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ABSTRACT

The purpose of this report is to synthesize the lessons that can be learnt from the 'Sustainmed' project leading to policies concerning the adaptation and acceleration of the integration processes where MPCs are involved. This report complements Sustainmed findings included in previous deliverables (D09, D10 and D14), including the examination of prospects and implications for accompanying policies aimed at the deepening of the Euro-Mediterranean integration and of intra-regional integration, including identification of consequences for Euro-Mediterranean cooperation and for intra-regional integration and assessment in this respect of proposals for the implementation of the Association Agreements and other regional trade agreements as well as for domestic policies.

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1. INTRODUCTION

Since the Arab Spring, the European Union (EU) has conducted a deep review of its Mediterranean neighbourhood policy. Within such framework, the EU continues to work on the Barcelona process' approach, which promotes integration with countries in the Mediterranean region. This process has been carried out through a series of bilateral Association Agreements with MPC and of intra-regional Free Trade Areas between the MPCs themselves. The traditional approach for the Agreements with the EU has been a gradual and asymmetric liberalization to allow the adaptation to increased competition and to prevent strong shocks. Some countries in the region like Turkey are moving deep into the integration with the EU. But the Maghreb and, at lower extent, the Mashrek, have been also trading intensively with Europe. The region includes regions and countries of high strategic interest.

Since 2009, Sustainmed has been examining the impacts of EU and national agricultural, rural, environmental and trade policies in MPCs. The idea, according to the project's ToR is to "formulate realistic policies and action plans aimed at supporting sustainable agri-food systems". This is why Sustainmed has been working on the implications for policy derived from the integration process in order to guide future plans. And this is the main purpose of this report.

The construction of a sustainable development agenda for agriculture and food security is not an easy task. Many of the tensions that existed in the region before the Arab Spring still persist two years later. Economic problems include fast demographic and labour force growth, with significant unemployment, inequalities and rural poverty; deficit of democratic governance (with recent and difficult improvements in some countries), women empowerment deficit and the lack of access to knowledge and education. In the field of environmental, a growing concern arises due to the non-sustainable management of the environment and natural resources in a region where food security is a major concern.

Growing critics are emerging against the economic and social cost of the liberalisation, mainly into the agricultural sector. Some problems are real and can be identified. Some other problems are the result of misunderstandings, which are connected with the lack of knowledge on the impacts of trade liberalization, in a world where market failures are present and could hardly be solved with protection. Misunderstandings pose a challenge to the consolidation of a common social and economic space in the Mediterranean.

The present paper reports on the work carried out under the Sustainmed related on the assessment of the integration processes in the Mediterranean region, both from the intra-regional and Euro-Mediterranean points of view. Such work has been largely explained in deliverables D09, D10 and D14

and followed by a series of recently published papers by Sustained members. This reports complements the aforementioned deliverables with an (i) update of the assessment of trade liberalization and (ii) an examination of policy implications for the Euro-Mediterranean and intra-regional integration processes.

A reference to papers produced in the last year by Sustained members will be made in this report. **This report largely draws on the findings of such papers.** Thus, in García Alvarez-Coque et al. (2012) an overview of the globalization process and its impacts on Mediterranean products is carried out¹. A brief by García Alvarez-Coque (2012) published by the German Marshall Foundation identifies the policy options in MPCs to face food security challenges². The work by Compés et al. (2013), published by Notre-Europe, proposes an agenda for agricultural cooperation related to the Euro-Mediterranean integration³. All of these papers attempt to identify the main sources of conflict related to the process of integration in the region, and the ways to solve them.

Agriculture remains an important activity on both shores of the Mediterranean basin. More than a source of employment and a source of food products, farming is part of the culture and landscape of the region. In most MPCs, rural areas remain a significant reserve of labour force. They also contain traditional systems that face structural and natural constraints. Sustained wondered about the adequacy of agricultural policies to support food needs and promote sustainable development in a context of trade liberalization. This report attempts to analyze these questions and suggest possible elements of an agricultural strategy.

The next section looks at the relations between the EU and its Mediterranean neighbours, placed in their institutional and trade context. Reference is made to the impact of trade policies on trade, with focus on trade preferences, market access in the EU and the effect of NTMs. The following section considers the contribution of agriculture to sustainable development and food security, with country case studies of trade policies. This opens the door to discuss a policy agenda for the cooperation tools that accompany the development of the trade liberalization in the region.

¹ García Alvarez-Coque, J.M.; Jordan, J.M.; Martínez-Gomez, V. (2012): Globalisation of agricultural trade – what will be the place of Mediterranean products? In *Mediterra 2012, The Mediterranean diet for regional development*, Chapter 17, CIHEAM, Paris: 345 – 367.

² García Alvarez-Coque, J.M. (2012): Agriculture in North Africa: a chance for development. Policy Brief The German Marshall Fund of the United States, Prepared in Partnership with Paralleli Euromediterranean Institute (Turin) October 2012, <http://www.gmfus.org>

³ Compés, R.; García Alvarez-Coque, J.M.; García Azcárate, T. (2013): The EU's Relations with Morocco and Turkey in the Field of Agriculture: an example for the EU and its neighbours, Notre Europe, Jacques Delors Institute.

2. IMPACT OF TRADE AGREEMENTS

The Euro-Mediterranean relationship framed by the European Neighbourhood Policy (ENP) pursues a trade liberalization agenda covering agriculture, fishery and processed agricultural products. Trade liberalization is combined with an "accompanying" program concerning rural development, the promotion of Mediterranean products and also involves plans to liberalize services and investments. On 14th December 2011, the Council authorized the Commission to open bilateral negotiations to establish Deep and Comprehensive Free Trade Areas (DCFTAs) with Egypt, Jordan, Morocco and Tunisia. These DCFTAs go beyond trade liberalization to cover other regulatory issues relevant to trade, such as investment protection and public procurement. The process also encompasses agreements among MPCs themselves. The Agadir Economic Agreement between Tunisia, Morocco, Jordan, and Egypt (2004) remains open to other Arab Mediterranean countries. The result of this process is a large network of agreements which covers trade but also cooperation in a vast range of areas of mutual interest including security, democracy, justice and sector policies, with the aim of promoting peace, stability, and prosperity in the region.

