

MISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

**STRENGTHENING THE MEDITERRANEAN POLICY
OF THE EUROPEAN UNION:
ESTABLISHING A EURO-MEDITERRANEAN PARTNERSHIP**

EXECUTIVE SUMMARY

1. As pointed out by the Lisbon European Council in June 1992, the southern and eastern shores of the Mediterranean, as well as the Middle East, are geographical areas in relation to which the Union has strong interests in terms of security and social stability. Consistent with this view, the Corfu European Council of June 1994 and the subsequent Foreign Affairs Council invited the Commission to submit guidelines for the short and medium-term strengthening of the Union's Mediterranean policy for peace, stability, security and the socio-economic development of the region. The Council should consider the possibility of a Euro-Mediterranean Conference in 1995.
2. The present communication responds to this request. It represents a contribution to discussion at such a Conference. It deals primarily with relations with the Maghreb and Mashrak countries and Israel, while noting the importance of the Community's particular relations with Turkey, as well as those with Cyprus and Malta in the perspective of their accession to the Community. Relations with the countries of the former Yugoslavia are beyond the scope of this communication.
3. Since 1989 the Community has focussed its attention on policies towards Central and Eastern European countries (CEECs) and towards the Mediterranean region. Relations with each region are based on its specific needs and capacities. The pre-accession strategy with the CEECs in no way interferes with the Community's commitment towards the Mediterranean region.
4. There are many areas of Euro-Mediterranean interdependence, notably environment, energy, migration, trade and investment. The Community has a vital interest in helping Mediterranean countries meet the challenges they face.
5. The objective should be to work towards a Euro-Mediterranean Partnership. This would start with a process of progressive establishment of free trade, supported by substantial financial aid. It would then develop through closer political and economic cooperation, towards a close association, the content of which will be jointly defined at a later stage.
6. Progress towards a Euro-Mediterranean zone of peace and stability would be initiated through close political dialogue based on respect for democracy, good governance and human rights. The dialogue should be extended to security issues, leading to the introduction of measures to consolidate peace.
7. In the economic sphere the Community should promote, in the framework of the WTO, free trade with individual Mediterranean partner countries, which would require the countries to embark on a process of modernisation of their economies and increased competitiveness. This process would require a long transition and the willingness of the Community to offer help, particularly in terms of aid for structural adjustment and economic restructuring. In the long-term, this would

lead to the establishment of the largest free trade area in the world, covering the enlarged Community, any Central and Eastern European countries not by then Members, and all Mediterranean non-Member countries.

8. Beyond free trade, the Community should be prepared to enter into wide-ranging areas of cooperation with Mediterranean countries, to be defined jointly with them. These could cover industrial cooperation, energy, environment, information and communication technologies, services, capital, science and technology, decentralised cooperation, drug trafficking, illegal immigration, tourism.
9. Operational conclusions should cover:
 - early conclusion of negotiations underway with Israel, Morocco, Tunisia and Turkey;
 - increase in technical and financial assistance, including the establishment of an overall MED aid programme, requiring total resources of 5,500 MECU for 1995-99;
 - encouragement of private investment;
 - economic policy dialogue;
 - measures to promote regional cooperation (intra-regional trade, cumulation of origin rules, Community support for sub-regional groupings).
10. The Commission endorses a Euro-Mediterranean Conference in 1995 to agree on political and economic guidelines for future relations, which could lead to setting up an institutional framework.

I. Introduction

1. The Lisbon European Council of June 1992 stated that "the southern and eastern shores of the Mediterranean, as well as the Middle East, are geographical areas in relation to which the Union has strong interests in terms of security and social stability". Consistent with this view, the conclusions of the Corfu European Council gave "a mandate to the Council to evaluate, together with the Commission, the global policy of the European Union in the Mediterranean region and possible initiatives to strengthen this policy in the short and medium-term, bearing in mind the possibility of convening a conference attended by the European Union and its Mediterranean partners".

Following up these conclusions, the Foreign Affairs Council on July 18, 1994, invited the Commission to submit guidelines for the short and medium-term strengthening of the Union's Mediterranean policy for peace, stability, security and the socio-economic development of the region. This should enable the European Council in Essen to adopt a common stand on the future of Euro-Mediterranean relations. The Council would consider the possibility of holding a Conference in which the Union and its Mediterranean partners would participate.

The present communication responds to this request. It deals primarily with relations with the Maghreb and Mashrak countries and Israel, while noting the importance of the Community's particular relations with Turkey, as well as those with Cyprus and Malta in the perspective of their accession to the Community. Relations with the countries of the former Yugoslavia are beyond the scope of this communication.

2. Since 1989 the Community has as a result of rapid geo-political changes, focussed its attention on the policies needed to support economic development, both in Central and Eastern Europe, and in the Mediterranean region. It has assisted the CEECs in their efforts to progressively integrate their economies into those of Western Europe and into the world market economy.

The Community's policies towards central and eastern Europe on the one hand and towards its southern partners on the other spring from different geographic, historical, political, economic and cultural circumstances. It is the Community's policy to base its relations with each region on its specific needs and capacities. This communication demonstrates that the pre-accession strategy the Community is pursuing with countries in central and eastern Europe in no way interferes with its commitment to developing closer ties with its Mediterranean neighbours.

3. This communication will:

- set out the challenges and the Community's interests in the area (Annex 1) to which the Commission already drew attention in 1989⁴;
- recall the achievements and short-comings of the present Mediterranean policy (Annex 2);
- set out the Commission's long-term vision of the future relationship between Europe and its southern neighbours in the Mediterranean and propose guidelines for its implementation;
- make operational recommendations for short and medium-term actions for that vision to be progressively turned into reality by the early 21st century.

II. Challenges and Priorities

4. The Mediterranean basin constitutes an area of strategic importance for the Community. The peace and stability of the region are of the highest priority to Europe.

