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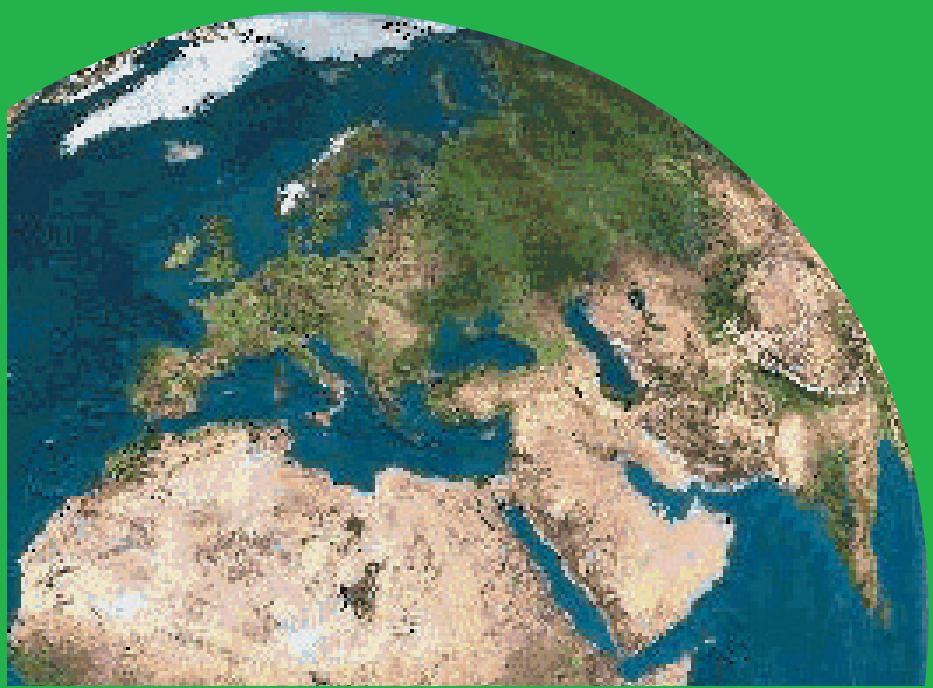

Annual report 2004

Centre International de Hautes Etudes Agronomiques Méditerranéennes

Annual report 2004

CIHEAM

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Foreword

This year the CIHEAM is publishing its sixth annual report entitled *"Agriculture, fishery, food and sustainable rural development in the Mediterranean region"*. Part I of the present 2004 edition analyses CAP reform, EU enlargement and Mediterranean agriculture. Mr. José Maria GARCÍA ALVAREZ-COQUE and Mr. Dinisio ORTIZ MIRANDA (Universidad Politécnica de Valencia, Spain) and Mr. Raul JORGE (Technical University of Lisbon, Portugal) have prepared this part.

Part II is devoted to the sector and country analyses of the CIHEAM member countries. It is a synthesis of the country reports provided by a cooperative network of correspondents. Mr. Slimane BEDRANI (INA Alger, Algeria), Mr. Giulio MALORGIO (Università di Bologna, Italy), Mr. Gérard MICLET (ENSAM Montpellier, France), Mr. Pere OLIVER (Instituto Español de Oceanografìa, Palma de Mallorca, Spain), Mr. Ramon FRANQUESA and Mr. Bernardo BASURCO have prepared this synthesis. Our network of correspondents is composed of Mr. Mahmoud Mansour ABDELFATTAH (Egypt), Mr. Najib AKESBI (Morocco), Mr. Slimane BEDRANI (Algeria), Mr. Adrian CIVICI (Albania), Mr. Victor DORDIO (Portugal), Mr. José Maria GARCÍA ALVAREZ-COQUE and Mr. Victor D. MARTINEZ GOMEZ (Spain), Mr. Mouïn HAMZÉ and Ms. Abir Abul KHOUDOUD (Lebanon), Mr. Mohamed-Salah BACHTA (Tunisia), Mr. Giulio MALORGIO and Ms. Simona MAINI (Italy), Mr. Gérard MICLET (France), Mr. Konstantinos GALANOPOULOS (Greece), Ms. Berna TÜRKEKUL and Mr. Serkan DURMAZ (Turkey).

Part III discusses agro-food development and policies in the Mediterranean region. It has been prepared by Mr. Jean-Louis RASTOIN (ENSAM/UMR MOISA Montpellier, France), Mr. Gérard GHERSI, Ms. Martine PADILLA, Ms. Florence JACQUET and Ms. Selma TOZANLI (CIHEAM-IAM Montpellier, France) and Mr. Franck SCHMITT (FAO consultant).

Part IV presents the main indicators of agricultural and agro-food development in the Mediterranean countries which are members of the CIHEAM. This part has been prepared by Mr. Mahmoud ALLAYA (Mediterranean Agronomic Institute, Montpellier, France).

The CIHEAM annual report has been drawn up under the supervision of the CIHEAM Secretary General, Mr. Bertrand HERVIEU. The editorial team of the 2004 edition, coordinated by Mr. Mahmoud ALLAYA, was composed of Mr. Slimane BEDRANI (National Institute of Agronomy, Algiers, Algeria), Mr. Roberto CAPONE (CIHEAM General Secretariat, Paris, France), Mr. José Maria GARCÍA ALVAREZ-COQUE (University of Valencia, Spain), Mr. Giulio MALORGIO (University of Bologna, Italy), Mr. Gérard MICLET (National College of Agronomic Studies, Montpellier, France) and Mr. Pere OLIVER (Instituto Español de Oceanografia, Palma de Mallorca, Spain).

The translation from French into English has been carried out by Ms. Carolyn G. LOANE and the translation from English into French by Ms. Thérèse ZAREMBA-MARTIN; Mr. Mahmoud ALLAYA has been responsible for editing the final version, and Ms. Isabelle DEBABI has been in charge of compilation.

Both the full 2004 report and the country reports will be published in electronic format. Please refer to the CIHEAM websites for further information :

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Agriculture, fishery, food and sustainable rural development in the Mediterranean region

Annual report 2004

Centre International de Hautes Etudes Agronomiques Méditerranéennes

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ACRONYMS AND INITIALS

AAs	Association Agreements
AAU	Agricultural Area in Use
AEC	Savings and Credit Associations
AGDP	Agricultural Gross Domestic Product
ALF	Agricultural Labour Force
AFI	Agri-Food Industries
AIPC	Agro-Industrial Production Complex
CAP	Commun Agricultural Policy
CDOA	Departmental Farm Organisation Committee
CFP	Common Fisheries Policy
CGE	Computable General Equilibrium
CMO	Common Market Organisations
CNCA	Caisse Nationale de Crédit Agricole
CNMA	Caisse Nationale de crédit Mutuel Agricole
COP	Cereals, oilseeds and protein crops
CSE	Consumer Subsidy Equivalent
EAGGF	European Agricultural Garantee and Farm Guidance Fund
EC	European Council Regulation
ECEC	Eastern and Central European Countries
EIA	Environmental Impact Assessment
EMA	Euro Mediterranean Agreements
EMFTA	Euro-Mediterranean Free Trade Area
EU	European Union
FCV	Village Credit Fund
FDI	Foreign Direct Investment
FLDDPS	Fund for Combating Desertification and Developing Pasture Lands in Steppe Areas
FNMVTC	National Fund for Land Development via Concessions
FNRDA	National Fund for Agricultural Regulation and Development
FPZs	Fisheries Protection Zones
FTA	Free Trade Area
GDP	Gross Domestic Product
GFCM	General Fisheries Commission for the Mediterranean
ICAMAS/ CIHEAM	International Centre for Advanced Mediterranean Agronomic Studies
ICCAT	International Commission for the Conservation of Atlantic Tunas
ICSEM	International Council for the Scientific Exploration of the Mediterranean
IUU	Illegal, Unreported and Unregulated fisheries
IRD	Integrated Rural Development
MAP	Mediterranean Action Plan
MARD	Ministry for Agriculture and Rural Development

MCs	Mediterranean Countries
MENA	Middle East and North Africa
MPC	Mediterranean Partner Countries
MTR	Mid-Term Review
NGOs	Non-Governmental Organisations
PBDAC	Principal Bank for Development and Agricultural Credit
PDO	Protected Designation of Origin
PDRN	National Rural Development Plan
PGI	Protected Geographical Indication
PNAE-DD	National Plan of Action for the Environment and Sustainable Development
PNDA	Plan National de Développement Agricole
PO	Producer Organisations
PSE	Producer Subsidy Equivalent
RDO	Registered Designation of Origin
RDP	Rural Development Plan
RDR	Rural Development Rules
RFC	Regional Farming Contract
SAC	Scientific Advisory Committee
SAP	Structural Adjustment Policies
SEMCs	South East Mediterranean Countries
SMAP	Short and Medium Term Priority Environment Action Plan
SME	Small and Medium Enterprises
STCEF	Scientific, Technical and Economic Committee for Fisheries
TNCs	Transnational Companies
TRQ	Tariff Quota
TSG	Traditional Speciality Guaranteed
UNCED	United Nations Conference on Environment and Development
UNEP	United Nations Environment Programme
WTO	World Trade Organisation

Preface

The sixth CIHEAM annual report, which was drawn up in the course of 2003, is being published as the 2004 report so that the reference date for this report coincides with the year of publication. Readers, librarians and archivists are thus requested to note that, although there is no 2003 report, there is no interruption in the series; we have simply brought the reference date into line with the calendar.

The year 2003 was marked by three major events – the reform of the CAP, the enlargement of the European Union, and the crisis in the World Trade Organisation, which emerged at the Cancun Conference.

Such was the context chosen to observe, study, analyse and understand the current changes in Mediterranean agriculture and the role which the agricultural sector plays both in each individual country and in the region as a whole.

At the meeting of the Ministers of Agriculture and Fisheries of the European and Mediterranean countries, an event which took place in Venice from 27 to 29 November 2003, all of those administrators called upon the CIHEAM to clarify the role which agriculture, fisheries and food can play in the effort to build up a Euro-Mediterranean area of trade and solidarity and in the consolidation of a Mediterranean identity in the food sector at the world level.

It is our ambition to accommodate that request, and we trust that the present sixth report reflects that ambition. We have structured our report in four major parts.

- **Part I** presents the reasons for and modalities of the reform of the CAP as well as the enlargement of the European Union, pointing to the upheavals which can be expected of this process in the dynamics of Mediterranean agricultural systems.

- **Part II** focuses on the sectoral and national aspects of the analysis of production and policies, an approach which provides a basis for measuring to what extent certain gaps have been bridged whereas other new disparities have been created.

- **Part III** discusses the agro-food economy in the Mediterranean region as an essential element for understanding the handicaps which an urbanised and highly internationalised Mediterranean region will experience in the medium and long term.

- And finally, **Part IV** presents the main indicators of agricultural and food development in the region, based primarily on the work of the CIHEAM Mediterranean Observatory.

Our report is intended as a key item in the body of material made available to policymakers, researchers, teachers and journalists in their efforts to promote the creation of a Mediterranean region which in our view is as uncertain as it is necessary.

I wish to thank our research colleagues, who have come from research centres, colleges and universities in the Mediterranean Basin or from the Mediterranean institutes of agronomy, for their involvement in the production of the present report. Does not the debate which they have engaged in amongst themselves already foreshadow a Mediterranean community?

I am grateful to Mahmoud ALLAYA from the IAM in Montpellier for taking on the task of coordinating this 2004 edition, which will be published in French, English and Arabic, and I wish to pay tribute to Enzo CHIOCCIOLI, the former Secretary General of the CIHEAM, who for six years directed the production and publication of this annual report, a publication which has become an invaluable tool for academic exchange in the Mediterranean region.

Bertrand HERVIEU
CIHEAM Secretary General

PART I

CAP reform, EU enlargement and Mediterranean agriculture

1 CAP reform and Mediterranean agriculture. Issues concerning the "new CAP"

1.1 - The need for CAP reform

The Common Agricultural Policy (CAP) devised in the Stressa Treaty in the late 1950s became both the institutional framework and the mainstay of the process of modernisation of European agriculture. Indeed, during the 'thirty glorious years' – from the late 1950s to the early 1980s – the major agricultural systems engaged in a productivist race making demands on the countryside in line with the capitalist model of economic growth.

However, it is a well-known fact that this model of 'social contract' enjoyed by farmers reached a point where it was no longer sustainable. The growing budgetary needs, the pressure that multilateral trade negotiations exerted on European foreign trade protection, and the gradual loss of social legitimacy in the eyes of European citizens – due to the negative environmental implications of intensive agriculture – made it necessary to re-examine the CAP in depth. Thus, during the second half of the 1980s, a process of reflection came about at several levels (political, academic, social) and several discussion papers began to highlight features of European agriculture and rural areas and to compare them with other situations (mainly the USA agricultural model).

It was against this background that the deliberations crystallised in the MacSharry Reform of the CAP in 1992. This Reform had two main features: (i) the reduction of institutional prices – in an effort to bring them closer to world prices – and (ii) the introduction of direct payments per hectare or head of livestock, the aim being to compensate farmers for loss of income – these payments were actually initially referred to as 'compensatory payments'. They were decoupled from real production, but, in the case of COP[1] crops, linked to the historical yields of each area, which meant that they were not really decoupled at all.

However, this shift from a relatively concealed form of price support to direct support, which was more transparent, acted as a time-bomb in the pillars of the European format of the social contract (Arnalte, 2000), since it made both the inequalities and the inefficiencies of the model of public intervention in agriculture visible for society.

Seven years later, Agenda 2000 continued along the lines of the former reform, with a new decrease in institutional prices and an increase in direct payments (and the term 'compensatory' was abandoned). This approach disappointed those who wee calling for a more radical (liberalising) transformation of the CAP. But the

[1] Cereals, Oilseeds and Protein Crops.

European Commission nevertheless managed to introduce two new policy instruments in the horizontal Regulation[2], which, in spite of their initial weakness, allowed more stringent implementation in the future.

- The first was the **modulation** of payments (whose application was voluntary for Member States). This instrument prepared the way for the tackling of one of the most controversial aspects of the CAP: the inequitable distribution of payments among farmers[3]. Thus, modulation allowed national Governments to reduce the amount of payments made under the support schemes of the CAP. No Member State has used this facility to date.
- Unlike the previous instrument, the second tool (**cross-compliance**) was compulsory for national Governments. According to this tool, Member States are under the general obligation to "*take the environmental measures they consider to be appropriate in view of the situation of the agricultural land use ... concerned*". In order to enforce these measures, they may provide for a reduction of the benefits accruing from the support schemes concerned if environmental requirements are not complied with. This obligation is being applied very slowly and in a manner which is very tolerant of farmers' agricultural practices[4].

At all events, although it is true that neither tool has been applied decisively, as has been explained above, it is also a fact that farmers, agricultural administrations, and society have become familiar with them. Furthermore, the introduction of these measures has promoted a wide debate in many European countries, mainly on the subject of modulation.

Agenda 2000, which was adopted for the 2000-2006 period, also foresaw the need for intermediate reform, which practically everyone saw as a minor adjustment of nuances. However, in July 2002, the European Commission presented a Mid-Term Review (MTR) proposal, which meant far-reaching transformation of the structure of the CAP, a reform that was appropriately termed *radical*. According to Commissioner Franz Fischler[5] (responsible for Agriculture, Rural Development and Fisheries), the European Commission was pursuing three main objectives with these proposals:

---

2 Council Regulation (EC) No 1259/1999 of 17 May 1999 establishing common rules for direct support schemes under the Common Agricultural Policy.

3 An aspect which had become more obvious with the systems of direct payments introduced in 1992.

4 In Spain, for instance, it has been passed within the Royal Decree 1322/2002, of 13 December 2002.

5 "CAP: Why reform is necessary" Conference of the Chairmen of Committees for Agriculture of the Parliament of the European Union, the Candidate Countries and the European Parliament, Athens, 19 May 2003.

- **simplification** of agricultural policy, that is to say, a CAP easier to manage for both farmers and public agencies and a CAP that would be more easily understood by European citizens (as both taxpayers and food consumers);
- greater **budget control**, which allows both compliance with budget ceilings agreed in the past, and the release of funds to address the reform of other agricultural sectors that have not yet been tackled;
- a higher degree of **market orientation** of European agriculture – the most important and most restrictive objective. Since the inception of European integration in the 1950s, the CAP has introduced economic signals (either through institutional prices or direct payments) conditioning farmers' entrepreneurial decisions (about what and how to produce). For instance, direct payments were independent of real yields, but they were linked to specific products – farmers had to grow specific crops or raise specific animals – and they were also granted within a framework of national and regional production ceilings. The MTR therefore tries to remove these external *distortions* in a way that will reduce the pressures that the world market liberalisation process is exerting on the CAP.

In addition to these arguments, there were also other factors making the reform necessary. Indeed, the context of general international trade liberalisation – with the meeting in Cancun within the World Trade Organisation – and the fact that the present model of agricultural support had lost legitimacy in the eyes of European citizens were underlying factors that also had to be taken into account.

1.2 - Overview of the CAP reform (proposed and agreed provisions)

Against this background, the European Commission presented its initial proposals in a two-step process. In July 2002, Franz Fischler put forward the main elements of the MTR in order to promote a debate on its content at several levels. After several months of intense discussions during which national governments, farmers' organisations, consumer associations, etc. formulated their positions, these initial proposals were translated into legislative documents (Regulation proposals) in January 2003. The proposed Regulations did not change the main aspects that had been presented 6 months previously.

However, the final reforms are a long way from the initial proposals. The difficulty in reaching agreement due to the diverging positions of Member States has resulted in the restriction of the scope of the reform, and in some cases (such as the reduction of certain institutional prices) the proposals have been abandoned, whereas in others (such as decoupling) different national forms of application have been allowed.

This has been due to the strong opposition from several Member States as well as farmers' unions and organisations. There are two main issues which generate this

opposition. First, the drop in institutional prices foreseen for some products (cereals, rice and dairy products) was seen as another reduction of farm margins. But the second issue, the decoupling of direct payments, is without a doubt the most criticised. Farmers fear that the total decoupling of payments could induce many to give up farming and could also result in considerable job losses.

The following box summarises the main MTR sectoral agreements. Several factors (decoupling, modulation, and rural development) are dealt with below in greater depth.

Box 1.1 - Key sectoral elements of the reformed CAP

Cereals
The current intervention price for cereals is maintained. The basic amount for arable crops remains € 63/t. The current seasonal correction of intervention prices ("monthly increments") will be reduced by 50%. Rye will be excluded from the intervention system in order to avoid further accumulation of intervention stocks.
Protein crops
The current supplement for protein crops (€ 9.5/t) will be maintained and converted into a crop-specific area payment of € 55.57/ha. It will be paid within the limits of a new Maximum Guaranteed Area set at 1.4 million ha.
Support for energy crops – a carbon credit
The Commission proposes an aid of € 45/ha for energy crops. This will apply to a maximum area of 1,500,000 ha. The aid will only be granted in respect of areas whose production is covered by a contract between the farmer and the processing industry, except where the processing is undertaken by the farmer on the holding.
Durum wheat
The supplement for durum wheat in traditional production areas will be paid irrespective of production. Member States may decide to keep 40% tied to production. It will be fixed at € 313/ha in 2004, € 291 in 2005 and € 285 from 2006 and will be included in the single farm payment. A new premium will be introduced to improve the quality of durum wheat used for semolina and pasta production.
Starch potatoes
The current policy provides for a direct payment for producers of starch potatoes. It was fixed at € 110.54 per tonne of starch within the framework of Agenda 2000. 40% of this payment will be included in the single farm payment on the basis of the historical deliveries to the industry. The remainder will be maintained as a crop-specific payment for starch potatoes. The minimum price will be maintained, as will the production refund for starch.
Dried fodder
Support in the dried fodder sector will be redistributed between growers and the processing industry. Direct support to growers will be integrated into the single farm payment, based on the historical deliveries to the processing industry. National ceilings will apply to take account of current National Guaranteed Quantities. The processing aid will be fixed at € 33/t in 2004/05.

Box 1.1 (contd.)

Rice
In order to stabilise market balances due in particular to the impact of the Everything but Arms (EBA) initiative, the Council decided to reduce the intervention price by 50% to € 150/t in line with world market prices in a one-step reduction measure. In order to stabilise producers' incomes, the current direct aid will be increased from € 52/t to 177/t, a rate equivalent to the total cereals compensation under the 1992 and Agenda 2000 reforms. Of this, € 102/t will become part of the single farm payment and will be paid on the basis of historical rights limited by the current maximum guaranteed area (MGA). The remaining € 75/t multiplied by the 1995 reform yield will be paid as a crop-specific aid.
Nuts
The current system will be replaced by an annual flat rate payment of € 120.75/ha for 800,000 ha divided into national guaranteed areas for almonds, hazelnuts, walnuts, pistachios and locust beans. This aid can be topped up by Member States by a maximum annual amount of € 120.75 per hectare.
Dairy
In order to provide a stable perspective for dairy farmers, the Council decided to pursue a reformed dairy quota system until the 2014/15 farm year. The Council decided to make asymmetrical price cuts in the milk sector. The intervention price for butter will be reduced by 25% (-7% in 2004, 2005, 2006 and -4% in 2007), which is an additional price cut of 10% compared to Agenda 2000. For skimmed milk powder prices will be cut by 15% (in 5% steps over 3 years from 2004 to 2006), as agreed in Agenda 2000. The compensation is fixed as follows: € 11.81/t in 2004, € 23.65 in 2005 and € 35.5 from 2006 onwards.

Source: Directorate-General for Agriculture, European Commission (2003) EU fundamentally reforms its farm policy to accomplish sustainable farming in Europe. IP/03/898 Luxembourg, 26 June 2003.

1.3 - Issues of the CAP reform: decoupling, modulation and rural development

These three aspects and their interlinkage form a common framework which has very interesting elements but also several constraints and weaknesses – mainly for southern EU countries – due to the final modifications needed for the definitive agreement.

Decoupling aims to convert direct payments under the various market support schemes into a single farm payment – although, as will be shown below, this has not yet been fully achieved. In addition, those farms receiving more than € 5,000 /year of this new (partially) decoupled payment will be subject to a relative cut, the so-called **modulation**. The savings from modulation are to be devoted to **rural development** measures as a means of reinforcing the 'second pillar' of the CAP. However, as will be explained in the following paragraphs, the three aspects present both advantages and drawbacks.

1.3.1 - Decoupling

The most innovative factor introduced in the MTR, as well as the most radical, has without a doubt been the decoupling of direct payments. With this mechanism, the European Commission took up a policy instrument frequently proposed and analysed in academic forums, but seldom actually used in agricultural policy.

Decoupled payments have been defined in many ways, but perhaps the most frequently used definition is that of the OECD (see box below).

Box 1.2 - Definition of decoupling

Decoupling is a general concept taken from the policy debate. This concept is based on the general criterion established in Annex II of the URAA (the green box), and it applies to policies having no impact on trade and production. We can also use more specific concepts of decoupling such as full decoupling, effective full decoupling and degree of decoupling.

Full Decoupling is a formal concept taken from Cahill (1997)[a]. A policy is fully decoupled if it "does not influence production decisions of farmers receiving payments, and if it permits free market determination of prices". That is, full decoupling is a very restrictive concept which requires no change in the way farmers and consumers take decisions. It is a concept centred on the adjustment process and not only on equilibrium values. After the introduction of a fully decoupled policy, both the shape and the position of supply and demand curves should not change.

Effective Full Decoupling is a formal concept also introduced by Cahill (1997). A policy is effectively fully decoupled if it results in a level of production and trade equal to what would have occurred if the policy were not in place. This concept is centred on the equilibrium quantities. The shape of the supply or demand curves could be changed by an effectively fully decoupled policy, even if equilibrium production and consumption are not changed.

Degree of decoupling (DD) is an index for measuring effective full coupling independently from the units used to measure production. If the DD index value is one, this means that the policy is effectively fully decoupled; that is, it has a zero effect on production and/or trade. If the DD is zero, this means that the production and/or trade effects of the policy are equal to those of a PSE-equivalent increase in effective output prices. DD could also be higher than 1 (negative production effects) or negative (production impact higher than for an equivalent PSE change in the form of market price support).

[a] Cahill, S.A. (1997) "Calculating the rate of decoupling for crops under CAP/oilseeds reform" *Journal of Agricultural Economics*, Vol. 48(3): 349-378

Source: OECD Directorate For Food, Agriculture and Fisheries (2002) Decoupling: A conceptual Overview. Paris.

According to the European Commission, decoupled payments – which should complete the shift of support from the product to the producer which began in 1992 – have several advantages (e.g. simplification of support schemes, greater

market orientation of production, fewer trade conflicts in multilateral negotiations, etc.).

Initially (July 2002 and January 2003), the European Commission proposed total decoupling from 2004, thus creating a single decoupled farm income payment covering: cereals, oilseeds, protein crops, flax, hemp, linseed; durum wheat supplement; starch potatoes (only 50%); grain legumes; rice; dried fodder; beef, sheep, and milk. According to this proposal, total decoupling was the only way to avoid a higher degree of complexity in the application of the CAP.

However, several countries – as well as most farmers' organisations and other actors involved – showed strong opposition to decoupling. The main reasons they put forward were the loss of instruments for intervening on agricultural markets and, in particular, the risk of cessation in the less productive areas (an argument also supported by several impact studies).

Finally, after a very intense debate amongst the various parties, the June 2003 agreement introduced voluntary partial decoupling, which is explained in the next box.

Box 1.3 - Decoupled payments system

	June 2003 Agreements
Scope	A single farm payment will replace most of the premium paid under the various Common Market Organisations. Consequently, the vast majority of the EU direct payments will no longer be linked to production. Those Member States which deem it necessary to minimise the risks of land abandonment can maintain up to 25% of the current **output-related** per hectare payments in the **arable sector**. Alternatively, 40% of the supplementary durum wheat premiums may continue to be production-related. In the case of the **beef sector**, Member States may decide to - retain up to 100% of the present suckler cow premium and 40% of the slaughter premium, or - retain either up to 100% of the slaughter premium or, alternatively, up to 75% of the special premium for male animals. A maximum of 50% of the **sheep and goat** premiums including the supplementary premium in less favoured areas can remain production-related. **Dairy payments** will be included in the single farm payment from 2008, once the dairy reform has been fully implemented. Member States may introduce the system earlier.
Refperiod	2000, 2001, 2002
Additional aid	Member States may make additional payments of a maximum of 10% of the sum of the single farm payments made to their farmers in order to encourage specific types of farming which are important for the environment, quality production and marketing.
Entry into force	The new system will enter into force in 2005. If a Member State needs a transitional period due to its specific agricultural circumstances, it may apply the single farm payment from 2007 at the latest.

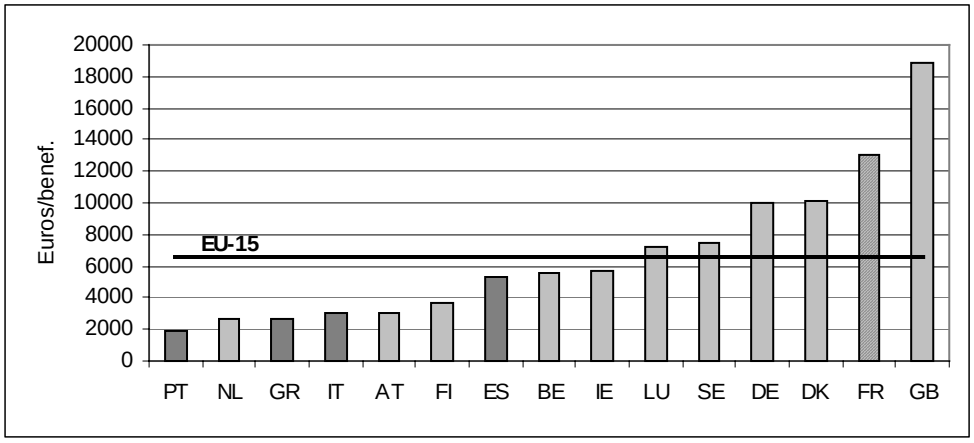
Source: Directorate-General for Agriculture, European Commission (2003) EU fundamentally reforms its farm policy to accomplish sustainable farming in Europe. IP/03/898 Luxembourg, 26 June 2003.

It can be noticed how the European Commission ended up offering certain Member States several possibilities for partial decoupling – under a general scheme of total decoupling – in order to overcome the considerable obstacles they presented. Thus, national governments can design different models of payments for the main support schemes (arable crops, beef, sheep and goats, and dairy sectors). We are thus faced with **re-nationalisation** of the CAP– not only as regards decision-making, since each country can choose different models of decoupling, but also as regards financing, since Member States may make additional payments of a maximum of 10% of the sum of the single farm payments made to their farmers to encourage specific types of farming which are important for the environment, quality production and marketing (a wide range of possibilities).

Although it is too early to have information about which Member States are going to use this possibility and how they plan to do so, the main users are likely to be those with higher budgetary resources (i.e. not Mediterranean countries).

But this is not the only factor which leaves southern countries worse off. The Mid Term Review would also **freeze** present direct payments granted under the most important common market organisations. This point has given rise to a great deal of criticism, mainly from southern European countries, because of the unequal distribution of average payments to farmers due to the historical regional yields which served as the basis for calculating directs (formerly compensatory) payments in 1992. Indeed, as the next figure shows, the benefits for farmers from CAP payments vary widely.

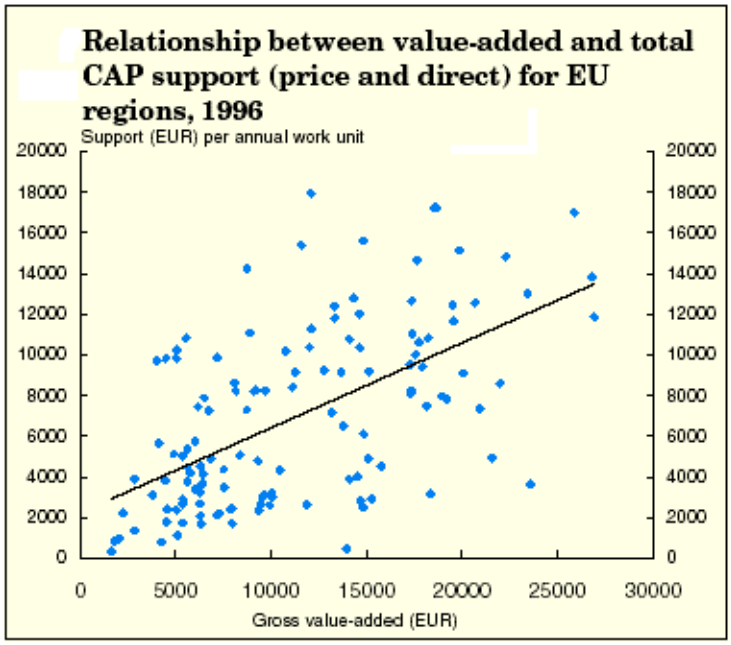
Figure 1.1 - Average payment by beneficiary in arable crop and livestock premiums



Source: Own elaboration from: Directorate-General for Agriculture, European Commission (2002) MEMO/02/198. Brussels, 1 October 2002. Data for financial year 2000.

