

COMMISSION OF THE EUROPEAN COMMUNITIES

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THE COMMUNITY AND THE MEDITERRANEAN COUNTRIES : GUIDELINES FOR ECONOMIC COOPERATION

(Communication by the Commission to the Council)

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I. Introduction

1. The accession of Portugal and Spain has enlarged the Mediterranean dimension of the Community. What is more, the policy of cooperation with Mediterranean non-member countries linked to the Community by cooperation agreements needed revision in order to pinpoint shortcomings and take account of these countries' development since the 1970s with the aim of continuing, intensifying and expanding this cooperation. Indeed, the Mediterranean countries have called for adjustments to their relations with the Community in order to strengthen the cooperation links. In its statement of 30 March, the Council formally set out the guidelines and priorities for future Community action in the region and affirmed a basic principle:

"The Mediterranean policy of the enlarged Community will have to be of an ongoing nature and (...) in terms of economic development, make for significant and stable results in the medium term. From an overall and long-term point of view, the Community will bend its efforts to pursuing financial and technical cooperation with the Mediterranean partners in order to make an appropriate contribution to their economic and social development".

This aim would be valid even without enlargement of the Community but is all the more so in the context of enlargement. For, as will be recalled once again later, the Southern Mediterranean represents a significant market and poses a challenge for European political cooperation.

2. This communication deals with future cooperation : it describes what is at stake and the ambitions of the parties concerned, proposes a line of approach and priority areas, and sets out criteria for calculating the financial resources required. The resulting guidelines, once adopted by the Council after consultation with Parliament, will provide the basis for directives for the negotiations between the Community and the Mediterranean countries on the content and implementation of cooperation over the next five-year period, from 1 November 1986 to 31 October 1991.

The Commission will present proposals to this end when the discussions called for by this document have been concluded.

II. The importance of closer economic cooperation with the Mediterranean countries

3. As the leading power in the Mediterranean, the Community has a direct concern in the Southern and Eastern Mediterranean countries' future development. Its interests and security are at stake and any further upsets in a region already torn by tensions and conflicts, of which there is no need for reminder, could have dangerous consequences. The Community's interests are at stake because the Mediterranean non-member countries represent its third most important external outlet and its biggest trade surplus, and its security, because it is directly connected with active participation in efforts to stabilize the situation in both the Eastern and Western Mediterranean.
4. The Mediterranean countries are all experiencing, to different degrees, economic, and hence social, difficulties. Their relatively advanced level of development in relation to other parts of the Third World, especially Asia and black Africa makes them all very vulnerable in the face of recession. The adjustment and austerity policies that governments have been obliged to adopt bring in their wake tensions with unpredictable consequences. Development is held back by obstacles, some of which are similar - and we ourselves suffer the consequences. These obstacles include :
 - fast population growth with economies unable to absorb a 2-3 % a year increase in the labour force;

- the coverage of an increasingly large proportion of food requirements by imports;
- trade deficits, particularly with Community, remain large and are even increasing;
- for some of these countries their external debt puts a brake on expansion;
- the great fragility of the industrial fabric.

5. However, present difficulties should not make us lose sight of future prospects : the determination displayed by most of their leaders, resources in the form of manpower and energy and mineral raw materials, agricultural capacity, and the often ambitious achievements in a number of fields all indicate a great deal of potential for economic development in the Mediterranean countries. And, with very few exceptions, all are anxious to retain their independence vis-à-vis the superpowers. It is therefore in their interest, as well as the Community's, to establish closer and broader cooperation that would help remove some of the obstacles to growth and more harmonious trade relations, as was affirmed in the Council statement of 30 March referred to earlier.

6. As in the past, the areas and subjects of cooperation will be decided on in the course of dialogue with our partners. Sometimes, for reasons of continuity and immediate effectiveness, projects and operations will doubtless constitute an extension of existing ones. The Community must, however enter into discussions on the content of future cooperation armed with general guidelines. In acting thus, it will be responding to the wishes of many partners. The Commission advocates two general principles :

- a focusing of efforts in a number of specific areas where they are likely to have the greatest impact in terms of economic and social development and, in the interests of all parties, in relations with the Community;
- the promotion of a type of cooperation which forms part of medium and long-term planning whereas at present, operations are still too often isolated projects, limited in scope.