The EU has largely dominated the agricultural trade relations of MPCs. Morocco shows a positive agricultural trade balance with the EU but other MPCs, in particular Algeria and Egypt, show a large deficit vis-à-vis the EU. This asymmetry is also explained by the absence of understanding among MPCs themselves and their failure to achieve South-South integration. However, the EU as a trading partner is losing importance as trade diversifies towards other countries outside the EU, in particular Turkey and other extra-regional powers like the US and large emergent countries (Brazil, China, India, Russia and South Africa). In fact, two-thirds of food imports in MPCs are purchased from countries outside the Euro-Mediterranean zone. The United States ranks as the leading supplier for basic agricultural commodities (mainly grains, in particular wheat, maize and soybeans) in Turkey, Egypt, Jordan, Morocco and Algeria. Imports from Brazil are also increasing (mainly beef, soybeans and sugar), and Russia and the Ukraine are becoming major exporters of wheat to the Mediterranean region.

While trade diversification is a valuable strategy, these developments can reflect the lack of confidence in the possibilities to create a common economic space in the Euro-Mediterranean region. Many political dossiers are still opened to find a stable and peaceful framework in the region. Trade is not the least controversial topic. A great deal of studies has underlined the need to overcome the controversies fuelled by the interest groups opposed to trade liberalization. In Europe, pressures emerge from firms and workers of import-sensitive sectors. There are also concerns related to the impact on the

environment, in particular the impact of intensive agriculture on global warming and water resources. Critics also argue that trade liberalization hampers small-scale farmers, who represent the majority of the poor in rural areas. Lack of trust also appears in many MPCs, where the EU approach to extend the scope of trade liberalization is seen as supposedly “colonialist”. In this view, Euro-Mediterranean agreements are usually presented as tools through which developed countries aim at a system of relationships that transfer their cultural, economic and political principles to developing countries.

The distribution of trade impacts results in winners and losers within concerned countries, and these can be regions, sectors, consumers, workers, -job losses- or firms⁴. One role of agricultural policies in the region is to ensure that the impact on losers can be minimized, compensated or avoided in the Euro-Mediterranean region.

A great number of reports have studied the effects of the Euro-Mediterranean Agreements, including aspects of agricultural trade liberalisation⁵. These works pay attention to the following outcomes⁶:

- In general, the Barcelona process has not had significant impact on EU-MPC trade. Progress in expanding trade, fostering investment, and accelerating convergence is below expectations.
- The agreement with Turkey has had significant effects on imports and exports.
- The Agadir agreement had a positive (but not significant) effect on increasing trade among country partners.
- Aggregate liberalisation impacts in sensitive products in the Northern shore of the Mediterranean basin (fruits, vegetables, and olive oil) are expected to be small, but concentrated in certain producing areas and seasons. This concentration of losses in specific areas would make it easy to devise accompanying policies for the losers, but this is not taken into account in EU policies. The Sustained project’s WP4 suggests that a great deal of effort should be put to strengthening the value chains.
- The production potential in MPCs is not unlimited. Water resources are a constraint in all the countries except for Turkey. The lack of organisation of the fruit and vegetable sector and the weak implementation of standards are currently constraining the export potential. However, an

⁴ A chapter of the Ph. D. dissertation by Hassan Ouabouch, to be presented at UPV in the next weeks, deals with welfare effects of EU trade liberalization on MPCs.

⁵ Some of them have been supported by the EU research programmes, such as Sustained (or the previous project Eumed-Agpol) or are linked to international organisations (E.g. IFPRI, IEMED, CSER/CEPS, CEPR, CIHEAM, IMF, etc).

⁶ See Sustained deliverables D09, D10 and D14.

increase in direct foreign investment has been observed in recent years (in Turkey and Morocco), which have helped exporters in the region to comply with EU standards.

- Consumers of MPCs, particularly in urban areas, will gain significantly from cheaper food prices, particularly prices of cereals and cereal-based food products. However, prices should not be artificially cheaper through untargeted subsidy programs (see below).
- Small holders in the MPCs, mainly in rain fed crops, directly suffer from trade liberalization.
- The growth potential of EU agricultural exports to the MPC markets is probably significant.
- Environmental pressures emerge linked to the increase of activities and urbanisation in coastal areas and the intensification of agriculture. The improved transport infrastructure will increase pressures on natural resources and on biodiversity.
- The Mediterranean diet is negatively affected by the agro-industrial model of mass production.

Can trade liberalization continue? The answer depends partly on the MPC countries to take advantage of the new opportunities. And this is related to their capacity to overcome domestic weaknesses.

3. SELECTED ISSUES IN TRADE LIBERALIZATION

Previous Sustainmed work (Deliverables D09, D10 and D14) has dealt with the impact of trade liberalization on agriculture. In this section we update some of the findings referred in previous reports. In particular, progress has been made in (i) Assessment of the trade preferences related to the Association Agreements, with focus on the recent review of the protocol between Morocco and the EU; (ii) Assessment of the impact of NTMs, with focus on the extent to which the alert system in the EU is motivated by disguised protectionism; (iii) the relevance of NTMs applied by the EU on imports from MPCs and Turkey; and (iv) NTM applied by selected MPCs.

3.1 Trade preferences in the reviewed EU – Morocco's protocol

We assessed the recently approved Agricultural Agreement (ratified in February 2012) between Morocco and the EU, to calculate the Value of the Preference Margin (VPM) granted to Morocco by

the EU, in order to compare by how much economic transfers due to trade preferences have changed.⁷ Annex 1 presents more detailed results.

