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Mediterranean countries and international trade issues. WTO and the Euro-Mediterranean relations

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SUMMARY – The Euro-Mediterranean free trade area is usually seen as a challenge by Southern European agriculture. This paper provides an overview of the economic and political constrains on the inclusion of the agricultural trade as an essential element of the Euro-Mediterranean economic space. The discussion includes an assessment of the existing EU trade concessions granted to Southern Mediterranean countries, a reference of the present imbalances of the Common Agricultural Policy and a review of the debate on fair trade as a precondition to free trade. The paper supports the view that the rural sector should deserve more attention in the current negotiations within the Barcelona process leading to a Euro-Mediterranean zone of partnership and prosperity.

Key words: Euro-Mediterranean agriculture, international trade, WTO, regional integration.

RESUME – *"Les pays méditerranéens et les relations commerciales internationales. L'OMC et les relations euro-méditerranéennes". La Zone de Libre Echange euro-méditerranéenne a été toujours considérée comme un challenge pour l'agriculture de l'Europe du Sud. Le présent travail fournit une vision des contraintes économiques et politiques concernant l'introduction du commerce international agricole comme étant un élément essentiel dans l'espace économique euro-méditerranéen. La discussion présente une évaluation des concessions actuelles dans le commerce de l'Union Européenne, octroyées aux pays du Sud de la Méditerranée, comme référence aux déséquilibres actuels dans la Politique Agricole Commune, ainsi qu'un passage en revue du débat sur un commerce juste comme pré-requis pour le libre échange. Le papier appuie l'idée que le secteur rural devrait bénéficier de plus d'intérêt dans les négociations actuelles dans le processus de Barcelone, à l'objet d'atteindre une zone euro-méditerranéenne de partenariat et de prospérité.*

Mots-clés : *Agriculture euro-méditerranéenne, commerce international, OMC, intégration régionale.*

Introduction

The purpose of the present paper is to evaluate the significance of the current process of internationalisation of agro-food systems in the Mediterranean Basin[1]. Since the second half of the eighties, progress has been made across the Mediterranean Countries (MC) in negotiating (and even adopting) a new institutional framework towards a greater liberalisation of agricultural trade. Agricultural policies in MC are in a process of adapting to this more open environment in the light of international developments such as the implementation of commitments under the Uruguay Round Agreements and the Euro-Mediterranean Free Trade Area. These developments are the consequence of a growing consensus on the idea that internationalisation of economies is the best machine for fostering economic development. As a matter of fact, this consensus was a major result of the Barcelona Process and should eventually aim at promoting *"sustainable and balanced economic development with the view of creating an area of shared prosperity, taking into account the different degrees of development".*

Globalisation of the economies involve additional pressures on agro-food systems by bringing in competition, an increasing number of trading partners with different national standards, regulations and levels of economic development. Internationalisation of agro-food systems is indicated by the growing share of exports in total agricultural production in many MC. Other important changes are brought by rapid advances in biotechnology and logistics; growing market power in the last steps of the food chain; new food products and production methods; and the need to provide adequate supplies to the steadily growing food needs in quality and quantity.

[1]The paper provides a summary and an update of the author's contribution to Chapter 1 of the CIHEAM annual report 1998 (CIHEAM, 1998).

Some are sceptical about whether these developments will do much in favour of the agricultural sector and rural economies. The impact of trade liberalisation on the agricultural sector differs between countries, regions and productive systems. Differences in the economic, geographical and social context of the agro-food systems of the Mediterranean regions are a major source of political pressures towards protectionism, with the risk of leaving the agricultural sector aside the regional integration strategy.

In the next pages, we will review the main international developments that will surely influence the Mediterranean agro-food systems. Most MC are or will be involved in the next years in the process of negotiating the status of their agricultural sector within regional and multilateral arrangements. The paper will attempt a review of the key international issues and possible constrains to the inclusion of agriculture in the political agenda of international trade negotiations.

MC are interested in market developments from a view point of exporters as well as of importers of agricultural products. The nature of the trade issues refer, in the first place, to the region's ability to feed a growing population; and secondly, the region's ability to find opportunities to access to agro-food markets. Let us review both kind of issues, referring to the changes in the international environment of agricultural trade.

Food security

The experiences of several countries of the Mediterranean Basin are often cited as examples of processes of rapidly growing dependence on food imports (e.g. in the last three decades, Algeria increased its dependence on imported cereals from 8 percent of its consumption in the mid-sixties to 82 percent in the mid-nineties). The Near East/North Africa region has been traditionally the biggest net cereals importing developing region (excepting China), with several countries being among the largest net importers in the world (Egypt, Algeria). Food products account for a percentage of total imports, over 20 percent in both countries.

Some of the factors that made for rapid growth of imports in the past persist today (rapid population growth, scarcities of land and water resources for increasing production). After a long period of slow growth, some of the economies in the southern and eastern Mediterranean (e.g. Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia) recorded significant improvements in gross domestic product (GDP) for 1996 and 1997. While individual country circumstances vary, the prospects for achieving and maintaining a regional average annual rate of growth on the order of 5-6 percent now look brighter than they have at any time over the past decade. This will probably lead to a boost for cereal imports.

