

Policy Department External Policies

TOWARDS A UNION FOR THE MEDITERRANEAN: PROGRESS AND CHALLENGES IN ECONOMIC AND TRADE RELATIONS

INTERNATIONAL TRADE

This briefing paper was requested by the European Parliament's Committee on International Trade.

It is published in the following language: English

Author: Prof. Dr. Erwan LANNON
University of Ghent, College of Europe, EU Institute for Security Studies

Responsible Officials: **Levente Császi** and **Dominique Delaunay**
Directorate-General for External Policies of the Union
Policy Department
BD4 06 M 55
rue Wiertz
B-1047 Brussels
E-mail: levente.csaszi@europarl.europa.eu

Publisher European Parliament

Manuscript completed on 3 September 2008.

The briefing paper is available on the Internet at
<http://www.europarl.europa.eu/activities/committees/studies.do?language=EN>

If you are unable to download the information you require, please request a paper copy by e-mail : xp-poldep@europarl.europa.eu

Brussels: European Parliament, 2008.

Any opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

© European Communities, 2008.

Reproduction and translation, except for commercial purposes, are authorised, provided the source is acknowledged and provided the publisher is given prior notice and supplied with a copy of the publication.

List of acronyms and abbreviations

ACAAs Agreements on Conformity Assessment and Accreditation

AMU Arab Maghreb Union

EMAA Euro-Mediterranean Association Agreements

EMP Euro-Mediterranean Partnership

ENP European Neighbourhood Policy

ENPI European Neighbourhood and Partnership Instrument

UfM Union for the Mediterranean

FDI Foreign Direct Investment

FTA Free Trade Area

GAFTA Greater Arab Free Trade Area

GCC Gulf Cooperation Council

IMF International Monetary Fund

MENA Middle East North Africa

MPs Mediterranean Partners

NTBs Non-Tariff Barriers

Executive summary

The present Briefing Paper aims at studying the context in which the new 'Barcelona Process: Union for the Mediterranean' initiative was adopted by the 27 EU Member States and its Mediterranean Partners and what can be expected from this new initiative in the trade and economic fields.

Since 1995 it is obvious that progress was achieved in building a Euro-Mediterranean Free Trade Area as almost all Euro-Mediterranean Association Agreements have been implemented. The multilateral dimension of the Euro-Mediterranean Partnership: the Barcelona Process has also generated positive results such as the creation of a number of multilateral networks and institutions. The 2005 five years programme (2006-2009) adopted at the occasion of the 10th anniversary of the Barcelona Process gave, in this regard, a new impetus to the multilateral cooperation.

The issue of economic integration between the Mediterranean Partners is nevertheless still a major concern as little has been achieved at operational level. However, even if the Arab Maghreb Union process is still frozen, the creation of the Greater Arab Free Trade Area and the launching of the Agadir initiative are positive signs indicating that there is a renewed political will to address this crucial issue.

The prospect of deeper Euro-Mediterranean integration implies a number of new challenges in the areas of trade in industrial and agricultural products and services. Deeper economic integration implies also the creation of new structures on the two shores of the Mediterranean. According to the European Commission the 'broader neighbourhood economic community' should be the long term vision and 'deep and comprehensive free trade agreements' could be envisaged in the future. The potential impact of deeper economic integration on key economic sectors should however not be underestimated. Also, the level of Foreign Direct Investment in the Mediterranean is still a major concern even if the new trends are a little bit more positive.

The 'Barcelona process Union for the Mediterranean' is indeed an opportunity to consolidate the Barcelona acquis and to go forward with a deeper Euro-Mediterranean economic integration initiated with the launching of the European Neighbourhood Policy. The proposals made in the recent Communication of the European Commission and within the framework of the Paris Summit Declaration are however quite limited in the field of economic and trade relations as the three key elements of the new strategy are:

- i) To upgrade the political level of the EU's relationship with its Mediterranean Partners;
- ii) To provide for further co-ownership to the Euro-Mediterranean multilateral relations; and
- iii) To make these relations more concrete and visible through additional regional and sub-regional projects, relevant for the citizens of the region.

Six projects have been identified by the Paris Joint Declaration but new initiatives are needed to reinvigorate the Barcelona Process. The architecture of the new institutional structure is to be further clarified in the coming months and it is still time to address some remaining shortcomings.

Table of contents

Introduction	p. 1
Part One The Barcelona acquis and economic integration between the Mediterranean Partners	p. 2
Chapter I The progress achieved in building a genuine Euro-Mediterranean Free Trade Area	p. 2
Section I The bilateral dimension: the Euro-Mediterranean Association Agreements	p. 2
Section II The multilateral dimension: the Barcelona Process	p. 3
Section III The 2005 five years programme (2006-2009)	p. 4
Chapter II The issue of economic integration between the Mediterranean Partners	p. 5
Section I The Greater Arab Free Trade Area: the regional level	p. 5
Section II The Agadir Initiative: the inter-regional level	p. 6
Section III The Arab Maghreb Union: the sub-regional level	p. 6
Part two The Prospect of a deeper Euro-Mediterranean Integration	p. 7
Chapter I The main challenges and problems in the areas of trade in industrial and agricultural products and services	P. 7
Section I Trade in industrial products	p. 7
Section II Trade in agricultural products	p. 8
Section III Trade in services	p. 8
Chapter II The prospects of deeper economic integration including economic structures on the two shores of the Mediterranean	p. 9
Section I The “broader neighbourhood economic community” long term vision	p. 9
Section II The “deep and comprehensive free trade agreements”	p. 9
Chapter III Investment trends and key economic sectors affected by deeper economic integration	p. 10
Section I The Foreign Direct Investment trends in the Mediterranean	p. 10
Section II The potential impact of deeper economic integration on key economic sectors	p. 11
Part three The potential of the “Barcelona Process: Union for the Mediterranean” initiative	p. 13
Chapter I The main elements of the Communication of the European Commission and of the Paris summit declaration	p. 13
Section I The proposals made in May 2008 by the European Commission on the “Barcelona Process: Union for the Mediterranean”	p. 13
Section II The Joint Declaration of the “Paris Summit for the Mediterranean” of 13 July 2008 and its implications	p. 14
Chapter II The prospect of initiatives and projects in the area of economic and trade relations	p. 16
Section I The six projects selected by the Paris Joint Declaration	p. 16
Section II The prospect of new initiatives in the area of economic and trade relations	p. 17
Chapter III The potential of the Union for the Mediterranean to reinvigorate the Barcelona Process	p. 17
Section I The economic impetus needed to reinvigorate the Barcelona Process	p. 17
Section II The new institutional structure and Euro-Mediterranean governance	p. 18
Section III The remaining shortcomings of the initiative	p. 20
Policy recommendations	p. 21
General conclusion	p. 22
Annexes	p. 23
Bibliography	p. 25

Introduction

The Committee on International Trade has commissioned a Briefing Paper to serve as a background for an own initiative report. The subject ‘Towards a Union for the Mediterranean – Progress and challenges in economic and trade relations’ is topical as the European Council of 13/14 March 2008 adopted a statement entitled: ‘Barcelona Process: Union for the Mediterranean’ according to which: ‘The European Council approved the principle of a Union for the Mediterranean which will include the Member States of the EU and the non-EU Mediterranean coastal states. It invited the Commission to present to the Council the necessary proposals for defining the modalities of the initiative in order to prepare the Paris Summit of 13 July 2008’ ⁽¹⁾.

The European Commission then adopted, on 20 May 2008, a Communication entitled ‘Barcelona Process: Union for the Mediterranean’ ⁽²⁾ putting forward more concrete proposals to be discussed at the Summit. The Commission also made an analysis of the achievements of the Barcelona process and took into account the shortcomings and difficulties in multilateral co-operation which the EU has pursued since 1995 in order to set out proposals for developing the new initiative. At the Summit of 13 July 2008 a ‘Joint Declaration of the Paris Summit for the Mediterranean’ ⁽³⁾ was adopted by the participants. This Declaration is of importance for the future of the Euro-Mediterranean relationships as the challenge is ‘to enhance multilateral relations, increase co-ownership of the process, set governance on the basis of equal footing and translate it into concrete projects, more visible to citizens’ ⁽⁴⁾.

One of the main objectives of the Briefing Paper is to provide the Committee on International Trade with a concise and comprehensive analysis of the Euro-Mediterranean relationships of the main challenges in the economic and trade fields in the light of the future implementation of the ‘Barcelona Process: Union for the Mediterranean’ having in mind the acquis of the Barcelona Process and of the European Neighbourhood Policy. The second main objective is to identify the main shortcomings and consistency between the current and the future initiatives in the light of the challenge of deeper economic integration. As mentioned by the European Commission, the EU policy is guided by the ‘Barcelona Declaration at regional level (1995) and its bilateral Association Agreements and, since 2003, the European Neighbourhood Policy and its bilateral Action Plans. Policy priorities in the region for the next five years were decided by the Heads of State at the Euro-Mediterranean Summit in Barcelona (2005)’ ⁽⁵⁾. A third objective is to draw a number of conclusions from the analysis of this initiative in order to make policy recommendations having the potential to reinforce the Euro-Mediterranean cooperation and give a new impetus to the Barcelona Process.

