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The Mediterranean Policy of the EC – The Case of Agriculture

by Stefan A. Musto, Berlin*

The production structures of the majority of Mediterranean countries have traditionally been oriented towards the West European market. What effects will the southward enlargement of the EC have on the agricultural sector of the non-candidate Mediterranean countries? What can the EC do to alleviate the problems?

The European Community was founded with a political mandate; its first President, Walter Hallstein, remarked that the Community was "in politics, not business". With the passage of time, however, it has been precisely trade and business which have proved to be the most readily conducive to integration; it is thus primarily these areas which shape the Community's external relations. Trade has been also the EC's most important instrument of political and economic cooperation with the countries situated on the southern and eastern shores of the Mediterranean.

Agricultural Trade Relations

The production structures of the majority of Mediterranean countries have traditionally been oriented towards the West European market. Since agriculture maintains an important position within the total economy of most of these countries, agricultural exports, although tending to decrease relatively, still represent a significant proportion of their total exports. With the exception of Algeria, Malta, and Israel, agriculture contributes with more than 10 % to the GDP of all other countries.¹ The share of agricultural population in total population is equally high, the extremes being represented by Turkey (56 %) and Morocco (52 %) on the one hand and by Israel (7 %) and Malta (5 %) on the other. Agricultural exports account on average for one quarter to one third of total exports, the range being from 1 % for Algeria to 64 % for Turkey. High agricultural imports are generally due to stagnating domestic production and growing demand for basic foodstuffs, especially cereals, sugar, and meat.

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The agricultural exports of the southern and eastern Mediterranean countries have two main features: they account for a share of up to 30 % in financing the countries' total imports, and secondly, they consist of products cultivated especially for the markets of industrialized nations so that they can hardly be restructured or reoriented towards alternative markets. The most important market for these exports has traditionally been the EC. The countries with the highest proportions of the national product involved in agricultural exports to the Community are Cyprus, Israel, Morocco, and Tunisia (see Table 1). In the case of three Mediterranean countries agricultural exports still count for more in the trade figures than mining or manufactures: Cyprus (58 %), Turkey (48 %) and Morocco (38 %).

The European Community has granted important preferences to the agricultural exports of the Mediterranean countries.² The present system of preferences has been operating through five elements:

- ☐ tariff reductions between 20 % and 100 % for specified products (reductions of variable levy for olive oil),
- ☐ calendar limitations for the application of reduced tariffs,
- ☐ tariff ceilings in some cases (e.g. wine),

¹ Cf. F A O : The State of Food and Agriculture 1980, World Review, Rome 1981.

² The network of the Community's Mediterranean Policy consists of Association Agreements with Turkey (1964), Malta (1971) and Cyprus (1973), Free Trade Agreements with Spain (1970) and Israel (1975), Preferential Trade and Cooperation Agreements with Algeria, Tunisia, Morocco (1976), Egypt, Jordan, Syria and Lebanon (1977) and a special Trade Agreement with Yugoslavia (1980).

Table 1
EC-9 Agricultural Imports (BTN 0-24) from
Mediterranean Non-Candidates, 1980

Country	Agricultural exports as % of total exports	Agricultural exports to EC-9 in Million ECU	Export shares to EC-9 in per cent of total exports to EC-9	Agricultural exports to EC-9 as per cent of exporter's GNP
Morocco	35	423	38	3.4
Algeria	1	19	1	...
Tunisia	13	166	15	2.8
Malta	9	11	5	1.5
Egypt	33	73	4	0.4
Israel	16	461	31	3.7
Jordan	11	1	3	...
Syria	18	11	1	...
Lebanon	33	6	14	...
Cyprus	37	121	58	7.6
Turkey	64	459	48	1.0
Yugoslavia	19	229	12	0.6

Sources: Eurostat, Nimex 1980, FAO World Review 1980, and own calculations.

□ observation of the EC reference prices in case of some fruits and vegetables, and

□ safeguard clauses in case of market disturbances.³

Due to the terms of their preferential access to the EC markets, which have been generally more favourable than those granted to Spain, the agricultural exports of the Mediterranean partners succeeded in maintaining a relatively stable market share in the Community.