In summary, existing regional trade imbalances will continue and show a gap between big exporting countries, most of them industrial economies, and the importing countries, mostly developing countries. This imbalance will involve no improvement in food security for some countries in the Mediterranean region. According to IFPRI projections, developing countries' consumption of crop and livestock products will grow much faster than that of developed countries in the next decade. While developing countries imported about 90 million tons of cereals in 1990, this figure is expected to growth to about 190 million tons in 2020. FAO forecasts net import requirements of the importing regions to some 360 million tons in 2030, compared with the 150 million tons of 1994-96.

From the above trends, one important question is whether the Mediterranean region will have access to the food supplies requested to meet import demand in those countries with growing food needs.

A well working international market is essential for the region. In the future environment, international trade will continue to be critical for MC both for exporters such as France and for importers such as the Middle East and North African countries whose domestic food balance will depend on a reliable stable international market. A relevant question is whether the resource and technology potential is sufficient to sustain a world production growth rate of the order of magnitude requested by demand, at nationally non-increasing real prices.

According to FAO experts (Alexandratos and Bruinsma, 1997), the growth rate of the combined production of the exporting countries in the world has been on the decline over time, from the 2.8 percent p.a. in 1961-86 to 1.2 percent p.a. in the last ten years 1986-96. However, in the case of some exporting areas, such as the European Union, the binding production constrains applied since the Mac Sharry reform adopted in 1992 have made it difficult to maintain the growth rate of production. Of course, for the European Union, keeping high production rates of grains created serious surplus problems under the market conditions that prevailed in the early nineties: low world prices and relatively high intervention prices. The question is whether, under a scenario of relatively strong world prices, reduction of market interventions and direct payments to producers, the European Union will keep an exporting capacity without resorting to export subsidies. This could be the case since the Agenda 2000 package foresees the possibility of strengthening the international competitiveness of EU agriculture.

Moreover, the Euro-Mediterranean area will provide in the next years a wider market access for EU grains and other food products (livestock, beef, dairy products, sugar and processed products). The European Union is a net exporter of agricultural products to the Mediterranean non-member countries with agricultural trade surpluses of 1543 millions ECU in 1995 and 823 million ECU in 1996.

Trade in the Mediterranean region will surely contribute to meet regional demand for food. However, an increasing share of southern and eastern Mediterranean shores' demand for cereals and meat will have to be met through imports from developed countries. With the necessary foreign exchange, this should not be cause for alarm. However, we don't have to forget that food security is a global concept, which depends on economic growth, so the countries (and households) can produce enough income to buy the necessary food on the world market. Economic development and GDP, salaries and living conditions, economic crisis, poverty in its different forms, political instability, ethnic conflict and advancing ecological deterioration are also causal factors of food insecurity.

Furthermore, development of the agro-food sector continues to be essential for economic development, by enhancing the diversification of rural economies and even by promoting agricultural growth, so the possibilities of increasing domestic food production can be exploited. Markets can play an active role in balancing supply and demand, but public policies can enhance agricultural growth by focusing in the key issues of economic growth such as water management and the application of new technologies.

Export competition

The Mediterranean region is becoming increasingly involved in the world market and represents almost 20% of world trade (1995 figures). However, there is still a long way to go until a regional market is clearly consolidated. *There is a strong "bilateral" dimension in Mediterranean trade since most of the exports are directed to EU markets*. Of course, dependence on EU markets is a fact in countries that are EU Member States such as Spain (72%), France (63%), Italy (57%), Greece (57%) and Portugal (81%). This can be seen as a normal sign of commercial integration within the common market. However, dependence of exports on EU destinations also happens in MC that are not EU Member States. Around 50% of this group of countries' total exports go to EU markets. According to the World Bank, only 8% of total trade in the Middle East and North African Region is intra-regional, the lowest percentage of any other regional block in the world.

Food products represent only 12% of the imports and 11% of the exports of the countries of the Mediterranean area. These ratios are decreasing due to the diversification of economic activities, industrialization policies and the importance of oil exchanges. However, *agricultural exports still account for a significant part of total exports* in some non-oil producing countries. The share of agricultural products in total exports was in 1995 higher than 10% in Albania (11%), Lebanon (13%), Spain (14%), France (14%), Egypt (16%), Morocco (17%), Turkey (20%), Syrian Arabic Republic (21%), ex Macedonia YR (23%), Greece (31%), Croatia (39%) and Cyprus (51%).

Upon analysis of agricultural trade, the importance of EU markets can also be clearly seen. For a long time, the European Union has been a major destination of Mediterranean non-member countries' food exports. In 1994, 55 per cent of agricultural exports of Mediterranean non-EU countries were allocated to the EU. Dependence on EU agricultural markets varies among the different Mediterranean non-EU countries, being over 35% in Egypt (35.1%), Israel (62%), Tunisia (73%), Algeria (79%) and Morocco (82%).