¹ European Council of 13/14 March 2008, revised version of the Presidency Conclusions, Annex I statement on ‘Barcelona Process: Union for the Mediterranean’, Brussels, 20 May 2008, 7652/1/08 REV, <http://register.consilium.europa.eu/pdf/en/08/st07/st07652-re01.en08.pdf>

² Commission of the European Communities, Communication from the European Commission to the European Parliament and the Council: ‘Barcelona Process: Union for the Mediterranean’, Brussels, 20.5.2008, COM(2008) 319 final.

³ Joint Declaration of the ‘Paris Summit for the Mediterranean’, Paris, 13 July 2008, http://www.ue2008.fr/webdav/site/PFUE/shared/import/0713_declaration_de_paris/Joint_declaration_of_the_Paris_summit_for_the_Mediterranean-EN.pdf

⁴ Joint Declaration of the ‘Paris Summit for the Mediterranean’, ‘Scope and objectives’, Paris, 13 July 2008, p. 11.

⁵ European Commission, ‘ENPI Regional Strategy Paper for the Mediterranean (2007-2013)’, http://ec.europa.eu/world/enp/pdf/country/enpi_euromed_rsp_en.pdf

Part One
**THE BARCELONA ACQUIS AND ECONOMIC INTEGRATION BETWEEN
 THE MEDITERRANEAN PARTNERS**

The first part of this Briefing Paper is devoted to the so called ‘Barcelona acquis’ and the issue of economic integration between the Mediterranean Partners. Since its inception in 1995, the Barcelona process has generated what is now called the Barcelona acquis. The new initiative should be built on this acquis and notably its economic acquis.

Chapter I
**THE PROGRESS ACHIEVED IN BUILDING A GENUINE
 EURO-MEDITERRANEAN FREE TRADE AREA**

When launched at the 1995 Barcelona Conference, the Euro-Mediterranean Partnership (EMP) was clearly based on two complementary dimensions: the bilateral dimension was to be constituted by the so called Euro-Mediterranean Association Agreements (EMAA), whereas the multilateral one was the Barcelona process as such. According to the 2008 Paris Declaration, the Barcelona Process: Union for the Mediterranean is built on the ‘Barcelona Declaration and its objectives of achieving peace, stability and security, as well as the acquis of the Barcelona Process’. Even if the Barcelona acquis has not been precisely identified it should, to our opinion, encompass at least the following:

- i) The Barcelona Declaration;
- ii) The Euromed Agreements and other legal acts annexed to them;
- iii) Secondary legislation (MEDA regulations, the European Neighbourhood and Partnership Instrument);
- iv) Decisions by the Court of Luxembourg on the EMAAs;
- iv) Other Euromed Ministerial Declarations;
- v) The Euromed Institutions, networks and partnership measures (⁶);
- vi) The 2005 Commission five year work programme.

A first recommendation is therefore to identify clearly what encompass precisely the notion of the Barcelona acquis that is referred to in the Paris Declaration.

Section I The bilateral dimension: the Euro-Mediterranean Association Agreements

The Euro-Mediterranean Association Agreements (EMAA) are the main bilateral legal basis for establishing bilateral free trade areas with the EU’s Mediterranean partners. The EMAA provide for trade liberalisation of manufactured goods with free access for Mediterranean exports and gradual tariff dismantling over a transitional period of a maximum of 12 years for EU exports. On agriculture, asymmetric reciprocal preferences are granted by the parties. Liberalisation of trade in

⁶ The Euro-Mediterranean Parliamentary Assembly and the Anna Lindh Euro-Mediterranean Foundation for the Dialogue of Cultures, regional networks (EuroMed Human Rights Network, EuroMed civil forums, Femise, trade unions forum), Partnership measures (Malta’s Diplomats Seminars, EuroMeSCo.) and regional programmes.

services and investment, including the right of establishment, is also part of the Association Agreements' objectives. According to the European Commission, 'EU trade with the Mediterranean countries has increased substantially since 1995. Exports to the EU for Southern Mediterranean countries have doubled between 1995 and 2006, while imports from the EU to the Southern Mediterranean countries have increased by about 60%' (⁷).

The table 4 annexed to the Briefing Paper illustrates the state of play in August 2008 as far as the EMAA are concerned. The first conclusion is that one can consider several groupings. The first one includes Tunisia, Morocco and Israel whose agreements entered into force respectively in 1998 and 2000. In other words, those countries have entered the last phase of the liberalization process and at the occasion of the 7th Euromed Trade ministerial Conference, held in July 2008, the Ministers welcomed the full implementation of the first Euro-Mediterranean Association Agreement between the EU and Tunisia and the 'positive results which have derived from trade liberalisation in terms of increased trade flows and diversification' (⁸). The Palestinian Authority agreement is a special case as it is an interim agreement but it must be underlined that this agreement also foresees the establishment of a free trade area. The second grouping is constituted by Jordan, Egypt, Algeria and Lebanon whose agreements entered into force in 2002, 2004, 2005 and 2006. For these countries the state of play is quite different as they are not yet concerned by the liberalisation of the most sensitive products. Syria is another specific case as the EMAA was only initialled; therefore, for the time being, the ancient cooperation agreement remains into force. That means that the target date of 2010 for the establishment of the Euro-Mediterranean free trade area is still quite symbolic as important differences remains in the calendar of dismantling between the different partners. These should be taken into account while promoting the project of deeper Euro-Mediterranean integration.

What is important is that the conclusion of the EMAA has generated a process of legislative approximation and promoted structural reforms in a great number of areas such as competition law, customs regulations, norms and standards. Problems remain however at the level of the quality and effective implementation of these reforms.

With the launching of the European Neighbourhood Policy (ENP), the bilateral track of the Euro-Mediterranean Partnership has been considerably reinforced. New instruments have been introduced such as the ENP Country Reports, Action Plans and Progress Reports. The ENP also introduced a new methodology based on the pre-accession methodology together with a benchmarking system with more concrete and precise objectives. The creation and use of Sub-Committees in the framework of the EMAA is another feature of the ENP.

Section II The multilateral dimension: the Barcelona Process

The strategy developed at multilateral level, on the basis of the 1995 Barcelona Declaration, was to organize conferences at ministerial and technical levels in order to launch ideas and then make concrete proposals for operational programmes, to stimulate the creation of networks and then to promote, when needed, the creation of institutions.

⁷ Memo, 'Trade and the Barcelona process', 19 October 2007, http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc_136486.pdf, see also tables 1 and 2 annexed to this Briefing Paper.

⁸ Chairman's Conclusions of the 7th Euromed Trade Ministerial Conference, Marseille, 2 July 2008, p. 1.

In the field of trade and economics a number of sectoral ministerial meetings were held. One should mention here the conferences of the Euro-Mediterranean Ministers of Trade, the Euro-Med ECOFIN Ministerial Meetings, the conferences of the Euro-Mediterranean Ministers of industry and a conference of the Euro-Mediterranean Ministers of agriculture.

A network of institutes for political economy, of research organisations and similar independent, non-profit organizations representative of both sides of the Mediterranean, the FEMISE network, has also been created in June 2005 in order to:

- i) conduct policy research and make recommendations with respect to economic relations between the EU and Mediterranean partners;
- ii) publish and disseminate this research for the benefit of public and private, national and multilateral institutions,
- iii) work for the broadest possible dissemination by the most appropriate means" (⁹).

No Euro-Mediterranean institution has been created in the framework of the economic and financial basket of the Barcelona process even if the proposal of a kind of a Euro-Mediterranean bank has been mentioned several times. Therefore it could be worth to think about the creation of a Euro-Mediterranean institution dealing with trade issues. In this respect, Euromed Agencies for the promotion of FDI, or in the field of normalisation and certification could be envisaged to consolidate the progress achieved and promote further reforms.

Section III The 2005 five years programme (2006-2009)

As mentioned in the 2008 Paris Joint Declaration: ‘the Five-Year Work Programme adopted by the 10th Anniversary Euro-Mediterranean Summit held in Barcelona in 2005 [...] and the conclusions of all ministerial meetings will remain in force’. The second part of the 2005 Five Years Programme (2006-2009) (¹⁰) entitled: ‘Sustainable Socio-Economic Development and Reform’ identified a number of priorities such as the need to create more job opportunities for the increasing numbers of young people across the region or the reduction of regional poverty rates. The Euromed Partners agreed on a number of priorities such as: improve business climate, increase the access to bank lending by the private sector or consolidate macro-economic stability and improve public finance management. Noteworthy is that this section of the 5 years action plan tackles social issues such as social protection systems, socio-economic inclusion or women employment.

