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from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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to: Mr Javier SOLANA, Secretary-General/High Representative

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Commission to the Council, the European Parliament and the European Economic
and Social Committee
EU Relations with the Pacific Islands - A Strategy for a Strengthened Partnership
Impact Assessment

Delegations will find attached Commission document SEC(2006) 642.

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COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION STAFF WORKING DOCUMENT

Annex to the

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT AND THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE**

**EU RELATIONS WITH THE PACIFIC ISLANDS -
A STRATEGY FOR A STRENGTHENED PARTNERSHIP**

{COM(2006) 248 final}

IMPACT ASSESSMENT

1. INTRODUCTION

The EU and the Pacific have a long-standing relationship based on the legacy of a shared history, common values, economic and trade cooperation and the EU receives 10 % of the exports from the Pacific ACP countries. The EU is very present in the region by way of the French and UK OCTs, and through the privileged bilateral relations between individual Pacific states and EU Member States, in particular the United Kingdom and France, as well as in the form of the cooperation framework established most recently with the Cotonou Agreement.

The Pacific ACP countries are today experiencing a number of important dynamics, some of them new, which shape their futures, and which the EU needs to take into account when defining its strategy for relations with the Pacific ACP countries. Most of these countries are faced with increasingly difficult development challenges, in particular low or no economic growth combined with on average increasing populations, which makes it difficult to achieve the Millennium Development Goals by 2015. A study of economic data – available for 11 of the 15 Pacific countries, excluding Cook Islands, Nauru, Niue and Tuvalu – shows that in the period 2000-2004 average annual GDP growth was only 1.1%, while average inflation stood at a modest 1.6% in 2004. In addition, a considerable number of Pacific countries show signs of fragility. At the same time the region's importance is growing, partly because of its many powerful neighbours (US, Japan, China, Australia) and their mostly rapidly growing economies, but also because of its substantial natural resources (fish, timber, agricultural produce, oil, gas, minerals), its importance for the global climate, its very rich biodiversity (e.g. that Papua New Guinea alone is estimated to have five times as many species of fish than the entire Caribbean region), and the fact that it controls 13 votes in the United Nations.

In these changing circumstances there is a need for upgrading and recalibrating Europe's strategy for the Pacific. It is therefore proposed to focus on a limited set of specific priorities, where the Pacific has significant needs for which Europe has indisputable comparative advantages, and which can be expected to appeal to a broader public in Europe. The specific objectives of the proposed strategy are interconnected: peace and security, strengthened regional cooperation including trade, improved governance and sustainable management of natural resources, improvement of selected MDGs and reduced vulnerability to natural disasters; increased focus and improved aid efficiency. In support of this a strengthened institutional relationship between the two regions is needed to allow for a broader and deeper dialogue.

In this impact assessment two options are considered: (1) a "no policy change" scenario, and (2) a comprehensive and focused EU strategy. For reasons of effectiveness, efficiency and taking into account political considerations, the Commission's opinion is that the first option is non-viable, while option two reflects the region's main needs and some of Europe's core strengths.

In preparing its proposal for an EU Strategy for the Pacific, the Commission has sought a broad consensus among key stakeholders. Part of this process involved consultations with the ACP countries concerned, in particular in the context of the regional seminar in Fiji in March 2006, with the Pacific Islands Forum Secretariat, with Member States with a strong interest in the Pacific, in particular the two Member States with OCTs in the region and Portugal, as well as with Australia, New Zealand and Japan. Two OCTs have also provided input. Generally

the parties consulted have confirmed the relevance of the proposed emphasis on the sustainable management of natural resources and a strengthened political dialogue, as well as recommended a higher European profile in the region. Several have remarked that it is important to strengthen the Delegations in the region and recommended closer cooperation and strengthened coordination with Australia, New Zealand and Japan. Some have cautioned that considerable flexibility is required when interacting with fragile states and that present EC procedures may not always be optimal in this context, notably in terms of security-related matters and underpinning the RAMSI operation in Solomon Islands. Several refer to the importance of the newly adopted Pacific Plan for regional cooperation and integration. Consultations with civil society are a regular and institutionalised feature of the development cooperation with all ACP countries and is intensifying in the context of the preparation and implementation of the regional and country-specific strategies being defined under the 10th European Development Fund. Following this series of consultations the Communication has been refined to better reflect key points made.