There are also considerable differences at the regional level, which are highly correlated with the gross value-added in agriculture.

Figure 1.2 -



Source: European Commission (2003) Second progress report on economic and social cohesion. COM(2003) 34 final.

This marked disparity in distribution among farmers – a legacy of the compensatory feature of the payments – can only be reduced smoothly through modulation, as will be shown on the following pages. The fundamental question is this: if these decoupled payments are going to lose their sectoral aspect, since they will constitute a new rural and environmental instrument from now on, there are no reasons that justify this uneven treatment of farmers who are providing similar social and environmental services. At all events, it must also be realised that changing this situation would have meant revolutionising the CAP, perhaps avoiding a final agreement.

Table 1.2 – Direct aids to producers (R. 1259/99) - Financial Year 2000. All direct payments (million Euros)

Strata (€ * 1000)	BE	DK	DE	GR	ES	FR	IE	IT
< 0 €	0.0	0.0	-0.2	0.0	-0.2	0.0	-0.2	0.0
> 0 and < 1.25	6.1	5.3	53.5	72.7	101.0	44.4	16.5	201.5
> 1.25 and < 2	8.2	8.6	58.7	58.0	85.4	48.7	24.7	140.9
> 2 and < 5	56.5	57.8	344.2	209.9	344.5	306.0	141.2	469.6
> 5 and < 10	53.4	89.8	437.6	185.1	429.3	584.8	197.9	376.8
> 10 and < 20	65.8	173.0	677.4	129.1	575.8	1292.9	193.4	379.7
> 20 and < 50	49.6	211.4	637.5	59.6	519.1	2302.0	123.4	317.3
> 50 and < 100	6.1	64.2	267.0	6.0	230.6	1008.4	22.9	117.4
> 100 and < 200	1.0	16.5	276.4	1.4	129.6	191.0	6.4	52.4
> 200 and < 300	0.0	4.8	214.6	0.7	34.6	13.9	1.1	14.1
> 300 and < 500	0.0	0.5	301.0	0.0	21.4	5.4	0.6	9.4
> 500	0.0	1.1	347.7	0.0	15.0	0.6	0.0	8.1
Total	**246.6**	**633.0**	**3615.5**	**722.5**	**2486.2**	**5798.3**	**728.0**	**2087.1**

Strata (€ * 1000)	LU	NL	AT	PT	FI	SE	GB	EU15
< 0 €	0.0	0.0	-0.1	-0.1	0.0	-0.1	-1.6	-2.6
> 0 and < 1.25	0.2	16.5	35.9	53.0	13.8	9.2	15.7	645.4
> 1.25 and < 2	0.2	16.1	29.5	18.7	18.2	10.6	16.8	543.4
> 2 and < 5	2.3	72.7	108.3	44.4	78.8	55.1	87.1	2378.4
> 5 and < 10	4.3	25.0	108.9	26.3	75.3	79.4	159.3	2833.2
> 10 and < 20	5.1	21.6	95.1	33.5	56.9	110.4	322.5	4132.3
> 20 and < 50	3.1	12.1	33.4	59.0	17.7	125.4	794.9	5265.5
> 50 and < 100	0.2	2.2	6.2	49.5	1.0	45.1	691.3	2518.3
> 100 and < 200	0.0	0.8	4.6	27.6	0.0	16.8	446.8	1171.3
> 200 and < 300	0.0	0.0	1.9	5.2	0.0	3.9	123.0	417.8
> 300 and < 500	0.0	0.0	1.2	2.4	0.0	1.1	66.3	409.2
> 500	0.0	0.5	2.0	1.5	0.0	0.9	44.5	421.8
Total	**15.5**	**167.5**	**427.0**	**320.9**	**261.6**	**457.9**	**2766.6**	**20734.1**

In order to protect the anonymity of the beneficiaries, numbers less than 10 have been made invisible in this table.

Table 1.3 - Direct aids to producers (R. 1259/99) - Financial Year 2000. Number of beneficiaries (1000)

Strata (number of beneficiaries * 1000)	**BE**	**DK**	**DE**	**GR**	**ES**	**FR**	**IE**	**IT**
< 0 €	0.2	0.1	0.2	0.0	0.3	0.0	0.3	0.0
> 0 and < 1.25	9.1	7.9	87.9	129.9	187.9	67.1	23.9	362.9
> 1.25 and < 2	5.1	5.3	36.5	36.3	53.5	30.3	15.3	88.7
> 2 and < 5	16.0	16.3	99.0	65.5	104.9	87.1	42.5	145.7
> 5 and < 10	7.5	12.1	60.1	26.9	60.1	79.0	28.0	53.6
> 10 and < 20	4.8	12.2	48.6	9.6	42.3	90.3	14.3	27.7
> 20 and < 50	1.8	7.2	22.1	2.2	17.8	75.3	4.5	10.9
> 50 and < 100	0.1	1.0	3.9	0.1	3.4	15.5	0.4	1.8
> 100 and < 200	0.0	0.1	2.0	0.0	1.0	1.6	0.1	0.4
> 200 and < 300	0.0	0.0	0.9	0.0	0.1	0.1	0.0	0.1
> 300 and < 500	0.0	0.0	0.8	0.0	0.1	0.0	0.0	0.0
> 500	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Total	**44.5**	**62.2**	**362.4**	**270.5**	**471.4**	**446.1**	**129.1**	**691.7**

Strata (number of beneficiaries * 1000)	**LU**	**NL**	**AT**	**PT**	**FI**	**SE**	**GB**	**EU15**
< 0 €	0.0	0.0	0.1	0.3	0.1	0.0	0.1	1.6
> 0 and < 1.25	0.3	26.5	61.5	138.4	20.2	14.3	25.7	1163.4
> 1.25 and < 2	0.1	10.0	18.5	11.9	11.3	6.6	10.5	339.9
> 2 and < 5	0.6	21.4	33.7	14.4	24.2	16.6	26.2	714.0
> 5 and < 10	0.6	3.5	15.6	3.8	10.8	11.2	22.2	394.9
> 10 and < 20	0.4	1.6	7.1	2.4	4.3	7.9	22.3	295.7
> 20 and < 50	0.1	0.4	1.3	1.9	0.7	4.3	25.1	175.4
> 50 and < 100	0.0	0.0	0.1	0.7	0.0	0.7	10.1	37.7
> 100 and < 200	0.0	0.0	0.0	0.2	0.0	0.1	3.4	8.8
> 200 and < 300	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.7
> 300 and < 500	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.1
> 500	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.6
Total	**2.1**	**63.5**	**137.8**	**174.0**	**71.5**	**61.7**	**146.4**	**3134.8**

Table 1.4 – Direct aids to producers (R. 1259/99) - Financial Year 2000. All direct payments (%)

Strata (€ * 1000)	**BE**	**DK**	**DE**	**GR**	**ES**	**FR**	**IE**	**IT**
< 0 €	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
> 0 and < 1.25	2.5	0.8	1.5	10.1	4.1	0.8	2.3	9.7
> 1.25 and < 2	3.3	1.4	1.6	8.0	3.4	0.8	3.4	6.8
> 2 and < 5	22.9	9.1	9.5	29.1	13.9	5.3	19.4	22.5
> 5 and < 10	21.6	14.2	12.1	25.6	17.3	10.1	27.2	18.1
> 10 and < 20	26.7	27.3	18.7	17.9	23.2	22.3	26.6	18.2
> 20 and < 50	20.1	33.4	17.6	8.2	20.9	39.7	17.0	15.2
> 50 and < 100	2.5	10.1	7.4	0.8	9.3	17.4	3.2	5.6
> 100 and < 200	0.4	2.6	7.6	0.2	5.2	3.3	0.9	2.5
> 200 and < 300	0.0	0.8	5.9	0.1	1.4	0.2	0.2	0.7
> 300 and < 500	0.0	0.1	8.3	0.0	0.9	0.1	0.1	0.5
> 500	0.0	0.2	9.6	0.0	0.6	0.0	0.0	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Strata (€ * 1000)	**LU**	**NL**	**AT**	**PT**	**FI**	**SE**	**GB**	**EU15**
< 0 €	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
> 0 and < 1.25	1.1	9.9	8.4	16.5	5.3	2.0	0.6	3.1
> 1.25 and < 2	1.4	9.6	6.9	5.8	7.0	2.3	0.6	2.6
> 2 and < 5	14.8	43.4	25.4	13.8	30.1	12.0	3.1	11.5
> 5 and < 10	28.1	14.9	25.5	8.2	28.8	17.3	5.8	13.7
> 10 and < 20	33.1	12.9	22.3	10.4	21.7	24.1	11.7	19.9
> 20 and < 50	20.0	7.2	7.8	18.4	6.8	27.4	28.7	25.4
> 50 and < 100	1.6	1.3	1.5	15.4	0.4	9.9	25.0	12.1
> 100 and < 200	0.0	0.5	1.1	8.6	0.0	3.7	16.2	5.6
> 200 and < 300	0.0	0.0	0.4	1.6	0.0	0.8	4.4	2.0
> 300 and < 500	0.0	0.0	0.3	0.7	0.0	0.2	2.4	2.0
> 500	0.0	0.3	0.5	0.5	0.0	0.2	1.6	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 1.5 - Direct aids to producers (R. 1259/99) - Financial Year 2000. Number of beneficiaries (%)

Strata (number of beneficiaries * 1000)	**BE**	**DK**	**DE**	**GR**	**ES**	**FR**	**IE**	**IT**
< 0 €	0.4	0.1	0.1	0.0	0.1	0.0	0.2	0.0
> 0 and < 1.25	20.5	12.7	24.3	48.0	39.9	15.0	18.5	52.5
> 1.25 and < 2	11.4	8.5	10.1	13.4	11.4	6.8	11.9	12.8
> 2 and < 5	35.9	26.3	27.3	24.2	22.2	19.5	32.9	21.1
> 5 and < 10	16.9	19.4	16.6	9.9	12.8	17.7	21.7	7.7
> 10 and < 20	10.7	19.6	13.4	3.6	9.0	20.2	11.0	4.0
> 20 and < 50	4.0	11.6	6.1	0.8	3.8	16.9	3.4	1.6
> 50 and < 100	0.2	1.6	1.1	0.0	0.7	3.5	0.3	0.3
> 100 and < 200	0.0	0.2	0.5	0.0	0.2	0.3	0.0	0.1
> 200 and < 300	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
> 300 and < 500	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
> 500	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Strata (number of beneficiaries * 1000)	**LU**	**NL**	**AT**	**PT**	**FI**	**SE**	**GB**	**EU15**
< 0 €	0.0	0.0	0.1	0.2	0.1	0.0	0.1	0.1
> 0 and < 1.25	13.6	41.7	44.6	79.5	28.2	23.2	17.6	37.1
> 1.25 and < 2	6.1	15.8	13.4	6.8	15.8	10.7	7.2	10.8
> 2 and < 5	29.6	33.6	24.4	8.3	33.9	27.0	17.9	22.8
> 5 and < 10	28.2	5.6	11.3	2.2	15.0	18.1	15.2	12.6
> 10 and < 20	17.4	2.5	5.2	1.4	6.0	12.8	15.3	9.4
> 20 and < 50	5.2	0.7	0.9	1.1	1.0	6.9	17.1	5.6
> 50 and < 100	0.0	0.1	0.1	0.4	0.0	1.1	6.9	1.2
> 100 and < 200	0.0	0.0	0.0	0.1	0.0	0.2	2.3	0.3
> 200 and < 300	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.1
> 300 and < 500	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
> 500	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Another very interesting point is the regulation of the use of payment entitlements. According to the regulation finally proposed, a farmer will receive an entitlement per hectare which is calculated by dividing the reference amount by the average number of all hectares which in the reference period gave rise to entitlement to direct payments.

And entitlements may be transferred by sale with or without land (only to another farmer established within the same Member State). On the other hand, lease or similar types of transaction will only be allowed if the entitlements transferred are accompanied by the transfer of an equivalent number of eligible hectares. This last point opens up a wide range of possibilities and uncertainties, which should be clarified in future regulations. In Spain, for instance, the effects of direct payments on land tenure systems are clear; the new decoupled scheme could have new and unforeseeable effects on the relationship between landowners and tenants.

1.3.2 - Modulation

Modulation is the way to reduce the uneven distribution effect of the CAP. As was stated in the introduction, this instrument was introduced smoothly in Agenda 2000 following the criticisms received once farm support was made partially transparent through the creation of direct payments.

It was relatively clear from the outset that MTR was going to enforce compulsory modulation. Thus, both the July 2002 and the January 2003 proposals made provision for a considerable reduction of payments for farms receiving more than €5,000/year. The modulation proposed introduced a progressive and differentiated rate of aid reduction, applying a franchise to payments up to 5,000 €, an intermediate rate of reduction to payments between 5,000-50,000 €, and the full reduction rate to payments above 50,000 € (this boils down to a 19% cut).

However, here again, the final provisions agreed have ended up a long way from the initial objectives. Direct payments for larger farms will be reduced as follows (remote regions remaining exempt from modulation[6]):

[6] Reductions of direct payments will not apply in the acceding countries either until the direct payments reach the normal EU level.

Table 1.1 - Percentages of modulation

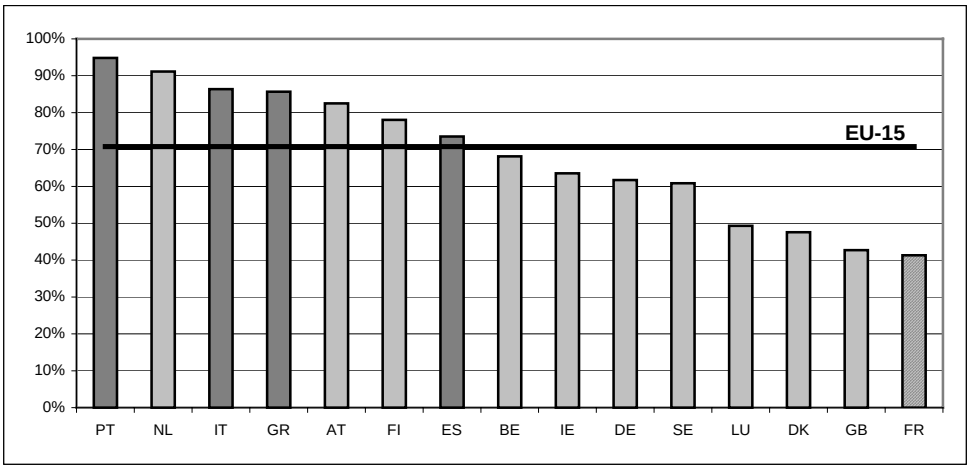
Budget year (%)	2005	2006	2007	2008 to 2013
Farms with up to € 5,000 direct payments a year	0	0	0	0
Above € 5,000	3	4	5	5

Source: Directorate-General for Agriculture, European Commission (2003) EU fundamentally reforms its farm policy to accomplish sustainable farming in Europe. IP/03/898 Luxembourg, 26 June 2003.

According to Commission's estimations, a modulation rate of 5% will result in savings of € 1.2 billion a year.

Two points should be highlighted in this respect. **First**, modulation is expected to affect the EU countries in different ways due to differences in payments distribution. For instance, the application of the 5,000 € franchise – that is, farmers not affected by these cuts – will have less impact in those countries with a higher percentage of farmers under this threshold (see Fig. 1.3), which shows how southern countries are placed in this respect.

Figure 1.3 - Percentage of beneficiaries receiving less than 5,000 €/year in arable crop and livestock premiums



Source: Own elaboration from: Directorate-General for Agriculture, European Commission (2002) MEMO/02/198. Brussels, 1 October 2002. Data for financial year 2000.

Secondly, modulation savings are to be devoted to rural development measures. According to initial proposals, these savings were to be distributed among Member States according to cohesion criteria: (criteria of agricultural area, agricultural

employment, and GDP per capita in purchasing power). That is, criteria benefiting southern countries.

Here again, however, the final agreement reflected the opposition of net contributor countries. In fact, as regards the distribution of the funds generated through modulation, every Member State will now receive at least 80% of its modulation funds in return[7], the remaining 20% being allocated among countries according to cohesion criteria. So, although it is true that central and northern EU countries will be more affected by modulation, they are also going to release more funds for their rural development.

1.3.3 - Rural Development

According to political discourse, rural development (the so-called second pillar of the CAP) could have been the main beneficiary of the reform. During the years following Agenda 2000, many voices had criticised the low weight of these measures in budget terms (10% of CAP expenditure during the 2000-2006 period).

Changes in rural development legislation will now come mainly from the new measures that will come into force in 2005. They include:

(i) new quality incentives for farmers, through payments for farmers who participate in schemes designed to improve the quality of agricultural products, as well as through support to producer groups for activities intended to inform consumers about and to promote the products produced under quality schemes supported under the above measure;
(ii) new support to help farmers to meet standards based on EU legislation not yet included in national legislation concerning the environment, public, animal and plant health, animal welfare and occupational safety. Support will also be provided for farmers to help them with the costs of using farm advisory services;
(iii) measures to cover farmers' costs for animal welfare;
(iv) an increase in investment aid for young farmers.

In other words, there have been no significant changes in the content of the second pillar.

1.3.4 - Other aspects of the 'new' CAP

Other elements have been included in the reform which, although they have not given rise to the same controversy as the issues mentioned above, are of interest

[7] There is an exemption for Member States where rye production is higher than 5% of its total cereal production and 50% of total rye production in the EU. In these cases, 90% of the modulation savings will remain in the country. Germany is the unique case in the EU-15.

with a view to the future, since they can become a means of gradually transforming the CAP.

Box 1.4 - Cross-compliance and Farm Advisory System in the MTR

	Status quo	MTR Agreement June 2003
Cross-Compliance	Optional use of reductions of direct payments for enforcing statuary environmental legislation and so-called specific environmental requirements	Compulsory cross-compliance (whole farm approach) Direct payments for compliance with statutory standards (environment, food safety, and animal welfare) and keeping land in good agricultural condition.
Farm Advisory System	The establishment (not the operation) of certification systems is an option under the Rural Development Package.	Farm audits compulsory for all farms receiving more than € 15,000 in direct payments or having an annual turnover greater than € 100,000. Audits will account for all relevant material flows and on-farm processes. Financial support covering costs for farmers is eligible under Rural Development.

Source: Own elaboration from: Directorate-General for Agriculture, European Commission MEMO/03/11 CAP Reform A Comparison of Current Situation, MTR Communication (July 2002) and Legal Proposals (January 2003) Brussels, 22 January 2003; and Directorate-General Agriculture, European Commission (2003) EU fundamentally reforms its farm policy to accomplish sustainable farming in Europe. IP/03/898 Luxembourg, 26 June 2003.

Cross-compliance (enforced by the Farm Advisory System) is a tool designed for those agricultural systems most dependent on CAP support. Although the implementation of this tool has been moderate until now, it could become more demanding in the future, with more binding specifications for farmers. Cross-compliance could thus become a way of transforming the spirit of the CAP's direct payments, bringing a shift from income support payments to real agro-environmental payments (Ortiz and Ceña, 2002).

2 The impact of EU enlargement on Mediterranean rural systems

2.1 - The enlargement process and its consequences: a brief overview

The EU enlargement to the countries of Central and Eastern Europe (CEECs) is unlike any previous enlargements – Denmark, Ireland and the United Kingdom in 1973, Greece in 1981, Spain and Portugal in 1986 and Austria, Finland and Sweden in 1995 – first of all, due to the sheer scale of this enlargement in terms of number of new member states. Although the increase of 20% in population and 23% in area are not the largest increases involved, the extension from 15 to 25 members makes this enlargement beyond all doubt the largest in the history of the Community. And secondly, the enormous economic differences between present and future member states were per se a tremendous challenge, not only for the applicant countries but also for the Union itself. Whereas in 1986, when Portugal and Spain joined the EU, the gross domestic product (GDP) per capita (at purchasing power parity) of these two countries was about 70% of the GDP of the Community, in the present applicant countries it amounts to about 40% of the average of the EU-15.

Table 2.1 – Basic data on EU and future member states

Country	Area	Popula-tion	Gross domestic product			
	km²	million	billion		per capita in	
			€	pps	€	pps
Cyprus	9 251	0.762	10.2	12.5	15,100	18,500
Czech Republic	78 866	10.2	63.3	136.2	6,200	13,300
Estonia	45 227	1.4	6.2	13.4	4 500	9 800
Hungary	93 030	10.2	58.0	120.6	5 700	11 900
Latvia	64 589	2.4	8.5	18.2	3 600	7 700
Lithuania	65 300	3.5	13.4	30.5	3 800	8 700
Malta	316	0.394	4.0	n.a.	10 300	n.a.
Poland	312 685	38.6	196.7	355.9	5 100	9 200
Slovak Republic	49 035	5.4	22.8	59.5	4 200	11 100
Slovenia	20 273	2.0	20.9	31.8	10 500	16 000
EU-15	3 237 900	376.4	8 828.9	8 828.9	23 200	23 200

Notes: Gross domestic product (2001) is expressed in euros and pps (purchasing power standards).

Source: European Commission.

When we add to this the fact that in most of the new member states the accession process has been simultaneous with far-reaching political and social changes,

taking place when the countries have been in the throes of transition to the market economy system, we can conclude that the present enlargement is very different to the previous ones and requires considerable efforts on both sides with far-reaching consequences in the long term, which will change the structure of Europe for good.

The accession of the 10 Central and Eastern European countries will thus have implications for political, economic and social life in Europe, which will continue for decades and will inevitably influence relations with third countries, particularly those which have close relations with Europe. This is the case of the Southern and Eastern Mediterranean countries (SEMCs), which are the main concern of the following analysis.

However, assessing the results of enlargement in any field takes us to the beginning of the 1990s, when the applicant countries began to approach the EU-15. Wide-ranging economic integration has since come about which has meanwhile had its own impact. At the same time, the regulatory, political and institutional framework which will regulate the entire process and which must be in place by the time accession takes place next year and in the ensuing transitional stage, has also been defined.

When we place the future consequences of this enlargement in perspective, we should bear in mind both the effects that have already been produced and the conditions agreed upon for the post-accession period. As we shall see, both aspects will condition the pattern and extent of the consequences, whether at the level of the economy and society in general or in the agricultural sector, where the same pattern of integration has been applied.

From another point of view, once enlargement has had an impact on third countries – essentially as an indirect result of the changes involved for the Community itself – the analysis must take these changes as a starting point for assessing to what extent this enlargement will affect SEMCs and their agricultural sectors in particular.

Before discussing the anticipated consequences of the integration process, either at the level of the economy and society as a whole (section 2.3) or in the agricultural sector (section 2.4.2), the present chapter recapitulates the progress made in the last decade, evaluating the effects produced so far and identifying the agreements and rules laid down for the post-accession period in general (section 2.2) and in agriculture in particular (section 2.4.1).

Throughout the chapter, in the discussion of both general and specifically agricultural issues the consequences of enlargement on the SEMCs will be borne in mind as the ultimate concern of our analysis, even when the effects on the Community are being analysed.

2.2 - History of the enlargement: the negotiation process

The negotiation process and its history can be summarised as follows.

Box 2.1 – Main dates in the enlargement process

1989	Collapse of the Berlin wall Initiation of the European Community's financial support to help the Central and Eastern European countries to reform and rebuild their economies
1990	Cyprus and Malta apply for EU membership
1990-96	Conclusion of Association Agreements (Europe agreements) with States in Central and Eastern Europe
1993	Copenhagen European Council approves EU enlargement for countries of Central and Eastern Europe and defines the criteria for membership
1993	European Commission publishes its Opinions on Cyprus and Malta
1994	Essen European Council approves pre-accession strategy
1994-96	Ten States of Central and Eastern Europe apply for EU membership
1997	European Commission publishes its Opinions on the countries of Central and Eastern Europe, and proposes a strategy for enlargement in 'Agenda 2000'
1998	Accession negotiations start with Hungary, Poland, Estonia, Slovenia, Czech Republic and Cyprus Malta reactivates its application for EU membership
1999	Berlin European Council agrees on 'Agenda 2000' and a financial perspective for EU enlargement Turkey accepted in the EU enlargement process on the basis of the Copenhagen criteria
2000	Negotiations start with Slovakia, Latvia, Lithuania, Bulgaria, Romania and Malta
2002	Copenhagen European Council concludes accession negotiations with Cyprus, Malta, Slovakia, Czech Republic, Poland, Hungary, Slovenia, Estonia, Latvia and Lithuania

Source: Report by Wim Kok to the European Commission (2003).

Although the enlargement process was formally opened in June 1992, at the Lisbon European Council meeting, at which a long-term strategic guideline for the opening to the East was outlined, the European Community was already entering into Association Agreements with the CEECs as of the beginning of the decade – the so-called Europe Agreements, which became the basis of bilateral relations between the two parties. Such Agreements covered trade aspects, political dialogue, harmonisation of legislation, and other fields of cooperation including industry, environment, transport and customs. The Agreements promoted the rapid growth of trade and the reorientation of both the trade flows of the CEECs and investments from the markets of the former Soviet Union to the EU with a view to progressively creating an area of free trade between the EU and the associated countries by 2002. Furthermore, the Association Agreements between the European Community and

several applicant countries had been in place for a long time: with Turkey since 1964, with Malta since 1970 and with Cyprus since 1973.

Following the Copenhagen Council in June 1993, relations with the CEECs were to be significantly developed as the various aspects of those Association Agreements progressed and subsequently with the creation of a multilateral framework, which would strengthen political dialogue and conciliation on issues of general interest. In Copenhagen, the European Council not only approved the principle of EU enlargement to embrace the associated countries of Central and Eastern Europe but also defined the criteria which applicants would have to meet before they could join the Community. These criteria concerned:

i) the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities (political criterion);
ii) the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the EU (economic criterion);
iii) the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union (criterion concerning adoption of the *acquis communautaire*). As a result, the contractual bonds between the EU and the CEECs were strengthened with a view to these countries' gradually coming closer to the western economic model, a sine qua non for their integration into the EU.

By the time the accession process was formally launched on 30 March 1998 at a meeting held in Luxembourg by the Ministers of Foreign Affairs of the EU-15 and of the 10 CEECs, a series of decisions had been taken which helped to consolidate relations with the steadily growing number of applicant countries. The following can be cited for their impact with regard to economic relations: the adoption of the pre-accession strategy in 1994; the implementation of the first European Association Agreements with Hungary and Poland the same year; the approval of mandates to negotiate Additional Protocols to such Agreements with regard to the opening of Community programmes to the CEECs; the completion of the ratification process of the European Association Agreements with Bulgaria and Romania. The accession partnerships – a new instrument forming the keystone of the strategy concentrating all forms of assistance to the CEECs, including the consolidation of pre-accession support – were defined in 1997 in the context of the so-called enhanced pre-accession strategy.

Box 2.2 – The Copenhagen criteria for membership

At their summit in Copenhagen in June 1993, the EU leaders made the following historic promise: "The countries in Central and Eastern Europe that so desire will become members as soon as they are able to assume the obligations of membership by satisfying the economic and political conditions".

It spelled out for the first time the conditions for membership, which have become known as the 'Copenhagen criteria'. These criteria set standards for countries aspiring to EU membership:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for, and protection of, minorities
- the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

The first, 'political', criterion is considered to be a precondition for the opening of accession negotiations, while the other criteria have to be fulfilled by the time of accession.
The third criterion implies that the new members should take over the policies and rules of the EU (the *acquis*) and implement and enforce them effectively.

Source: Report by Wim Kok to the European Commission (2003).

As mentioned above, 1998 was the year when negotiations with the so-called Luxembourg group (Hungary, Poland, Estonia, Slovenia, Czech Republic and Cyprus) began. The accession partnerships that were launched provided a single framework for their three basic components:

i) priority areas in which the *acquis communautaire* was to be adopted;
ii) programming the EU's financial assistance; and
iii) the terms applying to this aid: compliance with the obligations under the European Agreements and progress in meeting the Copenhagen criteria.

The following year, in March, the Berlin Council reached an overall agreement on Agenda 2000, the policy document the Commission had published in July 1997, concerning the future of the main areas of Community policy, the EU's financial perspectives for the 2000-2006 period and the enlargement of the Union. At the same time, the Council established a financial framework for supporting the pre-accession process in applicant countries. By limiting the financial perspectives for the period 2000-2006, the EC reserved a substantial portion of its own resources for the enlargement to 6 new member states as of 2002, creating a new item 7 – pre-accession instruments – including on the expenditure side the annual amounts to be allocated to the three pre-accession instruments: PHARE Programme (created in 1989 and subsequently reoriented to the pre-accession stage) and the

two new programmes SAPARD (Agriculture and Rural Development) and ISPA (Transport and Environment Infrastructures). The Council also created an item 8 – enlargement – comprising the overall costs of enlargement for each year for the 2002-2006 period.

Box 2.3 - Financial framework for supporting the pre-accession process

Agenda 2000 also established a financial framework for supporting the pre-accession process in the applicant countries. € 21 billion will be provided in pre-accession aid to the Central and Eastern European countries for the 2000-2006 period. This will take three forms:

- the Phare Programme: € 10.5 billion (€ 1.5 billion a year). Since 1997 this has focused on the two main priorities for adoption of the Community *acquis*: institution-building in the applicant countries (30% of the budget) and investment financing (70%) in areas where post-accession transitional periods are to be avoided as far as possible;
- aid for agricultural development totalling € 3.5 billion (€ 500 million a year);
- structural aid amounting to € 7 billion (€ 1 billion a year) to be used primarily to help applicant countries comply with Community infrastructure standards in the transport and environmental sectors. It will also be used to familiarise these countries with structural project procedures.

The Berlin European Council (March 1999) reached an overall agreement on Agenda 2000. In the enlargement field, the agreement includes the creation of two pre-accession instruments: a structural instrument (ISPA) and an agricultural instrument (SAPARD).

The objective of SAPARD was to establish a Community framework for supporting sustainable agricultural and rural development in the CEECs during the pre-accession period as well as to solve problems affecting the long-term adjustment of the agricultural sector and rural areas and to help implement the Community *acquis* in matters pertaining to the Common Agricultural Policy and related policies.

