

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(95) 72 final

Brussels, 08.03.1995

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL  
AND THE EUROPEAN PARLIAMENT

STRENGTHENING THE MEDITERRANEAN POLICY  
OF THE EUROPEAN UNION: PROPOSALS FOR  
IMPLEMENTING A EURO-MEDITERRANEAN PARTNERSHIP

# 1. INTRODUCTION

## 1.1 The Mediterranean is strategically important to the European Union.

One of Europe's priorities is to consolidate peace and stability in the region. This challenging task would involve:

- supporting political reform and defending human rights and freedom of expression as a means of containing extremism;
- promoting economic and social reform in such a way as to produce sustained growth (to create jobs) and an increase in standards of living, with the aim of stemming violence and easing migratory pressure.

The Community and its partners in the Mediterranean are interdependent in many respects. Europe's interests in the region are many and varied, including as they do the environment, energy supplies, migration, trade and investment.

The drug problem (production, trafficking and consumption) is one which all the countries involved will have to tackle together.

Instability in the region cannot fail to have negative consequences for all the countries of the European Community. The Mediterranean non-member countries (MNC) may have a population of 400 million by 2035, and there will be a wealth gap which will undoubtedly grow unless current demographic developments are counterbalanced by a rapid economic upturn and appropriate population policies. If such an economic upturn is to occur, the countries in question will have to make a further sustained effort to liberalize and restructure their economies. The Community would also have to help them to cope with the political, economic and demographic challenges facing them.

A considerable proportion of the European Community's immigrants is from the Mediterranean region. These individuals often retain strong links with their countries of origin, and the economies of the latter benefit from welcome contributions in the form of salary remittances. If planned cooperation with the countries in question fails to produce a methodical way of tackling migratory pressure, friction could easily result, hurting not just international relations but also the groups of immigrants themselves.

All the Member States would benefit from an improvement in the region's stability and prosperity, as this would greatly increase the opportunity for trade and investment and provide a stronger foundation for political and economic cooperation.

Time is of the essence, not only for political reasons, but also for economic and social reasons. It is consequently very much in the Community's interest to establish a new partnership with the MNC to move beyond the scope of the activities bolstered by the New Mediterranean Policy (1992-1996), important though they are.

1.2 In its communication of 19 October 1994 (*Strengthening the Mediterranean Policy of the European Union: Establishing a Euro-Mediterranean Partnership*)<sup>1</sup> the Commission expressed the view that the key objective of the European Community's Mediterranean policy, the establishment of a Euro-Mediterranean area which is politically stable and safe, should be accompanied by the socio-economic goal of gradually setting up a Euro-Mediterranean area with a stable legal framework (including a free trade area). This process would need a lengthy transition and would only succeed if the Community was prepared to provide financial backing (vital to underpin the economic and social reform which would be required). The Commission has proposed a sum of ECU 5.5 billion from the budget for that purpose.

1.3 The Essen European Council of 9 and 10 December 1994 accepted the guidelines put forward in the Commission's communication and confirmed that substantial extra financial assistance should be provided for the process described above while keeping to the decisions of the Edinburgh European Council and maintaining an appropriate balance in the geographical breakdown of Community allocations.

The Essen European Council also considered that the Commission should give thought to how to structure financial assistance for the Mediterranean region in the future, and called on it to put forward specific proposals for implementing all the aspects referred to in its communication so that the Council could adopt the necessary decisions.

1.4 The Community's objective should be to take a comprehensive approach to Euro-Mediterranean partnership, covering all forms of action falling under the Treaty on European Union. The establishment of a Euro-Mediterranean Economic Area should go hand in hand with the creation of an area of peace and stability. The Economic Area itself should involve not only free trade arrangements, but also a range of measures on the part of the Community to help the countries of the region modernize their economies in the interests of sustainable development while still preserving their societies' equilibrium and identity. There should also be greater cooperation in the new fields covered by the Maastricht Treaty (particularly Title VI).

1.5 The aim of this communication is to set out the main directions of Euro-Mediterranean partnership and put forward priorities for financial and technical cooperation for 1995 to 1999. It will also provide a rough outline of the instruments and methods considered by the Commission to be most appropriate to helping the MNC cope with the challenges facing them and to achieving the aims established.

