

# Euro-Med: Seeds of a raw deal?

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## Executive Summary

In December 2003, the Ministers of the European Union (EU) and Arab Mediterranean countries agreed to speed up talks to achieve a higher level of progressive and reciprocal liberalisation of agricultural trade across both shores of the Mediterranean.

Agriculture is a high stakes matter in the Arab Mediterranean region, with three quarters of the poor living in rural areas. Up to 40 per cent of the population depend on agriculture, producing fruit, vegetables and cereal primarily. Decisions on pace, sequencing and scope of agricultural trade liberalisation will undoubtedly have an impact on rural livelihoods in the region.

Reciprocal liberalisation of agricultural trade between EU and Arab countries, particularly in the context of high EU subsidies, may jeopardise the livelihoods of poor Arab farmers and even deepen rural poverty. Given the stark differences in development levels between the EU and Arab countries, Oxfam urges the EU to level the playing field, allowing Arab countries to enjoy immediate and full access to EU agricultural markets while keeping a degree of protection to safeguard their rural development needs. The Arab governments should also provide better support to small-scale farmers to help them to integrate into local and international markets.

Foreign Ministers of the EU, accession states, and Southern Mediterranean countries will be sitting round the negotiating table for the first time when they gather in Dublin in May 2004. It is vital that they seize this opportunity to iron out a pro-poor agricultural trade pact.

## Agriculture and the Euro-Med Partnership

Since the launch of the Euro-Mediterranean Partnership in 1995, substantive negotiations on agricultural trade have been constantly deferred.<sup>1</sup> In sharp contrast to manufacturing, for which a full trade liberalisation schedule has been agreed, agriculture has received a largely *ad hoc* treatment in the negotiations of the bilateral trade agreements between the European Union and the individual Arab Mediterranean countries.<sup>2</sup>

Even the latest rounds of negotiations incorporating the accession countries into the Partnership<sup>3</sup> have taken place without prior discussions on how to achieve '*partial and progressive reciprocal liberalisation*'<sup>4</sup> in the interest of the rural poor. Neither has the Euro-Med process tackled in sufficient depth how best to manage the path towards more open agriculture in the long term. Top-level regional meetings, such as annual Euro-Med Ministerial Conferences, have generally '*failed to undertake in-depth discussions on the pros and cons of a common approach to agricultural trade and rural development*'<sup>5</sup>.

All this in a region where agricultural trade is vital for the present and for the future: three quarters of the poor in the Arab Mediterranean region live in rural areas. Agriculture affects the livelihood of some 40 percent of the population of non-EU Mediterranean countries, with the share of agriculture in total employment higher than 20 per cent for Syria, Tunisia, Morocco, Algeria, and Egypt.<sup>6</sup> By contrast, only 5 percent of workers in the EU are engaged in this sector. In a good year, agriculture contributes to more than 25 per cent of Morocco's export earnings, and some 23 per cent of Syria's economic output.<sup>7</sup> Industrialisation in these countries is small or embryonic. A healthy agricultural base is the foundation of sound future growth.

However, many of those who depend on farming face a range of structural constraints, such as a lack of credit facilities and marketing infrastructure. They are also hostage to regional politics, for example the virtual closure of the Iraqi market to Jordanian farmers after the 1991 Gulf War. In Jordan, Sheikh Suleiman, a tomato farmer from Ghor Al Safi said, '*Since the Gulf War, we have lost out on export opportunities. The whole village grows tomatoes, and we have nowhere to sell it to. Farmers end up very much in debt. In 1989, I could sell six kilos at six Jordanian dinars, now it only costs a quarter of a dinar. Why do we bother to sell, we might as well just give it away for free*'.<sup>8</sup> In interviews with Oxfam, olive farmers from Jordan and Lebanon said that they too have had a hard time making ends meet. For many families, this means that they cannot afford to send their children to school full-time; instead the children must work in the fields on the family farm in the afternoons.

