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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Redirecting the Community's Mediterranean Policy  
Proposals for the period 1992-96

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## Introduction

In its communication to the Council on redirecting Mediterranean policy (SEC(89)1961 of 23 November 1989), the Commission examined the economic and social situation in the non-Community countries of the Mediterranean and proposed guidelines for an overall Community strategy in the Mediterranean.

Discussions in the Council and the conclusions of the Strasbourg Council have reaffirmed the importance that the Community attaches to its longstanding ties with non-member Mediterranean countries. These discussions have also shown that views converge on the Commission's analysis and on the need to change the Community's Mediterranean policy.

Against this background, the Commission reiterates the view that owing to geographical proximity and the closeness of all types of relations, stability and prosperity in the Mediterranean non-member countries are key factors in the stability and prosperity of the Community itself. If the courses followed by the Community and the MNC caused a worsening of the economic and social disparities between the two, the Community would be in a difficult position. What is at issue is its security in the broadest sense.

Moreover, it is the Commission's view that the Community has a duty to encourage the continuing and at times accelerating progress seen in a number of the MNC towards pluralist democracy and a strengthened market economy.

The Commission considers in general that that relations between the Community and the MNC must make a qualitative and quantitative leap which is commensurate with the political, economic and social issues at stake in the region, the region's expectations of the Community, and the Community's responsibilities in that part of the world.

Basing itself on its previous communication, the Commission puts forward in this document a general framework for Community operations in the Mediterranean (chapter 1), the components of a new Mediterranean policy (chapters 2, 3 and 4), a set of operational principles (chapter 5), and financial and administrative resources (chapter 6).

1. A general framework for Community operations in the Mediterranean

1.1 The role of the Mediterranean non-member countries

The Community's activities must tie in closely with the efforts made by the countries concerned to bring about economic development (by means of economic reforms, modernizing economic management methods, developing productive employment and so on) and social development (by developing human resources, strengthening institutions or drawing up and implementing demographic policies).

Furthermore, the political moves towards pluralism, democratic political procedures and the respect of human rights under way in a number of the MNC are essential to their development and to the creation of a *rapprochement* with the Community.

1.2 Support from the International Community

The Commission has already voiced the view that there is little choice but to continue and intensify the process of economic reform and to bring about a considerable improvement in the volume and methods available to finance reform and growth.

The Member States should therefore continue to support the international financial institutions' moves to draw up viable economic reform programmes with the countries concerned.

With regard to MNC debt, the Commission once again stresses the need for a combination of measures:

- (i) maintaining or resuming commercial loans to middle-income countries which have been able to continue debt servicing without recourse to rescheduling;
- (ii) continuing the current moves to reduce debt servicing for certain heavily-indebted countries. Sweden recently announced decisions in this regard for Tunisia;
- (iii) a substantial increase in loans from foreign governments, with reasonable terms;
- (iv) an increase in private investment, from both domestic and Community sources;
- (v) better mobilization of national savings at home and abroad; channelling these towards productive investment.

Where a debt crisis exists, the Commission considers it essential, whenever justified by an MNC's situation, to hold consultations in the appropriate Community framework to discuss the situation and the measures which could be taken at national level (maintaining or resuming commercial bank lending, reducing the debt servicing burden, rescheduling arrangements), at Community level (possible support for reforms) and at multilateral level. Such consultations, which would be complementary to and precede the meetings of the Paris and London Clubs, could be requested either by the Commission or by a Member State. This would be a definite step forward in dealing with debt crisis situations in the Community's neighbour countries.

Lastly, the Community itself could make a logistical contribution to the handling of certain aspects of the debt situation of the MNC.

As regards multilateral financing for the MNC, the Commission considers that the ideas put forward in connection with a new financial institution specifically for the Mediterranean should be studied. In addition, Yugoslavia should logically be eligible for loans from the EBRD, a body of which other MNC such as Cyprus, Egypt, Israel, Malta, Morocco and Turkey are also members.

### 1.3 The role of the European Community

The main component of the Community's Mediterranean strategy is therefore a clear expression of willingness to strengthen ties with Mediterranean non-member countries.

Community support for these national efforts must make use of all the instruments available at Community and bilateral level such as trade arrangements, Community financing (budget and EIB) public and private bilateral financing and the transfer of know-how.

Apart from tariff preferences and financing for projects, which are still important, recent economic trends have shown that the economic performance of most Mediterranean non-member countries depends to a large extent on their ability to manage their economies properly, to draw up effective reform programmes which are acceptable from a social standpoint and to cope with external crises. These are the decisive factors in their stability and growth. According to the Commission, these are the areas of cooperation in which the Community should play a major role.

If the Community's support for these efforts is to be effective, two conditions must be met:

(i) it must be on a large enough scale to encourage and help the governments concerned to press on with the course of action chosen;

(ii) a wider range of instruments must be offered to non-member Mediterranean countries (MNC) with the necessary flexibility among sectors and countries.

