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TRADE POLICY ISSUES FOR THE EURO-MED PARTNERSHIP

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PAUL BRENTON[*] AND MIRIAM MANCHIN[**]

ABSTRACT

The economic prospects of the Mediterranean countries are currently constrained by the lack of ambition in their relationships with each other and with their major export market, the EU. These economic relationships are limited by a lack of coverage (agriculture and services are effectively excluded), by a lack of depth (substantial technical barriers to trade remain due to differences in regulatory requirements and the need to duplicate testing and conformity assessment when selling in overseas markets), and they are limited by rules (restrictive rules of origin and lack of cumulation limit effective market access). In addition, the rest of Europe, including Turkey, is integrating at a faster pace to create a Wider European Economic Space. If nothing is done to invigorate the integration process in the Mediterranean, then the region will fall (further) behind relative to other regions on the periphery of the EU, such as the Balkans and Russia and the Ukraine.

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1. Introduction

Economic integration is an integral element of the Barcelona process and is perceived as a key mechanism for stimulating trade and investment and raising growth rates in the Mediterranean region. To date, however, integration initiatives have not been effective in delivering these goals. Growth has at best been sluggish, with the growth rate in the region over the past decade averaging less than 1%, and little progress has been made in addressing poverty, with per capita income rising by only 0.5% per annum on average since 1975.

The Mediterranean countries are characterised by relatively small markets, which entails that exports must be the key factor behind future growth. The EU is the main trading partner, accounting for almost 50% of imports and exports of the region as a whole and as much as 70% for countries such as Tunisia (see Annex 1 for details). Exports to the EU have increased during the 1990s, by a factor of around 1.4, but at a much slower rate than other regions, most notably the other region bordering the EU which has been transformed during the last decade, Central and Eastern Europe, whose exports grew by a factor of more than 5. It is often noted that the economic structures of countries in the Mediterranean region are very similar which is deemed to be a major constraint on intra-regional trade. Inflows of foreign direct investment (FDI), an important driver of exports and growth in the Central and Eastern European countries, have been very small in the Mediterranean. In 2000, for example, the region as a whole received only 18% of the inflows into Central and Eastern Europe. FDI as a proportion of GDP is around 1%, which registers as one of the lowest rates in the world.[1]

This paper briefly reviews the current state of play in the Barcelona process before assessing what is missing and what should form the core economic substance of a programme for liberalisation and growth in the region. We then proceed to consider the geography of future agreements and how these can be designed to more effectively engender and entrench a commitment to region-wide economic integration.

2. Pushing the Barcelona Process Forward

The current situation in the Mediterranean might be best described as one of plodding along. A large amount of time and energy has, and is being spent in negotiating trade agreements that will at best have a minor economic impact. The Barcelona process is characterised by a family of limited bilateral free trade agreements. They are limited by lack of coverage: agriculture and services are effectively excluded. They are limited by lack of depth: substantial (and probably increasing) technical barriers to trade remain due to differences in regulatory requirements and the need to duplicate testing and conformity assessment when selling in overseas markets. They are also limited by rules: restrictive rules of origin and lack of cumulation constrain the degree of effective market access.

[1] Data are from *Oxford Analytica*, 18 November 2002.

A re-appraisal of the process of integration between the EU and the Barcelona countries and between these countries themselves is required now:

- Firstly because the current process of limited improvements in market access for industrial goods and selected agricultural products has failed to significantly stimulate growth, serious consideration must be given to achieving genuine improvements in market access throughout the region and to broadening and deepening the whole integration process in the region.
- Secondly, the rest of Europe, including Turkey is integrating at a fast pace to create a Wider European Economic Space.[2] If nothing is done to invigorate the integration process in the Mediterranean, then the region will fall (further) behind relative to other regions on the periphery of Europe, such as the Balkans and Russia and Ukraine. The Wider European Economic Space is being defined not only in terms of standard market access for goods but also in breadth in terms of covering services and in depth in the sense that key regulatory issues such as health and safety standards and sanitary and phytosanitary standards are addressed. As we discuss in more detail below, effective modern trade agreements must inevitably cover services and standards. These, will, for example, be integral elements of forthcoming EU agreements with Russia and Ukraine.

How then can the Barcelona process be re-invigorated. We separately identify two main aspects. Firstly, the core economic substance that is required for liberalisation and growth. Secondly, the geography of successful agreements to achieve these primary economic objectives.

3. The Core Economic Substance for Liberalisation and Growth

Immediate implementation of effective liberalisation of agriculture

Agriculture remains a key sector in many of the Mediterranean countries and agricultural exports are often an important source of foreign currency. Agriculture is subject to a high degree of distortion throughout the region which severely constrains intra-regional trade flows and specialisation. The principal overseas market is the EU. The benefits of free trade agreements with the EU are limited by the special status accorded to agriculture. For many of the countries in the region, exports of key agricultural products to the EU remain constrained by tariff barriers.[3] Not only are the barriers on unprocessed agriculture products high, but tariff escalation in the EU remains an important constraint upon the development of processed food sectors in the Mediterranean countries. Continuing restrictions on access to the EU market for agricultural products are the most important constraint on exports for many countries in the region (Chaherli and El-Said, 2000).

Thus, a key element in promoting trade and growth in the Mediterranean region will be the liberalisation of barriers to basic and processed agricultural products. However, a region-wide approach to this issue is required since countries in the region appear to have comparative advantages in similar agricultural products (such as fruit and vegetables), so that bilateral liberalisation at different speeds could lead to substantial trade diversion. Also of importance in the context of market access in agricultural products is the issue of sanitary and phytosanitary standards and the difficulties that exporters face in accessing both the EU and

[2] Annex 2 provides a broad comparison between the content of EU agreements with Turkey, the CEECs and the Mediterranean countries.

[3] Annex 3 shows the five main agricultural exports from each of the Mediterranean countries to the EU and the current level of EU tariff protection facing those commodities. Annex 4 shows the current structure of Mediterranean countries' exports to the EU.

neighbouring markets. Simply removing tariff barriers may not deliver effective improvements in market access if products in the Mediterranean region are unable to satisfy EU requirements concerning risk assessment mechanisms, pest detection and eradication procedures and the system of quarantine. At issue here is the fact that the standards applied by the Mediterranean countries are different from those of the EU so that producers who wish to export have to satisfy different standards for different markets. This is also a feature of trade between the Mediterranean countries themselves. We return to the issue of product regulations later but conclude here that long-run growth in agricultural exports to the EU will have to be underpinned by a programme of upgrading sanitary and phytosanitary standards in the region and the mechanisms to ensure compliance with those standards.

Move quickly towards the effective liberalisation of services.

It is becoming increasingly recognised that services play an integral role in economic advancement and that their exclusion from liberalisation is likely to severely constrain the benefits that are available from the integration of other sectors such as manufacturing. To be blunt, inefficient provision of key services, such as finance, telecommunications and transport, limits economic growth. In this section we briefly discuss the economic reasoning and empirical studies that should propel discussions concerning the liberalisation of services to the forefront of discussions about integration in the Mediterranean.

Inefficient domestic production of services protected behind trade and investment barriers acts as a tax on the production of goods. Many industrial sectors in Mediterranean countries may well be currently facing negative rates of effective protection since whilst tariffs on industrial goods are being removed with the principal trading partner (the EU), constraints remain which raise the price of service inputs. In other words, the liberalisation of markets for goods in the absence of services liberalisation can lead to negative rates of effective protection of goods and hence the need for parallel liberalisation of goods and services (Mattoo et al. (2001)). This means that there will be no incentive to increase the output of a goods sector that is not receiving protection but where the services that it uses are protected. The protection of services raises their price in the domestic economy and so too the costs of the industries that rely on them. Indeed, the liberalisation of services may be necessary for industrial sectors to be able to fully benefit from the direct opportunities that are made available by the removal of trade barriers.

