enrolled for study abroad goes to universities in EU27+4 space. Most of the highly skilled members of the diaspora from the Eastern Mediterranean neighbourhood countries reside in North America, not in Europe. However, another feature of the neighbourhood is high rates of early exit from education. This constitutes a barrier to the economic development of those countries and also to territorial cohesion between the neighbourhood and the EU.

2.3 Transport – Neighbourhood links and competition

The neighbourhood is increasingly integrated and interconnected with Europe. This has been illustrated in terms of trade earlier in this report, and can also be seen in the field of transport infrastructure. This implies also shifting accessibility patterns, as well as rising importance of transport hubs (in particular maritime hubs) in some European areas and in some neighbourhood countries.

Linking infrastructure. Plans to expand the Trans-European Networks to the European neighbourhood area can contribute to reduced travel costs and more efficient movement of goods. If these investments are accompanied by efforts to reduce administrative barriers to cross-border and transnational flows, this could help to build stronger economies in the European neighbourhoods. This could also lead to a shift in accessibility patterns across Europe, e.g. with the emergence of new potential locations of transport hubs and logistics centres in peripheral regions along the current outer border of the European Union. Maritime hubs may be of particular importance in this respect. Overall, a reduction of travel costs and barriers may also support the development of stronger economies in neighbourhoods. Thus there is potential to increase territorial cohesion both within the EU and between the EU and its neighbourhood.

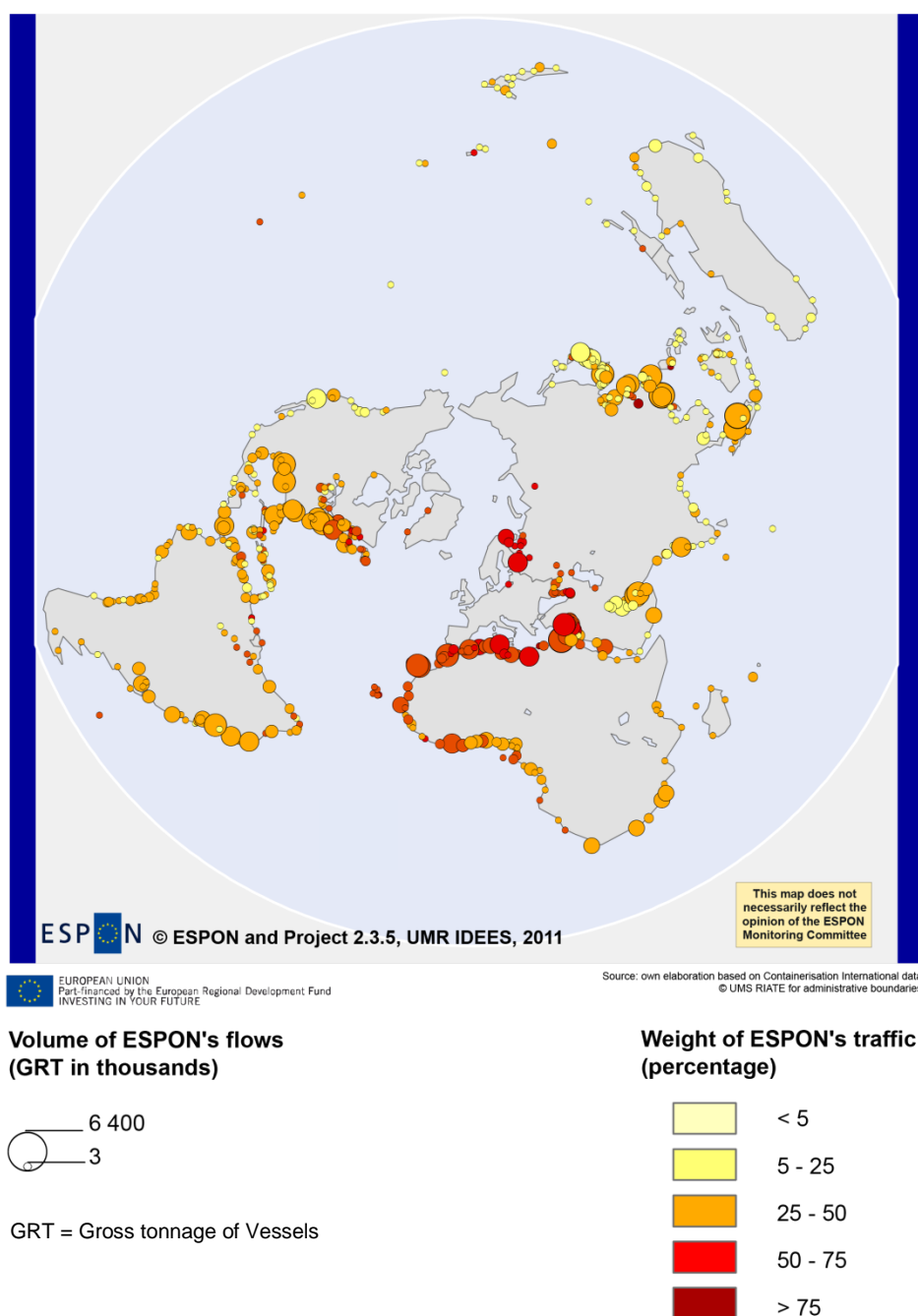
At the same time, the importance of accessibility should not be overestimated. Some regions do not perform as well as one would expect based on their accessibility, and while others perform well in spite of poor accessibility. This suggests that it is important to focus on the transport needs of individual regions based on their economic development opportunities and settlement patterns, rather than to pursue a general policy of “accessibility improvement”.