Erosion of Preferences

The trade advantage which the Community has conceded to its Mediterranean neighbours is now jeopardized by the prospect of erosion caused by the EC's southward enlargement. This erosion of preferences can be considered under three viewpoints.

First, the increasing self-supply of the EC in Mediterranean products will significantly reduce the trade margins vis-à-vis the non-candidate Mediterranean suppliers. Increasing self-supply in the Community of Twelve is expected to affect trade mainly in the case of "homogeneous" products whose export has been governed by price competition (fresh fruits and vegetables, olive oil, etc.), or which can easily be substituted (table wine, certain types of vegetables).

Secondly, after Spain's accession to the Community, the comparatively better tariff treatment of the non-

candidate Mediterranean countries will clearly deteriorate.⁴ An additional threat to the agricultural exports of these countries would be the extension of the system of variable levies and/or minimum prices to include more Mediterranean agricultural products.⁵

Finally, the dynamic effects of the Community's southward enlargement might create further difficulties for the non-candidate Mediterranean countries. After accession, Spain will no longer be a "third country" but a member state, enjoying, after the period of transition, not only duty-free access to the EC markets but also the full benefits of the Common Agricultural Policy and the chance to influence Community policies. Spain's enormous production and export potential (at least in the case of the most important Mediterranean products) could be significantly mobilized by the higher EC prices as well as by the application of other Community instruments such as export refunds, financial aids to the producer, or possible discriminatory measures against extra-EC-competitors.

Spain's potential can be exemplified by the case of fresh tomatoes. While the Community's total imports of this product from outside the EC-9 amounted to 391,000 tons in 1980, the volume of production reached 675,000 tons on Spain's Mediterranean coast and further 125,000 tons on the Canary Islands.⁶ In the case of some fresh fruits and vegetables, Spain's production potential, particularly in the region of Almeria, seems almost unlimited. This will not only aggravate competition in the enlarged Community,⁷ but also eliminate third country suppliers from the EC markets.

The Mediterranean products which will be particularly affected by the Community's southward enlargement are presented in Table 2. The criteria for the identification of sensitive products were the following:

□ a high degree of export similarity between the new entrants and the competitive non-candidate Mediterranean countries,

⁴ Since their trade preferences vis-à-vis Greece were already eroded before Greece's accession to the Community, Greek entry might not cause especially significant effects of further discrimination. Portugal's agricultural exports to the EC are not very significant and the degree of similarity with the exports of the non-candidates is limited. It is Spain's accession which really threatens the trade in agriculture between the Community and her Mediterranean neighbours.

⁵ Cf. J. B. D o n g e s et al.: The Second Enlargement of the European Community, Institut für Weltwirtschaft an der Universität Kiel, 1982, p. 170 ff.

⁶ Cf. J. Calatrava R e q u e n a : Los regadíos del litoral mediterráneo anduluz, realidad problemática de una agricultura de vanguardia, Información Comercial Española, February 1980.

⁷ Cf. Commission des Communautés Européennes: Repercussions de l'Elargissement de la C.E.E. sur les Régions Italiennes, Brussels 1981.

³ A detailed analysis by A. T o v i a s : EEC-Enlargement – the Southern Neighbours, Sussex European Papers, No. 5, Sussex 1979. Cf. also P. M i s h a l a n i , A. R o b e r t , C. S t e v e n s , A. W e s t o n : The Pyramid of Privilege, in: C. S t e v e n s (ed.): EEC and the Third World: A Survey, London 1981, p. 60.