Support for agriculture and rural development is focused on the following priorities in this sector in particular:

- investment in agricultural holdings;
- improving the processing and marketing of agricultural and fishery products;
- improving structures for quality, veterinary and plant health controls in the interests of food quality and consumer protection;
- agricultural production methods designed to protect the environment and maintain the countryside;
- development and diversification of economic activities;
- setting up relief and management services for farmers;
- setting up producer groups;
- renovation and development of villages and protection and conservation of the rural heritage;
- land improvement and reparcelling;
- establishment and updating of land registers ;
- improvement of vocational training;
- development and improvement of rural infrastructures;

Box 2.3 (contd.)

- water resources management;
- forestry, including afforestation, investments in forest holdings owned by private forest owners and processing and marketing of forestry products;
- technical assistance for the measures covered by this Regulation, including studies to assist with the preparation and monitoring of the programme, information and publicity campaigns.

The Berlin European Council also confirmed the renewed Phare programme as the main instrument of intervention, geared to two key priorities for the adoption of the *acquis*, with 30% of its budget earmarked for institution-building (the reinforcement of the applicant countries' administration and institutions) and 70% for investment financing. Further investment projects will be financed by the structural and agricultural pre-accession instruments.

Source: European Parliament – Directorate General for Research (STOA), "The Consequences of Enlargement for EU Agriculture", PE 303.126/Fin. St, Luxembourg, Oct 2001.

However, the decisions of the Berlin European Council included one of special relevance, since it would regulate the evolution of enlargement and pre-accession expenditure in the future, preventing the establishment of linkages between such items and the expenditure intended for the EU-15. We are referring to the adoption of the so-called 'ring-fencing' concept, according to which a clear distinction must be made in the submission and execution of the financial perspectives between what is intended for the EU-15 and what is intended for future member states, including the post-accession period. According to this principle, the expenditure earmarked for the EU-15 must on no account be used to bear the cost of pre-accession or of enlargement, and vice versa.

The enlargement process continued as the financial framework was gradually set up for the 2000-2006 period, relations with applicant countries becoming steadily closer-knit, and at the same time the Community stepped up its efforts to adapt institutions within the Intergovernmental Conference, the aim being to be able to welcome those new member states which were ready as of the end of 2002 in the hope that they would take part in the forthcoming elections for the European Parliament in 2004.

Accession negotiations with 6 further applicants began in 2000 – the Helsinki group (Romania, Bulgaria, Slovak Republic, Latvia, Lithuania and Malta), and from that time on an irreversible process took place leading to accession, following the road map approved at the Nice European Council in December 2000. On the basis of the regular progress reports, and according to the principle that each applicant country is judged solely on its own merits, leeway thereby being allowed for catching up with the *acquis communautaire* (the principle of differentiation), the Laeken European Council, in December 2001**,** recognised the ability of 10

applicants (Romania and Bulgaria being excluded from this group) to conclude the accession negotiations by the end of 2002.

Several difficulties and reactions with regard to the enlargement schedule were obviously encountered during this negotiation period due to the sensitivity of certain issues under negotiation, difficulties where the problems of technical management in connection with the complex chapter of agriculture were highlighted. In particular, with regard to the financial framework for enlargement, the European Commission submitted a proposal in January 2002 for reviewing the Berlin perspectives to take account of the new accession schedule (2004 rather than 2002) and the number of applicants which would be in a position to join by that date (10 rather than 6). It should be said that this proposal included, inter alia, a phasing-in of the direct aid payments of the CAP and the forecast of budgetary compensations, as had been the case with previous enlargements. Furthermore, the resistance of many member states to such a proposal was related to the financial package, which was considered much too generous, and to the agriculture chapter, and as regards the latter, the Commission's proposals concerning the CAP Mid-Term-Review came under increasing pressure.

On the basis of the regular progress reports and the strategy document submitted by the Commission, the Brussels European Council (October 2002) agreed that**,** although there were several aspects which required an additional effort to fulfil the economic criteria and the criterion of implementation of the *acquis communautaire*, the 10 Laeken applicants would be able to join the Union at the beginning of 2004, and recommended that the Accession Treaty be signed in the spring of 2003. Thus, once again in Copenhagen, where in 1993 the Community had approved the accession of the States of Central and Eastern European countries, the European Council formally decided to conclude the accession negotiations with those 10 applicants, setting 1 May 2004 as the exact date of their accession, upon due ratification of the Accession Treaty by the EU-15 and the 10 applicants.

Box 2.4 – Brussels European Council: enlargement assessment

The Union endorses the findings and recommendations of the Commission that Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia fulfil the political criteria and will be able to fulfil the economic criteria and assume the obligations of membership from the beginning of 2004.
In view of the above, and also taking into consideration the overall progress achieved in the accession negotiations, as well as in transposing and implementing the *acquis* and the commitments undertaken in the negotiations by the candidates, the Union confirms its determination to conclude accession negotiations with these countries at the European Council in Copenhagen on 12-13 December and sign the Accession Treaty in Athens in April 2003.

Source: Brussels EC, 26 November 2002 - Presidency conclusions.

Box 2.5 – Copenhagen European Council: enlargement

The European Council in Copenhagen in 1993 launched an ambitious process to overcome the legacy of conflict and division in Europe. Today marks an unprecedented and historic milestone in completing this process with the conclusion of accession negotiations with Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The Union now looks forward to welcoming these States as members from 1 May 2004. This achievement testifies to the common determination of the peoples of Europe to come together in a Union that has become the driving force for peace, democracy, stability and prosperity on our continent. As fully-fledged members of a Union based on solidarity, these States will play a full role in shaping the further development of the European project.

The Union endorses the result of these negotiations as set out in document 21000/02. The comprehensive and balanced outcome provides a solid basis for the smooth integration of 10 new member states, while safeguarding the effective functioning of the enlarged Union. The agreement reached will provide the acceding states with the necessary transitional arrangements to cope successfully with all obligations of membership. The result achieved in the accession negotiations ensures the continued functioning of the internal market as well as the various EU policies, without prejudging future reform.

All efforts should now be directed at completing the drafting of the Accession Treaty so that it can be submitted to the Commission for its opinion and then to the European Parliament for its assent, and to the Council with a view to signing the Treaty in Athens on 16 April 2003.

By successfully concluding the accession negotiations the Union has honoured its commitment that the 10 acceding States will be able to participate in the 2004 European Parliament elections as members. The Accession Treaty will stipulate that Commissioners from the new member states will join the current Commission as from the day of accession on 1 May 2004. After the nomination of a new President of the Commission by the European Council, the newly elected European Parliament would approve a new Commission that should take office on 1 November 2004. On the same date, the provisions contained in the Nice Treaty concerning the Commission and voting in the Council will enter into force. The necessary consultations with the European Parliament on these matters will be concluded by the end of January 2003. The above arrangements will guarantee the full participation of the new member states in the institutional framework of the Union.

Source: Copenhagen EC, 12 and 13 December 2002 - Presidency conclusions.

2.3 - Consequences of the enlargement: general aspects

As pointed out in the previous section, the enlargement of the EU to 10 new member states is the outcome of a long negotiation process whose results have meanwhile been felt at different levels. However, its effects are still far from being concluded. The far-reaching and inevitable institutional changes to be embedded in the future European Constitution, the reformulation of cohesion policy, the

foreseeable diversion of structural funds to new members and the new budgetary rules of the enlarged EU will progressively mould a new Community and regulate its relations with the old and new neighbour countries. Although, as previously mentioned, budget appropriations for the present 15 member states will not be affected up to 2006 by virtue of financial and budgetary arrangements already agreed upon, the effects of the increase in competition at market level, the free movement of goods, the free movement of workers, and the changes in foreign direct investment flows (FDI) will be felt well before that date.

Box 2.6 – Institutional issues

Institutional reform is also a key question raised by enlargement. In addition to the criteria for new members – the three 'Copenhagen criteria' – the EU laid down a fourth criterion for enlargement in 1993 : the Union's own capacity to absorb new members while maintaining the momentum of European integration. It was due to that criterion that the process leading to the Treaty of Nice in 2001 was launched. The institutional reforms decided in Nice were a bare minimum – an 'arithmetical' revision of the number of votes and seats in the EU institutions rather than a fundamental review of the system. The truth is that, having encouraged the new members to make maximum efforts to prepare themselves for membership, the Union has not yet prepared itself sufficiently in the crucial area of its institutions and its constitution.

This realisation led to the setting up in 2002 of the Convention on the Future of Europe: a new experiment on the part of the EU to review its functioning by means of a process going beyond the traditional intergovernmental method and including representatives of the countries which have applied for membership. Beginning with four important questions – the role of national parliaments, the simplification of the Treaties, the Charter of Fundamental Rights, and the delimitation of powers between EU and member states – the Convention has broadened the scope of its work to encompass the drafting of a new constitution for the EU.

Source: Report by Wim Kok to the European Commission (2003).

On the other hand, the advancing economic integration of 10 new member states until full accession to the Community will compel these member states to fully adopt and comply with the *acquis communautaire* at the various levels. This fact must be borne in mind when anticipating the effects of enlargement inside and outside the Community. In addition to this significant constraint, we must also bear in mind the structural and institutional needs which distinguish the new member states from their Western partners, namely with regard to legislative and tax systems, the bureaucracy system, the banking system, infrastructure needs and lack of efficient distribution systems, for instance.

But let us focus on certain chapters of the enlargement issue which are more relevant from our point of view, by anticipating their effects in the short or medium term.

2.3.1 - Internal market: free movement of goods and competition policy

As Wim Kok has stated (2003), "Extensive economic integration between the current and new member states has already occurred as part of the pre-accession process."

Table 2.2 – EU trade with Central and Eastern Europe (billion €)

	Imports	Exports	Balance
1995	44.4	53.2	8.8
1996	47.2	63.8	16.6
1997	56.9	78.7	21.8
1998	67.9	90.5	22.6
1999	75.8	93.2	17.4
2000	97.5	114.7	17.2
Total	**389.7**	**494.1**	**104.4**

Ten CEECs, including Bulgaria and Romania.

Source: European Commission.

Since trade in goods with the EU was largely liberalised in the course of the 1990s, EU membership means moving into a customs union from a pre-existing free-trade area. It will therefore lead to only a small immediate impact on trade in goods with the new members.

On the other hand, compliance with a true single market means full legislative harmonisation, actual application of the rules and standards concerning compliance assessment, producer liability and product safety and the establishment of proper administrative structures allowing the exercise of such practices. The full implementation of these measures requires continuous investment in inspection and testing facilities in the public sector as well as substantial investment in the private sector to upgrade establishments in the food industry in order to meet EU requirements and standards. Furthermore, the chapter dedicated to competition was the area with which applicant countries had the greatest difficulties during negotiations. In a way, the competitive advantages which such economies have enjoyed in the recent past will tend to be reduced as they become harmonised with the Community.

A significant issue is that of transparency in the granting of government aid, widely used, for instance, to attract foreign investment. After being major receivers of FDI during the 1990s as the result of opportunities for negotiation provided at the beginning of the decade by political opening through privatisation programmes and fiscal incentives, the applicant countries may become less attractive for international investors – not only because the initial effect of their market potential

due to their highly skilled workforce and the technological advantages offered in some sectors is now diminishing, but also as a result of the equitable conditions for investment which are due to come into force.

Table 2.3 – Foreign Direct Investment (million €)

CEEC	1999	1998	1997
Bulgaria	723	479	445
Cyprus	114	61	1.148
Czech Republic	4.792	2.416	235
Estonia	284	513	
Hungary	1.552	1.259	313
Latvia	352	318	71
Lithuania	456	826	460
Malta	830	238	4.328
Poland	6.821	5.677	1.071
Romania	977	1.812	141
Slovakia	366	609	
Slovenia	78	178	710
Turkey	763	838	

Source: European Commission – Directorate General for Agriculture (2001).

On the other hand, actual EU membership could result in significant additional FDI flows, assuming the local climate is encouraging. As mentioned in the report by Wim Kok quoted above, the greater legal assurance associated with EU membership and the end of the 'safeguard clauses' in the present agreements with the EU will be favourable factors, which suggest that new increases in investments may well be registered in new member states once they have actually joined the Union.

The experience gained in previous enlargements has shown that an increase in FDI does not automatically benefit all countries equally and that, above all, it depends on favourable adjustment measures at the national level. However, in a scenario of appropriate policies in the new member states, there will probably be a period of growth and further increases in investments in these countries in the first few years of membership, with serious indirect consequences for the southern Mediterranean countries. In fact, this would mean that the desirable development of European direct investments in the SEMCs would be deferred.

2.3.2 - Freedom of movement for persons

After long and complex negotiations, the Union adopted its position on the free movement of persons in May 2001. This was one of the most sensitive issues both from the Community's and the applicant countries' point of view. The Union's difficulties, which were manifested primarily by the countries most affected by

emigration from Eastern countries – Germany and Austria –, are well evidenced in the solutions found to regulate the free movement of workers, notably in the imposition of a transitional period on the applicants, which may be extended to up to 7 years. Understandably, this and other discriminatory measures approved by the Union were not well received by the candidate States, due to the strong political element in such issues and to the tremendous impact on their public opinion.

Box 2.7 – Free movement of persons

One of the freedoms that the European Union confers is the free movement of persons: European citizens have the right to live and work in any member state of the Union.
How will this apply to the new members? There are different aspects to this question: the right to travel to other member states, the right to reside and work there, and membership of the 'Schengen' area.

Upon accession, the citizens of the new member states will have the right to travel and reside in any of the present member states. However, for a period of up to 7 years, the present member states may restrict the right of persons from the countries of Central and Eastern Europe to take up paid employment.

A separate issue from the right to work is free movement of persons within the 'Schengen' area. The countries of the 'Schengen' area have agreed to the abolition of frontier controls between themselves, compensated by the exchange of information and the reinforcement of external borders. A member state's citizens can have the freedom to live and work elsewhere in the EU without that state being a member of the 'Schengen' area; this is the current position of Britain and Ireland. The new member states will not become full members of 'Schengen' immediately, but only when they have sufficiently met standards for frontier security.

Source: Report by Wim Kok to the European Commission (2003).

Within the scope of the decisions made by the Union on this issue, and under the influence of the urgent requests made by the applicant member states, which were anxious to obtain freedom of movement, the member states defined the respective national systems to be put into practice in the transitional period. It can thus be expected that the access of workers from new member states to the Union's labour market will be differentiated and selective for a long time, migratory flows being managed according to the origin, destination and qualifications of the workers.

At all events, there is unlikely to be any large-scale migratory influx from the new member states after enlargement due to significant wage differentials. Some analyses maintain that it is conceivable that, rather than increasing migratory flows, the accession of applicant member states will relieve the migratory pressure which those countries are currently exerting on the EU. According to a survey on the effects of the enlargement of the EU on the labour market which was sponsored by the Commission and conducted by the German Institute for Economic Research

in Berlin in 2001, the 335,000 persons from future member states who were expected to move every year to the Union at the beginning of accession would decrease 10 years later to less than 150,000 per year, once the initial euphoria has abated and also due to the narrowing of the incomes gap between Eastern and Western countries.

During the period of transition, such flows will naturally be conditioned by the labour force needs of the present member states, which will continue to use the prerogatives provided in the agreed rules to meet their needs by attracting primarily skilled workers, and this will constitute a serious risk of "brain drain" for the new member states. On the other hand, any relocation of labour-intensive undertakings in the present member states to Eastern countries may affect the demand for unskilled labour. But the repercussions will be relatively insignificant, since the industries of the future member states will be converted and the level of skill of their labour forces will rise.

Another point on the issue of movement of persons, which will constitute a growing concern in a Community extended to 25 member states, is illegal immigration, particularly when such migratory flows often originate in the CEECs. The problem is not, however, specific to such countries and it is expected that the fears caused by an increase in this phenomenon will lead to more restrictive and intolerant attitudes on the part of the Union, with repercussions on neighbouring countries, particularly SEMCs.

Finally, an effect of enlargement to Eastern and Central Europe which must be considered by both the member states and the neighbouring countries which have significant emigrant communities in the most developed regions of the Union is the likely return of those workers to their home countries. The inflow of skilled labour from new member states will certainly jeopardise their permanent residence in the host countries. This is also liable to be a primary concern for the southern Mediterranean countries, which are bound to be affected by this phenomenon.

Whatever the aggregate imbalance of migration flows from CEECs and their eastern neighbours to the Union, it can be expected to have a general effect on the labour markets of present member states which will in turn affect the SEMCs indirectly: the increase in the supply of low-skilled labour.

2.3.3 - Regional policy and structural instruments

With regard to structural measures, whereas enlargement will not significantly affect the position of the EU-15 up to 2006 due to the decisions of the 1999 European Council in Berlin (ring-fencing) and of the Brussels and Copenhagen Councils in 2002, this cannot be guaranteed either for the post-2006 period or with regard to the situation of third countries involved in Association Agreements with the Community. The accession of 10 countries with a GDP per capita far below the average of the EU-15 will inevitably have a very marked impact on cohesion policy.

When we add to this the enormous increase in needs which will result from the increase in the number of beneficiaries plus the regional disparities, as well as the pressure from net contributor countries to reduce resources, the situation is clear. The distribution of an overall amount of financial resources that is tending to diminish over a growing number of eligible regions will inevitably mean a significant reduction of the level of support.

What is more, this lack of resources will continue to be reflected at other levels of action, more specifically within the Association Agreements with Mediterranean countries. Even if an indirect effect of this nature is no more significant than the effect produced so far by the pre-accession expenditure effort, it will not be conducive to correcting the present imbalance between intra-EU measures and EU-Mediterranean measures and will be a contributing factor in the perpetuation and exacerbation of North-South disparity.

2.3.4 - External relations of a wider Europe

With the alteration of the external frontier of the European Union, relations with new neighbouring Eastern countries have inevitably changed – Kaliningrad-Russia, Belarus, Ukraine, Romania and the countries of the western Balkans which have had no frontier with the Community to date. Other neighbouring States will come along as the accession of Bulgaria, Romania and Turkey is brought about. The EU, whose strategic objective is to achieve development and prosperity, stabilisation and safety throughout Europe, will certainly maintain its policy of gradually drawing closer to new neighbours, pormoting closer-knit political relations, strengthening trade alliances, and harmonising legislation with the rules in force in the EU as far as possible, thus creating around itself an economic and political area which, in some cases, may lead to new accessions.

Several – very diverse – situations can be identified along the new frontiers resulting from this enlargement and from the anticipated accession of Bulgaria and Romania. A new approach is to be outlined in the near future along all of those frontiers concerning the following issues: bilateral and free trade agreements with new member states; the adoption of the Schengen *acquis*; the revision of visa policy at the frontiers; the strengthening of existing Partnership and Cooperation Agreements; new Free Trade Agreements; the Stability and Association Agreements; the Agreement on the European Economic Area; and respective programmes and instruments of technical and financial assistance.

With the accession of 10 new applicant countries, which will be followed by Bulgaria and Romania, a new neighbouring or proximity policy will be built up. The question is to what extent this will influence relations with the old neighbours of southern countries. Given the European Union's strategy of ensuring political, economic and social stability in the surrounding area, in its relations with its new neighbours the Union is unlikely to meet with any reason for refraining from political and financial involvement with its Mediterranean neighbours, particularly

with regard to building up the Euro-Mediterranean Free Trade Association (EMFTA) in which it has been involved. What is more, the Union has repeatedly reaffirmed its intention to strengthen cooperation with its neighbours to the east and south. The Copenhagen European Council put it very clearly in its Presidency Conclusions in December 2003: "24. The enlargement will strengthen relations with Russia. The EU also wishes to enhance its relations with Ukraine, Moldova, Belarus and the southern Mediterranean countries based on a long-term approach promoting democratic and economic reforms, sustainable development and trade and is developing new initiatives for this purpose. The European Council welcomes the intention of the Commission and Secretary General/High Representative to bring forward proposals to that end." Later, in June 2003, the Thessalonica European Council endorsed the formal text entitled "Wider Europe – New Neighbourhood" adopted by the EU foreign ministers on the shape of Europe after enlargement.

Box 2.8 – Wider Europe – New Neighbourhood

The enlargement of the European Union on 1 May 2004 represents a historic step for the entire European continent and presents a unique opportunity to strengthen co-operation with its neighbours to the East and to the South.

Noting that geographical proximity will generate converging interests and increase the importance of working together to address common challenges, the EU wishes to define an ambitious new range of policies towards its neighbours based on shared values such as liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law. This should be seen as separate from the question of possible EU accession that is regulated by Article 49 of the Treaty on European Union.

The Council welcomes the Communication of the Commission "Wider Europe - Neighbourhood: a new framework for relations with our Eastern and Southern Neighbours" as well as contributions made by the High Representative, and considers that they provide a good basis for developing a new range of policies towards Ukraine, Moldova, Belarus, Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, Syria, and Tunisia, at the same time reinforcing the EU-Russia strategic partnership. At a later stage, the Council will examine whether the Southern Caucasus countries could also be covered within these policies. Libya has been invited to accept the Barcelona acquis in order to join the Barcelona Process.

The new neighbourhood policies should not override the existing framework for EU relations with Russia, the Eastern European countries, and the Southern Mediterranean partners, as developed in the context of the relevant agreements, common strategies, the Northern Dimension Initiative and the Barcelona Process. They should encourage and support policies of the New Eastern and Southern Neighbours aimed at coming closer to the EU. Implementation of existing agreements remains a priority.

Source: General Affairs and External Relations Council, June 2003 - Council conclusions.

Furthermore, recent history shows how a non-marginal effect of compensation of old neighbours of southern countries can be expected after a period in which the Union has been leaning clearly to the east. It was following a period marked by the EU's leaning towards Eastern countries "that the European authorities began to take renewed interest in the Mediterranean dimension" (CIHEAM Annual Report 2002). A series of proposals and initiatives were then taken, in the early 1990s, paving the way for the Barcelona Process.

However, although the effects of relations with new neighbours cannot be anticipated for the time being, since they depend on strategic options yet to be defined, one can expect the new neighbourhood policy of the enlarged Community to reflect increasing pressure from the new Eastern neighbours. Despite the statements made at the political level, the Community will inevitably lose interest in the competing Mediterranean region, at least to some extent.

2.3.5 - The budgetary cost of enlargement

Having considered some of the more sensitive aspects of the enlargement process, let us now take a look at the budgetary consequences of the accession of 10 new member states.

According to European Commission data, the Community has spent some € 20 billion in pre-accession aid since 1990, channelled in the case of the applicant countries through the three instruments which have already been mentioned: the PHARE, SAPARD and ISPA programmes. As from 2000, when the two latter pre-accession instruments came into force, the appropriation has increased by more than € 3 billion per year.

Table 2.4 – EU budgetary expenditure on enlargement: pre-accession (in million € at 2000 prices)

	1990-1999	2000-2003
PHARE (Strengthening democratic institutions and public administration)	6 797.16	6 240.00
ISPA (Transport and environmental infrastructures)		4 160.00
SAPARD (Agriculture and rural development)		2 800.00
Total	6 797.16	13 200.00
Annual average	676.72	3 300.00
Total as % of 1999 EU-GNP	0.08	0.16
Annual average as % of 1999 EU-GNP	0.01	0.04

Notes: 1990-1999 expenditure based on actual payments, post-1999 on commitments
Ten CEECs (including Bulgaria and Romania) without Cyprus, Malta and Turkey, which benefit from separate pre-accession funding.

Source: European Commission in Report by Wim Kok to the European Commission (2003).

After the accession, according to the agreement reached at the Copenhagen Summit in 2002, the overall financial effort involved in the enlargement until the end of 2006 must not exceed € 40.8 billion. As argued by Wim Kok in his report, this budget expenditure is relatively modest for the EU when we bear in mind the economic and political aims of the enlargement process as a whole. In particular, when we consider that the contributions of new member states to the Community budget will be around € 15 billion and that probably not all of the money granted will be used, the actual expenditure during the post-accession period up to 2006 will amount to approximately € 10 billion (some of their budget allocations will be paid after 2006).

Table 2.5 – EU budgetary expenditure on enlargement: post-accession (in million € at 1999 prices)

	2004-2006
Common Agricultural Policy	4 682
Rural development	5 110
Structural actions	21 746
International policies	4 256
of which:	
Existing policies	2 642
Institution-building	380
Schengen facility	858
Nuclear facility	375
Total commitments	1 673
Temporary budgetary compensation	2 398
Special cash-flow facility	987
Administration	40 852

Notes: 2004-2006 commitment for 10 countries acceding in 2004
'Structural actions' includes € 38 million of non-allocated technical assistance.

Source: European Commission in Report by Wim Kok to the European Commission (2003).

As for the period from 2007 onwards, budgetary expenditure on enlargement will, according to Wim Kok, depend essentially on the reforms to be introduced in the Community budget itself and especially in the CAP and the structural funds. To quote a study by Karlsson (2002) on the future of the Union budget after enlargement, in which several budget scenarios are formulated and it is assumed that the CAP will not be reformed and that the present rules will continue to be applied to structural funds, and, furthermore, that the present member states will continue to receive the same amounts of structural funds as they receive in 2006, the enlargement costs would increase from 0.03% of the Gross Domestic Product (GDP) of the enlarged Union in 2004 to 0.23% in 2013. In another scenario, a 15% reduction of the direct aid payments to agriculture up to 2013 would mean that enlargement costs would decrease to only 0.18%. These scenarios and others

submitted in the above-mentioned study demonstrate how the reforms of internal policies of the Union can influence the Community budget and the cost of enlargement.

However, although the financial effort involved in enlargement is not excessive when we bear in mind the historical relevance of the aims of the process as a whole, it becomes overwhelming when we compare the total budgetary expenditure of enlargement with the budget funding for the Euro-Mediterranean Partnership launched between the EU and its 12 Mediterranean Partners at the 1995 Barcelona Conference (the Barcelona Process). It is worth taking a look at the budget of the MEDA programme, the main financial instrument of the European Union for the implementation of the Euro-Mediterranean Partnership.

According to the initial legal basis for the MEDA Programme (Council Regulation nº1488/96), this programme accounted for € 3.435 billion for the 1995-1999 period. In November 2000 a new improved Regulation (nº 2698/2000) established MEDA II for the period 2000-2006, the funding of this new programme amounting to € 5.350 billion. Compared with the enlargement budget, the figures clearly reveal the EU's priorities in the external relations field. Even in absolute terms, it has to be admitted that MEDA programme financial resources are undoubtedly undersized, when one considers the ambitious political, economic and cultural aims of this programme, which includes the establishment of a free trade area by 2010. And the growing pressure exerted by the enlargement process will not help to improve this situation.

But we shall return to this issue when examining the effects of enlargement at the agricultural level.

2.4 - Agriculture and EU enlargement

2.4.1 - Agriculture and the CEEC integration process: background and accession framework

As has already been mentioned, the integration of the agricultural sectors of Central and Eastern European countries into the Common Agricultural Policy (CAP) is one of the most complex chapters of the entire negotiation process, for several reasons. First, because of the extent of its economic, budgetary, social and political consequences in applicant countries and in the EU itself due to the significance of the sector in those countries, which is on average much greater than that of the agricultural sectors of the EU-15. Secondly, because the structural backwardness of their agricultural sectors compared to the Community average requires considerable modernisation efforts from the outset, involving substantial support for the transitional period. And finally, because the complexity of the *acquis communautaire* itself, as far as agriculture and agricultural policy are

concerned, makes it difficult for the candidate countries to adopt and implement it, as has been the case in previous enlargements.

Table 2.6 – EU and applicant countries: the role of the agricultural sector

	Agricultural area		Gross agricultural product[1]		Agricultural employment	
	AAU[2] 1000 ha	% of total area	million €	% of GDP	000	% of total employ-ment
	2000					
Bulgaria	5 582	50.3	2 054 c	15.8 *	342	11.3
Cyprus	134	14.5	329 d	3.5 *	14	9.2
Czech Rep	4 282	54.3	1 846	3.4	193	7.4
Estonia	1 001	22.1	254	4.7	32	7.4
Hungary	5 854	62.9	1 913 d	3.9 *	227	4.8
Latvia	2 488	38.5	306	4.0	118	13.5
Lithuania	3 489	53.4	836	6.9	262	19.6
Malta	12	38.1	78	2.0	2.7 *	1.9
Poland	18 220	58.3	4 965 d	2.9 *	2 698	18.8
Romania	14 811	62.1	4 564	11.4	4 861	42.8 p
Slovakia	2 444	49.8	560	4.1	119	6.7
Slovenia	491	24.2	847	2.9	81	9.9
Turkey	41 488	53.5	24 265 d	11.2 *	9 149 *	34.9
CEEC-10	58 662	54.4	18 145 *	4.6 *	8 933 *	20.7 *
CC-13	100 296	53.8	42 816 *	6.9 *	18 082 *	27.8 *
EU-15	131 619	40.6	167 197	2.0 *	6 767	4.3

Table 2.6 (contd.)

	Trade in agricultural commodities[3]		Bilateral agricultural trade		Food expenditure	
	% of total exports	% of total imports	% of total exports	% of total imports	% of total expenditure	
	1999				1998	
Bulgaria	16.2	7.1	37.9	37.6	53.5	
Cyprus	38.3	19.0	52.7	46.0	19.0	b
Czech Rep	4.4	6.5	36.3	48.0	26.8	
Estonia	9.2	14.3	28.3	57.0	37.5	
Hungary	9.1	3.7	53.1	45.3	42.1	
Latvia	5.7	13.1	30.7	50.0	44.9	
Lithuania	12.9	11.5	29.9	45.8	46.0	
Malta	2.2	10.3	13.1	73.1	:	
Poland	8.9	7.4	45.5	47.7	36.9	
Romania	5.8	8.1	42.7	37.0	58.0	
Slovakia	3.8	7.0	23.4	37.2	31.8	
Slovenia	4.3	7.0	31.4	50.5	23.5	b
Turkey	15.9	6.5	43.2	27.8	29.7	a
CEEC-10	7.2	7.0	40.2	45.3	36.3	*
CC-13	8.8	7.1	43.2	34.9	34.1	*
EU-15	6.6	6.8	12.1	10.4	17.4	b

Notes: a = 1994 / b = 1997 / c = 1998 / d = 1999 / * = estimate / p = provisional / : = not available
1- including the forestry, hunting and fishing sector / 2 – Agricultural Area in Use / 3 – all agric. products less fish and fish products

Source: DG Agriculture; Eurostat; DG Economic and Financial Affairs; OECD; FAOSTAT (adapted from European Commission – Directorate–General for Agriculture, 2001).

However, the agricultural sectors of applicant countries gradually became integrated in the course of the 1990s, and the effects on the budget, trade flows and the structural funds were already being produced well before the conclusion of the negotiations on the agricultural chapter.