In practice, this means giving priority to three areas of cooperation :

- support for the Mediterranean countries' food strategies with a view to reducing food dependence;
- the development of detailed, long-term cooperation - in fields such as industry, science and technology, trade, and training - through which Community support would be lent to all those engaged in promoting economic growth;
- support for the Mediterranean countries' efforts to promote regional and multilateral cooperation, including cooperation with Africa.

III. Cooperation priorities

A. Reducing food dependence

7. All the Mediterranean countries have, in various ways, expressed their desire to reduce their food dependence, which has grown to alarming proportions (1). Some have already announced action programmes. For our part, the Council, in its statement of 30 March, expressed the Community's intention of providing "effective support for those countries' efforts to reduce their agricultural and food deficit".

Taking this approach, the Commission believes that a large proportion of Community aid should go to agricultural development, particularly food crops, in the framework of guaranteed support for multiannual operations likely to promote agricultural produce destined for local and regional consumption. This approach also coincides with the development priorities adopted by the Community together with its partners in other parts of the Third World (the ACP States and some non-associated countries). Efforts to achieve better coordination of our operations, so magnifying their effect, require a focusing of attention on specific sectors, which might vary according to the country and its potential and plans, examples being cereal cultivation, livestock production, oils and fats, etc. The Community should be in a position to make long-term commitments to support a country's or sub-region's own efforts to develop the selected sectors.

(1) See table I in the annex.

Giving priority to an objective regarded as politically, socially and economically important also has other advantages, among which :

- it would facilitate the dialogue with these countries on all aspects of a policy designed to reduce their food dependence, without excluding any areas, such as the domestic implications of producer and consumer prices;
- it would represent an attempt to link Community aid with that of the Member States or other countries or bodies in joint or even co-financed operations;
- it would facilitate optimal use of the counterpart funds derived from the food aid which a number of Mediterranean countries still need on an on-going basis.

8. The Commission believes that the countries which adopt a reasonable programme to reduce their food dependence should receive Community support commensurate with their own efforts with the aim of eventually cutting back food imports. This support, the implementation of which would be decided case by case, could include a Community commitment to make multiannual deliveries linked to specified objectives on the lines of what the Community did successfully in India for the Flood II programme, which was co-financed with the World Bank.¹ In order to support the long-term policies of its partners towards achieving food security, the Community will also reflect on ways of diversifying the external instruments of the Common Agricultural Policy². Particular attention will be paid, in this context, to the Mediterranean countries.
9. Agricultural cooperation should not, however, be confined to supporting the development of subsistence farming : it should also be aimed at diversifying agricultural exports as regards both crops and markets. Operations in this sphere - training, research, conversion, trade promotion, etc. - will be designed to bring about a greater complementarity between the Mediterranean countries' products and better exploitation of the potential of world and regional markets. Such operations will thus reduce or prevent strains on the Community market while broadening the range of the Mediterranean countries' agricultural exports. There should be explicit provisions for a close involvement of Community business in some aspects of such operation.

¹ A report on the achievement of the Flood II Programme will be presented shortly.

² Commission Green Book of July 1985.

10. In view of the fishery potential of some of these countries and the contribution fisheries could make to their development and in view of the importance of fisheries in the Community of Twelve, the Community should intensify cooperation in the fisheries sector in the interests of both parties.

The preceding remarks and suggestions thus concern this wide and promising area of relations between the Community and the Southern Mediterranean (including the Atlantic Coast).

B. Efforts to bring about greater economic complementarity

11. In view of some of the Mediterranean countries' level of development, their wide-scale de facto integration into the Community market¹ and their express desire to develop long-term relations with Europe, industrial, scientific and technological cooperation in the broadest sense of the term (including research, technology transfers, energy, training, services, banks, transport, etc.) must constitute the second plank of the Community strategy in coming years.² In short, it is a question of giving the Mediterranean countries and Community undertakings a better opportunity to compare, share and combine their knowledge, their capital, their access to markets, etc., so bringing about a greater complementarity between what is undertaken on the two sides of the Mediterranean and making efforts to set up long-term joint operations systematic.

There is a wide range of operations that could be carried out in the framework of such cooperation with the aim of bringing about real complementarity. This cooperation will have to be designed in close consultation with the business and trade circles concerned. In many cases, direct input from those concerned will be needed. The effective participation of entrepreneurs, bankers, industrialists and traders naturally presupposes a welcoming environment and sufficient incentives for investment and/or cooperation between European trade and business and undertakings in the Mediterranean countries. It also requires the diversification and appropriate orientation of the resources of technical and financial cooperation.

