

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## COMMISSION COMMUNICATION TO THE COUNCIL

on a Mediterranean policy for the enlarged Community

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THE NEED FOR A NEW INITIATIVE

The Mediterranean problem

1. On 21 June 1979 the Commission presented a report to the Council on the consequences of enlargement for relations with non-member countries. It dealt at length with the situation of the Mediterranean countries linked by special cooperation arrangements to the Community in the framework of the "overall Mediterranean approach" worked out in 1972.<sup>1</sup>

Concluding its report, the Commission said: "As soon as the state of the negotiations permits, it will present specific proposals for solutions which will safeguard the policy of openness and cooperation on which it has embarked with the Mediterranean countries and the developing countries in order to contribute towards their economic and social development". This communication fulfils that undertaking as regards the Mediterranean countries.

2. In the Commission's view, however, the new solutions cannot be based solely on an update of the current Mediterranean policy to take account of the impact of enlargement. That policy is not operating to the satisfaction of our partners, and it is necessary to take into account the reasons for the present difficulties. Consequently we must consider briefly why the overall Mediterranean approach adopted in 1972 has not given all the results expected

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<sup>1</sup>The "overall approach" covers all Mediterranean littoral countries wishing to maintain special ties with the Community, plus Jordan. Turkey, which already had an association relationship with the Community, does not come under the "overall approach". However, what follows is also broadly relevant to that country, though in practice specific political and institutional arrangements may be made to cater for its special position.

THE LIMITS OF THE OVERALL APPROACH OF 1972

3. The basic problem has been that a policy devised in the boom years of the 1960s was only put into effect in leaner times, against a background of world recession and consequent internal Community crisis, the first "Mediterranean" symptoms of which were making themselves felt. As a result it was difficult to apply the Mediterranean agreements properly, let alone develop them.

Accordingly:

- (a) The Community's far-reaching concessions on the industrial side have not had the desired results. Given sustained expansion, they should have stimulated an increase in exports of manufactures in line with the objective of the agreements, encouraging industrialization in the Mediterranean countries and thus offsetting the inevitable limitations of the agricultural clauses. In the event, however, the industries which could have produced the export growth were precisely those the recession rendered "sensitive" in the Community.
  
- (b) The Community's internal Mediterranean problems, due largely to the legacy of the past and exacerbated by a common agricultural policy skewed against Mediterranean crops and an inadequate regional development policy have made it impossible to give practical effect to the review clauses in the various agreements.
  
- (c) The employment situation in the Community has considerably reduced the openings for migrant labour on which some of our Mediterranean

partners have been accustomed to relying as a means of improving their trade balance with the Community and easing their own labour market.

4. In these circumstances the Mediterranean partners' aggregate trade deficit with the Community, which the agreements had been intended to reduce, actually grew from just over 4 000 m ECU in 1973 to just over 9 000 m ECU in 1979. This trend has greatly contributed to the decision of some of our partners to impose severe import curbs which have hit Community exports hard. As essential food imports, a major item, cannot be cut back, these curbs have fallen disproportionately on capital goods, which in the long run could jeopardize the whole development process.

Most of these countries are also facing the prospect of a decline in the remittances from migrant workers, which are so important for their balance of payments.

#### The impact of enlargement

5. None of these problems has been caused by the fact or prospect of enlargement and, whether the Community acquires another two members or not, there is little prospect of simply reviving the old policy. Nevertheless, as the barriers to free movement of goods between prospective and present members are dismantled in the course of the transition period, the Mediterranean partners could well find themselves facing even tougher competition on the Community market, not least in the sensitive Community sectors to which their exports are largely geared. Further, the greater ease of access to employment which Spanish and Portuguese workers will enjoy in the Community framework could shut the doors on immigration from the other Mediterranean countries for a very long time indeed.

6. The consequences will not be so drastic as people sometimes claim, overlooking, for instance, the fact that most of the applicant countries' exports of sensitive industrial and agricultural products already go to the Community anyway.