Europe has strong sea transport links with the neighbourhood. While seas can be barriers separating the neighbourhood and Europe, through shipping they are also important channels for trade flows. Ports are important territorial infrastructures for exports and imports between Europe and its neighbourhood (Map 4). The ports around the Mediterranean, Black and Barents Seas all show up strongly. There are some synergies here, with all parties benefiting from an efficient port system. However there is also some competition between neighbourhood ports and ports in the EU.

Synergy and competition: port development in Morocco.

Some of the major ports for shipping goods to Europe are also players in the global transport of goods. This influences also developments in Europe. Concrete examples of impacts on regional development in Europe can be seen from port developments in Morocco. In recent years, there have been significant investments in harbour developments in Morocco, partially with contributions from the EU. Improvements in transport infrastructure, and particularly in large and modern ports for maritime transport, have paved the way for Morocco to become a world player in maritime transport. While these developments are beneficial for the movement of goods to and from Europe, the competitive position of Moroccan ports has been enhanced in relation to European ports which often do not have the possibility to enlarge their capacity and infrastructure in the same way. In concrete terms some Spanish ports are experiencing tougher competition from Moroccan ports.

Map 10. Weight and share of European related flows in external ports, 2004 (all commodities)

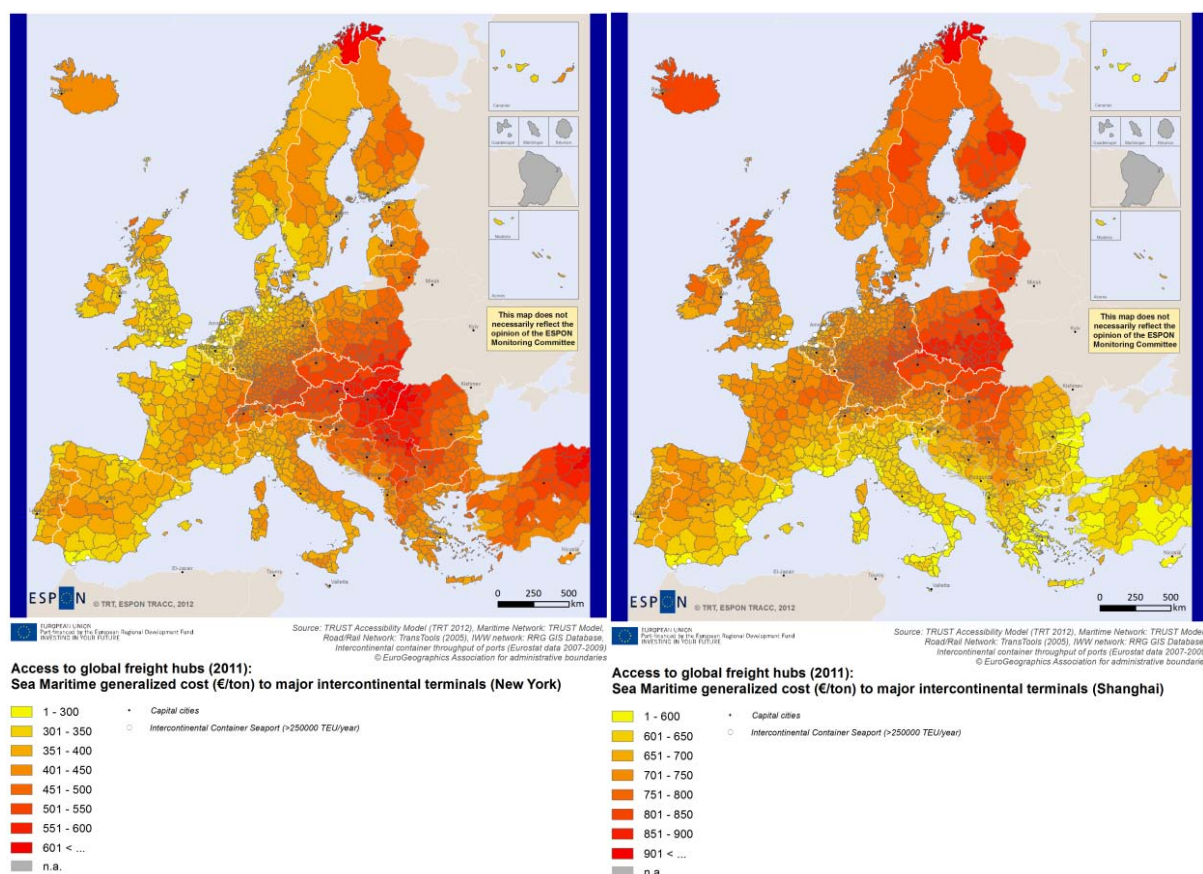


Port development potentials in Europe and its neighbourhood. Despite the importance globally of the Mediterranean as a shipping route, most of the traffic through it does not dock at a Mediterranean port. In effect the Mediterranean becomes a “tunnel”, which ships merely pass through on their journey between origins and destinations elsewhere. There would seem to be unrealised potential here for the Mediterranean ports, both those in the EU and those in the neighbourhood, though it would need investments in ports and landward infrastructure. There is also potential for maritime transport development in the Arctic Ocean. There are signs that climate change will impact on ice-free passage across that ocean. This would significantly change surface transport relationships between Europe, Asia and North America.