1) Most of the countries in question depend on the Community market for a large proportion of their exports: Algeria (60%), Morocco (54%), Tunisia (60%), Egypt (44%), Syria (62%), Israel (38%).

2) It should be noted that in certain sectors - research, energy, etc. - some specific cooperation operations can be financed under the science and technology for development programme and energy programming.

12. Despite remarkable developments in some industrial sectors such as textiles and fertilizers, the Mediterranean countries and our own undertakings have not yet exploited to the full these countries' resources plus their proximity and their preferential conditions of access to the world market in manufactured goods. Industrial links have not developed at the pace one would have expected nor has the flow of investments lived up to expectations.

In view of this situation, and since the development options freely adopted by these countries involve the bolstering of their economies through private capital and technology from abroad, they must themselves make efforts to create a more welcoming environment. Businessmen react not merely to reasonably optimistic prospects for economic growth and outlets but also to the environment where they will have to operate; important factors include a minimum of red tape, taxation which does not act as a disincentive, real possibilities to transfer capital and profits and the possibility to trade and fix prices freely.

In this context, the Commission believes that the completion of the draft Euro-Arab Convention on the promotion and protection of mutual investment would help improve the investment climate and attract private investments. It emphasizes the importance it attaches to the rapid conclusion of work on this Convention by the Euro-Arab Dialogue authorities.

13. The contribution of the Community as such to bringing about greater economic complementarity with the Mediterranean countries should, in the Commission's opinion, take five very different forms: trade arrangements, financial incentives for joint investment, support for these countries' self-reliant industrial development, contacts between businessmen, training and the exchange of information and statistics.

14. If this complementary economic development is to be obtained, the framework for trade should be such that trade and business circles find it sufficiently "open" and stable. Given the freedom of access for industrial products originating in the Mediterranean countries, it is no longer possible to imagine in this connection any formal improvement in the trade provisions contained in the agreements. The textiles crisis has nevertheless made it necessary to introduce mechanisms derogating from the free access arrangements. The Community has succeeded, it is true, in these exceptional circumstances, to safeguard as effectively as possible the interests of the Mediterranean countries concerned (their exports and their share of the Community market have in fact expanded remarkably). Nevertheless the resulting derogation from the free access arrangements laid down in the agreements diminishes the credibility of these arrangements; in our partners' opinion, this has had, and could again have, a negative effect, on the behaviour of investors in other industrial sectors, particularly in view of the enlargement.

It is therefore important for the Community to give its partners the necessary assurances regarding its determination to continue the long-term objective of liberalizing the textile trade. This means that the Community should envisage as far as possible a return to the normal arrangements provided for in the cooperation agreements, negotiated and administered within the framework and spirit of those agreements in accordance with the inherent objectives of the Mediterranean policy.

15. The Community attaches very great importance to effective machinery for attracting risk capital to the Mediterranean countries. This is essential, particularly for our small and medium-sized businesses. Experience has shown that the inclusion in each financial protocol of specific resources which can be used for that purpose is not a sufficiently flexible solution. That is why the Commission proposes the establishment, from 1987, of a new budget heading which would be used to finance Community holdings in joint ventures between firms in the Mediterranean partner countries and Community firms(1). The Commission considers that an initial allocation of 5 to 10 million ECU will be sufficient, since it hopes that at the same time conventional banking circles will greatly expand their activities in this sphere, and they should in fact be encouraged to do so.

(1) This budget heading could be worded as follows : "Community contributions to the formation of risk capital in the Mediterranean countries" and the holdings would be for small and medium-sized businesses. The funds under this heading would be administered, in accordance with the usual procedures, by the EIB, which could also provide loans from its own resources to the firms in question.

16. At the same time the Community must continue, and even increase if possible, the financing it provides for industry in the Mediterranean countries :
- the EIB funds must continue to benefit small and medium-sized enterprises, through the national industrial development banks, and also must continue to be channelled direct to eligible firms engaged in production;
 - the Community budget resources must be used first and foremost to finance training operations and facilitate in-service training in European companies, provide technical assistance (aid for the promotion of investment operations undertaken by the partner countries), support research activities, arrange contacts among those engaged in trade and business and enable consultants to be brought in wherever this is seen to be necessary.
17. Experience has shown that direct contact within trade and business circles is absolutely essential; such contact definitely has a trigger effect, even if this is difficult to quantify. The objective is to encourage the maximum number of firms in the Community and the Mediterranean countries to engage in practical cooperation schemes (exchange of know-how, collaboration in marketing, exchange of technicians, holdings, joint ventures, training courses in the factory and inside the firm, etc.).