The above paragraph stresses the importance of services liberalisation in improving the efficiency of use of existing resources. There is a growing literature that links services to economic growth. Just as with trade in goods, liberalisation of trade in services can lead to technology transfer and technology spillovers. These can arise both through cross-border provision of services and through foreign direct investment to establish commercial presence. Such technology transfer will be the source of additional growth.

There is one key difference that distinguishes services from goods liberalisation, in terms of their impact on growth. Services liberalisation often implies a larger scale of activity in the domestic economy which provides greater scope for the growth-enhancing characteristics that are present in many service sectors, such as learning by doing and knowledge generation, raising product variety and product quality (Mattoo et al. (2001)). This larger scale of activity arises because for many services the simultaneity of production and consumption makes a local presence necessary in order to supply the market. This requires factors of production to move to the consuming country. Further, many barriers in services sectors constrain entry to the market, not just to foreign entrants but also to new domestic providers. Hence, the liberalisation of services sectors can result in more competition from both foreign and new

domestic firms, which implies a larger scale of activity. It is also worth noting that since services are often labour-intensive, this greater scale of activity can play an important role in absorbing workers released as trade protection of import-competing goods is reduced and in attacking general unemployment.

Within the services sector, particular attention is often given to financial services due to the role that they play in directing investment funds to the most productive uses and in so doing providing for growth of output and incomes. Financial systems also play other important roles that can affect efficiency and growth (Levine (1997)). These functions comprise the trading and pooling of risk, the collection and dissemination of information concerning different investment opportunities and the monitoring of managerial performance and hence the means and incentives for improved corporate control, the mobilisation of savings through the provision of innovative financial instruments and the facilitation of trade in goods and services through the provision and maintenance of payment systems. If liberalisation of financial services leads to higher savings and investment and/or the more productive use of capital, then a higher level of per capita income will result. Growth rates will increase during the transition period to this higher level of income, but ultimately growth will return to its equilibrium rate. Permanently higher growth rates will occur if financial liberalisation leads to faster innovation in the financial sector or engenders processes such as learning by doing.

A number of studies have demonstrated the importance of the depth of financial markets for economic growth (King and Levine (1993) and Barthelemy and Varoudakis (1995)), although the role of policy and the impact of trade in financial services are not clarified. More recently, Francois and Schuknecht (1999) postulate a causal link from liberalisation of trade in services to performance in financial sectors and economic growth. Trade liberalisation promotes competition and higher quality financial services through entry. In an empirical exercise they find that moving from closed financial markets to a more open financial system increases the degree of competition in the provision of financial services which is associated with a higher growth rate. Mattoo et al. (2001) find that countries with open financial and telecommunications sectors have tended to grow faster than less-open countries by as much as 1.5 percentage points.

It is worth noting that constraints upon trade in services are often prohibitive, so that preferential trade liberalisation cannot cause actual trade diversion – there is no trade to divert. In addition, there will not be a loss of tariff revenue since the main barriers to trade are regulatory barriers, which do not generate revenue for the government. In this case a regional trade agreement could only cause 'potential' trade diversion in the sense that potential additional gains from non-preferential liberalisation are foregone.

Compared to the Association Agreements with the Central and Eastern European applicant countries, the EU's agreements with Mediterranean countries typically cover services in a much more limited way. Whilst the Association Agreements with the CEECs cover movement of workers, establishment and supply of services, the agreements with the Mediterranean countries are in most cases limited to the multilateral obligations offered under the GATS, particularly to grant reciprocal most-favoured-nation treatment in the services sectors covered by that obligation. Although the agreements with *Tunisia, Israel, Morocco* aim to 'widen the scope of the Agreement to cover the right of establishment of firms' and the liberalisation of the provision of services, the method of the implementation of this objective is not set in the agreements; instead, 'the Association Council shall make the necessary recommendations for the implementation of the objective'.

Table 1 shows the importance of trade in services in total commercial transactions with the Mediterranean Partner Countries (MPCs). The share of EU exports of goods was 78% in 2000 while the share of services in EU exports represented only 13% of the total. For EU imports, current account debit, the share of goods represents a smaller share, 64%, while EU imports of services comprise 20%. There is an important difference in the composition of services in EU exports and imports with the Mediterranean countries. Whilst transportation and travel has only a slightly higher share than other services, such as finance, in exports, in imports 77% of services comprise travel and transportation while only 23% of imports are other services. Furthermore, while there was an increase in exports of other services relative to transport and travel services since 1992, the composition of imports of services remained stable.

Table 1. EU current transactions with the MPCs (millions of euro)*

		1992	1994	1996	1997	1998	1999	2000
Credit	**Current account**	**39 237**	**44 474**	**53 632**	**63 163**	**66 107**	**67 447**	**83 172**
	*Goods***	*29 124*	*33 622*	*41 367*	*48 347*	*51 770*	*51 070*	*64 459*
	Services	*4 897*	*6 527*	*6 641*	*8 930*	*9 120*	*9 466*	*10 909*
	Transportation	1 694	1 866	1 759	2 462	2 260	2 120	2 727
	Travel	987	1 118	1 882	2 340	2 419	2 542	3 076
	Other services	1 922	3 271	2 930	4 101	4 419	4 803	5 104
	Serv. not alloc.	294	272	70	28	22	2	2
	Income	*4 753*	*4 033*	*4 713*	*4 942*	*4 335*	*6 037*	*6 893*
	Current transfers	*206*	*290*	*909*	*941*	*880*	*875*	*912*
Debit	**Current account**	**40 099**	**42 433**	**49 676**	**56 344**	**56 565**	**60 142**	**78 768**
	*Goods***	*24 629*	*24 952*	*28 417*	*32 668*	*33 927*	*35 960*	*50 718*
	Services	*8 389*	*9 245*	*10 819*	*12 641*	*12 223*	*12 735*	*15 597*
	Transportation	2 542	2 997	2 877	3 525	3 381	3 653	4 403
	Travel	3 947	4 106	5 548	6 026	5 755	6 008	7 542
	Other services	1 808	2 043	2 358	3 057	3 046	3 075	3 651
	Serv. not alloc.	94	97	36	34	42	0	1
	Income	*2 069*	*2 638*	*4 470*	*5 078*	*4 577*	*5 390*	*6 083*
	Current transfers	*4 986*	*5 594*	*5 970*	*5 955*	*5 837*	*6 060*	*6 371*
Balance	**Current account**	**-862**	**2 040**	**3 955**	**6 818**	**9 541**	**7 305**	**4 404**
	*Goods***	*4 494*	*8 670*	*12 950*	*15 679*	*17 844*	*15 110*	*13 741*
	Services	*-3 491*	*-2 718*	*-4 178*	*-3 711*	*-3 103*	*-3 269*	*-4 688*
	Transportation	-848	-1 131	-1 119	-1 063	-1 121	-1 533	-1 676
	Travel	-2 960	-2 988	-3 666	-3 686	-3 336	-3 466	-4 466
	Other services	114	1 228	572	1 044	1 374	1 728	1 453
	Serv. not alloc.	201	175	35	-7	-20	2	1
	Income	*2 683*	*1 395*	*243*	*-136*	*-241*	*648*	*810*
	Current transfers	*-4 780*	*-5 304*	*-5 061*	*-5 015*	*-4 957*	*-5 185*	*-5 459*

* Excluding Cyprus, Malta and Israel.
** According to the Balance of Payments concept (exports FOB - imports FOB).
Source: Eurostat (2002a).