Our findings show that the last review of the Agricultural Agreement has increased significantly the value of the potential transfers granted to Morocco in certain fruits and vegetables. In particular, for tomatoes Moroccan exporters take advantage both of the reduced EP and of the preferential ad valorem tariff. Together with the volumes traded that fill the preferential EP quotas, tomatoes are the most favored product of Moroccan trade preferences. As the new agreement has enlarged the quotas, the gains to Moroccan tomatoes are relevant. In other products (e.g. oranges) the reduced EP is not crucial and concessions granted by the EU in the form of reduced entry price for oranges have very limited practical impact, as the border prices for them are normally above the MFN entry price. As well, the recent elimination of the preferential quotas does not seem to be relevant in the short term, as the previous quotas were never binding and trade flows remained below them.

3.2 Simulating F&V trade liberalization

Regarding the Euro-Mediterranean trade liberalization, twelve simulations have been carried out, since three different scenarios are applied to four products. The three scenarios are:

- 1) Elimination of the EP system for Moroccan F&V. Other policy instruments such as quotas or the ad valorem tariffs are kept as currently. Thus, this scenario means a partial liberalization of EU imports from Morocco.

- 2) Full liberalization of imports from Morocco. In this case, besides the EP, ad valorem tariffs and quantity limits are eliminated. Therefore, we assess here a full access of Morocco's exports to the EU.

⁷ A thorough review of the methodology used to calculate the VPM can be found in the Sustainedmed working paper "Assessing Trade Preferences for Moroccan Fruits and Vegetables with Preferential Entry Price", available at http://sustainmed.iamm.fr/images/downloads/wp03d10workingpaper01_v2.pdf

3) Full trade liberalization of import from all MPC. In this scenario, the EU eliminates the EP system, the tariffs and all the quantitative restraints affecting their imports. Then, it is a full liberalization of EU import markets granting MPC products full access.

The simulations evaluate expected variations occurring according to every scenario, compared to the baseline scenario including average trade data and prices for the period 2007-2009. Results discussed detailed in Annex 1 focus on import volume and EU prices. Our results show that the elimination of the EP for Morocco would boost its exports, undermining exports from other partners in tomatoes and intra-EU sales. In all the products, eliminating the EP barrier for Morocco would not alter domestic prices at the EU in a significant extent.

3.3 Reputation in NTMs

In D14 the issue of NTMs is treated extensively. According to Grazia et al. (2009), the main exporting sectors from MPCs are less affected by border rejections as a consequence of a higher compliance effort undertaken by exporting countries, including infrastructure, skills, human resources, control and test procedures. The Sustainmed project has made use of the Rapid Alert System for Food and Feed (RASFF) to investigate the relevance of the border notifications related to issues detected in agri-food products. Our main aim was to determine the variables that affect the propensity to raise notifications in these products. Our previous analysis in D14 confirms the results of the quoted study, and we can state that the sanitary and phytosanitary rules are not used as unfair barriers to the access of these goods. Nevertheless, we have widened the scope of the research by considering the “reputation effect”. We have followed the methodology applied in a recent study by Marie-Agnès Jouanjean and Jean-Christophe Maur (2012), that analyses the US import refusals in the enforcement of SPS measures. They found that reputation effects come from a country’s own history of compliance in a particular product. If a country has an established history of compliance, import refusals tend to be lower. The quoted authors highlight the importance of upgrading quality-support infrastructure systems in exporting countries, focusing on interlinked clusters of products rather than individual ones.

In the working paper included in Annex 2 we have tested the extent to which past history of notification can affect the implementation of NTMs. Past intensity of notifications, probably due to real phytosanitary problems, can influence the present restrictiveness of NTMs. We have considered four types of reputation (product, sector, country and region). The consequence is that failure to comply with NTMs probably has effects that carry on in future periods.

Fixed effects suggest that the fruit and vegetable exports to the EU and shipments from the Mediterranean region are not particularly discriminated. Notifications are not specially activated by an import surge, which suggests that the alert system works independently from import volumes. Implementation of NTMs by the EU does not discriminate along the level of economic development, which suggests that it rather depends on the integration of agro-exporting firms in the global value chains.

It seems highly advisable to involve the developing country stakeholders in NTMs-setting process whether through international organizations and bilateral discussions to get more harmonization between European standards and their agro-food suppliers.

3.4 NTMs applied by selected MPCs

Annex 3 resumes the study of NTM and their Ad Valorem Equivalent (AVE) values through the NTM Inventory initiated in Deliverables 14. As described in such work, the inventory included in an excel file (Annex VI) allows the users for a quick search of NTM data, integrated from various databases. The updates introduced mainly focus on speeding up the search of Ad Valorem Equivalent's number and classes.

The AVE Peaks Quick Search, explained in the quoted deliverable identifies the number of Ad Valorem Equivalent's peaks⁸ by country and by product code.

The countries represented are: Morocco, Algeria, Tunisia, Egypt, Jordan, and Lebanon. After reviewing the results, it is interesting to note that product codes 02, 08, and 20 showed the highest number of Ad Valorem Equivalent's peaks. That included meat (code 02), fresh fruit (code 08) and processed fruit and vegetables (code 20). The table below (Table 1) shows an example of the results of the analysis produced under this tool.

⁸ Ad Valorem Equivalent's peaks refers to Ad Valorem Equivalent's values greater than 0.75. Note: AVE peaks appears in yellow in all tables

