

Siebeke, Roland

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Nonetheless, upgrading programmes are being carried out to increase the flexibility of the refineries on the Arabian Gulf. In the countries to which these oil products are to be exported – Western Europe and above all Japan – the proportion of conversion capacity is too small. Refinery operators who have been making losses for many years have difficulty raising the necessary investment capital. In the case of vertically integrated companies, refining operations are being subsidised by profits from oil extraction.

Since the oil-exporting countries' downstream activities are coinciding with a fall in demand of unforeseen severity, the European and East Asian oil markets are facing serious adjustment problems. This is particularly true of the balance refining centres, where the very existence of an important industry is in jeopardy. In other countries that were not previously dependent on imports of refined products the question of the security of supply arises if the adjustment process

causes refining capacity to fall below the level of domestic sales.

Similar though less serious problems are looming for the basic petrochemicals industry. A distinction should be made here according to product: oil exporters' exports of nitrogenous fertilisers are aimed primarily at Third World markets, while other chemical products such as ethylene derivatives and methanol are also intended for the European market. The industrial countries will therefore face keener competition in export markets and additional supply at home, though in contrast to the refining sector they do have other options, such as switching to the production of specialist chemicals, as the oil-exporting countries confine themselves to basic chemicals. Here too there is a need for large-scale investment at lower rates of return, but the prospects are far better than for oil refining as companies can bank on rising demand, though the rate of growth is expected to be slower than in the late seventies.

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## EUROPEAN COMMUNITY

# Can the EC Mediterranean Policy Be Revitalised?

by Roland Siebeke, Frankfurt\*

**The enlargement of the European Community to include Portugal and Spain has focussed public attention on the EC's relations with certain other states bordering the Mediterranean; Israel, Morocco, Tunisia and Cyprus in particular fear that the competitiveness of their exports to the European market will be prejudiced. In view of this and other threats to the EC's ties to her Southern neighbours the future of the EC's external Mediterranean policy is at stake.**

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Discussions have been going on for some time in Brussels on the European Community's "global Mediterranean policy";<sup>1</sup> like the Community's relations with the ACP countries<sup>2</sup> embodied in the Third Lomé Convention, the Mediterranean policy is a component of the Community's preferential trade and development policy. However, in contrast to relations with ACP countries, the Mediterranean policy is based not on one multilateral treaty but on a collection of individual association or co-operation agreements concluded between the EC and almost all states bordering the

Mediterranean except Albania and Libya. Nevertheless, since the EC summit in Paris in October 1972, these agreements have followed a uniform pattern providing broadly for:

□ *globality*, in other words the agreements cover the fields of trade, economic, scientific and technical co-operation and in some cases the social security of migrant workers;

<sup>1</sup> Not to be confused with the "integrated Mediterranean programmes" also currently under discussion, which should benefit the Mediterranean areas *within* the Community.

<sup>2</sup> ACP stands for Africa, the Caribbean and the Pacific.

\* Kreditanstalt für Wiederaufbau.

□ *equality of treatment* of Mediterranean countries by the Community, with discrimination only in special cases (for example, only developing countries amongst the Mediterranean states receive budgetary financial assistance from the Community and for the time being they are not required to grant reciprocal trade concessions).

It is remarkable that apart from the two exceptions mentioned above, all of the non-EC Mediterranean countries, including socialist states such as Algeria, Yugoslavia and Syria, have decided to conclude comprehensive agreements with the European Communities. Their motives undoubtedly differed widely. In some cases concern about trade diversion to their disadvantage was a factor; the founding of the European Economic Community gave Italian farmers free access to the vast markets of central Europe, so that competitors such as Israel, Spain, Greece<sup>3</sup> and Morocco sought to obtain terms that matched as closely as possible those enjoyed by Italy.<sup>4</sup>

From the political point of view, the Community's Mediterranean policy offers Mediterranean neighbours an opportunity to diversify their relations. "The very concept of the global policy, based on the common interest of all the countries in the region and on total respect for their internal and external political choices, relieves each of them of the political fears that too great an economic dependence on certain markets can engender."<sup>5</sup> An important advantage of association and co-operation agreements with the EC from the viewpoint of the Mediterranean partners is that they are subject to no time limit, whereas each of the Lomé Conventions between the Community and the ACP countries has been valid for a period of five years. The unlimited duration of the Community's concessions on the co-operation and trade fronts is intended to give investors and planners a stable framework in which to make their decisions.