Table 2
Sensitive Agricultural Products of the
Mediterranean Countries

Product group	Particularly sensitive products	Shares in EC demand (per cent by volume) 1980				
		EC-9	New entrants	Mediterranean countries	Other suppliers	Mediterranean countries affected
Citrus fruits	Mandarines Lemons	9	48	24	19	Morocco Israel Cyprus
Other fresh fruits	Grapes Peaches Apricots	70	19	3	8	Cyprus Israel Turkey
Early potatoes		44	12	44	—	Morocco Cyprus Malta Egypt
Olive oil		16	33	49	2	Tunisia
Wine	Table wine	78	12	4	6	Cyprus Yugoslavia Algeria
Fresh tomatoes		50	23	11	16	Morocco
Fresh vegetables (excl. tomatoes)	Artichokes Green peppers Carrots	77	14	3	6	Morocco Cyprus Egypt Israel
Processed food (esp. fruit juices)	Citrus/tomato juices	29	3	20	48	Israel Morocco

Source: Own calculations based on Eurostat, Nimex 1980.

☐ a significant increase of the degree of self-supply in the Community caused by the southward enlargement, and

☐ a high probability of dynamic consequences in the sense of mobilizing the production and export potential of the new entrants and thereby affecting the supply position of the non-candidate Mediterranean countries.

The Sensitive Products

Citrus fruits: The Community market for citrus fruits is dominated, besides the Community member Italy, by a small number of extra-EC suppliers: Spain, Israel, Morocco, and, to a lesser extent, Cyprus. The share in the EC imports of oranges from outside the Community (by volume, 1980) amounts to 42 % for Spain, 19 % for Morocco, 17 % for Israel, and 3.4 % for Cyprus. In the case of the EC imports of mandarines, tangerines, and clementines, Spain supplies 80 % and Morocco 17 %. Although the value of production of citrus fruits is rather insignificant in terms of the total production of the

Mediterranean suppliers, the produce is almost entirely oriented towards export, mainly to the EC. The share of citrus fruit exports to the Community in the total exports of the countries concerned is relatively high: they account for 7.3 % in the case of Morocco, 7.0 % in that of Israel, and 4.7 % in that of Cyprus. When tariff duties are abolished for Spain, margins for competing countries will undoubtedly be reduced. In the case of oranges, Morocco, Israel, and Cyprus will face an impairment of their preferences by 12 % in the winter period and 2.4 % to 7.8 % during the rest of the year. The dynamic consequences of the EC enlargement will be much more serious. Due to an increase in prices, demand for citrus fruits will be reduced in Spain and Greece (but not in Portugal where the present price level is higher than in the EC), while production for export will significantly be stimulated. If Spain succeeded in doubling its output of oranges, the Community of Twelve would become a net exporter with a surplus of 780,000 tons.⁸ In the case of mandarines, tangerines, clementines, and lemons, surpluses can be expected even without expanding production by the new entrants. The only citrus product which does not face immediate problems is grapefruit (supplied mainly by Israel).

Other fresh fruits: In particular three varieties of fresh fruits will be affected by the southward enlargement of the EC: grapes, peaches, and apricots. Each one of these products is an important export item of Spain and Greece. Peach exports from Greece already face some marketing difficulties in the EC. In the enlarged Community, self-sufficiency level will reach 105 % in the case of peaches, 102 % in that of apricots, and 100 % in that of grapes. Limitations to exports will affect Morocco (peaches), Israel (peaches, apricots, grapes), Tunisia (apricots), Cyprus (grapes) and Turkey (grapes). Stimulating effects of the higher EC price level and the tendency towards growing protection for intra-Community producers might lead to a substantial increase of output in the new entrants, thus squeezing out third country suppliers from the Community's markets.

Potatoes: The Community markets for early potatoes are seasonally divided: in the period from January 1 to May 15 unit prices are about 20 % higher than later in the year. During this period the main Mediterranean suppliers of the EC are Egypt, Cyprus, and Morocco. Malta is a marginal competitor exporting exclusively to the Netherlands. For Egypt and Cyprus, potatoes

⁸ Calculated on the basis of F A O : Commodity Review and Outlook 1979-1980, Rome 1979.

represent the most important agricultural item exported to the Community. Morocco, once an important supplier, is tending to restructure potato growing. The share of the EC in total exports of this product is very high: 98 % for Morocco, 81 % for Egypt, 85 % for Cyprus, and 100 % for Malta. Since Italy, the main intra-Community exporter, has been contesting the monopoly on the British market held by Cyprus and Egypt, pressing at the same time for a common market organization for potatoes, and since Spain has been a rather marginal exporter of this product, the case of potatoes seems to be a problem for the Community members themselves. If, however, a common market organization with higher reference prices were introduced, Greece, Portugal and Spain should have no particular difficulty in supplying the Community, at least from May onwards. Nevertheless, presently it seems that Spain is tending to reduce its production of potatoes for export, due to a shift to other products with higher profitability.