Besides commercial and financial cooperation, which are the subject of detailed proposals (see Chap. 2.4) the Commission proposes that the Community should increase the opportunities for dialogue with its partners from the Mediterranean Basin: on economic matters (general, monetary, financial, agricultural and industrial and aspects relating to transport), on social issues (immigration, demographics) and cultural matters and on political issues of common interest.

These discussions should be both political and technical and, depending on the case, could be held with individual Mediterranean countries, with groups of countries or even all the MNC. The Commission could also continue with the efforts begun at the end of 1989 to change the style and content of Cooperation Councils to make them a real forum for political and economic debate.

The Commission stresses the importance attached by a number of MNC to such discussion when it comes to the sensitive issues of immigration and demographics, and political matters, particularly security and economic cooperation.

In more general terms, the Community should promote exchanges of information with the MNC; this would in itself be a new departure in cooperation with these countries.

It is not, however, only the Community and its Member States which provide external aid for the development of the MNC.

It is for this reason that, as part of its new Mediterranean policy, the Community should introduce more in-depth consultation to match its own efforts and those of the Member States with the activities of the EFTA countries, other Western countries and in some fields, Central and Eastern European countries.

In addition to these general considerations, the Commission is proposing in this document a number of detailed options relating to Community instruments used for all the MNC (Chapters 2 and 3) and those used specifically for the countries of the south of the Mediterranean which have financial protocols expiring in 1991 (Chapter 4).

Turkey and Yugoslavia are special cases, and the Commission is presenting separate communications regarding them. Proposals will be made on the subject of special cooperation with Cyprus and Malta when the timetable of financial protocols for the two countries so requires.

Parliament and the Economic and Social Committee have expressed on a number of occasions their feeling that the time is right to conclude an overall agreement between the Community and the MNC. The Commission considers that this idea cannot be put into practice at the moment, but that it deserves further consideration in the light of future political and economic events in the Community and its partners in the Mediterranean. Certain measures proposed by the Commission are already developed with the area as a whole in mind (Chapter 3).

## 2. Trade cooperation

The Commission notes that trade is an essential factor in the economic development of the MNC:

(I) trade with the Community, which accounts for 47% of their total exports;

(II) trade within the region, which is still on a very small scale because it is severely hampered by tariff and non-tariff barriers and poor communications;

(III) trade with other European countries, particularly with the EFTA countries.

The Commission has examined closely possible strategic measures that could be taken both by the Community itself and the MNC and EFTA. It has above all considered the possibility of further improving MNC access to the Community market, both for manufactured goods and agricultural products.

As regards manufactured goods, which account for 53% of total imports from the MNC, the Commission considers that the time has come to include textiles in the free access arrangements provided for under the cooperation or association agreements concluded with the MNC in the 1970's and 1980's. This can happen only gradually, and will depend on a positive outcome in the Uruguay Round textile negotiations. The pace at which it takes place should however be tailored to the individual contractual and economic situations being dealt with, and should take account of the degree of liberalization the MNC themselves will undertake.

In order to encourage intra-Mediterranean trade and a greater division of inter-industrial labour among the MNC themselves, the Commission could agree to rules granting cumulative origin to groups of MNC which requested it. The three Maghreb countries have enjoyed this kind of regionally cumulative origin since 1978, but since no measures have been taken to liberalize trade amongst them, this facility has had no positive effect.

Agricultural products accounted for 11.6% of total Community imports from the MNC in 1988. Some of these imports already enjoy preferential rates of duty. Under these preferential arrangements, there will be duty-free admission by 1 January 1996 at the latest for the products figuring in the 1987 and 1988 additional protocols. The Commission does not consider it advisable to make any new proposals in the immediate future. In any case, the tariff dismantlement measures adopted in 1986 and carried out at the same time as those for Spain and Portugal are not yet fully completed. (This should happen at the latest by 1 January 1996).

The Commission considers that a close watch should be kept on any changes taking place in this sensitive sector both in the Community and MNC. Before the end of 1994 the Commission will present to the Council a detailed assessment of the changes that have occurred. The assessment report may also include proposals aimed at maintaining or even producing a balanced increase in trade flows between the Community and the MNC, depending on the market situation.

The Commission hopes that it will be possible by 1995 gradually to relax quantitative supporting arrangements (quotas or tariff ceilings). It considers none the less that, where justified, slight changes could already be made (small increase in quotas or ceilings, extended time schedules, inclusion of new products) which would satisfy the requests of some Mediterranean partners.

Lastly, the Commission points out that if the schedule for tariff dismantlement between the Community of Ten and Spain and Portugal were speeded up, the MNC would automatically benefit.