Limited progress on Euro-Med agricultural trade negotiations is largely due to a lack of political will by the governments concerned to fully reform their agricultural sector. Despite the ongoing reforms of the Common Agricultural Policy (CAP), EU agricultural markets remain characterised by heavy subsidies and a complex system of agricultural high tariffs and non-tariff barriers. Indeed, the CAP is the world's most expensive regime for agricultural subsidies, costing the EU some €43 billion a year. Olive oil alone – one of the sectors for which CAP reform proposals are now being discussed<sup>9</sup> – receives some €2.3 billion per year. Olive oil is also an example of a product of great export potential to the Arab Mediterranean region that faces problems in both the EU and third-country markets, because of massive subsidies that have been channelled to EU farmers.<sup>10</sup>

In general, on the EU side, the main opposition to further Euro-Med agricultural liberalisation comes from Southern European countries, especially from fruit and vegetable producers, who are reluctant to face increased competition from Arab Mediterranean countries.<sup>11</sup> Some producer groups strongly believe that trade with non-EU Mediterranean countries must be controlled '*through a quota system, ensuring that the EU's own markets are not flooded with cheap products from non-EU Mediterranean countries*'.<sup>12</sup>

As for the Arab Mediterranean region, most of the governments have also been reluctant to embark upon a rapid agricultural liberalisation process within the Euro-Med Partnership. These countries are especially concerned with maintaining protection of staple foodstuffs

such as cereal, dairy and livestock. These goods '*maintain a high level of importance in the Arab agricultural system, because of their role in providing subsistence to farmers, and also in some cases because of policy support and trade protection aimed at reducing dependence on imported food*'.<sup>13</sup> Further agricultural liberalisation may be a politically controversial issue, since it would affect the food security of poor people – a risk that some Arab governments are not willing to contemplate.

## The way ahead for fairer trade

Eight years after the launch of the process, the Euro-Med Ministers finally agreed in December 2003 that a '*precise Road Map... to achieve a higher level of progressive reciprocal liberalisation of trade in agriculture*' should be prepared in 2004.<sup>14</sup>

Oxfam hopes that this decision will lead to an open and full discussion about how to make trade work for sustainable development and poverty eradication in the Arab Mediterranean region. Decisions on the pace, sequencing, and scope of agricultural trade liberalisation will undoubtedly have an impact on rural livelihoods in the region. In deciding these issues, the governments of the EU and Arab Mediterranean region must take into consideration the distributional effects of trade reforms. In other words, who will be the losers and winners of trade reforms? As Fermi, a Jordanian citrus farmer said, '*People around here have not heard of Euro-Med.... if it means that we get access to foreign markets and can sell abroad then that would be good but if the impact is that local markets are flooded with cheap foreign goods then that won't be good...*'<sup>15</sup>

## The need to manage mutual interests

As most of the Arab Mediterranean countries have a comparative advantage in agriculture, particularly fruit and vegetables, **improved access to the EU agricultural markets** is important to stimulate export growth. Recent studies suggest that improved EU market access for agricultural products would lead to increases in the Gross Domestic Product of a number of Arab Mediterranean countries of 0.5 to 3.9 per cent over a five year period<sup>16</sup>, generating at least 100,000 new jobs. This would throw a lifeline to a region characterised by high and growing unemployment rates.

While Arab Mediterranean countries have serious interests in an immediate improvement in their access to EU markets, it is clear that their rural economies will not adapt to a quick opening up of their own markets. Given the food security concerns of the Arab countries, greater market access for EU exports to Arab countries must be managed with care.<sup>17</sup> Therefore, a **key policy question is to what extent should agricultural trade liberalisation between Arab and EU countries be reciprocal?**<sup>18</sup>