To consolidate that peace and stability in the region, a number of challenges have to be faced, notably:

- to support political reform, respect for human rights and freedom of expression as a means to contain extremism;
- to promote economic reform, leading to sustained growth and improved living standards, a consequent diminution of violence and an easing of migratory pressures.

The Community and the Mediterranean partners share many areas of interdependence: nowhere is this more evident than in the safeguarding of the environmental heritage. Europe's interests in the region are very varied, ranging among sectors such as energy supply, migration, trade and investment (Annex 4).

As a further example, the problems caused by the production, trafficking and abuse of illicit drugs also require to be addressed cooperatively since there is a risk that they can give rise to mutual recrimination.

Instability in the region would have negative consequences for all Union countries. The population in the Mediterranean non-Member countries could reach 400 million by the year 2035 with an increasing income gap (see Annex 1), if present demographic developments are not rapidly counter-balanced and contained by a fast economic take-off and adequate population policies. The required economic take-off supposes substantial efforts to be accomplished by these countries by liberalising and restructuring further their economies as well

as the implementation by the Community of policies aiding them to meet the political, economic and demographic challenges they face.

A high proportion of the existing immigrant population in the Community originates from the area with which they often maintain close links and to whose economies they contribute through remittances. If migratory pressures are not carefully managed through planned cooperation with the countries concerned they could all too easily give rise to friction, damaging both to international relations and the immigrant populations themselves.

On the other hand, all Member States would benefit from greater stability and prosperity in the region. This would multiply trade and investment opportunities and reinforce the base for cooperation in political and economic fields. More particularly, at a time of globalisation and reinforced regionalism in North America and in Asia, the Community cannot renounce the benefits of integrating its southern neighbours under commonly accepted rules. Integration must take account of the needs of the Community's own poorer regions many of which are in the Mediterranean.

At a moment when the peace process in the Middle East is progressing, while in Algeria stability has been undermined by political violence, it is timely to set out the possibilities for developing peace through cooperation, dialogue and mutual understanding.

Time is pressing, not only from a political but also from the economic point of view. It is, therefore, in the Community's vital interest to direct its efforts towards aiding these countries to meet the challenges they face.

5. The Community has already undertaken significant policy actions to support the Mediterranean region as a whole, which were reinforced by the new Mediterranean policy for the years 1992-96 (for the evaluation of these actions see Annex 2).

The Commission has set out a strategy for the Community's policy towards the Maghreb², the Mashrak and Israel³ and to support the Middle East peace process⁴. With regard to the latter, three main elements are important:

- a five year programme of support for the Occupied Territories, consisting of 500 MECU in grants and EIB loans;
- an offer to upgrade the Community's bilateral relations with all the countries concerned;

²SEC(92)40 Final of 30 April 1992.

³COM(93)375 Final of 8 September 1993.

⁴COM(93)458 Final of 29 September 1993.

- support by the Community for regional cooperation, notably in the context of the Union's chairmanship of the Regional Economic Development Working Group of the multilateral track of the peace process.
- 6 The evaluation of the overall Mediterranean policy so far shows that the results are mixed. Free access to the Community market for industrial products has had positive effects, particularly in those countries which have successfully implemented economic reforms. However, even these countries have not so far been able to take advantage of the full integration of their economies into the global labour market, since many sectors have been sheltered behind high levels of tariff protection.

The results of financial cooperation have similarly been mixed. Support for structural adjustment has had a significant effect in responding to specific needs, but has not been sufficient to make a major overall impact. Actions aimed at linking the North and the South of the Mediterranean, so far constituting only a small proportion of the cooperation effort, have been widely welcomed and need to be reinforced. Experience has shown that the instruments used and the policies pursued have been too narrow in scope and insufficiently effective in comparison with the needs of the region. The resources placed at the disposal of the Mediterranean policy have fallen well short of responding to the challenges (for comparative figures, see Annex 3).

III. Guidelines for Future Relations

7. The Community's Mediterranean policy should be multi-dimensional and should encompass the many areas of interdependence. Its actions in the economic field need to be seen in the context of its political objectives.

What is required is a long-term strategy. The Euro-Mediterranean Partnership, which must be thought of as an evolving framework, is a long-term objective which the elements presented in the present communication will bring closer to reality. It is urgent to make a start now.

The Union's policy should be directed towards support for establishing a zone of stability and security and creating the conditions for lasting and sustainable rapid economic development in the Mediterranean countries. With a clear commitment to economic reform, the countries concerned could achieve higher levels of employment and reduce the prosperity gap with the Community. This could best be facilitated by the progressive creation of a Euro-Mediterranean Economic Area, comprising as its main features progressive establishment of free trade and closer economic integration, accompanied by adequate support from the Union for the economic and social adjustments which this process will entail, as well as closer cooperation in the political and security fields.

(i) Towards a Euro-Mediterranean Zone of Political Stability and Security

8. The principal thrust of the Union's Mediterranean policy is to achieve peace and stability in the region. This goal should be pursued through all the means at the Union's disposal including the common foreign and security policy. To be effective the Union should, to the greatest extent possible, act as a whole rather than through isolated initiatives.

9. As stated in the conclusions of the Lisbon European Council of June 1992, "the southern and eastern shores of the Mediterranean as well as the Middle East are geographical areas, in relation to which the Union has strong interests, both in terms of security and social stability". At present political, economic and social conditions in a number of these countries are sources of instability leading to mass migration, fundamentalist extremism, terrorism, drugs and organised crime. These have a harmful effect both on the region itself and on the Union.
10. The Union has an interest in cooperating with the countries concerned to reduce these sources of instability. More generally, the Union should seek to promote a relationship of good neighbourliness, avoiding deepening the north-south gap between the EU and its Mediterranean partners and instead bringing the countries and peoples of the region closer together.

A priority is to promote political dialogue between the Union and its Mediterranean partners, based on the respect of human rights and the principles of democracy, good governance, the rule of law which constitute an essential element of their relationship.