It is clear that there are substantial economic gains to be reaped from the effective liberalisation of services, in terms of both greater economic efficiency and potentially higher growth rates. Many services are important determinants of competitiveness (Hoekman and Messerlin (2002a)). With regard to the impact on efficiency, Hoekman and Konan (1999) find using a simulation model that a EU-Egypt free trade agreement limited to goods (but with substantial progress on removing regulatory barriers affecting goods sectors) could raise

welfare in Egypt by around 4% whilst an agreement which reduced barriers to services in Egypt could raise economic welfare by over 13%.

Regional integration within the Mediterranean is currently governed by the GAFTA (Greater Arab Free Trade Area)[4] process which aims to have removed import barriers and other barriers to trade by 2008. However, the agreement is confined to trade in goods. Services and investment are excluded. As such, and given the limited scope for trade in goods between Mediterranean countries that many authors have stressed, the aggregate economic impact of the GAFTA will be slight. Indeed, economic modelling of the impact of intra-regional integration confined to trade in goods suggests that it would be very small for Tunisia and could be negative for Egypt (Hoekman and Messerlin (2002a)). This is not to suggest that there are no potential gains from removing border barriers to intra-regional trade in goods, but that these gains will be small relative to the liberalisation of trade in services and the removal of regulatory barriers to trade and that attaining the full benefits from removing border barriers will be dependent upon regulatory reform and liberalisation of services. For these reasons, Hoekman and Messerlin (2002a and b) propose a services-based integration strategy for the region.

FDI and trade in services are also closely related. As noted above, the international provisions of many services often require some form of local presence. Further, access to efficiently provided services is often an important factor in determining the location decisions of multinational firms. In some sectors an efficient services sector is a pre-requisite for substantial inflows of FDI. Table 2 compares the evolution of the flow of overseas investment by EU companies in Central and Eastern European countries and in the Mediterranean countries during the period 1998-2000. Both total FDI flows and FDI flows per capita are significantly lower in the Mediterranean countries than in the Central and Eastern European countries. The large differences in terms of EU FDI flows between the two regions suggest a substantial potential for the Mediterranean region to attract further FDI. An important element in achieving this is likely to be the effective liberalisation of services sectors.

Table 2. EU FDI flows to Central and Eastern European and Mediterranean countries

	EU direct investment flows (millions of euro)			**EU direct investment flows per capita**		
	1998	1999	2000	1998	1999	2000
CEECs	10 418	12 485	19 104	98.3	118.8	180.9
MPCs	2 563	1 320	5 020	21.0	10.8	37.6

CEECs: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Malta, Poland, Romania, Slovenia and Slovak Republic.

MPCs: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine Authority, Syria, Tunisia and Turkey.

Finally, the discussion above has concentrated upon the economic benefits of liberalisation of key services in the Mediterranean countries domestic markets. In a number of sectors, such as telecommunications and finance, this will entail increased imports and FDI from EU countries whose service suppliers are relatively efficient. However, it is also very important that there be reciprocal opening of service markets in the EU for sectors where the Mediterranean countries are relatively efficient. So, if the EU is serious about achieving liberalisation of services in the region it will have to be bold and liberalise its market for the provision of low-skilled labour-intensive services, such as construction, and allow the movement of persons to

[4] See Zarrouk (2000).

provide those services in the EU. It is crucial that the EU provides a strong lead by liberalising its own services markets and contributes to an environment that stimulates reform and liberalisation in the Mediterranean. An important issue to which we return later will be the liberalisation of trade in services between the EU and Turkey and the future role that Turkey will play, as a member of a customs union with the EU, in defining EU bilateral trade policy in services towards other countries in the region.

Standards and integration

Standards and regulations have come to be increasingly important factors in determining market access. Barriers to trade can arise from differences in the regulatory regimes imposed in various countries, which act to segment markets along national lines, constraining the ability of firms to effectively compete across national boundaries. The market-segmenting effects of these policies may not necessarily be intentional. For example, conformity with health, safety and technical standards requires testing and certification, which will normally be required of both domestic and imported products. But if every country maintains its own standards and testing procedures, then exported products will face a multiplicity of conformity assessment and hence higher compliance costs and this will tend to reduce international trade flows.

Due to the reduction in traditional trade barriers, the world economy has become more integrated. This has been reflected in rising volumes of trade and investment flows and increasing international interdependencies between firms. The activities of multinational firms are now much more important and this is altering the political economy which envelops trade policy-making. A large proportion of trade is now intra-firm trade, that is, trade that takes place within multinational enterprises. More generally, there has been an increase in the extent to which firms outsource parts of the production process to overseas suppliers leading to a 'sequential, vertical trading chain stretching across many countries' (Hummels et al. (1999)). Thus, a key element in successfully integrating into regional and global markets is inclusion into regional production networks. Differences in national product standards and in certification constrain the development of regional production systems by making internationally integrated production more costly. The latter need to be based upon a clear and certain policy environment and one in which the regional market as a whole can be served without significant interference. This requires countries to go beyond the removal of tariffs and quotas on trade to embrace what has come to be called 'deep integration'. The principal means or achieving deep integration, and so increasing the degree of competition, are the harmonisation of regulations and the mutual recognition of regulatory policy regimes.

Deep integration can be defined as agreements by governments to reduce the market segmenting effects of differences in national regulations by the coordination, harmonisation or mutual recognition of national laws, regulations and enforcement mechanisms. We now proceed to discuss the EU approach to regulatory barriers, looking first at internal liberalisation and then at EU external policies in this area. We concentrate upon technical barriers to trade, which encompass sanitary and phytosanitary measures, and which remain one of the most important causes of market segmentation and which have been particularly important in recent EU bilateral trade policy initiatives.

Technical barriers to trade (TBTs) can arise whenever a producer may have to alter its product in order to comply with differing partner country requirements such as for health, safety, environmental and consumer protection issues. These requirements can be imposed by both governmental (technical regulations) and non-governmental organisations (non-regulatory barriers, standards). The legal character of technical regulations distinguishes them from non-

regulatory barriers or standards; namely, the latter are voluntary, not legally binding and arise from the self-interest of producers or consumers involved, for example, to improve the information in commercial transactions and ensure compatibility between products. The former mainly relates to either technical specifications or testing and certification requirements such that the product actually complies with the specifications to which it is subjected (conformity assessment). Technical regulations strike at the heart of business operations affecting business pre-production, production, sales and marketing policies. The need to adapt product design, re-organise production systems and perform multiple testing and certification can entail a significant cost (or technical trade barrier) for suppliers of exported goods to a particular country, the magnitude of which differs across products. Before moving on to look at regional initiatives regarding technical barriers to trade, it is worthwhile to briefly review the approaches that the EU has adopted to remove such barriers to internal trade amongst members.

Instruments for removing technical barriers to trade

EU policy related to standards, testing and certification requirements is currently based upon two approaches: enforcement of the mutual recognition principle (MRP) and if this fails, the harmonisation of technical standards in each member country. The core EU approach of mutual recognition is based upon the idea that a partner country's regulations and conformity assessment mechanisms can offer equivalent levels of protection to those provided by corresponding domestic rules and procedures. Where 'equivalence' between levels of regulatory protection embodied in national regulations cannot be assumed, the only viable way to remove the TBT in question is for the member states to reach agreement on a common set of legally binding requirements. Currently, goods subject to harmonised regulations account for around 40 to 50% of intra-EU trade (Brenton et al. (2001)). Subsequently, no further legal impediments can prevent market access of complying products anywhere in the EU market. EU legislation harmonising technical specifications has involved two distinct approaches, the 'old approach' and the 'new approach'.