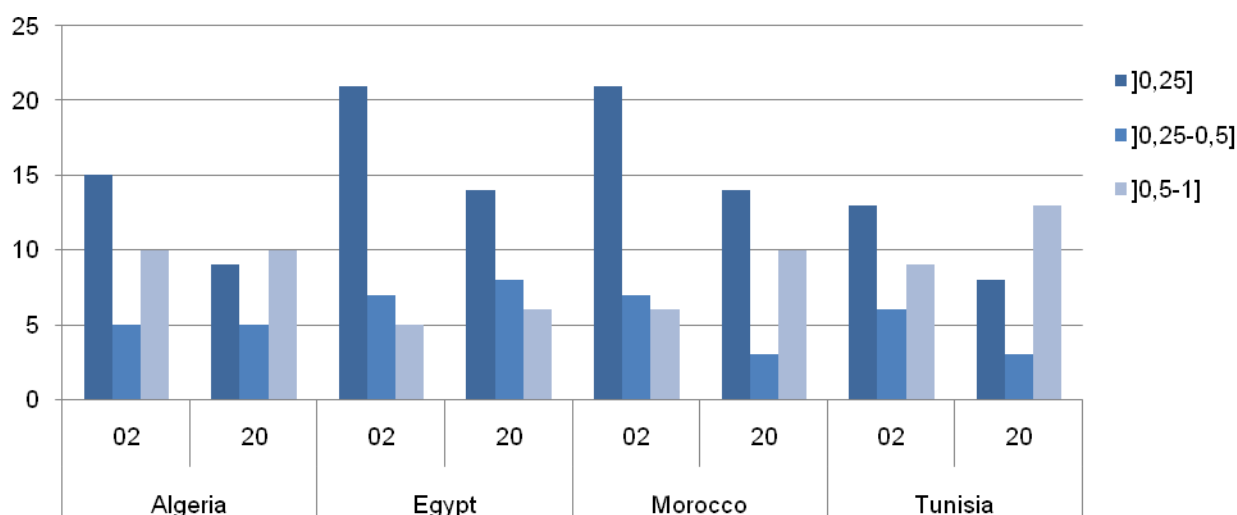
Table 1. Number of AVE Peaks by country and by product code

Code	Product Description	Number of AVE Peaks	Percentage of AVE Peaks
02	Meat and edible meal offal	83	13 %
08	Edible fruits and nuts	72	11 %
20	Prep. of vegetables, fruit and nuts	80	12 %

Source: Number of AVE Peaks Quick Search, NTM Inventory

In particular, data presented in the table (see Annexes III and VI) reflect the fact that the impact of Non-Tariff Measures is still significant in MPCs, with AVE peaks appearing in a significant number of products.

A comparison of the AVE Peaks across MPCs is shown in figure 1, which includes meat (code 02) and processed horticultural products (code 20). What it reflects is that NTMs in the region are far from being harmonized. For meat, Egypt and Morocco show a higher absolute frequency of AVE over 0.5. For processed fruit and vegetable, Tunisia is the country with larger number of peaks.

Fig 1. Number of AVE by country, AVE classes and product code

Source: AVE Classes Quick Search II

4. FOOD SECURITY CONSIDERATIONS

Although MPC have made considerable efforts to improve their agricultural conditions, they continue to struggle with a poor endowment of cultivable land and water. In spite of the building of dams, particularly in Egypt, grain yields remain low in Morocco, Tunisia and Algeria, where the yield per

hectare is between 1 and 2 tons. Yields are higher under irrigation. Agriculture is still the main livelihood of a substantial part of the poor in the region. Though the share of agriculture in total employment is declining, agricultural employment still accounts for over 30% of the total labour force in Egypt and almost 30% in Morocco. 70% of the poor in MPCs live in rural areas. Agricultural production has increased in the region due to the efforts to enlarge the irrigated agricultural area. Nevertheless, agricultural production is variable due to harsh weather conditions, and food consumption continues to grow in a context of demographic change and urbanization. Food dependency has a lot to do with the agricultural constraints: low yields in rainfed areas. In addition, lack of transport infrastructure makes it difficult for any surplus to be sold in cities. Trade reforms have also increased the pressure on traditional production systems.

The region is exposed to the increasing world market volatility. The dependency problem is paradoxically aggravated by the emergence of the middle classes, prone to change their diet and consumption patterns. This has been a consequence of economic growth and, at the same time, a reflection of the failure of agriculture to meet the food needs of the population. The direct consumption of cereals has been declining and is being replaced by an indirect consumption of products of animal origin. Demography in the region is quite varied, with populations in the Maghreb countries growing a little over 1% annually due to the decreased fertility experienced in recent decades, and significantly higher growth, about 2% annually, in Egypt.

In most MPCs, there is a sharp dualism between traditional agriculture and modern agriculture. Traditional agriculture continues to be poorly integrated into the market and is highly dependent on weather conditions in rain fed areas. In contrast, modern agriculture, consisting of large farms oriented toward exporting, is found mainly in irrigated areas devoted to fruits, vegetables and cultivated plains of grain and olive trees.

Development options chosen in the fifties and sixties did not get the expected results: the revitalization of the agricultural sector, often based on land reforms accompanied by large-scale irrigation projects, had limited impact. In the eighties the structural adjustment programs included trade liberalization measures and the reduction of public transfers to agriculture. In the last decades, MPCs policies have vacillated between the need to exploit their comparative advantages in production and exports of fruits and vegetables, and the protection of their traditional farming to reduce food dependency. For these

dual objectives, programs like the Green Morocco Plan, launched in 2008, has given to irrigated agriculture a strategic role in national development. Governments and international agencies also act through programs where non-governmental organizations are involved in the fields of health, education and the environment. In general, agricultural policies remain weak and need to build confidence of economic agents. In fact, the governance deficits and the lack of a transparent regulatory environment constrain investment and international cooperation.

Although MPCs do not appear as a priority on the global map of hunger, they remain as hotspots of unrest, as shown by the bread riots. It would be excessive to describe as bread riots the Arab revolutions but social unrest have surely something to do with food prices and dependence. Budgetary social transfers have been usual in the region. These measures have usually been ineffective and expensive. Subsidies frequently fail to stabilize food prices and do not seem sustainable⁹. The new democratic era obliges to rethink the ways to ensure a decent standard of living for those in need. Defining a coherent agricultural development strategy remains also necessary in order to promote food security without resorting to a blind subsidization of food consumption

5. POLICY ANALYSIS: CASE STUDIES

The situation is not the same for all countries in the Mediterranean Eastern and Southern shore. Let us consider four cases: Egypt, Morocco, Tunisia and Turkey. Turkey is one of the more developed and richer countries in the region. It is also its biggest agricultural producer. Turkey has an incomplete Custom Agreement with the EU and it has been a candidate country for decades. The other three countries, at a lower human development rank, have evolved from a preferential trade status towards a Association status, with advanced status for Morocco. All of them enjoy duty free access to the EU market for industrial products and preferential market access for agricultural products.