Fresh tomatoes: Tomatoes are a typically Mediterranean product. Six of the dozen countries in the world producing over a million tons in 1980 were situated in that region: Italy, Turkey, Egypt, Spain, Greece, and Rumania. It is interesting to note that there is very little relationship between production and trade. Major producers like Italy, Turkey, and Egypt export marginal quantities, while major exporters like the Netherlands or Morocco are quite minor producers. Spain, from the mainland and the Canaries, dominates the out-of-season market of the EC with a share of 58 % in total extra-Community imports. Spain's only Mediterranean competitor is Morocco. Tomatoes are, after citrus fruits, the largest agricultural export of this country to the Community; they represent an important item for both national income and foreign exchange. There is no doubt that, after enlargement, Morocco will lose its EC markets (mainly France), since Spain has already been gaining market shares at Morocco's expense even from outside the EC and under less favourable preferential conditions.

Other fresh vegetables: The Community market for fresh vegetables is rather complex due to the great diversity of products, price variations, calendar limitations, and periodic fluctuations in trade with extra-EC suppliers. Four Mediterranean exporters are particularly concerned by the Community's southward enlargement: Cyprus (carrots, sweet peppers, aubergines), Israel (dried onions, peppers, carrots), Morocco (beans, sweet peppers, onions) and Egypt (onions). Preferences granted to Spain by the EC have generally been lower than those granted to other

Mediterranean countries. This means that a duty-free entry for the Spanish production will significantly increase Spain's advantage on the Community market. In view of the present efforts to develop production in the Almeria region, Spain would, at least theoretically, have no difficulty in supplying all the fresh vegetables which the Community presently imports from other Mediterranean countries. The vulnerability of the latter can be indicated by the fact that 96.4 % of the Moroccan, 75 % of the Cypriot, and 90 % of the Israeli exports of fresh vegetables have traditionally been destined for the EC.

Olive oil: This product is virtually a Mediterranean monopoly in both production and consumption. Although the Community member Italy is the world's largest producer, the EC of Nine has been a net importer. The main suppliers are Spain, Tunisia, Greece and Morocco. With the accession of Greece and Spain, the level of self-supply of the Community will rise to 109 %. In dynamic terms, enlargement will certainly reduce consumption and very probably increase

Peter Flora

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production. Consumption will fall because entry into the Community will reduce the high levels of protection in Greece, Portugal and Spain against imports of vegetable oils. The Commission has assumed that this will produce an olive oil surplus of around 200,000 tons per year, implying additional budget expenditures estimated at more than 700 million ECU. Margins for trade with the traditional Mediterranean suppliers will thereby be strongly reduced. The country most seriously affected is Tunisia, where olive oil production represents about 25 million workdays a year or a quarter of the labour input in Tunisian agriculture which itself occupies a third of the total labour force. Morocco, although less affected, has been starting ambitious expansion programmes which are likely to produce a surplus for export of some 30,000 tons per year.