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<sup>1</sup> COM(94)427 final

- 1.6 The Commission takes the view that the new direction of financial and technical cooperation should first and foremost benefit the MNC embarking on modernizing and reforming their economies to culminate in free trade, which is the key stage in establishing a true Euro-Mediterranean economic area.
- 1.7 It is the Commission's belief that the recent establishment by the European Parliament of a new MEDA budget heading (B7-410) is an important first step towards fulfilling the objectives contained in its communication of 19 October 1994.
- 1.8 With these new directions in the offing, the European Community will conclude the Euro-Mediterranean (association) Agreements currently being negotiated as soon as possible, and will launch a similar process for any other Mediterranean countries expressing an interest.

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## 2. MAIN DIRECTIONS

As the Essen European Council agreed, bringing about peace, stability and prosperity in the Mediterranean region is one of Europe's first priorities.

The European Community's activities in the region should now be brought into line with that priority, and practical steps should be taken to respond to the political, economic, social and environmental challenges facing the countries of the region (and thus the Community itself).

In the fields of cooperation earmarked as priorities, the European Community should facilitate the involvement of civil society.

The Commission is proposing three closely connected priorities for action:

- assistance with economic transition;
- assistance with achieving a better socio-economic balance;
- backing for regional integration.

The effectiveness of such action will increase in proportion to the MNCs' readiness to implement appropriate social and economic policies.

### 2.1 Assistance with economic transition

The Commission takes the view that action should take four main directions:

- the establishment of a Euro-Mediterranean free trade area;
- promotion of the private sector in the countries of the Mediterranean region (this would include modernizing/restructuring industry and establishing a suitable regulatory system);
- promotion of European private investment in the countries in question;
- updating of economic and social infrastructure.

These four directions are a cohesive package and should make it possible to move rapidly to anchoring the southern and eastern Mediterranean economically to the Community (since the two regions are major partners of each other's) and increasing the Mediterranean partners' overall competitiveness.

#### 2.1.1 The establishment of a Euro-Mediterranean free trade area by 2010

Free trade arrangements would respect WTO-related obligations and would be open to any country in the region which accepts the principles of the market economy and political pluralism. The Community's aim should be to conclude an initial series of Euro-Mediterranean (association) Agreements with Egypt, Israel, Morocco, Tunisia, Jordan and Lebanon as quickly as possible.

The Community must make clear its wish to see the countries in question enter into similar negotiations with each other and with European countries which are not members of the Community (EFTA, Central and Eastern Europe, Cyprus, Malta and Turkey). To offer encouragement, the Community should propose that there be a cumulation of origin and that identical rules of origin apply to all countries entering into agreements of that type. In order to maximize the economic benefit to all the parties involved, the use of identical rules of origin would have to be accompanied by an alignment of the non-member countries' rules of origin with those of the Community to produce a system of common rules for the region.

Such agreements should furthermore automatically include provisions on (i) standards, conformity certification, metrology and quality control, (ii) intellectual property, (iii) competition rules, (iv) customs cooperation seeking chiefly to combat drug smuggling and trafficking and (v) approximation of legislation to improve conditions of establishment and provision of services, plus a meetings clause for regular evaluation of the possibility of establishing a preferential agreement in services.

The establishment of a free trade area would moreover entail getting rid of existing barriers in transport and, as a consequence, either extending the Euro-Mediterranean Agreements in an appropriate manner to that sector or concluding a separate agreement for that sector.

In agriculture, the aim should remain to seek gradual liberalization using reciprocal preferential access for agricultural products which are of interest to the parties. This gradual process must be accompanied by the establishment of procedures for consultation between the authorities and representatives of the sector in the countries in question.

### 2.1.2 Promotion of the private sector

The move towards the market economy in the Mediterranean region is a precondition for sustained economic growth. It is vital from the point of view of job- and income-generation, greater economic efficiency and providing individual opportunity for young people, and therefore also from the point of view of social and political equilibrium. The Community must give its unreserved backing to progress down this path by promoting:

- a restructuring of industry in order to achieve adequate competitiveness;
- a modernization of firms and an improvement in their performance (by means including the promotion of energy efficiency);
- improving the legal and regulatory environment in which firms operate;
- increasing the incidence of all forms of partnership with European firms;
- modernization of all aspects of vocational training and incorporation of vocational training into the overall development of education and training;
- modernization and simplification of administrative procedures.

To these ends, the Community must be prepared to provide large-scale technical assistance (particularly for SME) in order to improve the quality of products and services (including tourism), the organization of production, the technical abilities of the staff, etc.

The primary aim must be to make the private sector in the countries of the Mediterranean capable of withstanding a liberalization of trade and therefore also competition on the world market. The Community must provide the countries in question with substantial backing for this course of action over the next ten years.