Box 2.9 – Agriculture and enlargement: key dates

1990	The EU's Phare programme begins operations to support the transition to free market democracies.
1998	Screening of agricultural legislation starts with Bulgaria, Latvia, Lithuania, Romania and Slovakia.
	Screening of agricultural legislation ends with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia
1999	The Berlin European Council authorises the Commission to open negotiations with the 10 CEECs, with a view to further liberalising trade in agriculture.
	€ 3.12 billion per year is set aside for pre-accession aid and accession-related expenditure.
	November/December: with a view to opening negotiations on agriculture, the countries in the Luxembourg Group present their negotiating positions on Chapter 7 of the *acquis communautaire*.
2000	The European Union adopts its common positions and opens negotiations on the agricultural chapter in June 2000.
	The Presidency of the Council considers it a priority to open the agricultural chapter.
	Screening of agricultural legislation starts with Malta. Updated screening processes are launched for all negotiating countries.
	Ministerial conference on accession opens the negotiations on the agricultural chapter for the Luxembourg Group.
	Agreements enter into force with 8 CEECs (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Romania, Slovakia and Slovenia) to further liberalise trade in agriculture.
	The Commission adopts Sapard programmes for all 10 CEECs.
	December: accession conference discusses initial negotiation positions on the agricultural chapter from Latvia, Lithuania and Slovakia.
2001	Signature of the Sapard multi-annual financing agreement with the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia
	Agreements enter into force with Lithuania and Poland to further liberalise trade in agriculture.
	Signature of the Sapard annual financing agreement with the 10 CEECs
	Conferral of management of Sapard aid to Bulgaria, Estonia, Latvia, Lithuania and Slovenia. The decision allows the national authorities in these countries to commence implementation of the annual Sapard programme.
	Negotiations on the agricultural chapter open for 3 members of the Helsinki Group — Latvia, Lithuania and Slovakia.
	Commission submits to the Council the revised draft common positions on agriculture for each of the 6 members of the Luxembourg Group.
2002	The Commission publishes its 'Enlargement and agriculture': Successfully integrating the new member states into the CAP' — Issues paper
	Conferral of management of Sapard aid to the Czech Republic and Slovakia
	Conclusion of 'double profit' agreements with Estonia, Hungary, Latvia and Lithuania

Source: adapted from European Commission – Directorate-General for Agriculture (2002).

Although the European Agreements which governed trade relations between the EU and the CEECs before the beginning of the negotiation process itself did not actually focus on trade in agricultural and food products, several bilateral agreements signed in the pre-accession period were promoting the gradual and progressive liberalisation of agricultural trade and the strengthening of trade relations in this field. We are referring, for instance, to the mutual tariff concessions negotiated in the early 1990s and the adoption of the "double zero" approach in certain sectors, whereby about two-thirds of traditional trade in agricultural products was exempted from import duties, in exchange for the abolition of export refunding.

Agricultural trade with the EU-15 has grown in applicant countries over the last decade in general. Between 1995 and 2000, both agricultural imports and agricultural exports increased appreciably in value.

Table 2.7 - CEEC-EU15 agricultural trade: development between 1995 and 2000 (%)

CEEC	Imports			Exports			Balance		
	Bulk products	Process. products	All agr. products	Bulk products	Process. products	All agr. products	Bulk products	Process. products	All agr. products
Czech Rep.	1.4	1.2	1.3	1.2	3.0	1.5	1.8	0.7	1.2
Estonia	2.2	1.2	1.7	1.2	1.8	1.2	3.2	1.2	1.9
Hungary*	2.1	1.6	2.0	1.1	1.8	1.2	0.9	-0.3	0.9
Latvia	3.5	2.6	3.1	3.0	1.3	2.5	3.7	2.8	3.3
Lithuania	2.7	2.5	2.6	1.6	5.8	2.0	-15.0	1.3	5.3
Malta	1.3	1.6	1.4	0.8	1.2	1.0	1.3	1.7	1.5
Poland*	2.4	1.6	2.2	1.2	2.7	1.4	-	-	-
Slovak Rep.**	2.5	1.7	2.2	1.1	14.2	1.6	4.5	1.2	2.6
Slovenia*	6.7	1.4	2.9	3.6	0.4	1.0	10.4	6.8	8.7
Cyprus***	1.2	1.2	1.2	0.6	0.4	0.6	-4.7	1.6	2.8

* 2000/1992 ** 2000/1994 *** 1998/1995

Source: European Commission, Directorate-General for Agriculture (2002) – Country Reports.

At the same time, as the efforts in the CEECs to restructure agriculture progressed, the accession process was strengthened through new initiatives and instruments, such as the partnerships to accession and the national programmes for adoption of the *acquis* (NPAA), in which the major priorities and objectives of integration into the EU were established and scheduled, and the human and financial resources necessary for achieving integration in the various fields were identified.

As regards the reforms in the main political fields of the EU, enlargement actually conditioned the important decisions taken in Berlin (March 1999) within the scope of Agenda 2000; the reform of the CAP was planned, as were the financial framework for 2000-2006 and the relevant decisions on structural funds and

external policies, with a view to preparing the future enlargement of the EU from 15 to 28 member states, according to the number of applicants registered at that time. By strengthening the competitiveness of European agriculture on the world market through new reductions of guaranteed prices, the reform also aimed to facilitate the future application of the CAP to new member states by promoting price convergence between these countries and the EU.

The enlargement also influenced the EU position adopted in the multilateral trade negotiations within the World Trade Organisation (WTO). The 15 member states and the applicant countries even adopted a common attitude in the Ljubljana Declaration in May 2001, before the fourth WTO ministerial conference, which was held in Doha, Qatar, in November 2001.

As has already been stated (Box 2.3), all of the restructuring efforts made by applicant countries during the pre-accession period received financial support from the Community through 3 financial aid programmes: PHARE, SAPARD and ISPA. The integration of the CEECs and their agricultural sectors into the EU was thus brought about progressively, just as progressively as the effects produced in several fields of Community life in both applicant and third countries, at various levels.

At the end of 2002, in the context of a decade of preparations for the most extensive enlargement in history, the Brussels and Copenhagen Councils laid down the rules for the post-accession period, the enlargement formula having been approved by the Heads of State of the 15 member states and the 10 new States at a meeting held on 13 December.

Several aspects of the conclusions of these Councils which should be borne in mind when assessing the impact of this enlargement on agriculture and the structural funds are set out below. To sum up, the following rules were laid down in the chapter dedicated to budgetary and financial issues:

(a) CAP direct payments:

- Direct payments under the CAP will be introduced progressively in the new member States as from accession, according to the following schedule: 25% of the full EU rate in 2004; 30% in 2005; 35% in 2006; 40% in 2007 and thereafter in 10% increments so that by 2013 the new member states will have reached the support level then applicable in the EU; this will be managed without prejudice to future decisions on the CAP and the financing of the EU after 2006 or to the Berlin European Council conclusions or to the international commitments which the Union has undertaken in the launching of the Doha Round.
- In the 2007-2013 period, the phasing-in of the direct payments will take place within a framework of financial stability, where, during that period, total annual expenditure for the 1st pillar of the CAP (market-related expenditure and direct payments) in the EU-25 must not exceed the amount (in real terms) of the ceiling for 2006 agreed in Berlin for the EU-15 and the corresponding

expenditure ceiling proposed for the new member states for that year; in nominal terms, this annual expenditure in the 2007-2013 period will be kept below the 2006 figure increased by 1% per year.

Notes:

It should be noted that this provision introduces a stability principle in the 1st pillar, by ensuring that it will continue until 2013, although the annual increase in the respective financial ceilings is lower than the expected inflation rate; this thwarts the successive attempts made by several "pro-liberalisation" member states to eventually dismantle this pillar. However, it also introduces the principle of reducing both the present direct payments in 15 member states as of 2007 and the appropriations which new member states could expect. It should also be mentioned that these decisions do not prevent an increase in the overall level of expenditure on rural development (2nd pillar of the CAP): the needs of producers living in the disadvantaged regions of the present EU will be safeguarded and multifunctional agriculture will be maintained in all areas of Europe.

(b) Structural and Cohesion Funds:

- The overall commitment appropriations for the structural and cohesion funds in view of enlargement should amount to a total of € 23 billion over the period scheduled, distributed among member states in accordance with the relevant EU Common Positions which have been agreed with the candidate States.
- One-third of this amount will be devoted to the Cohesion Fund in order to meet the considerable needs for new infrastructures in the fields of transport and the environment.
- The payment on account for which provision is made under the *acquis* will be paid in 2004 at the rate of 16% of the total contribution of the Structural Funds; the EU has made provision for appropriations in 2004 equivalent to 3% of the average annual commitments under the Structural and Cohesion Funds.

(c) Own resources and budget imbalances:

- The own resources system will apply to the new member states as from accession, and the new member states will contribute fully to the financing of the EU expenditure as of that date.
- If the cash flow balance forecast is negative in the period from 2004 to 2006 compared to the last pre-accession year (2003), temporary and degressive budgetary compensation will be offered to the candidate State; this compensation would have to remain within the annual margins allowed under the Berlin ceilings for enlargement.
- The ring fencing of expenditure for 2004-2006 established in Berlin must be complied with, and the general effort to achieve budgetary discipline laid down by the Berlin European Council should be continued from 2007 onwards.

The Copenhagen European Council established the maximum appropriations for commitments for agriculture, structural operations, internal policies and administration for the new member states on the basis of these principles.

Table 2.8 - Copenhagen agreed financial package (maximum enlargement-related commitments 2004-2006 for 10 new member states) (million €, 1999 prices)

	2004	2005	2006	Total
Heading 1: Agriculture	**1 897**	**3 747**	**4 147**	**9 791**
of which: 1a. CAP	327	2 032	2 322	4 681
1b. Rural development	1 570	1 715	1 825	5 110
Heading 2: Structural actions after capping	**6 070**	**6 907**	**8 770**	**21 747**
of which: Structural Fund	3 453	4 755	5 948	14 156
Cohesion Fund	2 617	2 152	2 822	7 591
Heading 3: Internal policies and additional transitional expenditure	**1 457**	**1 428**	**1 372**	**4 257**
of which: Existing internal policies	846	881	916	2 643
Nuclear safety	125	125	125	375
Institution-building	200	120	60	380
Schengen facility	286	302	271	859
Heading 5: Administration	**503**	**558**	**612**	**1 673**
Total (Headings 1,2,3 and 5) (1)	**9 927**	**12 640**	**14 901**	**37 468**
Heading X:				
Special cash flow facility	1 011	744	644	2 399
Temporary budgetary compensation	262	429	296	987
Total (2)	**1 273**	**1 173**	**940**	**3 386**
TOTAL (1)+(2)	**11 200**	**13 813**	**15 841**	**40 854**

Source: Annex I (Budgetary and financial issues) - Copenhagen European Council, 12 and 13 December 2002 – Presidency Conclusions.

Where appropriate, the European Council made provision for allocating these amounts by country.

Table 2.9 - Copenhagen agreed financial framework for enlargement (total commitment appropriations 2004-2006) (million €, 1999 prices)

	CY	CZ	EE	HU	PL	SI	LT	LV	SK	MT	Total
Heading 1: Agriculture											
1a. CAP											4 681
1b.Rural development**	66	482	134	534	2.543	250	434	291	352	24	5 110
Heading 2: Structural actions**	101	2 328	618	2 847	11 369	405	1 366	1 036	1 560	79	21 747
Heading 3: Internal policies											
Existing internal policies*											2 643
Nuclear safety*	0	0	0	0	0	0	285	0	90	0	375
Institution building											380
Schengen facility*	0	0	69	148	280	107	136	71	48	0	859
Heading 5: Administration											1 673
Heading X:											
Special cash flow facility*	38	358	22	211	1 443	101	47	26	86	66	2 399
Temporary budg. comp.*	300	389	0	0	0	131	0	0	0	166	987
Total Commitments											**40 854**

* These amounts are fixed. (Total Structural actions includes € 38 million of non-allocated technical assistance.)
** These amounts are indicative.

Source: Annex I (Budgetary and financial issues) - Copenhagen European Council, 12 and 13 December 2002 – Presidency Conclusions.

To sum up, through greater budgetary discipline the EU has essentially maintained its model of agricultural policy by making it compatible with the enlargement process during the forthcoming transitional stage.

It is within the scope of this agreement, which has been presented as “A fair and tailor-made package which benefits farmers in accession countries”, that the effects of enlargement on agriculture must be examined.

Box 2.10 - A fair and tailor-made package which benefits farmers in accession countries

i) Rural development: the new member states will receive a rural development package which is specifically adapted to their requirements and has more favourable conditions than those applied to the present EU member states; the amount available for the 10 applicant countries is fixed at 5,1 B euros for 2004-2006.

ii) Direct payments: direct aids for the new member states will be phased in over 10 years; they will thus receive 25% of the full EU rate in 2004, rising to 30% in 2005 and 35% in 2006; this level can be topped up by 30% to 55% in 2004, 60% in 2005 and 65% in 2006; until 2006 the top-up payments can be co-financed up to 40% of the EU level from the new member states' rural development funds; however, the share of EU rural development funds used for the top-up cannot exceed 20% (or 25% in 2004, 20% in 2005 and 15% in 2006); from 2007, the new member states may continue to top up EU direct payments by up to 30% above the applicable phasing-in level in the relevant year, but financed entirely by national funds.

iii) Market measures: the farmers from the new member states will have full and immediate access to Common Agricultural Policy (CAP) market measures, such as export refunds and cereal, skimmed milk powder or butter intervention, which will contribute to stabilising their incomes.

Source: European Commission Fact Sheet - MEMO/02/301, Brussels, 20 December 2002.

2.4.2 - The enlargement and agriculture: the case of the southern Mediterranean countries

As explained, agriculture and the rural world in the enlarged EU will evolve in the medium term within a framework which can now be considered to be relatively well defined. The long approach process of the 10 new member states has produced a new spatial equilibrium with regard to trade and investment flows and has influenced the reform of Community policies, which has resulted in an institutional and political framework conditioned to a large extent by enlargement objectives. The budgetary allocation of Community resources itself is also the outcome of the accession process and of the financial demands resulting from enlargement. And finally, to complete this framework, the agreements concluded on the application of the CAP to new member states, which were referred to in the previous section, lay down the rules to be applied in the post-accession transitional period.

This is thus the context in which the effects of enlargement on the rural regions of Europe and the southern Mediterranean countries with which the Union has strong neighbourhood relations must be placed in perspective.

Bearing this in mind, let us consider several aspects of the issue.

2.4.2.1 - Agricultural trade flows

The enlargement of the EU customs union to the countries of Central and Eastern Europe involving the total abolition of obstacles to intra-EU trade and the adoption of Community tariffs by new member states with regard to third countries will change the tariff structure of the CEECs. However, generally speaking, the level of external protection of these countries need not undergo any appreciable modification compared to the present situation. Chevassus-Lozza *et al* (2002) have estimated that the average level of protection for agricultural commodities and food products and for the main importers of these products (Poland, Hungary, Romania, Czech Republic and Slovakia) will be reduced as from 1998 from 19.% to 16.5%.

At all events, in this scenario of the overall – albeit minor – reduction of the common external tariffs of the CEECs, an expansive effect on the new member states' total demand for agricultural and food imports should be expected, which will benefit present member states and third countries, including the SEMCs.

In particular, the enlargement to Central and Eastern European countries constitutes an opportunity to develop the market for Mediterranean products, contrary to the situation with the enlargements to southern countries in the 1980s (Greece in 1981, followed by Spain and Portugal in 1986), which helped to enhgance the self-sufficiency of the Community. Although, here again, this expansion effect will not be particularly significant in the future, since the present situation already reflects the gradual opening of markets that has been brought about in the last decade. It cannot be plausibly concluded, for instance, that vegetable and fruit exports from the EU-15 to the CEECs will continue in the near future to register the high annual growth rates recently recorded (7.2% and 10.1% on average respectively in the period from 1997 to 2000).

In fact, the opportunities that this global market expansion may open up for the exports of non-European countries bordering on the Mediterranean would seem to be much less significant from the outset.

First of all, because this impact will not be uniform for all member states, since it depends on the respective trade policies pursued before the accession, or for all products. According to the survey conducted by Chevassus-Lozza *et al*, the average level of protection would be reduced in Hungary and, in particular, in Poland (from 15% to 10.2% and from 28.6% to 14.8% respectively), but it should increase in the remaining countries (from 4.2% to 17.5% in the Czech Republic, from 3.5% to 21.1% in Slovakia, and from 21.8% to 30.1% in Romania). As regards sectoral trade, while market access would be facilitated for milk products, beverages and meats, the tariffs applying to cereals, sugar, fruits and vegetables - products of particular interest to Mediterranean countries – would increase on the whole, to the disadvantage of third countries. Although a survey of this nature is not specifically conclusive with regard to each of the so-called “sensitive” products (which account

for a large share of the SEMCs' agricultural exports), which would require a more detailed breakdown, the differentiation presented is nevertheless revealing.

Secondly, we must bear in mind that the overall impact produced by adopting the Community tariff and trade system is not the sole effect of the enlargement of a tariff union (Viner, 1950, in Chevassus-Lozza *et al*). In addition to the direct effect on the overall imports of the new member states, which we have examined so far, there is also the indirect effect of the diversion of trade flows for the benefit of intra-Community trade and to the disadvantage of third countries, as the result of the abolition of barriers to internal trade within the enlarged Community.

Considering the combined impact of these two effects of enlargement, Chevassus-Lozza *et al* estimate that the CEECs will register an increase of 9.4% in their overall imports of agricultural and food products, while their imports from third countries will decrease by 3.4%. Within this framework, the EU would stand to gain most from the enlargement from the point of view of agricultural and food exports, with an increase of 20.7% in its sales to the CEECs, in particular its sales of fruit and vegetables, oil products, cereals, meats and beverages. The countries of the Central European Free Trade Agreement (CEFTA) would be the main victims of the trade diversion, although this second effect of trade flow diversion may also have a significant negative impact on Mediterranean products and thus on the SEMCs.

In fact, the full integration of 10 new member states into the EU in May 2004, will help above all to consolidate the present pattern of agricultural trade between the Union and those countries, which is characterised by the virtually total dependence of the latter as regards the supply of Mediterranean products, the Community being the main provider.

Thus, from the point of view of the southern Mediterranean countries and the opportunities that this market expansion can open up, the effects will have to be qualified. By virtue of the principle of Community preference, the agricultural sectors of the southern countries of the EU will be the principal beneficiaries of this anticipated increase in demand, which they will explore by stepping up production and increasing output and, if necessary, by redirecting their exports to the markets of new Community partners. According to this fundamental principle of the CAP, Community market mechanisms ensure that producers inside the Community are always in a more favourable position than competing overseas suppliers.

As was pointed out in the CIHEAM Annual Report for 2002, intra-EU agricultural trade will furthermore mean discrimination in favour of products from southern European countries (Spain, Greece, Portugal and Italy) to the disadvantage of imports from SEMCs (in 1998-2000 the EU Mediterranean countries accounted for 26.2% of total EU imports, while SEMCs accounted for only 2.2%).

It is also by virtue of the CAP principle of Community preference that an "agricultural exception" logic continues to prevail with regard to Euro-

Mediterranean relations. As demonstrated in the CIHEAM Report for 2002, “one can hardly speak of a free trade area” as far as Euro-Mediterranean relations are concerned. Despite the Barcelona Declaration, which stated that "trade in agricultural products" would be "progressively liberalised", the concessions granted by the EU to its Mediterranean third country partners in the form of free access to the Community market depend primarily on the interests of European producers, and "take little account of the real export possibilities of those countries". Actually, Community preference means that trade concessions granted to third countries must not create any difficulties for European producers competing with them on the Community market.

In this context, the potential benefit for SEMC agricultural exports provided by EU enlargement will depend primarily on the freedom of Euro-Mediterranean trade and on the access for SEMCs to the Community market which will result from the Barcelona process and the ensuing establishment of the EMFTA on the one hand and from the opening of the European agricultural market itself on the other. And the effects of enlargement will continue to be reflected indirectly in the reform of the CAP, which is tending to reduce the external protection of Community markets, or, in other words, is reducing Community preferences.

Finally, the trade benefits to be obtained by the SEMCs from this enlargement will ultimately depend on the ability of the SEMC agricultural sectors to meet the quality requirements of Community demand, to adjust their production cycles in order to explore the seasonality of those markets and to move to more diversified export structures based on high-value-added products (CIHEAM Annual Report 2002).

2.4.2.2 - Financial and budgetary issues

As we have seen, the financial and budgetary rules which will govern the integration of the agricultures of the 10 new member states into the CAP in the transitional period extending up to 2013 will provide a basis for maintaining the bulk of the present pattern of European agricultural policy within a framework of greater budgetary discipline. The solutions adopted have avoided the dismantlement of the present CAP, which is considered by some to be inevitable in view of the budgetary implications of the application of policy measures currently in force to new member states.

But what are the implications of the budgetary and financial consequences of the process for the SEMCs? The impacts will be essentially indirect in this field, more so than in others, and will reflect the internal consequences within the EU. We must therefore bear in mind, above all, the implications in the Community of the measures in force concerning common agricultural expenditure and how they will develop during the transitional period.

To answer this question we have relied on a survey on the future of the structural funds, in which agricultural policy expenditure in the EU up to 2013 has been forecast by Avillez (2003), taking account of the enlargement to 10 new member states as of 2004 and assuming that enlargement to Bulgaria and Romania will take place in 2007. The forecasts presented in Table 2.10 have been obtained on the basis of assumptions as to the level and evolution of the three main types of CAP expenditure – market measures, direct payments and rural development.

Table 2.10 – Forecasts of expenditure on agricultural policies in the EU in the 2006-2013 period (at current prices in 2003)

(million €)	**2006**	**2007**	**2008**	**2009**
EU-15:				
Market expenditure	14 716	14 427	14 145	13 867
Direct payments	25 485	24 952	24 090	22 826
Sub-total	40 201	39 379	38 235	36 693
Rural development	4 730	4 730	4 730	4 730
Total	**44 931**	**44 109**	**42 965**	**41 423**
New MS (10+2):				
Market expenditure	915	1 190	1 167	1 144
Direct payments	1 600	2 913	3 655	4 797
Sub-total	2 515	4 103	4 822	5 941
Rural development	1 977	2 694	2 694	2 694
Total	**4 492**	**6 797**	**7 516**	**8 635**
EU enlarged (25...27):				
Market expenditure	15 631	15 618	15 311	15 011
Direct payments	27 085	27 865	27 745	27 623
Sub-total	42 716	43 483	43 056	42 634
Rural development	6 707	7 424	7 424	7 424
Total	**49 423**	**50 907**	**50 480**	**50 058**
% var. EU enlarged/EU-15	**10.0**	**15.4**	**17.5**	**20.8**
Ceiling (market + direct payments)	**42 716**	**43 483**	**43 057**	**42 634**

Table 2.10 (contd.)

(million €)	**2010**	**2011**	**2012**	**2013**	**% var. 2013/ 2006**
EU-15:					
Market expenditure	13 595	13 329	13 067	12 811	-12.9
Direct payments	21 903	20 978	20 051	19 123	-25.0
Sub-total	35 498	34 307	33 118	31 934	-20.6
Rural development	4 730	4 730	4 730	4 730	0.0
Total	**40 228**	**39 037**	**37 848**	**36 664**	**-18.4**
New MS (10+2):					
Market expenditure	1 122	1 100	1 078	1 057	15.5
Direct payments	5 597	6 396	7 196	7 995	399.7
Sub-total	6 719	7 496	8 274	9 052	259.9
Rural Development	2 694	2 694	2 694	2 694	36.3
Total	**9 413**	**10 190**	**10 968**	**11 746**	**161.5**
EU enlarged (25...27):					
Market expenditure	14 717	14 428	14 145	13 868	-11.3
Direct payments	27 500	27 374	27 247	27 119	0.1
Sub-total	42 217	41 802	41 392	40 987	-4.0
Rural development	7 424	7 424	7 424	7 424	10.7
Total	**49 641**	**49 226**	**48 816**	**48 411**	**-2.0**
% var. UE enlarged/EU-15	**23.4**	**26.1**	**29.0**	**32.0**	
Ceiling (market + direct payments)	**42 216**	**41 803**	**41 393**	**40 987**	**-4.0**

Source: adapted from Avillez (2003).

The basic assumptions on which such forecasts were based are essentially as follows:

- Base year (2006; 2007 for Bulgaria and Romania):
  - EU-15: amounts estimated on the basis of the decisions of the 1999 Berlin Summit;
  - 10 new member states: amounts laid down at the Copenhagen Summit in 2002;
  - Bulgaria and Romania: amounts estimated on the basis of the information available

  The distribution of 1st pillar expenditure (between market expenditure and direct payments) was based on the amounts verified in 2000 (for the EU-25).

- 2007-2013 period:
  - market expenditure: was kept constant in nominal terms (amounting to a reduction, in real terms, at the annual inflation rate of 2%);
  - rural development: was kept constant in current terms (amounting to an increase, in nominal terms, at the annual inflation rate of 2%);
  - direct payments:
    - EU-15: subject to the progression of ceilings laid down at the Brussels European Council in 2002 (amount estimated for 2006 for 1st pillar expenditure in the EU-25, increasing by 1% per year up to 2013);
    - 10 new member states: will develop at fixed prices on the basis of the rates agreed : 35% in 2006, 40% in 2007 and 10% per year in the following years so as to reach 100% by 2013;

- Bulgaria and Romania: will develop at fixed prices on the basis of the percentages as follows: 25% in 2007, 40% in 2008, 60% in 2009 and 10% per year in the following years so as to reach 100% by 2013.

It was also assumed that the integration of Bulgaria and Romania, which is largely responsible for the increase in expenditure between 2006 and 2007 in the group of new member states, will require modification of the ceiling for market expenditure and direct payments by including the relevant amounts estimated for those countries for the period up to 2007. This new ceiling will continue to grow, in nominal terms, at the annual rate of 1% as agreed at the Brussels European Council. This restrictive ceiling will limit direct aids for the present 15 member states.

It should be pointed out that, as has already been mentioned, the gradual implementation of the differentiated modulation approved in the MTR should introduce changes in the breakdown of the CAP budget appropriations in the three major categories of expenditure considered. In fact, savings on direct payments will be allocated to the 2nd pillar, i.e. will strengthen rural development measures. According to the Commission's estimates, "a modulation rate of 5% will result in additional rural development funds of 1.2 billion € a year". A change of this nature in the composition of agricultural expenditure was not taken into account in the forecasts carried out, although the anticipated transfer of funds will not affect the overall amount.

Analysis of the forecasts (Table 2.10) reveals some of the effects that enlargement will have on the level and trend of EU agricultural expenditure within the budget framework agreed:

(a) effects of the enlargement (static effects – in the same year)

- the integration of 10 new member states into the CAP will account for an increase of 10.0% in agricultural expenditure in 2006 (€ 44.9 billion in EU-15 as against € 49.4 billion in EU-25);
- the enlargement to 27 member states, with the integration of Bulgaria and Romania in 2007, will mean a 15.4% increase in agricultural expenditure that year compared to EU-15 (from € 44.1 billion in EU-15 to € 50.9 billion in EU-27); in 2013, this enlargement to 12 new member states will involve a 32% increase in that expenditure (from € 36.7 billion in EU-15 to € 48.47 billion in EU-27).

(b) effects of transitional rules (dynamic effects – during the transitional period)

- as far as the EU-15 is concerned, the budgetary discipline adopted in order to meet the enlargement challenge requires an 18.4% reduction of overall agricultural expenditure in real terms between 2006 and 2013 (from € 44.9 billion in 2006 to € 36.7 billion in 2013);

- with regard to the enlarged EU, this budgetary discipline involves a 2.0% reduction of overall agricultural expenditure in real terms between 2006 and 2013 (from € 49.4 billion in 2006 to € 36.7 billion in 2013)

(c) overall effect of enlargement (dynamic effect – during the transitional period)

- as a result of the enlargement from 15 to 27 member states, agricultural expenditure will increase by 7.7% in real terms during the transitional period from 2006 to 2013 (from € 44 billion in EU-15 in 2006 to € 46.4 billion.

Although the forecasts carried out are preliminary estimates with limitations due to the assumptions made, several interesting conclusions can be drawn from Table 2.10:

- The solutions adopted concerning either the level or progression of production-related direct payments to be applied in the new member states up to 2013, or the maximum level and progression of expenditure on agricultural markets and production-related direct payments between 2007 and 2013, made it possible to organise EU enlargement without any very significant implications for the present agricultural expenditure of the EU-15 (which will increase by only 7.7% in the aggregate).
- When we consider that enlargement will itself require an appreciable increase in agricultural expenditure (+10% in 2006 and +32% in 2013), the overall effect will only be cushioned during the 2006-2013 period by means of a very restricted budgetary framework through which the increase in the overall expenditure involved in the enlarged Union (+2.0%) can be offset.
- This expenditure restraint will be achieved in particular through the expenditure for the group of the EU-15, which will register cuts in their current amounts between now and 2013 (-18.4%), and in particular, in the amounts of the relevant production-related direct payments (-25%); it should be noted that the latter cuts may possibly be mitigated by budgetary gains obtained in the relevant expenditure on agricultural markets.

Although, as pointed out in paragraph 2.4.1, the decisions taken with regard to Europe at the end of 2002 do not prevent an increase in the overall appropriations for rural development (2nd pillar of the CAP), the margin for accommodating an increase does not seem to be very wide.

To sum up, the enlargement of the EU from 15 to 25 member states will inevitably cost the Union, and in particular the present EU-15, a considerable amount. The transitional rules agreed in 2002 will mitigate those costs but will never completely eliminate them. The dismantlement of the present CAP, desired by some and feared by others, has been avoided, but the policy model ensuing from this Mid-Term Review actually has more modest financial resources in view of the number of agricultural sectors that are to be integrated. Regardless of any changes that may occur in the composition of the overall amount of agricultural funds in favour of the

2nd pillar of the CAP, that amount will not be enough to ensure the level of protection and support enjoyed hitherto after enlargement.

Moreover, enlargement will very probably be extended to new member states such as Bulgaria and Romania and, later, Turkey. Further reform of the CAP is also expected aiming at the complete decoupling of payments and probably involving the general dismantling of market price support and the gradual reduction of payments to more competitive agricultural systems. According to Avillez (2003), it is to be expected in this scenario that resources should be saved through the profound changes made in the composition of expenditure with a view to backing up rural development measures. In this case, the question that remains is whether and to what extent within a more restrictive context such savings will be earmarked exclusively for consolidating the 2nd Pillar of the CAP or whether they will be channelled into the financing of non-agricultural policies of the Union.

The present and the new member states will bear the financial costs of enlargement in different ways – the former by virtue of the budgetary discipline established, and the latter through the phasing-in rules for agricultural support. However, it is difficult to say to what extent the budgetary and financial effects of this process will affect the SEMCs.