As far as the common foreign and security policy is concerned, the Lisbon European Council identified the southern and eastern shores of the Mediterranean as a priority area for joint action. The new possibilities offered by the CFSP and by supporting Community activities should enable the Union to work together effectively with Mediterranean partners to improve stability and security in the region.

11. In the field of security, the proliferation of non-conventional weapons is a major cause for concern. Taking into account the Middle East peace process and the need to eliminate remaining threats to the security of countries in the region, the Union should make efforts to persuade all Mediterranean partners to renounce non-conventional military options.

The political dialogue with the Union's Mediterranean partners should be reinforced and extended to security issues. As stated by the WEU ministers in the Kirchberg declaration, such a dialogue, already initiated with the Maghreb countries, should be further developed and expanded to Egypt and gradually to other non-WEU Mediterranean countries.

12. A code of conduct among Mediterranean countries for the solution of disputes would also be a useful initiative which the Union should discuss with Mediterranean partners. Other confidence-building measures in the political and military spheres could be developed in liaison with the WEU and transatlantic partners. The EU could offer its good offices in case of persistent conflicts.

Together with the WEU and interested Mediterranean partners, the EU should develop a capacity to detect sources of instability and potential conflict at early stage. With the support of the Union, cooperation in the Mediterranean has consistently been an important issue in CSCE follow-up meetings and seminars and will be an important theme at the Budapest review conference and summit in December 1994. Further developments could be envisaged in the course of the General Mediterranean Conference to be held in 1995.

13. Important progress towards stability in the region has already been achieved in the framework of the Middle East Peace Process, which enables the Union and its neighbours in the eastern Mediterranean to develop their relationship by helping to create the economic and social conditions for achieving lasting peace, sustainable development and political stability.

ii) Towards a Euro-Mediterranean Economic Area

14. The achievement of the objectives of the Community's Mediterranean policy requires a much wider and more active Community involvement in the socio-economic development of the partner countries.

The Community's policies as regards the trading relationship and economic and financial cooperation with the Mediterranean countries need to be framed with this in mind.

(a) Free Trade

15. The risks of economic disorder and socio-economic destabilisation appear to be greatest in the forthcoming years in the Mediterranean. It is natural that both the Community and its Mediterranean neighbours should be looking for appropriate policies to tackle their problems of economic and political reform.

Indeed, the rationale behind the negotiations or exploratory talks that have been going on for the last two years with Morocco and Tunisia, Egypt and Algeria, is to integrate those countries more closely into the emerging pan-European free trade network and by way of that process to

- streamline their regulatory and economic policy framework;
- raise their long-term competitiveness;
- attract substantially more private direct investment, especially from Europe;
- improve mutual understanding and awareness;
- and, most important, accelerate sustainable economic and social development

The challenge for the Mediterranean countries, in particular those of the Maghreb and Mashrak, is particularly difficult and complex especially for four reasons:

- their overall level of development is notably low (see Annex-4 for comparisons);
- they have to cope with high population growth (more than 2% p.a., which implies a doubling over around 30 years), which aggravates the burden of existing high and structural under-employment, as well as increasing social costs (education, health ...);
- they do not dispose of a well-trained, sophisticated labour force, a sizeable portion of their population continuing to be illiterate;

- cultural and social traditions which make the process of change more difficult.
16. In order to be able to enter progressively into free trade with the Union and to take on board a wide range of trade-related Community regulations (customs, standards, competition, intellectual property protection, liberalisation of services, free capital movements etc.), the Mediterranean countries, which will have to bear the cost of adjustment needed to cope with the challenges of free trade, insist on four fundamental aspects for them:
- the need for long transitional mechanisms and secure safeguards;
 - the need to obtain improved access for their agricultural exports;
 - the need for increased financial flows from public and private sources to boost their economies;
 - the possibility to count on the Community's help to accelerate the modernisation of their social and economic systems.
17. Provided developments unfold as they are presently envisaged, Europe and the Mediterranean will be heading, in conformity with the WTO obligations, towards a vast Euro-Mediterranean free trade area, to be completed by about 2010.

It will provide for

- reciprocal free trade in all manufactured products between the enlarging Union and most Mediterranean countries.
- preferential and reciprocal access for agricultural products of interest to both parties;
- and free trade among Mediterranean countries themselves.⁵

The Euro-Mediterranean zone will constitute the biggest free trade area in the world, covering 600-800 million people and some 30-40 countries.

Its constitution will be progressive, flexible and voluntary.

The process is already under way, with Israel being the most advanced in the completion of free trade with both the Community and EFTA countries and having initiated talks with certain Central and Eastern European countries. Negotiations on free trade between the Community and Morocco and Tunisia have begun, to be followed by others in due course. The deadline for Customs Union with Turkey is 1995.

Israel and Turkey are likely to be the first of the Mediterranean countries to conclude a free trade agreement between themselves.

As far as Cyprus and Malta are concerned, they are engaged in a process of accession to the Union.

The progressive completion of a Euro-Mediterranean free trade area will give a powerful boost to trade both between all of Europe and the Mediterranean countries and at least as important, between Mediterranean countries themselves with, as European experience has amply demonstrated, far-reaching trade liberalisation acting as an engine for more and deeper cooperation within the zone.

Inter-industry cooperation and a much higher level of joint ventures between Europe and the Mediterranean will boost the competitiveness of the industrial and business sectors of the two regions and improve their position in the global market-place.

Particular attention will have to be paid to encouraging stronger links between our partners and the poorer Mediterranean regions of the Community to promote mutually reinforcing development.