Table wine: Wine is more likely to be a problem for the enlarged EC itself than for the Mediterranean area, since the new entrants compete mainly with Italy and France. In total Community imports from extra-EC countries, Spain, Greece and Portugal together hold a share of about 60 %. Of the non-candidate Mediterranean countries, Yugoslavia, Algeria, Tunisia and Cyprus are suppliers worth mention. After enlargement, the self-sufficiency of the Community will rise to a level of over 120 %. Through the adoption of the EC price level, producer prices in Spain will increase by 40 %-50 %, implying an incentive to producers on the one hand and a decrease of domestic consumption on the other. Reference prices are expected to be set above market prices, thereby limiting imports from extra-Community suppliers. Thus, prospects for third country exports to the EC will deteriorate. FAO projections for 1990 forecast a surplus of 7.3 million hl per year alone in Spain;⁹ other sources are even more pessimistic, estimating a surplus of c. 10 million hl for 1985.¹⁰ This means that the Community market for table wines is likely to be closed, unless Spain shifts production to high quality wines thus loosening the hold it now exerts at the "lower end" of the wine market.

Vulnerability of the Partners

The vulnerability of the agricultural exports of the third Mediterranean countries is shown by five selected indicators presented in Table 3. One of the conclusions which can be drawn from these figures relates to the vulnerability of the different agricultural sectors: the

Table 3

Indicators of Vulnerability by Product and Country (in per cent)

Products	Countries	Share of production in GDP	Share of exports in production	Share of exports to EC in total exports of country	Share of exports to EC in total exports of the product	Employment (approx.)
Citrus fruits	Morocco	n.a.	62.4	7.3	57.0	300,000
	Tunisia	n.a.	22.0	0.4	83.0	4,000
	Cyprus	1.0	75.9	4.7	73.0	2,000 to 3,000
	Turkey	n.a.	15.2	0.2	16.0	n.a.
	Egypt	n.a.	n.a.	1.9	4.3	n.a.
	Israel	1.1	78.0	7.0	63.0	15,000
Olive oil	Morocco	0.3	25.7	1.9	95.0	n.a.
	Tunisia	2.3	63.0	8.9	66.0	200,000
	Turkey	0.3	12.4	0.6	40-60	n.a.
Early Potatoes	Morocco	0.8	80.0	0.6	98.0	see tomatoes
	Tunisia	net importer of potatoes, occasionally small quantities exported				
	Malta	0.5	75.0	0.9	100.0	n.a.
	Cyprus	1.9	83.0	8.0	85.0	3,000
	Egypt	1.1	15.0	0.6	81.0	n.a.
Grapes	Cyprus	n.a.	90.0	2.4	85.0	n.a.
Wine	Morocco	n.a.	33.0	0.16	68.0	n.a.
	Algeria	0.3	65.0	0.007	12.6	n.a.
	Tunisia	0.3	33.0	0.3	96.4	n.a.
	Cyprus	3.4	80.0	4.4	85.0	15,000
	Yugoslavia	0.4	16.3	0.3	43.6	n.a.
Tomatoes	Morocco	n.a.	40-60	3.6	95.0	8,000 to 10,000
Vegetables	Morocco	n.a.	40.6	3.5	96.4	10,000
	Cyprus	1.6	30.0	1.6	75.0	3,000
	Turkey	very small quantities, no disaggregated data available				
	Egypt	no comparable data available				
	Yugoslavia	very small quantities, no disaggregated data available				
	Israel	0.2	46.0	0.3	90.0	n.a.
Juice	Morocco	0.4	n.a.	2.9	98.0	1,500
	Israel	0.8	n.a.	2.5	85.0	n.a.

Sources: Own calculations based on IAM-Country studies (Montpellier) and World Bank Country Reports.

⁹ FAO, *ibid.*, p. 145.

¹⁰ D. Wienberg: *Landwirtschaft in der Europäischen Gemeinschaft – Spanien*, Deutsche Landwirtschaftliche Gesellschaft, 1981, p. 133 f.

to be an important source of vulnerability. Israel, although a country with a diversified economic structure, tried to develop a sophisticated agricultural export production oriented towards the European market, complementary to the European season. Malta, Algeria and Yugoslavia are affected to a lesser extent. Syria and Jordan do not face any special problem in the field of their agricultural exports. Lebanon is a specific case whose assessment is hardly possible under the present political conditions.