The future Member States' adoption of the preferential agreements linking the Community with the Mediterranean countries and their alignment generally on the more liberal Community import rules are undoubtedly positive factors which should not be overlooked. Again, as the Commission indicated in its 1979 report, additional factors such as the relative decline in the applicant countries' competitiveness which could follow their adoption of Community social, tax and competition rules should soften the blow of enlargement.

Having said that, there are the longer-term effects which any objective analysis of the problems must take into consideration but which should not blind us to the fact that in the short term the export openings created for our Mediterranean partners on the Portuguese and Spanish markets will be extremely limited, whereas the new Member States will immediately get a real competitive advantage on the Community market.

Overall, therefore, the impact of enlargement on the Mediterranean countries will depend to a great extent on the proportion of exports of each partner to the Community represented by products that constitute a major part of the candidates' exports.

7. In its 1979 report the Commission noted that the agricultural products to be considered in assessing the impact of enlargement were citrus fruits, particularly oranges and small fruits, fresh tomatoes, potatoes, especially new potatoes, wine and olive oil, which account for the bulk of the Community's agricultural imports from countries in the Mediterranean area. They are also the ones which are posing problems because of the level of Spain's present and potential production.

As far as manufactures are concerned, the main problem is with processed food, especially tomato concentrates, fruit juice and canned fish, textiles.

8. Again, most of the applicant countries' migrant workers already go to the Community anyway. This is the field in which it is most difficult to forecast the effects of enlargement with any confidence. However, it seems fairly safe to say that the immigration controls imposed by Member States to keep the inflow of foreign workers within limits compatible not only with the job situation in the Community, but also with the need to integrate existing immigrant communities and limit the social cost of immigration, will remain in force over

the next decade, ruling out any immigration on the scale our partners might have wished. The full impact of free movement will only make itself felt at the end of the transition period, on which the Community has already taken a prudent position, and this is beyond the range of any meaningful immigration forecasts. Having said that, the Mediterranean countries from which there has traditionally been considerable emigration to the Community are the Maghreb countries, Turkey and Yugoslavia<sup>1</sup>.

Our partners are also worried that after enlargement, the Community might take an even tougher stand on social security for migrant workers; as it is, the social clauses in the agreements have not yet been fully implemented.

9. In its 1979 report the Commission, after considering the weight of these factors for each country, concluded that the countries which stood to lose the most were Cyprus, Malta, Morocco, Tunisia, Israel and, to a lesser extent, Turkey<sup>2</sup>. Further analysis has confirmed this view.

Cyprus is heavily dependent on the UK market, which in 1980 took 90% of its total exports of vegetables and 75% of its exports of fruit<sup>3</sup>. Cyprus has made a serious effort to diversify on to Middle Eastern and Arab markets, but would be hard hit if forced to cut back substantially on its exports to the Community, which account for 60% of all agricultural exports and 39% of its total exports.

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<sup>1</sup>Yugoslavia has a policy of mostly temporary emigration and, with this in view, has for a long time collaborated with host countries in resettling emigrant workers.

<sup>2</sup>See footnote 1 on page 1.

<sup>3</sup>Cyprus's main agricultural exports are new potatoes, citrus fruits and wine.

Malta is a special case. Its vulnerability arises chiefly from the fact that textiles account for by far the largest proportion (47%) of its exports to the Community.

Morocco's exports to the Community represent a large part of its GNP, and despite its substantial phosphate exports (about 25 % of total exports) it is still heavily dependent on sales of Mediterranean fruit and vegetables (over 50% of total agricultural exports) and of textile products (15%).

Tunisia is likewise very dependent on a number of highly sensitive products, particularly olive oil, citrus fruits and textiles. Olive oil in particular not only accounts for more than 50% of the country's agricultural exports and more than 10% of its total exports, but is a major source of employment (olive oil is the exclusive or main source of income of about 20% of the population.)

Israel's exports are also geared quite heavily to Mediterranean products, notably citrus fruits, fruit juice and cut flowers (together they represent 16% of its total and 50% of its agricultural exports). However, it has a far wider export range than the countries discussed above, and among the Mediterranean partners it will undoubtedly be the one best able to take advantage of the lowering of Portuguese and Spanish tariffs and the elimination of other measures which make exporting to those countries difficult.