2. PROBLEM DEFINITION

The 15 Pacific ACP countries face a number of serious development constraints, which are not always fully understood or acknowledged in Europe. The region is characterised by enormous distances between and within most countries. 11 of the 15 countries have populations around or below 125,000. This makes it difficult for them to obtain critical mass. While the information, communication and technology (ICT) revolution contributes to reducing the region's relative isolation, it also increases pressures on its traditional cultures. The region is very vulnerable to natural disasters, and has the world's highest rates of disaster-related mortality, percentage of population affected and damage cost per capita. This situation could worsen because of increasing sea levels. The Pacific's exceptional cultural diversity is the basis for an extraordinary richness of cultural expression. But the diversity is an additional difficulty for the education sector, and a constraint for nation-building and for the development of internal markets and regionalism. In general the countries have experienced weak economic growth in recent years, while most of them still have considerable population growth (close to or around 3% a year in Melanesia, with an even higher figure for Timor-Leste). Unsustainable use of natural resources is a serious issue facing several countries in the region. Poverty and progress towards the Millennium Development Goals remain important challenges in a number of countries. With the exception of Tonga, which is an almost absolute monarchy, all Pacific ACP countries are fully-fledged democracies, but modern institutions have not taken root everywhere. A number of Pacific countries, notably Papua New Guinea and Solomon Islands, face important problems of governance and corruption. A worrying number of Pacific ACP countries have shown signs of fragility in recent years (Papua New Guinea with the recent Bougainville conflict and problematic security situation in major cities; Solomon Islands, which required a regional intervention to re-establish security; Fiji with a history of coups d'état; Nauru in severe economic recession and Tonga with a democratic deficit and looming financial crisis.)

The three main problems in the EU's relations with the Pacific ACP countries to date are limited political dialogue, insufficient focus of the cooperation and high transaction costs related to aid delivery.

The growing importance of the Pacific region may not yet have been fully understood in Europe. The region has a range of powerful neighbours with mostly very dynamic economies,

and it possesses considerable natural resources (fish, timber, agricultural produce, minerals, oil and gas) of interest to the world community at large, and, in particular, to economic and political actors in neighbouring areas. Timor-Leste and Papua New Guinea both have substantial proven reserves of hydro-carbons. The region is of importance to the global climate because of the Pacific Ocean and tropical forests. It also possesses immense biodiversity, which is under increasing pressure.

Therefore, there is a need for a targeted, streamlined and coordinated European Union policy for the region. Taking into account that key challenges faced by the Pacific region relate to regional integration and the sustainable management of natural resources, there is a clear added value for an enhanced EU intervention, because Europe is world leader in these fields.

3. OBJECTIVES

In response to the problems outlined in the previous section, the general objective of the proposed EU strategy is to promote the EU's values, the two regions' mutual interests and the integration of the Pacific in the world economy, as well as support the Pacific ACP countries' efforts to substantially reduce poverty and to achieve the MDGs. In addition to this overarching objective there are also a number of interrelated specific objectives (see below) aiming at addressing key root causes of the Pacific ACP countries limited progress, which together support the general objective. These objectives build on existing agreements and policies, in particular the recently revised (2005) Cotonou Agreement, as well as the "European Consensus", the EU's new development policy.

Specific Objectives

Peace and Security

Considering the fragility of a number of Pacific ACP countries and the fact that security is a precondition for development the EU will seek to step up its efforts to promote peace and security, including the fight against and prevention of organised crime and terrorism. This will be done notably by focussing on the root causes for conflict, enhanced political dialogue, support to the democracies of the Pacific ACP countries, and closer coordination and more cooperation with the Member States active in the region, as well as with other key partners, notably Australia and New Zealand. Root causes of conflict are understood as poverty, degradation, exploitation and unequal distribution and access to land and natural resources, weak governance, human rights abuses, gender inequality and democratic deficits.

Strengthen regional cooperation

Stronger regional cooperation would improve the region's capacity for dealing with the development challenges it faces, including limited economic growth, sustainable management of natural resources, vulnerability and governance. An effective development support strategy must therefore primarily be based on assistance to regional integration for critical mass, to enhance regional governance and to facilitate cross-fertilisation. Such cooperation will be based primarily on the region's own recently adopted Pacific Plan.

The coming Economic Partnership Agreement (EPA) is having a catalytic effect on Pacific regional economic cooperation and integration, as it induces regional cooperation and

stimulates stronger regional governance e.g. through clauses relating to governance, peer reviews and dispute resolution mechanisms.

Improve governance, including management of key natural resources

The central blue-green theme for this revitalised cooperation is to assist the Pacific ACP countries in managing their considerable natural resources in a sustainable manner. It would help the Pacific ACP countries avoid the poverty-conflict trap, and underpin hope for future development, as well as stronger intergenerational solidarity. It would assist humanity in general by contributing to preservation of key marine and forest resources and their unique bio-diversity.