(b) Financial Assistance

18. The Commission considers that a substantial increase in financial support for the Mediterranean countries is necessary to achieve the objectives of its Mediterranean policy and to help the countries concerned to meet the challenges they face. The Commission proposes that the Community's financial support should focus on the following five priority objectives:

- support for the process of economic modernisation and restructuring of those countries prepared to open their markets in the context of new Association Agreements;
- support for structural adjustment in countries less far advanced in this process with a view to preparing them for entering into free trade with the Union;
- support for regional cooperation, particularly in the environment;
- strengthening of North-South economic and financial cooperation, and among southern and eastern Mediterranean countries themselves, particularly through programmes of decentralised cooperation linking key actors in the cultural, social and economic fields (businesses, universities, research centres, local government, media, non-governmental organisations, ...);
- support for the Middle East peace process.

19. The Community cannot, of course, tackle all these tasks alone. However, given the major interests at stake in this region, a strong and credible assertion of the Union's presence is required. The financial resources which the Community can place at the disposal of the countries concerned, even after substantial increases, will remain limited in comparison with their needs. For the present, the Commission submits the following guidelines for consideration:

- introduction of a substantive economic policy dialogue with the countries of the region to identify their specific needs, and determine priorities and instruments for action by the Community;
- strengthening of mechanisms for coordinating the Community's action (including that of the EIB) with the activities of relevant international financial institutions (particularly the World Bank and the IMF);
- strengthening of coordination between the Community and the Member States;
- evaluation of the possibilities for coordination of all the Community's financial instruments (including loans) to meet the specific objectives and needs of each country.

(c) Cooperation

20. Beyond the establishment of a free trade area, the partners in Europe and the Mediterranean should be prepared to move to a closer relationship in a wide range of sectors. It is too early to define the precise content or form of this relationship, which will need to emerge from consultations with the partner countries themselves. The Community's should, however, already make clear its willingness to embark on a dynamic process. Possibilities for closer cooperation include moves to:

- engage in constant dialogue and concertation on a wide range of trade- and investment-related matters (indirect taxation, standards, customs procedures, investment guarantee schemes, etc.);
- intensify their industrial cooperation (sub-contracting, technological transfer, training, joint ventures, etc.);
- reinforce their cooperation in energy matters, e.g. inter-connection of networks, energy-saving technology, development of solar energy resources;
- raise the social dimension : education, low standards of working conditions, health and safety at work require an immediate and comprehensive approach of the Union to improve law, industrial relations policies and social protection issues;
- strengthen their cooperation in the environmental field to safeguard the Mediterranean Sea and intensify efforts to preserve renewable resources and to combat pollution, erosion, desertification, etc ;
- intensify efforts aimed at promoting sustainable development by addressing issues such as integrated management of water resources, energy supply and conservation, population growth and urban concentration;
- strengthen their exchanges and cooperation with reference to the information society, in particular in specific areas like the regulatory framework, standardisation, infrastructures and new information and communication technologies;

- cooperation between regions, local authorities, cities and towns;
- broaden their cooperation beyond trade into other areas like transport and related infrastructure, banking and other services;
- liberalise movements of capital;
- engage in closer scientific cooperation;
- tackle on a cooperative basis issues that are of mutual interest to the partners within the region (e.g. tourism, illegal migration, terrorism and organised crime);
- recognise the need in bilateral agreements for cooperation in the area of production, trafficking and abuse of illicit drugs; such cooperation would be enhanced if it were to be pursued as part of a Euro-Mediterranean Partnership.

Europe and the Mediterranean countries will, therefore, increasingly find themselves in a process of inter-action, interdependency and mutual association.

IV. Conclusions: the Euro-Mediterranean Partnership

21. The Community's long-term strategy of creating a Euro-Mediterranean Partnership, comprising a zone of peace and stability embracing the Union, Central and Eastern Europe and the Southern and Eastern Mediterranean, implies a close and continuing dialogue between those concerned.
22. For its part, the Union should be prepared to conduct a regular political dialogue with its Mediterranean partners on the respect of human right, and the principles of democracy and good governance which constitute an essential element of their relationship. This dialogue would accompany the intensification of relations in the economic, financial and social fields.

The Community should encourage regional cooperation among mediterranean countries and should be ready to enter into a dialogue with any subregional group which may be formed.

23. At the same time, the Union will need to implement a wide range of policies in the fields of economic, financial and social cooperation.

When making its proposals, the Commission will reconcile the imperatives of the Common Agricultural Policy with the international obligations of the Community, including those within the framework of the WTO.

24. To this end, the Commission submits the following operational recommendations, which build on the Community's long-standing approach towards the Mediterranean countries:
 - 24.1 In the short-term, the Commission hopes to rapidly conclude the negotiations for new Agreements with Israel, Morocco and Tunisia, as the first step towards the

establishment of a free trade area in the region, and pursue discussions with other countries wishing to enter into new contractual arrangements. This will require some degree of flexibility on the part of the Council, in particular as far

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as agricultural trade and financial support are concerned. The Commission also emphasises the urgent need to finalise, before the end of 1994, the on-going talks with Turkey on the full implementation of Customs Union, which would represent a qualitative change in relations between Turkey and the European Community.

- 24.2 In the medium-term, turning the Mediterranean into a zone of relative prosperity and stability, with a high degree of regional cooperation and free trade within the Mediterranean as well as with Europe, will require a substantial increase in technical and financial assistance by the Community to the Mediterranean countries.

In the Commission's view a major effort will be necessary to support the sustainable socio-economic development of these countries, aid their structural adjustment and encourage regional cooperation. Particular emphasis should be placed on those countries prepared both to undertake far-reaching modernisation of their economic and social systems and willing to cooperate with the Community in the management of the interdependences that tie both sides of the Mediterranean. To this end the Union will need to put in place an overall MED programme of cooperation, as was done in Central and Eastern Europe by the PHARE programme.

- 24.3 The Euro-Mediterranean free trade area will succeed with mutual benefit if private European direct investment is stepped up substantially in the years ahead.

To that end, the various support programmes for joint ventures between European and Mediterranean enterprises (MED Invest, ECIP, risk capital operations) will be re-enforced.