Potentials for “blue growth”. The seas can be an important focus for smart and sustainable growth. DG Mare is undertaking work and consultations on the concept of “Blue Growth”, which is the maritime dimension of the Europe 2020 strategy. Blue Growth is defined as “smart, sustainable and inclusive economic and employment growth from the oceans, seas and coasts”. The importance of short-sea shipping, not least in relation to the neighbourhood, should not be overlooked. Each year it accounts for the transport of roughly 1.7 billion tons, of which 600 million tons is with neighbourhood countries. The 1 billion tons of intra-EU shipping accounts for 40% of all EU transport. Annual growth rates of 3 to 4% are anticipated for the next decade. There are 800,000 jobs. Growth in Turkey, Russia, Ukraine and North Africa is expected to increase the demand for short-sea shipping. Road congestion is also expected to increase the competitiveness of shipping. However, the limited progress towards cross-border harmonisation remains a challenge identified by the industry.

Territorial diversity of maritime transport costs. The location and development of ports are also linked to the general accessibility of an area and related transport costs. The cost of sending freight to New York and Shanghai from European regions shows distinct patterns, respectively with West-East and South-North gradients, but always with a disadvantage for inland regions (Map 10). Global gateway cities do not necessarily have an advantage in such global freight connections. Furthermore particular regions towards the East and North-East of Europe tend to have higher transport costs for shipping goods e.g. to New York or Shanghai.

Map 11. Access to global freight hubs: maritime transport costs to New York and Shanghai, 2011



Changing perspectives for land transport. Europe's overland transport links to the growing Asian markets are likely to become increasingly important in the future. At present there are a number of challenges with the infrastructure, some of which are related to the need for harmonisation with countries in the neighbourhood (including changes of gauge on the railways and delays at customs). These impose significant delays and therefore costs.

Changing perspectives for air transport. Patterns of connections from hub airports across Europe tend to mirror the trans-continental business networks in their orientation to North America and increasingly to Asia, rather than to the immediate neighbourhood. Similarly, Madrid is strongly linked to Latin American destinations. However, air transport across Europe and within the neighbourhood shows a polycentric pattern. This is because hubs have feeders, but also because there are some airports that have a distinct niche role. The development of an international airport at Paphos is a good example of an airport in a peripheral part of the EU, and some distance from the national capital, which connects a tourist destination to a set of customers across not only EU countries, but also to places in the neighbourhood such as Russia or Israel.

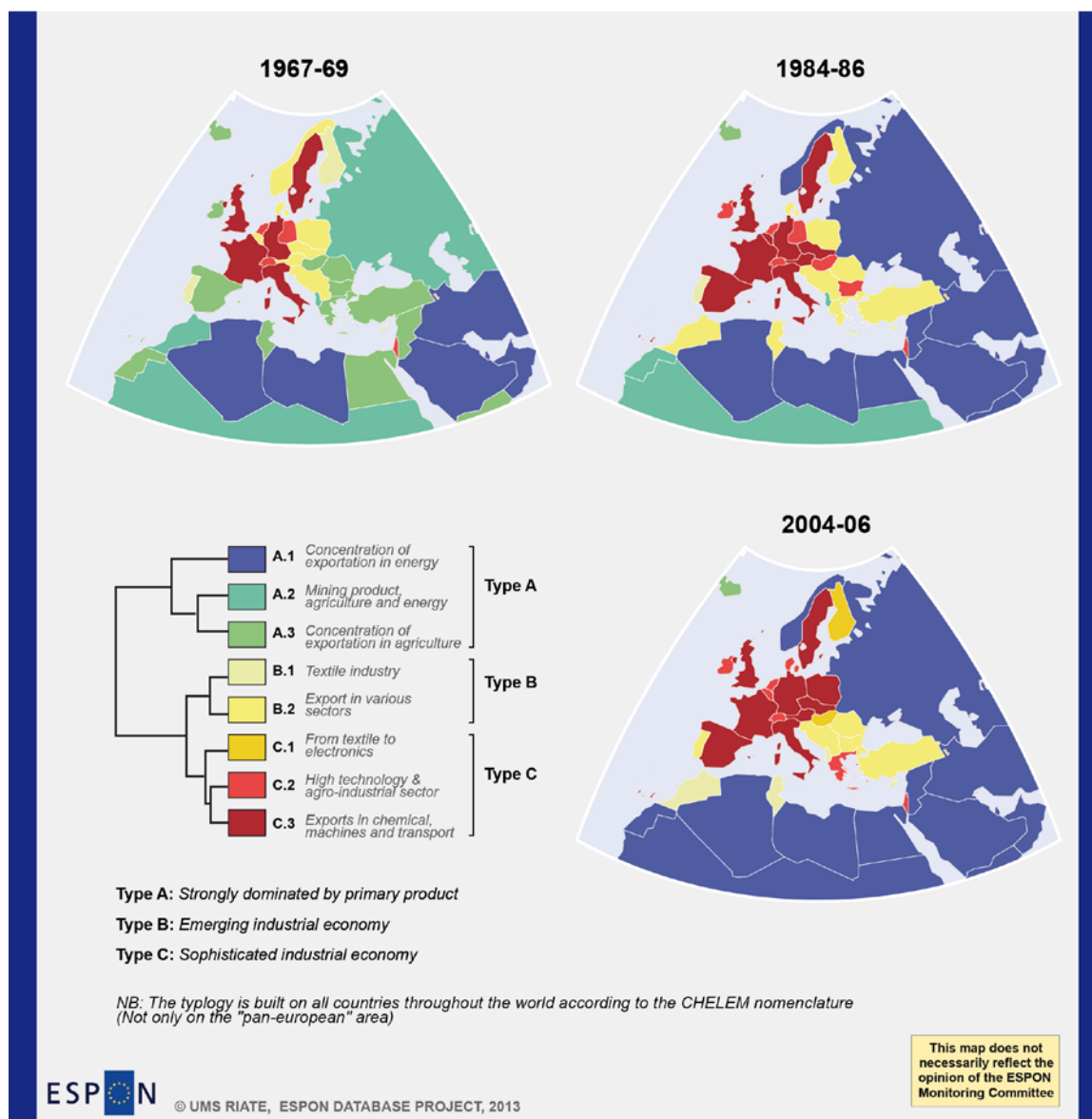
2.4 Energy – A major feature of Europe's neighbourhood