In many of the bilateral agreements between the EU and Arab countries, the concept of 'reciprocity' in trade concessions has led to a *quid pro quo* approach with the EU asking for a further opening of Arab import markets for EU goods (cereal, beef, dairy products, sugar) in exchange for EU concessions for 'Mediterranean' products (fruit and vegetables, olive oil, etc.). In the recent review of EU-Moroccan trade agreements, for example, the EU agreed to increase quotas for Moroccan tomatoes if Morocco opened up its markets to EU wheat. In Euro-Med negotiations, '*Little of nothing has been given away for free, nor has there been sufficient acknowledgement of the need to a differential treatment*' for the Arab Mediterranean countries.<sup>19</sup> Such a differential treatment is vital given the stark asymmetries in the region: the GDP per

capita ratio is 18.5 between France and Morocco, 15 between Italy and Egypt and 9 between Spain and Algeria.<sup>20</sup> In addition the scales and methods of agriculture vary greatly between the EU and Arab Mediterranean countries, and Arab producers may not be able to compete internationally on an open market.

Reciprocal liberalisation, given **high EU subsidies**, is not an advisable option.<sup>21</sup> Arab countries cannot be expected to open up their own food markets while the EU continues to keep its subsidy system. Such double standards would only threaten to perpetuate or even deepen rural poverty in the Arab Mediterranean region.

This is because subsidies, especially export subsidies, distort market prices in comparison to real production costs: Arab farmers would not be able to compete with cheap subsidised imports from the EU, and would lose market share. The traditional agricultural sector, composed of semi-subsistence farmers and poor livestock herders, would be most affected by the opening up of Arab import markets. Tariff dismantling in Arab countries could lead to a drastic fall in prices in local markets. Local cereal producers, for example, may witness a 30 per cent decline in the price of cereals. The fall in domestic prices could be so severe as to destroy the livelihoods of semi-subsistence and small-scale producers in Arab countries. While urban consumers would benefit from lower prices, the net development impact in the long run would be negative, as an impoverished rural sector would reduce domestic demand.

By contrast, the more EU export and trade-distorting domestic subsidies are reduced, the smaller the net effect on local prices in Arab countries would be, and the less drastic the impact on rural livelihoods. As such, *within the Euro-Med process, tariff reduction of Arab countries should move step by step with the reduction in the trade-distorting subsidies of the EU, which includes much of its domestic subsidy regime.* This reduction and reorientation in subsidies should be happening via World Trade Organisation negotiations, given the promise of the Doha Round. However, overall progress on the multilateral front has been slow.

In line with the Doha mandate for current round of multilateral negotiations, the Euro-Med process should adopt and put into operation the principle of non-reciprocity or differential treatment for Arab countries.<sup>22</sup> This would mean an **asymmetrical liberalisation**, where the EU would open up its markets immediately, but accept a slower pace from the Arab countries. To offset any negative impact on the traditional agricultural sector, Arab countries should be allowed to retain flexibility to use tariffs and safeguards to protect their **food security and rural development needs**.

## **Need for reform at home as well**

Increased access to EU markets alone, however, will not necessarily offer farmers an opportunity to improve their livelihoods. Agriculture in the Arab region is rife with structural constraints, especially for small traditional farms. These farms, generally of less than one hectare, are under-equipped, with little access to modern technology or credit, and generally very much in debt. Such farms have a hard time accessing local markets, much less international markets. Without improvements, small-scale farmers (even those producing exportable products such as vegetables, fruits, and olives) would not be able to take advantage of improved market access.

Indeed, without **targeted assistance to poor farmers by national governments**, trade reforms may only widen the gap between large farms producing for exportation and the small traditional farming sector, which has had difficulty in accessing local, much less international, markets. As a farmer in Tyr said, *'the state has signed protocol on agriculture, but has made no change to the agricultural sector in Lebanon'*.<sup>23</sup> A survey of 350 apple and vegetable farmers in Lebanon highlighted the range of constraints they face: lack of irrigation facilities, shrinking local markets and price-control through local middlemen, absence of a cooperative to help improve production and marketing, decreased ability to grow crops according to specifications, and the lack of agricultural extension programmes.<sup>24</sup> Farmers also said that they need better extension services to improve the quality of their products, so as to meet the standards and norms required by EU markets.

These are all examples of areas where government support is needed.