It is also highly advisable to encourage entrepreneurs and all those engaged in trade and business to meet, exchange views, compare their market analyses, compare their prospects for developing the market and production potential if a new upsurge in demand seems likely. Such coordination would not of course be binding upon those involved but it would avoid many expensive, unprofitable projects and would give those concerned a more responsible role. The Commission feels that these agreements should include a provision enabling each party to propose sectoral coordination of this type, and it would be for the Community and the partner country to call on the relevant businessmen for consultations.

The Committee on Economic and Trade Cooperation, the setting up of which has already been proposed, could play a useful role in this sphere (1).

Such contact, whatever form it takes, will obviously be facilitated by the specialized bodies which are already in existence (chambers of commerce, trade associations) or which will be set up (such as the Centre for Economic Cooperation in the Mediterranean countries, the setting up of which was recently proposed by the Italian Government). Provided this meets our partners' wishes, the Commission intends to help promote this type of action, which is relatively inexpensive and of undeniable benefit.

18. Given the stage of development reached by our partners, training is one of the essential areas which should receive attention. It can be seen from the indicative programmes for the two current financial protocols that it is already planned to allocate a larger proportion of resources to them in accordance with the sectoral guidelines adopted. These training activities should be intensified and the nature and form of the training to be promoted should take into account the new guidelines for cooperation. Some of the desirable types of training have already been mentioned. On a more general level, there should be more of the following : specific training linked with particular (industrial, scientific, etc.) projects, training within firms, research institutes, banks, administrative departments, etc., and training courses for specialized staff. A survey of such types of training opportunities, which could be computerized and made available to our partners, should be conducted on the basis of requirements and used jointly with trade and business and governments on the two sides (2).

As a complement to the closer cooperation which is to be introduced and the collaboration between our partners' firms and Community trade and business, the exchange of economic information must be stepped up : in this respect, improved access to European data banks, the exchange of economic information on products and markets, the dissemination of statistics, etc, must be encouraged. Some of this information should be made available in Arabic.

(1) See COM(85) 405

(2) A computerized file of this kind could also be used in other advanced Third World countries with which the Community has contractual relations.

C. Support for regional and multilateral cooperation

19. The Commission continues to maintain that the Community's direct relations with each partner country should eventually be placed in the context of an overall convention between the European countries and the Southern Mediterranean countries, or at least agreements with each subregion. The economic terms of the cooperation should be defined so that when the political circumstances enable such an agreement to be concluded, it can be finalized rapidly.

The Mediterranean countries' efforts to industrialize and the complementary development of their agricultural economies would be greatly facilitated if they could be undertaken in a multilateral context covering the entire region, or at least each subregion, along the lines of what exists in the economic area created in western Europe. The Commission considers that it is advisable, in the interests of the other countries bordering on the Mediterranean and in the Community's own interests, to lend active support to the efforts aimed at closer cooperation in the Mediterranean area, with a view to a better integrated common economic area.

Such a development will of necessity be a long-term process : the direct Community contribution is bound to be modest. Its effectiveness will depend essentially on the determination of the Mediterranean partners themselves to take this path.

Apart from this essentially political aspect, the Community must lend its support to specific regional or multilateral cooperation schemes :

- Under the financial protocols and budget heading 967 established to that end (1) , the Community must give priority to the financing of regional schemes covering a number of Mediterranean countries : possible fields of action include cross-frontier links, the campaign against desertification, research concerning agriculture in arid areas and the use of solar energy.

(1) "Measures to encourage the establishment of a common approach to regional and subregional cooperation in the Mediterranean area".

- The Community will step up its support for private or semi-public bodies such as CIHEAM (1) or ASCAME (2) and for bodies, institutes and chambers of trade which cover a number of countries bordering on the Mediterranean and are engaged in practical cooperation schemes.
- The Community should, in the same spirit, provide financial support (under the abovementioned Article 967) for the setting up and running of the Centre for Economic Cooperation referred to above.
- Lastly, the Community will propose to its partners that the invitations to tender for contracts financed from resources covered by a protocol should in future be open - provided there is reciprocity - to nationals of other countries in the region which have similar agreements with the Community, including the ACP countries.