Energy is an important issue for Europe's neighbourhood relations. Europe, in this case more explicitly the EU, is one of the biggest importers of energy in the world: it imported 45% of its energy resources in 1997 and 53% in 2007, and the figure could reach 70% in 2020. The level of external dependency is greater for oil (83% in 2007) than for natural gas (60%) and coal (35%). Most of the current major world oil and natural gas producers are situated in the neighbourhood. Almost 70% of the known oil reserves and 80% of natural gas reserves are located in a geographical zone which includes the former USSR, Northern Africa, Norway and the Middle East. Furthermore, several neighbourhood countries are providing essential transit routes connecting the EU to these reserves (Ukraine, Belarus, Turkey). Most of the natural gas imported by the EU arrives through international pipelines. This means that the EU is significantly dependent on maintaining good relations with its neighbourhood.

Europe's neighbourhood is strong on energy export. The increasing importance of energy is highlighted in trade profiles of Europe's neighbouring countries. Both the EU Member States and their neighbouring countries are changing and developing their industrial and economic profiles. Earlier it was mentioned that the EU is an important trading partner for many of its neighbouring countries. Looking at the development of the countries' profiles for trade exports changing patterns and relations become visible. In the 1960's today's EU Member States were mainly surrounded by countries exporting mining and agricultural products and energy to some degree, whereas Europe exported products and services higher up the value chain. Today, the EU Member States are surrounded by countries mainly exporting energy, and a few countries with export profiles covering several sectors or a focus on the textile industry. However, the profiles of these few countries stand increasingly in direct competition to some sectors within the EU.

There are a number of potential developments around the periphery of Europe that could increase Europe's energy security and also pose new economic development perspectives for some EU Member States and neighbouring countries. These may complement oil and gas from the North Sea which have long been of great economic importance.

Map 12. Country profiles for trade exports, 1967-2006



Eastern-Mediterranean prospects. Hydro-carbon discoveries off Cyprus and Greece open new possibilities, including for upstream development: co-operation with Israel and maybe Lebanon is being considered. An undersea energy grid connecting Greece, Cyprus and Israel is also a possibility.

Black Sea prospects. There are production fields for offshore oil and (mainly) gas in the Black Sea. These are located at Ayazli off the Turkish coast, Galata near the Bulgarian coast and the Ana and Doina fields off Romania. They are expected to become less important in future, but there is some uncertainty as Turkey has recently started oil prospecting. There has also been a gas find 170km off the Romanian coast.

Caspian Sea prospects. These developments as well as access to Caspian Sea gas resources could reduce dependence on Russian supplies.

North African pipelines. Oil and gas exploration and development is proceeding at pace in this part of the neighbourhood. Already there are pipelines that connect Algeria and Libya to Spain and Italy, and which also pass through Morocco and Tunisia. Algeria is the third largest gas supplier to Europe: its hydrocarbons sector accounts for 60% of Algeria's budget revenues, 36% of its GDP and over 97% of its export earnings. Gas production in Africa has been growing at around 4% per year since 2000, with Algeria and Egypt by far the largest producers. Egypt also plays a vital role in international energy markets through the operation of the Suez Canal and Suez-Mediterranean Pipeline. These are important transit points for oil and liquefied natural gas shipments from African and Persian Gulf states to Europe and the Mediterranean Basin. Fees collected from operation of these two transit points are significant sources of revenue for the Egyptian government. For these reasons alone, Europe's relations with its North African neighbourhood are of vital importance. In turn European energy policy, including targets for renewables, will impact on people and governments on the south side of the Mediterranean.

Oil fracking prospects. The future importance of these oil and gas supplies in the neighbourhood may depend on the stance the EU takes towards the controversial fracking technology which enables the extraction of gas and oil from shale. Use of that technology in the USA has dramatically reduced gas costs, boosting the international competitive position of high-energy using US industries. However, there are serious environmental concerns. If the EU were to see fracking as a solution to its external energy dependency, then countries such as Poland could conceivably become more significant energy producers, and interest in the hydrocarbon resources of the neighbourhood, especially those requiring deep water excavation, or where there are uncertainties about security, might be reduced.

2.5 Environment – Linking ecosystems across seas

Environmental challenges, and in particular climate change, cannot be approached independently. Prominent examples are the pollution of the Baltic Sea but also the Mediterranean. Climate change seems not to affect the eastern neighbourhood as severely as the southern neighbourhood. Strong increases in temperatures are anticipated across the Mediterranean region, along with sharp decreases in precipitation. This has serious implications for both the EU Member States and the countries in this part of the neighbourhood. Already water shortages are evident in Cyprus, for example, where seasonal demand from tourists competes with irrigation for a limited supply of water. Climate change, and in particular future access to water, is likely to become an increasingly important issue.

It is in the field of seas and the maritime environment that pressures for closer working between the EU and neighbourhood countries is most compelling. While each maritime area is unique, ecologically, economically and in terms of governance, the seas around Europe all pose significant challenges, while also offering economic opportunities. In every case there will be a need for transnational agreements and common actions if these vital resources are to be managed effectively. The Mediterranean Support System for Marine Safety initiative shows how such action can be taken.

The Mediterranean Support System for Marine Safety example. The heavy maritime traffic in the Mediterranean, along with the coastal and offshore installations related to the oil industry mean that oil spills are a hazard that has to be anticipated. Countries bordering the sea must plan an operational response in case of a major incident. Its general objective is

delivery of an integrated, operational, multi-model oil spill prediction service in the Mediterranean. It is connected to existing monitoring platforms and uses well-established oil spill modelling systems.