Consequently, market access to EU countries is essential for the MC' agricultural exports. But these figures also involve a quest for market diversification and the development of an intra-regional trade strategy for the whole Mediterranean region (intra + extra-EU). Countries in the Mediterranean region should not pursue policies promoting globalisation and freer trade at the expense of the intra-Med regional market and this is one of the aims of the Euro-Mediterranean association approach. The question is whether food products will become a part of this regional approach, by benefiting from relaxing barriers to intra-regional trade. Intra-regional trade initiatives are a powerful instrument to decrease or eliminate tensions and this should be recognised by Mediterranean governments.

Fears against globalisation

It is not surprising that fears about globalisation occur normally in horticultural cropping regions that suffer the increasing competitive pressures. These fears, frequently expressed by southern European producers, are referred to the possibility to include "sensitive" products into the Mediterranean Free Trade Area. One wonders to what extent such fears are or not justified. Two interesting questions are those related to: first, the extents that trade flows of these products are determined by labour costs and other price-related factors; and secondly, the extent that trade flows are affected by trade distortions (tariffs and tariff preferences).

As regards to the first question, EU producers are reluctant to free trade of Mediterranean products due to wide differences in labour costs. Proximity to European markets and low labour costs which are less than one-tenth those of Europe, suggests that the Southern MC should be the a natural cropping base for many labour-intensive horticultural activities. By virtue of the free trade zone, the Mediterranean partners inherently will become more interesting for global corporations seeking to take advantage of EU trade preferences and to avoid trade restrictions placed by the EU on other regions or countries. However, as far as fruit and vegetables are concerned, market developments are not only determined by labour costs. In fact, there is a significant product differentiation in fruit and vegetables markets. International competitiveness is also influenced by the availability of an efficient marketing system and by harvest and post-harvest technologies, refrigerated facilities and transport to the main markets. Non-price factors are of increasing importance in the marketing of fruit and vegetables, especially with respect to product quality, ability to adapt to the grades and standards of developed markets, promptness in delivery and terms of credits. One conclusion is that even with the difference of 6 to 1 in labour costs in favour of developing countries against industrial economies' horticultural producers, the European leading trading companies better administer the marketing organisation. Marketing costs can easily reach 2/3 of the total product value in the retail markets. Therefore, labour cost is far to be considered as a definitive factor of horticultural trade. There are other many key productive variables, which are usually mastered by the European operators.

This involves that the choice "protection-free trade" affecting Mediterranean products does not involve many risks for producers that have succeeded in differentiating their products and assuring a regular demand. Quality, technology and service can substitute the role of border protection measures as a way of keeping market shares. However, horticultural markets of temperate-zone products are increasingly mature and the distribution system is highly concentrated. This implies a market of buyers who are really demanding in terms of quality and regularity of supplies. Competitiveness can be indicated by the ability of operators to adapt to the new market environment and not by only focusing on low labour costs and prices. On the market, there is a strong asymmetry: on one hand, numerous producers not well organized and each marketing relatively small lots of produce; on the other, a much more highly-concentrated demand with relatively few buyers. These trends in the international markets of horticultural products are strong and difficult to slow down by imposing trade barriers against foreign imports.

A provisional conclusion would be that Mediterranean producers of "sensitive" products are facing challenges of structural nature. In this context, regions which do not have organisations capable of responding to the concerns of downstream operators are being eliminated and their place is taken by more modernised areas. This problem might require a structural approach for agricultural policies and it is not easily solved by protectionist trade policies.

This brings us to the second question related with the role of foreign trade policies with respect to Mediterranean trade. Before trying to answer this question let us refer to the recent process of reform of the rules governing international trade of Mediterranean products, at both multilateral and regional levels.

The multilateral dimension

International trade of agricultural products has been traditionally affected by many kinds of price distortions. Farm policies in industrialized countries have historically created volatility in world markets, also involving high costs for the societies of these countries. The Uruguay Round Agreement on Agriculture has led to significant changes in trade policy. The accord has been far less than a complete elimination of trade barriers for agricultural products. However, the Agreement on Agriculture has served to bring agricultural trade under the GATT rules. Non-tariff barriers have been replaced by bound tariffs and market access has been assured or increased through the current and minimum access provisions. Export subsidies have been codified and disciplined by the imposition of commodity-specific value and volume restrictions. Domestic support, as measured by the Aggregate Measurement of Support, has also been disciplined. In addition, the Uruguay Round Agreement on Sanitary and Phytosanitary Measures requires the respect to international standards and recommendations and that stricter measures but justified by scientific evidence.

In assessing recent reforms, one must distinguish between developed and developing countries. Regarding the first group of countries, as indicated by the various OECD measures of monetary transfers associated with agricultural policies, in the last years there has been a reduction in the level of support as a whole in most developed countries but in many of them overall support to agriculture remains high.