The old approach mainly applies to products by which the nature of the risk requires extensive product-by-product or even component-by-component legislation (chemicals, motor vehicles, pharmaceuticals and foodstuffs) and is carried out by means of detailed directives. In the main, achieving this type of harmonisation has been slow for two reasons. First of all, the process of harmonisation became highly technical since it sought to meet the individual requirements of each product category (including components). This resulted in extensive and drawn-out consultations. Secondly, the adoption of old-approach directives was based on unanimity in the Council. As a result the harmonisation process proceeded extremely slowly. Indeed the approach was ineffective since new national regulations proliferated at a much faster rate than the production of EU level directives on a limited set of products (Pelkmans (1987)).

It became increasingly recognised that there was a need to reduce the intervention of the public authorities prior to a product being placed on the market. Moreover, the decision-making procedure needed to be adapted in order to facilitate the adoption of technical harmonisation directives by a qualified majority in the Council. This has been done by the adoption of the 'new approach' and applies to products, which have 'similar characteristics' and where there has been widespread divergence of technical regulations in EU countries. What makes this approach 'new' is that it only indicates 'essential requirements' and leaves greater freedom to manufacturers as to how to satisfy those requirements, dispensing with the 'old' type of exhaustively detailed directives.

The new-approach directives provide for more flexibility than the detailed harmonisation directives of the old approach, by using the support of the established standardisation bodies, CEN, CENELEC and the national standard bodies. The standardisation work is achieved in a more efficient way, is easier to update and involves greater participation from industry. A further feature of the new approach is the use of market surveillance and the choice of attestation methods that are available: by self-certification against the essential requirements, by using generic standards or by using notified bodies for type approval and testing of conformity of type.

Bilateral Agreements on Conformity Assessment

Harmonisation and mutual recognition have been actively pursued by the EU in external bilateral agreements, not always in the context of a comprehensive trade agreement. The EU has no formal trade agreement with the US, but it does have a mutual recognition agreement (MRA) for conformity assessment of specific products. Under a MRA each country is given the authority to test and certify in its own territory, and prior to export, the conformity of products with the other country's regulatory requirements. The EU-US MRA agreement covers the following selected sectors: telecommunications equipment, electromagnetic compatibility, electrical safety, recreation craft, pharmaceutical good medical practices, and medical devices.

Mutual recognition agreements can be expected to bring a number of benefits. In particular, the expense, time and unpredictability of obtaining approval can be reduced if the product can be tested for conformity in the country of production. Unfortunately, at present we do not have good estimates of the impact that MRAs can have on the costs of exporting although some initial survey evidence from the OECD concludes that 'mutual recognition agreements of conformity assessment procedures have had a distinct and beneficial effect on the costs of compliance'.

The European Council has specified a list of priority countries with whom negotiations on MRAs should be conducted. The list comprises the US, Canada, Japan, Australia, New Zealand, Hong Kong, Israel, Singapore, Philippines, China, South Africa, Malaysia, Indonesia, Thailand and Turkey. To date the EU has signed agreements with the US, New Zealand, Australia and mostly recently in April 2002 with Japan. These agreements are confined to particular sectors and in the main the sectors covered by new-approach directives (or a subset of those sectors). Recently, the EU has signed Protocols on European Conformity Assessment with a number of Central and Eastern European countries as part of the process of accession to the EU.

Two of the Mediterranean countries appear on the list of possible candidates for mutual recognition agreements with the EU: Turkey and Israel. Turkey is in the process of adopting a wide range of EU legislation in the area of technical standards and regulations which should ultimately lead to Turkey signing its own Protocol on European Conformity Assessment whilst Israel has already signed an Agreement on Good Laboratory Practices (GLP) which entered into force in May 2000. It is worth noting that elsewhere in the broad European economic space there is a trend towards the approximation of technical rules and regulations.

It is interesting to compare the Association Agreements with Eastern applicant countries with the agreements of Mediterranean Partner Countries. While the approximation of laws is very important in the case of Central and Eastern European countries, it is not emphasised in the Association Agreements with Mediterranean Partner Countries. The laws of the eastern accession countries (including technical rules and standards) are in the process of harmonisation and approximation with those of the EU. To assist in achieving this objective

the EU provides technical assistance, which may include 'the exchange of experts, the provision of early information especially on relevant legislation, organisation of seminars, training activities, aid for the translation of Community legislation in the relevant sectors.'

The Association Agreements with Mediterranean Partner Countries state that the partner countries should approximate their legislation to that of the EU in the areas covered by the Agreement. However the way this should be achieved is not covered by the agreements. For example in the case of Tunisia, Algeria and Morocco, the Agreements state that the 'cooperation shall be aimed at helping' to bring the legislation closer to that of the Community. 'While in the case of Lebanon and Jordan the Agreement states that 'the Parties shall use their best endeavours to approximate their respective laws in order to facilitate the implementation of this Agreement'. In each Agreement there is an article on standards and conformity assessment. While the Association Agreements with Central and Eastern European countries envisage deeper objectives in this field with possible EU technical assistance, the Agreements with Mediterranean Partner Countries are more modest in certain cases without envisaging technical assistance. One of the most important differences is that Eastern European applicant countries are 'encouraged' to participate in the work of specialised organisations (such as CEN, Cenelec, ETSI, EOTC), while the possibility of participation in these organisations by Mediterranean countries is not mentioned in their Association Agreements.

All the agreements with Mediterranean countries envisage agreements on mutual recognition, although only if it is 'appropriate' or 'as soon as the conditions for them are met'. While the agreements with Eastern applicant countries state that the 'cooperation shall seek to promote/ to support' the use of EU technical regulations, the exchange of information in the field of quality control/production process, measurement and testing programmes, the Agreements with Mediterranean Partner Countries use slightly different language, in most of the cases stating that the 'Parties shall cooperate' in developing the use of Community rules in standardisation/conformity assessment, and developing the responsible bodies, etc.[5] The main objective in the area of standards and conformity assessment according to most of the Association Agreements between the EU and the Mediterranean countries is to reduce differences in standardisation and conformity assessment; the way to achieve these objectives, however, is not clearly defined. Thus, the agreements with the Mediterranean countries are constrained by a lack of ambition with regard to technical regulations and conformity assessment systems.

What then can countries in the Mediterranean do to ensure that their exporters are able to effectively participate in the European-wide production networks that are developing and that require a degree of consistency in standards and regulations across countries. At the same time, there is a need to consider how to dismantle regulatory barriers to trade between Mediterranean countries. Firstly, there is a need to modernise standards on a range of exported products, including agricultural products. Where feasible it would make sense to adopt EU standards in areas where exports to the EU are important. There are useful experiences from Eastern Europe that countries in the region could draw upon. An example is provided by Bulgaria, which is well documented by Daskalov and Hadjikolonov (2002)). These authors point to two important steps that Bulgaria took in amending its system of technical rules and regulations and adopting EU rules. Firstly, Bulgaria's legislators changed the status of Bulgarian standards from obligatory to voluntary. The removal of the obligatory

[5] The Association Agreements with Tunisia and Morocco add that 'the Parties shall take appropriate steps to promote the use by Tunisia of Community technical rules and European standards for industrial and agri-food products and certification procedures'.

status of the Bulgarski Dargaven Standart (BDS), the Bulgarian State Standard, made it possible for Bulgarian producers to immediately adopt European standards before they were formally introduced as BDS. This was a prerequisite for the adoption of the New Approach of the EU and also avoided the harmonisation process being hijacked and slowed down in the procedure of transposition by domestic interests seeking to remain protected behind domestic standards.

The second key development was the practice of adopting European standards before having them translated into Bulgarian. Such a practice dramatically speeded up the harmonisation of Bulgarian standards with those of the EU. This does place the burden on producers and consumers to translate the EU standards, which de jure have been adopted by Bulgaria's legislation, but de facto exist only in an electronic database in a foreign language. However, it avoids the situation that initially existed in Bulgaria whereby the majority of the BDS had not been harmonised such that Bulgarian producers who met the BDS could not have obtained a Certificate of Conformity to EU standards even if there had been an operating system of mutual recognition for the corresponding group of commodities.