The project is still developing. Eventually it will provide training for relevant agencies in non-EU countries and there is potential to extend the model to other seas such as the Black Sea. However, support for non-EU countries, which compose at least half of the riparian countries in the Mediterranean, is not available yet.

The Arctic Ocean example. In recent years the polar pack ice has thinned allowing for increased navigation and raising the possibility of future sovereignty and shipping disputes among countries bordering the Arctic Ocean. With global warming and less sea ice, marine shipping is expected to increase in the Arctic. The melting of the Arctic ice has re-stimulated interest in maritime shipping lanes and sea floor exploration but it also poses economic, military and environmental challenges to the governance of the region.

Extensive oil and gas activity has occurred in the Arctic, mainly on land and mostly in Russia. So far Russia has produced about 80% of the oil and 99% of the gas extracted in the Arctic and is expected to be the main Arctic petroleum producer also in the future. Canada and Alaska also have done some offshore petroleum production. Norwegian exploration activities in the Norwegian and Barents seas started in the 1980s, production of oil and gas from fields in the Norwegian Sea began in the 1990s, and in 2007 from the “Snøhvit” gas field in the Barents Sea. The uncertainty about future offshore development in the Arctic is large.

The sub-arctic parts of the Arctic area support some of the largest fish stocks and fisheries in the world, notably in the Barents, Norwegian, Iceland and Bering seas.

2.6 Governance – Territorial co-operation with the neighbourhood

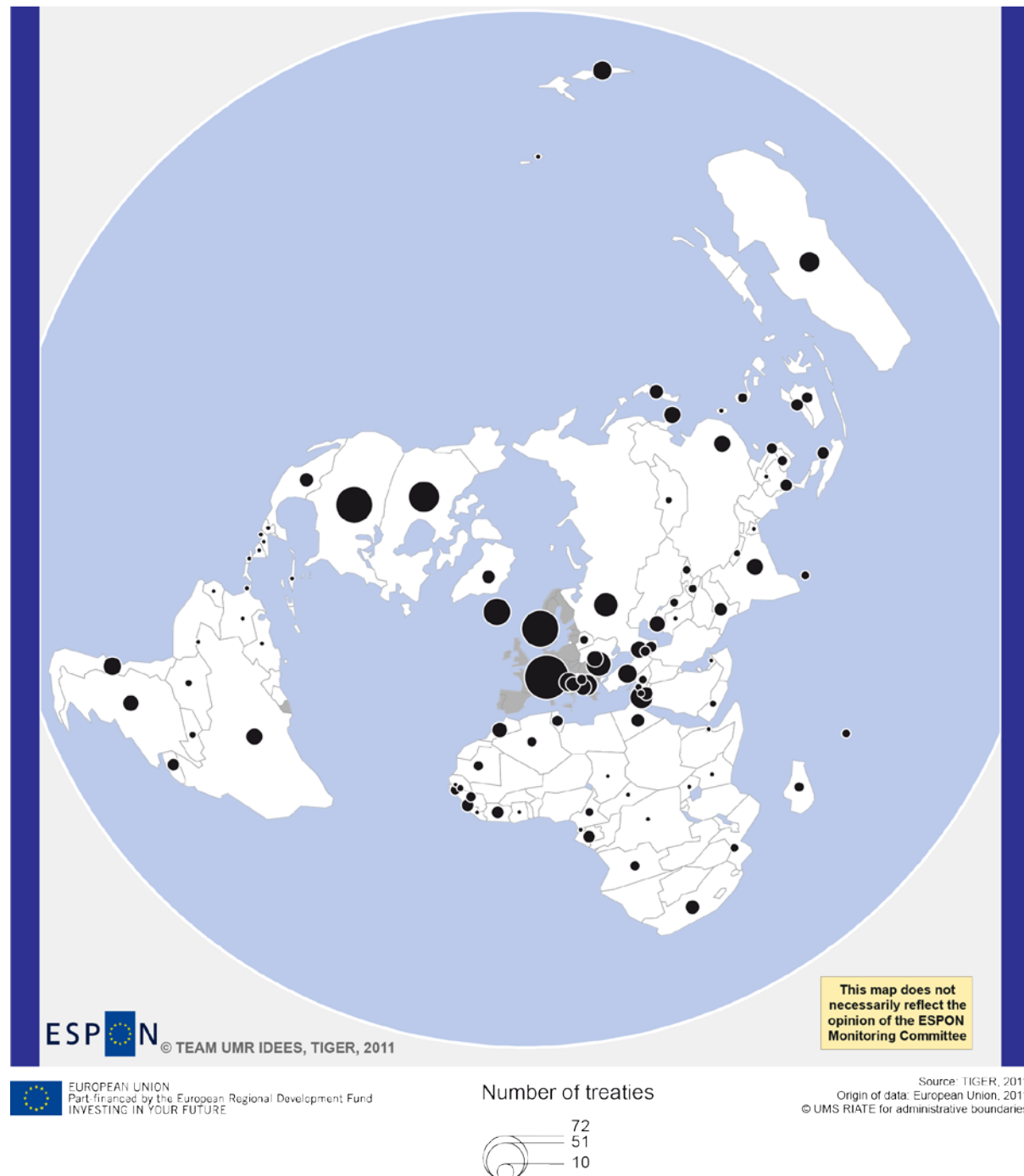
Governance aspects are important for territorial development. In particular co-operation is a key word in EU regional policies, not least in the context of the territorial co-operation objective of EU Structural Funds. Also neighbourhood collaboration relies strongly on governance approaches and co-operation at various levels. A notable feature of recent years has been the strengthened political co-operation with the Western Balkans, as Croatia moves towards accession. The importance of the territorial dimension is also acknowledged in Serbia, for example, which is drawing strongly on the EU’s Territorial Agenda 2020.