A comprehensive effort will be needed. This would begin with increasing the awareness of the firms themselves. It would also be necessary to bring about a fundamental reworking of associations of businessmen, industry federations and chambers of commerce and industry to enable them to provide their members with a wide range of services (vocational training, export promotion, etc.) The Community is currently providing such assistance and will step up its efforts (it should be noted in this connection that a *Euro-Arab Management School* is due to be set up in 1996 with Community backing).

Fundamental changes are also necessary in the financial sector to enable it to meet the financing needs of SME. The changes would have to include the establishment of appropriate guarantee systems. If the performance of SME is to be improved, business services (consultants, computer specialists, trust companies, training institutes and miscellaneous and other services ) will also have to be developed.

The Community has already become active in this field: business centres have been or are being set up in Cairo, Casablanca, Tunis and Amman to provide services for businessmen who have embarked on a process of modernization..

The EIB could also become involved in promoting the private sector by providing loans financed from its own resources and risk capital.

### 2.1.3 Promotion of European private investment

A major effort to increase all forms of European private investment in the region will provide a corollary to the measures described above.

Substantially greater direct foreign investment is vital to the establishment of an efficient Euro-Mediterranean economic area. Such investment brings in capital, technology and know-how and is therefore an essential spur to economic and social development.

The prospect of the emergence of an area of free trade between Europe and the Mediterranean naturally makes the latter more attractive to European private investment. There will be an increasing advantage in establishing production bases around the Mediterranean to serve the substantial Europe-Mediterranean market. The Euro-Mediterranean Agreements will provide a legal framework capable of making such investment secure. Making European investment in energy easier and involving the MNC in the European Energy Charter would have positive consequences for cooperation.

A substantial increase in the flow of direct European investment to the Mediterranean will of course also require other incentives from the Community and the countries of the region.

The countries of the Mediterranean will have to continue their efforts to achieve economic and political stability, privatisation and deregulation. The political and administrative environment will have a decisive influence on foreign investment. Where the legislative and investment climates are concerned, the Community will back the modernization efforts of the countries in question.

The Community will continue, as a priority, to encourage joint ventures, industrial cooperation and subcontracting, especially between SME. This will be achieved by using the whole range of partnership instruments established by the Commission and the EIB, in collaboration with financial institutions. It should expand its efforts in this regard.

The Commission believes that a substantial share of financial cooperation resources should be devoted to these activities.

Furthermore in order to promote an increase in investment in the Mediterranean region, it should be noted that several initiatives are presently under examination (reinforcement and improved synergy of existing instruments, possible financial mechanism for the Mediterranean,...).

#### 2.1.4 Updating of economic and social infrastructure

Economies which are open and are geared to international trade need an effective economic infrastructure, particularly in transport, energy, telecommunications, water and sanitation.

The countries of the Mediterranean have made substantial progress in this regard. The Community has already become heavily involved (through contributions from the budget and especially through the EIB) in financing programmes for the modernization of telecommunications, electricity grids, the production and transmission of energy, ports, motorways, airports and so on.



Existing systems will nevertheless have to be expanded and improved to cope with the growing demands caused by trade and investment and the need for efficient services; but also to establish inter-regional links. Major programmes of investment will be needed in the next 10 to 20 years.

The Community will contribute to improving infrastructure along with the countries themselves, other donors and private sources of finance. A substantial role will be played by privatisation and other methods of financing and managing major items of economic infrastructure. This means that the Community will have to share its experience in this field with its partners.

## 2.2 Helping to achieve a better socio-economic balance

The problems facing the countries of the Mediterranean go well beyond the economic: they have to cope, in differing degrees, with poverty, social and economic inequality, population growth, the balance between town and country, deterioration of the environment, drug trafficking, fragile democratic structures, growing religious extremism and terrorism and resentment and lack of cultural understanding in Europe.

Having reaffirmed at the level of heads of state and government the value it places on boosting peace, stability and prosperity in the region, the Community must translate its wishes into a form of action which produces tangible benefits for the people of both sides of the Mediterranean.

The Commission proposes that action be taken in a number of fields:

- improving social services, particularly in towns;
- promoting harmonious and integrated rural development;
- greater cooperation in fisheries;
- protection of the environment;
- the contribution of civil society to development;
- integrated development of human resources (particularly education and vocational training);
- consolidation of democracy and respect for human rights (an essential component of the Community's relations with the countries in question);
- support for cultural exchanges.
- co-operation and technical assistance in order to reduce illegal immigration, drug trafficking as well as terrorism and international crime.