With a view to contribute to these objectives it was decided to design a road map including the progressive liberalisation of trade in agriculture, processed agricultural products and fisheries products and the progressive liberalisation of trade in services.

Among the priorities one should mention here:

- Approximation of standards, technical legislation and conformity assessment, and the negotiations of Acceptance and Cooperation Assessment Agreements on Industrial Products (ACAAs) and the elimination of technical obstacles to commerce at the latest by 2010;

⁹ FEMISE, <http://www.femise.org/Presentation/index-gb.html>

¹⁰ 10th Anniversary Euro-Mediterranean Summit, Five year work programme, Brussels, 28 November 2005, 15074/05 (Presse 327), http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/er/87165.pdf

- Apply the principles of the Euro-Mediterranean Charter for Enterprise;
- Take measures to promote the conditions to allow a substantial increase in the European investment rate in southern Mediterranean partner countries;
- Enhance investment flows across the Mediterranean region and monitor progress;
- Strengthen impact analysis of economic reforms and co-operation in the region.

Chapter II THE ISSUE OF ECONOMIC INTEGRATION BETWEEN THE MEDITERRANEAN PARTNERS

This second chapter concentrates on the issue of economic integration between the Mediterranean partners themselves. This issue has been particularly at a stake since the 1995 Barcelona Declaration although little has been achieved in terms of concrete results. While the Arab Maghreb Union process remains frozen, the Great Arab free Trade Area and the more recent Agadir initiative have generated some hopes in this regard.

Section I The Greater Arab Free Trade Area: the regional level

It is in 1997 that fourteen Arab countries concluded an agreement in order to achieve the Greater Arab Free Trade Area (GAFTA) within 10 years. The main objective of the agreement is the progressive removal of tariff and non tariff barriers in the field of manufactured goods whereas agricultural products are provided with special treatment. In 2002 the Social and Economic Council decided to end the transition period by first January 2005 instead of 31 December 2007.

Among the main outcomes expected by the process of trade liberalisation are:

- an increase of trade between member countries;
- a better reallocation of the production among members;
- an increase of FDI;
- the development of quality standards and qualifications (¹¹).

A study conducted by Javad Abedini and Nicolas Périidy on the Greater Arab Free Trade Area concludes that 'the GAFTA agreement provides significant trade effects. The calculation of gross trade creation shows that regional trade has increased by 20% since GAFTA has been implemented. Given these results, it seems that the GAFTA agreement should go deeper and wider. Indeed, a deeper integration should provide the opportunity of consolidating and reinforcing the current gains. In addition, a wider integration (with the 6 Arab countries which are still outside of this agreement) should help future members in their development process through more trade with their partners' (¹²). The challenge is therefore to create a proper Pan-Arab FTA in the future. Finally one should

¹¹ National Agricultural Policy Center, 'Implementation of the Great Arab Free Trade Area Agreement: The Case of Syria, Working Paper n° 8, http://www.napcsyr.org/dwnld-files/working_papers/en/08_gafta_en.pdf

¹² Abedini J. and Périidy N., *The Greater Arab Free Trade Area (GAFTA): An Estimation of the Trade Effects*, Canadian Economics Association, <http://economics.ca/2007/papers/0300.pdf>

stress that concerns have also been raised regarding the persistence of a number of NTBs within the framework of the GAFTA (¹³).

Section II The Agadir Initiative: the inter-regional level

The Agadir process was initiated in May 2001 by Morocco, Egypt, Tunisia, and Jordan with the adoption of a Declaration expressing the intention of the Parties to establish an FTA. The Agadir Agreement was signed in Rabat in 2004. The ratification was completed in 2006 and the agreement entered into force in March 2007. It remains open to other countries of the region. The main objectives of the Agadir Agreement are the following:

- '1- The Member States shall form between them a free trade zone, in a gradual fashion, during the transitional period lasting no longer than 1/1/2006 and beginning at the time of this agreement's entry into force in conformation with its text, and agreeing to the text of the General Agreement of Trade Tariffs and Customs of 1994 and other agreements related to the agreement for the creation of the World Trade Organization.
- 2- The free trade zone will be created in order to develop economic activity, support employment, increase production, and improve the standards of living within the Member States.
- 3- To unify the public and private economic policies of the Member States in areas dealing with: external commerce and agriculture, industry, the tax system, the financial system, services, customs and that which facilitates competition between the member states.
- 4- To bring closer the economic legislations of the Member States in hopes of producing an adequate climate for the conditions of merger between the Member States' (¹⁴).

During their last meeting the Euromed Ministers in charge of trade insisted on the fact that 'the first year of implementation of the Agadir Agreement [...] has shown so far mitigated results in terms of increase of trade flows amongst the partners' (¹⁵). Of course this initiative is too recent to expect spectacular results just a few months after the entry into force of the Agreement.

Section III The Arab Maghreb Union: the sub-regional level

Although the Arab Maghreb Union was represented at the July 2008 Paris Summit, this regional economic integration remains frozen due to antagonisms between Morocco and Algeria on the issue of the Western Sahara and this despite several attempts to re-launch the political process during the 1990's. Since the establishment of the AMU in 1989 the five member countries (¹⁶) have signed more 37 multilateral conventions but very few have been ratified by all Parties.

Without progress on the political track it is doubtful that the AMU could be re-activated. Nevertheless, in case of future positive developments, its institutions, mechanisms and regulations could be of importance to regulate intra-Maghreb and EU-Maghreb relationships.

¹³ Gendrano J., *League of Arab States Greater Arab Free Trade Agreement*, Institute for Domestic and International Affairs, 2007, p. 18.

¹⁴ Article 2 of the 'Agreement for the Establishment of a Free Trade Zone between the Arabic Mediterranean Nations', http://www.bilaterals.org/article.php?id_article=2513

¹⁵ Chairman's Conclusions of the 7th Euromed Trade Ministerial Conference, Marseille, 2 July 2008, p. 2.

¹⁶ Algeria, Libya, Mauritania, Morocco and Tunisia.

Part two
**THE PROSPECT OF A
 DEEPER EURO-MEDITERRANEAN INTEGRATION**

This second part of this Briefing Paper is devoted to the prospect of a deeper Euro-Mediterranean integration. The first chapter concentrates on the ‘main challenges and problems in the areas of trade in industrial and agricultural products and services’, the second on the ‘prospects of deeper economic integration including of economic structures on the two shores of the Mediterranean’.

Chapter I
 THE MAIN CHALLENGES AND PROBLEMS IN THE AREAS OF
 TRADE IN INDUSTRIAL AND AGRICULTURAL PRODUCTS AND SERVICES

Section I Trade in industrial products

In the field of trade in industrial products one key issue will be to reduce Non-Tariff Barriers (NTBs). This is still a major obstacle for promoting trade in the Mediterranean as for example customs procedures are often complex and long delays for customs clearances are regularly reported. Regulatory convergence is therefore required. For instance and as stressed by Janelle Gendrano, there are ‘few provisions in GAFTA concerning NTBs specifically, though GAFTA does attempt to streamline intra-regional trade by making certain trade policies uniform. Some of the domestic policies ignored by GAFTA are import licensing for safety and health standards, customs, subsidies, countervailing measures, safeguards, most favoured nation status, and intellectual property rights. Even the GCC countries, where NTBs are comparatively low to the rest of the region, still have many NTBs hindering their trade’⁽¹⁷⁾. At Euromed level, one of the objectives is now to negotiate Agreements on Conformity Assessment and Accreditation (ACAAs). The conclusion of ACAAs will be an important step in the participation of Mediterranean Partners in the Internal Market as foreseen in the framework of the ENP. The establishment of dispute settlement mechanisms are also crucial elements as it will increase legal certainty for economic operators. Negotiations with Tunisia and Morocco were, in this regard, terminated last July⁽¹⁸⁾.

It is in October 2005 that the EU Council approved the creation of a Pan-Euro-Mediterranean zone of cumulation of origin⁽¹⁹⁾. This cumulation will be another essential step to stimulate trade in the pan-Euro-Mediterranean zone and will increase competitiveness as economic actors will benefit from preferential tariff treatment. This instrument will also be an important tool for promoting investment flows in the region. One of the pre-condition is however the conclusion by all the partners of free trade agreements with the EU and EFTA countries and with each other. Progress has

¹⁷ Gendrano J., *League of Arab States Greater Arab Free Trade Agreement*, Institute for Domestic and International Affairs, 2007, p. 18.

¹⁸ European Commission, DG Trade ‘7th Euromed Trade Ministerial Conference - Euromed Ministers give new impetus to trade and investment relations’, Marseille, 2 July 2008, http://ec.europa.eu/trade/issues/bilateral/regions/euromed/ministerial2008/pr020708_en.htm

¹⁹ Among the following countries: Algeria, Egypt, Faeroe Islands, Iceland, Israel, Jordan, Lebanon, Morocco, Norway, Syria, Switzerland, Tunisia, Turkey, and the West Bank and Gaza Strip.

been achieved in this regard by some MPs such as Morocco but the network of vertical and horizontal FTA has not been yet finalized.