5.1 Egypt¹⁰

Although the total Egyptian exports increased significantly over the period 2007 - 2011, the agricultural exports decreased from 2887 million US\$ in 2010 to 2774 million US\$ in 2011, associated with a decrease in its share in total exports from 11% to 9%, respectively. It seems that the onset of 25th of

⁹ Abis, S. (2012): Wheat in the Mediterranean Region: Societies, Trade and Strategies, Med.2012. European Institute of the Mediterranean. IEMED, Barcelona.

¹⁰ This section draws on Annex 4, elaborated by Prof. Ibrahim Soliman: "Agricultural Trade Performance and Policies in Egypt.

January 2011 revolution had negative impact on agricultural exports. The coverage of exports earnings to the imports bill (either total or agricultural) also decreased over the period 2011-2012. This trend implied more drainage of the foreign currency, while the inflow of these currencies decreased, due to shrinkage of tourism flow and shrinkage in the monetary reserve. The EU is the world's biggest market for imports of agricultural products from Egypt. More than 80% of these products benefit from duty-free and quota-free access to the EU market. The main agricultural products exported by Egypt to the EU are fresh table grapes, potatoes, sweet oranges, beans, onions and strawberries.

The total number of international agreements between Egypt and the rest of the world are 400. Among them 100 with European countries, 33 with African Countries, 85 with Asian Countries, 70 with north American Countries, 5 with south American countries, 2 with Australia. Numerous of these agreements related directly or indirectly to trade (see Annex 4 of this report). We refer below to two of the main agreements: a) the Association Agreement with the EU; and b) the Agadir Process.

- a) Egypt started negotiations with EU for concluding a partnership agreement in 1995. Its initial signature was made on January, 26th 2001 in preparation for the final signature that was effective on June, 25th 2001. According to the Agreement, a free trade area (FTA) will be established during a 12-year transitional period, from the date the agreement enters into force. The Agreement permits Egypt to take certain exceptional measures for specific periods during the transitional stage, if and when certain domestic industries face a threat as a result of liberalization of imports of similar goods from the EU. In addition, the agreement aims at developing balanced economic and social relations through cooperation. While it contributes to the process of economic and social development in Egypt, it also encourages regional cooperation to promote peaceful coexistence and economic and political stability, as well as promoting cooperation in other fields of mutual interest. Egypt and the EU agreed on exempting certain quotas of agricultural products from custom duties and reducing the tariffs on exports that exceed these quotas. With Respect to Egyptian Agricultural Products Exports to EU of Egyptian origin, they are either eliminated from tariffs or the rates are reduced. For specific products, tariffs are eliminated within the quotas specified. Beyond the set quotas for quantities, either full tariffs are applied or a tariff reduction is implemented. Other Products are liable to a 3% annual decrease on tariffs based on the volume of the preceding year.

b) The Agadir Declaration" was signed by the Hashemite Kingdom of Jordan, the Tunisian Republic, the Arab Republic of Egypt, and the Kingdom of Morocco in the Moroccan city of Agadir on 8th of May 2001 for the establishment of a free trade area for the Arab Mediterranean countries. The four countries signed in Rabat on 25 February 2004 the agreement on the establishment of the Free Trade Area between the four countries. The goals of the agreement are to establish a free trade area between the member states by 1/1/2005, to develop economic and commercial cooperation between the member countries and to encourage economic and industrial integration among member countries by applying accumulation rule to produce goods for export to EU as well as to their domestic markets. The advantages of the Agreement include exemption of all industrial and agriculture products from the entire tariff and the non-tariff measures as soon as the agreement is into effect, and applying the cumulative Rules of Origin, which will support and enhance the economic and trade cooperation among the parties. The agreement pursuits to enhance trade exchange between Egypt and the signatory Arab countries since the volume of inter-Arab trade does not exceed 10% of their total trade volume currently, and it has even more benefits of expanding the European Union markets after the accession of ten new member states. This Agreement deals with many important issues such as customs systems, rules of origin, government procurements, financial transactions, safeguard measures, new industries, subsidy and dumping, intellectual property, standards and specifications, and establishing a dispute settlement mechanism. Rules of origin constitute one of the most important articles stipulated in the Agadir Agreement since it will increase the prospective European Market Access for products of Party states, which consequently will encourage investments and increase inter-country regional cooperation.

To join the sustainable development and rural development with exports development, it should be recognized that 91% of the farm holdings in Egypt are of less than 2 ha. Therefore, some agricultural subsectors should be identified to be the core of such program. The Sustainmed project has shown that tomato, oranges and dairy enterprises are promising activities for such program. Tomato can be cultivated all over the year, if expanded to Upper Egypt where the weather is suitable in winter for raising tomato. Oranges can be loaded with other seasonal crop, if the proper farming practices were applied. However, regional marketing companies with vertical integrated stages should be established. It is preferable to be joint venture with EU's investors to overcome the non-tariff barriers of standards and quality that block expansion of these products to EU. Integration rather than competition between MPC's (Morocco, Tunisia, Egypt and Turkey) in exporting oranges and vegetables to EU would strength their terms of trade, either quantity-wise or price-wise.

5.2 Morocco

Morocco has relied on agriculture for its economic development but its performance has been below expectations. Morocco's agriculture has clear advantages in land and labour, a long producing season, relative proximity to EU markets, and trading relationships with European countries, especially France. A dynamic exporting cluster is combined with a traditional agriculture.

Morocco's agricultural potential is restricted by severe dry conditions in many regions, over-exploitation of water resources, inadequate irrigation techniques, weak farm structures, complexity of the land tenure system, illiteracy, unequal land property, weak institutional capacity, insufficient extension, research and marketing services, weak farming structures and high dependency on few export commodities and export destinations.