Table 4 shows the scope of potential export losses of the Mediterranean countries measured in terms of the value of their agricultural exports to the EC in 1980. In absolute terms, the exports of sensitive agricultural products to the EC represent 263m ECU for Morocco, 164m ECU for Israel, 114m ECU for Tunisia, and 89m ECU for Cyprus. Measured in terms of the share of these exports in the total export of the Mediterranean countries to the EC, the country most seriously hit would be Cyprus (33.8 %), followed by Morocco (22.6 %), Israel (10.5 %) and Tunisia (10.5 %). The figures for the other countries are rather insignificant (Egypt 2.1 %, Yugoslavia 1.5 %, Turkey 1.1 %).

Nevertheless, it is not very probable that the new entrants, particularly Spain, will expand production of all the items listed in the table to an extent which would seriously endanger the export chances of the Mediterranean partners. There are various arguments such as rising wages, increasing costs of irrigation and a

certain shift to some especially profitable products in the cultivable areas, which support the assumption that the new entrants will observe certain limits to expansion. The worst extreme of disadvantage to the Mediterranean countries can be defined as the loss of export earnings in the case of those items whose markets in the EC will doubtlessly be closed as a consequence of the direct static effects of southward enlargement. This seems to be the case for olive oil, table wine, fresh tomatoes and certain varieties of citrus fruit (mandarines, lemons). These losses amount to c. 300 million ECU for the reference year of 1980. The total loss of export earnings can roughly be estimated at an amount ranging from 300 to 500 million ECU.

The EC's Options

In view of the problems described above, the Community's future Mediterranean Policy has to be based on the following three objectives:

- ☐ stabilization of the preferential conditions presently enjoyed by the Mediterranean countries against the impact of the Community's southward enlargement;
- ☐ improvement of the chance to avoid a substantial deterioration of the agricultural export earnings of the Mediterranean partners by means of additional concessions and assistance; and
- ☐ promotion of economic and social development in the partner countries complying not only with the needs

Table 4
EC-Imports of Sensitive Agricultural Products from Non-candidate Mediterranean Suppliers,
by Country and Product, 1980
(million ECU – cif values)

Country	Oranges	Mandarines etc.	Lemons	Olive oil	Early potatoes	Grapes	Wine	Fresh tomatoes	Fresh vegetables	Processed food (juices)	Total	Share in total exports of country to the EC (%)	Share in GDP of country (%)
Morocco	98.4	56.1	—	19.8	13.2	—	2.8	62.4	6.1	4.5	263.3	22.6	2.0
Algeria	—	—	—	—	0.3	—	8.5	—	—	—	8.8	0.2	0.03
Tunisia	8.5	—	—	96.9	1.7	—	7.5	—	—	—	114.6	10.5	2.2
Malta	—	—	—	—	2.1	—	—	—	—	—	2.1	0.8	0.3
Cyprus	19.9	0.3	7.7	—	31.2	14.9	10.4	—	5.2	—	89.6	33.8	5.6
Turkey	—	0.2	3.5	5.2	—	0.7	—	—	1.2	—	10.8	1.1	0.02
Egypt	4.2	—	—	—	28.5	—	—	—	4.8	—	37.5	2.1	0.23
Syria	—	—	—	—	—	—	—	—	—	—	—	—	—
Jordan	—	—	—	—	—	—	—	—	—	—	—	—	—
Lebanon	—	—	—	—	—	—	—	—	—	—	—	—	—
Yugoslavia	—	—	—	—	—	—	29.1	—	1.9	—	31.0	1.5	0.07
Israel	89.7	4.1	2.4	—	—	2.9	—	—	18.8	46.8	164.7	10.5	1.5
Total	220.7	60.7	13.6	121.9	77.0	18.5	58.3	62.4	38.0	51.3	722.4	—	—

Source: Own calculations based on Eurostat, Nimex 1980.

of the partners concerned but also with the EC's own long-term interests.