### 2.2.1 Improving social services (particularly in towns)

Social services (basic education, health care, government housing, water supplies, sanitation and other key infrastructure) need to be improved for several reasons: (i) to prevent living conditions from declining (e.g. because of structural adjustment, rapid population growth or a mass exodus from rural areas) and (ii) to prevent the economic anchoring of the Mediterranean to Europe from producing worse social disparities.

Spending on schools is primarily the job of the governments of the countries themselves. However, the scale of the financial needs and the problems that would result for the Community if the social situation worsened mean that it will have to help stop the decline by providing financial support, know how and exchanges of experience.

Against this background, the social lot of the underprivileged (particularly young people and women) should be given particular priority, particularly where education and basic training are concerned.

### 2.2.2 Promoting harmonious and integrated rural development

The balance between town and country is particularly important in the Mediterranean, a region in which a large section of the population remains economically and culturally attached to the rural environment and in which farming has a social importance which far exceeds its economic value.

A massive and uncontrolled rural exodus could have disastrous social, political and environmental consequences for the countries of the region and for the Community.

For this reason, the Community must take integrated steps to back rural development. Its effort should include the financing of agricultural development proper, but also improvement of basic services (health care, water supplies and sewage, electricity and education) and the development of related activities such as tourism and other services.

This aim should be reflected in the cooperation programmes agreed with each of the countries of the region. The Community is moreover prepared to step up the cooperation linking rural areas of the Community and similar areas of the Mediterranean countries to give the latter the benefit of its experience, particularly by allowing such areas to become involved in the European rural development network.

### 2.2.3. Greater cooperation in fisheries

Over-fishing and a deterioration of resources are threatening the prospect of conserving fish stocks in the Mediterranean. As a result, the Commission is trying to encourage a policy of efficient fishery management in the region. Implementing such a policy would require evaluation and monitoring of shared or jointly fished stocks in the form of measures such as biological studies and joint action by the countries of the Mediterranean, plus the establishment of a joint scientific monitoring centre.

#### 2.2.4. Environment

Given the environmental interdependence of the Mediterranean countries, and the interdependence of environmental and other policies, this is naturally a priority area for the development of stronger links between the Community and other countries in the region. The fact that the environmental situation continues to deteriorate in spite of everyone's best efforts makes it even more imperative that we focus very strongly on this area. It is in the vital interests of all concerned that we step up our efforts to reverse the current trend and work together to secure sustainable development throughout the region.

To that end, the Community must encourage those concerned to give priority to the rapid introduction of appropriate environmental policies and to incorporate environmental issues into all sectoral policies. It must strive to improve the effectiveness of all actions and to achieve a more visible impact on the wellbeing of the people concerned. In practical terms, the following guidelines are proposed:

- the Community must promote the adoption of a programme of priority action for the short- and medium term;
- financial support in this area must focus on these priority actions. Investment through long-term, subsidized loans should be encouraged;
- a mechanism should be set up to monitor the implementation of the programme;
- in some areas (e.g. clean air), environmental legislation measures should be adopted by all countries of the region;
- to pave the way for the longer term, action in the fields of training, education, networking and environmental data should be stepped up;
- full use should be made of the existing institutional structures, particularly those covered by the Barcelona Convention of 1975 and the Mediterranean Action Plan (MAP), with a view to the development of joint approaches and improved monitoring of their implementation.

#### 2.2.5. Contribution of civil society to development

In 1992 the Community introduced decentralized cooperation with civilian bodies, aimed at building networks linking institutions and organizations on both sides of the Mediterranean.

This cooperation must continue and improve in all sectors in which direct cooperation among such bodies is appropriate, for example universities, the media, research and municipal authorities.<sup>2</sup>

The Community will give particular attention to the role that might be played by migrants in the development of their countries of origin.

These actions, and others like them, will not only increase European awareness of the challenges facing the peoples of the South, but will also lend impetus to North-South relations by encouraging the direct participation of key players among those peoples.

#### 2.2.6. Integrated development of human resources (particularly education and vocational training)

Education in all its aspects (including science and technology) is one of the major levers of development. A special effort must be made to improve primary and secondary education, and to restructure higher education systems.

In the field of vocational training, particular care must be taken to improve the quality and flexibility of existing training systems by encouraging the integration of young people, especially women, into the labour market.