10. The other Mediterranean partners, including the Mashreq countries, are much less dependent on exports of the sensitive products; anyway, they depend far less on the Community market as it is, and have virtually no migrant workers in the Member States. Algeria exports mainly petroleum products and is not likely to suffer from stiffer Spanish and Portuguese competition after accession.

Yugoslavia is also a special case. Its agricultural trade with the Community is less geared to the typical Mediterranean crops and its industrial exports are more diversified. But it is necessary to take into account the precarious balance of this country resulting from the contrast between trends in its trade balance with the Community and those with Eastern Europe. The maintenance of this balance must be seen in the light of the country's role in the Mediterranean equilibrium as a whole, and in shaping non-alignment and development policy, which make it a key partner for the conduct of a new Mediterranean policy.

The importance of the Mediterranean area as a whole

11. Let us not be misled by such distinctions, however; if the Community, responding to pressures at home, took steps to curb imports from the most heavily-committed suppliers, damage would be done to the stability of the whole Mediterranean area.

The Community must take care to see that loss of market access does not irreparably destroy the fragile balance of relations with the Mediterranean countries. It is vital for these countries, with their fast-growing populations, to maintain an economic balance and continue with the development process, and ousted from Community markets, they could only turn elsewhere. Inevitably, they would forge closer political ties with their new trading partners, and both the economic and the political consequences would be serious.

12. Since 1972 the area has grown steadily more important to the Community in economic terms. It is a major route for fuel and raw materials supplies, and an important link with the Arab world. The Mediterranean countries are already major trading partners, taking more than 10% of total Community exports, and offer a potentially much larger market, provided they can meet the development needs of their growing populations. To do this, they must increase their exports in order to pay for the extra capital goods and food imports that they will require; and the Community is far and away their largest market.

13. They could, of course, look for other markets and they are starting to do so. Certain countries of the Middle East and the Gulf could offer supplementary outlets for various products, while the new markets emerging in Africa may possibly provide opportunities that are not neglectable. However these can not be more than relatively minor outlets, and increased access to them supposes more active trade promotion. The other potentially large markets are not generally orientated towards the Mediterranean countries. So the only market that could offer fill the gap left by the Community is that of Eastern Europe, at any rate in the short term. The Mediterranean partners themselves fear such a development of their trade.

The Community of Twelve remains the indispensable outlet for the exports of Mediterranean countries, and is indeed their natural partner in development. It is in its best interest to avoid increasing their economic and social difficulties which might encourage the destabilisation of the region. The Community should therefore show itself to the Mediterranean countries a reliable partner, whose trade and aid policies can be counted on in long term. This implies that in future the Community must ensure it is better able than in the past to stand by its undertakings in spite of continuing recession and the risk that internal cohesion will diminish after enlargement.

14. It is on the operation of the trade clauses of the agreements that the success of the Community's Mediterranean policy must depend. Increased cooperation activities, even financial aid, cannot compensate for a decline in trade; theirs is a back-up function.

This is not to say that ways should not be sought of minimizing the problems caused by imports in sensitive sectors. This is not to be achieved by throttling trade, i.e. cutting imports, but by trying to achieve better trade complementarity. It should be borne in mind that while development of the trade arrangements does present appreciable risks for some Community regions, the balance overall is clearly in our favour.

#### THE MAIN ELEMENTS OF A MEDITERRANEAN POLICY FOR THE TWELVE

##### Agriculture

15. "Mediterranean products" (see above) generally have a limited export market, slow and difficult to expand, so at present they tend to be marketed and consumed in or near the area of production. Within the Mediterranean area as a whole, therefore, it is important to prevent the formation of structural surpluses, which would largely have to be destroyed, being neither easily saleable on the world market, nor much use in the fight against hunger in the Third World.

The fact that the outlets are limited means that the Community market is even more important for Mediterranean countries. Hence, in the immediate future, the Community must commit itself to a consolidation of their exports to allow the products of the Mediterranean countries covered by the agreements to maintain their access to Community markets.