All these measures will take some time to have an impact on MNC exports. Two measures outside the Community framework would be of greater advantage to them:

(i) greater liberalization of intra-Mediterranean trade, either on a sub-regional basis or throughout the whole area. Trade among the MNC accounts for only 5% of their total trade figures. This is very little for neighbouring countries, even taking account of the fairly low standard of living in the area. The Community should therefore back all efforts in this direction;

(ii) the other would be access to the markets of EFTA and other European countries similar to that granted by the Community.



### 3. Financial cooperation concerning all the MNC

The Commission considers that it is in the interest of the countries concerned and that of the Community to put in place a number of measures directed at all the MNC.

Better economic cohesion between the Community and its Mediterranean partners is a matter of advantage to both sides. It will require measures in a number of fields. Because of their regional or sub-regional scope or because of their nature and a desire to tailor them to the needs which exist, such measures would be difficult to adopt as part of a five-year country programme.

They would relate to: support for regional cooperation among the Mediterranean partners (Chapter 3.1), developing the business sector and promoting private investment from the Community (Chapter 3.2), the environment (Chapter 3.3), the development of human resources (Chapter 3.4) and EIB financing for regional projects or projects of interest to both the Community and the MNC (Chapter 3.5). Suitable budgetary support for these measures already exists. Chapter 6 sets out the funding requested.

In addition, cooperation in science and technology and cooperation regarding energy (Annexes 3 and 4) should continue actively.

#### 3.1 Support for cooperation among the Mediterranean partners

Since 1987 the Community has given specific aid to projects of a regional or sub-regional nature in the Mediterranean - studies, seminars, training operations and so on.

The Commission now considers that greater encouragement should be given to regional cooperation in the Mediterranean. It therefore proposes to extend the scope of Item 9670 and to allocate very much larger sums to it.

The emergence in 1989 of two regional cooperation bodies - the AMU and the ACC - was welcomed by the Community, which offered its cooperation. Preliminary discussions with the countries concerned and the potential development of trans-Mediterranean areas of interest, show the great need for cooperation.

Three main lines for regional cooperation emerge:

(I) the definition, preparation and back-up of viable projects of regional interest (transport, telecommunications and the audiovisual sector, energy and so on) which would then be financed from other sources such as the EIB, the World Bank and others;

(II) technical assistance for regional operations or projects: regional institutions themselves, training centres and so on.

(III) interest rate rebates on EIB loans outside the scope of the protocols relating to the environment (see 3.3 and 3.5).

### 3.2 Developing the business sector

One of the major challenges facing the MNC is the creation of large numbers of productive jobs. Operations in this field depend on several factors: a favourable economic policy climate, an effective mobilization of domestic savings and incentives for their productive investment and incentives for foreign investment, particularly European, as well as the development of small and medium-sized enterprises.

It is therefore a strategy which requires a wide variety of instruments, to which the Community already contributes by means of the financial protocols (financing businesses or local financial institutions by means of equity capital) and encouraging European investment in the form of joint ventures (Item 9671 of the Budget).

It goes without saying that the MNC should bear the main responsibility for attracting European investment. The first thing that attracts a foreign investor is the climate of confidence inspired by a country (political stability, democracy, opening-up of the economy, clarity of investment codes and so on).

In order to support these developments, and because the Commission considers it vital for European businessmen to become more closely involved in the MNC, it proposes substantially increasing the funds allocated to Item 9671 (Operations to promote investment and the supply of new capital in non-Community Mediterranean countries). To this end, appropriations under Item 9671 must also be used for upstream investment operations (consultancy and expert services, seeking and contacting partners and so on). They could also be used to encourage immigrants to set up businesses in their countries of origin.

Furthermore, as indicated under item 3.1, the Commission thinks that it is necessary to increase considerably the amount of equity capital included in bilateral financial protocols and entrusted to the EIB for financing local partners.

### 3.3 The environment

The protection of the environment in the Mediterranean Basin should without doubt be one of the priority areas of action in the years to come, both for the Community and the MNC. Provision for this already exists in the cooperation agreements with the countries of the Mediterranean.

The future of sea fishing and tourism, two vital sources of employment in the Mediterranean area, depend on the survival of this closed sea.

It is therefore hardly surprising that a number of multilateral and Community measures have already been taken: Action programme for the Mediterranean, Blue Plan, MEDSPA, METAP. However, the appropriations available for these measures will remain far from sufficient to meet the enormous need for financing (ECU 30 billion, according to an EIB and World Bank study) with which the countries around the Mediterranean will be faced in the near future.

Cooperation with the MNC will therefore have to be stepped up. It should be based essentially on the charter for European-Mediterranean environmental cooperation in the Mediterranean Basin, adopted at the Ministerial Conference held in Nicosia (Cyprus) from 26 to 28 April 1990.

The measures concerned relate principally to the integrated management of coastal areas, particularly natural coastlines, and to rapidly expanding urban areas, nature conservation, an integrated approach to water management, the handling of plant cover, waste management, continuous surveillance of ecosystems, greater monitoring of maritime traffic, the handling of energy and more intensive exchanges of experience.