We can argue that the lack of resources will increase the pressure to reform the CAP with a view to bringing about major liberalisation of markets on the one hand, which would be favourable for the agricultures of third countries, and, on the other hand, to reducing agricultural expenditure, which would promote the allocation of financial resources to other EU policies.

From another point of view, we must bear in mind that the consolidation of a European model of agricultural policy which, as the result of the increasing decoupling of aid payments and the effective consolidation of rural development measures, has a very marked regional bias – to the detriment of the present sectoral model – will be favourable for the southern countries of the EU and will open up new opportunities for diversifying production to the advantage of typical Mediterranean products. Enlargement may thus, over time, promote EU self-sufficiency in these products, which the SEMCs also export. The extent to which the potential market developments will compensate the lack of financial resources for development policies (in both Mediterranean shores) remains to be seen.

2.5 - Concluding remarks

The profound changes which EU enlargement will continue to bring about in Europe and in its external relations have confronted the Mediterranean countries with new and important challenges for the near future. It is not yet clear to what extent these challenges may present an opportunity for or a threat to agriculture in

the region, since the answer depends on several factors and circumstances as yet undefined.

In fact, the potential gains that the enlarged UE-25 may offer the Mediterranean countries, either by expanding access to the European markets, attracting new FDI to the region, enhancing emigration to the Community or reinforcing the Association Agreements with the SEMCs, may never materialise. Due to the scarcity of financial resources and the budget restrictions in force, the risk of enlargement becoming a threat to the region is high, since it could exacerbate, rather than correct, its precarious situation.

As has already been stated, it is up to the Mediterranean countries to make an effort to overcome their weaknesses and explore their strengths with a view to the market and other opportunities that enlargement can offer.

However, the point of departure is so unfavourable for the southern countries that only extensive redefinition of the internal and external priorities of the EU itself to promote those countries could lead to a globally positive impact of enlargement on the region. In fact, enlargement can only be expected to benefit the Mediterranean region and promote interregional balance if the Community augments its commitment to the development and prosperity of Mediterranean countries and to the consolidation of relations with the SEMCs.

But this would require a real regional strategy, which could guide the Union in its pursuit of extensive reform of its internal policies – with special emphasis on agricultural and rural development policy – and lead it to a southern proximity policy that is more consistent with the intentions and priorities proclaimed in political discourse. This would seem to be the most advisable way to change the present situation for the better.

At the same time, in view of the risks facing the Mediterranean region in this enlargement process, it would also be wise to press the Community to adopt measures to offset any negative effects in the various fields, namely tariff concessions and special conditions for access to European markets.

3 Issues on Euro-Mediterranean integration and agricultural policies. The case of fruit and vegetables

3.1 - The CAP and "Mediterranean" products

One part of the trade conflict between the two shores of the Mediterranean Basin stems from the crucial role of Mediterranean products in the production systems across the region. Olive oil, flowers and fruit and vegetables are characteristic of the Mediterranean agricultural landscapes. For the purpose of this chapter, we shall call these products 'Mediterranean products', although we realise that they can also be produced in the North and that the Mediterranean countries also produce significant volumes of so-called continental products such as wheat.

Only some Mediterranean countries have full access to the EU common market and policies. While the Barcelona process recognised the potential advantages of a common space of shared prosperity for the Mediterranean region, agricultural trade is far from being fully integrated into the free trade provisions. There are still constraints on agricultural trade. The present report will discuss the viability of a scheme for progressively phasing them out.

Let us review the latest CAP developments with regard to these products. It must be stressed that few Mediterranean products were directly affected by the MTR. This is not surprising. Mediterranean products were not crucial to the Agenda 2000 package and do not usually appear as 'consumers' of public expenditure within a CAP clearly motivated by budgetary constraints[8].

What are the main features of the CAP concerning Mediterranean products?

1. The reduced weight of Mediterranean products in the CAP budget is no myth. The most representative crops of specialised Mediterranean agriculture such as fruit and vegetables, wine, olive oil, rice, tobacco and cotton account for over 27% of total EU agricultural value added but receive less than 16% of FEOGA Guarantee financing. One third of this financial support is concentrated on tobacco, cotton and rice, which represent only 8% of the Mediterranean production considered. Fruit, vegetables and wine, by far the most representative sectors, receive only marginal support. Export subsidies for olive oil and fruit and vegetables are bound by WTO commitments. The final bound expenditure on export subsidies amounts to € 75.8 million for fruit and vegetables - both fresh and processed – and to € 21 million for olive oil. These amounts were around 2,5% of the value of fruit and vegetables and 3,3% of the value of olive oil exported by the EU in 1999.

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[8] However, when the MTR package was passed the European Commission made it clear that it intended to submit reform proposals for certain crops typical of the South, such as olive oil, tobacco and cotton.

2. Policy reforms concerning Mediterranean products are normally guided by an implicit 'financial neutrality' principle. That is to say, any change in intervention mechanisms that reduces public expenditure is compensated by other policy measures, but not to the extent that agricultural income becomes constant. The aim is to keep the public budget stable. This is clearly different from what happens with the core of EU agriculture, where price reductions have been compensated, at least partially, with increases in direct payments.

3. Market orientation appears to be an increasingly important pressure in the CAP affecting Mediterranean products. Thus, for instance, according to the Regulation adopted in 1996, "operational programmes" can be submitted by producer organisations to improve product quality, promote marketing, develop environmentally sound cultivation practices, etc. Approved programmes are only part-financed by FEOGA and a limited share of the funds can be used for withdrawals. Potatoes are not included in the common market organisation, nor do they enjoy the same benefits as the other fruit and vegetables in the EU. For a number of processed fruit and vegetables, a new regulation introduced a simplified system of direct payments to producer organisations in 2001, abandoning the old system of minimum prices and making the scheme more flexible.

4. Since 1992, Mediterranean products have been little affected by CAP reforms, basically because they have never enjoyed high levels of public support. While during the last decade CAP reforms have made public support to agriculture more explicit through direct payments, these payments have been granted on the basis of historical yields, thus reflecting the same patterns of price support. The decoupled payments introduced by the MTR again follow the pattern of historical support. In a way, CAP reforms have stabilised an asymmetrical pattern of domestic support, where the products that enjoyed higher levels of market price support 10 years ago are also those entitled to receive most of the current budget.

5. Overall, direct support is not significant in the case of these products. However, there are some examples of Mediterranean products heavily subsidised through direct support. This applies to tobacco, cotton and olive oil. As regards the latter crop, the 1998 reform of the common market organisation (CMO) in the olive oil sector included a producer subsidy that can amount to €1322,5 per hectare if the Member State's production is lower than the respective Guaranteed National Quantities (GNC). The producer subsidies expressed as a percentage of the total gross earnings of olive growers (market price + subsidies) have increased from 20% in 1992 to 40% in 2000 (Garcia-Alvarez-Coque, 2001). The Percent PSE (PSE as a percentage of gross earnings) for olive oil is over 50%, of which 15 points are due to border protection and 35 points are the result of payments to producers. Attempts to reform this system (see below) are facing strong opposition from the major producer Member States.

6. The fact that cotton, tobacco and olive oil subsidies can be classified under the WTO 'amber box' heading puts them in a front line position for the next steps towards decoupling direct payments within the forthcoming CAP reform, which is currently under discussion. These products will probably be subject to reforms in line with the philosophy of the MTR, which will prepare the way for the partial decoupling of direct support of cotton, tobacco and olive oil production. The pressure is higher in the cotton sector, where a group of developing countries argued at the Cancun Conference (September, 2003) in favour of liberalisation of world cotton markets. In the olive oil sector, after the partial decoupling operation (and addition of the decoupled part to the single payment per farm), the remaining specific payments could become payments per tree and not per kilogram. At all events, a complex debate will be opened across the EU on the size of direct payments to be granted to the various EU producing areas (e.g. should direct payments be increased proportionately in low-yield and hilly areas?).

7. The fruit and vegetable sector is not as heavily subsidised as the other sectors mentioned. Fruit and vegetables account for 16% of the value of final agricultural production but only for 3,5% of the total CAP budget. However, the relatively minor public support for EU fruit and vegetables is based mainly on border protection measures. Fresh fruit and vegetables are subject to *ad valorem* tariffs. Duties are generally higher for some "sensitive" products and during periods of peak EU production. Additional duties can be applied and are only suspended if certain "entry prices" are respected: both these and the duties have been progressively reduced under the Uruguay Round provisions, but are still high for some products and seasons. For processed fruit and vegetables, the EU applies a mixture of specific and *ad valorem* tariffs. EU border protection on horticultural imports remains one of the most sensitive issues of Euro-Mediterranean integration. While this barrier directly affects EU market access for the Mediterranean partner countries, border protection represents the main policy measure protecting EU horticultural growers. Most Mediterranean partner countries are not satisfied with the granting of tariff quotas, which restrict tariff preferences to limited trade flows. Most EU farmers are not willing to agree to further erode border protection, given the little direct budget support that the EU has traditionally granted to Mediterranean products.

A quick conclusion drawn from the features underlined in the last few paragraphs is that the leeway for facilitating a "win-win" solution for Mediterranean agriculture on both shores of the Mediterranean is quite limited. Mediterranean crops in the EU lack domestic mechanisms for price stabilisation. In the case of olive oil, intervention prices have already been phased out. In the case of certain fresh produce, producer organisations (POs) can receive partial compensation from the FEOGA for surplus produce withdrawn from the market if prices fall below certain levels, which have been lowered significantly during the last few years. Processing aids can be paid for some products grown for processing (e.g. tomatoes and citrus), subject to certain conditions. Thus, processing aids become a stabilisation measure

(see Box 3.1), given the weakness of the withdrawal system. In view of the lack of domestic price stabilisation, border protection constitutes a major tool of market price support for Mediterranean products. While the impact of further liberalisation of Euro-Mediterranean trade on EU agriculture would need to be studied in greater depth, horticultural growers, mainly in southern European regions, are quite reluctant to accept any move towards further opening of the EU market for fruit and vegetables.

Box 3.1
Processing as a market regulation measure

Processing has become a relatively important tool for market regulation for fruit and vegetables in the EU. According to Regulation (EC) No. 2201/96 on the common organisation of the market in processed fruit and vegetables and Regulation (EC) No. 2202/96 introducing a Community aid scheme for producers of certain citrus fruits, the main provisions are summarised as follows:

- Tomato processing is subsidised through a payment set at €34,50 /tonne of fresh tomatoes irrespective of the finished product (concentrate, peeled tomatoes, etc.). The aid is paid to producer organisations, which pay it to the growers. The selling price of tomatoes for processing is freely negotiated between producer organisations and processors and there is no minimum price, as in the former regulation. There is a single Community threshold (8,251,455 tonnes) split into individual thresholds by Member States (these can split their threshold into two sub-thresholds). If the Community threshold is overrun, the aid for the following marketing year is reduced in those Member States which have exceeded their national threshold in proportion to the overrun.
- The arrangements for peach and pear processing mirror those for tomatoes. The aid and the processing threshold apply to the raw material. For peaches the aid is set at €47,70/tonne and for pears at €161,70 /tonne. The Community thresholds for peaches (539,000 tonnes) and pears (104 617 tonnes). These thresholds are also split into national thresholds. The aid is also paid to producer organisations, and there is no a minimum price.
- For citrus fruit the processing thresholds are 1,500,236 tonnes for oranges, 510,600 tonnes for lemons, and 384,000 tonnes for small citrus fruit. In addition, the ceiling set in Article 23 of Regulation (EC) No. 2200/96 for withdrawals from the market were reduced for 2001/02 from 15% to 10% of the quantity marketed by the producer organisation and to 5% from 2002/03.

All in all, these changes aim to boost support for the sector in a resolutely market-oriented manner. The simplification of the aid schemes for tomato, peach and pear processing increases their transparency, while the introduction of Community and national thresholds and the abandonment of the minimum price with the advent of direct payment to producer organisations makes the schemes more flexible and increases producer responsibility.

Processing of fruit and vegetables is one of the few remaining market stabilisation systems in the EU. However, these payments are challenged by the current WTO negotiations, which aim to reduce trade-distorting domestic measures included in the “amber box”.

Source: European Commission,
http://www.europa.eu.int/comm/agriculture/markets/fruitveg/index_en.htm

In addition, as Mediterranean products are concentrated in the southern areas of the EU, the result has been a very unequal distribution of CAP benefit among farmers, regions and Member States, penalising Mediterranean agriculture. In 36 regions in the EU-15, Mediterranean products account for over 45% of the total final agricultural output. Of these 36 regions 26 are in southern European countries. In Spain and Italy, Mediterranean products account for 43% of final production, and this percentage goes up to 50% in Greece. It is normal that the attitude to Euro-Mediterranean association in these countries should be more reluctant. Trade concessions towards Mediterranean partner countries are seen by southern European farmers as a serious threat for their products. This occurs even if, taken as a whole, imports from Mediterranean countries account for a relatively small share of total EU imports and domestic production.

Can we expect the EU to open up to imports from Mediterranean partner countries in the near future? Trade liberalisation in the EU's agricultural sector will come about as the result of political processes which are not totally influenced by the Euro-Mediterranean process. The first is the current Doha Round, which will eventually lead to a further opening of the EU import markets. The second is EU enlargement with 10 countries joining the EU in May 2004. This has brought further pressure for reform of the CAP towards the reduction of market intervention and the implementation of further budgetary constraints. The third is EU participation in other FTAs, after the signing of agreements with South Africa (1999), Mexico (2000) and Chile (2002). Mercosur remains a potential challenge for the current CAP.

In view of these developments, we could say that the liberalisation of EU markets is merely a matter of time. However, trade liberalisation should be accompanied by agricultural policies more consistent with rural development objectives. As a matter of fact, rural development seems to be the only support policy consistent with freer agricultural trade in the Mediterranean region. As argued in Garcia-Alvarez-Coque (2002), southern European farmers may be in favour of CAP reform, if the reform has the indirect effect of re-balancing support between the North and the South of the EU. The EU horticultural and wine sectors have supplied pilot fields for policy innovations consistent with the rural development approach. A definitive reform for the olive oil sector is again under discussion and will probably deal with a move from direct support to quality and environmental policies. Other crops such as nuts and rice have recently moved to direct forms of support, although this will partly depend on the financial ability of the Member States to support these crops on the basis of environmental objectives.

Recent Commission reform proposals[9] clearly point in this direction for the olive oil and cotton sectors. Income support will be progressively shifted to an approach

[9] See the Communication from the Commission to the Council and European Parliament "Accomplishing a sustainable agricultural model for Europe through the reformed CAP – the tobacco, olive oil, cotton and sugar sectors" Brussels, 23.9.2003 COM(2003) 554 final

which mixes "blue", "green" and "amber" box approaches, and this will mark a move away from the traditional production payments.

In a sense, the North-South conflict could be treated to some extent through a significant increase in the financial resources devoted to rural development programmes on both shores of the Mediterranean. After the MTR, as seen in Chapter 1 of the present report, rural development policies seem constrained by the inertia of the CAP. The EU's decoupled payments complete the picture of an imbalanced pattern of support between the various Mediterranean territories inside and outside the EU.

3.2 - EU market access issues for MPC exports

Market access is a necessary precondition for Mediterranean partner countries to develop an export strategy geared to EU horticultural markets. If we consider the Association Agreements signed to date[10], all of them contain an Agricultural Protocol with certain tariff concessions, which amount to 100% of the custom duties for a number of products, with specification of products covered, tariff reductions, and quantitative limits.

However, we wonder whether there are potential or actual "windows" for MPC exporters to take significant market shares in the EU. To answer this question we will first consider the main trends in the EU market for fruit and vegetables and then move on to the EU trade policies applied to fruit and vegetable imports. Finally, in view of the administrative complexity in the management of tariff concessions we wonder if tariff preferences pay off. As a matter of fact, tariff preferences may have only a partial impact on potential MPC trade with the EU. This is due to (i) the fact that preferences are usually limited to given quantities and schedules; (ii) the prevalence of the entry price system for some of the most important fruits and vegetables; and (iii) the administrative burden connected with the management of the tariff quotas, the entry price system and other non-tariff measures, a burden which affects the fruit and vegetable trade with the EU.

3.2.1 - Main market trends

In spite of protection policies and support for local production, the EU is still one of the commercial targets of all countries with exporting capacity. In 1999-2000, the

[10] The first country to sign an AA with the EU was Tunisia (1996), and it entered in force in 1998. The agreements concluded with Morocco and Israel entered into force in 2000 and the agreement with Jordan in 2002. Agreements with Egypt, Lebanon and Algeria have been signed but await ratification. Meanwhile, negotiations with Syria are still underway. The key issues of the agricultural dossier in the Euro-Mediterranean process are reviewed in Garcia-Alvarez-Coque (2002).

value of the agricultural commodities imported by the EU, the leading world agro-food importer, was approximately US$ 180 billion. Fruit and vegetables accounted for a significant share of that trade - almost US$ 38 billion in the same period. In fact, as a group of countries, the EU is the largest market for fruit and vegetables, accounting for 10.4% of world consumption, as against the 9.4% accounted for by North America. In 2000, total EU consumption of fruit and vegetables was about 29 million t and 41 million t, respectively, corresponding to per capita figures of 92 and 132 kg. The EU market for some products of export interest for Mediterranean partner countries is still growing. This is shown by the significant average growth rates of EU imports of specific products in the period between 1993-95 and 1998-2000: apricots (3.7%), cherries (7.1%), table grapes (2.6%), lemons (3.6%), garlic (4.1%), onions (4.8%) and tomatoes (2.2%), with lower rates for apples (1.2%), potatoes (0.8%) and oranges (0.3%).

Consequently, the market size is relatively large and the EU must be considered as a normal outlet for the horticultural exports of the Mediterranean partner countries. However, the EU role as a major actor in world horticultural trade must be qualified by the fact that at certain times of year the EU market seems to be more open to foreign trade than at others. Several comments can be made on the EU seasonal import pattern:

i. For most products, EU imports show a marked intra-trade nature, the EU Member States being the main suppliers of fruit and vegetables to the EU market.

ii. Total EU imports show a seasonal variation that is frequently (but not always) associated with greater availability of products from intra-EU suppliers (in turn related to the producing seasons).

iii. For most products, supplies from extra-EU sources decrease significantly in certain quarters of the year, imports being substituted by intra-EU sources. This seasonal pattern of import substitution is particularly clear for some products such as tomatoes (spring-summer), potatoes (summer), lemons (winter), table grapes (summer-autumn), apples (autumn), apricots (spring), cherries (summer), pears (summer-autumn), plums (autumn), peaches (summer) and onions (summer).

iv. For some products (e.g. tomatoes, potatoes, clementines, lemons, grapefruit, apples, apricots, cherries, pears and onions) total imports follow a seasonal trend, so that the fact that intra-EU products take a larger share of the EU market is not incompatible with the increase in extra-EU imports in the peak seasons, that is to say, higher imports from intra-EU sources can also be accompanied by higher imports from extra-EU suppliers.

v. The share of intra-EU sources in total EU imports remains significant throughout the year, and never below 20% for most of the products of export interest to Mediterranean partner countries.

To sum up, import substitution mainly helps to explain the relative drop in extra-EU imports in certain quarters of the year. The availability of intra-EU products remains significant throughout the year. This could be explained in part by the border protection applied by EU trade policies, although, as we will suggest later, the distribution firms in the EU may tend to give precedence to certain domestic sources since they are involved more efficiently in the modern marketing chains. However, despite the import substitution pattern that has been identified, the EU market is not completely closed to foreign competition. This is not only true for the periods of the year where there is a relative lack of EU domestic production but also for some products and periods when higher domestic production overlaps with significant extra-EU imports.

Consequently, "competition" is the word that more aptly describes the EU market for fruit and vegetables. It can be a limited form of competition, which excludes part of the extra-EU supplies in certain periods of the year. Or it can be more open competition in those periods of the year when foreign products coexist with domestic supplies on the EU market. In both cases, EU horticultural markets are fully supplied all year round with both foreign and domestic products. Modern marketing organisation, logistics, transport and post-harvest technologies are the factors contributing to this increased competition.

This situation raises the question of the market opportunities that Mediterranean partner countries could exploit in the future. Perhaps one way of looking at this question is to consider the actual position of MPCs on the EU market. Mediterranean countries have achieved significant market shares of the extra-EU import market, for specific seasons. This is the case with Egyptian potatoes (8.3% of the EU imports in the first quarter); Moroccan tomatoes (18.6% and 17.7% in the first and fourth quarters); Moroccan clementines (9.1% and 8.5% in the first and fourth quarters); Moroccan oranges (8.2% and 11.6% in the first and second quarters); Turkish grapes (7.3% and 5.5% in the third and fourth quarters); Turkish cherries (16.6% and 12.9% in the second and third quarters); and Egyptian garlic (5.1% in the second quarter).

These examples prompt two comments.

(i) Provided that market access concessions are granted by the EU, Mediterranean partner countries should aim to improve their market share, taking advantage of certain periods which do not correspond with the main harvesting seasons in Europe. Trade barriers applied by the EU on fruit and vegetables do not appear to be major or prohibitive constraints on the above-mentioned countries' exports to the EU. And,

(ii) Even with improved market access for MPC exports, competition is fierce. This is illustrated by the significant share of the market accounted for by different intra-EU and extra-EU countries (which are not necessarily preferential countries). For some products and seasons, the possibilities for Mediterranean partner

countries to improve their market share in total EU imports are limited by the significant degree of import substitution by intra-EU sources (intra-EU share over 85%). This is the case with tomatoes (second and third quarters), potatoes (third and fourth quarters), clementines (fourth quarter), table grapes (third and fourth quarters), apples (fourth quarter), cherries (second and third quarters), onions (third quarter) and other vegetables (all year round). It is unlikely that MPCs will be able to export significant volumes to the EU in these seasons. At present, opportunities for a particular Mediterranean partner country to enter the EU market are more likely during the same periods of the year when other Mediterranean countries are also present on that market.

Of course, one might wonder about the main determinants of the EU seasonal import pattern. Broadly speaking, climatology matters, but we cannot regard it as the only factor creating seasonal windows in the EU market. The seasonal behaviour of EU trade policies on fruits and vegetables is worth mentioning here; this will be the main focus of the next section.

In conclusion, in spite of EU protection policies, the EU import market is already opening up interesting opportunities for extra-EU suppliers. Most of these opportunities are based on seasonal behaviour. The Mediterranean partner countries could take advantage of such seasonality. This general overview thus reveals the existence of windows in the EU, which should become targets for MPC fruit and vegetable exports.

3.2.2 - Remaining constraints

The existence of seasonal windows on the EU horticultural market does not preclude the influence of import constraints. Some of the seasonal constraints are actually the result of EU policies.

Non-preferential countries willing to supply horticultural products to the EU are normally affected by import duties, basically calculated on an *ad valorem* basis, and usually higher during the periods of peak domestic production. These have been significantly reduced under the provisions of the Uruguay Round. If the tariffs applied by the EU were only the *ad valorem* duties, cheaper supplies from non-EU exporters would easily access the EU market by gaining price competitiveness. However, in the case of a number of fruits and vegetables, the EU applies a system known as the "entry price" system, which penalises supplies who undercut a minimum import price (the "entry price")[11]. The effect of the entry price system depends on the level of the entry prices, which varies throughout the year and it is higher during seasons when there is significant European produce on the market.

[11] A detailed description of the entry price system can be found in Garcia-Alvarez-Coque (2001).

In the absence of preferential concessions, countries exporting to the EU may employ two strategies to contend with the entry price system[12]:

- The first is coordination. Exporters may undertake co-ordinated action to prevent their supplies from being penalised by the additional charges that would result from low-price supplies: quality improvement and then higher unit values could be a way to overcome the penalty.

- The second way is based on exploiting seasonality, when products can be harvested at off-season periods. Table 3.1 includes the entry prices by period of the EU tariff schedule. In addition, we include a column with the special (reduced) entry prices, agreed between the EU and Morocco.

Table 3.1 Entry prices, periods of application

Product and period	Entry price	Entry price Morocco
Tomatoes from 1 to 30 April	1126	
Tomatoes from 1 to 31 May	726	
Tomatoes from 1 June to 30 September	526	
Tomatoes from 1 October to 20 December	626	461
Tomatoes from 21 December to 31 December	676	461
Tomatoes from 1 January to 31 March	846	461

In the Mediterranean partner countries, most of the harvest periods for the goods considered overlap with periods of the year when the entry price is in application. Note that in the Agricultural Protocols tariff concessions normally only apply to the *ad valorem* duties but not to the entry prices. For certain seasons, entry prices are lower, but they normally coincide with the peak seasons in the EU. Thus, for instance, entry prices for tomatoes are lower from 1 June to 30 September and this apparently benefits Southern countries, where around 50% of the total harvest is concentrated in that season. However, competition from EU sources is also strong during that season (e.g. 41% of Dutch exports and 50% of Italian exports to EU countries take place in the same season). Off-season exports to the EU would be of interest for MPCs, but the entry prices for most products also tend to be higher in the off-season.

Some Mediterranean countries have reached agreements on the reduction of entry prices for certain periods of the year. Reduction enables the countries concerned to supply products to EU markets at a price significantly below that of shipments

[12] We refer, of course, to "legal ways". The entry price system seems to provide some opportunities for circumvention by the importer, either legal or illegal (see de Gorter and Martin, 1998).

originating from other countries. This is the case, for example, with Morocco; as is shown in Table 3.1, Morocco is able to benefit from significant reductions, which enables the country to export to the EU at lower entry prices during seasons when there is a relative lack of EU domestic production. However, the arrangement with Morocco was adopted partly as compensation for the loss of market resulting from the EU tariffication process at the end of the Uruguay Round, which led to the introduction of entry prices for tomatoes, cucumbers and courgettes for periods of the year where the old reference price system was formerly not applied. Entry prices are also the result of the internal policy-making process within the EU. Thus, Spanish tomato growers usually complain about the fact that entry prices are higher in April, when Dutch produce is entering the market, whereas they are lower in the late autumn, when Spanish producers aim to take advantage of the early season.

According to the Agricultural Protocols, EU import liberalisation will not be full, at least in the short-term. This is consistent with the Barcelona Declaration (1995), which calls for the "progressive liberalisation of agricultural flows" between the EU and the Mediterranean partner countries.

Many tariff concessions are granted under quantitative limits in the form of tariff quotas or reference quantities (the latter are merely indicative and only become tariff quotas in rare cases). The schedules and tariff quotas presented in Table 3.2 can also be seen as possible "windows" for Mediterranean partners. In some cases exports in excess of the tariff quotas (or any tariff quotas resulting from the conversion of reference quantities) are not eligible for any tariff reductions. In other cases lower tariff reductions apply to exports exceeding the tariff quotas. Some of the tariff-rate quotas and reference quantities have been increased by four equal steps of 3% annually during the first 4 years after the conclusion of the Association Agreement. Renegotiation of the AA can lead to a limited increase in the tariff-rate quotas for some products, as has been shown by the recent agreement between the European Union and Morocco, which was concluded in September 2003.

Table 3.2 Schedules and tariff-quotas affecting EU tomato imports from selected Mediterranean partners

Country	Schedule	Tariff quota (MT)
Jordan	1 December to 31 March	Unlimited
Morocco	1 October to 31 March	150,676 (*) 5,000 in October
Tunisia	15 November to 30 April	Unlimited
Egypt	1 November to 31 March	Unlimited
Lebanon		5,000

Source: AA Agricultural Protocols. (*) In November 2001, the European Commission adopted a provisional agreement on the import of tomatoes from Morocco, setting the tariff quota at 168,757 t for the period between October and May. The revision of the agricultural protocol agreed in September 2003 foresees a tariff quota of 175,000 t for the 2003/2004 season and an increase in that quota to 220,000 t in 2006/2007.

These remarks are not intended to paint a pessimistic picture of the association strategy. The Barcelona process is an important step in the right direction, pointing to the liberalisation of agricultural trade. As argued above, the Agricultural Protocols can be taken as a step forward along the road to bilateral liberalisation, especially if the possibility of reviewing the liberalisation provisions on a regular basis is agreed. This has been the approach adopted for some Mediterranean partner countries such as Tunisia and Morocco. The latter is currently negotiating the improvement of the tariff preferences with the EU, although the southern European stance on the EU negotiating position has shown strong opposition to the granting of further preferences.

One argument frequently put forward by the European lobbies is that too generous limits for tariff quotas cannot be exploited by the exporting country. On the other hand, the European Commission frequently quotes failure to make full use of tariff quotas as an argument against further concessions. The Commission may state that it is better to grant small quotas for a large number of products than to grant large quotas for a small number of products which will not be fully used. This idea theoretically supports the goal of promoting export diversification in the country enjoying preferences. However, there are several caveats regarding this argumentation. The main issues for a developing exporter concerning tariff preferences are as follows:

(i) Tariff preferences may be generous for those products for which Mediterranean partner countries do not apparently enjoy comparative advantage.

An MPC probably would not be very interested in receiving generous tariff preferences in less competitive products in exchange for less preference in other products where it enjoys more competitive advantages.

(ii) There may be reasons preventing exporting countries from filling the tariff quotas completely. When TRQs are established, one of the problems concerns the administration of the system. In the case of fruit and vegetables, the normal case is when preferential TRQs are administered on a first-come-first-served basis, i. e. no licences are issued and the full tariff is charged when trade flows exceed the TRQ. Although at the end of the Uruguay Round tariff quotas were seen as a way of guaranteeing market access, they are increasingly regarded as trade barriers. Quota underfill is attributed in part to the administrative methods employed to implement TRQs. These methods determine what level of imports occurs under the lower in-quota tariff and who gets access to the rights to import under that lower tariff. Complicated administrative methods act as non-tariff barriers or increase transaction costs associated with imports under the TRQs. Administration of TRQs is a key issue under debate in the new WTO negotiations on agriculture that are currently underway (Abbot, 2002). Lack of transparency of the more common methods (e.g. licences) is also probably a matter of debate.

(iii) Advantages derived from tariff preferences may be only temporary for beneficiary countries. The current multilateral trade negotiations in the WTO point to the reduction of most-favoured -nation tariffs over time. Lower over-quota tariffs mean benefits to all potential exporters, with market forces, rather than quota administration, determining marginal suppliers. This move would be a possible outcome of the current WTO negotiations and could only benefit Mediterranean partner countries' fruit and vegetable exports if they become competitive enough to contend with a larger number of actors on the EU market.

(iv) The tariff-quota system may also tend to transfer a quota rent to the increasingly concentrated importing companies, which are normally the quota rights recipients, as they could offer prices on the worst-case assumption that the full most-favoured-nation tariff has to be paid, at least when there is a risk of exceeding the tariff rate quota. It is not clear to what extent the economic rent is transferred to the exporters.