The Community is happy to put its experience at the disposal of its Mediterranean partners, while taking care to ensure that the partners' cultural identities are mutually respected.

#### 2.2.7. Consolidation of democracy and respect for human rights

The Community must step up the dialogue on democracy and human rights.

An appropriate dialogue conducted not only with governments but also with representatives of civil society, coupled with technical and financial assistance for specific operations, will help achieve this objective.

#### 2.2.8. Support for cultural exchanges

The Community must endeavour to foster mutual understanding on both sides of the Mediterranean by encouraging dialogue and exchanges between artists and cultural associations and networks.

It is also important to step up information and communication activities in the Mediterranean region.

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<sup>2</sup> i.e. the MED-URBS, MED-CAMPUS, MED-INVEST and MED-MEDIA programmes.

2.2.9. Co-operation and technical assistance in order to reduce illegal immigration, drug trafficking as well as terrorism and international crime.

The Community should widen the dialogue and its assistance in fields having an impact on migratory flows as well as on the fight against terrorism and international crime. Administrative and technical co-operation will cover exchange of information, compatibility of data, development of legal systems and respect for international agreements. Upstream activities such as agricultural diversification as far as concerns fight against drugs should also be envisaged.

These activities will be integrated in the concrete actions described in the present chapter.

2.3. Support for regional integration

There can be no question of creating a Mediterranean economic area in any real sense without a major integration drive among the Mediterranean countries themselves, not to mention greater integration between Europe and those countries.

The Community will give priority to improving communication and cooperation links between border regions on each side of the Mediterranean, seeking synergies with cross-border and decentralized inter-regional cooperation instruments already available to the Community.

The association agreements concluded with the Community must therefore be followed by similar agreements on free trade and cooperation among the countries concerned.

The Community should support this process in two ways:

- by providing encouragement and assistance as appropriate for the creation of regional cooperation structures;<sup>3</sup>
- by providing EIB loans and budget resources to finance the economic infrastructure that is essential if regional trade is to be stepped up, especially in the field of transport, communication and energy.

The Community should also promote increased cooperation with the Gulf countries in its activities in the Middle East.

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<sup>3</sup> The discreet and indirect Community assistance that led to the introduction of economic cooperation between Egypt, Israel, Jordan and the Palestinians would be a good example to follow.

### 3. INSTRUMENTS, IMPLEMENTING PROCEDURES AND ELIGIBILITY

#### 3.1. Instruments

The Community has two main kinds of instruments to achieve the objectives outlined above, namely budget resources and EIB loans.

These instruments should be used in such a way as to ensure optimum consistency and synergy:

- Contributions from budget funds should focus on support for the private sector (consultancy, credit lines, microbusinesses), technical assistance, studies, social infrastructure and support for cooperation activities launched by civilian bodies.
- EIB loans should primarily be used to finance "bankable" operations, e.g. long-term loans for economic infrastructure projects and production.
- The two instruments should combine to co-finance projects wherever possible and wherever synergies can be achieved. Examples would include feasibility studies, project preparation and technical and management assistance for projects financed by the EIB. Some types of infrastructure projects (e.g. in the environmental sector) could also benefit from interest rate subsidies.

The EIB could combine risk capital and own resources in its support for the private sector, using the former to bolster companies' equity and the latter to supplement the loan package of investment projects.

#### 3.2. Implementation procedures

From 1997, most cooperation activities are due to come under a single budget heading, B7-410, which will thus take the place of the financial protocols that expire on 31 October 1996.<sup>4</sup>

Experience shows that the implementation procedures of these financial protocols need to be improved by:

- setting sectoral amounts and priorities for shorter periods (currently five years);
- promoting genuine debate on strategy;
- targeting Community cooperation more on civilian bodies such as companies, federations and NGOs;
- making programming more flexible and hence more efficient and more transparent.

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<sup>4</sup> With the exception of Malta and Cyprus, for which new financial protocols have recently been negotiated for the period 1995-99.

In future, project selection under the Euro-Mediterranean partnership should be more flexible. This greater flexibility should also be used to allow partners making good progress on economic reform or making efficient use of their funds to derive greater benefit from the programme. With the same aim in mind, regular evaluations will be conducted with the recipient countries to ensure that the Community's activities suit their needs.

The task of financial management will be considerably lightened and made more transparent by having only one budget heading to administer for the entire Mediterranean, rather than the plethora of items currently involved.