Cooperation of this kind should take the following directions:

- MEDSPA and other similar non-Community instruments such as METAP; funding of technical assistance studies and operations, including the setting-up of legislative, administrative and monitoring structures;
- at least 100 million ecus out of the funds allocated for measures for all the MNC (Item 9670) will be used for :
  - . measures with a "knock-on" effect, such as pilot or demonstration projects or training schemes;
  - . interest rate subsidies (2%) on EIB loans to fund projects relating to the environment.
- loans from EIB own resources (non-protocol) to finance infrastructures such as equipment for industry, sewage stations or desludging plants and waste-disposal systems. The EIB would be asked to devote at least 10% of the total of its non-protocol loans (see 3.5) to environmental measures.

#### 3.4 The development of human resources

Most non-member Mediterranean countries face the dual problem of implementing profound economic reforms against the background of a changing international climate and enormous population growth.

The success of economic reforms depends on a series of back-up measures concerning the development of human resources: sharing experience with people from countries which have already successfully undertaken a reform process, transfer of economic know-how, training in modern management of the economy, strengthening these institutions and the service sector (central bank, financial bodies, public services, local administrations, trade organizations and so on) and, improving training capacities.

This involves a wide-ranging process of changing the institutional fabric of the countries concerned which foreign technical assistance or temporary expert services cannot replace. It is therefore up to the Community to help with this transfer of know-how from itself to the MNC, among the MNC, and from other developing countries to the MNC.

It is also necessary to link more closely the development potential to be found in immigrant communities in the Community (because of their skills, their capacity for saving) with the economic needs of their countries of origin.

The Commission considers that a special programme to develop human resources should be set up for this purpose, using the sort of top-level expertise in the field to be found in other institutions.

Cultural development in the MNC can also be included in Community cooperation schemes, supplementing what is done at national level by the countries concerned and by the Member States. This cooperation should lay special emphasis on cultural exchanges with a view to better mutual understanding. In this connection special attention will be given to measures involving immigration, as a bridge between the Community and its partners.

Because of the development of an audiovisual policy in the Community and its ramifications in the EFTA countries and Eastern Europe, the Commission considers that it would also be possible, and advisable, to cooperate with the MNC in this field, in line with its own audiovisual policy. Cooperation could, for example, take the form of technical support for national networks or improving video picture archives in the Community and helping with their translation, particularly education, information and training programmes.

This whole field of cooperation will be financed by appropriations from budget item 9670.

In the last few years the Mediterranean countries concerned have also woken up to the demographic problem facing them and some have already begun demographic programmes, in some cases with Community aid.

While recognizing that the profound social and moral implications of these policies mean that decisions must be left up to the governments concerned, the Community should be able to respond more efficiently than in the past to requests for cooperation in this field. This is why the Commission wants demographic policies to be one of the major areas of cooperation with the MNC as regards social and institutional development. It therefore wants sufficient appropriations to be allocated to Article 948 of the budget, which will be used essentially for operations in the MNC. The Commission will make the necessary proposals in the framework of budget procedure.

### 3.5 Operations managed by the EIB

The Commission considers that the EIB should be asked to contribute to operations in the MNC from its own resources but outside the framework of individual protocols for each country.

These should be projects of interest to the Community and within this context regional projects involving several countries in the area should be given special emphasis.

The Commission is of the opinion that there would be four priority areas for this type of operation:

(I) environment: sewage treatment or desludging plants, anti-pollution equipment for industry and waste-disposal systems;

(II) energy: interconnection of networks, power plants, intra-MNC or MNC-Community gas pipelines, energy saving devices;

(III) transport: port installations, intra-MNC and MNC-Community transport links;

(IV) telecommunications and the audiovisual sector: intra-MNC and MNC-Community links, equipment for receiver stations and audiovisual productions.

A ceiling for contributions from EIB own resources outside the scope of the protocols will be set (this will specify the amount involved and the period over which the contributions will take place).

## 4. Renewing the Financial Protocols with the countries of the Southern and Eastern Mediterranean

### 4.1 General

The Commission considers that current arrangements governing cooperation between the Community and the non-member countries of the Southern and Eastern Mediterranean through agreements of indefinite duration should remain a vital part of this cooperation.

It is thanks to the flexibility of the arrangements' operation (and the fact that financial cooperation arrangements are multiannual) that the Community is able to provide these countries with a type of cooperation geared to their specific situations and which, because of programming, provide a major source of stability.

This notwithstanding, the Commission considers that the Community should provide a large-scale response to the SEM countries' requests for support for the economic reforms they are carrying out.

The need for funding to which the structural adjustment process has given rise is considerable and cannot be met by the resources available in the countries themselves or the funds supplied by the international financial institutions. However, the economic and political stability of these countries depends on the process of adjustment succeeding rapidly.