(v) When one looks at the trade performance of some preferential suppliers, it is striking to see that export growth of some of the benefiting products is very slight or insignificant. A plausible hypothesis is that exporters in MPCs have not made full use of trade preferences because some of the EU requirements (particularly the formal requirements concerning certificates of origin) are not properly understood by many exporters.

Some EU Mediterranean partners have managed to avoid the use of licenses for quota administration. For some products, such as courgettes and tomatoes, the EU and Morocco reached an agreement in the form of an Exchange of Letters, which established that Morocco would undertake not to export more than the agreed tariff quotas. The European Commission reserved the right to introduce the issuing of import licenses if the export flows exceeded the agreed quota. The system reassembles a Voluntary Export Restraint (VER), which remains a grey area of the multilateral agricultural rules. This is how Morocco manages the entry price reductions indicated in Table 3.1. This approach will be maintained under the reviewed agreement concluded with the EU in September 2003, although with larger volumes.

The administrative problems involved in the management of tariff quotas may significantly restrict MPC exports of fruits and vegetables. There are two guidelines for addressing these problems:

(i) the first is to negotiate less restrictive administrative procedures for tariff quotas. MPCs which are WTO Members, will surely find allies around the world and might well call for measures to progressively phase out the tariff quota systems (and even of the entry price system).

(ii) The second is to improve the technical capacities of the exporting sector for contending with the administrative procedures.

The scenario for the future Euro-Mediterranean Agreement will probably bring a significant improvement in market access, although the latter will still be limited by quantitative and administrative restrictions. The real issue is whether or not Mediterranean partner countries would be in a position to take full advantage of the wider market access to the EU horticultural markets, even in a hypothetical situation where market access is not constrained by quantitative limits. Market access is a necessary condition for export success, but this can only come through proper understanding of current trends in consumption and modern distribution in most EU countries. One could argue that MPCs are not better adapted to the EU market simply because this market has been closed until now. Market access to the EU could create incentives that would encourage MPC actors to adapt to the specifications of modern distribution in Western and Central Europe.

The Association Agreement will entail three main advantages for the MPC export business. First, more open market access for MPCs exports to the EU, although it will still be limited in the short term; secondly, a boost for the on-going economic reform process, which will create an appropriate economic environment for attracting foreign capital; and thirdly, a more stable framework for bilateral trade relations with the EU.

3.3 - 'Quality' matters

Market trends in the EU point to a number of qualitative changes in the consumption of fruit and vegetables. Consumers in industrial economies tend to buy fruit and vegetables as "convenience" products (take-away, "meal solutions"), snacks ("eating on the move") or products which guarantee good health and respect for the environment (Garcia-Martinez, 2002). The prices of products designed for satisfying basic needs have gone down, while those of products connected with emotion and convenience are less price-sensitive, although they still have to comply with the specifications of modern distribution. Only companies which monitor the market closely and can control the production process to a large extent are able to adapt quickly to consumer behavior in industrial societies, which is often contradictory. The process in most Western and Central European countries appears to be not only consumer-driven, but also controlled by the large distribution firms. A major move in the commercialisation of fruit and vegetables has been the progressive disappearance of small retailers and the simultaneous consolidation of sales in big retailers. In 1999, 40% of the food sales in Europe were carried out by the 10 top companies. It is projected that the same percentage will be accounted for by the 5 top companies in 2005. These changes are leading to a sharp reduction in the number of suppliers on the international fruit and vegetable market. In the medium term, supply will be operated by a small number of fruit and vegetable companies, which will supply a larger volume of fruit and vegetables.

Mediterranean countries are perfectly able to take part in the international fruit and vegetable market. This can be achieved by a steady effort to involve producing and exporting firms in the world marketing chains. While substantial progress has been made in this process in the EU countries, the countries in the Mediterranean region should become more involved in those marketing chains.

Supply chains enforce internal mechanisms and develop chain-wide incentives for assuring the timely performance of production and delivery commitments. They are based on shared information and reciprocal scheduling, product quality assurances and transaction volume commitments.

These elements call for efforts to seek long-term arrangements between exporting companies and EU importers and distribution companies. Quality assurance, in these agreements, must not be seen as a factor of differentiation but as a precondition for establishing a market presence.

'Quality' is thus a key word for any export strategy, but it is necessary to clarify what we mean by quality, especially when dealing with business on the most developed markets such as the EU market.

The European Commission has carried out extensive legislative activities in the area of quality[13], although at very different levels depending on the type and urgency of the problems on hand. Legislation in the food safety field started in the 1960s and became more intense in the 1990s with the advent of the European single market. The 1992, 1999 and 2003 CAP reforms have emphasised agro-environmental measures, and in 1992 there was also the introduction of European quality labels. But what does 'quality' mean for the EU? Quality, considered in EU policies, has several dimensions:

- **Compliance with food safety and plant health as prime conditions for products on the market**. The EU has built up a significant body of laws on food safety and plant health, which are binding in all countries of the Union and which apply partially to non-EU countries exporting to the EU.[14] In a White Paper on Food Safety of 12 January 2000 the Commission set out the plans for a new proactive food policy: modernising legislation into a coherent and transparent set of rules, reinforcing controls from the farm to the table and increasing the capability of the scientific advice system so as to guarantee a high level of human health and consumer protection. In November 2000, the European Commission proposed the creation of a European Food Safety Authority (EFSA) whose core task will be to provide independent scientific advice and support and to set up a network for close co-operation with similar bodies in Member States. It will assess risks related to the food chain and provide the general public with information on food risks. The Regulation which provides the legal basis for the establishment of the EFSA was formally adopted on 28th January, 2002.

- **Compliance with legally established standards for the environment**. Targeted measures which reward farmers for environmental services in rural areas over and above good agricultural practices and environmental legislation form the core of the Community's agro-environmental strategy within the CAP. It is compulsory to include such measures into all rural development programmes implemented by Member States. Under the common rules of the CAP, Member States must lay down the environmental requirements they consider to be appropriate and may provide support for farmers depending on compliance with those requirements ("cross-compliance"). In addition, rural development policy includes special environmental measures, known as agri-environment measures. These provide for payments for commitments going beyond good agricultural practices. They constitute an important environmental tool based on a conscious, voluntary commitment by farmers to greener agriculture.

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13 See http://www.europa.eu.int/comm/agriculture/foodqual/quali_en.htm

14 See http://www.europa.eu.int/comm/food/fs/ph_ps/index_en.htm.

- **Other aspects depend on consumer preferences**. This is the case with the nutritional value of food (which is connected with eating habits). Other aspects of quality are optional such as flavour, perfume and appearance. Some products also have an added value because (i) they are produced in a particular region or by a traditional method or because (ii) their production methods pay special attention to good agricultural practices (e.g. organic farming). Let us refer to these two situations in brief:

(i) Some products acquire a reputation extending beyond national borders and could face competition from products which pass themselves off as the genuine article and adopt the same name. This unfair competition not only discourages producers but also misleads consumers. So in 1992 the European Union created systems known as PDO (Protected Designation of Origin), PGI (Protected Geographical Indication) and TSG (Traditional Speciality Guaranteed) to promote and protect food products. These kinds of protection aim to: (i) encourage diverse agricultural production; (ii) protect product names from misuse and imitation; and (iii) help consumers by providing them with information concerning the specific nature of products. In the WTO the European Commission defends a higher degree of protection for patents and geographical indications which currently enjoy a modest level of protection under the TRIPS agreement with regard to trademarks.

(ii) Other quality categories include good farming practices. Organic farming, for instance**,** is a different type of quality assurance, which responds to increased consumer awareness of food safety issues and environmental concerns. Organic farming has in fact developed into one of the most dynamic agricultural sectors in the European Union. The organic farm sector grew by about 25% per year between 1993 and 1998 and is estimated to have grown by around 30% per year since 1998. Organic farming has to be understood as part of a sustainable farming system and a viable alternative to the more traditional approaches to agriculture. The first regulation on organic farming [Regulation EEC N° 2092/91] was drawn up in 1991 and, since its implementation in 1992, many farms across the EU have converted to organic production methods[15]. Where farmers wish to claim official recognition of their organic status, the conversion period is a minimum of two years before sowing annual crops and three years in the case of perennials. The regulations also include imports of organic agricultural products from third countries whose organic production criteria and control systems have been recognised by the EU as equivalent. Organic products become an interesting outlet for Mediterranean partner countries' exports, given the fact that the use of chemical inputs is not widespread in many agricultural production systems in the South.

Apart from organic production, producers willing to sell their products in the EU have access to various forms of quality assurance on a voluntary basis. Some **quality certification** systems are spread internationally. Many participants in

[15] See EU provisions on organic farming in http://www.europa.eu.int/comm/agriculture/qual/organic/index_en.htm

such systems are global players in the retail industry, who cannot afford to operate double standards for produce sourced from different parts of the world. They consequently perceive the need for a common internationally recognised standard. In particular, the EUREPGAP certification scheme was launched in 1997 as an initiative of retailers belonging to the Euro-Retailer Produce Working Group (EUREP). The aim was to agree on standards and procedures for developing good agricultural practices (GAP). Representatives from around the globe and all stages of the food chain have been involved in the development of these standards, which have been included in a protocol focusing the producer on the key issues that need to be addressed during the pre-farmgate stage. EUREPGAP members include retailers (around 22), suppliers/growers and associate members from the input and service side of agriculture. Decisions are taken by the EUREPGAP Steering Committee, which is chaired by an independent chairperson and the standards documents and certification system are approved by a Technical and Standards Committee. Both committees have 50% retailer and 50% grower representation. EUREPGAP is based on HACCP (Hazard Analysis (and) Critical Control Points) principles, and although its scope is limited to pre-farmgate activities, codes of practice which deal with the interface areas of packaging on the farm and transport from the farm to the processor ensure that a whole of chain assurance can be provided. Environment protection and worker welfare are also considered in the EUREPGAP protocol[16]. The prospect for growth of EUREPGAP by providing international verification frameworks across a wide range of agricultural production sectors is by any estimate quite outstanding. Some retailers are saying that all their suppliers must be EUREPGAP accredited by 2004. Others do not have a deadline, but will in time question why preferred suppliers are not EUREPGAP certified and perhaps review their decision to do business with them. EUREPGAP is focused on business-to-business operations rather than consumer-orientated. All products offered to consumers should at least comply with certain requirements which are implicit and which consumers take for granted. Many retailers base their specifications for their own retailer brands on EUREPGAP and communicate parts of the content to consumers with their brand.

3.4 - Beyond traditional agricultural policies

The standard agricultural policy approach cannot be applied to fruit and vegetable markets. These require dynamism and this cannot be guaranteed by the traditional instruments of income support applied to commodities such as cereals, dairy products and sugar. As a matter of fact, the international market for fresh fruit and vegetables is far from constituting a *commodity* market. Its appeal stems from the fact that fruit and vegetable products can be considered high-value products which adapt perfectly to the latest consumer trends in modern industrial societies.

[16] The EUREPGAP protocol and operation is transparent, and information is listed on the website: www.eurep.org.

Developing countries such as most Mediterranean partner countries have a good natural resource base for producing these products. However, when it comes to exporting fresh products, comparative natural advantages and low labour costs cannot be regarded as the only factors of success in international marketing. A simplified picture of fruit and vegetable markets would present them as segmented into high-quality and low-quality categories. According to a conceptual approach based on the life-cycle theory (Vernon, 1979), industrial economies are supposed to invest in product innovation and in high-cost technology-intensive products; by contrast, developing countries would serve as source for "mature" products for mass consumption, for which labour costs are relevant and technology easily accessible. However, even if one accepts this general approach, it would be misleading to apply it directly to the marketing of fruit and vegetables, and in particular to exports targeting developed markets. Low-quality markets for fresh fruit and vegetables in EU countries are losing importance and become residual. Even developing countries should aim to master the "marketing technology" that will help them to penetrate the increasingly concentrated distribution channels in Europe. A task for policy-making in the future will be how to achieve the full involvement of horticultural growers and traders in the international marketing chains. But this comment applies to both sides of the Mediterranean Basin.

One could argue that fruit and vegetable exporting activities in Mediterranean partner countries are not adapted to the EU market simply because this market has been relatively closed until now. Some countries on the southern and eastern shores of the Mediterranean have developed significant intra-regional commercial links, and these can be further developed through South-South integration (e.g. AFTA framework and Agadir process). However, where this happens, exporting activities are usually simply an extension of the domestic market, taking advantage of the market access to the Arab countries. In many cases, domestic and foreign trade in MPCs rely on traditional marketing practices, but this seems to be the outcome of the current market limitations and not necessarily an factor explaining their export success or failure in the future. Whatever their internationalisation strategy, MPCs must be aware of consumption and distribution trends on foreign markets.

3.5 - Concluding remarks

The present report has underlined the main constraints on the CAP's move towards a rural development policy based on a 'Mediterranean approach' promoting all rural areas across all Mediterranean countries (both within and outside the EU).

EU enlargement to the CEECs presented the Euro-Mediterranean Partnership, which was launched at the 1995 Barcelona Conference, with new and important challenges, whose results depend on several factors and circumstances yet to be defined.

In the present restrictive budgetary framework, one would expect very strong competition for the scarce financial resources available, which certainly will not benefit the Euro-Mediterranean integration process, given the high demand for financial resources connected with EU enlargement.

Besides, with regard to market expansion, for instance, the potential gains that an enlarged Union might represent, particularly for Mediterranean agriculture, will hardly become a reality within the framework of the present institutional CAP.

An assessment of the Mid-Term Review cannot overlook the merits of the reform. Thus, the introduction of decoupled payments – albeit partial – marks the first step towards an eventual *de-sectoralisation* of the CAP. Indeed, future requirements to be met by farmers in order to obtain these payments will be linked not to agricultural production activities, but to environmental and land use conditions (cross-compliance). The present process could thus lead to a shift from an agricultural policy to a rural land use policy. Such recognition could open up a new – and perhaps complex – horizon of possibilities.

However, a more detailed study of the MTR suggests that further adjustments may be needed in the years that lie ahead. From the domestic point of view, a real debate has yet to come about where the focus is not on the net balance of millions of Euros given and received by EU Member States for their agricultural sectors. The real debate should be focused on the final distribution of community funds among the different types of farmers and among the different types of rural territories, and on the identification and selection of rural policy targets . There are still significant CAP imbalances in the EU. Some farmers will be eligible for decoupling payments based on their historical pattern of specialisation. Farmers eligible for such payments will receive a fixed amount of money and will not be allowed to grow potatoes, fruit or vegetables in the base area used to justify the single payment. However, some farmers will be able to justify the decoupling payment with their less productive area and to use their most productive area (e.g. irrigated land) to diversify towards vegetables and potatoes. The outcome of this process is a distorted picture where two vegetable growers in the EU could receive different amounts of subsidy.

The reform process related to the Common Market Organisations including Mediterranean products tend to stabilise the amount of resources devoted to the crops concerned. In some cases (e.g. nuts), EU financial support may be complemented with national funds. In other cases (e.g. rice), public support can be increased in wetlands, due to the environmental constraints with which this crop is confronted in such areas.

In the course of 2004, the European Union will be discussing the new proposals for reforming the Common Market Organisations in olive oil, tobacco and cotton, which were submitted by the Commission in September 2003. These proposals are based on the principles of the MTR, with a view to decoupling support. This will

make the EU support crops that are more consistent with WTO rules. However, reforms will probably be guided by the principle of financial neutrality. Within each common market organisation, the reform process will include several adjustments promoting quality, good agricultural practices and financial control. As is the case with the MTR, there is a justified fear that a complete conversion of current production-linked payments in the olive sector to the single farm payment could cause problems for certain traditional producer regions of the EU and to low-output olive groves. This is why the proposal avoids linking support payments completely to farm production. Member States would retain a percentage of the payments as national appropriations for granting producers an additional olive grove payment calculated on a per hectare or per tree basis. A similar approach will be followed in the reform of the cotton sector.

In summary, the Commission is proposing a shift in the olive oil and cotton sectors from the current support schemes to a mix of blue and green box measures.

Unfortunately, these changes are still far from becoming a real rural development policy. And consistency with WTO rules has to be tested politically. In fact, the MTR was intended to improve the EU stance in the current WTO negotiations. However, the failure to reach an agreement on the modalities for agricultural liberalisation at the Cancun Conference (September 2003) showed that the EU agricultural offer to the Doha Development Agenda (clearly marked by the MTR) may fall short of the expectations of developing countries, including several Mediterranean partners.

One possible criticism of the EU stance in the WTO is that it reflects a certain degree of 'eurocentricism' in the formulation of policy issues. It is true that the Doha Declaration in 2001 took explicit note of Non-Trade Concerns, such as environmental protection, food security and rural development, which might be consistent with the EU approach. However, it is important to point out that the word "multifunctionality" was dropped from the draft and that most developing WTO members disagree with the EU approach to the multifunctional framework. In a way, an alternative approach to analysing global issues would not be to start with domestic goals and to test the extent that domestic policies distort trade; rather, it would be to consider "global public goods" and then to devise the appropriate international framework for dealing with them.

If this is the approach adopted, then the economic development of poorer countries would be attributed at least the same importance as domestic goals such as animal welfare, good agricultural practices, or consumer concerns, to cite but a few examples. It is nothing new to discover that many developing countries, including the EU's Mediterranean partners, distrust the EU multifunctional approach and merely see it, at worst, as a form of disguised protectionism and, at best, as an argument used by some lobbies to justify unbalanced levels of agricultural support across countries. Multifunctional payments are thus usually seen in the "South" as the privilege of rich countries (Akesbi and Garcia-Alvarez-Coque, 2001).

The expectations of developing countries in the current "Development Round" are actually tending towards (i) achieving substantial reductions in border protection on agricultural trade by industrial economies; (ii) giving content to the Special and Differential Treatment (SDT) concept; and (iii) avoiding existing asymmetries in levels of agricultural support, including the "green box" measures. For developing countries, possibilities of success in objective (i) are relatively high, although this is where the industrial economies tend to "exchange" market access for standards (based on non-trade concerns). The SDT could be something more than merely the principle of higher flexibility for developing countries in the implementation of tariff reductions. Objective (iii) is really beyond the scope of developing countries because public budget expenditure through seemingly 'decoupled' payments is the method for which the EU and US have opted for facilitating the transition to a more open agricultural market. Thus, for the EU, decoupled payments appear to be a 'last resort' rather than a reflection of non-trade concerns.

After enlargement, the EU will have less leeway for reaching a domestic consensus to undertake further steps towards agricultural trade liberalisation. The rural development move in the CAP will probably have to wait for a while. But this move is needed in order to make trade liberalisation compatible with rural policies. After the Cancun Conference there is a serious risk of the Doha Development Round failing unless the EU undertakes further steps to decouple agricultural support. Otherwise, after 2003, the abolition of the Peace Clause established in the Uruguay Round Agreement on Agriculture could open the door to a new scenario of trade conflicts within the WTO's Difference Solution Body. This would be one of the worst scenarios for the CAP after the MTR and Enlargement.

In the Euro-Mediterranean process launched in Barcelona in 1995, there would be no point in separating rural welfare from the development goals of all of the Mediterranean partners on the northern and the southern shores. Rural development policies (an expression of non-trade concerns) constitute a means of achieving compatibility between trade liberalisation and the welfare of backward rural areas across the Mediterranean region. A 'living countryside' is increasingly recognised as being of interest to society as a whole, as was recently stated in the Salzburg Declaration (European Conference on Rural Development, 12-14 November 2003).

Rural development also becomes a strategic instrument, which should not be monopolised by the EU as an expression of a domestic goal. All rural territories in the Mediterranean region may have the right to rural development policies and there is no point in applying policies in one part of the region that would be welfare-reducing in other parts. The severe CAP imbalances, which continue to be discriminatory towards the Mediterranean regions (both within and outside the EU), justifies the adoption of a joint strategy for the whole region in order to induce the EU to continue to review its priorities.

Once it has been accepted that the CAP will move towards rural development goals, this framework should not exclude any country in the Mediterranean region, since the integration process could otherwise be inconsistent with the goal of the Barcelona Declaration – the creation of "an area of shared prosperity".

PART II

Sector and country analyses

4 The agricultural sectors in the respective Mediterranean economies

4.1 - The Mediterranean economies in 2002

In 2002 the world economy failed to recover the buoyancy it had had at the end of the 1990s. The annual growth rate was only 1.7%. Although, despite all expectations, the United States – the driving force in the world economy – achieved a GDP growth rate of 2.4% (after a rate of 0.3% in 2001), the other major economic groups lagged behind in 2002. Negative growth was registered in Japan. The euro zone registered barely 0.8% growth due to the fact that it did not increase its budget expenditure to support the economy, contrary to the situation in the US, where the fiscal boost was in fact 2.7 points, whereas it was only 0.4% in the euro zone (due to the stability pact binding the EU countries). This less than brilliant situation of the world economy naturally had an adverse effect on the Mediterranean countries. Those in the north of the Mediterranean registered positive, but low, growth rates (0.4% in Italy, 1.2% in France, 2% in Spain, but with inflation rates higher than the European average). The southern Mediterranean countries – starting from a lower economic level – achieved better performances but were in general still a long way from achieving GDP growth rates which would give their economies any significant boost, Turkey being the only exception.

In **Morocco**, the growth rate was 3.2% in 2002 (to be compared with the 5% foreseen in the five-year plan for the 2000-2004 period) thanks to a fairly good farm year and despite the poor performance in other sectors of the economy. With the exception of the production of electricity and water, no other sector achieved a rate of progression matching the rate recorded in agriculture (5.6%). In the services sector, both commercial and transport and communication activities certainly increased in appreciable proportions (by 4.4% and 4.6% respectively), but on the other hand the growth rate actually declined in other sectors such as the building and public works and oil refining sectors and, to an even greater extent, the tourist industry, with decreases of -0.3%, -0.8% and -7.5% respectively compared to 2001. The mining and processing industries registered growth rates of 3.2% (as the result of a 4.8% increase in phosphate production) and 3.3%. The agro-food industries tended more to pull the overall rate down, since they only increased by 1.9%. But the decline in growth rate was even more marked in the textile and leather industry (-0.7%). However, other sectors achieved very respectable growth rates: basic metallurgy (16.3%), precision equipment (9.4%), chemical and parachemical industries (5.4%), plastics and rubber (6%)...

These results were only possible because the resources obtained from the sale of Maroc-Télécom to Vivendi Universal were available and allowed gross fixed capital formation to progress by 6.8% in 2002, which meant that the investment rate improved slightly to 22.9% after the decline recorded the previously year. This

accumulation probably helped to alleviate unemployment to some extent, unemployment rate in urban areas having apparently decreased slightly to 20.1% in the fourth quarter of 2002 (compared to 20.3% one year previously).

As regards macroeconomic balances, the situation seems to be deteriorating in some respects and improving in others. Thus, for example, the cost-of-living index rose more steeply in 2002, an increase of 2.8% compared to barely 0.6% in 2001; this was due to the rise in food prices (+4.3%), since garment and housing prices only increased by 1.6% and 1.5% respectively.

The budget deficit, which had been contained within the very acceptable limit of 2.4% of GDP in 2001, deteriorated in 2002 to 4.6% of GDP – despite a slight increase in tax pressure (22% compared to 21.9%). This shortfall is to be explained primarily by the fact that the privatisation of the tobacco monopoly and several other enterprises of lesser importance, which was scheduled for 2002 and was to bring in over 12 billion dirhams (almost 3% of GDP) was not in fact carried out. However, since the enterprise in question was finally sold during the first six months of 2003, the situation was reversed again, creating a certain degree of financial ease, which in turn raised many hopes...

As regards external balances, the balance on current account, which showed less of a surplus than the previous year, was contained at a satisfactory level (3.8% of GDP), despite the decrease in revenue from the tourist industry and transfers of Moroccan residents abroad and from foreign investments. The fact remains, however, that the situation regarding the trade balance is still worrying, with a deficit of the order of 44 billion dirhams (virtually the same level for the past 3 years), and an import-export ratio which is barely over two-thirds, although it does seem to have been improving slightly since 2000 (gaining 1 point each year).

It is to be noted furthermore that the Casablanca stock exchange, where 2 new indexes – the MASI and the MADEX[17] – entered into operation on 1 January 2002, continued to accumulate shortfalls as it has been doing for the past 4 years: at the end of December 2002 the two indexes in question had registered drops of 16.5% and 24.4% respectively.

Despite this, operators on the main international financial markets seem to view Morocco favourably, since the country managed to procure a compulsory loan of € 400 million on the London market at the end of the first 6 months of 2003 without presenting any third party security and in good conditions in terms of cost and repayment schedule. This loan was admittedly intended exclusively for redeeming part of the costly external debt prior to maturity within the framework of the active debt management policy which has been implemented for several years. It must be added that this policy has had its effect, since the foreign debt stock in question

[17] Moroccan All Shares Index and Moroccan Most Active Shares Index.

decreased further in 2002 from 14.1 million dollars to 13.9 billion, and the corresponding indebtedness rate dropped from 42.6% to 34.7%.

In fact, in the 2003 report on the development indicators issued by the World Bank, Morocco, with a per capita income of approximately 1,192 US$ in 2001, still comes 128th in a list of 203 countries, behind all of its North African neighbours (1,650 US$ for Algeria, 2,070 US$ for Tunisia, 1,530 US$ for Egypt). According to the UNDP development indicator, Morocco's ranking has deteriorated in the 2003 report for the second year in succession, dropping from 123rd place to 126th place (on a list of 175 countries, and again it is behind all of its neighbours in the region...

In **Algeria**, the GDP growth rates in terms of volume – readjusted on the basis of new data concerning the previous years – have risen over the last 3 years from 2.2% in 2000 to 2.6% in 2001 and 4.1% in 2002. The growth rate in 2002 was achieved through good performance in the building and public works sector. It is to be noted that the non-hydrocarbon GDP growth rate was slightly higher (4.2%) than the overall growth rate, a fact which is an encouraging sign of general economic recovery in 2002.

All sectors achieved a positive growth rate except for agriculture (-1.3%) due to a year of unfavourable weather conditions. The reflation programme which was implemented in 2001 has thus been beneficial. It has benefited the building and public works sector in particular (+8.2%) and the services (+5.4%). The industrial sector progressed at a lower rate, from 2% in 2001 to 2.9% in 2002.

The increase in final consumption expenditure was low, the growth rate in that expenditure rising from 2.6% to 3%, whereas the growth rate in gross fixed capital formation rose sharply from 2.5% in 2001 to 7.6% in 2002, a development which is mainly to be explained by the reflation programme implemented in 2001 for the 2001-2004 period.

According to the National Statistics Office, inflation, which was negative in 2000 (-0.6%) and then rose again to 3.5% in 2001, dropped again in 2002 to 2.2% despite the increase in public expenditure due to the reflation programme. The CNES (National Economic and Social Council) estimates (2003), gives an even lower inflation rate of 1.4%. This downward trend in inflation is to be explained primarily by the low increase in agricultural commodity and food prices (the rise in prices dropping from 4.4% to 1.8%).

The foreign debt decreased again in 2002. It dropped from 33.5 billion US$ in 1996 to 22.5 billion at the end of 2001 and 20.5 billion at the end of 2002 (Cherfaoui and Azzouz, 2003). The debt service ratio apparently dropped from 22% in 2001 to 21% in 2002. It is no doubt due to this favourable situation that the country risk has

decreased according to the COFACE (French Foreign Trade Insurance Company) (from 5 to 4 on a scale of 7)[18].

At the social level, unemployment rate varied from 22% to 28%, depending on the estimate. According to the CNES, there were "signs of a downward trend in unemployment" in 2002. The CNES uses the figures supplied by the authorities, according to which 457,400 jobs have been created through the economic recovery plan, 49% of which are permanent.

The government is continuing to postpone the privatisation of enterprises in the public economic sector from one year to the next. The members of the boards of directors of the 28 state share capital management companies (SGPs), although already in office for almost a year, were not officially installed until the end of 2002 by the Prime Minister, who is the president of the National Council of State Shares (CNPE), the supreme body responsible for managing public economic enterprises. The Prime Minister pointed out that "the ultimate objective of opening the public sector is to perpetuate enterprises and bring rapid growth in activities and employment". The new Prime Minister appointed in May 2003 does not seem to be in any more of a hurry to privatise the public sector than his predecessor, due to strong opposition from the trade unions and the forthcoming presidential elections in 2004. This situation of abeyance with regard to privatisation is having disastrous effects on the functioning of public enterprises since the sole shareholder, the State, prohibits them from effecting renewal investments on the pretext that the evaluations that have already been made with a view to privatisation must not be distorted.

IMF figures indicate that the GDP growth rate in **Egypt** dropped from 5.1% in 2000 to 3.3% in 2001, and the estimates only anticipate 2% in 2002 despite an 11% increase in revenue from the tourist industry in 2002 compared to 2001. The trade balance continued to improve, the deficit decreasing from 11.5 billion US$ in 1999-2000 to 9.3 billion US$ in 2000-2001 and to 8 billion in 2002; this is to be explained in part by the depreciation of the national currency against the US dollar (3.5% compared to 2001 and 48.7% compared to 2000). This decrease in the trade balance deficit was accompanied by an increase in employment rate, which rose from 7.7% to 8.3% and 9% over the same 3-year period.

Foreign direct investments remained stable, amounting to 532 million US$ in 2002, which was a slight increase compared to 2001 (510 million).

Lebanon registered a GDP growth rate of 2% in 2002 and hopes to achieve a rate of 3% in 2003 and 2004. Its economy is suffering from a huge foreign debt (30 billion US$, i.e. 173% of GDP), whose interest payments alone amounted to 18% of GDP and claimed 80% of the State revenue in 2002. The country convened a

[18] The British risk consultancy firm "Control Risks Group", on other hand, classes Algeria in the "high risk" category (their ratings being "insignificant", "low", "medium", "elevated", and "high").

conference in Paris in November 2002 –at which 19 countries and international financial institutions took part – to find a solution to its debt problems. The participants promised 4.4 billion US$ in soft loans, 3.1 billion being earmarked for reducing the government debt and the remainder for economic development projects. In return, Lebanon undertook to privatise more rapidly and to improve both its tax revenue and the efficiency of its administration. If all of the promises made at the Paris conference are kept, Lebanon hopes to achieve a balanced budget by 2006 with a GDP growth rate of 3.5% the same year. By that date the government debt will nevertheless still amount to 104% of GDP.

In the foreign trade field, imports decreased by 11.6% in 2002 compared to 2001, whereas exports increased by 17.5%. The deficit in the trade balance consequently decreased by 15.7%.