- 24.4 In order to facilitate the necessary economic adjustments, and to contribute to the identification of needs and of the appropriate instruments of trade, economic and financial cooperation, the Commission is prepared to enter into substantive economic and industrial policy dialogue with all the countries with whom Association Agreements are concluded.

- 24.5 Regional cooperation among Mediterranean countries will require sustained support from the Union.

The following practical steps should be taken whenever feasible:

- Mediterranean countries having concluded Association Agreements with the Union should be encouraged to negotiate similar agreements among themselves in order to increase intra-regional trade, which presently amounts to only about 5% of their total foreign trade, and thereby attract substantially more private investment to the region;
- cumulative rules of origin could apply to trade among the Mediterranean countries and between them and the Community;

- the Community should continue its active support of sub-regional groupings in the Mediterranean, in particular through appropriate financing of regional institutions and infrastructure programmes and through promoting dialogue and cooperation with these groupings.

24.6 The Commission believes that the appearance of a theoretical amount in a financial statement should not affect the fate of the proposal. The Council and Parliament will have to juggle figures (while keeping to the terms of the financial perspectives) once they have examined the proposals for Central and Eastern Europe and for the Mediterranean. The financial statements are intended to be part of the body of information passed to the Council and Parliament.

The Commission also considers that the final outcome must reflect an appropriate balance between the two regions which constitute the greatest priority for the European Union and must allow the policy in question to be strengthened, thus providing an adequate response to any needs which emerge once the policy is actually in place. It must, furthermore, have credibility with the Union's partners.

Against this background, the Commission considers that in order to implement the wide range of policies invoked above, an indicative figure of around 5,500 MECU of budgetary resources for the period 1995-1999 will be required for all Mediterranean non-member countries (not including Albania and ex-Yugoslavia).⁶ This would be in addition to increased lending from the EIB and other international financial institutions, bilateral assistance from the Member States and greater levels of private sector investment in response to the improvement of the economic and political environment.

24.7 The Commission endorses the idea of a MED-Conference to be held in 1995.

Such a Ministerial Conference should offer a platform for discussion of the long-term prospects of a Euro-Mediterranean partnership for economic and political cooperation, along the lines set out in this communication.

All the Mediterranean countries, i.e. those bordering the Mediterranean Sea, plus Jordan, having concluded agreements with the Union should be invited to such a Conference. The Conference should reach agreement on a series of economic and political guidelines for Euro-Mediterranean policy into the next century, which could be set out in a new Charter. Such a Charter should be compatible with efforts supported by the Union in the CSCE. It could be followed up in an institutional framework, drawing as appropriate on the experience of the CSCE process.

The Conference should thereby contribute to creating a larger awareness, among political and business leaders throughout the world, of the Mediterranean being ready to embark upon a courageous journey which will progressively transform it into a region of stability and peace, rapid economic development, social change and, last not least, political pluralism.

⁶ The Commission will make detailed proposals on the priorities, conditions and instruments for financial cooperation in due time.

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25. The Commission calls on the European Council in Essen to endorse these guidelines and operational recommendations to serve as a basis for the Union's long-term Mediterranean policy.

These guidelines should be reviewed once a year by the Foreign Affairs Council in the light of progress achieved.

**ANNEXES**

- Annex 1 **Economic Development in the Middle East and North Africa (Horizon 2010)**
- Annex 2 **The Strengths and Weaknesses of the EC's Current Mediterranean Policy**
- Annex 3 **Forecasts of Commitment Appropriations in the Community Budget for Central and Eastern Europe and the Mediterranean**
- Annex 4 **Interdependence between the EC and the Countries of the Mediterranean and Countries of Central and Eastern Europe**

**ECONOMIC DEVELOPMENT
IN THE MIDDLE EAST AND NORTH AFRICA**

HORIZON 2010

1. In the margins of the Regional Economic Development Working Group (REDWG) of the Middle East Peace Process, the World Bank¹ produced an assessment of what progress could be achieved in the region during the next 20 years.
2. Drawing upon its experience from within the region and on the basis of past performances, the World Bank proposed a "challenging and yet feasible scenario"; specifically to seek a doubling of regional GDP by 2010. To reach this goal the necessary increase in GDP was evaluated at 3% in 1990/2000 and 5% in 2000/2010.
3. This scenario would suppose :
 - a peaceful environment (which would be translated into the reduction of military expenditures);
 - implementation of a wide range of economic policies;
 - effective regional cooperation in all fields of common interest;
 - in the short term, external assistance (public aid) to offset the negative effects of the costs of economic reforms for reasons of social and political feasibility;
 - in the medium term, appropriate financial flows (domestic savings, workers remittances, foreign direct investment and commercial loans).
4. Unfortunately, because of the population factor, the resulting GDP per capita would remain discouraging. The wealth gap separating the European Union from the Maghreb and Mashraq countries, which presently stands at a level of "one to ten", would be on its way to reaching the level of "one to twenty".
5. This gap would also be increasing between Israel and its Arab neighbours. Israel's GDP per capita would be 25 times higher. Its global GDP for 7 million people, would be equivalent to the GDP of 134 million people living in the neighbourhood.
6. These goals, demanding though they may be, are inadequate. The dynamic created by the progressive opening up of the Middle Eastern and North African economies to the competitive European Union economy is the additional factor which could bring a critical change to this equation.

¹ Economic and Social Development in the Middle East and North Africa. Discussion Paper series n°3. October 1992 - Ishac Diwan, Senior Economist and Lyn Squire, Chief Economist.