The Commission is consequently proposing that the fourth generation of financial protocols with the SEM countries should comprise two separate portions:

- A programmable portion written into the bilateral financial protocol signed with each country. This would continue present policy.
- A non-programmable portion under an "all countries" heading, which would be reserved for support for economic reform. Each bilateral protocol would mention the objectives and conditions of use of the non-programmable portion.

Funds for these would come from a single source (Article 965) and have the same legal basis (the financial protocols). Annex 1 contains proposed negotiating directives for the fourth financial protocols.

#### 4.2 Programmable bilateral financial protocols

The Commission points out that the third generation of financial protocols expires on 31 October 1991 for the Southern and Eastern Mediterranean countries.<sup>1</sup>

The Commission proposes that the overall package for the financial protocols be substantially increased. Certain corrections could be made to the financial breakdown of the overall package to take account of the unequal pace of development in the various countries.

All EIB financing (whether within the financial protocols or not) should be able to carry the same 75% overall guarantee from the Community budget.

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<sup>1</sup> These countries are: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia.

Given the degree of indebtedness of these countries, the Commission urges that the ratio between budget funding (grants) and bank resources (EIB) should be maintained (38% to 62%).

It will be possible to receive an interest-rate subsidy for EIB loans. As in the case of the current protocols, it will be up to the country concerned to make the choice.

As regards the choice of sectoral approach, the Commission advocates concentrating finance on the following priorities:

(i) strategy to reduce food dependence: because of the increasingly precarious situation in the region, the Commission considers it essential that the bulk of financial resources should be allocated to projects designed to achieve greater food self-sufficiency. Even more than in the past, the Commission will see to it that counterpart funds from food aid are used in close conjunction with projects financed under Financial Protocols;

(ii) the development of the productive sector, above all the industrial sector. The Commission proposes allocating a considerable share of budget resources to the creation of SME, using equity capital. It also feels that it is necessary to make a substantial increase in financing for technical and vocational training projects (management, technical staff, supervisors) both for the industrial sector and public and private services (banking, insurance, transport, tourism, administration). It is in these areas that there are increasing bottlenecks.

(iii) environmental protection: in addition to using long-term bank loans to improve the infrastructure for the environment, greater use of Financial Protocol funds could be made for certain programmes.

(iv) the priorities listed above should not override the need for funding for the economic infrastructure of the MNC, since there is a risk that bottlenecks will occur if this is neglected.

Lastly, given the small amount of financing available, the Commission intends to place much greater emphasis than in the past on consulting the Member States, the IBRD and the Arab funds, one of the aims being to set up suitable co-financing.

#### 4.3 Support for economic reform in the SEM countries (see Annex 2)

Most of the Southern and Eastern Mediterranean non-member countries already apply or are starting economic reform programmes which entail an extremely stringent economic and financial discipline and unpalatable sacrifices at social and political level. It is, however, clear that the resumption of growth in the MNC concerned will depend very largely on the scale and success of the reforms undertaken and also the stringency with which the economy is managed.

It is for this reason that the Commission considers that it is politically and economically necessary for the Community to contribute to the success of these programmes.

In concrete terms, its proposal to the Council is to allocate a total sum of ECU 600 million under the next financial Protocols (1991-96) to support those countries which have embarked on economic reform programmes.

This aid, in addition to the sums provided under the financial Protocols would be used essentially for two purposes:

(I) to provide any technical assistance that the Mediterranean countries might need to implement their economic reforms, in areas including savings and credit;

(II) to finance back-up programmes vital to the success of reforms, particularly job creation programmes and import programmes for capital goods or essential items, spare parts and inputs.

It would be granted only to those countries which agree to take certain specific economic and financial policy measures. The aid would therefore not be allocated to implement a given development project. It would primarily be used to encourage fundamental changes - either sectoral or macro-economic. It would be up to the Mediterranean countries which wanted to take advantage of this financing facility to submit a reasoned application.

Such support will obviously come outside the contractual framework of current bilateral financial protocols, and will take the form of an incentive to reform, that is to say that it will be granted only on the basis of specific requests for assistance backed up by practical reform schemes. Administrative procedures will be based on those used in the fourth Lomé Convention and consultations will be held wherever necessary with the World Bank and the IMF.

The Commission proposes that support for economic reforms should be financed from budget item 9651 (Fourth financial Protocols for the Southern and Eastern Mediterranean countries) but that the financing should not be subject to programming for each country.

##### 5. Operational principles

Community development aid for non-member Mediterranean countries has so far been relatively limited, accounting for only 3% of total net official aid to the MNC between 1979 and 1987.

This is why, in the future, Community operations, whether commercial, financial or otherwise, should have a maximum knock-on effect and be as efficient as possible. This idea can be translated into simple operational principles:



(i) choice of targets for Community action, ensuring the greatest impact - financial support for policy reforms, modernization of management methods, commercial efficiency, mobilization of national savings and private investment and so on.