IV. Financial resources

20. Adequate financial resources will have to be made available if economic cooperation between the Community and the Mediterranean countries is to be stepped up.

The financial protocols concluded with the Southern and Eastern Mediterranean countries expire on 31 October 1986. It is in any event necessary first of all to establish guidelines for cooperation with the Mediterranean partners. On the basis of these guidelines, the Community can and must then take a decision on the total amount and breakdown of the various types of Community financial resources. The Commission will make proposals once the guidelines have been determined.

21. The profound change in the nature of coopération envisaged in this communication obviously gives new meaning to financing from sources other than the Community and particularly financing which will be generated by the business sector. The role of Community financing in this context must be adapted accordingly; but it must obviously remain significant; any reduction, even if only relative, in the Community's real contribution would immediately be subject to a certain interpretation, whereas on the contrary we wish to underline the growing importance of our trans-Mediterranean relations in the external dealings of the Ten - now to be Twelve.

(1) Centre International des Hautes Etudes Agricoles Méditerranéennes
(International Centre for Advanced Studies in the sphere of
Mediterranean Agriculture)

(2) Assemblée des Chambres de Commerce de La Méditerranée
(Assembly of Mediterranean Chambers of Commerce)

22. As regards the Community share of the financing, the Commission considers that the total financial resources for the group of countries concerned must be determined on the basis of the nominal amount laid down in the second protocols, account being taken of the following :
- inflation;
 - an additional contribution in order to give practical effect to the new priorities and qualitative improvements in cooperation, as proposed earlier, and also to reflect the enlargement of the Community.
23. In order to improve the effectiveness of its cooperation, the Community must examine the value of closer coordination of public-sector financing coming from the Community. Cofinancing comprising funds from the Community and the Member States - in some cases combined with financing from non-member countries or bodies in those countries - would be made easier and the coordination of European action in certain spheres would be improved. The Commission also intends to maintain contact with other funding agencies active in the region, including the Arab Funds.

V. Conclusion

24. To conclude, the Commission is requesting the Council to approve the guidelines set out in this communication; these guidelines are to serve as a basis for the proposals, which the Commission will present at a later date, for directives for the negotiation of additions to the present agreement and of the next set of financial protocols.

In view of the deadline - the present protocols expire on 31 October 1986, and normal procedure is for the partners to examine one year before expiry the provisions to be adopted for the future - the Commission proposes to the Council that the work be arranged as follows :

- The Council should examine the proposed guidelines and adopt a decision on them as soon as possible, and in any event before the end of 1985;
- On the basis of this decision, Commission will put forward proposals concerning the amount and breakdown of the resources to be allocated to financial and technical cooperation for a further five-year period, and also concerning cooperation in the future. This would enable the required negotiations with our partners to begin early in 1986.

FOOD DEPENDENCE

SOUTHERN AND EASTERN MEDITERRANEAN COUNTRIES

Cereals	Self-sufficiency rate (%)				Average net annual imports (000 t)
	61-65	70-72	79-81	81-83	81-83
Algeria	85	73	39	31	3493
Morocco	94	91	63	62	2185
Tunisia	78	71	56	54	1008
Egypt	78	85	56	53	7339
Lebanon	22	10	7	6	538
Syria	115	76	81	80	717
Jordan	57	44	16	16	556

Meat (fresh, chilled, frozen)	Self-sufficiency rate (%)				Average net annual imports (000 t)
	61-65	70-72	79-81	81-83	81-83
Algeria	85	100	89	85	29
Morocco	100	100	99	100	(1)
Tunisia	100	100	95	93	8
Egypt	97	98	75	70	195
Lebanon	99	90	63	72	25
Syria	99	100	99	95	10
Jordan	100	90	64	59	30

Milk powder	Average net annual imports (000 t)			
	61-65	70-72	79-81	81-83
Algeria	5	7	48	69
Morocco	3	3	8	9
Tunisia	2	5	17	13
Egypt	3	4	32	35
Lebanon	4	8	12	10
Syria	2	4	11	13
Jordan	1	2	3	12

(1) Less than 100 t.