The adoption of harmonised European standards does not in itself remove all of the technical barriers to exports to the EU. In addition, it is necessary to create the necessary institutional mechanisms to establish an appropriate system of voluntary product testing and certification and the accreditation of independent testing and certification bodies (Notified Bodies). This is a necessary step to allow products for export to the EU to be tested for conformity against EU regulations by domestic certification bodies. Notified bodies have to demonstrate the necessary level of independence, impartiality and integrity. The competence of such bodies must be subject to surveillance and regular monitoring. They must employ personnel with sufficient and relevant knowledge and experience.

However, it is not necessary to notify such bodies in every industry sector. The establishment of notified bodies is only necessary in important sectors with strong nation-wide representation. In other industry sectors, producers can use the conformity assessment services of foreign notified bodies in the EU countries or notified bodies in neighbouring countries that have signed a Mutual Recognition Agreement with the EU.[6] In this context, Turkey and Israel could develop as regional centres for testing and conformity assessment. In sectors where all countries in the region proceed to adopt EU standards, there would be a corresponding reduction in technical barriers to trade within the region. Again the benefits of the adoption of EU standards would be enhanced if countries were to recognise the results of testing and conformity assessment from the regional centres mentioned above.

In sectors where the adoption of EU standards is not deemed to be relevant but where there is scope for intra-regional trade, countries in the region could investigate the potential for mutual recognition of regional partners' regulations and standards. This would be appropriate in products where the risk to consumers is relatively small and attitudes to that risk and the way that it is regulated are similar. In short, there would be considerable benefits from adopting a regional approach to the issue of technical rules and standards, based upon the adoption of EU standards for the key products exported to the EU and the development of regional centres of excellence for testing and conformity assessment.

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[6] Provided that such an agreement does not contain rules of origin that restrict certification to domestically produced products.

Limited by rules: The role of rules of origin

We suspect that one of the key factors limiting the impact of free trade agreements with the EU on industrial development and growth in the Mediterranean is likely to be the rules of origin stipulated by the EU, which act to constrain access to the EU market. Rules of origin are also at the heart of intra-regional integration between Mediterranean countries, both in terms of the impact of EU rules on trade between countries and the nature and resources being expended on negotiating rules of origin in free trade agreements between Mediterranean countries themselves. We now proceed to briefly outline the key issues regarding rules of origin before looking at specific aspects of the problem in the Mediterranean.

Rules of origin define the conditions that a product must satisfy to be deemed as originating in the country from which preferential access is being sought. The main justification for rules of origin is to prevent trade deflection, whereby products from non-participating countries destined for say the EU market are redirected through free trade partners of the EU to avoid the payment of customs duties. Similar reasoning applies to the need for rules of origin in the EU's free trade partner. When products are produced in a single stage, then the origin of the products should be relatively easy to establish. Proof that the product was produced in the free trade partner should be sufficient. For all other cases the rules of origin define the methods by which it can be ascertained that the product has undergone sufficient working or processing in the free trade partner to qualify for preferential access.

The specification of rules of origin has become particularly important in recent years as technological progress and globalisation have led to the increasing fragmentation of the production process into different stages or tasks that are undertaken in different locations. A number of general approaches to origin are available. The simplest way of defining origin is probably change of tariff heading, alternatively there can be rules relating to the amount of domestic value-added or to specific technical requirements that the product may satisfy.

In the EU's bilateral trade agreements the basic rule that it adopts is that of the change in tariff heading at the 4-digit level of the CN or HS. However, in a very large number of cases this basic rule is supplanted by often restrictive specific requirements. For example, with the basic rule of change in tariff heading, a country that imports woven cotton fabric (HS 5208) to produce cotton shirts (610510) would satisfy the rule of origin and qualify for preferential reduction of the tariff on cotton shirts. However, in EU free trade agreements the change of tariff classification is replaced with a requirement that the product has been manufactured from Yarn. In effect this imposes the requirement that two stages of production must be undertaken in the partner or qualifying area to confer origin – not only the sewing together of the fabric but also the production of the fabric itself. Clothing products made in free trade partners of the EU but which are made-up of fabrics imported from third countries, such as China, will not satisfy the EU origin rules and will not qualify for tariff reduction.

Thus in EU trade agreements, annexes specify, for listed products, requirements other than change in tariff classification. These other requirements can be a minimum percentage of local value added in the originating country, or a technical requirement that requires that the product undergoes specific manufacturing operations in the country. In general the value-added criterion is very rarely applied, the specific requirements listed in the annex mainly define technical requirements. The technical requirements defined in the annexes are more specific and more restrictive than the change in tariff-heading rule. In the case of textiles, clothing and footwear, the annexes never specify value-added requirements, and only lay down technical requirements. In a typical agreement, a change in tariff heading is sufficient to confer origin for only about 15% of the textile product headings, while for the remaining 85%

of headings, specific technical requirements to qualify for preferential access must be met.[7] In the case of clothing, for 95% of the products categories, the rules do not permit change of heading but require specific working and processing. Similarly for footwear, most of the products have to fulfil technical requirements.

Brenton and Manchin (2003) highlight that a substantial proportion of EU imports that are eligible for preferential access under the GSP do not receive preferential access to the EU. The rules of origin in the GSP are very similar to those in the EU's free trade agreements, including those with the Central and Eastern European Countries – for example, to qualify for duty reductions, clothing products must be made from yarn. Further, they note that a substantial proportion of EU imports of clothing products from the Central and Eastern European countries enters the EU through an alternative customs scheme, known as outward processing trade (OPT), even though with duty-free access there is no fiscal incentive to use this scheme. In the absence of alternative explanations they conclude that registering for OPT is a lower cost mechanism for ensuring duty-free access to the EU than complying with the rules of origin. This suggests that, whilst on the one hand it is difficult to satisfy the precise requirements of EU rules of origin, it is also costly to meet the administrative requirements of proving origin. The costs of proving origin may exceed the benefits, in terms of duty reduction. We suspect that rules of origin cause Mediterranean exporters similar problems in gaining access to the EU markets, although it would appear that there is less scope for using OPT as a means of overcoming these problems.

Herin (1986) found that the costs for EFTA producers of proving origin led to one-quarter of EFTA exports to the EU paying the applied most favoured nation (MFN) duties. The costs of proving origin may be even higher, and possibly prohibitive, in countries where customs mechanisms are poorly developed. Thus, even when producers can satisfy the EU's rules of origin, in terms of meeting the technical requirements, they may not receive preferential access to the EU because the customs authorities do not accept their proof of origin or because the costs of proving origin are high relative to the duty reduction that is available.

What can be done to attenuate the restrictiveness of the rules of origin that the Mediterranean countries have to satisfy to attain duty-free access to the EU market? Cumulation of rules of origin is one mechanism that can be used in this context. Typically, agreements with the EU allow for bilateral cumulation with the EU so that originating inputs, that is, materials that have been produced in accordance with the relevant rules of origin, imported from the EU qualify as originating materials when used in the partner country's exports to the EU. However, the EU is often not the least-cost supplier of inputs and so the benefits of this type of cumulation are limited.[8] Of greater relevance would be to allow diagonal cumulation on a regional basis so that qualifying materials from anywhere in the region could be used without undermining duty-free access to the EU. In other words, parts and materials from anywhere in the region that qualify as originating could be used in the manufacture of a final product which could then be exported duty free to the EU. Finally, there can be full cumulation whereby any processing activities carried out in any participating country can be counted as qualifying content regardless of whether the processing is sufficient to confer originating status to the materials themselves.