The replacement of a contractual financial relationship (protocols) by an independent financial system should not entail the abandonment of multiannual programming with the beneficiaries. On the contrary, it is vital to give our Mediterranean partners the advance information that will allow multiannual operations to be financed. This is why it is so important to set an indicative multiannual figure for our partners as a body, as the Commission has proposed for the period 1995-99 (ECU 5 500 million).

The Commission therefore proposes to join with the EIB<sup>5</sup> in consulting our Mediterranean partners to establish a flexible multiannual programme allowing for the adoption of coherent action programmes in the priority areas selected.

To improve the efficiency of cooperation, the Commission proposes that the annual meetings of the cooperation councils should henceforth be held at technical level, while at political level the Community and the body of MNC should hold an annual ministerial meeting covering issues of common interest.

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<sup>5</sup> And if possible with the Member States and other donors

### 3.3. Countries eligible

In respect of budget funds, all MNC with which the Community has concluded association or cooperation agreements would be eligible, and would thus be covered by the MEDA programme from 1997. The same will apply to the Occupied Territories, while Israel, Cyprus and Malta will be eligible for the decentralized cooperation (MED-CAMPUS etc.), regional and environmental components of the MEDA programme.

As regards EIB resources, all Mediterranean non-member countries with which the Community has concluded association or cooperation agreements will be eligible, as will the Occupied Territories.

The Commission also believes it would be appropriate to extend some decentralized cooperation projects to the non-Mediterranean Arab countries, especially those of the Gulf Cooperation Council, subject to their making a financial contribution covering the cost of their participation.

### 3.4. Financial resources and indicative allocation

In its Communication of 19 October 1994, the Commission indicated that, in view of the challenges facing our partners to the South, if the MNC were to succeed in their transition to a free trade area, manage their interdependence and promote regional cooperation, it was essential that the Community provide sufficient financial backing to ensure that the programmes adopted had a real impact on social and economic development in the countries concerned.

The Commission gave ECU 5 500 million as an indicative amount in budget funds for the period 1995-99.

This input must be supplemented by a substantial increase in EIB loan guarantees. When determining the size of the guarantees and the procedures governing them, account would have to be taken of existing budget constraints and the Essen European Council's wish to share out the Community's financial commitments in a geographically equitable manner.

The Commission is of the opinion that budget funds should be used to target projects accompanying economic reforms, and those aimed at education, health, social infrastructure and the relief of poverty.

The table in the annex shows the proposed allocation of budget funds on a sectoral basis.



### 3.5. Coordination with the Member States and other donors

To send a positive signal to operators active in the Mediterranean region, it would be ideal if other donors:

- could adopt indicative financing programmes for 1995-99 along with the Community;
- and, especially in the case of the Member States, could agree a coherent strategy for the medium term.



The Commission, convinced that both donors and beneficiaries would greatly benefit from improved strategic and operational coordination, will seek energetically to promote that objective.

#### 4. CONCLUSIONS

The Commission is firmly of the opinion that the line of action proposed in its Communication of 19 October 1994 and set out in more detail in this paper is indispensable if the Community is to help its Mediterranean partners to establish an area of peace and stability. This approach will also give impetus to rapid and harmonious economic and social development in the countries concerned, thus closing the "prosperity gap" between the northern and southern shores of the Mediterranean. This is a major, long-term challenge, that can be taken on only through the adoption of a concerted policy that is both dynamic and committed.

The Commission believes that this Communication could serve as a useful basis for the Barcelona Conference, which should consolidate Euro-Mediterranean partnership and lay the foundations for a permanent forum for dialogue.

The resulting operational guidelines and recommendations are that:

- \* the indicative amount be ECU 5.5 billion, as approved by the Commission on 19 October (COM (94) 427 final). The amount was decided on while negotiations regarding alteration of the Financial Perspectives to cope with enlargement were in progress, and is to be updated in the light of the outcome of those negotiations (while still, as agreed, striking a balance between the regions considered by the Commission to be priorities);
- \* the sectoral priorities be as given in Annex 1;
- \* the Commission and the EIB be called upon to report to the Council on the possibilities of allocating to the MNC an amount comparable to that proposed by the Commission for 1995-99, from the Bank's own resources, with appropriate guarantees from the budget, taking account of existing budget constraints and of the principles of geographical balance set out by the Essen European Council.

The Commission consequently requests that the operational guidelines and recommendations be confirmed.