As far as developing countries are concerned, trade liberalization has been implemented in the larger context of structural reforms and macroeconomic stabilization programs. There have been pressures for trade liberalization in many Mediterranean non-EU countries that are relatively independent of what was agreed in Uruguay Round. First, in some countries, such as Jordan and Egypt, there are agreements with international institutions (IMF and World Bank) to reduce MFN tariff rates. Second, some MC, such as Algeria, Jordan and Lebanon, are now in the process of negotiation for WTO accession, where they will all face pressure for other parties to enter into comprehensive bindings at relatively low levels. Third, the Euro-Med Free Trade Area (see below) will increase competitive pressures since Mediterranean partners will have to provide reciprocal concessions on agricultural trade.

Looking at the coming process of agricultural negotiations to be started in 2000, there is a clear asymmetry between the levels of support granted to agriculture in the EU with respect to those observed in the Mediterranean third countries. This conclusion is confirmed if we consider current commitments on export subsidies and domestic support. Concerning export subsidies, the EC Schedule submitted to the UR included a commitment from reducing export subsidies from 13,274 million US$ in the base period (36.5% of agricultural exports) to 8496 million US$ by 2000. In the Mediterranean area, only Turkey, Israel and Cyprus notified export subsidies in their corresponding schedules and, for the base year, those subsidies accounted for a share in total agricultural exports of 5.6, 5.2 and 8.6 per cent, respectively.

As regards to the Aggregate Measure of Support (AMS), in spite of the CAP reform initiated in 1992 and the current Agenda 2000 negotiations, the EU is allowed to grant domestic support, as measured by AMS, of around 76 billion US$ by year 2000, which is next to half of the total agricultural GDP. In the Mediterranean area, only Israel, Cyprus, Morocco and Tunisia committed to AMS limits over the "de minimis" clause (this means 10% of the farm-gate value of production).

Another impact of multilateral liberalization for Mediterranean non-EU countries is the risk of erosion of benefits preferential schemes in some products and countries. The EU as a part of the Association and Preferential Agreements, currently entering in a "new generation" has maintained preferential schemes. Given the "agricultural specificity" of the integration process started with the Barcelona Declaration, a subject for discussion in many Mediterranean non-EU countries is the possible trade-off between multilateral liberalization and regional integration.

As shown in a recent study by Tangermann (1996), if the pre-UR preferential arrangements for the MC had remained unchanged, the margin of preferences would have decreased by about 17 per cent on average for all MC. Taking the individual examples of Israel, Morocco and Tunisia, the erosion of margin of preferences (in the absence of any improvements of preference treatment) for these countries is 27, 13 and 9 per cent, respectively. With the new Association Agreements agreed for these countries, the preference margin increases again for Israel (by 17 per cent, base on tariffs in 2000) and Morocco (by 29 per cent) while preference margin remains unchanged for

Tunisia.

In the following sections we will review the negotiation process of the current generation of association agreements, called Euro-Mediterranean agreements. In the area of agricultural products, trade will be subject to preferential conditions but not free. For "sensitive products" preferences are constrained by quantity limits in several forms and the quantitative parameters and product coverage are specific for each country in the Mediterranean basin. Looking at the trade-off between multilateral and regional trade liberalization, it is true that, given the existing limits to regional trade, a comprehensive multilateral liberalization of EU trade would also benefit Mediterranean non-EU producers. Multilateral liberalization would involve the dismantling of the existing quantitative restrictions and the most protective devices, such as the entry-price system. However, this multilateral shift to open trade could provoke some further imbalances in EU specific markets. Furthermore, this could increase pressure for new EU concessions to third MC that allow them to improve their access to the EU markets in a way that it is not matched by a general liberalization of the CAP. EU produces should be also aware of a possible trade-off between multilateral and regional liberalization of sensitive products, such as some fruits and vegetables and olive oil. Agricultural trade liberalization within the Euro-Mediterranean area would have to be consistent with a "common" preference margin, for EU and non-EU countries, and this would require a sufficient level of border protection on multilateral MFN basis.

The Euro-Mediterranean process

In the Barcelona Declaration, the 27 Euro-Mediterranean Partners (UE15 + 12 Med countries) agreed on the establishment of a free trade area by the target date of 2010. This is to be achieved by means of the Euro-Mediterranean Association Agreements negotiated between the European Union and individual Mediterranean partners, to be complemented by Agreements between partners themselves. Of the 12 member states, Morocco, Tunisia, Israel, the Palestinian Authority and Jordan have all finalized their agreements while Algeria and Lebanon have initiated the process and negotiations with Syria are about to begin. Egypt's agreement is said to be imminent following months of haggling over EU quotas on Egyptian agricultural exports. The agreements with Tunisia and the Palestinian Authority are already in force, the others so far concluded are awaiting ratification.

As far as Turkey, Cyprus and Malta are concerned, relations are governed by pre-existing Association Agreements providing inter alias for the progressive establishment of customs unions; the customs union with Turkey has been completed and entered into force in 1996 and Cyprus will become a new EU Member State by the first half of the next century.