(ii) the idea of flexible community aid - apart from the current system of programmable financial Protocols for individual countries, the Community should be able to intervene promptly and flexibly, and at the same time on a large scale, to respond effectively to sudden upheavals which could threaten the Mediterranean countries, such as a balance of payments crisis, disrupted supplies and so on. The recent economic history of the Mediterranean countries provides several examples of this type of situation and under the current cooperation arrangements the Community has been unable to respond efficiently to such crises;

(iii) the idea of subsidiarity - this will mean whenever possible using expertise and know-how to be found in public and private bodies in the Member States and in multilateral organizations;

(iv) Improving the quality of Community aid, above all by simplifying current procedures, continuing with systematic evaluations and taking account of the environmental dimension of each operation.

The Commission stresses in this connection that pursuant to Article 2 of the recently revised Financial Regulation, there should be greater emphasis in the case of all expenditure on adopting clear and quantified objectives in the interest of being able to verify at the stage of implementation that appropriations have been used as efficiently as possible. This approach should make it increasingly possible to give future development assistance measures the optimum effect.

## 6. Financial and administrative resources

In the light of the analysis put forward in its communication of 23 November 1989 and the proposals made in this subsequent communication, the Commission considers that it is necessary to alter the scale of financial cooperation between the Community and non-member Mediterranean countries.

The grounds for this quantitative leap are the scale and nature of the problems facing the MNC and the volume of the financial requirements that the MNC will have to cope with in the 1990s. The estimates for Community financial aid that the Commission proposes overleaf for the period 1992-96 take account of the gravity of the financial situation of most of the MNC.<sup>1</sup>

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<sup>1</sup> The period 1992-96 basically coincides with the duration of the next generation of financial Protocols (1 July 1991 to 30 June 1996 for Yugoslavia, 1 November 1991 to 31 October 1996 for eight Southern and Eastern Mediterranean countries).

The Commission's forecast overall allocation to Chapter 96 of the budget for the five-year period 1992-1996 is as follows:

- ECU 1 955 million as compulsory expenditure (financial protocols, at current prices);
- an indicative figure of ECU 480 million as non-compulsory expenditure.

The Commission's view of the issue of the financial protocols with the SEM countries is that the Community is bound by obligations under international law which stem from the agreements concluded with these countries and from the financial protocols, which should be renewed for five years from 1 November 1991.

For this reason, the Commission considers that despite the lack of a budgetary policy framework for 1993 and beyond, the Community should propose to its partners a fourth generation of financial protocols, with five-year financing.

The Commission's proposal is that the protocols, coming under Article 965 of the budget (compulsory expenditure), be allocated ECU 1.425 million over five years from 1 November 1991.

The Commission proposes to finance the measures relating to all the MNC from items 9670 and 9671 of the budget (non-compulsory expenditure) and to allocate ECU 320 million and ECU 100 million to these respective headings for the five-year period.

These allocations are the result of the Commission's proposals for 1991 and 1992 within the context of the revised financial outlook, and of current Community GNP growth forecasts (3.4% per year for 1993 to 1995). This method of calculation is in line with the budgetary discipline being maintained.

The resulting overall amounts are rough figures only and will be subject to annual budget allocations adopted according to usual procedures. Clearly, they will depend on the revisions made to the financial outlook and the budgetary framework decided on for 1992 and beyond. (See annex 5)

The growth forecast for 1993 to 1995 is without prejudice to any attempt the Community may wish to make to increase cooperation beyond the rate suggested by GNP growth for the period, or to the Commission's right to re-examine the proposals if necessary.

With regard to rules and regulations, the Commission will make appropriate proposals in the light of discussion in the Council.

With regard to staffing, it is the Commission's view that it should have available resources commensurate with the progress of Community policy towards the MNC. It will to this end assess needs and make the appropriate proposals according to usual procedure.

## 7. Conclusions

In the Commission's view these are the main themes that should guide the Community's Mediterranean policy between 1992 and 1996.

The Commission calls on the Council to take the following decisions promptly:

- adopt the guidelines for a new Mediterranean policy set out in this communication;
- approve a five-year (1992-1996) allocation of ECU 1 955 million as compulsory expenditure to provide support for this policy (current prices).
- authorize the Commission to begin negotiations with the SEM countries (Maghreb, Mashreq, Israel) with a view to concluding new financial protocols. The negotiations will be conducted in accordance with the negotiating directives attached (Annex I);
- approve an indicative five-year (1992-1996) allocation of ECU 480 million as non-compulsory expenditure (1991 prices.)

The detailed proposals will be presented in the framework of budget procedure. They will be based on the estimates given at point 4 above.

- call on the EIB to make large-scale use of non-protocol financing in the MNC and, to this end, set a ceiling of ECU 3.5 billion for the period 1992-96.