POPULATION (millions)			
REGION	1990	2010	increase
MAGHREB	58	90	+ 55%
MASHRAQ	83	134	+ 61%
ISRAEL	5	7	+ 40%
TOTAL	146	231	+ 58%

GDP (US \$ billions)			
REGION	1990	2010	increase
MAGHREB	82	158	+ 93%
MASHRAQ	68	126	+ 85%
ISRAEL	53	118	+ 123%

GDP PER CAPITA (US \$)			
REGION	1990	2010	increase
MAGHREB	1410	1750	+ 340
MASHRAQ	810	940	+ 130
ISRAEL	10600	16860	+ 6260
EUROPE	16000	24000	+ 8000

**THE STRENGTHS AND WEAKNESSES
OF THE EC'S CURRENT MEDITERRANEAN POLICY**

1. BACKGROUND

The Community began establishing contractual links with most of the Mediterranean non-member countries during the sixties. In their initial form, these agreements were essentially confined to trade matters, providing for free access for industrial goods and for specific concessions for some agricultural products. They were expanded in the seventies to include economic and financial cooperation intended to back economic development and establish links through cooperation between the two shores of the Mediterranean. Relations are governed by Association Agreements with Turkey, Malta and Cyprus (leading to a customs union) and by cooperation agreements with the other Mediterranean non-member countries (MNC), Greece having joined the Community in 1981 and Spain and Portugal having joined in 1986. There has been free trade in industrial goods between the Community and Israel since 1989. Under the terms of the overall Mediterranean policy of the seventies, concessions for the countries of the Maghreb and Mashreq have remained unilateral.

Additional protocols were concluded with the MNC in order to mitigate the effects of the accession of Spain and Portugal; these improved the concessions granted for agricultural products.

Until that stage, the Community's Mediterranean policy had followed a traditional pattern of combining trade concessions on the one hand with financial cooperation on the other. The latter operated largely through conventional aid/project arrangements.

At the end of 1989, as a result of its assessment of the Community's Mediterranean policy and of the geopolitical change wrought by the fall of the Berlin Wall, the Commission produced a report on the state of relations with the MNC at the time, and proposed ways in which those relations could be updated (*Redirecting the Community's Mediterranean Policy*, SEC(89)1961 final of 23 November 1989 and SEC(90)812 final of 1 June 1990), taking account of the challenges facing Europe and its partners to the south.

The *New Mediterranean Policy* adopted by the Council in December 1990 reinforced existing efforts and introduced new features to make relations with the MNC more dynamic, backing the Community's action chiefly by using assistance with economic reform to encourage the process of opening up to the outside and structural reform which was under way in some of the MNC.

The introduction by the New Mediterranean Policy of regional cooperation and cooperation covering all of the MNC (particularly decentralized cooperation) signalled the advent of a true partnership (something hitherto missing from relations with the MNC) and constituted the Policy's major qualitative innovation.

In the interests of giving due consideration to sub-regional characteristics, the Commission produced proposals on the future of relations with the Maghreb (SEC(92)40 final of 30 April 1992) and relations with the Mashreq (COM(93)375 final of 1 September 1993). In these communications, the Commission proposed that Europe and the Maghreb and Mashreq be more economically intertwined. This resulted in the negotiations planned or already under way with a number of MNC (most significantly Morocco, Tunisia and Israel) for agreements which will rest on four principles : political dialogue, free trade in industrial goods, economic, social and cultural cooperation and appropriate financial cooperation. This is undeniably a further development of the partnership approach introduced by the New Mediterranean Policy.

Lastly, in September 1993, the Commission produced a communication on EC support for the Middle East peace process (COM(93)458 final of 29 September 1993) which emphasized the need for Europe to help the Palestinians progress towards autonomy, for changes to be made to the bilateral cooperation agreements and for regional cooperation in the Middle East to be promoted.

These advances have brought relations which are closer and qualitatively better than before, paving the way to establishing a genuine European/Mediterranean area.

2. ASSESSMENT

2.1. Trade

Free access for industrial goods to the Community market has undoubtedly held advantages for the economies of the MNC. Between 1979 and 1993, the overall share of total MNC exports to the European Union occupied by manufactures rose from 28% to 54%. This average does however conceal variations in performance. In the Maghreb, Morocco and Tunisia, which both introduced successful economic reform, pushed up exports of manufactures from 24% to 66% (Morocco) and from 40% to 77% (Tunisia). In 1992 Turkey and Israel also reached or exceeded rates of 70%.

The fact that the external protection of most of the region's economies is still quite high means that exports are not diversified enough and the MNCs' trade balance with the European Union still displays a major structural deficit. MNC exports often focus on a small number of fields (or products), increasing their vulnerability considerably in the medium term.

It is worth pointing out that the voluntary restraint arrangements for some textiles and clothing have not been a major obstacle to our MNC partners, since flexible administration and progressive liberalization over the years has increased their share of the Community market more than is the case with countries governed by the MFA.

Access to the Community market for agricultural products has substantially improved over the past two decades. There has been a gradual elimination of customs duties on major agricultural products from the MNC (this has been within the bounds of tariff quotas in the case of sensitive products). Even considering the presence of quotas, the products have been admitted at preferential rates of duty.

This is not in itself indicative of a problem. Quite the opposite: as development progresses, agriculture loses ground to manufactures.

Viewed against the background of the MNCs' own imports, trade in agricultural products demonstrates the failure of efforts at diversification, since in the case of most of the countries self-sufficiency in food commodities has not increased. Dependence on imports from the Community remains the rule.

Although it has increased in absolute terms, the share of exports occupied by agricultural products is on the decline. Only in the cases of Morocco and Turkey does that share exceed 15% of total exports to the European Union.

2.2. Financial and technical cooperation

Community aid from the budget accounted for 0.1% of GNP, while EIB loans accounted for 0.3% of GNP. Such aid addressed important sectoral needs (vocational training, rural development, etc.) but did not have a significant macroeconomic effect. In some cases, administration of the aid was adversely affected by political circumstances or red tape.

The New Mediterranean Policy has greatly increased European Union assistance (EIB loans and funds from the budget). Traditional cooperation projects in priority areas (training, rural development, etc.) have been supplemented by support for structural adjustment producing rapid disbursement of funds to help (in however small a way) with economic reform. These activities have also made it possible to bolster welfare policy (health care, education and low-income housing), usually using counterpart funds. This kind of assistance remains inadequate relative to the financial needs of heavily indebted MNC, however.