The importance of the informal sector is another major concern and a very serious challenge in the Mediterranean area but this issue has been rarely highlighted in the Euro-Mediterranean framework.

Section II Trade in agricultural products

Today almost 80% of EU imports from Mediterranean partners at zero duty, whereas more than 20% of Mediterranean imports from EU at zero duty ⁽²⁰⁾. There is however, further room for liberalisation not only between the EU and its Mediterranean Partners but also between the MPs. Following the adoption of the Rabat Euro-Mediterranean Road Map for Agriculture, adopted in November 2005, negotiations on the further liberalisation of processed agricultural and fisheries products have been finalised with Israel ⁽²¹⁾ and Egypt ⁽²²⁾.

Of course one of the challenges will be to take into account in the long run the food security/sovereignty and food self sufficiency rate factors as the MPs are already net agricultural importers. The objectives of rural development, reasonable income levels for farmers, agricultural productivity, and development and promotion of quality production are pre-condition for the success of the liberalisation process.

One should also not forget that the challenge is global given the current increase in the price of agricultural products. As pointed out by the CIHEAM a 'quick analysis of certain countries on the southern and northern shores of the Mediterranean shows that in the past year the price index for food products has risen more than the general price index, which points to an inflationary bulge caused in all probability by the increase in the price of basic products. [...] households in countries to the South of the Mediterranean spend a much larger share of their income on food products than those in the North, which means that the rise in food prices is particularly serious for them. Moreover, analysis of the percentage share of expenditure on individual products shows that cereals and fats account for a large share of their household expenditure (notably in Turkey, Egypt and Morocco)' ⁽²³⁾.

Section III Trade in services

In June 2005 the European Commission adopted a proposal to open negotiations on the liberalisation of services and investment with the EU's Mediterranean partners. As it has been

²⁰ Briefing Paper of the EU French Presidency on 'The Barcelona Process: Union for the Mediterranean', July 2008, http://www.eu2008.fr/webdav/site/PFUE/shared/import/0702_Euromed_Commerce/DP-Euromed-About-the-process-EN.pdf

²¹ Agreement reached to liberalise trade in Agricultural and Fishery Products between the EU and Israel, IP/08/1233, Brussels, 1 August 2008.

²² Agreement reached to liberalise trade in Agricultural and Fishery Products between the European Union and the Arab Republic of Egypt, IP/08/1104, Brussels, 4 July 2008.

²³ CIHEAM Watch Letter n° 5, *Rise in agricultural prices: what repercussions for the Mediterranean?*, Paris, Spring 2008, 14 p.

estimated that services account for almost 60% of the Mediterranean countries GDP ⁽²⁴⁾, substantial gains are expected from the gradual opening of the services sector and from attracting new investments.

According to the 2007 FEMISE Report, the issue of liberalization of services ‘constitutes the most important source of potential profits in the relative short term’ ⁽²⁵⁾. Tourism is the leading sector in the Mediterranean but telecommunications, transport and financial services are also of major importance for the future. The negotiations on the liberalisation of trade in services and the right of establishment have been launched with Egypt, Morocco and Tunisia and are expected to be launched soon with Israel ⁽²⁶⁾.

Chapter II

THE PROSPECTS OF DEEPER ECONOMIC INTEGRATION INCLUDING ECONOMIC STRUCTURES ON THE TWO SHORES OF THE MEDITERRANEAN

Section I The ‘broader Neighbourhood economic community’ long term vision

As mentioned by the European Commission in its 2006 Communication ‘in the longer-term, working towards a broader Neighbourhood economic community would include such points as the application of shared regulatory frameworks and improved market access for goods and services among ENP partners, and some appropriate institutional arrangement such as dispute settlement mechanisms’ ⁽²⁷⁾.

Paradoxically, the new project focuses on the term ‘Union’ and not ‘Community’, which might be a source of confusion. It is also important to understand that the prospects of deeper economic integration with the Mediterranean cannot be disconnected from the general framework established by the ENP. These elements must be taken into account when envisaging the creation of new economic structures in the Mediterranean.

Section II The “deep and comprehensive free trade agreements”

As indicated by the 2006 Communication of the European Commission: ‘over time, the implementation of the ENP Action Plans, particularly on regulatory areas, will prepare the ground for the conclusion of a new generation of deep and comprehensive free trade agreements (FTAs) with all ENP partners [...]. A deep and comprehensive FTA should cover substantially all trade in goods and services between the EU and ENP partners including those products of particular importance for our partners and should include strong legally-binding provisions on trade and

²⁴ Services account for about 50% of GDP in Egypt, Morocco and Syria and 70% of GDP in Jordan and Lebanon, with Tunisia in-between at 60%.

²⁵ 2007 FEMISE Report on the Euro-Mediterranean Partnership, Ahmed Galal and Jean-Louis Reifers (coordinators), Marseille, February 2008, p. 1.

²⁶ According to the Chairman's Conclusions of the 7th Euromed Trade Ministerial Conference, Marseille, 2 July 2008 these negotiations could be concluded in the course of 2009.

²⁷ European Commission “Strengthening the European Neighbourhood Policy”, 4 December 2006, p. 5.

economic regulatory issues. Existing Mediterranean FTAs should be expanded accordingly, to other regulatory areas. Results of trade sustainability impact assessments will be integrated into this process' ⁽²⁸⁾.

This point is of great importance for the deeper economic integration as there will be a possibility to negotiate with the Mediterranean countries a new generation of agreements. In this regard, the Lisbon Treaty includes an article 8 stating that in order to develop special relationship with neighbouring countries the Union may conclude 'specific agreements with the countries concerned. These agreements may contain reciprocal rights and obligations as well as the possibility of undertaking activities jointly' ⁽²⁹⁾.

With the launching of the ENP the adoption of the Community acquis has become a major challenge for the MPs. As stressed by Daniel Muller-Jentsch, the pursuit of deeper integration has a 'decisive practical advantage. While it formulates a "grand vision" for the region, it can be implemented incrementally and at multiple speeds. [...] deeper integration may be tackled at different policy levels (national reforms, regional integration, multilateral liberalization) and in a wide range of policy areas (individual sectors and themes). This permits each MP to move at its own pace and according to its own priorities. While the long term goal is clear, there are many ways of getting there' ⁽³⁰⁾. The cases of Morocco and Israel with the so called 'advanced partnership' ⁽³¹⁾ and 'special relations' perspectives are in this regard of special interest.

Chapter III INVESTMENT TRENDS AND KEY ECONOMIC SECTORS AFFECTED BY DEEPER ECONOMIC INTEGRATION

This third chapter tackles investment trends and key economic sectors affected by deeper economic integration. The first section will briefly examine the foreign direct investment trends in the Mediterranean as this is one of the key to a successful economic integration, whereas the second section will address the issue of the potential impact of deeper economic integration on key economic sectors.

Section I The Foreign Direct Investment trends in the Mediterranean

According to the European Commission: 'Southern Mediterranean countries stand to make substantial gains from attracting new investment. Foreign investment flows into the Mediterranean region are still very low. The share of this region in the EU's total direct investment abroad in 2006 was €4.9billion – around 2% of EU FDI. Since 2000, the Mediterranean countries have attracted on

²⁸ European Commission, *Strengthening the European Neighbourhood Policy*, 4 December 2006, p. 4.

²⁹ Consolidated versions of the Treaty on European Union and the Treaty on the functioning of the European Union, OJ C115, 9.05.2008.

³⁰ Muller-Jentsch D., *Deeper Integration and Trade in Services in the Euro-Mediterranean Region Southern Dimensions of the European Neighbourhood Policy*, World Bank Paper 32530, Washington, October 2004, p. 79.

³¹ See Lannon E., Braga de Macedo J., De Vasconcelos A., *Maroc-UE : Vers un statut avancé dans le cadre du PEM et de la PEV*. Papiers IEMED n° 2, Institut européen de la Méditerranée, Barcelona, Novembre 2007, 17 p., <http://www.iemed.org/documents/paperiemed2.pdf>

average only 1% of the EU outward Foreign Direct Investment' (³²). However, it seems that according to other sources there is a more positive trend since 2005 if we take FDI as a whole. The 2007 FEMISE report states for instance that recently 'trade liberalisation in goods was accompanied by a significant increase in direct investment flows to all MP countries without exception' (³³).

One of the issues is that originally in 1995 it was expected that the sole announcement of the creation of a Euromed FTA by 2010 could stimulate FDI in the region. This was of course insufficient. Within the five years action plan the Commission insisted also on the need to improve the 'investment climate' and to support efforts to 'attract foreign and domestic investment that contribute to the creation of new jobs in the region'.