As far as the *interests of the Community* are concerned, the countries bordering the Mediterranean are neighbours. Intensive trade and economic co-

operation should foster good neighbourly relations and at the same time help maintain stability in the Mediterranean, something in which the Community has a natural interest.<sup>6</sup> The awareness of the nearness of the Mediterranean region is of course not equally strong throughout the Community. In some northern member countries there is a tendency to view the Mediterranean policy as a special EC policy of rather secondary importance that primarily serves the interests of member states in the South; critics who hold this view demand instead a uniform worldwide Community policy on trade and development.<sup>7</sup> It is interesting to note that this opinion is rarely encountered in the Federal Republic of Germany.

### Threats to the EC Mediterranean Policy

The Community's Mediterranean policy has scarcely come of age (the co-operation agreement with Yugoslavia was signed as recently as 1983), but there is already a danger that it will decline in importance for partner countries. There are several reasons for this:

□ *Protectionist tendencies in the EC.* Protectionist measures by the EC have quite substantially curbed partner countries' export opportunities, in violation of the spirit and in some cases the letter of the agreements. The self-restraint arrangements<sup>8</sup> that the Community has more or less forced on Egypt, Morocco, Tunisia and Cyprus for certain "sensitive" textile products have brought disillusionment, since the association and co-operation agreements themselves in principle allow free access to the European market for industrial products except processed food products, subject only to safeguard clauses. In the agricultural sector, excessive import price requirements (in particular "reference prices" for wine and certain types of fruit and vegetable) and the imposition of countervailing duties if they are not observed have had a restrictive effect. There is also the question of indirect protectionism through the granting of excessive subsidies within the Community, especially in the agricultural sector; for example, Community aid for the processing of tomatoes has been a contributory factor in the exclusion of competing products from Morocco and the closure of an export-oriented tomato purée factory in that country.<sup>9</sup> In the above-mentioned

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<sup>3</sup> Greece had an association agreement with the European Community until it became a member. At present there is still a preferential trade agreement with Spain.

<sup>4</sup> Cf. Charles P. Kindleberger and Peter H. Lindert: *International Economics*, 6th edition, Homewood, USA, p. 175.

<sup>5</sup> Commission report to the Council on the exploratory talks with the Mediterranean countries and the applicant countries, and Commission proposals concerning the implementation of a Mediterranean policy for the enlarged Community, COM (84) 107 final, p. 13.

<sup>6</sup> Cf. *Sicherheit und Zusammenarbeit in Europa*, KSZE-Dokumentation, Federal Government Press and Information Office, Cologne 1976, pp. 93-96.

<sup>7</sup> This demand is also voiced in certain quarters in the USA, with reference to GATT. On the GATT problems of the EC Mediterranean policy, see *Ausnahmen von der Gatt-Meistbegünstigung – Konfuse vertragliche Rechtsbasis*, in: *Neue Zürcher Zeitung*, 13th March 1985.

<sup>8</sup> Self-restraint arrangements differ in strictness from the formal self-restraint agreements under the world textile accord; cf. G. Ashoff: *The Textile Policy of the EC*, *Journal of Common Market Studies*, September 1983, p. 22.

<sup>9</sup> Cf. *La Recette des Conserves*, in: *Jeune Afrique Economie*, July-August 1983, p. 75.

sectors, in which Mediterranean countries consider they have export opportunities, EC restrictions have made it more difficult for these countries to plan investment and have thus thwarted the purpose of the agreements' unlimited duration.

□ *The forthcoming accession of Portugal and Spain to the European Community.* The entry of Portugal and Spain to the European Community threatens to undermine further the trade opportunities of partner countries in the Mediterranean. The Iberian peninsula is a major supplier of those products that the non-EC Mediterranean countries also regard as their main exports: fruit and vegetables (both fresh and processed), wine, olive oil, canned fish, textiles and some leather goods. Until now, non-EC Mediterranean countries enjoyed better terms for access to the EC market than the applicant countries; for example, EC tariffs are 4 % on Moroccan oranges in the winter season but 12 % on Spanish oranges. The EC trade barriers against Portugal and Spain will be gradually dismantled, so that after accession there will be a "preference reversal"<sup>10</sup> that represents a deterioration in the competitive position of non-EC partner countries. The compensatory improvements for the Mediterranean association and co-operation partners proposed by the Commission (such as the removal of customs duties on particular farm products within customs quotas and reductions in reference prices) are probably insufficient to prevent Moroccan citrus fruit and tomatoes, Tunisian olive oil, Cypriot table grapes and so forth from being driven out of their main market – the European Community. The Mediterranean countries also fear that EC trade policy will come under intensified protectionist pressure when the new member countries, which are relatively weak economically, begin to participate in decision-making in Brussels.