The Community's room for action, however, is very small. Without reforming the Common Agricultural Policy, the range of options open to the EC for reshaping its Global Mediterranean Policy is limited to the following choices:

1. *Maintaining the status quo.* Taking into account the consequences of the southward enlargement, this would imply additional trade concessions to the non-candidate Mediterranean countries. In the agricultural field, such a concession might be conceived as the removal of the customs duties still applied to the imports of agricultural products (fresh and processed) originating from the countries covered by the Community's Global Mediterranean Policy, while retaining and freezing the existing intra-EC protection and support level (market organizations and price policy instruments) as it stands now, i.e. prior to Spain's and Portugal's accession. This option would offer the Mediterranean partners duty-free trade in agricultural products, as is being sought for Turkey by 1987. It would imply an opportunity to mitigate the negative effects which they will suffer from the EC's enlargement. For the Community as a whole, and particularly for the acceding countries, this option would have the effect of limiting incentives to expand the production of sensitive agricultural commodities, thus contributing to maintain a certain margin for trade with third country suppliers. Although this option would contribute to a slight improvement of the balance of supply and demand in Mediterranean agricultural products, it would be ineffective in the case of products either subject to minimum price regulation or expected to exceed considerably the 100 % self-sufficiency level of the Community after the southward enlargement (olive oil, table wine, some fresh fruit and vegetables).

2. *Financial compensation.* Compensation for market losses could be provided in several ways: as direct compensation for losses of income to meet the balance of payments needs of the Mediterranean countries affected, as a sales guarantee for limited quantities (similar to the sugar agreement) in order to secure employment in the supplier countries or as a system of payments to stabilize export earnings like Stabex in the case of the ACP countries. There are precedents for these approaches in the New Zealand butter arrangements, the Commonwealth sugar agreement, and the Convention of Lomé. Nevertheless, there are problems, too, which should not be underestimated. To define the terms of compensation as well as the list of

products and countries included into such a scheme implies highly political decisions: there will be enormous pressure to generalize any favourable regimes and the fall-out from failing to do so could be quite damaging.¹¹ From the point of view of the Community's budget considerable additional costs would have to be expected, stemming not only from the compensation payments themselves but also from the financial effects of larger interventions on the Common Agricultural Market. According to very rough calculations, the burden on the Community's budget would amount (for the reference year 1980) to c. 500 million ECU.¹² On the side of the Mediterranean partners, compensation payments could delay necessary structural adjustment measures and encourage an expansion of production for export.

3. *Self-limitation.* This option relies on the assumption that market control is no longer possible by means of price instruments alone and that, therefore, control instruments for the volume of production and trade should also be introduced. Self-limitation, then, implies the establishment of production quotas (for sensitive Mediterranean products inside the enlarged Community) and import quotas for the same sensitive commodities from the non-candidate Mediterranean countries. Such a system might be complemented by reductions of the variable levies during certain periods of the year or by abolition of customs duties for periods when no minimum prices are applied (in the case of some fresh fruits and vegetables). Through such a system a certain limitation of supply on both sides of the Mediterranean and, in consequence, a reduction of surpluses and financial burdens could be achieved. On the other hand, this option would imply not only considerable administrative burdens but also a partial reform of the Common Agricultural Policy which could face serious political resistance. For the Mediterranean countries, this type of solution would be of limited value because import quotas make sense only in case of existence of trade. Some types of sensitive Mediterranean farm products such as oranges, early potatoes or processed foodstuffs would certainly benefit from such a quota system which, however, would be ineffective with respect to products for which southward enlargement of the EC alone will imply surpluses. Thus, self-limitation agreements might mitigate the negative impact of the Community's enlargement, but they do not

¹¹ Detailed analysis in: F. Duchêne, T. Bourrinet, S. A. Musto, A. Tizzano: The Mediterranean Policy of the European Community, final report (policy paper) presented to the EC-Commission, 1982.

¹² Idem.

represent a genuine solution to the export problems of the Mediterranean partners.

4. *Promotion of adjustment and inward-oriented development in the Mediterranean.* This option is based on the premise that in the longer term it is in the interest of both the Community and its Mediterranean partners to take steps to develop the agricultural sectors of the latter. The goals of such a policy could be three-fold:

- improvement of the self-supply of basic foodstuffs in the Mediterranean by increased production and/or import substitution;
- restructuring and adjustment of the export-oriented agricultural production; and
- increased cooperation between the individual Mediterranean countries promoting intra-regional trade wherever complementary production structures can be developed.