## Transparent and consultative process

Agricultural negotiations need to be more **transparent**, and driven by the needs of poor people who depend on agriculture for a living. Poor people should have access to more information about the whole process so that they can see its relevance and potential benefits.

In addition, the findings of the **Sustainability Impact Assessment (SIA)** of the Euro-Med agreements, finally launched after more than four years of promises by the European Commission,<sup>25</sup> should also feed into this process of agricultural trade policy debates, especially since environmental issues, such as water shortages, strongly affect agricultural performance in the Mediterranean region. Moreover, if the SIA is conducted as a participatory process, and involves key stakeholders, it can help to deliver more sustainable development across the Mediterranean region by better identifying the potential social and developmental impact of agricultural trade liberalisation, and recommending concrete measures to mitigate negative impacts.

## Conclusion

It is in the EU's own interests to see healthy economies flourishing around its Mediterranean borders, not least for its own exporters. At present, fair rules on agriculture hold the greatest potential for poverty reduction, and should be accorded high priority. National governments, with EU support, must provide better support to small-scale farmers to help them to integrate better into local and international markets. Unless the EU adopts fairer trade rules, particularly in relation to border protection and subsidies, the Euro-Med Partnership will not benefit the agricultural sector in the Arab Mediterranean region.

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### Notes

<sup>1</sup> In addition to eight Arab countries (Algeria, Egypt, Jordan, Morocco, Lebanon, Palestinian Territories, Tunisia, and Syria), the Euro-Med partnership involves one industrial country (Israel) and two accession countries (Cyprus and Malta). Oxfam's Make Trade Fair Campaign is focused on low and lower middle-income countries. Therefore Israel, Cyprus, and Malta are excluded from the general analysis of this paper.

<sup>2</sup> The agricultural clauses in the agreements are limited to a certain number of reciprocal concessions, with further bilateral agricultural negotiations scheduled to start, on average, three to five years after the signing of the agreement. Thus far, reviews have taken place for Morocco, Tunisia, and Israel. All the Euro-Med agreements include preferential agricultural trade in the form of consolidating and extending tariff concessions. However, a large body of literature suggests that the agreements have not brought about *significant new* trading advantages to the Arab Mediterranean countries. These concessions are not so generous in several ways: i) concessions tend to apply only for products and seasons in which EU imports do not compete directly with

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domestic production; ii) tariff preferences are often granted under quantitative limits in the form of tariff rate quotas or reference quantities; iii) when tariff rate quotas are established, their administration becomes a problem. Tariff concessions create a quota rent whose distribution between exporter and importer depends on method adopted to allocate import licenses. If licenses are issued to European importers, which is often the case, the exporting country can lose part of the rent; and iv) norms and standards are often transformed into barriers. Indeed even these limited trade concessions were only obtained after lengthy and often acrimonious negotiations between the EU and the Arab Mediterranean countries. Information based on Economic and Financial Dimensions of the Euro-Mediterranean Partnership, by Alexander Sarris and Jose Maria Garica Alvarez Coque, unpublished research report prepared for Oxfam, March 2003. Also, for more information on this issue, see: Is full liberalization possible?, Jose Maria Garica Alvarez Coque, European Review of Agricultural Economics, Vol. 29:3, 2002, pp.399- 422.

<sup>3</sup> The European Commission decided, in February 2004, to open negotiations with the view to adapting the Agreements to the accession of ten new Member States (to take into account trade relations between the new Member States and the Southern Mediterranean countries). The negotiations should be concluded by 1 May 2004.

<sup>4</sup> The Barcelona Declaration of the Euro-Med process (1995) states: 'Taking as a starting point traditional trade flows, and as far as the various agricultural policies allow and with due respect to the results achieved within the GATT negotiations, trade in agricultural products will be progressively liberalised through reciprocal preferential access among parties...'

<sup>5</sup> Development and agri-food policies in the Mediterranean region, Annual Report 2002, International Centre for Advanced Mediterranean Agronomic Studies (CIHEAM), 2003

<sup>6</sup> Which Road to Liberalisation: A first assessment of the Euro-Med Association Agreements, C. dell'Aquila and M. Kuiper, Working Paper No.2, ENAPRI, Centre for European Policy Studies, October 2003.