It is not a new process. Rather agreements with Mediterranean partners are a "new-generation" of agreements. The current generation of agreements is a significant improvement in WTO terms in comparison with the former agreements with Mediterranean partners (the "first generation" date from 1976-1977). In particular, there is an objective of establishing a Free Trade Area. This involves reciprocal liberalisation on industrial products and gradual liberalisation in agricultural and fisheries products.

In this process, agricultural trade has been an exception. Food products are explicitly excluded of the Free Trade Area (pursued by 2010), as recognised by the Barcelona Declaration. Total liberalisation of agriculture has never been possible because of the need, which has been explicitly recognised in some negotiating mandates and implicit them all, to avoid conflict with the Common Agricultural Policy. Mediterranean non-Member States have historically enjoyed trade preferences to their agricultural exports to the EU in form of tariff cuts with or without limits to quantities. Tariff quotas and the new entry price system in operation after the GATT agreement continue to tend to freeze existing market shares. This contrasts with the situation in industrial products. All industrial exports from the partners already have duty-free access to the EU market. EU industrial exports to Turkey, Israel and the Palestinian Authority benefit from duty-free access; tariff dismantling on EU exports to Cyprus, Malta and Tunisia has begun, and will begin with the other partners when the Association Agreements are in force.

Given the contrast with industrial products, there is a sort of contradiction in asking Mediterranean non-Member States to open themselves to European exports of industrial products while at the same time the Common Agricultural Policy of the European Union keeps its border measures on agricultural trade. Since many of the countries of the Southern

Mediterranean shore already enjoy favourable treatment on exports to the EU of manufactured goods, concessions on agricultural trade are considered by these countries as a necessary measure to avert significant short-term adjustment costs.

Furthermore, the short-term impact of free trade on local industries, which have benefited from decades of protectionist policies must not just be anticipated, but also provided for by the various governments. The governments of Morocco and Tunisia, the first to sign agreements, anticipate that one-third of the companies in affected industries are competitive enough to survive free trade while another one-third will require significant restructuring and capital infusions. An eye-opening third are expected to fold. Until local industries respond with increased efficiency and quality, consumers in the Southern Mediterranean will likely increase their consumption of imported European goods. Further trade imbalances may occur as in, a sometimes painful, reorientation of resources and industrial production for the long-term benefit of each nation and thus the region. Currently, none of the Mediterranean non-Member countries have institutionalised safety nets in place that would be capable of retraining or providing other assistance to those who are displaced by competitive pressures.

The length of the negotiation and ratification processes in some way is the result of the asymmetry of trade relations between the European Union and the Mediterranean partners. Commercial exchanges are really asymmetric. The Mediterranean partners show a high dependence on the EU as a market, which accounts for the 55 per cent of Mediterranean partners' exports. On the other hand, the Mediterranean partners only represent the 8 per cent of EU total exports. Total GDP of 12 Mediterranean partners was in 1993 lower than total GDP of Spain, slightly higher than total GDP of Netherlands and less than 20 per cent of the German GDP. As a result of this asymmetric interdependence the Mediterranean partners show an extremely high bilateral trade deficit with the EU reaching 12 billions ECU in 1994. Interdependence and asymmetry between EU and the Mediterranean partners provide solid arguments in favour of looking for a balanced regional strategy. However, the possibilities for including the agricultural sector in the Free Trade Area have been constrained by a series of political and economic factors that will be discussed later.

It is clear that the Euro-Med regional initiative is far from being a "threat" to the multilateral system and will tend to reinforce the benefits of the WTO system rather than undermine them. It is important to note that this regional initiative will serve to open markets by pushing forward a pattern of tariff reductions in partner countries, helping them to prepare for further multilateral liberalisation. In this framework, agriculture is seen by Mediterranean partners as a key sector in order to align their defensive interests (increasing EU industrial exports to Mediterranean partners) with their wider market access goals (increasing Mediterranean agricultural exports to EU markets). As regards to manufactured products, EU openness have contributed to a significant increase of the share of industrial goods in Mediterranean partners' exports to the European Union: it went from 45% in 1991 to 58% in 1996, thus reflecting the industrialization process under way in these countries. However, this process also reflects the "agricultural exception" in the EU trade regime. Actually, the share of food products in the EU imports from the Mediterranean partners has decreased from 50% (30 years ago) to nearly 12% in 1994.

The issue of the treatment of agriculture in the Euro-Med Free Trade Area is likely to become even more important in the future. The question is whether there is a role for regional trade of agricultural products that is more ambitious than the scenario foreseen by the multilateral process. Who will take the lead in determining the rules of games for agricultural trade in the Mediterranean area: the regional or the multilateral processes? The answer depends on the speed and results of two parallel processes: the Euro-Med Association, on the one hand, and the multilateral negotiations starting in 2000, on the other. Set against the scenario of uncompleted trade liberalisation at the multilateral level, the regional negotiations on agriculture have become a crucial issue. Looking at other regional initiatives, such as NAFTA, by the year 2005 there will be virtually no agricultural trade barriers left between the USA and Mexico. The same would be true in Latin America, Central America, and the Caribbean if current timetables for liberalization are followed. For many countries in the region better access for agricultural products is a prime goal of the negotiations leading to a Free Trade Area of the Americas by 2005.