[7] The amount of trade covered by technical requirements will typically be higher since the weaker requirement of simply change of tariff heading will tend to apply to product headings where there is an insignificant amount of trade.

[8] If the extra cost of using EU sourced inputs rather than the lowest cost inputs from elsewhere exceeds the available benefit from duty-free access, then cumulation will have no effect and there will be no improvement in market access.

Currently, the Barcelona process is seeking to establish a Euro-Med free trade area by 2010 with diagonal cumulation based upon the adoption of EU rules of origin throughout the region. The objective is the integration of the east Mediterranean countries into the so-called pan-European cumulation area. As a prerequisite to integrate the Mediterranean Partner Countries into the cumulation area, the EU is demanding the harmonisation of rules of origin. This requirement of harmonisation with EU rules of origin is inevitably slowing down the pace of integration in the region. Harmonisation of rules of origin is not a necessary condition for the implementation of diagonal cumulation and indeed there are examples, such as the GSP, where the EU provides for limited regional cumulation without the necessity of harmonising rules of origin. Thus, the EU could quickly adopt a more liberal approach to rules of origin in the Mediterranean region by more quickly allowing for regional cumulation. This move in itself will provide an impetus to regional integration as producers in the Mediterranean countries search for regional sources of materials which will qualify for preferential treatment and will stimulate exports to the EU.

In the longer term, the EU should consider how to apply full cumulation of rules of origin throughout the region. Full cumulation would allow more fragmentation of production processes among the members of the free trade area and so stimulate increased economic linkages and trade within the region. Some argue that under full cumulation more developed countries can outsource labour-intensive low-tech production stages to less developed partners and lock them into these stages therefore ‘blocking’ a more general process of development. It is argued that diagonal cumulation will stimulate more capital-intensive production processes and investments by requiring more stages of production/higher value-added to be undertaken in the country to fulfil the requirements of rules of origin and obtain preferences. The experience of developing countries under the GSP scheme shows, however, that requiring high levels of value-added or multiple processing stages to be undertaken results in lower uptakes of preferences and a lower level of all activities in the country.

Full cumulation is already granted between Algeria, Morocco and Tunisia, but these countries can only take advantage of the full cumulation rule if they are trading within themselves. Thus, including only three countries from the region in the full cumulation area does not encourage trade with other countries in the region outside the full cumulation area. In order to achieve deeper economic linkages between the countries in the region, full cumulation should be extended to other countries in the region.

4. The Geography of Achieving Broad and Deep Integration in the Mediterranean

How should the EU and countries in the Mediterranean region pursue this broadening – to cover agriculture and services – and deepening – to reduce the problems caused by different regulations and standards – of existing agreements and achieve effective integration with the EU and between countries in the region in such a way that higher growth and prosperity are actually delivered.

Firstly, it is worth noting that the Barcelona group consists of diverse countries whose relationships with the EU and amongst each other are dramatically changing. For a start Cyprus and Malta will shortly be acceding to the EU. Secondly, and most importantly, Turkey, whilst a member of the Barcelona group, actually applies the common customs policy of the EU and, in principle, should be involved in the formulation of EU external trade policy in goods and certain services. In addition, Turkey is in the process of adopting a large amount of EU legislation. Of particular relevance here are the process of technical harmonisation and establishing the conditions for mutual recognition, the adoption of EU competition rules and planned negotiations on services. Israel too is placed in a special position in the region, in part

because it is economically more advanced and in a number of ways has regulatory structures similar to those of the EU. As a result, participation in the EEA is one possible route for further integration with the EU.

Turkey at present appears to be a dislocated part of the EU trade policy hub relative to the Mediterranean spokes. Turkey applies the common trade policy in goods but plays little or no role in defining that policy. Peers (1996) argues that 'Turkey cannot affect the revision or negotiation of new trade agreements, and is explicitly excluded from consultation when the EU adopts trade policy measures against third states – even though the Decision suggests that the EC and Turkey should attempt to act in tandem on such measures'.[9]

The marginalisation of Turkey in defining and implementing EU commercial policies in the Mediterranean is a major weakness of the current Barcelona process. Mechanisms should be found which strengthen the role of Turkey as a regional economic hub, offsetting to some extent the single hub and spoke centred on the EU, and as a force for modernisation in the region through the increasing adoption of EU technical regulations and standards. This is likely to entail, however, an accentuation of sub-regionalism in the Mediterranean with Turkey being the focus of an increasing drive towards liberalisation in the Mashreq with the Maghreb countries still focused on the Southern EU. This tendency could be offset to some extent if the EU were to promptly allow for diagonal cumulation of rules of origin throughout the whole of the Mediterranean region.

Efforts towards increasingly deep integration in the eastern Mediterranean region could revolve around Turkey and Israel[10] becoming regional focal points for testing and conformity assessment for products being sold both in the EU and within the Mediterranean region. Products produced in regional neighbours would, provided the EU does not impose rules of origin, be able to be tested for conformity with EU rules in Turkey or Israel and not require further testing in the EU. This could, in principle, apply to sanitary and phytosanitary regulations as well as regulations governing health and safety of consumer and industrial goods.

In this process of regional integration, there is a need to consider the Gulf Cooperation Council (GCC).[11] In 1989 the EC and the GCC concluded a Cooperation Agreement which contains a commitment to start negotiations concerning a free trade agreement. The EU conditions the signature of such an agreement on the establishment of a GCC Customs Union. In 2001 the GCC countries decided to advance the establishment of the customs union by two years, with the GCC Customs Union expected now to be established by 2003. The EU and the GCC have recently restarted their discussions concerning an EU-GCC free trade agreement. In this context and with the importance of the GCC, it would be useful to consider the gains from including the GCC in the Barcelona process – particularly a process that revolves around Turkey becoming a centre and leading player in the modernisation and integration of the eastern Mediterranean region. Integrating the EU-GCC free trade area with the free trade area of the Mediterranean Partner Countries could give a stimulus to deeper regional Arab cooperation.

The GCC countries have the most developed financial markets in the region, as a result of their oil wealth, and could be substantial investors throughout the region if barriers to

[9] The Decision referred to is Decision 1/95 of the EC-Turkey Association Council which created the EC-Turkey Customs Union.

[10] If Israel joins the EEA or a Mutual Recognition Agreement is negotiated with the EU.

[11] The Gulf Cooperation Council was created in 1981 by Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman.

investment and trade were demolished and the incentive to investment improved. The integration of the GCC into the Barcelona process could provide a strong push towards freeing trade between the Gulf and the Mediterranean countries and in promoting regional cooperation (Bertelsmann Foundation (2002)).

Table 3 shows the web of trade agreements concluded between Mediterranean countries. Several east Mediterranean countries and GCC countries are members of the FTA of the Arab League which would facilitate the inclusion of the GCC countries in the Mediterranean Free Trade Area. It also implies that there are some economic linkages between the Mediterranean and Gulf region which should be further promoted by the creation of an EU-Mediterranean FTA.

Table 3. Trade agreements of Mediterranean Partner Countries

Partner countries	Morocco	Algeria	Tunisia	Egypt	Israel	Jordan	Lebanon	Syria	Turkey	Libya	PLO
Morocco		AMU	AL, AMU	AL, X		AL		AL		AMU, AL	
Algeria	AMU		AMU			X[a]				AMU	
Tunisia	AL, AMU	AMU		AL, X		AL		AL		AMU	
Egypt	AL, X		AL, X			AL	X	AL		AL	X
Israel						X[a]			X		
Jordan	AL, X	X[a]	AL, X[b]	AL	X[a]			AL	X	AL	X
Lebanon				X				X			
Syria	AL		AL	AL		AL	X			AL	
Turkey					X	X					
Libya	AMU, AL	AMU	AL, AMU	AL		AL		AL			
PLO				X		X					

[a] Source: US and Foreign Commercial Service.