As to the first goal, it is important to stress that the deficiencies in the supply of the domestic markets with home-grown basic foodstuffs (wheat, rice, sugar, meat, dairy products) are growing. Egypt's wheat imports rose from 850,000 tons to 4.3 million tons a year from 1966 to 1980. Morocco's wheat imports are equivalent in value to its total exports of fruits including citrus.¹³ A growing population, increasing consumption per capita, and stagnating production mean that the supply deficit and consequently import requirements are rapidly growing. There are some calculations indicating that, for instance, wheat production in Syria could be raised from 650 kg per hectare to 2,700 kg under rainfall cultivation and to 6,250 kg per hectare under permanent irrigation. Rice cultivation in Egypt could produce a yield of 8.8 t per hectare instead of the present 6.3 t.¹⁴ There is no doubt that both the balance of payments and employment in these countries could benefit greatly from efforts to reduce the steadily rising cost of grain (and other agricultural) imports, although such efforts would require a considerable capital input with high opportunity costs.¹⁵

As to the second goal, the opportunities for the restructuring of export-oriented agricultural production

in the Mediterranean countries are rather limited. There are some market chances for alternative export products such as nuts and other dried fruits, tobacco, and some varieties of subtropical fruits and vegetables. By granting project-related financial aid for changes in production and favourable terms for the imports of such commodities, the EC could compensate for at least a part of the export losses the Mediterranean partners are likely to suffer.

Area of Community Action

Finally, a further potential area for Community action is the promotion of intra-regional cooperation, with regard both to trade among the Mediterranean countries and possible joint programmes for the development of their agricultural sectors. Cooperation seems possible in such areas as the development of agricultural technologies, seed, infrastructure, transport, communication, cooperatives etc. As part of its future Mediterranean Policy, the Community might usefully assist both the expansion of intra-regional trade and joint programmes or projects implemented by the partners themselves.

Taking into account that the consequences of the Community's southward enlargement will not be felt suddenly but progressively as the new entrants react to the new conditions offered by the Common Agricultural Policy, timing becomes an important factor in the shaping of the EC's future Mediterranean Policy. Until the acceding countries begin to play their full part in the enlarged Community, the EC could take steps to stabilize the flow of agricultural trade proceeding from the Mediterranean countries. This implies a policy initially oriented towards maintaining the status quo. In the long run, however, the accent should be placed on structural development and adjustment in the Mediterranean region as described in option 4. The opening-up of the domestic markets of the southern Mediterranean countries, a greater measure of self-sufficiency in the agricultural sector, progressive rural development and more intensive cooperation among them would be advantageous for countries on both sides of the Mediterranean region; for the southern neighbours, who could thereby achieve a greater degree of collective self-reliance without renouncing the advantages of their relations with Western Europe, and for the European Community, which would thereby not only gain expanding market outlets, in particular for investment goods and other high-value industrial exports, but would also find itself able to examine a broader range of options for its future cooperation policy.

¹³ Cf. the country studies of the Institut Agronomique Méditerranéen de Montpellier: *Le Secteur Agricole et ses Perspectives à l'Horizon 1990*, (Algeria, Morocco, Tunisia, Egypt, Israel, Turkey, Cyprus), Montpellier 1980.

¹⁴ S. A. Hatem: *The Possibilities of Economic Cooperation and Integration between the European Community and the Arab League*, Munich 1981, p. 340.

¹⁵ According to relevant studies, the investment per ton of cereals is likely to be between 400 ECU and 500 ECU. This means that the income of 15 hectares of cereals is roughly the same as that of one hectare of outdoor vegetables. For some further details cf. O. Oram et al.: *Investment and Input Requirements for Accelerating Food Production in Low-Income Countries by 1990*, IFFRI Research Report No. 10.