After the conclusion of the Uruguay Round and in the frame of the new Euro-Mediterranean association strategy, demands for fair trade have multiplied in the different sides of the Mediterranean basin. From the earlier discussion we have identified a number of difficulties for a "cooperative approach" for fair trade between the richer and poorer countries of the

Mediterranean area. First, globalisation is a driving force that predates the border protection and involves challenges for Mediterranean producers, not only in the "North" but also in the "South". Second, a more open approach for agricultural trade is demanded by non-EU countries in the area as a way of diversifying their export base and also counteracting the social costs of the Euro-Med Free Trade Area. Third, EU producers of some Mediterranean products feel challenged by Mediterranean non-EU countries, which are in direct competition with Southern European production. Fourth, while several "sensitive" Mediterranean products in the EU are protected by effective border measures, there is a feeling among Southern European producers that the Common Agricultural Policy is granting higher levels of support to "Northern European products". We wonder whether these statements lead us to a non-way out road. Our concern is whether we can find some ways to that "cooperative approach" for agricultural trade in the Mediterranean.

"Fair trade" as a precondition for freer trade

There is a widespread concern among European producers, specially from the South, that trade liberalization with poorer countries will impoverish farmers of the rich countries: a fear articulated by some European farm lobbies in their denunciation of the accords signed with Tunisia, Morocco and Israel. Let us mention two arguments quoted by these farm lobbies. The first one refers to the so-called "social dumping". According to this argument, if your rival abroad has lower labour standards, that amounts to unfair competition by him in your market and therefore it should be permitted to impose countervailing import duties. While the Singapore WTO Ministerial Conference, in 1996, clarified that the issue of labour standards will be excluded of the WTO agenda, the governments of industrial countries will keep insisting in the incorporation of social standards into the administration of the process of globalisation.

It is evident that this kind of arguments opens a Pandora's box. Once it is accepted, despite of lack of economic logic, any cost differences due to differential domestic policies and even comparative advantages could be used as a good excuse to justify protectionist temptations. This tendency already manifest in the European Union in relations to the opportunities opens by the free trade area with MC. Another weakness of this argument is that labour legislation must come out of international agreements in the frame of the World Labour Organization and should not be motivated by sector interests and lobbying activities. In some respect, the "agricultural specificity" can hardly be explained: it is difficult to understand why horticultural producers deserve more support and protection against foreign competition than the industry of manufactures.

As Paul Krugman and other economists have shown, competition from countries where labour is cheap only explains a small percentage (say, 10%) of the unemployment figures of non-qualified workers in OECD countries. In fact, the general consensus among the trade economists is that foreign trade is not a significant cause of the phenomenon and unemployment in OECD countries is much more determined by technology and technical change in the industrial and agricultural sectors.

On the other hand, freer trade in the Mediterranean area would opening new opportunities for European operators to complete their supplies by importing off-season fruits and vegetables. Thus, to some extent, this "delocalisation" process should not be job destructive necessarily. With the impetus for reform and investment of the Partnership, each Mediterranean nation should be able to exploit its competitive advantages. Europeans will benefit from the reallocation of their resources to higher value-added activities.

In any case, the differing social standards are a matter of distribution of the benefits of the globalisation. Unilateral protective actions by any individual country to deal with differing social standards should be avoided. Cooperative actions should be promoted and based on international consensus to approach differences in social standards. In addition, the globalisation machine and the regional integration are the driving forces to start a process of harmonization on different aspects to what free trade agreements were in the past. This not only include the traditional dismantling of tariff barriers and quantitative restrictions but also an approximation of laws such as those covering environmental standards, food safety, the protection of intellectual, industrial and commercial property; competition rules to ensure fair competition; rules governing public procurement and harmonisation of taxation.

It is clear that the Euro-Mediterranean Association, as recognised in different meetings (Barcelona, La Valetta and Palermo), should pursue the promotion of the harmonization of rules and regulations relevant to the creation of the Euro-Mediterranean free-trade area. MC should undertake the harmonization of standards, including those related to environment, social conditions and food safety, as cooperative processes, leading to spread the benefits of the free trade area to most part of the citizens of the Eur-Mediterranean area. We remind that cooperative efforts involves "consensus" and not imposition let alone the use of trade barriers as a way of imposing social and economic preferences from one country to another.

"Prisoners' dilemma"

Southern European producers don't easily accept a more open market, taking into account that the CAP gives much more support to Northern European products than that provided to Southern European products. Horticultural products which account for the 16 per cent of the final agricultural production only receive the 4.5 per cent of total subsidies funded by the European Agricultural Guarantee Fund. Cereals, with about the 11 per cent of agricultural final production, receive almost the 40 per cent of total subsidies.

Of course, there is an economic logic in this imbalance of support. Horticultural sector in Europe is not considered as a really problematic sector and it is accepted that farms in Europe can easily adapt to changes in their economic environment. But, from the viewpoint of horticultural producers in Europe, it is difficult to understand why the inefficient producers are supported by non-selective subsidies while the horticultural operators are supposed to be more dynamic.