□ *The lack of a coherent co-operation policy.* Most of the association and co-operation agreements place co-operation on an equal footing with trade, but in practice the European Community's Mediterranean policy is primarily a preferential trade policy; hitherto, the wide-ranging co-operation objectives of the agreements

(such as sales promotion, the transfer of technology, scientific and industrial co-operation and in some cases co-operation in the social field) have played only a secondary role.<sup>11</sup> The trade preferences granted by the EC have certainly allowed some Mediterranean countries, notably Israel, Yugoslavia, Turkey and Tunisia, to increase their shares of total EC-imports, but for various reasons other Mediterranean partner countries, and especially the less developed ones, have not been in a position to take full advantage of the Community's trade concessions; indeed, the same applies to most ACP countries. The fact that Mediterranean trade preferences were not made part of an overall concept has proved to be a disadvantage.

### Return to the Traditional Mediterranean Policy?

New life could be breathed into the European Community's Mediterranean policy by the theoretically simple expedient of removing the protectionism described above. The EC Commission emphasises that "the guarantee of access for their (the Mediterranean partners') exports to the Community market formed the very foundation of the agreements".<sup>12</sup> However, the consistent implementation of such a policy would have far-reaching and politically emotive consequences, as the following examples show:

□ in the case of textiles, the Community would at the very least have to commit itself to a return to free trade at a set date without self-restraint arrangements, "concertation" about investment<sup>13</sup> and other protectionist measures;

□ in the case of agricultural products in which Mediterranean third countries have an interest as suppliers and enjoy comparative advantages, subsidies would have to be reduced and the protection for Community produce competing with imports from Mediterranean partner states would have to be curbed. The implications would be:

- a moderate reference price policy for fruit, vegetables and wine that would give non-EC Mediterranean suppliers genuine sales opportunities;
- an end to both direct and indirect Community support for glasshouse production of fruit and vegetables and for wine grown in unsuitable situations that can be sold only by adding excessive quantities of sucrose to the must and/or of must concentrate to the wine.

The Community's external protection against olive oil (in particular, levies which operate like variable customs

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<sup>10</sup> Cf. Juergen B. Donges et al.: The Second Enlargement of the European Community, Study No. 171 of the Institut für Weltwirtschaft Kiel, Tübingen 1982, pp. 169 ff. On the problems of enlargement, see also Thomas Pornschlegel: Süderweiterung zwischen Mittelmeerpolitik und Euro-Arabischem Dialog – Quadratur des Kreises?, in: Orient, March 1985, pp. 88ff.

<sup>11</sup> Cf. also Stefan Musto: Kooperationspotential der Europäischen Gemeinschaft mit Entwicklungsländern, insbesondere den Mittelmeerländern, in: F. Franzmeyer and H. J. Petersen (eds.): Neuorientierungen in den Beziehungen zwischen der EG und den Entwicklungsländern, Deutsches Institut für Wirtschaftsforschung, Special Issue 140/1984, Berlin 1983, p. 198.

<sup>12</sup> Cf. Commission Report, op. cit., p. 6.

<sup>13</sup> As proposed by the Commission of the European Communities, cf. Commission Report, op. cit., p. 16.

duties, depending on world market prices) could also be lowered in favour of Tunisian and Moroccan suppliers. Until Greece joined the EC, North African olive oil had been able to hold its own in the European market (and especially in Italy) on account of its quality, despite EC levies and competition from cheaper vegetable oils. Since then, North African products have been progressively squeezed out of the Community, with the consequent loss of jobs and export earnings, as Greek olive oil now enjoys "Community preference" in the form of aid and protection against outside competition. In view of the competition from cheaper oilseeds from the USA on the world market, the prospects of opening up substantial new markets for olive oil elsewhere are remote. There is a danger that North African olive oil will be almost completely squeezed out of the Community market when Spain becomes a member.

In this connection, it seems remarkable that in the vegetable fats sector as a whole (oilseeds and vegetable oils, including olive oil) the Community will remain heavily dependent on imports;<sup>14</sup> member countries themselves can probably grow only a very few varieties of oilseed and oil fruit economically, such as rape, sunflower and, with reservations owing to the relatively high production costs, olives. Attempts to grow the cheap and high-yielding soyabean in the southern areas of the Community or in Spain have not met with resounding success so far, probably mainly because of a lack of rain in the summer.<sup>15</sup>

There are historical reasons for the fact that EC external protection against seed oils from the USA and other countries (tariffs from only 4 to 15 %<sup>16</sup>) is much lower than that against olive oil, which is produced almost exclusively in the Mediterranean region: the Community persuaded the USA to tolerate its protectionist agricultural policy within GATT by leaving a "loophole" in its protective wall for soyabean and soya oils, in which the USA has particular interests as a supplier. As the motives for the Community's inconsistent trade policy with regard to oilseeds and seed oils (with high barriers only against olive oil) are political and historical but not economic, there would be some justification in demanding a uniform and, in view of the EC's overall internal production shortage, low external tariff for *all* imports of vegetable fats from third countries. Even without granting special preferences,

this would give North African suppliers of olive oil some chance of selling their products in the Community market.