A lot of successful co-operation builds on informal links and collaborations not only between public government bodies, but also between private companies, non-government organisations, research institutes and at the personal level between individuals. However, there are also situations where formal regulatory agreements, backed by consistent enforcement regimes are needed. This is particularly the case for successful environmental protection, which may require conservation rather than short-term commercial exploitation of key assets. In this respect, co-operation in the Barents Sea appears to be more successful so far than is the case in the Mediterranean.

Looking at the number of bilateral agreements the EU has signed with other countries, 193 (25%) of them are with neighbouring countries (Norway, Switzerland and Iceland not included). A more detailed look reveals that 7% of all agreements are with Mediterranean

countries, 8% with countries of the Western Balkans, and 10% with eastern neighbours including Russia. The number of treaties does not say anything about the quality of co-operation, nor about their link to territorial development issues.

Map 13. Number of bilateral treaties signed by the EU, by 2011



Focusing on transnational collaborations with neighbouring areas, there are some good experiences, which also touch upon territorial development issues. Some of the most prominent co-operations in the field are VASAB in the Baltic Sea Region, the Barents Co-operation, and EUROMED in the Mediterranean.

Examples on collaborations with neighbouring areas

VASAB concerns the inter-governmental multilateral co-operation of 11 countries of the Baltic Sea Region in spatial planning and development. Three of these countries are not EU members – Norway, Russia and Belorussia. Within the Baltic Sea Region VASAB promotes participative spatial planning which aims at achieving a balance between sustainable social, cultural, and environmental as well as economic goals. Maritime spatial planning has been recognised as important to the management of the Baltic Sea, and the “Maritime Doctrine of the Russian Federation to the year 2020” supports co-operation in fields including integrated management of sea resources and maritime spatial planning.

Barents Co-operation is based on two levels: Barents Euro-Arctic Council (BEAC) is a forum for intergovernmental co-operation which includes Russia, Iceland, Norway, the European Commission and the three EU Member States from Scandinavia. Then the Barents Regional Council is a forum for co-operation between 13 regions from Norway, Sweden, Finland and Russia. Barents Co-operation brings together experts on both regional and national levels in rescue services, indigenous peoples, infrastructure, trade and customs, culture, environment, youth issues, tourism, energy, and social and health-related issues.

EUROMED, the Union for the Mediterranean promotes economic integration and democratic reform across 16 neighbours to the EU's south in North Africa and the Middle East. Along with the 27 EU Member States, 16 Southern Mediterranean, African and Middle Eastern countries are members. The Union for the Mediterranean aims to establish a common area of peace, stability, and shared prosperity in the Euro-Mediterranean region. It works to support economic and social transition and reform, taking into account each country's specific needs and characteristics. Projects address areas such as economy, environment, energy, health, migration and culture.

What makes co-operation successful and what are key territorial topics for co-operation with neighbouring countries? Co-operation does not translate directly into economic development. The relation is more indirect, but the institutional capacity building that comes through territorial co-operation projects is arguably an important stepping stone in building competitiveness. Similarly, the value of simple forms of co-operation with neighbourhood countries should not be under-estimated. Sharing of knowledge and expertise can be an essential first step to building trust, which in turn is a fundamental requirement for deeper forms of collaboration. That said, the potential impacts of territorial co-operation should not be exaggerated: for example, it does not deliver territorial integration.

These are by no means definitive conclusions about neighbourhood collaboration issues of importance for territorial development. They are first inputs to a fuller debate.

Part 3. Towards a territorial neighbourhood perspective

There is a simultaneous process of regionalisation alongside globalisation. Distance and agglomeration economies have become even more central through increasing financial, trade, human and knowledge flows. Proximity remains important for tacit knowledge exchange (advanced business services), flows of goods (maritime flows), and people (air linkages). These results in two decisive functional scales for globalisation: city and world macro-region such as Europe and its neighbourhood. Increasingly, the developments in Europe's cities and regions and the cities and regions in the neighbourhood areas impact on each other. Territorial analysis should not stop at political or administrative borders.