Since 2008, Morocco is implementing the Green Morocco Plan (GMP) as a major tool to reduce poverty and to improve competitiveness. Under its Pillar 1, the Plan is expected to create 1.15 million jobs by 2020 with a projected annual investment of 0.9 billion euro. Irrigation plans involve the transformation of 550.000 ha until 2020. The plan is intended to have an impact on more than 400,000 farms, both small family-run ones and intensive agri-food firms. GMP's Pillar 2 focuses on solidarity support of smallholder agriculture through improving most vulnerable farms, especially in remote areas. Under this Pillar, 300-400 social projects are registered under the regional agricultural plans.

The EU stance towards Morocco has been affected by the debate on the cost of the trade agreements on particular groups, in particular, fruit and vegetable growers. This debate reappeared during the last agricultural negotiations with Morocco. The extended EU-Moroccan Free Trade Agreement faced strong opposition in the European Parliament, though the final vote was favourable in February 2012. This can be understood as a sign of political support to Morocco's reforms and as a clear step towards further trade integration. Trying to offer something to the opponents, in an accompanying resolution, the Parliament called on the Commission to monitor strict application of border measures, such as the tariff quotas applied on tomato imports, and the controls on the entry price system. The resolution also requested an assessment of the impact on European farming.

5.3 Tunisia¹¹

Tunisia has over the years committed itself to a series of international agreements which aimed at the gradual liberalization of the trade of its agricultural products. This commitment to the process of integration into the global economy has two main components. On one hand there is the willingness

¹¹ See Annex 5 with more detailed information of Tunisian domestic and trade policies. A first draft of this note was prepared by Amira Romdhani, a former Master's student of the department of Agricultural Economics, INAT, Tunisia.

on the part of the national policy makers to further strengthen the Euro-Mediterranean trade partnership in view of the major place the European market occupies in the overall external trade of Tunisia. On the hand there is the general context of the world market globalization in line with the World Trade Organization (WTO) guidelines for the sake of reducing economic inefficiencies and therefore promoting growth.

Significant reforms have already been undertaken particularly in the agricultural sector, consisting of partially removing border protection, to reducing subsidies on inputs to more generally relying on market forces in determining the value of goods. These reforms remain however incomplete and government intervention in a number of markets and farm structures remains important. Among the reasons which are frequently advanced by public authorities to justify their intervention in agriculture, some are economic in nature aiming at enhancing growth and development in the sector such as the support to investment in irrigation infrastructure. Other reasons have to do with strategic considerations to bring about social stability, such as the search of the food security by maintaining low consumer prices of basic food commodities and providing support to farm income.

Agricultural trade in Tunisia is marked by a high degree of rigidity due mainly to the existence of several public companies involved at all levels of the import and the marketing of agricultural produce. The Office of Cereals, for example, is involved in regulating the transport of cereal grains and has a quasi-monopoly over their collection and imports. The Office of Oil imports edible oils and used to export major quantities of olive oil. Since 1994, exports of olive oil are open to private traders. Besides, there is a preferential trade agreement with the EU to export up to 56000 metric tons of Tunisian olive as of the month of March free of duties.

The state also sets the margins of retail sales, negotiates with wholesalers to keep their prices low, makes imports when prices are rising (vegetables), pays bonuses for quality cereals and sets ceiling prices for processed foods. This suggests that the intervention of the public administration is still heavy in Tunisia, in spite of the public rhetoric about government disengagement of the general running of the economy, and the allocation of quotas, in a number of cases is carried out by insufficiently transparent procedures.

The gradual general opening up of Tunisia to the world market has resulted in the implementation of the structural adjustment program and the signing of regional and bilateral trade agreements, including with the European Union, relating to reductions in border barriers. In the agricultural sector, this trend has been slowed down in view of some fears about full liberalization of agricultural trade and their social consequences. The degree of agricultural protection remains high and is characterized by a

system of tariff quotas, adoption of a mix of quotas and tariffs, where tariffs increase when imports exceed a pre-specified amount, and high tariffs in other cases.

5.4 Turkey

Turkey is a country with a diversified agriculture, to a great extent based on small farms, many not very productive. The adjustment follows the trend of the emerging countries. Agriculture is not only an economic sector, but plays an important social role. Plans for conversion of Turkish agriculture have led to a gradual liberalisation and a paternalistic agricultural policy, based on payments recently linked to the production. Turkey's huge export potential is based on value chains yet to organise, with significant orientation toward extra-EU markets and limited harmonisation of quality standards with the EU. Food security concerns also apply in Turkey, with changing consumption patterns. The variety of climatic zones allows the production of grains, but vulnerable to international competition.

The extent of liberalization in agricultural products in the Custom Union is still limited so a full membership of Turkey to the EU could have significant effects on agriculture in both sides. EU accession began in 2005. In May 2012, the Turkish government and the European Commission declared the need to implement a "positive agenda" to push the negotiations. Difficulties are amplified in a political setting of growing nationalist pressures in both Turkey and the EU, and an unstable macroeconomic climate. Closing positions are also constrained by the substantial differences that still exist in approaches to agricultural policy and rural development.

Turkey's agricultural policy tends to pursue self-sufficiency. Turkey applies market distortions through compensatory payments and subsidies linked to output. In 2001, Turkey introduced direct payments not too different from decoupled payments but they were withdrawn in 2009. So the policy evolution has been contradictory to that of the reformed CAP, which introduced decoupled payments. The interventionist approach of agricultural policy in Turkey is a special case in the OECD area. Most transfers to agriculture remain based on support mechanisms related to production and at market prices. Green box payments are practically inexistent.

Accession to the EU is expected to cause a significant impact on agricultural systems in certain geographic areas, forecasting a significant drop in the levels of protection for potatoes, table grapes, sunflower, corn and barley. These falls could be softened in the context of future international markets, with an expected rise in prices of livestock products. Although the costs of membership may be attenuated by a gradual transition, the family farm model is threatened, which is a common challenge in both the EU-27 and Turkey. Farm structures are atomized and over 90% of holdings do not exceed 20 hectares, with an average farm size of 6 hectares.