ANNEX I

Negotiating directives,  
fourth financial Protocols

1. General principles

The Community reaffirms its intention of continuing its contribution to the economic and social development of its Mediterranean partners. With due regard for national development objectives and priorities, the Community will take into account the specific problems of each individual country.

The gravity of the social and economic situation of these countries and the complexity of the possible remedies are such that a combination of instruments is required. The advantage of the financial Protocols is that they provide a medium-term approach and their joint programming gives practical expression to the Community's contractual commitment.

Apart from the financial packages included in each of the Protocols and which are therefore programmed on a multiannual basis, an overall sum should also be provided for all the Southern and Eastern Mediterranean countries. This amount will be used to back up economic reforms which are begun or continued during the period of the financial protocols. Each country will be given the opportunity to present a reasoned request, asking to benefit from this special, non-allocated financing.

2. Sectoral priorities

The Community proposes that during the next period, priority should continue to be given to agricultural development and development of the productive sector (industry, services) and the protection of the environment. It stresses the contribution that could be made by science and technology and information technologies, and also proposes that special attention should be given to training, a prerequisite for developing production.

2.1 Agricultural development

For the fourth financial Protocols, the Community proposes that the bulk of financial resources should continue to go to agricultural development, above all food production, in the framework of national strategies designed to reduce external dependence. The Community considers that major

production potential remains to be developed, particularly by increasing and improving irrigation and by using all available means to step up agricultural production.

As far as possible, the Community will try to promote the granting of agricultural credit as this approach has proved to be the most flexible. It fits in best with general economic policy and has a direct impact on agricultural production since it affects farmers themselves.

As in the past, the Community will also do all it can to use other instruments, such as counterpart funds from food aid.

## 2.2 Development of the productive sector (Industry and services)

The Community will continue to support efforts by its Mediterranean partners to develop the productive sector. To this end, as in the past, support for small and medium-sized businesses will be encouraged.

For this purpose the Community will step up its support for operations to promote investment and inflows of private capital, while systematically seeking to promote joint ventures between European and Mediterranean small and medium-sized enterprises, above all by means of equity capital, the volume of which should be substantially increased.

The Community will also support programmes to improve training.

It is willing to contribute to the drawing up of training programmes by helping to analyse needs on the basis of existing deficiencies.

Priority will be given to measures with a knock-on effect and which focus on the productive sector (business management and administration, including agriculture and agro-industry), services (including financial and audit services) and teacher training courses in the same fields.

The Community will do its utmost to promote on-the-job vocational training in firms and in national trade and industrial promotion bodies.

### 2.3 Environmental protection

Demographic growth and the ever-increasing pressure on natural resources are obliging all the MNC to devote particular attention to maintaining an ecological balance. The Community should support its partners' efforts in this direction.

### 3. Financial package

The Community will not decide on the exact financial package and its breakdown until the final stage of internal discussions. Funding should be increased on the same scale as it would be in similar circumstances, that is to say the level in real terms will be maintained, plus a sufficient increase to take account of the relative deterioration in the economic and financial situation of the MNC.

### 4. Coordination

The Community will ensure that its operations are coordinated more closely with programmes or operations already under way or in the pipeline which are financed bilaterally by other donors.

Financial assistance for the economic reform process  
in the southern and eastern Mediterranean countries

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1. EXPLANATORY MEMORANDUM

The economic situation in a number of Mediterranean non-member countries is characterized by serious internal and external imbalances. At the end of 1989 the total external debt of the non-Community Mediterranean countries is estimated to have been US\$ 200 000 million; a number of neighbouring countries have a substantial, if not chronic, current account deficit; the high level of inflation reflects a budget deficit, and internal savings are largely insufficient to finance these countries' economic development. This is particularly true in the case of the southern and eastern Mediterranean countries (SEM).

In response to these challenges, most of the non-member Mediterranean countries are implementing or drawing up structural adjustment programmes intended to rebalance their economies and thus create a basis for sustainable medium-term economic development.

While respecting the leading role of the international institutions active in this field, the Community could usefully support the structural adjustment process in the economies of SEM countries which so wish. Such support is in accordance with the conclusions of the European Council meeting in Strasbourg on 8 and 9 December 1989 concerning future relations between the Community and non-member Mediterranean countries.

2. PRINCIPLES AND ELIGIBILITY CRITERIA

2.1. Adjustment support must be based on the following principles:

- support programmes must be tailored to the specific situation of each country and take economic and social conditions into account;
- adjustment support must be provided within the framework of the political and economic model adopted by the State concerned;
- the support programme must contain measures aimed in particular at alleviating the negative social and employment effects which may result from the adjustment process;
- quick disbursement must be one of the main characteristics of the support programme.