<sup>7</sup> 2002 data, World Bank

<sup>8</sup> Interviews with Farmers Associations in Ghor Al Safi, Mukhabeh, and Adassiyah, Jordan, 27-28 January 2004.

<sup>9</sup> Following the mid-term CAP review in June 2003, the EU proposed in September to reform the olive oil, cotton, and tobacco sectors. The proposal provides for 60 per cent of existing payments to be decoupled, with Member States retaining 40 per cent of the production-linked payment for a 'national envelope' to maintain production in marginal areas.

<sup>10</sup> European olive oil subsidies are twice the value of the world olive oil trade, July 2003, Progress Policy Institute.

<sup>11</sup> Producers from Belgium, Germany, and the Netherlands have also pushed for limiting quotas allocated to Egyptian and Moroccan potatoes and cut flowers.

<sup>12</sup> [www.europarl.eu.int/conferences/euromed/agri/20010614/feedback/article\\_euromed.pdf](http://www.europarl.eu.int/conferences/euromed/agri/20010614/feedback/article_euromed.pdf)

<sup>13</sup> C. dell'Aquila and M. Kuiper, October 2003

<sup>14</sup> Euro-Mediterranean Conference of Ministers' of Foreign Affairs, Naples, 2-3 December 2003, Presidency Conclusions

<sup>15</sup> Interviews with Farmers Associations in Ghor Al Safi, Mukhabeh, and Adassiyah, Jordan, 27-28 January 2004

<sup>16</sup> The figures concern Tunisia, Egypt, and Morocco. The impact of agricultural liberalisation in the context of the Euro-Mediterranean partnership, FEMISE, November 2003

<sup>17</sup> Alexander Sarris and Jose Maria Garica Alvarez Coque, 2003

<sup>18</sup> See Morocco Trade Policy Monitoring Free Trade Negotiations with EU: Tomatoes vs. Bread Wheat, GAIN Report, 24 November 2003, USDA Foreign Agricultural Service. The report highlights that in fact Moroccan tomato exports have steadily declined since 1998, when it reached a peak of 172,107 MT. This decline is attributed domestic production reasons (outbreak of white fly in key growing areas) combined with the pressure of the quota regime of the EU-Morocco trade agreements (with Morocco diversifying into other fruits and vegetables).

<sup>19</sup> The examples of Lebanon and Tunisia are also highlighted in Regional Trading Blocks as a Response to Global Poverty: A Critique of the Euro-Mediterranean Agreement, Andrew Mold, Instituto Complutense de Estudios Internacionales, 2002.

<sup>20</sup> Alexander Sarris and Jose Maria Garica Alvarez Coque, 2003

<sup>21</sup> The analysis in this section draws heavily from the report: The impact of agricultural liberalization in the context of the Euro-Mediterranean partnership, FEMISE, November 2003.

<sup>22</sup> The Barcelona Declaration implicitly recognises the need for differential treatment in trade. However, there has been thus far no systematic effort to give an operational definition of this, i.e. it remains unclear whether this includes long transition period for tariff cuts, permanent exemptions and direct or indirect support basis. See the Euro-Med Partnership, Centre for European Policy Studies, Eric Phillipart, April 2003.

<sup>23</sup> Interview with members of agricultural cooperative, Tyr, Lebanon, 18 March 2004.

<sup>24</sup> Village Profile: Mishmish - Akkar, Economic and Social Fund for Development Project, Council for Development and Reconstruction, Lebanon, 2003.

<sup>25</sup> The European Commission first promised to conduct a Sustainability Impact Assessment at the Foreign Ministers Conference in Stuttgart in 1999, and the results were supposed to be available by 2001. This promise was reiterated in 2002, at the Ministers of Foreign Affairs in Valencia in 2002, which called for its launch by the end of that year. The SIA was not launched until the end of 2003/early 2004.