[b] Signed but not implemented.

Notes: AMU = Arab-Maghreb Union – signed in 1989, envisages free trade between Algeria, Libya, Mauritania, Morocco and Tunisia. Not implemented.

AL = FTA of Arab League, in force from 1998; envisages reductions in industrial tariffs over a 10-year period. Includes Morocco, Tunisia, Egypt, Jordan, Libya, Syria, Iraq, Saudi Arabia, United Arab Emirates, Qatar, Bahrain, Oman, Kuwait and Libya.

X= Bilateral Trade Agreement.

Sources: European Commission, various national sources and US Trade Information Center Regional Database.

Thus, the overall goal of the revitalised Barcelona process should be the integration of all countries in the region into the European-wide economic space that is being constructed which will include the current EU members, the Central and Eastern European countries, the countries of the Balkans, the EFTA countries and Northern European countries including Russia and Ukraine. This will be an economic space based upon similar approaches to standards and conformity assessment for industrial goods and agricultural products and similar regulatory approaches to establishment and the provision of services. This in turn will further stimulate the creation of European-wide production networks across the whole of the region. The inclusion of Mediterranean countries in such an area will require substantial changes in economic policies with an emphasis on harmonisation with EU rules and regulations and the liberalisation of sectors, particular services, which have previously been excluded from integration initiatives in the region.

This process of adaptation should commence immediately. There are also a number of policy measures that can be taken quickly to enhance and support the process of integration between

the EU and the Mediterranean and within the region itself. Firstly, there is a need to liberalise trade in agricultural products. Secondly, there should be concerted attempts throughout the region to modernise regulations relating to sanitary and phytosanitary standards, with appropriate support from the EU. Thirdly, for industrial goods, countries in the region should quickly adopt EU regulations for key products exported to the EU. The EU should move quickly to negotiate and support agreements on mutual recognition of testing and conformity assessment in Turkey and Israel, without rules of origin. Fourthly, the EU should allow for diagonal cumulation of rules of origin throughout the region. If this is not deemed to be politically feasible, then the EU should allow for the simplification or derogation from restrictive rules of origin on key products in Mediterranean countries' exports to the EU, such as clothing products.

5. Conclusions

Trade agreements have had little impact on growth and poverty alleviation in the Mediterranean region. A key reason for this is that agreements between the EU and countries of the region and agreements within the region have been limited in scope and ambition. Significant sectors have been excluded and the agreements have been shallow in terms of the range of regulatory barriers to trade that have been addressed. It is time now to think how the Barcelona process can be made more effective in stimulating trade, growth and poverty reduction. This paper argues that a necessary condition will be to broaden and deepen liberalisation in the area. This will require a bold commitment to reform and acceptance of the inevitable adjustment costs that will arise. Here there is an important role of the EU and the governments of the region in devising and implementing appropriate policies to dampen this impact and facilitate the reorganisation of resources that will be required. Only a clear and visible commitment to achieve liberalisation and promote and protect open market access for all firms in the region and the EU will lead to a genuine change in attitude of traders and investors towards the region.

We finish by summarising our specific proposals:

- Include all agricultural products in agreements with the EU and in those between Mediterranean countries.
- Be bold in liberalising trade in services.
- Be ambitious in making progress on the removal of technical barriers to trade;
    - the Mediterranean countries should allow for the voluntary adoption of EU standards,
    - emphasis should be given to allowing the development of regional centres of excellence (initially in Turkey and Israel) for conformity assessment – the certificates from which should be recognised throughout the whole of the region.
- Diagonal cumulation of rules of origin should be quickly permitted throughout the whole of the region without the need for the harmonisation with EU rules of origin. An objective of full cumulation of rules of origin should be clearly stated.
- There should be greater involvement of Turkey in EU trade policy-making towards the region.
- The GCC talks should be connected to the Barcelona process and if possible liberalisation should occur on a parallel track.

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ANNEX 1

KEY FEATURES OF EU TRADE WITH THE MEDITERRANEAN COUNTRIES

EU trade with the Mediterranean Partner Countries (MPCs) (billions of euro)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Imports	26.6	27.8	28.2	28.0	30.5	32.1	35.3	41.3	42.5	47.2	64.7	67.4
Exports	33.5	35.0	36.6	43.5	43.9	50.6	56.9	65.3	68.0	69.4	87.0	75.3
Share of imports to MPCs in total imports	5.8%	5.6%	5.8%	5.7%	5.7%	5.9%	6.1%	6.2%	6.0%	6.1%	6.3%	6.6%
Share of exports to MPCs in total exports	8.1%	8.3%	8.4%	8.9%	8.1%	8.8%	9.1%	9.1%	9.3%	9.1%	9.3%	7.7%

* MPCs: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia and Turkey.

Source: Eurostat and own calculations.

Share of the EU in the external trade of the MPCs in 2000

	Tunisia	Morocco	Algeria	Turkey	Malta	Cyprus	Syria	Lebanon*	Israel	Egypt	Jordan	P. A.*	Total
Imports	71.6%	57.9%	58.0%	48.9%	60.0%	51.6%	29.6%	45.9%	43.3%	34.1%	33.0%	15.4%	47.5%
Exports	80.0%	74.7%	62.7%	52.5%	33.4%	36.5%	65.0%	24.1%	27.2%	40.0%	3.3%	0.4%	48.4%
Total	75.0%	64.5%	61.2%	50.1%	48.8%	48.6%	48.6%	43.8%	35.8%	35.6%	25.6%	13.5%	47.8%

* 1999 data.

Source: Eurostat.

ANNEX 2

COMPARISON OF SELECTED PREFERENTIAL AGREEMENTS WITH THE EU

	Turkey	**EEA**	**CEECs**	**Israel**	**MPCs***
Tariff free, industrial	Yes	Yes	Yes	Yes	To go to zero
Common external tariff, industrial	EU CET	----	----	----	----
Removal of quotas, industrial	Fully, but conditional on IPR, state aids for clothing	Fully	Fully	Fully, except some foodstuffs (e.g. pasta)	Mostly
Tariff free, agriculture	Ad-valorem duties mostly to zero; specific duties sometimes reduced; tariff quotas (also seasonal)	Only some reduction	Some reductions	Ad-valorem duties mostly to zero; specific duties remains	Reduction (negotiable)
Removal of quotas, agro	To be negotiated; T. yo adopt some CAP measures	(Tariffied)	Many tariff quotas remain	Mostly in fruits & vegetables; new negoti-ations in 2000	Some left
Common tariffs, agro	---------	---------	---------	-------	-------
Transition period tariff removal	(22 years up to 1996) (unknown for agro)	(4 years in the 1970s)	Asymmetric; EU 5 years, CEECs 10 years	(As of 1975, Israel 10 years plus 4 years delay; EU 4 years)	Asymmetric; MED up to 12 years
Customs cooperation	EU customs rules is largely adopted	Some	Yes	Some	Some
Technical harmonisation and mutual recognition	Adoption of EU *acquis*	EU *acquis* adopted	Approximation of EU *acquis*	Agreement on good laboratory practices signed	Open-ended approxima-tion objective
Origin rules	EU origin rules	EU origin rules	EU origin rules	Adoption of EU origin rules	Adoption of EU origin rules
Safeguards and anti-dumping (=AD)	Only after 'early warning'	Practicall y excluded	Only after consultation	Yes	Yes
Services	To be negotiated	EU *acquis* adopted	EU *acquis* (mainly) adopted	GATS, plus vague objective	GATS only
Establishment & national treatment	Under negotiation	EU *acquis* (except oil/gas)	EU *acquis* (mainly) adopted	Provision on freedom of establishment; to be further negotiated	Objective only (with some exceptions for Jordan)
Intellectual property rights	Trips immediately; EU *acquis* step-by-step;	EU *acquis* adopted	EU *acquis* (mainly) adopted	Little beyond trips, to be negotiated	Little beyond TRIPS; will provide suitable and effective protection