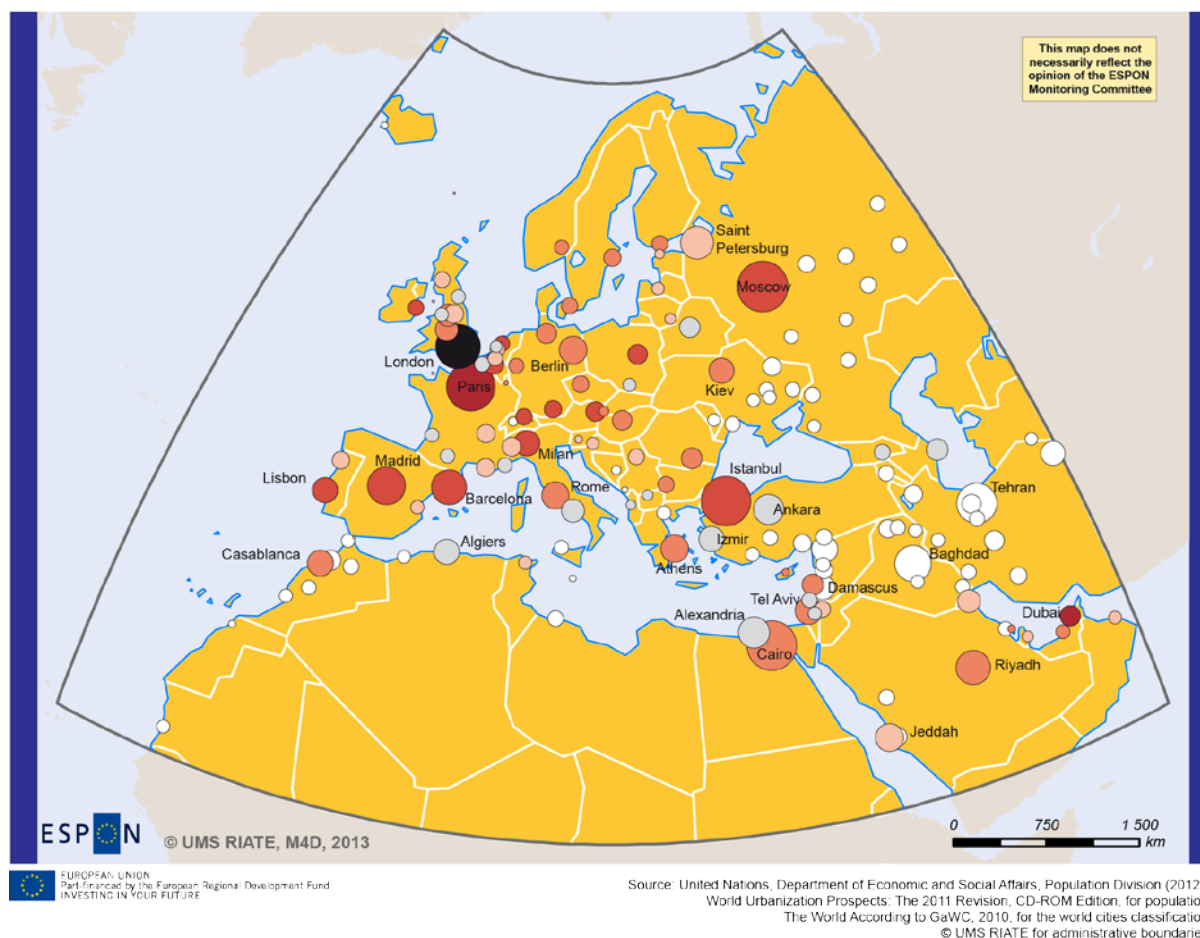
3.1 Territorial neighbourhood developments

Need for territorial differentiation. Viewing Europe's neighbourhood through a territorial perspective has highlighted the need to differentiate more between different neighbourhood areas. At a macro level, there are different groupings of countries defined by their geography, cultures, economic profiles and relations to Europe. At a more detailed level, disparities within the countries are undermining territorial cohesion.

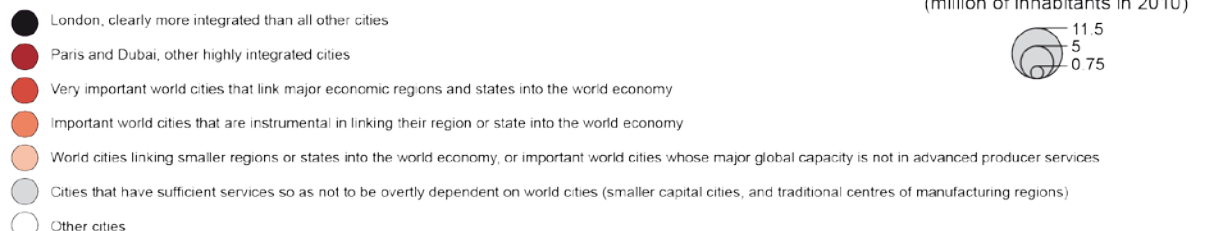
In both the neighbourhood and in Europe, agglomeration economies are pulling production, services and people to the capitals and main urban centres. The price is congestion, pollution, housing shortages, loss of farmland and a widening gap between rich and poor, metropolis and countryside. Important disparities within the neighbourhood are the west-east divide in Turkey, the coast-inland divide in Algeria or the divide between large cities and the rest of the country in Morocco. This all means that, when analysing Europe's neighbourhood, it is important to focus on metropolitan areas and not just nation states.

Neighbouring global cities. In the European neighbourhood, Moscow and Istanbul are not only of considerable size, but also well integrated in global business networks. Furthermore, Istanbul is growing rapidly through a combination of natural increase and in-migration. St. Petersburg, Moscow, Ankara, Cairo, Casablanca and Dubai are other metropolitan areas to be noted. Regardless of policy interventions, the business connections between global cities within the EU and the main capitals and urban agglomerations in the neighbourhood seem likely to increase in future.

Map 14. Integration of Cities into the world city network, 2008



City's integration into the world city network in 2008



Classification of cities based upon their level of advanced producer services.
Global service centres are identified and graded for accountancy, advertising, banking/finance and law.

Changing role of regions in the neighbourhood. The diversity of the neighbourhood(s) implies also that the Eurocentric image of the relation between Europe and its neighbourhood needs to be replaced. Viewed from the neighbourhood it is Europe that is on the edge, and the Arctic, or the Middle East or West Africa which is at the centre of the map. There are dynamic regional hubs in the neighbourhood of Europe, e.g. Istanbul, Moscow, Tel Aviv, Cairo. EU cities and regions will need to look towards these rather than vice versa.

The role of some regions in the neighbourhood is changing from a source of unskilled labour to (a) a destination for highly skilled labour emigration (Istanbul), or (b) a competitor for international trade links and transport hubs (e.g. the competition between ports in Spain / Morocco). Also the relation between Portugal and Brazil has led to reversed migration trends during the economic crisis.