Some Pacific ACP countries face governance problems related to their fisheries and forestry sectors. There are notably problems with leakages, e.g. in the form of tax exemptions, which result in much reduced revenue for the governments concerned. Cooperation with the region in the field of sustainable use of natural resources would therefore necessarily be related to the quality of governance, and governance would therefore be mainstreamed as a cross-cutting issue for such cooperation. The EPA will also be fully compatible, and where possible, contribute to the objective of strengthening the sustainable management of natural resources. In addition, support to non-state actors will continue to stimulate a vibrant civil society and strengthen the checks and balances of the democracies in the Pacific.

Moreover, it is crucial to ensure, among other things, that Pacific ACP countries are better able to comply with international standards in the fight against prevention of corruption, money laundering and the financing of terrorism.

Improve selected MDGs, notably human resources development

The Pacific region comprises 15 developing ACP countries. There is a perception in many quarters in Europe that the Pacific does not do too badly compared to Africa. The reality is that the region, as a whole, is unlikely to achieve many of the Millennium Development Goals with poverty indicators in the countries with the biggest populations almost on the same level as those in parts of Africa. For example, the adult literacy rate in Papua New Guinea, which is by far the most populous of the Pacific ACP countries, stands at 57.3%, which is below the regional average for sub-Saharan Africa (61.3%).

All 15 Pacific ACP countries have one or more European languages as official language, which facilitates cooperation with the EU.

Reduce vulnerability to natural disasters

Given the region's extraordinary vulnerability to natural disasters, and the additional risks related to the increasing sea level, support will continue to build resilience, such as early warning systems, building codes, land-use and improved environmental management (e.g. prevent/reduce harmful deforestation).

Improve aid efficiency by concentration and coordination

It is proposed to streamline EC development cooperation in order to increase aid efficiency and to reduce the very high transaction costs on both sides.

To this end coming actions would focus, in particular, on sustainable management of natural resources. The Commission will provide assistance through sectoral or general budget support, where possible. It will pro-actively support the Pacific ACP countries in meeting the eligibility criteria for budget support. For the smaller Pacific ACP countries it is proposed to pursue new approaches, and notably to manage support at the level of the region in the form of multi-country programmes.

Further, the Commission will continue to pro-actively seek the closest possible cooperation with Member States and their OCTs in the region, and, in addition, continue the on-going efforts to increase cooperation with other donors, notably Australia and New Zealand.

Strengthened institutional relationship

It is proposed to enhance the political dialogue with the Pacific by increasing contact primarily with and through the Pacific Islands Forum. The modalities for the enhanced dialogue should be agreed with the objective of conducting the dialogue in the most efficient and effective way. This enhanced dialogue would serve the above mentioned specific objectives, and would allow for formal and substantial dialogue both on the regional level and separately on the national level with key countries regarding issues of shared interest including domestic, regional and international matters, as well as questions pertaining to economic, security, trade, social and environmental conditions.

4. POLICY OPTIONS

In terms of considering the best option for meeting the objectives described above the Commission assessed two policy options.

The first option, the baseline (or “no policy change”) scenario is a non-option in the light of changing circumstances of the Pacific ACP countries and the increasingly serious challenges they face. The past ACP-EU cooperation, based on project aid and trade preferences, cannot continue unchanged. Considering the present degradation of notably tropical forests and increasingly the marine environment in the Pacific the European public, once it realises how serious the situation is becoming, is likely to insist on European action to assist the Pacific. Nor is it acceptable that at present trends the Pacific region, as a whole, is likely to miss a number of MDG targets.

The second option is a strengthened and streamlined policy to serve key interests of the Pacific ACP countries and the Pacific OCTs by targeting those needs for which Europe has strong comparative advantages. This option reflects that the growing importance of the Pacific over time, also for the EU, in environmental, economic and political terms. In addition, it provides a clear European response to key challenges faced by the region.

5. POTENTIAL IMPACT OF THE PROPOSED EUROPEAN UNION STRATEGY FOR THE PACIFIC

- a) Summary description of the proposal

First, it is proposed to enhance the EU's political relations with the Pacific by engaging in formal and substantial dialogue both on the regional level and separately on the national level with key countries.

Second, it is proposed to streamline development cooperation to reduce the very high transaction costs on both sides and to ensure maximum impact. This streamlining would allow for more efficient use of financial and human resources in order to get better performance in qualitative and quantitative terms. To this end the next Regional Indicative Programme would focus mainly on sustainable management of natural resources, which will require a meaningful dialogue regarding related governance issues. In addition, it is foreseen to support the implementation of the coming EPA.