EU Membership will be a challenge for small producers, who will have to adapt not only to a new type of consumer or concentrated distribution, but also to the food safety standards in force in the Union. The integration of producers into cooperatives and other types of organizations varies by sector, with examples of cooperative unions such as Marmarabirlik Taris in the olive oil sector, and less success in the fruit and vegetable sector.

Turkey is gradually incorporating the rural development philosophy, as understood in the EU. Traditionally, rural development policy has been addressed in the context of development plans, under the concept of integrated rural development emphasizing infrastructure projects and participation of various international agencies (e.g. the Southern Anatolia Project). In recent years, rural development policy objectives have incorporated income diversification (for example, rural tourism), improving human capabilities and environmental preservation. The harmonization of rural development approach is being addressed through the IPARD (pre-accession programme assistance) that establishes measures for the period 2007 to 2013, with a focus on improving conditions for small farms on the basis of improved productivity in key sectors that need support to adapt to EU standards (meat and dairy products, fruits and vegetables and fish). The measures, partly financed by the EU, provide investment aid to modernize the production, processing and marketing of agricultural products, the organization of producer groups and economic diversification.

The impact of accession would require adjustments in the Turkish agriculture. But the market exposure of small farms in the Member States and in Turkey involves more or less similar challenges.

6. IMPLICATIONS FOR THE POLICY AGENDA

There is an increasing consensus on the need to pay greater attention to the agricultural sector to enhance food security and development in the region. Countries in the region have applied a range of programs that continue to include market interventions such as the management of food reserves, export restrictions, changing tariffs, taxes on fuel use and cash programs to keep food prices relatively low.

Beyond short-term policies, strategic options can be considered in order to achieve food security and alleviate rural poverty. The policy brief by García Alvarez-Coque (2012) quoted above discusses possible options to include in a policy agenda with a regional perspective, very different from the fragmented approaches that have dominated the history of Euro-Mediterranean policies. From there we reproduce here a series of guidelines that are implications from previous Sustainmed work.

6.1 Introduce a pro-small-scale farming policy

Most farms in the Mediterranean basin are family farms, although structures are very diverse across countries. Demographic pressure on agricultural land has decreased in the last two decades (see table 2). Small farms (less than 5 ha) are of great importance particularly in Morocco where they account for 71% of the total holdings. It is surprising that although small and medium-size farms are the majority, they continue to remain often marginalized and ignored in the designing of agricultural policies. Most often, policies have gone against small farms despite the fact that family farming has been a basis of stability and wealth, making efficient use of available resources in a given environment. Structural adjustment is compatible with targeted programs aimed at enhancing agricultural extension, improving credit access, adapting land titling and building capacities. These policies can be complemented by promoting the development of non-farm incomes and by providing a favorable rural context based on education, health and communications.

6.2 Promote the Mediterranean diet

Nutritionists have widely recommended the Mediterranean model of food consumption, which helps to prevent cancer and obesity. Olive oil, fruits and vegetables are considered part of this model. The food consumption growth in emerging economies, and MPCs are no exception, is largely associated with a break in traditional diets. Consumption of high-calorie and high-fat agro-industrial products is increasing throughout the region, leading to the paradox that the Mediterranean diet, proposed by the World Health Organization as a nutritional standard, is gradually disappearing to the advantage of westernized diets. Problems with excess weight and obesity are spreading in the region, particularly among younger generations. 20% of children under five are now overweight.

In times of food crisis and loss of purchasing power, urban consumers sometimes see fruits and vegetables as unattractive in terms of price. Consumers turn to imported products available through the major distributors, which are much more competitive. Olive oil, a typical Mediterranean product produced in the region, is only purchased in small amounts in local markets. It is exported in the form of oil blends and often re-sold in its country of origin. Health and nutrition plans should be of top interest to defend the diversity of diets in the region.

6.3 Develop local production systems

Emerging economies, in the light of growing urbanization, are gradually adopting an economic model characterized by globalized mass production. This involves long production chains, dependence on

world markets and the increasing presence of transnational companies able to reach the critical mass and make the huge investment necessary to stay in the market. Translating this model of a long value chain to NAC involves the intensive agricultural production that leads to natural resource depletion (land and water). It is clear that some mass production is required, inside and outside of the region, given the increasing food needs of urban populations. However, there is an alternative and more sustainable model based on the development of local markets and on the following characteristics: (i) reduced distances between farmers and processors; (ii) products developed in response to various organoleptic criteria, in particular taste; and (iii) products incorporating a cultural content related to territory, local products for which we are able to certify origin.

6.4 Adopt a value chain approach

Linked to different production models mentioned in the previous paragraph, there exist in the region various value chain models with very different levels of modernization, horticulture being a good example of this. Value chains aimed at the domestic market tend to have a lower level of organization than chains aimed at agricultural exports. Most of the production of fruits and vegetables in MPC is for the domestic market (Egypt and Morocco export 13% and 24% of their production). The small farms that dominate are poorly organized into cooperatives and suffer from poor infrastructure and considerable loss of product, due to its perishable and seasonal nature. By contrast, large-scale farms, able to meet the demands of European retailers in terms of plant health and quality, characterize the agro-export chains. It is not surprising that NAC mainly exports to Europe, since a South-South regional market fails to consolidate. Fruits and vegetables provide a relatively important source of income, which encourages open debate about the European market within the framework of the Euro-Mediterranean region. Few policies have explored the organization of the value chain and its impact on export performance or considered the opportunities offered by transnational cooperation in the Euro-Mediterranean region. The development of marketing partnerships could strengthen quality, predictability, and speed of supply for all actors in the value chain.

6.5 Knowledge-based agriculture

The challenges of food security in the region require further efforts in international cooperation, including support for knowledge transfers, advice and information services, and cooperation between farmers and technological centers. Efforts should consider quality initiatives and certification, organic farming, innovative investments, entrepreneurship and the diversification of non-farming economic activities. Best practices in dry regions, such as those developed by Israel, indicate the benefits of a

developed education system and high-performing extension services. Actions cannot be carried out without taking into account the interests of the rural population. The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) recently asked to reorient research and development to new forms of agriculture, blending the latest science with traditional knowledge and practices.