In order to avoid any situations likely to create serious sectoral disturbances, the Community and its partners will consult each other in the most appropriate framework on the situation of the main products, with a view to finding ways of maintaining a satisfactory balance between supply and demand in the Mediterranean area.

With the same aim in view, the Community will endeavour to ensure that its production policy does not clash with the interests of the Mediterranean partners. It will also have to encourage as much complementarity as possible between its own and its partners' Mediterranean agriculture, for instance as regards the timing of production and marketing.

In this connection the Commission would like to draw the Council's attention once again to the important proposals which it submitted in 1981 regarding existing Community rules and the need to take into account the effect which decisions are likely to have on relations with the Mediterranean partners.

16. Moreover in order to improve their trade balances, the agreements should, as far as possible, encourage our partners to reduce their dependence on food imports rather than to increase their exports. To achieve this they will have to make great efforts to develop agricultural potential where there is a shortfall and attempt a certain amount of reconversion schemes, for which they will need the Community's help.

Such a policy is undoubtedly in their own interests, since it will enable them to become less dependent on imports of staple foodstuffs in particular.

However, conversion has limits imposed by soil and climatic conditions, and it also has "human" limits imposed by the scarcity of training and skills, the weight of tradition and, not least, the social consequences of conversion. Even more than in the Community, the problem of employment is an enormous obstacle to conversion<sup>1</sup>.

### Industry

17. The main aim of the agreements is to promote the orderly expansion of trade. This cannot be achieved unless our partners have real opportunities to develop their exports in sectors where they are capable of producing. We have already seen that these tend to be products which, in the Community, are either sensitive at present, in particular textiles, footwear and processed foodstuffs, or capable of becoming so in future, such as petrochemicals.

The current agreements give the Mediterranean countries duty-free access to the Community market for their industrial products<sup>2</sup>. There can be no question of going back on these commitments, which were entered into in 1972 as an important factor in the Mediterranean countries' development policy. That being said, a mere restatement of principles will not allay our partners' fears, especially as the general economic situation is no longer the same as it was in 1972, and is unlikely to become so again, and also because they are afraid that an enlarged Community will turn more than at present to restrictive measures such as those applied in the textiles

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<sup>1</sup>E.g. 15 ha of cereals is equivalent in terms of income and employment to about 1 ha of vegetables grown outside.

<sup>2</sup>With a few exceptions for certain agri-foods and refined petroleum products (and apart from the system of ceilings for Yugoslavia).

sector, which hit them very hard and which they felt ran counter to the agreements.

A restatement of the principle of freedom of access should therefore be accompanied by better functioning mutual consultation machinery than that provided for in the present agreements, so that proper concerted action can be taken whenever necessary. Through exchanges of information on market trends in sectors which prove to be sensitive, this machinery should make it possible to give early warning of crises and improve the precision of measures to deal with the threat of disturbances on either side. We must give our partners the necessary confidence in the functioning of their agreements to enable them to plan their development, and hence their investments, taking account of the opportunities offered by the agreements. Although it would be unrealistic in the near future to make any radical change in the situation in the textile sector, further recourse to the kind of measures which have had to be taken here should be avoided at all costs in other sectors.

#### Cooperation

18. The main aim of a Mediterranean policy must be for the Community to help its partners with their development, while respecting their domestic and foreign policies. As a "civilian power" the Community has certain advantages in this respect and it should make the most of them.

We must discuss with them how and to what extent we can help them achieve their development targets, and try to support a certain orientation of them to achieve as much complementarity as possible, so as to encourage the orderly expansion of trade not only between us and them, but amongst themselves.

Whether we are dealing with concertion on the development of output of agricultural products in the whole area, or with the industrial strategies to be geared to our own structural adjustment and growth requirements, as well as to our partners' development needs, the point is to see that the Community acts with consistency in its own Mediterranean regions, the applicant countries and the Mediterranean partner countries, so that it reduces rather than stimulates conflicts of interest.

This means stepping up cooperation within a consistent framework of Community operations round the whole area. The recent agreement with Yugoslavia offers an avenue of approach which should be explored more fully than it has been so far in our relations with that country.