One of the major challenges to reverse investment trends in the Mediterranean region is to change the investment risk perception. According to an IMF working paper 'the degree of instability associated with investment risk is a much more critical determinant of foreign investment in the MENA countries than it is for developing countries, which have lower level investment risk' (³⁴).

Section II The potential impact of deeper economic integration on key economic sectors

Most experts agree on the fact that there is an important potential in the field of liberalisation of services. However it seems obvious that the impact of such a liberalisation process will vary from one country to another as the service sector is more or less important (in terms of its share in the GDP) in the various Mediterranean Partners (³⁵).

In the agricultural sector, if we take the example of Tunisia, simulations suggest that 'the removal of industrial tariffs on imports from the EU (which approximates the effect of the Euro-Med Partnership agreement) would cause both imports and exports to expand significantly, although almost all the change would be in non-agricultural trade. Real GDP would increase slightly (0.2%) because of the efficiency gains associated with the removal of distortions. Poverty would decline from 8.1% to 7.7%; the largest improvements would occur among rural households. The removal of all tariffs on imports from the EU (approximating an extended Euro-Med Partnership agreement) would cause large increases in imports of other fruits, livestock, meat, dairy products and beverages as import barriers on these goods are lifted' (³⁶).

³² *Investment summit aims to boost regional integration and EU investment in Southern Mediterranean*, Brussels 8 April 2008, http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138489.pdf

³³ 2007 FEMISE Report on the Euro-Mediterranean Partnership, Galal A. and Reifers J-L. (coordinators), Marseille, February 2008, p. 3. See also Annex 1.

³⁴ Chan K. and Gemayel E., *Risk Instability and the Pattern of Foreign Direct Investment in the Middle East and North Africa Region*, IMF Working Paper WP/04/139, August 2004, p. 14.

³⁵ 'The services sector is key to the economies of the Southern Mediterranean countries. Services accounted in 2005 about 47% of GDP in Egypt, 55% in Morocco, 52% in Syria and around 72% of GDP in Jordan and Lebanon, with Tunisia in-between at 59%. It is less important in Algeria whose economy is dominated by the energy sector', *Trade and the Barcelona process*, Memo, 19 October 2007, http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc_136486.pdf

³⁶ Chemingui M. and Thabet C., *Agricultural Trade Liberalization and Poverty in Tunisia: Micro-simulation in a General Equilibrium Framework*, Economic Commission for Africa, United Nations Development Programme, September 2007, p. 24. <http://www.uneca.org/ATPC/Work%20in%20progress/67.pdf>

Michel Petit confirms this result at general level stressing that ‘most modelling studies suggest that agricultural trade liberalization would lead to collective welfare gains, including in Southern and Eastern Mediterranean countries. Consumers would gain from the lower food prices resulting from liberalized imports of cereals, oils, sugar and livestock products. And increased exports to the European Union would entail direct gains to producers with secondary positive effects on the whole economy. But here again serious nuances tamper this generally positive assessment’⁽³⁷⁾.

In a number of Mediterranean partners the agricultural sector still accounts for a high proportion of GNP and employment. Any liberalization process should therefore take into account its potential social impact. In this regard, the organisation of a second conference of the Euro-Mediterranean Ministers of agriculture centred on the potential social impact of the liberalisation of the agricultural sector both in MPs and in the EU Member States could certainly be of great interest.

³⁷ Petit M., *Agricultural Trade Liberalization in the Mediterranean Region: A complex and uneven Process*, May 2006, http://aic.ucdavis.edu/research1/Petit_AgLibMedRegion.doc

Part three
**THE POTENTIAL OF THE “BARCELONA PROCESS:
 UNION FOR THE MEDITERRANEAN” INITIATIVE**

This third and last part is devoted to the recent initiative of the Union for the Mediterranean (UfM) as such. The first chapter is on the May 2008 European Commission Communication, the second is devoted to the ‘Joint Declaration of the Paris Summit for the Mediterranean’ adopted in July 2008.

Chapter I
 THE MAIN ELEMENTS OF THE COMMUNICATION OF THE EUROPEAN COMMISSION
 AND OF THE PARIS SUMMIT DECLARATION

Section I The proposals made in May 2008 by the European Commission on the “Barcelona Process: Union for the Mediterranean”

On 20th May 2008, following the mandate given by the European Council, the European Commission published a Communication entitled: ‘Barcelona Process: Union for the Mediterranean’. Within the framework of a first section, the European Commission made an analysis of the achievements and shortcomings of the Barcelona process since 1995. In the field of trade and economics the communication stress that ‘significant progress has been made towards the establishment of a Euro-Mediterranean free-trade area by 2010. Progressive free trade with the EU has favoured exports and investment, but services, and to a lesser extent agriculture, accounting for two-thirds of the GDP, are only now being included in the Euro-Mediterranean Free Trade Area. Slow but steady advances have been made in South-South economic integration which remains below potential. There have been improvements in macro-economic stability, inflation down significantly over 10 years, while human development indicators show improvements in health conditions and overall life expectancy’ (³⁸).

The European Commission also recognized that further reforms were needed to reap the potential benefits of globalisation and free trade with the EU and regional integration. ‘Economic reforms, gradual free trade of industrial products with the EU, and improvements in economic governance, have not been enough to attract the domestic and foreign investment needed to boost standards of living in the region. Growth has been good but insufficient. Reforms have been encouraging but short of initial expectations. Free trade with the EU has favoured exports and investment. [...] As a consequence of the insufficient growth and continued demographic expansion the prosperity gap between the EU and most Mediterranean countries has increased and there has been no real economic convergence. The formula of trade plus investment plus cooperation is as pertinent as it was in 1995. [...] the greatest need is for the countries of the region to take up these opportunities as part of their domestic economic policies. In sum, the Partnership has witnessed a strong promotion of multilateral and bilateral relations, but now needs a qualitative and quantitative change, to spur investment and employment creation and optimise the use of human resources’ (³⁹).

³⁸ Point 10.

³⁹ Point 11.

The European Commission identified other shortcomings such as:

- i) The need to reassert in political terms the central importance of the Mediterranean on the political agenda of all participants;
- ii) The perceived lack of co-ownership by Mediterranean partners;
- iii) The lack of institutional balance between the weight of the EU on one side, and the Mediterranean partners on the other;
- iv) The weak visibility of the Barcelona Process and the perception by citizens that little is done to tackle their daily problems and their real needs ⁽⁴⁰⁾.

This analysis is followed by a section devoted to scope and main objectives of the UfM. As stressed in the introduction of this Briefing Paper, the basic idea is to concentrate on the multilateral (regional and trans-regional) aspects of the Euro-Mediterranean Partnership, increase co-ownership and make the process more visible to citizens. It is clear that the UfM must be built on the Barcelona acquis including its existing structures (Euro-Mediterranean Senior officials meetings, Euro-Mediterranean Committee and experts meetings etc.). The new impulse to be given to the Barcelona Process will be achieved by upgrading the political level of the EU's relationship with its MPs, providing more co-ownership and by making the Euro-Mediterranean relationships more 'concrete and visible through additional regional and sub-regional projects, relevant for the citizens of the region' ⁽⁴¹⁾.

This section of the Communication is followed by a number of proposals on the new institutional architecture and regarding the projects that we will studied through the analysis of the 'Joint Declaration of the Paris Summit for the Mediterranean' hereinafter.

Section II The Joint Declaration of the Paris Summit for the Mediterranean of 13 July 2008 and its implications

Before studying the contents of the Joint Declaration of the Paris Summit for the Mediterranean it is necessary to underline that this Summit was held under the co-presidency of the President of the French Republic holding the current EU Council Presidency and the President of the Arab Republic of Egypt. All the 27 Member States were represented by their Heads of State and Government with the exception of Belgium and the Czech Republic ⁽⁴²⁾ whereas the Euro-Mediterranean partners, including Mauritania and Albania, were also represented by their Heads of State and Governments with the exception of Morocco ⁽⁴³⁾. Libya that is not (yet) a Mediterranean partner was not represented at this level. A number of newcomers, namely: Bosnia and Herzegovina, Croatia, Montenegro and Monaco were also welcomed at this occasion.

At the beginning of the Declaration it is clearly stated that the Barcelona Process Union for the Mediterranean is a 'multilateral partnership with a view to increasing the potential for regional integration and cohesion'. It is in fact an 'enhanced framework of multilateral cooperation', or a

⁴⁰ Point 13.

⁴¹ Point 19.

⁴² Belgium was represented by HE Mr Karel De Gucht Minister of Foreign Affairs, The Czech Republic represented by HE Mr Alexander Vondra Deputy Prime Minister for European Affairs.

⁴³ Morocco was represented by HRH Prince Moulay Rachid.

‘reinforced partnership’ in the terms of the Declaration. Thus, as the old version of the Barcelona process, it must be considered as being complementary to the bilateral tracks: The EMAA and the ENP bilateral instruments ⁽⁴⁴⁾.