	Turkey	**EEA**	**CEECs**	**Israel**	**MPCs***
(EC) competition rules	EU *acquis* to be adopted; T. established competition authority	EU *acquis* adopted	To introduce basic EU *acquis* + competition authority	Fairly general competition obligation; annual state aids report; to be futher negotiated	To respect EU policy guidelines; cooperation and coordination
Free movement of capital	Adoption of EU *acquis*	EU *acquis* adopted	EU *acquis* (mainly) adopted	Conditional freedom + safeguard	No; no special FDI protection
Financial aid	Yes	Norway pays for cohesion	Yes	Yes (also Palestine)	Yes
'Economic' (project) cooperation	Some	----	PHARE & other cooperation	Some	Some
Political/cultural cooperation	Some (in Association framework)	-----	Extensive (in Association framework and beyond)	Some	Some
Institutions	Intergovernmenta l under Association	Common court; intergovernme ntal bodies	Intergovernm ental under Association; access to EU Council	Intergovernmenta l under Association	Intergovern-mental under Association

* MPCs: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia and Turkey.

Source: Pelkmans and Brenton (1999).

ANNEX 3

THE FIVE MOST IMPORTANT AGRICULTURAL EXPORTS IN 2000 TO THE EU BY MEDITERRANEAN PARTNER COUNTRIES AND THE LEVEL OF EU PROTECTION (THOUSANDS OF EURO)

Morocco		
Product	**EU imports**	**Tariff**
Tomatoes	117,222	3.5% [a]
Octopus	93,726	0%
Fresh navels etc	59,015	0.60%
Clementines	57,521	13.60% [a,b]
Sardines	52,832	0%

Algeria		
Product	**EU imports**	**Tariff**
Dates	15,593	5.3% [a,b]
Shrimps and prawns	3,210	0%
Grapes	2,190	€13.1/hl [a,c]
Wine	1,630	€9.9/hl [a,c]
Frozen shrimps and prawns	771	0%

Tunisia		
Product	**EU imports**	**Tariff**
Lampante virgin olive oil	105,630	€122.6/100 kg [a,c]
Virgin olive oil and fractions (excl. Lampante)	73,853	€124.5/100 kg [c]
Fresh or dried dates	50,755	4.2% [b]
Frozen shrimps	42,058	0%
Frozen shrimps and prawns,	13,662	0%

Egypt		
Product	**EU imports**	**Tariff**
New potatoes	29,731	6.3% [a,d]
Beans	19,440	4.3% min €0.6/100 kg [a]
Cane molasses	14,020	€0.35/100 kg
Dried onions	13,463	15%
Plants and parts of plants	10,630	0%

Israel		
Product	**EU imports**	**Tariff**
Fresh cut flowers and buds	73,423	8.5% [a,c]
Avocados	53,593	0%
Grapefruit	35,913	1.5% [a,c]
Sweet peppers	33,539	4.3% [a]
Vegetable seed for sowing	29,220	3% [c]

Jordan		
Product	**EU imports**	**Tariff**
Cucumbers	1,363	12.8% [a,c]
Fruits of genus capsicum or pimenta	764	0%
Beans	355	0% [a,b]
Tomatoes	336	0% [a]
Fresh or chilled vegetables n.e.s.	204	8.9% [a,b]

Lebanon		
Product	**EU imports**	**Tariff**
Guts, bladders and stomachs of animals	6,907	0% [c]
Wine of fresh grapes	2,274	€13.1/hl[a,c]
Wine	1,562	€15.4/hl[a,c]
Chewing gum	1,513	0 % + €30.9/100 kg max 18.2[a]
Coffee (excl. Roasted and decaffeinated)	505	0% [c]

Syria		
Product	**EU imports**	**Tariff**
Guts, bladders and stomachs of animals	17,242	0% [c]
Cumin seeds	3,967	0% [c]
Cotton linters	3,652	0% [c]
New potatoes	2,759	8.9% [a,b]
Capers	2,534	4% [a,b]

Turkey		
Product	**EU imports**	**Tariff**
Hazelnuts, shelled and peeled	382,627	3%
Sultanas	150,513	0%
Sun-cured oriental type tobacco	128,001	0%
Dried figs	54,575	0%
Dried apricots	52,990	0%

Cyprus		
Product	**EU imports**	**Tariff**
New potatoes	26,985	0% [a,d]
Citrus hybrids	8,881	13.6% [a,b,e]
Grapefruit	6,232	0%
Vermouth	5,477	0%
Fresh table grapes	4,649	Standard import value €112.2/100kg

Malta		
Product	**EU imports**	**Tariff**
Gilt-head seabreams ‘sparus aurata’	4,399	15% [c]
New potatoes	3,007	0% [a,e]
Sunflower seeds	1,939	0% [c]
Sea bass ‘dicentrarchus labrax’	622	15% [c]
Tomato ketchup and other tomato sauces	576	0%

[a] Seasonally changing entry tariffs, the lowest tariff is indicated.

[b] Generalised System of Preferences (GSP).

[c] Applicable to all third-party countries.

[d] For some seasons the GSP rate applies.

[e] For some seasons, the third-party country rate applies.

ANNEX 4. EU IMPORTS IN 2000 (THOUSANDS OF EURO)

		Morocco	Algeria	Tunisia	Egypt	Israel	Jordan	Lebanon	Syria	Turkey	Cyprus	Malta
Food products (sections I-IV)	Imports	1,162,963	29,126	374,555	157,900	817,944	4,816	19,759	39,670	1,924,192	98,124	12,528
	% of total imports	19%	0%	7%	5%	8%	3%	10%	1%	11%	10%	1%
Mineral products (section VI)	Imports	510,957	12,021,781	513,799	155,6268	261,840	6,502	15,649	3,011,922	614,277	42,701	66,152
	% of total imports	9%	73%	9%	46%	3%	4%	8%	88%	4%	4%	7%
Textiles (section XI)	Imports	2,457,149	571	2,709,206	678,831	503,391	21,508	18,020	277,331	7,460,301	67,757	155,184
	% of total imports	41%	0%	50%	20%	5%	12%	9%	8%	43%	7%	15%
Stones etc. (XIV)	Imports	35,533	935	9647	19,327	1,994,540	3,130	31,586	352	79,206	5,151	3,562
	% of total imports	1%	0%	0%	1%	20%	2%	15%	0%	0%	1%	0%
Metals (XV)	Imports	148,201	79,768	103,499	290470	395,302	4,946	36,964	6,750	1,392,545	25,371	19,977
	% of total imports	2%	0%	2%	9%	4%	3%	18%	0%	8%	3%	2%
Machinery (XVI)	Imports	607,106	19,448	799,269	219,657	2,762,785	26,172	19,055	12,339	2,378,826	63,348	363,877
	% of total imports	10%	0%	15%	7%	28%	15%	9%	0%	14%	6%	36%
Vehicles (XVII)	Imports	183,666	66,602	162,001	62,989	128,717	48,629	4,641	4,957	1,614,760	596,322	107,633
	% of total imports	3%	0%	3%	2%	1%	27%	2%	0%	9%	60%	11%
Optical products (XVIII)	Imports	28,520	2116	56,380	37,320	675,722	27,283	2,343	4,470	54,634	30,088	51,298
	% of total imports	0%	0%	1%	1%	7%	15%	1%	0%	0%	3%	5%

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