It has already been indicated that a policy of "rolling back EC protectionism" would be politically emotive and difficult to implement, mainly on account of the keener competition that would face agriculture in the southern areas of the Community, which are already at a disadvantage. The problem could be eased but not solved by the programmes designed to aid the Community's Mediterranean areas, in particular the "Integrated Mediterranean Programme" (IMP) which has received approval in principle. Moreover, if traditional imports of agricultural produce from the Mediterranean neighbour countries are maintained, the accession of Portugal and Spain is likely to create surpluses of olive oil, tomatoes and other produce and hence the danger of increased EC "interventions", in other words the destruction of fruit and vegetables, the dumping of goods on third country markets, the distillation of wine, and so forth. The Community's agricultural shambles would become still worse.

It is here that the conflict between the Community's policy of co-operation with developing countries and its agricultural policy becomes plain. The Community's procedure for solving such fundamental conflicts of policy, which operates primarily at the level of the Council of Ministers or their deputies and largely by-passes the elected European Parliament, is inadequate; the General Council's freedom of decision is hampered by the sectoral decisions taken by the Council of Ministers of Agriculture, as in the case of the decision of October 1983 on taking greater account of the production costs for fruit and vegetables within the Community when setting the reference price for imported produce.

### **Elements of a New Mediterranean Policy**

The conclusion to be drawn from the remarks made so far is that a return to the traditional Mediterranean policy would be very difficult, given the structure of the Community and especially the weight currently attached to the Community's agricultural policy. On the other hand, it would not make sense to waste the potential advantages that the countries on the southern and eastern shores of the Mediterranean can derive from their geographic proximity to the largest economic bloc in the world. Enough serious studies, such as that by the UNCTAD/GATT International Trade Centre, concede that there are market openings for a series of industrial products that developing countries in the Mediterranean basin are able to produce.

<sup>14</sup> See for example "The Common Agricultural Policy and the ACP States", in: *The Courier*, Brussels, No. 86/1984, p. 86.

<sup>15</sup> Cf. also J. Larcher, J. P. Aubin, G. Rouanet: *Soya – Possibilities of Development in the ACP Countries*, in: *The Courier*, Brussels, No. 86/1984, p. 59.

<sup>16</sup> As well as preferences under the EC's generalised preferences scheme for developing countries and the Third Lomé Convention.

However, the European Community's erratic trade policy is having an adverse effect on the Mediterranean neighbour countries. The EC could make its policy towards these countries more predictable in certain areas, for example by announcing in advance that it would temporarily not invoke the trade safeguard clauses embodied in the agreements. The Commission rightly stresses that "if investors were unable to rely on the promises made in the agreements in their planning, the agreements would not be achieving their objective".<sup>17</sup> In return, the countries concerned would have to undertake to abide by certain rules of competition, such as the GATT codes on subsidies and dumping.

It has already been pointed out that some Mediterranean developing countries have not made great use of the EC trade preferences so far. This is due partly to export constraints in the countries in question (including exchange rates that make exporting seem barely commercially viable) but also to the developing countries' well-known difficulty in meeting the high quality requirements of consumers in industrial countries. If one of the aims of the Community's Mediterranean policy is to further intensify trade and co-operation, then it is surprising that no efforts have been made to seek closer complementarity and mutual reinforcement between the main instruments of

Mediterranean policy, namely trade preferences, financial co-operation and technical assistance. In practice, trade preferences and co-operation have remained largely unconnected in relations between the Community and its Mediterranean partners.

Nevertheless, closer links between preferences and co-operation are no panacea. The Council of Ministers on Development Co-operation has rightly emphasised that "trade-promotion measures will be more effective if they are integrated into a broader programme of the (developing) country concerned, or are part of a development strategy; priority will not be given to isolated measures".<sup>18</sup> A global Mediterranean policy aimed at expanding trade therefore presupposes a dialogue with the countries concerned regarding their trade and development strategies, though not with the aim of "concerting" investment, as the EC Commission would wish.<sup>19</sup>

Besides closer links between the traditional instruments of Mediterranean policy, other methods could be used, such as the promotion of joint ventures between smaller firms in the EC and firms in Mediterranean neighbour countries; if the European partners contributed product ideas, knowledge of

<sup>17</sup> Commission Report, op. cit., p. 14.