Economic and social development is considered as one of the challenges to be addressed in the framework of this new initiative and the Heads of State and Government underscored the importance of the ‘active participation of civil society, local and regional authorities and the private sector in the implementation of the Barcelona Process: Union for the Mediterranean’ ⁽⁴⁵⁾.

Among the scope and main objectives, ‘the challenge of the Barcelona Process: Union for the Mediterranean is to enhance multilateral relations, increase co-ownership of the process, set governance on the basis of equal footing and translate it into concrete projects, more visible to citizens’ ⁽⁴⁶⁾. In the field of trade and economics, the Heads of State and Government acknowledged the ‘progress and economic benefits of the creation of a deep Free Trade Area in the Euromed region by 2010 and beyond, and the strengthening of regional economic integration in all its dimensions’. They also reiterated their support to the ‘main lines of the Euromed Trade Roadmap till 2010 and beyond, and, in particular, to study the establishment of a smooth, efficient and business-friendly trade facilitation mechanism which would bring further transparency and trade and investment opportunities’ ⁽⁴⁷⁾.

A new impulse is to be given to the Euro-Mediterranean relationships by:

- upgrading the political level of the EU's relationship with its Mediterranean partners;
- providing for further co-ownership to our multilateral relations; and
- making these relations more concrete and visible through additional regional and sub-regional projects, relevant for the citizens of the region ⁽⁴⁸⁾.

Thus the proposals made by the European Commission were all endorsed.

At institutional level, the biennial summits, to be held alternately in the EU and in Mediterranean partner countries, will endorse two-years work programmes while the annual Foreign Affairs Ministerial meetings will review the progress achieved in the implementation of the summit conclusions. Moreover, the Heads of State and Government clearly supported the ‘strengthening of the role’ of the Euro-Mediterranean Parliamentary Assembly ⁽⁴⁹⁾.

Then, the new proposals regarding the institutional structure are described (see chapter III Section II hereinafter). This section is followed by two paragraphs devoted to the project selection process (see Chapter II section I) and a single paragraph on ‘funding’. This paragraph states that the new initiative will ‘mobilise additional funding for the region, mainly through regional and subregional projects. Its capacity to attract more financial resources for regional projects, with a high degree of donor coordination, will constitute its added value mainly through the following sources, inter alia: private sector participation; contributions from the EU budget and all partners; contributions from

⁴⁴ This is clearly stressed in the Declaration: ‘The Barcelona Process: Union for the Mediterranean will be complementary to EU bilateral relations with these countries which will continue under existing policy frameworks.’ point 13.

⁴⁵ Point 3.

⁴⁶ Point 9.

⁴⁷ Point 11.

⁴⁸ Point 14.

⁴⁹ Point 17.

other countries, international financial institutions and regional entities; the Euro-Mediterranean Investment and Partnership Facility (FEMIP); the ENPI Euro-Med envelope, the Neighbourhood Investment Facility and the cross-border cooperation instrument within the ENPI, as well as the other instruments applicable to the countries covered by the initiative, for which the usual selection and procedural rules will continue to apply’.

It is thus difficult to identify clearly if new financial resources will effectively be mobilised for the UfM. If it is not the case current financial envelopes will be used for example to finance the new projects or, at least partially, the running costs of the new institutional structures.

Chapter II THE PROSPECT OF INITIATIVES AND PROJECTS IN THE AREA OF ECONOMIC AND TRADE RELATIONS

This second chapter is on ‘the prospect of initiatives and projects in the area of economic and trade relations’. In this chapter the first section will concentrate on the six projects selected by the Joint Declaration. The last section is dedicated to the prospect of new initiatives in the area of economic and trade relations.

Section I The six projects selected by the Paris Joint Declaration

The six projects selected by the Paris Joint Declaration are the following:

- i) De-pollution of the Mediterranean;
- ii) Maritime and Land Highways;
- iii) Civil Protection;
- iv) Alternative Energies;
- v) Higher Education and Research, Euro-Mediterranean University;
- vi) The Mediterranean Business Development Initiative.

First of all one, must underline the fact that these proposals are not necessarily innovative. If we take the first project for instance the 5 years work programme already mentioned the need to ‘develop as soon as possible a road map for de-polluting the Mediterranean by 2020, based on the recommendations of Euromed Environment Ministers using inter alia the MSSD and the UNEP Mediterranean Action Plan towards this end, while providing adequate financial and technical assistance to this end’.

Second, out of these six projects only one is clearly centred on the economics and trade aspects i.e. ‘the Mediterranean Business Development Initiative’. The objective of this regional project will be to assist ‘existing entities’ in Mediterranean partner countries ‘operating in support of micro, small and medium-sized enterprises by assessing the needs of these enterprises, defining policy solutions and providing these entities with resources in the form of technical assistance and financial instruments. It will be based on the principle of co-ownership and its activities are expected to be

complementary to those of the existing entities working in the field. Contributions by countries from both rims of the Mediterranean will be done on a voluntary basis' (⁵⁰).

According to the Declaration, the 'modalities in terms of projects will be decided by the next Foreign Affairs Ministerial meeting in November 2008' (⁵¹). It is however not obvious that these six projects will be sufficient to make the Euro-Mediterranean relationships more concrete, visible or relevant for the citizens of the region.

Section II The prospect of new initiatives in the area of economic and trade relations

In the future the new initiative might generate new projects in the economic and trade fields. One aspect that was discussed during the preparation of the European Communication and the Paris Summit is the idea to promote more flexibility within the framework of the Euro-Mediterranean multilateral relationships in order to avoid the traditional paralysis due to antagonisms between some partners.

For instance, we proposed the idea of developing the new concept of 'Euro-Mediterranean Enhanced cooperation' within the framework of a report published by the EU Institute for Security Studies (⁵²). The basic idea is to provide a new driving force to the Barcelona process in the sense that several partners could take the lead on certain issues of particular importance, provided that such enhanced cooperation is based on strict pre-conditions.

Chapter III THE POTENTIAL OF THE UNION FOR THE MEDITERRANEAN TO REINVIGORATE THE BARCELONA PROCESS

This third and last chapter starts with a few thoughts on the economic impetus needed to reinvigorate the Barcelona Process followed by the study of the new institutional structure of the UfM. The last section identifies the main remaining shortcomings of the initiative.

Section I The economic impetus needed to reinvigorate the Barcelona Process

The economic impetus needed to reinvigorate the Barcelona Process cannot be limited to the objective of the establishment of an FTA by 2010 as only some Mediterranean partners will be in such a position. In any case, there is an obvious need to reinvigorate the Barcelona process and it is expected that the UfM will contribute to it. Whether this will be sufficient remains to be seen but it is clear that the reinforcement of co-ownership will be a central driving force in this regard.

⁵⁰ Page 20 of the Declaration.

⁵¹ Point 10.

⁵² Aliboni R., Joffe G., Lannon E., Mahjoub A., Saaf A., De Vasconcelos A., *Union for the Mediterranean: Building on the Barcelona acquis*, EU ISS Report - n°1, Paris, May 2008, http://www.iss.europa.eu/uploads/media/ISS_Report01.pdf

There is another element that has not yet been considered as an instrument to reinvigorate the Barcelona Process and this is the impact of the last two waves of enlargement. With the 2004 and 2007 EU enlargements the future Euro-Mediterranean FTA has been considerably expanded. According to recent data one can witness a slight evolution of the trade exchanges between some new Member States and MPs (see annex 3). This new trend should be promoted within the framework of the UfM.

Also the perspective of the conclusion of a new generation of agreements, the so called ‘deep and comprehensive free trade agreements’ could certainly work as an incentive to reinvigorate the Barcelona process.

Section II The new institutional structure and Euro-Mediterranean governance

The European Commission proposed in its communication to endorse some proposals made by France but also added new elements. Almost all of these elements were introduced in the Paris Declaration. One should stress that the technical details of these proposals are going to be discussed during the meeting of the Euro Mediterranean Foreign Affairs Ministers to be held next November.

The first novelty is the introduction of a **rotating co-presidency** of the Barcelona process-Union for the Mediterranean. In this regard, the European Commission stressed that the establishment of such a co-presidency system must be compatible with the ‘provisions on the external representation of the European Union in the Treaty of the European Union and the Treaty establishing the European Community [...]. From the entry into force of the Lisbon Treaty, the Presidency on the EU side will correspond to the President of the European Council and the President of the Commission (at the level of Heads of State and Government), and the High Representative/Vice President of the Commission, at the level of Ministers of Foreign Affairs’⁽⁵³⁾. For the selection of the co-president from the MPs, consensus will be required. This is of course an indirect reference to problems that might arise concerning countries such as Israel or Turkey.