**FINANCIAL COOPERATION WITH THE MEDITERRANEAN COUNTRIES**  
**(Chapter B7-40, 41, 71)**

ECU million at current prices

1995*	1996	1997	1998	1999	1995-99
549.4	700	1045	1442.6	1763	5 500

\* Subject to the budgetary authority adopting the 1/95 supplementary amending budget

**SECTORAL PRIORITIES FOR THE MEDITERRANEAN REGION, 1995-99**

**EC budget, ECU**

**billion**

<b>1. <u>Support for economic transition</u></b>	<b>2.3</b>
- Business sector (MSE)	1.4
expertise for modernization, reconstruction, privatization (incl. improving the regulatory framework)	0.7
risk capital	0.4
vocational and management training	0.3
long-term loans	-
- Structural adjustment	0.5
- Infrastructure: transport, energy, telecommunications	0.4
<b>2. <u>Support for better socio-economic balance</u></b>	<b>2.6</b>
- Social infrastructure (water, sanitation, electricity, etc.)	1.0
- Education	0.4
- Population and health	0.3
- Rural development	0.6
- Environment	0.3
<b>3. <u>Support for regional integration</u></b>	<b>0.6</b>
- Decentralized cooperation	0.3
- Other regional projects	0.3
<b>TOTAL</b>	<b>5.5</b>

NB: this amount will be supplemented by EIB own resources.

# FINANCIAL STATEMENT

## 1. TITLE OF OPERATION

Strengthening the Mediterranean policy of the European Union: towards a Euro-Mediterranean partnership

## 2. BUDGET HEADING INVOLVED (1995 BUDGET NOMENCLATURE)

B7-40, B7-41, B7-71\*

## 3. LEGAL BASIS

All the legal bases are given in Chapter B7-40.

## 4. DESCRIPTION OF OPERATION

### 4.1 General objective

- Assistance for economic transition (to back up the process of modernization and restructuring in the economies of the Mediterranean non-member countries, with a view to gradually establishing a free trade area, and to promote direct investment in the region by establishing joint ventures [MED-INVEST, ECIP and risk capital]);
- Assistance with achieving a better socio-economic balance (chiefly by helping to improve social services, promote harmonious and integrated rural development, involve civil society in development, support education and cultural exchanges, consolidate democracy and respect for human rights and protect the environment);
- Backing for regional integration, mainly in the form of promotion of regional cooperation in fields including the environment (regional projects, decentralized cooperation programmes and cross-border cooperation with the Mediterranean regions of the European Union) and backing for the Middle-East peace process.

### 4.2 Period covered and arrangements for renewal or extension

The New Mediterranean Policy currently in force covers the period 1992 to 1996. The policy should be strengthened for the period 1995 to 1999.

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Article B7-701 is due to disappear in 1997 as it contains only payment appropriations, and the last of these are due in 1996.

## 5. CLASSIFICATION OF EXPENDITURE OR REVENUE

### 5.1 Compulsory/Non-compulsory expenditure

Depends on the budget heading.

### 5.2 Differentiated appropriations

### 5.3 Type of revenue involved

None, except in the case of risk capital (if the operation financed is a success).

## 6. TYPE OF EXPENDITURE OR REVENUE

- *100% subsidy*: in the case of the major portion of the measures planned, the operational expenditure of a project or programme is covered by a 100% grant.
- *Subsidy for joint financing with other sources in the public and/or private sector*: provision has been made for co-financing with other donors, NGOs and the private sector.
- *Interest-rate subsidies*: interest-rate subsidies on EIB loans may be possible in certain cases.
- *Should the operation prove an economic success, is there provision for all or part of the Community contribution to be reimbursed?* Yes, if operations using risk capital prove a success.
- *Will the proposed operation cause any change in the level of revenue?* No.
- *Reuse*: None.

## 7. FINANCIAL IMPACT

### 7.1 Method of calculating total cost of operation

The indicative multiannual financial programming (details attached as an annex) reflects the need to step up the activities of the European Union in the Mediterranean in the light of the problems facing the MNC.

Relative to their needs, the financial resources which the MNC need to see through their economic reforms remain fairly limited, even if substantially higher than current levels (this is largely the result of a low starting figure). Subject to the outcome of the annual budget procedure, the Commission has proposed the allocation to Chapter B-40 (Cooperation

with Mediterranean countries) of ECU 5 500 million for the period 1995 to 1999.