In **Turkey**, despite the uncertainty due to the elections, the GDP growth rate achieved in 2002 was 6.7% (whereas it had been negative in 2001 at -6.1%) due to solid growth in the industrial sector, which achieved a growth rate of 9.4%. This economic performance is to be explained by the adoption in 2002 of the revised 2002-2004 economic programme "for strengthening the Turkish economy"; this programme aims to make the economy more shock-resistant and less vulnerable through measures to combat inflation, control public expenditure and contain the increase in government debt. And indeed by the end of 2002 the inflation rate was only 29.7%, which is the lowest rate registered in the last 20 years. The appreciation of the Turkish currency no doubt promoted imports to the disadvantage of exports, which resulted in a larger deficit in the trade balance in 2002 than was recorded in 2001.

In **Albania**, despite the difficulties due to political instability at the beginning of 2002, the continuing energy crisis, the problems connected with the lack of liquidity due to the run on the banks during the months of April and May 2002, and the early autumn floods, the country nevertheless managed to achieve an economic growth rate of 4.7% (compared to the forecast of 6% made at the beginning of the year). Despite the fact that the growth rates registered in each economic sector fell short of the forecasts, demonstrating the weakness of these sectors, the positive trend in the structural changes in GDP continued in 2002. Efficiency improved in the construction and transport industries, where the growth rate was 9.1% and 10.1% respectively, whereas the services registered a rate of 5.5%. Although industry was affected by the energy crisis, it nevertheless recorded an increase in growth rate, albeit low: 2%. Agriculture recorded a growth rate of only 2.21%. The growth rates in the tourist industry were low but nevertheless showed expansion in all social strata and in the less developed regions of the country. The increase in GDP in 2002 was also accompanied by an increase in GDP per capita (1,499 US$ in 2002 as against 1,332.6 US$ in 2001).

An inflation rate of 2.1% was measured at the end of the year, whereas the mean rate for the year as a whole was 5.4%. The budget deficit amounted to 6.2%, which was less than forecasted (8.5%).

Public investments decreased compared to 2001, whereas the trade deficit and the current accounts increased; income from emigrants showed an upward trend.

Exports increased by 8% in 2002 compared to the previous year. The increase in imports was accompanied by an – albeit modest – improvement of import structure to the advantage of machinery, plant and other industrial products.

In **Italy**, the economic growth rate was fairly low in 2002 for the second year in succession. A 3.1% increase in GDP was recorded compared to the previous year, whereas the progression at constant values was only 0.4%. This low GDP growth was due to a large extent to low total demand (where an increase of only 0.6% was recorded) and to some extent to the progression in supply from foreign countries, which accelerated total imports. The climate of uncertainty which haunts the world economy was reflected in the development of the components of total demand. In particular, exports registered a drop of 1% (compared to the increase, albeit limited, of 3.4% registered in 2001). Domestic demand increased by 0.7%, which was far below the progression recorded in 2001 (1.8%). Taken as a whole, investments where the only aggregate which increased compared to the previous year, contributing by 0.3% to the increase in total demand and playing a modest but positive role of cyclical stabilisation. In particular, there was a slowdown in the GFCF (gross fixed capital formation) growth rate, which amounted to 0.5% (after the 2.6% growth rate recorded in 2001). The most marked slowdowns were observed in the transport sector (+0.2% in 2002 compared to 7.3% in 2001) and in the building and public works sector (0.3% in 2002 compared to 3.2% in 2001). Positive variations were registered on the other hand in stocks and valuables: +2.6%.

In the economy as a whole, value added at market prices progressed by 3.2% (0.4% in real terms). The growth at current values was sustained, particularly in the services sector, which registered a performance of +4.3%, a result which alleviated the negative results of the agricultural sector (-0.2%) and the far from brilliant results obtained in industry (+0.5%). At constant values, decreases were registered throughout, in particular in the primary sector (-2.6%) and in the secondary sector (-0.8%). The only positive result, +1%, was registered in the services sector.

The marked slowdown in household consumption in 2002 (0.4% in real terms) reflected the inflation-related erosion of available income, on the one hand, and on the other hand more hesitant consumption as a result of the awareness of less financial wealth and the various events which contributed to prolonging a climate of uncertainty throughout the year. And last but not least, the perception of the real dynamic of consumer prices following the advent of the euro contributed to the slowdown in consumption.

With regard to foreign trade, a decline was observed in the trade balance surplus, which amounted to € 9.01 5 million; this was a marked decrease compared to the previous year, when a value of € 10.06 8 million was registered. In 2002, the decrease affected both imports (-2.4% compared to 2001) and exports (-2.7%). On the other hand, the reverse trend in imports and exports in the agro-food sector – where increases of 0.5% and 3.4% were recorded respectively – helped to limit the negative trade balance.

The subdued growth which characterised the Italian economy in 2002 did not have any adverse effects on the labour market. On the contrary, the number of workers increased by 1.1%, while the unemployment rate dropped further to 9%. This growth in employment concerned dependent employment in particular, due again to the services sector (+1.5%); there was also a slight increase in employment in industry (+0.7%), whereas there was a marked downward trend in the primary sector (-2.6%).

The inflation rate was 2.6% for the year 2002 as a whole; this was lower than the rate recorded the previous year due to the fact that, despite the slowdown in the economy, an increase was registered in fresh food prices and non-commercial services at the beginning of the year and in petroleum product prices in the autumn. Furthermore, prices in the services sector, particularly those less exposed to competition, remained buoyant throughout the year. In addition to all of these factors, there were the effects of the decline in productivity, which influenced labour per unit of output, preventing a downward trend in prices, at least in part.

In **France**, 2002 was marked by presidential and general elections. The arrival of a right-wing government did not have any significant effect on economic policy during its first year in power; major reforms were not introduced until 2003 (pension scheme, decentralisation, etc).

Income tax was reduced, however, in 2002, but this measure has not yet had time to have any real effect on consumption, and in the agricultural field the modulation of direct aids and Regional Farming Contracts (CTEs), emblematic measures of the previous government, were suspended; this decision was essentially political and was intended to satisfy the majority of the agricultural electorate. In fact, the CTEs were rapidly replaced by Sustainable Agriculture Contracts, whose principles differ little from those of the CTEs.

2002 was also the year of full transition to the euro, the fiduciary euro replacing the currencies of the countries of the EU in all current transactions on 1 January. The operation was not accompanied by any particular rises in prices thanks to the system of compulsory double price-labelling until 1 July and to the price freeze from 1 November 2001 to 1 March 2002 within the framework of the "Price Stabilisation Pact".

The general economic climate confirmed the slowdown in growth that had been registered in 2001. GDP grew by only 1.2% in 2002 as a whole, the main part of this growth having been achieved in the first 6 months.

Consumption, which had been the driving force for growth in 2001, progressed again in 2002 but at a lower rate than that of the previous 2 years: +1.2%. Household purchasing power grew by only 1.9% due to the sluggish labour market. Furthermore, the savings rate rose slightly, reflecting household uncertainty given the economic climate.

Exports picked up at the beginning of the year with the recovery in world demand, which affected mainly manufactured consumer goods but also agricultural commodities and agro-food products. The last 6 months of the year were less favourable, the effects of the appreciation of the euro, whose value in dollars rose from the 0.89 to 1.05 in the course of the year adding to the geopolitical uncertainty. All in all, the year ended with stability in exports in terms of value (despite a 1.5% increase in volume). Imports decreased, on the other hand, by a total of 2% despite the appreciable drop in import prices (-3.4%); the increase in import volume was very limited.

The driving forces of economic activity thus showed a lack of dynamism. Firms – whose margin rate is deteriorating – are effecting few investments (-2.9% on the annual average). The property market and services sector and, to a lesser extent the AFIs, are the only sectors where the situation was favourable. It is not surprising in these conditions that the employment situation deteriorated. A new downward trend was registered in the number of persons employed in industry; only 95,000 additional jobs were created in the French economy in 2002 (compared to 280,000 in 2001 and over 600,000 in 2000). The rise in unemployment which had begun to be felt in 2001 was thus confirmed in 2002, at a fairly moderate rate. Unemployment rate rose from 8.8% in December 2001 to 9.1% in December 2002. It must be noted that the effects of government policies for promoting employment are being felt less and less and that the new government is pursuing a more restrictive policy in this field.

And finally, 2002 was marked by the return of inflationary trends. The average rise in prices was 1.9% compared to 1.7% in 2001; this rise was due primarily to the rise in the price of services but also, to a lesser extent, to the rise in the prices of agricultural commodities and agro-food products.

The initial results for 2003 confirm the trend observed in 2002, with a very low growth rate (forecasts of less than 1% for the year as a whole) and a continuing upward trend in unemployment: the symbolic figure of 10% could be reached again by the end of the year. The price trend, on the other hand, although irregular, does not reflect any marked inflationary pressure.

In the course of the 4 previous years, the GDP growth rate in Spain dropped from 4% (and over) to 2.8% in 2001 and 2% in 2002. However, the latter rate is still above the average for the countries of the euro zone.

This subdued growth in GDP is to be explained by the low export rate (-0.3%) due to the sluggish European partner economies, whereas exports and internal demand are the main driving force for growth. Household expenditure also rose at a lower rate than in the previous years. These various trends were not offset by the increase in public expenditure (of almost 4%).

Inflation rose at a higher rate (4%) than in 2001 (3.6%), exceeding both government forecasts and the average inflation rate in the euro zone. This was due to several factors:

- the fact that it has been impossible to pursue an autonomous monetary policy since the adoption of the euro,
- the combined effects of the replacement of the peseta by the euro, the effect of unfavourable weather conditions on food prices, and the unpredictable changes in hydrocarbon prices,
- the absence (or lack) of structural reforms in several sectors (energy, communications, labour market, certain basic services),
- the inevitable convergence of European prices (prices in Spain are 20% lower than the European average).

Inflation is one of the major problems of the Spanish economy along with unemployment. The latter continued to rise in 2002 (11.45% in the last quarter of 2002 compared to 10.5% in the last quarter of 2001). Although the working population (16.4 million persons) is the largest that Spain has ever achieved, the labour market does not seem to be able to absorb the rise in demand for work, which inevitably brings an increase in unemployment.

4.2 - The place of agriculture in the respective economies

In the Mediterranean countries in the south of Europe, agriculture accounts for only a very small share of GDP and employment, although the sector is socially and politically important. But it absorbs the major part of the European budget. Penalising European consumers – who pay the subsidies – it is the main obstacle to trade liberalisation, particularly with regard to Mediterranean countries, which are subject to the agricultural exception imposed on them by the European Union. In the southern Mediterranean countries, agriculture plays a fundamental role in the economy as a whole, although this role is declining in the long-term. The agricultural sector distinguishes itself in these countries not so much in terms of contribution to total value added – which is still appreciable – as by its importance in terms of employment and as a curb on rural depopulation whenever it is

recognised in the policies of the various countries and those policies encourage investments in agriculture.

In **Morocco**, the 3.2% growth in total GDP was due more to agricultural production than to production in the other sectors, since the former grew by 5.6%, whereas the latter (non-agricultural GDP) only increased by 2.8%. The share of the gross agricultural product in total GDP was 14% in 2002 (13.7% in 2001). If we step back to observe the trend in that share since the beginning of the 1990s, we see that it fluctuated between a minimum of 11.4% (2000) and a maximum of 20.8% (1991). That share follows the upward and downward trends in agricultural production fairly closely, which means that the "historical trend" (observed in the experience of developed countries) of steady decline of the share of agriculture in GDP is not confirmed in Morocco. The average of the last 5 years is admittedly lower than the averages of the first 5 years of the 1990s (13.8% as against 15.7%). But it would nevertheless seem that the theory of the "decline" (of the share of agriculture in GDP) is only appearing in Morocco very slowly and over a very long period of more than 25 years.

This relative stability of the agricultural contribution in fact also reflects the stability of the other economic sectors, which indicates that here again there does not seem to be any significant development in the structures of the Moroccan economy, even over a long period. The respective shares of the secondary and tertiary sectors increased by 30.3% and 55.7% in 2002. These proportions are practically identical to those registered over the last 5 years and even to those observed over a much longer period.

The investment budget of the Ministry of Agriculture has for several years been contained within the limits of a budget in the order of 2 billion dirhams, i.e. roughly 1/10 of the investment volume of the general state budget. Amounting to barely 1.9 billion dirhams, this budget even decreased sharply in 2003 by 25% compared to the 2002 financial year.

In **Algeria**, agriculture accounted for 9.3% of GDP in 2002, thus ranking third amongst the various sectors of the economy, as it did in 2001 despite the decrease in that share (from 9.7% to 9.3%).

With regard to employment, no official figures have been published on the distribution of the working population over the major sectors of the economy. The contribution of the agricultural sector to total employment must have remained as significant in 2002 as it was in 2001, compared to that of the other economic sectors (approximately 22% of the total working population). According to the General Agricultural Census, the farm managers included in the survey declared 5.1 million persons as being employed in agriculture (1.1 million of whom were permanent and seasonal workers). In the course of 2002, the equivalent of 163,500 full-time jobs was created through State-subsidised schemes within the framework of the national agricultural development plan. Although this figure is lower than

the figure recorded the previous year (-4.3%), it is comparable to the 294,000 jobs created through the reflation scheme in the other sectors (50% of which are permanent jobs).

As regards foreign trade, a decrease in the share of agro-food imports in total imports was recorded in 2002 compared to 2001 (28.9% compared to 30.4%) and compared to the average for the period from 1998 to 2002 (32.6%), although imports increased in absolute value (from 3 billion US$ to 3.45 billion). The share of agro-food exports in total exports increased from 0.4% to 0.7% as a result of the increase in date and wine exports.

The share of agriculture in total value added in 2002 was the same as in 2001 (17%), after a share of 16.5% recorded in 2000. Agriculture remains an important sector, even though the industrial sector's contribution to total value added (34% in 2002) was twice that of the agricultural sector.

As regards employment, the contribution of Egyptian agriculture to total employment remained high at 28.5%, which was a slight increase compared to 2001 (28%) but approximately the same level as in 2000 (28.6%).

The share of agriculture in public investments was 12.9% in 2002, a decrease compared to 2001 (14.4%) and 2000 (13.5%). It was mainly the extension of irrigated acreage in desert areas and the construction and maintenance of infrastructures for agriculture (roads, feeder roads and storage of agricultural commodities) which accounted for that share.

After dropping sharply in 2000 (6% of total exports as against 11.1% in 1999), the share of agricultural commodities in exports rose again to 10% in 2001 and progressed to 11.2% in 2002. Conversely, the share of agricultural commodities in imports increased sharply from 10.7% of total imports in 1999 to 14.7% in 2000; it dropped again in 2001 (11.2%) and progressed in 2002 to 12.4%[19].

In **Lebanon**, the agricultural sector's contribution to GDP ranges from 8% to 12% depending on the year, behind the industrial sector, which contributes approximately 18%. A national accounts study on the year 1997, which was carried out with the assistance of the National Institute for Statistics and Economic Studies in France, shows that the agricultural sector accounts for 6.3% of GDP and lags behind all of the other sectors of the economy except for the water and energy and transport and communications sectors. Agriculture is much more important in the foreign trade field, since agricultural exports accounted for 17% of total exports in 2002 (19% in 2001), and agricultural imports accounted for 19% of total imports (17% in 2001). It is to be noted that the agricultural import-export ratio improved slightly from 13% in 2001 to 14% in 2002.

[19] The figures quoted in previous publications are higher. They have presumably been adjusted as the foreign trade statistics have been updated.

In **Turkey**, the agricultural sector was historically one of the sectors contributing most to GDP and employment – for many decades, but the industrial and services sectors have become pre-eminent as economic development has progressed. However, the agricultural sector is still relatively important, since it accounted for 13.4% of GDP in 2002 (after the services sector's contribution of 57.5% and the industrial sector's contribution of 29.1%) and 33.9% of employment (compared to 35.4% in 2001). This appreciable contribution to GDP is not reflected in the agricultural sector's share of public investments: only 4.3% in 2002 (as against 4.2% in 2001), which was a long way behind the share enjoyed by the other sectors (transport 27.3%, industry 19.6%, housing 13.9%, ...).

As regards foreign trade, agricultural exports decreased in 2002 compared to 2001 but still accounted for 11.1% of total exports (as against 13.9% in 2001). Conversely, agricultural imports increased from 7.4% to 7.8%, causing a slight deficit in the agricultural balance in 2002, which replaced the surplus registered in 2001.

In **Albania**, agriculture continued to contribute considerably to the creation of national wealth in 2002 (33.3% of GDP) will an annual growth rate of 2.1% (5% forecast) compared to 1.4% in 2001. It was structural factors as well as other factors such as the floods suffered in 2002 which influenced the downward trend in annual growth in the agricultural sector.

In **Greece**, agriculture accounted for 6.12% of GDP in 2002, a share which was approximately the same as the previous year (6.16%). The sector's contribution to employment was more significant: 16.9% of total employment, after the services sector (60.5%) and industry (22.6%).

The foreign trade figures for 2002 are not yet available, but in 2001 agricultural commodities and agro-food products (including fishery products) accounted for 11.1% of imports (compared to 10.8% in 2000) and 23.6% of exports (compared to 23.7% in 2000). Despite the performance in the export field, the agricultural balance showed a considerable deficit (-721 million US$ in 2001, an increase compared to 2000, when it amounted to 616 million US$).

In **Italy**, agriculture maintained its relative importance in the country's economy in 2002, accounting for 2.9% of total value added, despite negative growth in real terms (-2.6%). As regards employment, after employing 5.7% of the working population in 2001, the sector registered a 2.6% decrease in the number of employees in 2002, whereas the agricultural workforce had grown by 0.7% the previous year.

Contrary to the situation in 2001, the agricultural sector again played the role of curbing the inflationary process in 2002 in that the rise in output prices (+1.8%) was lower than the rise in the consumer price index (+2.6%).

The Italian agricultural sector plays a more important role in foreign trade than it does in terms of share of GDP or employment. Agricultural exports amounted to 6.9% of total export value, and imports accounted for 8.7% of total imports. The value of the aggregate exports of the agriculture, forestry and fisheries sectors increased by 3.4% in 2002 compared to 2001 (whereas the country's total exports dropped by 2.7%). Although growth in imports was subdued (+.5%), it nevertheless meant that the negative agro-food balance could be reduced; that balance amounted to - € 3.9419 billion, which was a variation of –10.8% compared to the balance in 2001.

In **France**, the AFIs' share in the national economy is continuing to decline (4.5% as against 6.6% in 1980); since 1999 the AFI value added has exceeded that of the agricultural sector, now accounting for 2.4% of GDP, as against the agricultural share of 2.1%.

It must be noted, however, that the decline in the importance of agriculture in the national economy is due primarily to the relative decrease in agricultural prices over the last 30 years. Calculated at constant prices, the share of agriculture in GDP in 2002 was very close to what it was in 1980! Since agricultural employment has been steadily declining over this period, labour productivity certainly increased to a greater extent than the average increase observed in the economy as a whole. It must be pointed out that the slight reverse in trend which we discussed in our annual report for 2001 was clearly confirmed in 2002. The working farm population did increase again this year, due essentially to the increase in the number of agricultural employees[20].

In Spain, the agricultural sector's contribution to total gross value added is still very low: 3.68% in 2000, 3.57% in 2001 and 3.4% in 2002. As regards employment, the sector accounted for just over 5% of the total working population in 2002 (as against 6% in 2001) with a workforce of 900,000. However, agriculture is a vital sector for trade balancing, since it accounted for 17.8% of total exports in 2002 (compared to 17.4% in 2001) and for 13% of imports (compared to 12.8% in 2001), the agricultural trade balance being positive by a wide margin. The labour productivity rate in the sector is only one-third of that of the total working population. The agro-food industry accounts for 1.2% of the total working population and for 9.1% of the workforce employed in the industrial sector.

[20] which has now been steadily increasing since 1999.

5 Trends in agricultural production, food production, consumption and trade

5.1 - Agricultural production

After the poor harvest recorded in 2001, crop production recovered slightly in 2002, a general phenomenon recorded throughout the Mediterranean region with the exception of Tunisia, Algeria and Italy, where there was a decrease in crop production due to unfavourable weather conditions.

The recovery in animal production was more widespread in all countries as regards both meat and milk.

There was a drop in the prices of several crop products in 2002. In the case of cereal crops, the drop in price was due to the abundant harvest in most countries, particularly in Europe, and to international competition. The decrease in the prices of animal products concerned mainly pigmeat and poultrymeat due to abundant supply and weak demand. Beef and veal and mutton and lamb prices recovered slightly.

In **France**, crop production increased by 5.9% in volume can and, despite a slight the decrease in animal production, the total volume of production grew by 3% (European average: +1.4%). The biggest increases concerned cereal crops, particularly wheat, for which the sharpest decrease had been registered in 2001. With the increase in area and yield, the wheat harvest amounted to 39 million tonnes, which was a 22% increase compared to the previous year. The same applies to barley. Maize production was the only exception (-2%); it had been spared the decrease in 2001 due to late sowing, which had been postponed after a period of bad weather. There was thus an increase of over 15% in total cereal crop production.

The results were also very favourable for oil crops (+5.7), sugar beet (+25.1), and fruit and vegetables (+7.6% and +3% respectively). And finally, potato production achieved record levels with the usual consequence of a sharp decrease in prices.

Weather conditions in the Mediterranean region were good until the autumn, and this was reflected in fruit production in particular. Wine growing, on the other hand, suffered seriously from extremely heavy rainfall and flooding in the south of the country, particularly in the Languedoc region during the month of September. National wine production showed a decrease of 6% compared to the figure for 2001, which was already far below the average (-9.1 in the Languedoc Roussillon region, the leading wine-growing region in France). The output of wines of registered designation of origin, however, was close to the level recorded the previous year.

Animal production was more stable. There was an upward trend in beef production due to the recovery in demand after 2001, which had still been marked by the BSE crisis, but also due to the measures introduced in 2001 (withdrawal, intervention buying). The situation of stock farmers also improved since their herds returned to pre-crisis levels and the costly practice of stockholding of live animals thus came to an end. The other side of the coin was the slowdown in the production of other meats (veal, mutton and lamb, poultry meat), which no longer benefited from the effect of recovery in consumption. Pig production increased again, however, causing a decrease in prices on that market, which was marked by very clear cyclical trends[21].

Milk production, which is regulated by quotas, remained naturally stable; the slight increase in 2002 (+0.9%) will, moreover, result in an appreciable decrease over the first few months of 2003 in order to comply with the quotas for the 2002-2003 farm year.

After the appreciable rise in prices observed in 2001, there was a marked decrease in crop product prices this year (-4.9% in basic price[22]). This decrease concerned cereal crops in particular: -10.7% in the case of wheat, after a similar increase in 2001. Market prices suffered the effects of both an abundant harvest and international competition (in particular from Russian and Ukrainian wheat, which were sold at up to 30% below the Chicago world rate).

There was also a considerable drop in the prices of oil crops (-11.9%), high-protein crops (-9.4), fruit and vegetables and potatoes. Wine was the only commodity where the average price rose due to the low harvest but also to recovery in international demand.

In the case of meat products, on the other hand, the variations seem to be explained by the development of the amount, particularly for beef: despite the increase in production, prices increased by 5.7% on average (although this was still well below the level recorded in 2000). Similarly, the decrease in the prices of other products (veal, sheepmeat, poultry meat) was mainly caused by the drop in demand. Pig prices plummeted in 2002 (-21% on an annual average); the decrease in poultry meat prices was less marked (-2.4), but worrying for the future, since it was due to a drop in exports. There was also a slight decrease in prices after 2 favourable years, and the average decrease in basic prices of animal products as a whole was -1.6%.

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21 Pigmeat and, in particular, poultrymeat production is suffering from the decrease in exports of these two products due in particular to increasingly stiff competition on European markets and in third countries.

22 We would point out that the basic price comprises the market price at which products are actually sold plus production subsidies, which are essentially direct per hectare aids or headage payments paid within the framework of the CAP and intended in principle to compensate for drops in prices (-any production levies, which mainly concern sugar production).

There was a considerable increase in the average price of consumer foodstuffs again this year (+2.6%), a trend which contributed to the rise in inflation rate despite the decrease in the prices of agricultural commodities including imported products. The Statistical Institute attributes this rise mainly to the increase in distributor margins, particularly in the large-scale food retail trade.

In **Italy**, the marked decreases in production were due to unfavourable weather conditions, particularly in the case of herbaceous and tree crops. The 2002 farm year will remain one of the worst in recent years.

The centre and north of the country were hit by floods and storms with hailstones and tornadoes, and there were long periods of drought in the south: in many cases natural disasters were declared in the regions worst hit.

The harvests of horticultural crops, grapes and olives were compromised by the drought that prevailed throughout the summer in the south of the country. Furthermore, horticultural products were particularly affected by plant health problems.

Despite these difficult weather conditions, slight recovery in animal husbandry (+1) in the pig and sheep and goat sectors helped to attenuate the bad results of the year. Furthermore, the beef sector seems to have definitively overcome the BSE crisis. So, from the health point of view, the year 2000 ended favourably except for the report of a number of cases of "blue tongue" in sheep flocks and chicken flu.

The trend in the main crops was marked by relative stagnation in arable crops (+0.3%); cereal crops were the only exception, with an 8.7% increase in production as a whole. This upward trend concerned all cereal crops but was more marked in the case of common wheat (+20.9%), durum wheat (+18.4), oats (+13.8%) and barley (+5.5). This positive dynamic parallelled the increase in acreage (+8.5% in the case of common wheat and +4.1% in the case of durum wheat) and an improvement in yield after a disastrous 2001.

Increases in production were also observed in the case of grain legumes (+1.7%), due also to the specific aids granted to producers by the EU.

There was a sharp drop in horticultural production (-3.6%), strawberries and tomatoes being the main crops concerned (-16.3% and -6.4% respectively).

Oil crop acreage decreased as did the acreage for sunflowers (-19.7%) and soy and beans (-35%); this was due to the considerable reduction of per hectare aids. Hybrid corn acreage increased, on the other hand, by 3.2%, and sugar beet production also increased (+25.6%).

The situation was different in the fodder crop sector, where the decrease in production (-4.7%) due to the drought was offset by a recovery in terms of prices

(+2.2%). The positive price trend also depends on the reduced supply of the product and on the more systematic use of fodder for cattle breeding than has been the case hitherto.

A decrease was also registered in fruit production on the whole (-2.8%) with more marked decreases in the case of peaches, pears, apples and plums, whereas cherries and apricots were the only products in the sector where an increase in production was recorded.

The low level of olive production was connected with biennial bearing, the long summer drought and the "olive fly" attacks, which caused an 11.5% decrease in olive production.

Grape output for wine-making decreased by 13.9% and wine output by 14.7%. There was a substantial growth in the quantity of services associated with crop and animal farm the (+1.9%), and the relevant cost of theoe services also rose (+2.1). The effect on production was an increase of 5.5, i.e. steady growth compared to the previous years.

The animal husbandry sector has overcome one of the most difficult health crises of the past few years. In 2002 meat production rose slightly (+1.6%) due mainly to growth in the pig farming sector (+2.5). Animal farm production achieved a current value of € 14.508 million, which was a 2.9% drop in value compared to 2001. This decrease is to be attributed to the drop in animal product prices (-3.9%) combined with the increase in the quantities produced. Taken as a whole, the recovery in the animal husbandry sector must be attributed to the recovery in the sheep and goat, white meat, rabbit and game, and poultrymeat sectors (+3.9%, +0.4 and +1.9 respectively), and to a decrease in beef and veal. And finally, cow's milk output increased by 0.8%, whereas there was a short decrease in honey output (-29.5) due to bad weather conditions during the flowering season.

The upward trend in basic prices of +1.7% was below the growth rate in consumer prices (+2.6%). This price level is to be explained in part by the trend in the granting of direct production aids, i.e. a sharp decrease in the case of oilseeds (-51%) and partial recovery in the value of cereal crops (+7.8%), fodder and olive oil. Analysis of individual products reveals a decrease in the price of cereal crops (particularly common wheat and durum wheat) and an increase in horticultural product prices. Sugar beet prices also went down (-22.1%).

The most marked price decrease in the animal product field concerned pigmeat (-15.9%) and poultrymeat (-9.1%), the decrease in the latter sector being attributable to an obvious crisis caused by overproduction.

In **Portugal,** there was an increase in cereal crop output on the whole compared to the previous year, but production level was nevertheless below the 5-year average in terms of acreage.

This increase in cereal crop output was due to the improvement of productivity, except in the case of durum wheat, where there was an increase in acreage of 41% (350,000 ha).

It was a very good farm year for sugar beet production - the first time that production exceeded Portugal's quota. A total of 644,000 tonnes was produced, which amounts to an increase of 129% compared to the previous year (281,000 tonnes) and an increase of 103% compared to the 5-year average (317,000 tonnes).

The trend in the production of the two main types of fruit grown - pears and apples - was different to the previous year: there was a decrease in pear output - 125,000 tonnes compared to 140,000 tonnes in 2001 - and an increase in apple output - 300 million tonnes compared to 260 million tonnes in 2001. The production level of both products, however, was still below the 5-year average.

Wine output amounted to 6.4 millions of hectolitres in 2002, which was a 15% drop compared to the previous farm year but was still above the 5-year average (+3). According to the experts, the quality of the 2002 vintage will suffer from the bad weather conditions during the flowering season and the rain during the wine harvest.

There was an upward trend in the output of the two main meat products, beef and veal and pigmeat, a 10.7% increase being recorded in beef and veal production compared to the previous year, with a total output of 106,600 tonnes. This is remarkable, since it shows that this type of meat is clearly recovering after the problems with BSE in the past few years. A 3.9% increase was recorded in pigmeat production, with a total output of 355,900 tonnes - again a clear recovery after the production crisis due to foot and mouth disease. This sector also benefited from the poultrymeat production crisis caused by *nitrofuranos*.

An annual output of 2.04 millions of litres was registered for cow's milk, which was an increase of 6% compared to 2001.

Goat's milk and sheep's milk output was lower in 2002 than in 2001: 30 million litres (-5%) and 97 million litres (-2%) respectively.

A total 148,000 tonnes of fish - fresh or refrigerated - were unloaded in the national ports in 2002, which ended the steady decline in the volume of fish unloaded which had begun in 1999. The increases were recorded mainly in the island ports - Azores and Madeira - where the growth rate was 10.9% and 13.7% respectively.

At the national level, capture quantities showed a variation of +1.5% and the number of transactions increased by 4.7% compared to the previous year.

In the last few years, agricultural production in **Greece** has been stagnant with a slight downward trend. In 2002, the production volumes of most commodities

decreased compared to 2001: fibre crop production fell sharply by 18.8%, oilcrops by 11.6%, roots and tubers by 6.6% and vegetables by 3.6%. The decline in the production of cereals, tree nuts and pulses was much less marked, ranging from 1.5% to 2.6% respectively. Fruit production was the only sector where an increase was recorded: 9.2% for citrus and 3.5% for other fruits.