North-South development challenges repeated. Despite the changing picture of Europe's neighbourhood and a need for a better understanding of the diverse and powerful roles of neighbourhood regions, there are still territorial discontinuities. Within the EU, ESPON results show North-South disparities with respect to Europe 2020 performance. To a certain degree this pattern is expected to be reproduced in the neighbourhood, e.g. considering the discontinuity in wealth located in the Sahara, between Northern Africa and the Sub-Saharan countries (see Map 1). However, the neighbourhood policy focuses mainly on the "smart growth" dimension, and leaves aside "inclusive growth" entirely. The "sustainable growth" aspect is only very partially covered through energy-related measures and strategies. This limited focus of the neighbourhood policy calls for a critical assessment from a territorial cohesion perspective.

Collaboration works people-to-people. Co-operation happens when people want it to happen. In particular where there are political challenges in neighbourhood areas (e.g. Kaliningrad, Egypt, Libya, Syria) collaboration relies mainly on people-to-people relations. Successful collaboration requires mutual respect and partners on an equal footing.

The neighbourhood and peripheral Europe. Europe has some strong regions in its periphery, which already are achieving smart growth. These are notably in Scandinavia. These and other non-core but education-rich regions could look at the European neighbourhood to attract talents and promote regional amenities. It is probably peripheral EU regions which lie at or close to an external boundary that stand to gain most by overcoming the barriers of the border and building cross-border co-operation with regions in the neighbourhood. Such a path could help contribute to territorial cohesion at the EU / neighbourhood macro-region scale, but also within the EU and within Member States.

Statements from the participants:

- The complexity and multilateral character of human capital flows and interdependencies between Europe and its neighbourhood is increasing.
- Importance of the selective flows in the mutual relationships between Europe and its neighbourhood
- Influences are neither homogenous nor symmetrical.
- Flows of people, labour and energy resources from neighbourhood areas to Europe are unique development opportunities.
- Governance can be a key and an obstacle for territorial cohesion – there is no "one size fits all" model.
- Co-operation with neighbourhood countries should be based on bottom-up / local initiatives.
- Territorial visions (development perspectives) are needed to increase competitiveness through co-operation.

3.2 Need for further territorial evidence

The developments outlined above are a challenge to conventional European thinking about how to achieve smart, inclusive and sustainable growth. Adding a territorial dimension to Europe 2020 brings the neighbourhood into focus and even shifts the gaze on what is the core and what the periphery within Europe. It heightens awareness of our interdependencies on a range of topics – trade, energy, infrastructure, migration, education and environment to name just a few. The evidence presented in the two-day seminar in Paphos and supplemented in this report can only provide a preliminary basis for actions on territorial development. More research into the neighbourhood is needed, and that will be a task for a future ESPON programme. A first step in this direction is taken by the ESPON ITAN project on European neighbourhood regions.

ESPON needs to take a leadership role. ESPON is Europe's leading research programme on territorial cohesion and development. It now needs to take a leadership role in relation to the territorial aspects of neighbourhood / EU relations. In part that means advocacy and awareness raising, through seminars such as the one in Paphos and targeted publications. However it also means strengthening the research base, both conceptually and in terms of evidence.

Neighbourhood related issues. A series of neighbourhood related issues therefore need to be addressed, including access to markets (imports as well as exports), cross-border environmental challenges, crime, tourism development and commercial relations. Migratory flows into Europe need to be monitored, considering their main push and pull factors, and the destinations (countries, regions, neighbourhoods) of the migrants. There are also on-going discussions on the strategic priorities for new transport infrastructures to be built, for instance, towards St. Petersburg, and a better understanding of strategic crossing points of key infrastructure. There is a need for analysing the local context and territorial specificities in order to better understand the relations between EU and its neighbourhood. This raises issues concerning the availability, comparability and harmonisation of data needed to inform policy makers.

Soft neighbourhood issues. However such analyses may not only focus on the territorial, environmental, demographic or economic situation in the neighbourhood areas. To support a better understanding of development dynamics, challenges and opportunities this needs also to include softer issues such as cultures, attitudes and political priorities.

Large research questions. Accordingly an ESPON focus on neighbourhood areas needs to combine quantitative and qualitative studies. It is important that the qualitative studies allow for generalisations and so provide insights and evidence going beyond single case studies. Among the more concrete research ideas addressed during the seminar were:

- The question of where value is added in networks, and thus how networks involving both European and neighbourhood locations work.
- The need to produce evidence on uncertainty, i.e. help policy makers to increase their preparedness by researching what are the most important uncertainties and what are likely changes and their impacts on territorial development.
- ESPON needs to link up its research with the areas with which it interacts, e.g. looking at what businesses want (how they think, their motivations/strategy, etc.) in addition to looking at territorial data.

At a more general level, future European territorial research might want to think more about co-operation between policy and business, the perspective of entrepreneurs, global networks, second tier cities, transparency about the (implicit) territorial focus of policies, and budgetary neutral policy recommendations.

Statements from the participants:

- Europe and its neighbourhood must be analysed together in order to get an unbiased perspective on territorial matters.
- What is the impact of territorial development in Europe's neighbourhood and how will it influence Europe?
- What are long-term trends in Europe and in its neighbouring areas?
- How will increasing complexity and interdependencies between EU and its neighbourhood affect the position of the EU?

Dialogue with neighbourhood stakeholders. Last but not least, the collection of evidence should not focus on a one-sided relation, where Europe tries to improve its understanding of its neighbourhoods. This could also be an opportunity for an intensified dialogue between Europe and its neighbourhoods about territorial development trends, challenges, opportunities and objectives. A first step to facilitate such a dialogue might be this ESPON report.

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