6.6 Reshape Euro-Mediterranean relations

None of the association agreements refer to restrictions on agricultural subsidies in the EU, beyond what is required by the multilateral framework of the World Trade Organization (WTO). For the MPCs, giving direct aid to producers is beyond their reach. The 45 billion Euros in decoupled direct payments in the EU are considered as "green box," not limited by the WTO. This payment system will be redefined in the post-2013 CAP, but nevertheless, it represents a clear example of the asymmetry of agricultural policies in the North and South of the Mediterranean basin. On the other hand, consolidating the Euro-Mediterranean common market requires eliminating ad hoc import measures that make trade less predictable.

The need to strengthen agricultural cooperation between the EU and Southern Mediterranean countries is urgent as discussed below. Trade liberalization alone is not sufficient to alleviate the urgent need for new jobs for rural youth in MPCs, which lacks infrastructure, education, sanitation, human rights and peace. It is necessary to support more effective partnerships, which promote an emergent civil society seeking to build a basis for developing democracy. Trade liberalization in MPC must be accompanied by increased development aid, support to civil society, and immigration policy with a medium-term perspective.

7. IMPLICATION FOR EURO-MEDITERRANEAN COOPERATION

The EU initiative for Euro-Mediterranean cooperation is the European Neighbouring Programme for Agriculture and Rural Development (ENPARD) puts agriculture at the core of the relationship between the EU and MPCs. It recognises the key role of agriculture in terms of food security, sustainable production and rural employment and tries to respond to the challenge of modernizing agriculture and rural areas in their countries. ENPARD has 2 Axes and a horizontal instrument support: Axis 1 – Improving Agricultural Productivity, Market Efficiency and Food Safety and Quality Standards; Axis 2 –

Development of the Rural Economy (Diversification, infrastructure), and horizontal capacity building support.

The EU offers a dialogue to all partner countries to share EU experience in reforming agriculture and rural areas in pre-accession countries and assisting partner countries in preparing and implementing long-term agricultural and rural development strategies with all the relevant stakeholders, and to build necessary institutional capacities at national and local levels. This fits very well with the Sustained approach of holding meetings with stakeholders to discuss value chains or assess the implications for agricultural and sustainable development. MPCs participating in ENPARD are Algeria, Armenia, Jordan, Lebanon, Libya, Morocco, Occupied Palestinian Territories and Tunisia.

Until now, cooperation funding has not been giving enough priority to agricultural and rural issues in MPCs. It is true that a fraction of MEDA funds was allocated to rural development projects. However, agriculture and rural development activities were eventually eliminated from the package of priority projects to be pursued under the new Union for the Mediterranean in July 2008. A few years ago, the idea of launching a Leader Med project, benefitted from the European experience, conceived within and promoted by CIHEAM, attracted attention and encouragement. Unfortunately, nothing came out of it. Leader continues to be, in fact, an inspiring experience that could be used, depending on the context and the available resources, in rural regions over the world.

Similarly, there should be a gate opened to closer collaboration in the field of agricultural research and training. But again, this kind of activities does not receive much attention by policymakers, despite the efforts made by universities in the region and organisations like CIHEAM or programs like Tempus. Finally, much more could be done by the private sector, particularly in terms of Foreign Direct investments (FDI) and adaptation to public and private norms to be respected for accessing to the European market. Here again, there are enough successful experiences and the conditions for success are known.

The field of cooperation goes beyond institutional programmes. Several efforts to do so have now been made. The Euro-Mediterranean Civil Forum, for instance, has been meeting since 1985, to open exchange among civil society organisations. The Civil Society Facility, co-financed by the Commission, has aimed to strengthen the capacity of civil society organizations and facilitate dialogue between the civil societies of the candidate countries and the EU.

As to agriculture, more efforts have to be made to consolidate cooperation between economic and social agents. The paper by Compés et al. (2013) quoted above list some successful initiatives in the field of agricultural and rural cooperation. The conditions for a new dialogue are being established.

The Deauville Partnership should be a chance to foster a more active civil society. In the EU, the CAP reform can strengthen the role played by producers and their associations. Challenges faced by small farmers in the value chains in the MPCs are similar to those observed in Europe, and in particular in the EU's new member states. The EU has built expertise in strengthening local initiative networks. ENPARD could learn from the LEADER initiative and of the experience acquired through the SAPARD programmes which made it possible to prepare EU accessions.

The proposals for reforming the CAP post-2013 do not explicitly consider the possibility of partnerships with MPCs, nor with other third countries, in an extended approach to agricultural policies covering the region. However, the new CAP will include some elements that could be considered in the discussions to strengthen the partnership between the two sides of the Mediterranean basin. Among them, two relevant approaches are (i) the organization of agricultural production chains to ensure the sustainable distribution of value-added, including transnational cooperation; and (ii) the measures to help the competitiveness of rural areas based on innovation, preservation of ecosystems, development based on local governance and social inclusion. Both approaches support the idea that it is not only with trade liberalization that a shared development will be reached in the Euro-Mediterranean region.

8. IMPLICATIONS FOR INTRA-REGIONAL INTEGRATION

MPCs and Turkey could base their trade relationship on comprehensive agreements covering a full range of regulatory areas of mutual interest, following the approach of Association Agreements. As far as agriculture is concerned, the Deauville Partnership launched in 2011 an agenda that covers six priorities: improve market access for agricultural products and encourage investment, to upgrade standards, promote agricultural research and extension, and deliver efficient and sustainable irrigation services. Partnership should also help to establish strong links among farmers and value chains. The scope of further intra-regional liberalization exists, following a gradual approach.

Universal subsidies could be replaced by targeted food subsidy programs that make food more available to selected households located in poor areas, school food programs, food-for-work programs, and focused cash transfer programs. The agricultural sector would also benefit from regulatory reforms to reduce constraints on the land market, the capital requirements for starting business and the access to credit. Priority has to be given to building capacities to provide farmers with adequate information and training.