Third, actions for the sustainable management of natural resources will help create the conditions for economic growth leading to better social cohesion and reduced poverty thereby contributing to attaining the Millennium Development Goals. Moreover, EU actions will take into consideration specific country conditions and reflect European comparative advantage to ensure added value, in particular to address human development needs. EPA and the other parts of the strategy will be designed and implemented in a mutually supportive way where appropriate to ensure maximum synergies.

Further, the closest possible cooperation with the Member States active in the region as well as with the OCTs will be sought, and cooperation with key partners, notably Australia and New Zealand will be further developed.

b) Political impact

By addressing key concerns and operating at various levels the enhanced political dialogue will strengthen the relations as well as positively influence the environmental, political and economic agendas.

Conducting and nurturing a substantial political dialogue can also be seen as a recognition by Europe of the increasing importance of the Pacific, and a move by the Pacific to create a strong political partnership with Europe.

By focussing on root causes for fragility Europe will contribute to conflict prevention.

A targeted and efficient cooperation will underpin the visibility of the Pacific in Europe and the visibility of Europe in the Pacific and enhance public support in both regions for increasing and closer cooperation.

Against this background the Commission would welcome the seconding by the Member States of officials from their diplomatic and development cooperation services to the Commission's regional Delegations in the Pacific, which could also provide facilities on an ad-hoc basis (Europe House). This would provide a framework for an improved external representation of the EU in the Pacific in terms of broader presence, richer political dialogue and an enhanced profile for the EU.

c) Economic impact

The economic impact will be positive for several reasons. Strengthening of regional cooperation, including in the context of EPA, will reduce the problem of critical mass. Improved governance will reduce fragility, stimulate a more investor-positive climate, and

lead to more sustainable management of key resources, including reducing the present leakages. The strategy with its foreseen actions will generate positive impact for the countries concerned by enhanced and sustainable growth. Preservation of bio-diversity is a key avenue to safe-guarding the economic interests of future generations of Pacific Islanders.

d) Social impact

The proposed strategy with its blue-green focus will have a positive social impact as it allows for sustainable economic development and facilitates social cohesion. Improving the framework conditions for the economies of the Pacific ACP countries through the EPA and possibly by way of policy dialogue related to budget support can be expected to enhance job creation and economic growth, which in turn will allow for improved delivery of social services. Reducing environmental destruction by way of more sustainable management of natural resources will decrease social problems, as the poorest generally suffer first and most from environmental degradation.

e) Environmental impact

The revitalised policy for cooperation with the Pacific, with its focus on sustainable management of natural resources, will have a direct positive impact on the environment. But the challenges ahead are very considerable, as the thrust for improvement will be up against poverty, governance weaknesses, strong business interests, as well as corruption in many instances. The projected sea level rise is 5 mm per year over the next 100 years (International Panel on Climate Change estimates vary from 9 to 88 cm by 2100). Atoll island countries like Kiribati, Tuvalu and Marshall Islands are barely 1 m above sea level and have already lost islets. It is estimated that about half of the Pacific region's biodiversity is at risk. Regarding the coral reefs in the Pacific region 10 % are at high risk and an additional 31 % at medium risk.

f) Concluding remarks on the impact of the strategy

The proposed strategy addresses some of the key needs of our Pacific partners, and in areas where Europe has clear comparative advantages.

In the larger perspective, the EU strategy for the Pacific will also have a positive impact on Europe. A Pacific region consisting of sound and stable democracies, characterised by economic and social development adapted to its unique cultural diversity, respect for human rights and sustainable management of its rich and globally important natural resources will be of benefit to the entire humanity.

6. MONITORING AND EVALUATION

In order to ensure that EU action proposed (a) is in line with the priorities and policies outlined in the Strategy and summarised in this document, and (b) achieves the overarching policy objectives by successfully addressing the problems outlined in the beginning of this document, the Commission proposes a dual process of regular monitoring and evaluation of progress on (i) the specific objectives of the EU strategy for the Pacific, and (ii) the EU's ongoing work to support the achievement of the MDGs and its commitments given on the financial targets agreed at Monterrey and Barcelona:

Regarding the overall progress towards achieving the MDGs, the council (GAERC, May 2005) invited the Commission to monitor and regularly report on the implementation, including annual reports on the follow-up to the EU commitments on financing and on the effectiveness of aid and biennial report on policy coherence for development.

For the financing for development process (Monterrey and Barcelona commitments) the monitoring framework established in 2002 should be pursued. The Council mandated the Commission to report annually on the rate of implementation of the EU's commitments and to propose corrective measures wherever insufficient progress is demonstrated.

Moreover, in terms of monitoring there will be regular political reporting, there is the Annual Report on the EC's Development Policy, as well as specific annual reviews of the regional and country-based cooperation taking place in the context of the Cotonou Agreement, which also foresees mid-term and end-of-term reviews.