The creation of a new **Secretariat** is a key element of the new institutional architecture. According to the Paris Declaration, the Secretariat could have a ‘separate legal personality with an autonomous status.’ The basic idea is to enhance co-ownership, to promote a ‘more balanced partnership’ and to make the Barcelona Process: Union for the Mediterranean more visible. Therefore, this Secretariat should have a ‘strong project focus’. Its major tasks will be to:

- i) perform the role of making proposals for joint initiatives to be decided by the political bodies and to ensure the necessary follow-up of project-related decisions;
- ii) gather project initiatives, examine them, and suggest projects to the Euro-Mediterranean Committee that will act as a clearing house⁽⁵⁴⁾.

⁵³ Point 26 of the Communication of the European Commission.

⁵⁴ The Joint Paris Declaration adds that ‘once the projects are accepted by the Euro-Mediterranean Committee they will be submitted for approval, through the Foreign Affairs Ministers conferences, to the Summit. If endorsed, the Summit will instruct the Secretariat to give the necessary follow-up in terms of initiating the promotion of the projects, and the search for partners for their implementation. The funding and implementation of projects will be pursued on a case-by-case basis by the various interested partners and according to their own procedures. The secretariat will report to the Euromed Committee’.

This Secretariat will be composed of officials seconded from participants in the Process ⁽⁵⁵⁾. Moreover, there will be one General Secretary from one side and a Deputy Secretary General from the other side to be selected by consensus and it will be up to the Secretary General to appoint the staff of the Secretariat on the basis of ‘competence and geographical balance’. Finally, the running costs of the Secretariat will be funded on an equal basis by the EU and the Mediterranean partners whereas the location of the headquarters will be decided by consensus. Also the host country will provide the premises for the Secretariat free of charge ⁽⁵⁶⁾.

A Brussels based ‘**Joint Permanent Committee**’ composed of permanent representatives from the respective missions in Brussels will also be created. According to the Declaration, this Joint Permanent Committee:

- would be steered by the representatives of the co-presidencies;
- would prepare the meetings of the Senior Officials and Euro-Mediterranean Committee meetings and ensure the appropriate follow up;
- would assist the co-presidencies in the preparation of the Summits and Foreign Affairs and thematic Ministerial meetings;
- may act as well as a mechanism to react rapidly if a crisis situation arises in the region that requires the consultation of Euro-Mediterranean partners;
- membership and co-presidencies of the Permanent Committee will be the same as the Senior Officials / Euro-Mediterranean Committee meetings;
- the setting-up of a Permanent Euro-Mediterranean Committee that would meet regularly could lead to less frequent Senior Officials / Euro-Mediterranean Committee meetings.

According to the concluding points of the Declaration the new structures for the initiative should be ‘fully operational before the end of 2008’ ⁽⁵⁷⁾.

One can thus expect important changes. It will be however crucial to avoid the risk of a paralysis within the management of the Barcelona Process because of antagonisms between partners. On the other hand, the proposed new architecture will certainly reinforce the sense of ownership required to fully involve the MPs in the management of the different actions and projects.

The articulation between the old structures (Senior Officials and Euro-Mediterranean Committee) and the new ones (Secretariat and Joint Permanent Committee) have still to be defined by the Euro-Mediterranean Ministers of Foreign Affairs. It is not certain that this new complex architecture will reinforce the visibility of the Barcelona Process. The Summit of Heads of State and Government should therefore play a leading role in this regard.

⁵⁵ The participants will be funded by their respective administrations.

⁵⁶ Points 28, 31 and 32 of the Declaration.

⁵⁷ Point 33 of the Declaration.

Section III The remaining shortcomings of the initiative

After this analysis one can identify a number of (potential) shortcomings that can be summarised as follows:

- i) Very few concrete elements are mentioned in the Paris Joint Declaration on economic and trade aspects such as FDI, employment, informal economy, or reduction of poverty (the exception being the idea of the ‘trade facilitation mechanism’);
- ii) Only one project, among the six identified by the Paris Declaration, is focussing on trade issues;
- iii) There is a serious risk of a lack of visibility of the complex institutional architecture proposed;
- iv) There is a potential contradiction between the idea of the ‘Union’ and the objective of a ‘broader economic community’ proposed by the Commission in the framework of the European Neighbourhood Policy;
- v) The initiative is very much centred on the intergovernmental dimension of the Barcelona process;
- vi) For the time being the absence of positive conditionality of the new initiative is obvious;
- vii) There is today no guarantee as far as the availability of new sources of financing are concerned;
- viii) There is a risk to generate exaggerated expectations in the southern shores of the Mediterranean;
- ix) There is no direct reference to some of the multilateral instruments of the ENPI such as the interregional programme or the Governance facility.

Some of these issues can be quite easily addressed while defining, in November 2008, the modalities of the implementation of the UfM. For instance it is still time to associate more concretely the civil society to the new project. Other issues might be more difficult to solve such as the uncertainties surrounding the availability of new sources of financing.

Policy recommendations

The Mediterranean has been for a few months at the top of the EU agenda but now important decisions have to be adopted at the level of the next Euromed Ministers for Foreign Affairs.

One crucial question is the location of the future Secretariat of the Union for the Mediterranean. Tunis, Malta, Marseille, and Barcelona were, among other cities, mentioned as potential headquarters. In this regard one should keep in mind that the host country will have to provide the premises for the Secretariat free of charge. The choice to be made by consensus will be as strategic as difficult. One should in any case avoid a failure that will give a very negative political signal.

The creation of the Secretariat and the Joint Permanent Committee will reinforce the intergovernmental dimension of the Barcelona process but also the ownership of the latter by the MPs. At institutional level, civil society, in its large sense (including business communities for example) should be fully associated to the UfM through the creation of new mechanisms of consultation with the new bodies of the institutional structure. The consultative role of the Euro-Mediterranean Parliamentary Assembly and the different networks of the Euro-Mediterranean Partnership should in this regard be reinforced in the framework of the UfM.

The six projects proposed are certainly relevant but most of their objectives were, in a way or another, already taken into account within the framework of the Euro-Mediterranean Partnership. Other projects could be generated notably in the field of free movement of persons or good governance. Also, flexibility could be implemented with the creation of a system of 'enhanced Euro-Mediterranean cooperation'.

The (potential) shortcomings previously identified should be taken into account. One of the first priorities is to preserve a Barcelona acquis that should be clearly identified, if possible legally speaking within the framework of a declaration or a protocol, as the Barcelona Process-Union for the Mediterranean will be built on this acquis. Also, the inter-relations between the Union for the Mediterranean and the European Neighbourhood policy should be made clear. Moreover, the final objectives of the new initiative could also be clarified to avoid exaggerated expectations from the new initiative.

Finally, positive conditionality could be taken into account in developing new incentives for promoting social and political reforms alongside the objective of deeper economic integration. Another priority could be to underline that the objective is not the creation of an FTA as such but of an area of shared prosperity as foreseen in the Barcelona Declaration. In this regard, since 2005 the economic and trade issues have been more often addressed together with the social dimension of the partnership. This trend should be consolidated in the future.

General conclusion

All in all the ‘Barcelona process: Union for the Mediterranean’ is an opportunity to consolidate the Barcelona acquis and to go forward with a deeper Euro-Mediterranean economic integration initiated with the launching of the European Neighbourhood Policy. The diplomatic success of the Summit held in Paris in July 2008 must be quickly consolidated into concrete and visible projects and bodies.

Good governance, in its large sense, should become an absolute priority of the UfM while developing the concept of deeper economic integration. In this regard, the legal aspects of the integration process should be promoted in order to reinforce legal certainty and promote FDI (investment codes, reform of the judiciary, labour codes etc.). Approximation of legislation is a central element of the adoption of the Community acquis and must become a priority of the Euro-Mediterranean deeper economic integration process. Priority should also be given to education, training and research in order to improve the competitiveness of the MPs economies.

The perspective of the conclusion of a new generation of agreements, the so called ‘deep and comprehensive free trade agreements’, might reinforce differentiation among the MPs. This differentiation should not lead to discrimination in the sense that the less advanced countries should not be excessively penalised.

The opportunities offered by the accession of new EU Member States in 2004 and 2007 should be promoted notably in the field of trade. Beyond the Euro-Mediterranean Partnership, other bridges must be built with the Arab world and between the EU’s eastern and southern peripheries in order to reinforce the geopolitical equilibrium of the EU’s proximity relationships.

Originally, the project of the then candidate Nicolas Sarkozy was to create a ‘Union of the Mediterranean’ therefore limited to the riparian States. The reactions of the Slovenian Presidency and Member States such as Germany led, at the level of the European Council, to a compromise based on the principles to involve all the Member States and to preserve the Barcelona acquis. This was a positive reaction that highlighted that the development of the Euro-Mediterranean relationships is in the interest of the EU as a whole and that the process, initiated in Barcelona in 1995, has already generated a number of positive results to be consolidated in the future.

Much will depend on the political will of the Euro-Mediterranean Partners but one should never forget that one of the ultimate goals of the Barcelona Process is the creation of an area of ‘shared prosperity’ based on ‘sustainable and balanced economic and social development’.