We should be clear, however, that unless the money and resources for this cooperation, in which our partners place such hopes, are forthcoming, we may condemn them to total disillusion. We must at all costs avoid succumbing to the temptation to offer them a few sweeteners as a way of inducing them to accept unsatisfactory compromises simply to overcome their immediate difficulties. That might enable us

to "play for time" - a few years at best - but would inevitably end in a period of disappointment which could cause incalculable political damage. The Community must make more money available and provide for more generous financial protocols with fewer strings attached, so that there are sufficient funds in the form of special loans - and grants too - to finance a voluntarist implementation of the cooperation clauses.

However, the development of these countries will mean not only their making the most of their potential to produce and process raw materials but also a certain readjustment of production capacity and future plans in order to take account of the changes in their opportunities for trading with the Community. In these circumstances a substantial contribution by the Community to the development of these countries will require resources well in excess of what can be provided even under improved financial protocols. The Community should do all it can to swell the flow of finance to its Mediterranean partners, either by making use of its own instruments or by making an effort to get funds mobilized on the international capital market.

19. Cooperation on social matters also needs a boost. The virtual closing of the door to further immigration and the problem of integrating immigrants into the society of the host countries, above all in the regions with concentrations of them, could lead to social unrest with grave political consequences. The Community owes much of its prosperity to migrant workers - it cannot now refuse its responsibility for their future. It should increase its efforts to give them true equality in their conditions of life and work. Their own countries of origin, in spite of great shortages of jobs and growing populations, suffer from a lack of skilled labour which is often a serious bottleneck in the development process. This is a field in which cooperation could usefully be stepped up. Most Member States are already

implementing bilateral schemes for on-the-spot training in the host country of workers who are needed for the development of their country of origin. The Community should encourage and assist with this type of cooperation by providing suitable aid for these schemes. It should continue and strengthen its measures to encourage the integration of immigrant workers and their families in the society of their host countries.

The present stalemate over the implementation of the social security clauses in the agreements would also have to be resolved to our partner's satisfaction, in line with our undertakings.

### CONCLUSIONS

20. After enlargement the Community must have an internally consistent overall policy for the whole Mediterranean area. There can be no real Mediterranean policy if Mediterranean countries are denied access to the Community market, and that market will not open up, despite the considerable net benefit to the Community as a whole, if the whole brunt of liberalization is to be borne by the poorest Community regions. The Community gains overall from its economic relations with the Mediterranean countries, but we must not overlook the underlying regional inequalities, which the Mediterranean policy will intensify unless steps are taken to prevent this. Without help for these vulnerable regions, particularly the Mediterranean regions (but not only them), the development of the Mediterranean policy would inevitably conflict with the policy of internal convergence that we seek to advance through the reinforcing of Community solidarity.

Thus the external Mediterranean policy implies the vigorous pursuit of internal development as well, through a more ambitious and betterfunded regional policy, a social policy more active and better adapted to the Mediterranean regions and a redirection of the Common Agricultural Policy.

The Mediterranean regions of the Community are generally more exposed than the others to the consequences of enlargement and of the external Mediterranean policy of the Community. Their situation calls, therefore, for specific measures, particularly in the fields mentioned above. They should be implemented in the framework of the "Community programmes" advocated by the Commission in its report on the mandate of 30th May.<sup>1</sup>

The external Mediterranean policy can also affect certain sectors not limited to the Mediterranean regions. These side-effects, more sectoral than regional, should be dealt with by measures applicable in all the regions of the Community affected.

21. The external objective of cooperation worthy of the interests which link us to the Mediterranean countries would no doubt be better served by a global convention between the two regions, along the lines of the Lomé Convention but between the Community and all its Mediterranean partners. This collective contract, which should not replace the individual agreements between the Community and each Mediterranean country but rather complement them, would balance relations and so make them less vulnerable to sectoral or immediate economic difficulties. Such a project cannot be realised in the immediate future, but the option should be kept open.

Moreover as many institutional and operational links as possible should be set up between our present agreements and the various forms of current or future cooperation with the rest of the Arab world (co-financing, joint financing, mutual investment protection, transfer of technology, etc.).