The fact remains that some of the MNC in which adjustment programmes agreed with the World Bank and IMF are under way have made substantial progress with economic reform since the eighties. This is particularly true of Morocco, Tunisia, Jordan and Turkey. They continue to have highly protected economies, however, and much remains to be done to secure liberalization. There are other countries in which reform will be longer in coming because they began restructuring their economies later and since problems tend to be magnified over time, the difficulties will be greater.

Using funds from the budget heading for structural adjustment (ECU 300 million) the Community has tried to make a modest contribution to backing structural adjustment in the countries which have embarked on economic reform. Counterpart funds have been earmarked for import programmes, social services (education, health care, housing, etc.), but the limited amounts available made it impossible to produce a significant effect.

Although it is another important innovation introduced by the New Mediterranean Policy, cooperation covering the MNC as a whole has had a more variable success rate. Programmes of decentralized cooperation directed at key players in civil society do seem to have sparked considerable interest in local communities and universities.

Initiatives aimed at bringing economic operators (especially SME) into contact with each other, backed by Community initiatives like MED-INVEST, are growing in number. This is an important development.

The unstable political situation has, however, meant that regional cooperation proper has remained embryonic, but the success of the Middle East peace process means that the future looks hopeful.

The progress of cooperation in recent years has obviously benefited from an increase in the number of channels for assistance, but aid from the Community budget nevertheless accounted for an average 3% of total aid to the Mediterranean region between 1989 and 1992.

The record of the Community's activities remains mixed, despite the progress made since the advent of the New Mediterranean Policy. Considering the challenges which our partners will face in the coming years and the political and socio-economic implications for Europe, special attention is needed, along with commensurate financial support.

FORECASTS OF COMMITMENT APPROPRIATIONS IN THE COMMUNITY BUDGET
FOR CENTRAL AND EASTERN EUROPE AND THE MEDITERRANEAN
(ECU million)¹

	1991	1992	1993	1994
TOTAL MED	327	419	407	473
under B7-40	217	326	364	450
C&E EUR (B7-60)	760	1000	1036	985

¹ Rounded up or down.

FINANCIAL COOPERATION TO DATE
WITH MEDITERRANEAN NON-MEMBER COUNTRIES

1. Since 1978, the Mediterranean non-member countries linked to the Community by association or cooperation agreements have been covered by five-year financial protocols earmarking for them both budget funds and EIB loans. The fourth generation of these financial protocols runs from 1992 to 1996.
2. Between 1978 and 1991, the countries of the Maghreb and Mashreq received ECU 1 337 million in budget funds and ECU 1 965 million in EIB loans overall (the figures include Israel, which, because of its level of development, only receives EIB loans).

The fourth financial protocols with the MNC (which cover the period 1992 to 1996 and are therefore still running) allocate ECU 1 075 million of budget funds (including ECU 300 million to back structural adjustment in the countries which have embarked on economic reform) and ECU 1 300 million of EIB loans.

3. In addition, as part of the New Mediterranean Policy, an allocation (it is estimated that ECU 230 million will be needed for 1992 to 1996) is set aside for measures targeting the MNC as a whole. Similarly, the EIB has an allocation of ECU 1 800 million of loans for regional (ECU 1 300 million) and environmental (ECU 500 million) measures.
4. The countries of the northern Mediterranean (Cyprus, Malta and Turkey) have received ECU 672.5 million of budget funds and ECU 262 million of EIB loans over the period from 1965 to 1993.
5. It should be noted that the EU is the largest donor of assistance for Palestinians in the Occupied Territories, having given approximately ECU 100 million in 1993 and approximately ECU 86 million in 1994.
6. Measures targeted at the MNC can also draw limited amounts from a combination of budget headings for such fields as population, migration and the environment.

**TABLE ILLUSTRATING INTERDEPENDENCE
BETWEEN THE EC AND THE MED COUNTRIES
AND COUNTRIES OF CENTRAL AND EASTERN EUROPE²**

1. Population

million inhabitants	1992	2010
EC	347	376
MED	209	304
C&E EUR	110	116

Source: Population Reference Bureau, Data Sheet 1992

2. Gross domestic product (GDP) by region

billion USD	1992
EC	6677
MED	332
C&E EUR	212

Source: World Bank Development Report 1994

3. Per capita gross domestic product (GDP)

USD	1992
EC	19242
MED ³	1589
C&E EUR	1927

² MED=Morocco, Algeria, Tunisia, Libya, Egypt, Israel, Jordan, Lebanon, Syria, Turkey.

³ 1992 per capita GDP for Maghreb and Mashreq countries only: USD 993.

4. EC trade with the Med countries and countries of Central and Eastern Europe¹

(ECU million)

		1990	1993
EXPORTS	MED		
	Total	36.2	45.6
	Agric. ²	4.6	4.7
	Manuf. ³	28.5	37.4
	C&E EUR		
	Total	12.1	26.1
	Agric.	1.5	2.9
	Manuf.	9.6	21.4
IMPORTS	MED		
	Total	34.5	33.2
	Agric.	3.4	3.3
	Manuf.	11.9	14.0
	C&E EUR		
	Total	13.0	20.3
	Agric.	2.7	2.6
	Manuf.	8.0	15.2
TRADE BALANCE	MED	÷1.7	÷12.4
	C&E EUR	- 0.9	÷5.8

¹ MED=Morocco, Algeria, Tunisia, Libya, Egypt, Israel, Jordan, Lebanon, Syria, Turkey.
C&E EUR=Poland, Hungary, Czech Republic, Slovak Republic, Bulgaria, Romania, Albania.