In general, the allocation of EAGGF-guarantee payments (CAP budget allocated to Common Market Organisations) among the different products shows that the share of the Mediterranean products in total budget is lower than the share of Mediterranean products in the total Gross Value Added (GVA) of EU-12 agriculture. This overall situation will hardly change with Agenda 2000 proposals, due to an implicit principle of "financial neutrality", which is being followed every time a CAP reform covers Mediterranean products.

However, as Chioccioli recently pointed out, the southern Member States where Mediterranean products are concentrated, also have an interest in the "continental" products. This might partly explain, apart from the possible conflict of interests between the "North" and the "South" of the EU, that the conflict appears inside the Mediterranean EU countries that show outstanding regional differences.

Therefore, when we refer to the imbalance in the treatment of different agricultural products it is necessary to descend to the "local" dimension, because it is such dimension which reflects the important asymmetries in the distribution of CAP support, according to the particular productive pattern of specialization of specific regions. We referred earlier to the number of regions with significant "Mediterranean specialization" within the EU. Due to the fact that Mediterranean products benefit from relatively low levels of CAP support it is evident that "Mediterranean EU regions" are comparatively disfavoured with respect to "Continental EU regions".

In a recent study (García Alvarez-Coque and Compés, 1998), total support to EU agriculture was allocated among the different regions, according to the contribution of each region to the total EU production capacity for each product. Support was measured in terms of the Producer Subsidy Equivalent (PSE), which is a monetary estimate of the total transfers to agriculture derived from agricultural policies. Since OECD has been calculating PSE for EU "continental" products, we completed the OECD calculations for 1995 through own PSE estimates for Mediterranean products (wine, olive oil, tobacco, cotton, fruit and vegetables). This was made by following the methodology suggested by Nucifora and Sarri, from University of Siena. Then PSE for specific products were "regionalised", according to output regional coefficient build up from data included in the REGIO data base (Eurostat).

Out of the 20 regions with lowest rates of support (in terms of PSE as a percentage of agricultural GVA), only two are not at the Mediterranean coast and only one belongs to a non-Mediterranean EU Member State (West-Nederland). However, three Spanish regions (Cantabria, Asturias and Castilla-Leon) belong to the group of 15 regions with highest PSE as a percentage of agricultural GVA.

The regions with highest degree of agricultural protection are mostly located in Northern

Europe. Thus, PSE per AWU are over 24 thousand ECU in Denmark, Belgium, five German regions, six French regions and one Dutch region. PSE per AWU are higher than 30 thousands ECU in Picardie and Lorraine (France) and Mecklenburg-Vorpommern (Germany). In contrast, PSE per AWU was below 5 thousands ECU in 5 Portuguese regions, 10 Greek regions, 6 Spanish regions, 3 French regions and 11 Italian regions.

Consequently, it is clear than the specialization pattern of the Mediterranean regions in the EU is not adapted to the "structure of distortions" generated by the Common Agricultural Policy. This involves highest levels of support for "Northern" products than for "Southern" products. This explains why Mediterranean regions are discriminated by the CAP.

This conclusion has a political implication, related to the attitude of Mediterranean regions' farmers of EU against the current CAP. One could apply the "prisoners dilemma", very popular in the economic literature. Southern European farmers are not very keen to play the market game with different rules from those followed by Northern European producers. In this respect, Southern European farmers will ask for a rebalancing of public agricultural support between "Northern" and "Southern" products. It is a matter of justice or equity the way that the agricultural policies treat the different branches of agriculture. One wonders if possible alternatives to this discriminatory approach would be either to increase protection of horticultural products (impossible given the financial constrains) or to decrease protection of northern European products (dairy products, sugar, cereals) (impossible given the political constrains). As regards to the Euro-Med Association process, it is clear that the Southern European farmers' will keep quite reluctant to accept the introduction of agriculture in the Free Trade Area unless the CAP stops discriminating against Mediterranean products/regions.

The northern European view

There is still something of a "tendency in northern Europe to see Mediterranean co-operation as an unnecessary luxury". As one newspaper succinctly put it: "In the case of North Africa, south Europeans tend to stress the need for financial support, knowing this would come from northern Europe, while north Europeans stress the importance of market access, knowing that it is south European farmers who would suffer most from north African competition" (Financial Times, 1995). These differences were visible even during the negotiations of the association agreement with Morocco: the northern states wanted to give commercial concessions to certain Moroccan food products while the southern Europeans maintained that aid should be used to help Morocco become self-sufficient in food. Northern European countries were responsible for reducing the Euro-Mediterranean partnership funding package – from the original ECU 5.5 billion sought by commissioner Manuel Marín to ECU 4685 million – by arguing in favour of trade concessions and emphasizing the role of private sector in providing investment funds.