At the exclusively Mediterranean level it would also be a good idea when implementing the current agreements to coordinate cooperation and development activities. Such an approach could be expressed institutionally in joint meetings of representatives of the various Cooperation Councils or Committees or joint parliamentary committees.

<sup>1</sup> See paragraphs 27 to 30 of this report.

The setting up of a "Mediterranean Forum" for meetings and discussions along the lines of the Council of Europe, where the many countries of the region could maintain contact despite the all too frequent breakdown of communications between them would increase the chances for stability and development in the entire area. The Community should support any initiatives which have already been or are still to be taken in this direction.

22. One major external question remains; the effect of a Community Mediterranean policy on relations with third countries, and the United States in particular. The disagreement with that country to which the Mediterranean policy has given rise has flared up on a number of occasions since 1973, but until now such disputes have always been settled on the basis of the Casey-Soames understanding. The USA's new stand in GATT suggests that the disagreement could intensify. This is a problem which it would be wrong to underestimate.

The question is whether American hostility to the development of the Mediterranean agreements of the Community, in the field of trade policy, could be reduced by an understanding of the political impact of its Mediterranean policy.

#### THE NEED FOR A DECISION

23. In any case, the Community must come to a rapid decision on those options; they are part of the general rethinking it must undertake at the moment when it must accelerate the process of adhesion of Spain and Portugal which the Commission still considers to be realistic and politically important.

24. There is need, therefore, for a procedure which, without compromising the Community's independence of decision or interfering with the normal course of the accession negotiations, will sufficiently reassure our Mediterranean partners. Since the procedure used in 1972 and 1979 was unacceptable to them, and the idea of "parallel negotiations" which some of them were advocating, is equally unacceptable to the Community and the applicant countries, there must be a compromise approach to reconcile the main points of concern on either side.

To achieve this the main priority for the Community is to arrive swiftly at a position on the broad outlines of the Mediterranean policy which it feels it should promote in the future.

These guidelines should then be submitted to the applicant countries, as their commitment is essential for our partners. They may be confident that the Community intends to take account of their concerns but they fear that Spain and Portugal, at the moment they already have to bear the shock of admission, would oppose the implementation of a policy on which they have not been consulted. It must be said that the attitude of the Community has not until now presented real opportunities for finishing the negotiations for admission and so makes it difficult for the candidates to adopt an open attitude towards a problem directly linked to aspects of the negotiations important for them.

Once these broad outlines have been agreed on by the Twelve, the Commission means to open this autumn exploratory talks with the Mediterranean partners this autumn on the basis of those guidelines. This would be so that by the end of the year, in view of the timetable for enlargement, the Council could have a clear picture of the situation, particularly of the partners' concrete positions.

In the Commission's view this course of action can reconcile the different requirements of the parties. It will also mean that the negotiating mandates proper can be worked out on a firmer basis and the negotiations conducted in the interim period (1983) in an enlightened atmosphere of mutual trust, to give the enlarged Community a Mediterranean policy in keeping with the political, economic and social objectives implicit in its weightier role in this important, dynamic and volatile region.

The Community cannot and must not let its immediate domestic and external difficulties deter it from following such a policy. In the long run the Community's own economic recovery will depend to a great extent on its ability to participate in the development process of the least developed countries. The Mediterranean is an area of considerable importance, in relation to which the Community, for historical and geographical reasons, is in a unique position and has responsibilities it cannot shirk.

In this Communication the Commission's intention was to sketch out a framework and guidelines for the Community's Mediterranean policy at a time when the Community is about to acquire a greater Mediterranean bias. This Communication will naturally have to be supplemented by a set of proposals aimed at implementing the principles which are adopted. The Commission feels, however, that it is necessary to obtain the Council's agreement and the support of the applicant countries on the guidelines which should be adopted, in the light of experience gained and, above all, the conditions under which the Mediterranean policy will have to be implemented in the years to come. Not until the partner countries have given their reactions to the guidelines adopted by the Council will the Commission be able to analyse in greater detail the problems of each sector and each country or group of countries, in order to submit to the Council practical proposals for solutions best suited to each specific situation in the framework of the overall policy to be implemented.