² Definition of "agricultural products" aggregate: CTCI 0÷1÷2÷4-27-28

³ Definition of "manufactures" aggregate: CTCI: 5÷6÷7÷8-68

5. Energy dependency of the EC

Percentage of total imports ⁴		1992
TOTAL ENERGY	MED	24
	C&E EUR	1
NATURAL GAS	MED	32
	C&E EUR	0
OIL	MED	27
	C&E EUR	0.5

Source: Eurostat

6. Direct EC foreign investment (1992)

in:	million ECU
MED	751
C&E EUR	1612

Source: Eurostat

7. Immigrants by nationality in the EC (1992)

in:	million
MED	4.6
C&E EUR	0.7

Source: Eurostat (figures rounded up or down)

⁴ = net imports (imports less exports)

FINANCIAL STATEMENT

1. TITLE OF OPERATION

Strengthening the Mediterranean Policy of the European Union: Establishing a Euro-Mediterranean Partnership

2. BUDGET HEADING INVOLVED

B7-40

3. LEGAL BASIS

All the legal bases quoted in Chapter B7-40

4. DESCRIPTION OF OPERATION

4.1 General objective

- to promote the socioeconomic development of the Mediterranean non-member countries (MNC);
- to support the modernization and economic restructuring process in the MNC with a view to the progressive establishment of a free trade area (FTA);
- to promote direct investment in the area via joint ventures (MED-INVEST, ECIP, risk capital);
- to encourage job creation, particularly the setting up of SME;
- to promote regional cooperation in all fields including the environment (regional projects, decentralized cooperation programmes, specific environment-related operations);
- to support the Middle East peace process.

4.2 Period covered and arrangements for renewal or extension

The current Mediterranean policy covers the period 1992-96. This policy should be extended for a further five years until 2001, subject to renewal of the financial perspective.

4.3 Target population

The population of all MNC linked to the European Union by Agreements.

5. Classification of expenditure or revenue

- 5.1 Compulsory/non-compulsory expenditure depending on the different budget headings.
- 5.2 Differentiated appropriations
- 5.3 Type of revenue involved: none

6. Type of expenditure or revenue

- 100% subsidy: many of the planned operations take the form of a 100% subsidy of a programme or project's operational expenditure.
- Subsidy for joint financing with other sources in the public and/or private sector: joint financing with other donors, NGOs or the private sector is also envisaged.
- Interest subsidy: in some cases interest subsidies on EIB loans could be considered.
- Should the operation prove an economic success, is there provision for all or part of the Community contribution to be reimbursed? No.
- Will the proposed operation cause any change in the level of revenue? No.
- Re-use: none.

7. FINANCIAL IMPACT

7.1 Method of calculating total cost of operation

The indicative multiannual financial programming given in the Annex reflects the need to step up European Union activity in the Mediterranean in the light of the challenges facing the MNC.

Despite the increase over the current levels - from a very low starting point, however, the resources required by the MNC to accomplish their economic reforms remain fairly modest in relation to their needs. The Commission, subject to the annual budgetary procedure, proposes an indicative amount of ECU 5 500 million for Chapter B7-40 "Cooperation with Mediterranean countries" for the period 1995-99.

7.2 Itemised breakdown of cost

The breakdown will depend on the Commission's subsequent detailed proposals.

7.3 Indicative schedule of appropriations

See table in the Annex.

8. **FRAUD PREVENTION MEASURES; RESULTS OF MEASURES TAKEN**

The projects and programmes financed as part of cooperation with the MNC are subject to regular monitoring and systematic audits by the Commission or its authorized agents and the Court of Auditors.

9. **ELEMENTS OF COST-EFFECTIVENESS ANALYSIS**

9.1 Specific and quantifiable objectives; target population

- Specific objectives: links with general objective. In the context of the general objective described under point 4.1, the purpose of the measures taken under this heading is the total or partial financing of programmes in the following areas:
 - modernization or restructuring of the MNC industrial fabric;
 - aid for the private sector, especially SME, and investment promotion;
 - modernization of institutional economic structures, particularly financial and fiscal systems;
 - development of a social protection net and job creation measures designed to combat poverty;
 - contribution to higher economic levels via measures to improve economic and social infrastructure;
 - support for measures to protect the Mediterranean environment;
 - promotion of regional cooperation between MNC;
 - support for the creation and development of decentralized cooperation networks, particularly involving civil society;
 - support for the Middle East peace process, for example in the context of the Working Party on regional economic development and the programme to assist the Palestinian population of the Occupied Territories;
- Target population: distinguish as applicable for each objective; indicate the end-beneficiaries of the Community's financial contribution and the intermediaries involved.

The end-beneficiaries of aid to the MNC are the people concerned by the various programmes and projects.

9.2 Grounds for the operation

- **Need for Community financial aid**
- The Corfu European Council underlined the need to strengthen the European Union's Mediterranean policy in order to promote peace and stability in an area of strategic importance.
- In view of the enormous efforts required by the MNC in terms of economic reforms, they need considerable support from the European Union in order to establish the FTA.
- **Choice of ways and means**
- The ways and means used for the MNC cooperation programme will vary according to the situation in each country and sector. EU financed operations will be preceded by identification and feasibility studies.
- **Main factors of uncertainty which could affect the specific results of the operation**
- The economic reform process to be undertaken or stepped up is subject to uncertainties in the form of social repercussions and the international economic climate. The progress of reforms will also remain dependent on political developments in the region.

9.3 Monitoring and evaluation of the operation

- Cooperation with the MNC is monitored very closely by the Commission in Brussels and the delegations in the MNC.
- A computerized system (RAP) recently came into use to monitor operations.
- Each programme is also subject to a regular audit by independent experts, covering both technical and financial aspects.

FINANCIAL COOPERATION
WITH MEDITERRANEAN NON-MEMBER COUNTRIES

(Chapter B7-40)

(ECU million at current values)

1994	1995	1996	1997	1998	1999	1995- 1999
427	492 ⁵	700	1080	1495	1733	5500

⁵ 1995 PDB