Annexes

Annex 1 Growth in trade for Southern Mediterranean Countries since launch of Barcelona process 1995

Trade	Exports			Imports		
	Country	1995	2004	Average annual growth (%)	1995	2004
Algeria	4.82	9.45	7.76	4.97	15.25	13.26
West Bank	0.01	0.04	24.41	0.00	0.01	36.65
Egypt	5.20	7.40	3.99	2.23	4.19	7.24
Israel	9.79	12.76	2.99	4.85	8.61	6.58
Jordan	1.08	1.95	6.79	0.14	0.26	7.61
Lebanon	2.60	3.22	2.43	0.12	0.24	8.14
Morocco	4.84	8.88	6.98	4.07	6.56	5.46
Syria	1.48	2.34	5.25	1.78	2.55	4.08
Tunisia	4.22	7.58	6.72	3.38	6.74	7.97
Turkey	13.62	38.01	12.08	9.45	30.94	14.08
All S-Med Countries*	34.03	91.63	5.18	21.54	44.42	8.37

Source: COMEXT and COMTRADE. * Excluding Turkey, European Commission MEMO/06/139, Brussels, 23 March 2006.

Annex 2 Trade between Southern Mediterranean countries since launch of Barcelona process 1995 (€million)

Country	1995	2004	Average annual growth (%)
Algeria	157	692	17.92
West Bank	n.a.	n.a.	n.a.
Egypt	291	670	9.70
Israel	30	139	18.70
Jordan	106	393	15.72
Lebanon	76 ^a	185 ^b	15.98
Morocco	104	147	3.95
Syria	293 ^c	420	9.42
Tunisia	211	183	-1.55
MED countries*	899	2644	12.74

Source: COMTRADE. Note: ^a 1997, ^b 2003, ^c 2000 and * Excluding Turkey. European Commission MEMO/06/139, Brussels, 23 March 2006.

Annex 3 Trade between selected new Member States and the MPCs (in billions of euro)

	Import		Share of total trade (in %)		Export		Share of total trade (in %)		Balance	
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
EU-25	64,53	88,52	6,5	7,5	82,87	101,81	9,7	9,5	18,3	13,3
Czech Rep	0,34	0,38	3,9	3,3	0,39	0,91	8,3	9,1	0,1	0,5
Cyprus	0,29	0,46	20,8	28,8	0,05	0,05	28,5	13,6	-0,2	-0,4
Hungary	0,24	0,46	2,0	2,7	0,38	1,20	6,6	10,0	0,1	0,7
Poland	0,50	1,06	3,0	5,1	0,53	1,43	7,9	8,7	0,0	0,4
Slovenia	0,22	0,52	8,1	14,7	0,15	0,31	5,5	6,0	-0,1	-0,2
Slovakia	0,06	0,15	1,4	2,4	0,12	0,37	8,0	9,8	0,1	0,2

Source: Based on Eurostat, Statistics in focus, *The European Union and its ten Mediterranean partner countries: growing trading links*, 2007.

Annex 4: The network of bilateral agreements concluded (as of 1 August 2008)

Country	Type of Agreement	OJ reference	Signature	Entry into force
Algeria	EMAA	L 265 (10/10/2005)	22/04/2002 : Valencia	01/09/2005
Egypt	EMAA	L 304 (30/09/2004)	25/06/2001 : Luxembourg	01/06/2004
Israel	EMAA	L 147 (21/06/2000)	20/11/1995 : Brussels	01/06/2000
Jordan	EMAA	L 129 (15/05/2002)	24/11/1997 : Brussels	01/05/2002
Lebanon	EMAA	L 143 (30/05/2006)	17/06/2002 : Luxembourg	01/04/2006
Morocco	EMAA	L 70 (18/03/2000)	26/02/1996 : Brussels	01/03/2000
Palestinian Authority	Euro-Mediterranean Interim Association Agreement on Trade and Cooperation	L 187 (16/07/1997)	24/02/1997 : Brussels	01/07/1997
Syria	Co-operation agreement	L 269 (27/09/1978)	18/01/1977 : Brussels	01/11/1978
Tunisia	EMAA	L 97 (30/03/1998)	17/07/1995 : Brussels	01/03/1998

Source: EU Treaties Office Database, <http://eur-lex.europa.eu/en/accords/accords.htm>

Bibliography

Official Documents

- Consolidated versions of the Treaty on European Union and the Treaty on the functioning of the European Union, OJ C115, 9 May 2008.
- Agreement for the Establishment of a Free Trade Zone between the Arabic Mediterranean Nations (Agadir Agreement), http://www.bilaterals.org/article.php?id_article=2513
- European Council of 13/14 March 2008, revised version of the Presidency Conclusions, Annex I statement on ‘Barcelona Process: Union for the Mediterranean’, Brussels, 20 May 2008, 7652/1/08 REV, <http://register.consilium.europa.eu/pdf/en/08/st07/st07652-re01.en08.pdf>
- Commission of the European Communities, Communication from the European Commission to the European Parliament and the Council: “Barcelona Process: Union for the Mediterranean”, Brussels, 20.5.2008, COM(2008) 319 final.
- Joint Declaration of the ‘Paris Summit for the Mediterranean’, Paris, 13 July 2008, http://www.ue2008.fr/webdav/site/PFUE/shared/import/0713_declaration_de_paris/Joint_declaration_of_the_Paris_summit_for_the_Mediterranean-EN.pdf
- European Commission, ‘ENPI Regional Strategy Paper for the Mediterranean’ (2007-2013); http://ec.europa.eu/world/enp/pdf/country/enpi_euromed_rsp_en.pdf
- 10th Anniversary Euro-Mediterranean Summit, ‘Five year work programme’, Brussels, 28 November 2005, 15074/05 (Presse 327), http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/er/87165.pdf

Studies and Working Papers

- Abedini J. and Péridy N., *The Greater Arab Free Trade Area (GAFTA): An Estimation of the Trade Effects*, Canadian Economics Association, 22 p. <http://economics.ca/2007/papers/0300.pdf>
- Aliboni R., Joffe G., Lannon E., Mahjoub A., Saaf A., De Vasconcelos A., *Union for the Mediterranean: Building on the Barcelona acquis*, EU ISS Report - n°1, Paris, May 2008, 32 p. http://www.iss.europa.eu/uploads/media/ISS_Report01.pdf
- Chan K. and Gemayel E., *Risk Instability and the Pattern of Foreign Direct Investment in the Middle East and North Africa Region*, IMF Working Paper WP/04/139, August 2004, 20 p.
- Chemingui M. and Thabet C., *Agricultural Trade Liberalization and Poverty in Tunisia: Micro-simulation in a General Equilibrium Framework*, Economic Commission for Africa, United Nations Development Programme, September 2007, 46 p. <http://www.uneca.org/ATPC/Work%20in%20progress/67.pdf>

FEMISE, *Report on the Euro-Mediterranean Partnership*, Ahmed Galal and Jean-Louis Reifers (coordinators), Marseille, February 2008, 150 p.

Gendrano J., *League of Arab States Greater Arab Free Trade Agreement*, Institute for Domestic and International Affairs, 2007, 24 p.

Lannon E., Braga de Macedo J., De Vasconcelos A., *Maroc-UE : Vers un statut avancé dans le cadre du PEM et de la PEV*. Papiers IEMED n° 2, Institut européen de la Méditerranée, Barcelona, Novembre 2007, 17 p., <http://www.iemed.org/documents/paperiemed2.pdf>

Muller-Jentsch D., *Deeper Integration and Trade in Services in the Euro-Mediterranean Region Southern Dimensions of the European Neighbourhood Policy*, World Bank Paper 32530, Washington, October 2004, 116 p.

National Agricultural Policy Center, *Implementation of the Great Arab Free Trade Area Agreement: The Case of Syria*, Working Paper n° 8, 97 p.
http://www.napcsyr.org/dwnld-files/working_papers/en/08_gafta_en.pdf

Petit M., *Agricultural Trade Liberalization in the Mediterranean Region: A complex and uneven Process*, May 2006, 15 p. http://aic.ucdavis.edu/research1/Petit_AgLibMedRegion.doc

Miscellaneous

CIHEAM Watch Letter n° 5, *Rise in agricultural prices: what repercussions for the Mediterranean?*, Paris, Spring 2008, 14 p.

European Commission, *Investment summit aims to boost regional integration and EU investment in Southern Mediterranean*, Brussels 8 April 2008,
http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138489.pdf

European Commission, *Trade and the Barcelona process. Memo*, Brussels, 19 October 2007,
http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc_136486.pdf

Eurostat, Statistics in focus, *The European Union and its ten Mediterranean partner countries: growing trading links*, Luxembourg, 2007, 8 p.

Eurostat, *Euro-Mediterranean statistics*, Luxembourg 2007, 220 p.