However, in other fields of the agricultural policy, this liberal doctrine falls into contradictions when vested interests are involved. While collectively Northern European countries have expressed a preference for "trade rather than aid", several of these governments defend the EU's Common Agricultural Policy (that is, in those countries where this protectionist policy serves the interest of the domestic agricultural sector) even though it constitutes and impediment to north African export growth. This is shown by the Dutch, German and Belgian last-minute concerns expressed about the effects on their producers of increased Moroccan exports to Europe of cut flowers, tomatoes and potatoes. And, of course, it is also shown by the imbalance of support between "continental" and "Mediterranean" products, referred above.

Final remarks

As a matter of fact, the recent trends in the CAP allow to see a possible way to break the mentioned conflict. These trends began with the CAP reform approved in 1992 and continue with the Agenda 2000 proposals. And the process will continue in the next century, especially if the EU wants to fulfil GATT commitments and also wants to include new Member States. In the coming century, the only way to keep giving financial support to agricultural farmers in a EU with 21 Member States will be a more selective approach for farm subsidies. Agricultural Policies should be targeted to specific groups of farms in a very selective and conditional way. On the other hand, society in European countries is demanding farmers to play a "multifunctional" role according to new goals: sustainable agriculture, nature preservation, rural development and economic diversification. Thus, farmers and society will agree on a sort of "social contract" in the sense that farmers will receive support provided they meet the new targets. This support will be less and less based on border protection measures and more and more based on decoupled payments given to farmers under specific conditions.

Agenda 2000 is a comprehensive set of proposals that point to the right direction. However, in spite of a more balanced integration of support payments and environmental and rural development measures, Agenda 2000 proposals are too timid to provide a Common Agricultural Policy consistent with the socio-economic cohesion goals of the European integration.

The Commission has, however, made clear in its Agenda 2000 proposals that the CAP will need to develop further in the direction set in the 1992 reform, which implies lower support price and more use of direct aids. As this strategy is developed and applied, the risks of conflict between free trade Agreements (including Euro-Mediterranean Association) and the CAP should diminish because the EU will become more open and competitive in the international market. However, as direct payments become the prime instrument of support, EU Member States will concentrate on the issue of whether their farmers will benefit from such payments at an "acceptable level". It will be difficult to obtain the understanding of Southern European producers towards the Euro-Med Free Trade Area if, at the same time, most of the CAP support continues to be linked to "continental" products.

Looking ahead to the next round of multilateral negotiations, we can expect in the next decade a revision of the existing Agreement on Agriculture in order to deepen multilateral trade liberalization. An area that will require attention by EU is the import market access for Mediterranean products. A radical reduction of existing tariffs for these products will further damage Southern European producers and will predate the possibilities to increase tariff concessions to Mediterranean third partners. A possible option would be the "Swiss formula" used for manufactures in the Tokyo round, whereby the rate of reduction for each item is higher the greater the item's tariff level. This has the additional economic advantage of reducing the dispersion of protection levels that is implicit in the present CAP.

On the other hand, Mediterranean non-EU countries will be reluctant to suggest the tariff-rate quota (TRQ) instrument be removed, because it provides the possibility for Mediterranean partners to export to the EU at low or zero tariffs. However, for Mediterranean partners it would be better to ask for a total inclusion of agriculture in the Euro-Med integration strategy. This would allow to eliminate the government intervention in the licensing procedures and would provide transparency by avoiding the playground for rent-seeking traders.

What it is also true is that free trade doesn't mean benefits for all the actors involved in a free trade area. Every process of economic integration involves an asymmetry in the distribution of benefits and costs at different levels: sector, social and regional. This is why progress in the liberalization process should be made with the parallel application of compensation schemes in favour of the potential losers of the process. The "green box" defined in Uruguay Round opens some new guidelines for agricultural policies, unfortunately concentrated on the richer countries with enough financial resources to grant public support to agriculture and the rural economy. The Uruguay Round accords haven't neglected the role of government in improving sector competitiveness. What changes are the instruments. In the two sides of the Mediterranean basin, governments should design structural programs to guarantee the success of the regional integration process. National and international development agencies should incorporate, with more decision that shown until now, comprehensive approaches to identify sensitive areas and to direct resources to those areas.

It is true that there remains some confusion and disagreement about the role of governments in economic development. Many of the efforts to reform the public sector have weaken the ability of many governments to carry out the activities that they should undertake. "Free markets" are not necessarily the same as "competitive markets" and government policy has an important role in ensuring the emergent of efficient, competitive markets as a part of the reform process in most developing countries. In many regions, food marketing costs are extremely high. Lowering these costs through investment in improved transportation, infrastructure and marketing facilities may be as important in lowering food prices to consumers as the increases in agricultural productivity.

One further remark is that a better communication between economic agents of both sides of the Mediterranean basin could help to refute the fallacies against competition and to overcome the existing political reluctance against a free trade area including agricultural products.

Developed MC should be aware of the advantages of social and economic progress in the whole of the Mediterranean area. Developing countries which open their economy and adjust to the unprecedented opportunities of globalisation are in many cases now the locomotives of growth, for industrialised economies as well. At the beginning of this decade, industrialised countries in Europe and North America have emerged from recession mainly because of the increased import demand from developing countries.

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