2.2. The eligibility criteria are as follows:

- macroeconomic or sectoral effectiveness of the reforms undertaken or planned;
- economic situation of the country, with particular reference to its level of indebtedness and debt service burden; balance of payments situation; budgetary situation; monetary situation; *per capita* GDP; level of unemployment;
- countries undertaking reform programmes supported by major multilateral donors or having set up similar programmes approved by them are considered to satisfy the conditions for the granting of adjustment support. Other cases will be examined on the basis of the general conditions for eligibility.

3. PROJECTS TO BE FINANCED

Adjustment support projects of the following two types may be financed in non-member Mediterranean countries:

3.1. technical assistance operations linked to structural adjustment support programmes. These operations include:

- technical support in fields or sectors which will be particularly adversely affected by structural adjustment (e.g. administration of public finance, import arrangements, tax reform, mobilization of savings);
- macroeconomic technical support designed to help the authorities identify the optimum level/targetting of the economic policy measures to be adopted and at the same time enable the authorities of the recipient country to facilitate economic dialogue with the main donors;

3.2. adjustment support in the form of sectoral or general import programmes or employment creation programmes.

The aim of the import programmes is to contribute to the expansion of production capacity. These import programmes may include the financing of manufacturing inputs such as capital equipment and intermediate products, raw materials, spare parts, fertilizers, insecticides and essential goods.



The counterpart funds generated by the import programmes will be used to finance measures aimed at attenuating the negative social repercussions of structural adjustment, and in particular for employment creation in fields linked with environmental protection, land reclamation and, where appropriate, to contribute to the payment of redundancy payments to workers made redundant in the public and semi-public sector.

4. IMPLEMENTATION

The structural adjustment programmes will be prepared and appraised and the financing decisions taken in accordance with the procedure laid down in the financial protocols, due account being taken of the need to ensure that payments under the economic reform support programme are disbursed quickly. The experience gained under the Lomé Conventions will be applied, adapted as necessary.

5. BUDGET

5.1. Given the scale of resources needed to support adjustment measures in several non-member Mediterranean countries, sufficient resources must be allocated if they are to have a noticeable effect.

The funds needed to implement the two aspects of the economic reform support programme are estimated at ECU 600 million during the five-year period covered by the Protocols, since structural adjustment is a medium-term process.

The following amounts will be included in budget item 9651:

1992	1993	1994	1995	1996
120	120	120	120	120

Cooperation with the MNC in science and technology

The Commission also considers it vital that scientific and technological cooperation with the MNC should be stepped up, stressing the essential role played by science and technology plus information and communications technology in economic and social development and modernization.

The Community will naturally continue the activities relating to scientific cooperation which are already under way with those partners who so wish and with whom it shares an interest in cooperation in specific fields.

Beyond this, the Community would like to see particular effort to ensure that the innovations and technology available contribute to reinforcing the economic fabric at local level.

The Commission therefore proposes two major schemes for the period 1991-96:

- opening up scientific and technological cooperation programmes with non-member countries (Item 7394 of the Budget) to all MNC.

This would be a great incentive for cooperation among scientific circles, something which should also be of advantage to those countries in the region with research potential, particularly since the research projects involved are of mutual interest.

- Creating a new line of activity centring on information technologies. This would include the regular provision of information on Community policy and achievements, plus technical assistance, particularly in connection with standards.

- Applications of information technology could be seen against the background of support for the sectors mentioned, whether in the individual protocols or elsewhere (investment in communications and telecommunications, modernization of management methods, using new training technology).

- The Commission should also extend operations under the Science and Technology for Development programme (STD) with the major countries in the Southern and Eastern Mediterranean. These programmes, which cover only agriculture and medicine, have been a resounding success with those MNC that have benefited from them.

Annex IV

Cooperation with the MNC regarding energy

In the 1990s more than ever in the past the Community will have to step up cooperation regarding energy with the MNC. This will concentrate on three main areas:

- energy saving: The Community has developed suitable technology in this regard, and should therefore help those of its neighbours which request assistance to draw on its experience for their own energy policies.
- Interconnection of energy supplies: A better use of energy should also be sought through the setting-up of networks and interconnections of energy supplies (electricity, gas, oil) wherever technically possible and economically feasible.

The Community should support such efforts in the cases of both MNC-Community links and links between the MNC themselves.

- renewable energy: The MNC as a whole hold promising potential for producing solar energy at a competitive cost. For its part, the Community is developing the industrial technology to make gradually greater use of this potential.

Cooperation in this strategically important field should therefore be stepped up, and links forged immediately in order to achieve large-scale industrial production of renewable energy around the Mediterranean in the coming decades.

The Community's share of financing for cooperation in this field should come from the following sources:

- EIB loans (for interconnection, power stations, etc.)
- Articles 706 and 707 (energy planning, transfer of technology) and the forthcoming THERMIE programme
- Items 9651 and 9670 (feasibility studies, energy workshops, etc.)

The budget estimates given below take account of the essential financial needs for the period 1992-1996, except in the case of items 1040 and 1041, for which the Commission will make the appropriate proposals for each budget year as a function of future needs.