<sup>18</sup> Extract from the press release on the 933rd meeting of the Council of the European Communities – Development Co-operation – on 5th June 1984.

<sup>19</sup> See footnote 13.

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markets and marketing know-how, such joint ventures could also help achieve the aim of increasing non-traditional exports from these countries. Clearly, the Centre for Industrial Development, which helps nurture business co-operation between EC and ACP enterprises, should extend its activities to the Mediterranean area.

In this connection, the World Bank's proposal for a multilateral insurance and guarantee system for private foreign investment in developing countries seems an interesting possibility. The new Lomé Convention between the ACP countries and the European Community takes up the proposal cautiously and provides for "a joint study of the scope and appropriate mechanisms of a joint ACP-EEC insurance and guarantee system, complementary to existing national systems, that could have a positive effect on the flow of private-sector resources from the Community to the ACP States" (Article 244). Such a system could also be valuable in the Mediterranean to complement an effective network of capital safeguard agreements, including the planned European-Arab convention on the promotion and mutual protection of investments.<sup>20</sup>

Concerning the coordination of the *bilateral* development aid policies of member states towards Mediterranean countries, the European Community has had as little success as with a global Mediterranean policy, although the European Community is simply ideal for pooling national aid for developing countries in order to avoid duplication of work and, above all, to achieve the "critical mass" for effective programmes.<sup>21</sup>

The existence of an area of food surpluses, namely the EC, in close proximity to an area of increasing shortage, namely the non-EC Mediterranean countries, suggests that the Community's farm surpluses, in particular grain and milk products, should be sold cheaply to the Mediterranean states. Indeed, the Commission has proposed that this be done in the form of long-term supply contracts including a subsidy element until the Mediterranean partner countries can meet their own needs.

The Community already supplies large quantities of agricultural products to the Mediterranean area, in some cases in competition with the USA, and there is a suspicion that the proximity of the easily accessible EC

farm surpluses (including food aid to some countries) has been one reason for the neglect of agriculture in a number of non-EC Mediterranean countries. "In contrast to the situation in most industrial or Third World countries, the agricultural and food sector has hitherto occupied only a secondary place in the development plans of Mediterranean countries, especially Arab states. The governments of these countries have concentrated their efforts on industry or mining and have relied . . . to an ever increasing extent (on) imports to meet the food requirements of the population."<sup>22</sup>

Over the long term, such a policy jeopardises a potential growth sector in the Mediterranean countries:

□ The neglect of agriculture and, in some cases, even discrimination against it as a result of government policies depresses rural incomes and thereby incentives to invest or to increase production in the agricultural sector.

□ Hence, the food processing industry in the Mediterranean countries cannot obtain all the raw materials it needs. The food industry is, however, a potential growth sector in these countries owing to

- rapid population growth and increasing urbanisation (experience has shown that this leads to a growing demand for processed agricultural products, such as canned or frozen food);
- the scope for increased trade within the region (for example, some Mediterranean countries have built up their export capacity for fruit juices while others have a shortage);
- opportunities to export to a number of Arab oil-producing countries, black Africa, Eastern Europe and, in some cases, EC and EFTA countries.

The food processing industry in a few Mediterranean countries could be a suitable area for increased co-operation in which the Community could contribute financial and technical aid (including the transfer of technology), guarantees for private investment by medium-sized firms from Community countries and trade preferences within a global framework. However, the success of such co-operation depends on the political will of the partner countries, including a readiness to promote the domestic farm sector. A political dialogue, such as the Community is also seeking with the ACP countries,<sup>23</sup> would ascertain whether such political will existed.

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<sup>20</sup> A different view is expressed in J. Esser: Kapitalschutz nicht gefährden, in: *Entwicklung und Zusammenarbeit*, No. 12, 1984, p. 23. Cf. also J. Voss: Multilaterale Agentur für Kapitalanlagegarantien, in: *Entwicklung und Zusammenarbeit*, No. 2, 1985, p. 26.

<sup>21</sup> Cf. the interview with Commissioner Pisani in: *The Courier*, March-April 1984.

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<sup>22</sup> Extract from the Commission staff working document on the food industry in Mediterranean countries, document SEC (83) 808 of 11th May 1983, p. 7.

<sup>23</sup> Cf. the Commission's 1982 Memorandum on the Community's development policy, reproduced in: *The Courier*, No. 76/82.