## 7.2 Itemised breakdown of cost

The precise breakdown will be determined by detailed proposals submitted by the Commission as time goes on. The following can be taken as a rough indication of the distribution by broad area of activity, however:

- Assistance for economic transition ECU 2.3 billion
- Assistance with achieving a better socio-economic balance ECU 2.6 billion
- Backing for regional integration ECU 0.6 billion

ECU 5.5 billion

## 7.3 Operational expenditure on studies, meetings of experts, etc. falling under Part B

(see Annex IIIa to the Commission communication of 22 April 1992, attached as Annex VIII)

commitment appropriations in million ecus

Breakdown	95 budget	96 PDB	var %
-studies			
-meetings of experts			
-conferences			
-information and publications			
TOTAL			

## 7.4 Indicative schedule of appropriations

commitment appropriations in million ecus

Accumulated position end 1994	1995 Budget*	1996 PDB	INDICATIVE PLAN				TOTAL
			1997	1998	1999	2000 and subs. yrs	
	549.4	700	1045	1442.6	1763	p.m.	5500

Subject to adoption by the budgetary authority of the supplementary amending budget (1/95)

## 8 FRAUD PREVENTION MEASURES; RESULTS OF MEASURES TAKEN

The projects and programmes financed as part of cooperation with the MNC will be regularly followed up and audited by the Commission (or agents appointed by it) and by the Court of Auditors.

## 9 ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

### 9.1 Specific and quantified objectives; target population

- *Specific objectives: links with general objective:* Against the background of the general objective described in paragraph 4.1, the action taken under this Chapter will seek to finance (wholly or partly) programmes with the following main aims:
  - to help economic transition by encouraging the establishment of a free trade area between and among the countries of the Mediterranean by 2010, and by backing economic and social reform for the modernization of firms (promotion of the private sector), with the accent on:
    - improving competitiveness;
    - support for SME and job-creation;
    - encouraging private investment;
    - improving economic infrastructure (primarily communications networks);
    - establishing a suitable regulatory framework;
    - modernizing the way in which economic institutions operate (particularly the financial and taxation systems);
  - to bring about a better socio-economic balance, with action focusing on the following, in the interests of coping with new challenges:
    - improving social services (education, health care, government housing, water supplies, etc.), particularly in towns, and particularly for the most underprivileged (especially young people and women);
    - promoting harmonious and integrated rural development (going beyond agricultural development to cover improvement of services (e.g. health care, education, water supplies (sanitation), electricity and the development of associated activities such as tourism);

- consolidation of democracy and respect for human rights;
  - involving civil society in development through decentralized MED cooperation programmes;
  - support for education (primary, secondary and vocational), with the emphasis on integration into the world of employment;
  - promotion of cultural exchanges, encouraging dialogue at all levels;
  - protection of the environment by promoting investment for that purpose (long-term loans with interest-rate subsidies) and by encouraging transfers of know-how (dialogue with the countries' environmental agencies aimed at the introduction of appropriate legislation and backing the development of alternative sources of energy);
- To back regional integration using projects and activities which are of interest to several Mediterranean countries and cooperation with contiguous areas of both sides of the Mediterranean, and by supporting the Middle East peace process.

*Final beneficiaries:* The final beneficiaries will vary according to the project or programme.

## 9.2 Grounds for the operation

### - *Need for Community financial aid*

The Corfu and Essen European Councils emphasized the need to strengthen the European Union's Mediterranean policy in order to promote peace and stability in a region which is of strategic importance to it.

Because the MNC need to devote substantial energy to economic reform, substantial extra assistance from the European Union will be needed to ensure that a free trade area is gradually established.

### - *Choice of ways and means*

The methods used in the programme of cooperation with the MNC will vary according to the situation of each country and sector. Detailed identification and feasibility studies will be carried out on the activities to be financed.



- *Main factors of uncertainty which could affect the specific results of the operation*

The process of economic reform due to be implemented or intensified is unpredictable because of social risks and the course of the world economy. Political developments in the region will influence the progress of reform and the extent of regional cooperation.

### **9.3 Monitoring and evaluation of the operation**

Cooperation with the MNC is closely monitored by the Commission departments in Brussels and the delegations in the countries themselves.

A computer system (RAP) has also recently been installed to carry out such monitoring.

In addition, each programme is audited on a regular basis by independent experts from the technical and financial points of view and from that of impact on the target population or groups.

ISSN 0254-1475

COM(95) 72 final

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Catalogue number : CB-CO-95-093-EN-C

ISBN 92-77-86674-8

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Office for Official Publications of the European Communities

L-2985 Luxembourg