With regard to the animal sector, meat production increased slightly in 2002 compared to the previous year, but was still lower than the output in 2000. Egg production volumes also increased in 2002 after a sharp decline in 2001, while milk production has remained stable over the last 2 years. However, milk production volumes (especially cow's milk) in Greece are seriously affected by the low quota allocated to the country by the EU, and since the latest CAP Reform (agreed in June 2003) provides for a 7% increase in the Greek quota, milk production may well increase over the next few years.

Although livestock production is not the main focus of agricultural practices in Greece, it plays a significant socio-economic role, since it is the most important source of income for the population living in the less-favoured mountainous and remote areas of the country. Almost 23% of the farmers and around 400,000 agricultural households work in the livestock sector. Traditionally, sheep and goat production has been of great importance in Greece.

The capture fisheries sector is undergoing serious restructuring in Greece, as is the case throughout Europe, through the reduction of fleets and the renewal of those which remainin order to meet new standards set by the EU. The European Fish Structural Fund 2000-2006 has provided for a series of measures to facilitate this transitional period. According to the Ministry of Agriculture, the situation regarding each major category of captured fish is as follows:

a) Bentho-pelagic fish. Most fish in this category have been overfished in the past, but the situation is not regarded as irreversible. The estimated current size of the population and the corresponding level of danger differs according to areas: the population in shallow closed gulfs (Patra, Thessalonika) is described as deteriorated due to excessive fishing. Hence, fish species such as Sparidae, Mullidae, Scorpaenidae, Serranidae (i.e. crawfish, sharpsnout bream, prawn, cod, etc.) are considered to be overfished. In deeper-sea gulfs (Saronikos, Korinthiakos) the situation is much better and the population seems to be stable. In open seas (northern and western Aegean), where the bulk of produce originates, depths are greater and captured fish are older, so the population is not considered to be endangered.

b) Small pelagic fish. 50-60% of total captured fish belong to this category, mainly sardines and anchovy. In recent years increased demand for anchovy has led to increased fishing, whereas the quantities f sardines captured have remained stable.

c) Large pelagic fish include mainly swordfish and red tuna. Both are considered to be overfished (especially red tuna), but since these two species are

not endemic efficient protection policies will have to be adopted throughout the Mediterranean, although Greece has already implemented quantity restrictions.

The produce of inshore fishing is basically not distributed through the existing fishing ports; it is distributed direct to local markets or even to consumers. Open sea fishery produce, on the other hand, is mainly distributed through fishing ports either directly or via coastal shipping. And finally, overseas fishery vessels operate mainly in West Africa, and almost all produce is shipped or flown to Greece.

Table 5.1 - SWOT Analysis of the captured fish sector in Greece

Strengths	**Weaknesses**
1. Prime source of income for households in remote areas 2. Significant downstream and upstream linkages and externalities (i.e. marine building, marine equipment, fish preservation and marketing firms) 3. Employment interest for younger people 4. Interest for re-orientation and training in order to diversify fishing practices 5. Consumers' preference in fresh domestic produce	1. Large number of small vessels in the inshore area 2. Age of the fleet 3. Ill equipped vessels with high operating costs 4. Intensive exploitation of the inshore areas 5. Large number of persons employed, usually older, with low education and no training 6. Imposition of quotas on fishing of large pelagic fish 7. Lack of cooperative structures 8. Lack of protected areas 9. Poor hygiene and safety standards in the vessels
Opportunities	**Threats**
1. Undergoing modernisation of fishing fleet 2. Restructuring of the fleet mainly by: – removing inshore vessels with a capacity of less than 2 KOX – renewing inshore vessels with a capacity of more than 2 KOX and 50-100 HP – the preferential renewal of purse seines, Mediterranean and international waters trawlers 3. Amelioration of age synthesis through the retire-ment of the elderly and the entry of younger persons 4. Incentives for occupational transition (i.e. tourism)	1. Lack of interest in modernising and renewing fleet 2. Reduction of fishing production

Source: Department of Fisheries, Ministry of Agriculture.

With regard to aquaculture, around 3,500 persons are employed directly in the sector and more than 7,500 indirectly (in aquaculture farms, processing industries, services, etc.). The sector's contribution to the national economy, however, is not confined solely to this aspect; aquaculture farms are generally located in less favoured, remote or even uninhabited areas where there is no other primary or secondary sector activity.

In 1998 the vast majority (98.5%) of fish farms were small-to-medium-sized employing 1 to 5 persons, and only 1.5% were firms or groups of companies employing more than 250 persons. Today, acquisitions and mergers are the prime characteristic of the sector. Only recently, in 2003, the two biggest companies (Sea Farm Ionian and Selonda) announced plans to combine sales and production efforts formally. It is thus anticipated that the aquaculture sector in Greece will become more concentrated with a more vertically organised market environment but more able to broaden profit margins and to perform more efficiently so as to retain its shares in the world market, which is becoming more competitive.

Fish production accounts for nearly 90% of all aquaculture and is conducted mainly in seawater (94%), only a minimal percentage of fish production taking place in freshwater (4%) and brackish water (2%). Seabass and seabream are by far the most important fish: the value of seabass production accounts for 54% of the total value of aquaculture production and together with seabream this percentage rises to 93%. The production of spawn in hatcheries and breeding stations increased by more than 30% in one single year (1999/2000). Aquaculture in Greece is a highly export-oriented sector: 70% of production is exported, mainly to Italy (85% of exports) as well as Spain, England, France and Germany.

Agricultural production in **Spain** in 2002 showed a slight downward trend. After a bad production year in 2001, an increase in cereals production was reported last year. The best results were observed in winter cereals, whereas the maize harvest marked a slight drop in 2002 after the outstanding results recorded the previous year.

In the case of winter cereals, it is worth pointing that, although acreage increased slightly, there was a considerable increase in output due to better weather conditions than in the previous farm year. In fact, about 6 million hectares were sown with winter cereals and over 16 million tonnes were harvested. In the case of spring cereals, there was a decrease in the acreage devoted to maize, rice and sorghum as well as in total output.

Good weather conditions during the planting season led to significant increases in acreage under most of the pulse crops grown in Spain.

The “substitution effect” observed between other continental crops and oilseeds led to considerable reduction in the acreage under crop in 2002, with a resulting decrease in production. A minor increase in acreage was reported for sugar beet, while the provisional data for the 2002 farm year showed a boost in production.

In the vegetable sector there was stagnation or a slight reduction of acreage for all crops last year. The main decreases where in cauliflowers and lettuces, while only the acreage under melons increased. Furthermore, harvest volumes were practically the same as in 2001, although tomatoes production increased again, which meant a second consecutive “record” year.

With regard to fruit, mixed production results were reported in 2002. The crops for which production presented higher increases were mandarines, peaches, plums and almonds. A considerable decrease in total output was registered, on the other hand, in the case of lemons, apples, pears, apricots, hazelnuts and table olives. Stable harvests with regard to 2001 were reported for oranges, cherries, bananas and table grapes.

Wine production recovered from the decrease which occurred in 2001, with an increase of around 12% both in the volume of grapes grown for industry and wine and in the volume of grape juice produced.

And in the last main crop sector, the olive oil sector, the alternate bearing pattern of the trees caused a substantial drop in the annual harvest. Less than 4 million tonnes of olives were harvested in 2002 (a decrease of almost 40%) with a total oil output of just over 800,000 tonnes. That output still exceeded the national Maximum Guaranteed Quantity (MGQ), which is 760,000 tonnes. In view of these results, the sector called again for an increase in the MGQ allocated to Spain, particularly since a new sector Common Market Organisation is expected for 2003.

Different patterns were observed in the animal husbandry sector. According to the number of animals slaughtered, it can be underlined that only the number of poultry and horses registered in Spanish abattoirs decreased, while moderate rises were reported for the remaining animal products. Otherwise, a moderate rise was reported in the volume of milk produced (+2.7%).

The general trend for farm gate prices was negative, while prices paid by farmers remained stable.

In the crop production sector, there were major drops in farm gate prices for potatoes and cereals, while only fodder crops and vegetables presented price rises. The other main agricultural activities showed moderate decreases. In fact the general crop product index showed a -3.7% decrease. Animal producers also received lower prices on average (-8.0%). There were very sharp decreases in poultry and pork prices, but beef prices recovered on the other hand once consumers started to get over the BSE scare. The upward trend in sheep and goat prices continued.

Despite an important drop in fuel prices (-6.8%), the average input price index rose by 0.8%. In fact, the other inputs became more expensive during 2002 and there were higher increases in phytosanitary inputs and seeds.

In **Morocco**, since rainfall was satisfactory although unevenly distributed over the year, there was an improvement in agricultural production in 2002 compared to the two previous years.

The due to the changes in weather which marked the farm year it was not possible to achieve the cereal acreage of the previous year; a decrease of 9.6% was recorded, with just over 4.9 million hectares. Approximately 190,000 hectares were lost in the case of the 3 main cereal crops, but with just over 4.6 million hectares these 3 crops covered the main part of the cereal acreage: 43% barley, 38% common wheat, and 19% durum wheat.

Strangely enough, despite the unfavourable conditions during the farm year, yields turned out to be better than expected (up 20% from the previous year). The largest increase was recorded for barley, where output increased from 11.5 to 16.7 million quintals (+44%), followed by common wheat with an output of 20.4 million quintals, the largest output (+2%), whereas durum wheat output stagnated at practically the same level as that of the previous year (10.3 million quintals).

Maize, the main spring cereal, covered 265,400 hectares, with an output of almost 2 million quintals - almost four times the output of the previous year – a result which had not been achieved since 1998. This was in fact due more to the improvement of yield (which increased from 2.1 to 7.5 quintals/ha between 2001 and 2002) than to increase in acreage (+4%).

Food legumes covered approximately 382,000 hectares in 2002, i.e. a 22% extension of acreage dedicated to this crop. Since yields also improved (from 5.1 to 6.2 quintals/ha on average a), this boosted output, which amounted to over 2.3 million quintals as against 1.6 million the previous year (+46%).

Due to the shortage of irrigation water, farmers' reluctance due to the decrease in profitability of this crop, competition from more competitive farms, and the lack of extension services, sugar beet production cannot get off the ground. Although the acreage of sugar beet harvested in 2002 exceeded the 2001 acreage by almost 13% (59,500 ha as against 52,800 ha), output progressed by only 5%, amounting to just under 3 million tonnes.

Cane sugar production, on the other hand, had to contend with different problems, particularly in the Gharb regioni, where it is mainly grown - a decrease in farm profitability, water shortage due to successive years of drought, increase in the cost of production factors and a producer's price freeze that has been applied for many years. It was probably the combination of all of these factors that resulted in a marked decrease in cane acreage, which amounted to just over 13,800 ha (-23%), and a 28% drop in output, whichdid not even make the 950,000 tonne mark.

Olive oil output on an acreage of 477,300 ha, which was a 3% increase compared to the previous year, dropped by 35% in 2002 from 698,700 tonnes to 455,250 tonnes.

Horticultural crops covered almost 226,000 ha, distributed as follows: potatoes 26%, onions 13%, tomatoes 7%, and the remaining products (54%) divided between

a vast number of diverse fruits and vegetables. According to DPV[23] data, seasonal crops covered 87% of horticultural acreage, early fruit and vegetables covered 11%, whereas crops intended for the agro-food industry accounted for only 2% of acreage.

Output was almost 5.3 million tonnes in 2002, a 13% increase compared to 2001. Potatoes alone accounted for one-fourth of output (1.3 million tonnes), but tomatoes, onions and water melons also accounted for appreciable output shares (15%, 12% and 17% respectively).

Almonds and citrus were still the predominant crops in fruit plantations (87,300 ha and 76,000 ha respectively). The vineyards cover 52,200 ha (roughly four-fifths table grapes and one-fifth wine grapes), whereas the date palm plantations located in the oases in the east and south of the country cover 33,000 ha. As regards production, the various fruit crops seem to have more or less progressed in 2002, with the exception of almond output, where a 15% decrease was registered.

In the animal production sector red meat output decreased from 290,000 tonnes in 2001 to 279,000 tonnes in 2002 (-4%), whereas white meat output amounted to 315,000 tonnes, which marked a 12.5% increase over the same period.

Milk production was estimated at 1.2 billion litres, an increase of 9% compared to 2001, and this output seems to cover 86% of the country's consumption needs. Consumption level is fairly low, however, amounting to just over 42 litres per capita in 2002.

Morocco holds an important place in world fish production, a performance which is in fact due largely to one species, the sardine (“sardina pilchardus”), of which Morocco is both the world's leading producer and exporter.

Until 1999 Morocco was bound by a Fisheries Agreement with the European Union, which allowed EU fleets to exploit the fish reserves in Moroccan waters. To judge by the data on capture trends, the non-renewal of that agreement seems to have appreciably stimulated Moroccan production. As can be seen in the figure below, total output amounted to 995,810 tonnes in the period from 2000 to 2002, as against an average of only 749,481 tonnes during the 3 previous years (1997-1999); this means an increase of approximately one-third.

Despite this fact, there was actually a 14% decrease in 2002 compared to the record output of 1.1 million tonnes achieved in 2001. Production comes essentially from coastal fishing, which accounts for 93%, deep-sea fishing contributing less than 6% to overall output. As regards product type, pelagic fish (sardines, anchovies,

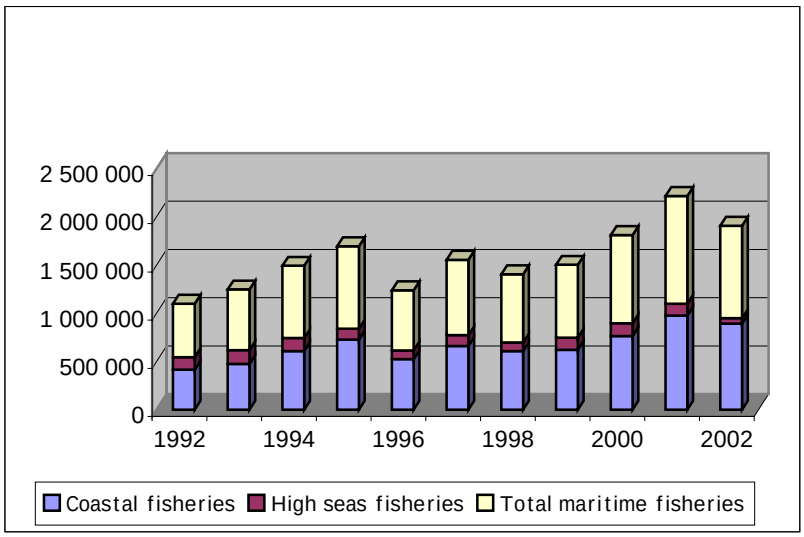
[23] It is to be noted that there is a difference between the figures announced by the Directorate for Planning and Economic Affairs (DPAE)and those issued by the Directorate for Crop Production (DPV) in the Moroccan Ministry of Agriculture.

mackerel, etc.) account for the largest share: sardine output alone amounted to almost 685,000 tonnes in 2002, accounting for 71% of the country's total fish production.

Captures are operated essentially in the Atlantic, and 97% of the catches are unloaded on the Atlantic coast, mainly in the ports of Layâyoune, Tan Tan and Agadir. The role of the Mediterranean coast of the country is actually marginal, with an output of some 28,000 tonnes.

As regards the destination of production, 41% of the quantities unloaded are used for the manufacturing of byproducts, particularly fish meal, which is subsequently integrated into animal feed. One-third of production is consumed fresh, 17% goes to canning factories for processing, and only 8% is frozen.

Figure 5.1 - Fish production in Morocco



In **Tunisia**, the influence of weather conditions compromised the production of many crops in 2002. A short decrease was registered in cereal crop output, which dropped from 1.3 million tonnes in 2001 to 0.5 million tonnes in 2002.

Fruit production decreased, particularly olive production, which dropped from 550,000 tonnes in 2001 to 150,000 tonnes in 2002.

Horticultural crops remained stable in 2002. Animal husbandry output was positive in both the meat and the milk sector.

In **Algeria**, agricultural commodities are not well covered by the statistical system. There is no observation technique, not even casual practice, except in the case of wheat yields. The local agricultural administrations each have their own method for evaluating output, which no doubt explains certain surprising figures such as those on the growth in yields and production from 2001 to 2002, which will be mentioned below in the case of certain farms.

The overall agricultural production index rose slightly in 2002 compared to 2001 (0.6%) despite the drop in the crop production index (-4.2%). The 5.9% growth in the animal products index offset the drop in crop production.

Several agricultural commodities suffered from the insufficient rainfall in the 2002 farm year; these were cereal crops (-27% compared to 2001) with a total output of 1.9 million tonnes, followed by industrial tomatoes (-10%), olives (-4%) and thus olive oil, whose output dropped by 14% in 2002 compared to the 2001 figure.

After virtually stagnating in the period from 2000 to 2001, horticultural production progressed by more than 14% between 2001 and 2002, increasing by almost 25% compared to the average for the 1991-2000 period. This increase was due almost exclusively to the growth in yields (a difference of +24% between the 1991-2000 average and the 2001-2002 period), the increase in acreage being negligible (+0.4%). The availability of water encourages farmers to use more artificial and natural fertilisers, and this probably explains the increase in yields.

Industrial tomato output continued its downward trend, with a decrease of 10% after the 4% decrease in 2001 and the 20% decrease in 2000, due to loss of producer interest in the crop because of marketing difficulties with the processing plants (mainly with regard to prices). The Algerian canning industry is claiming that the chronic poor sales of the concentrated tomatoes it produces are a disaster which is due to the "illicit" import of 18,000 tonnes of the commodity from Tunisia in 2002. (Benouaret, 2003).

Remarkable progress was made in potato production in 2002 (+38% compared to the previous year) due to the increasing yields.

Tree crop output increased by 7% compared to 2001, and an increase of 13% (almost 6000 ha) was registered in citrus acreage between 2001 and 2002. There was also a remarkable increase in output, which rose from 4.7 million quintals in 2001 to 5.2 million quintals in 2002 (+11%). And in the grape sector acreage increased by 5% with an output of 2 million tonnes.

In the animal products sector the modest 4% growth registered in red meat output in 2001 was followed by 12% growth in 2002 , but a 10% decrease was recorded in white meat output due probably to the reductionof the number of animal farmers following the increase in feed prices. Output in both the red meat and the white meat sector was virtually the same as the average for the 1991-2000 period, so no

progress is being made in animal foreign productivity. As regards milk production, although output dropped by 6% in 2002 compared to 2001, there was nevertheless a 34% increase compared to the average for the 1991-2000 period. This increase was due to the increase in dairy herds (+10%) as well as the growth in yield per cow achieved through better feeding.

In **Albania**, the government's priorities throughout 2002 were to promote greenhouse vegetable production, and to develop tree crops, wine growing and olive production. The new fruit tree plantations were expanded, although credit support is still far from covering small farmers' needs. Considerable investments were effected to build greenhouses, adding forty hectares of greenhouse construction in 2002. Acreage under wheat, maize, etc. of the decreased in 2002, whereas fodder crop and vegetable acreage increased by 5%.

There was a considerable increase in the yield of several staple crops compared to 2001: wheat yield amounted to 32.5 quintals/ha,which was an increase of 16.6%, and maize yield, at 39.2 quintals/ha, increased by 10%.

Food legumes covered approximately 382,000 ha in 2002 – a 22% increase in acreage. Since yields also improved (from 5.1 to 6.2 quintals/ha on average), output also increased, amounting to over 2.3 million quintals as against 1.6 million the previous year (+46%).

Sugar beet acreage stagnated at 1200 ha, as did output at 39,000 tonnes.

Olive oil output dropped by 20% compared to the previous year, amounting to 27,300 tonnes.

Vineyards covered 6,800 ha with an output of 83,100 tonnes.

There were signs of a new boost in animal production for commercial purposes and for processing in 2002; 20 new artificial insemination centres were set up, and feeding systems were improved.

Production growth was recorded in the animal husbandry sector related to the increase in yield per animal; yield per cow and increased by 16.5% from 1,732 kg/l milk/animal in 2001 to 2,018 l milk per animal in 2002. As regards milk, Albania covers practically 100% of its domestic needs, with a per capita consumption rate of 196 litres per year.

Lebanese agriculture consists of 70% crop production and 30% production. There was a slight decrease in crop production in 2002 and a constant level of animal production. Cereals output was 172,000 tonnes on an acreage of 52,000 hectares.

The country has 230 kilometres of shoreline with an estimated 6,500 fisherman depending on fishing for living, whereas a further 10,000 are considered

"amateurs". Most of the fishermen are members of various associations (25 cooperatives and 4 syndicates) distributed over the governorates of the country.

The fishing fleet has a total of 2,800 vessels, most of which are 10 meters long, but only 1,961 are considered full-timers. There are only 71 vessels over 10 meters in length.

The total volume of marine fish captured amounted to 7,395 tonnes.

The quantity of captured fish has progressed recently due to the introduction of modern techniques (lighting, longer nets, better engines for vessels and the use of mobile phones).

The fish culture industry has 100 stations mainly distributed in the Bekaa area along the Assi river. Trout is the main species produced, with an output of 620 tonnes and a total value of 1.9 million US$.

In **Turkey,** the production of cereals, food legumes, fruit and vegetables increased in 2002 compared to the previous year, with a 6.8% increase in cereals, a 2.5% increase in pulses, a 2.9% increase in vegetables, a 5.7% increase in fruit production and a 0.2 % increase in other field crops.

The Turkish livestock sector continued to decline, due primarily to the economic crisis. Most cattle in Turkey are dual-purpose animals and are produced throughout the country. However, cattle in eastern Turkey are generally grazed on public rangeland and tend to be raised for beef production, while cattle in western Turkey are fed more grain and mixed feeds and tend to be raised for milk production.

There are several reasons for the decline in numbers and/or yields. Although most domestic breeds are well-adapted to local conditions and are considered dual-purpose animals, the genetic base of domestic breeds cannot compete with the meat and milk yields of western breeds. Some sources estimate the cow/calf ratio at 65%, meat yields of Turkish cattle at around 150 kg, and average milk yields at around 2,000 million tonnes. These have been improving in recent years as livestock activities shift to western Turkey, but are still very low compared to developed countries. Beef and veal production has declined recently parallel to the decline in the number of animals slaughtered, although the yield per animal has improved slightly.

Most livestock are generally grazed on public lands on a first-come first-served basis and are fed little or no additional supplements. Supplemental fodder feeding is limited because government production policy favours field crop production. Since grazing is not regulated, public lands tend to be severely over-grazed, which further aggravates the problem.

Agricultural production in **Egypt** showed a slight upward trend in 2002.

With an output of 6.6 million tonnes on an acreage of 1.03 million hectares, wheat production increased by 6% compared to 2001. There was a 10% decrease in maize production, with an output of 5.3 million tonnes. The trend for peanuts, clover and sunflower production was downward in terms of both acreage and yields.

Tomato and potato production increased because due to the upward trend in acreage and yields.

The results recorded in the fruit sector were mixed last year. Higher increases were registered for oranges and bananas, whereas there was a slight decrease in mango and grape output. Stable harvests with regard to the 2001 farm year were reported for other fruits.

With regard to fish production, capture volume increased in 2002 with an output of 772,000 tonnes, and aquaculture production remained stable at 18,300 tonnes.

The general trend in farm gate prices was positive while prices paid by farmers presented a stable pattern.

In the crop production sector, there was a major increase in farm gate prices for wheat, cotton and rice, while tomato and maize prices remained stable. Animal producers received lower prices on average, as was the case with beef, for example. The positive trend in sheep prices continued, on the other hand.

5.2 The food industry

Growth continued in the agro-food industry in the Mediterranean region in 2002, with a growth rate higher than the rate recorded in the manufacturing industry in Italy, France, Albania and Spain. Development in Morocco and Portugal in 2002 was very limited, since the importance of the processing industry in terms of value added had diminished. Table 5.2 gives an overview of the situation of the AFIs in the various countries.

Quality has become a fundamental asset for the AFIs, which are required to implement quality control procedures and procedures for informing consumers, and most countries have already introduced the main measures set out in their policies.

Table 5.2 – Characteristics of the agro-food industries

Country (year)	AFI value added/ manufact. industry VA	Variation previous year % turnover	Number of jobs	Number of firms	Importance % of the 3 leading subsectors in terms of turnover
Spain (2001)	17.0%	4.7%	438,000	33,747	Meat, milk, animal feed = 40.5%
Egypt (2000)	19.0%	-13.6%	59,557	803	Sugar, oils and fats = 64%
Italy (2002)	10.6%	1.6%	440,000	36,900	Meat, milk, confectionery = 39%
France (2002)	11.0%	1.0%	603,000	3,205*	Meat, beverages, milk = 64%
Morocco (2001)	33.2%	-1.9%	89,781	1,721	
Portugal (2001)	12.7%	6.2%	102,714	8,485	Wine, milk, meat = 28.7%

* With more than 20 employees

Source: national statistics.

A growth rate of 1.3% was registered in AFI production in **France** in 2002,whereas the rate in the other industries remained stable. Growth was particularly marked in the sugar and beverage industries.

In particular, sugar production benefited from a very big sugar beet harvest and a high sugar content, contrary to the situation in 2001. Exports now account for over 60% of production, mainly to the European Union, but there was a marked increase in exports to third countries this year, a large share of which (over-quota sugar) were operated without subsidies, at the world rate, which clearly demonstrates this sector's competitive capacity.

Another expanding sector, the beverage sector, was also boosted by exports (wine, alcoholic beverages, but also mineral water and other beverages). The milk industry remained stable, and domestic consumption of fresh products continued to grow. Stagnation or a downward trend was registered in the other sectors, either as the result of weak domestic demand (bread and pastry, fruit and vegetables), or because of stagnating exports (meat products, particularly poultrymeat). And finally, a decrease in feed output was registered for the first time in 10 years, the consequence of the decline in off-land farming.

Thus, taken as a whole, the AFI sector registered moderate growth and a slight decline in prices, which did not adversely influence the results of the firms operating in the sector, but the climate was not as relaxed as it had been in previous years. It should be noted, however, that the number of wage and salary earners continued to grow, as it did in 2000 and 2001, although at a lower rate. In full-time equivalent, jobs in the AFIs account for 16.5% of total employment in industry in France.

The **Italian** food industry strengthened its position in 2002 as the second leading industry in the country after the metal and mechanical engineering sectors. Whereas the secondary sector as a whole was affected by a general decrease in production of 0.8%, the food industry registered a 1.6% increase in production, thus confirming its counter-cyclical qualities.

Turnover in the agro-food industry amounted to almost €98 billion in 2002, distributed over 36,900 enterprises, 82% of which are SMEs (small or medium-sized enterprises). The most important subsectors are the milk and cheese sector, and the confectionery, wine and meat sectors; these sectors alone account for 40% of total turnover.

The widest variations in output were recorded in the meat sector (beef +2.5% and pigmeat +0.7%), the milk and cheese sector (+1.5%), and the confectionery sector (+3.4%),but also the fish industry (+4%), vegetable oils and fats (+8%), fruit juices (+8%), non-alcoholic beverages (+5.5%) and frozen foods (+3.5%). The wine industry, on the other hand, registered a 2% drop in production.

The dynamic of food prices was even more marked than that of agriculture and the economy in general. There was an average increase of 1.2% in producer prices in the food industry, whereas the general price index for industrial products dropped by 0.2%.

The figures available on the agro-food industries in **Portugal** refer to 2001, since the data for 2002 have not yet been published.

Domestic AFI production is intended mainly for the domestic market, exports accounting for only 12% of total reduction. The Portuguese market has thus become very attractive for foreign AFIs, but there are other factors which also contributed to this growth on the Portuguese market: the opening of markets to international trade (globalisation), and greater market dynamism, the increase in the demand for products with higher value added, the change in lifestyles and consumer habits, consumer concerned about food safety, more dynamic businesses, etc.

However, the agro-food industry is one of the main wealth-creating and job-creating sectors of activity in the processing industries as a whole. Although the labour volume decreased by 3.2% in the period from 1996 to 2000, it accounts for 9.4% of total labour in the processing industry. In absolute figures, the number of jobs in the AFIs dropped from 120,527 in 1996 to 106,582 in 2000.

Total turnover increased by approximately 4% in the period from 1996 to 2000, from € 10.5 7 billion (1996) to € 10.5 billion (2000). The increase in turnover for the entire processing industry was 15% during the same period.

In terms of gross value added, the AFIs registered a decrease of 11.3% in the same period, whereas the processing industry as a whole registered an increase of 2.4%.

The average size of AFIs in Portugal tends to be that of the SME category, according to the criteria of number of employees and turnover: 90% of AFIs employ less than 19 workers, 8% employ between 20 and 99 workers, and just under 1.8% have over 100 employees.

The agro-food processing industry is a vital component of the **Greek** economy and the largest processing sub-sector, accounting for around 27% of the national industrial output. In 2000 there were 992 food and beverage firms in Greece, 11 tobacco firms and 368 textile firms accounting for 27.3% of the total number of manufactures and 30% of industrial employment (Greek National Statistical Service).

2002 was a relatively bad year for the Greek manufacturing industry, despite the sufficiently large rate of GDP growth. The total net profits of the aggregate manufacturing sector stagnated, while those of the processing sector (excluding electricity) fell by 12.5%. More than 30% of undertakings recorded a decrease in sales and 16% showed a deficit.

However, food firms managed to perform better than others. Out of the 426 firms with sales larger than € 3 million (medium-to-large businesses), 344 (81%) made a profit and only 82 registered losses.

Out of the 42 beverage enterprises, 39 were profitable. Total profits were down by 5% compared to 2001, amounting to € 115.1 million.

Overall, the food and beverage sector is a low-capital but highly input-intensive sector, input costs amounting to almost half of total costs. Despite the large number of operating firms, big companies are also present and usually dominate the market. These large firms rarely specialise in the production of just one product as do the smaller ones, but tend to integrate and differentiate. Vertical integration is attempted both downstream (i.e. own produce as in the meat, fish and wine sectors, or contracts with farms, as in the dairy, tomato and sugar sectors) and upstream (i.e. building solid supply chains to distribute the final product). Differentiation is achieved by producing different products (i.e. all dairy products as well as juices, etc.). Large companies dominate the dairy industry in particular (4 firms), the tomato industry (5-6), the confectionery industry (2), the bread products industry (2), the pasta industry (6-7), the brewing industry (2) and the beverage industry (2) (Baltas 2001).

A quarter of the sector's turnover is generated by the dairy sub-sector, followed by other foodstuffs (19.5%), fruit and vegetables (15.6%) and beverages (13.6%).

The **Spanish** agro-food industry ranks fifth in Europe in terms of turnover. It represents the leading sub-sector in the manufactures sector in Spain, accounting for around 17% of total production. According to the Spanish Food and Beverages Federation (FIAB), which affiliates the firms operating in the sector, the total value

of production amounted to € 58.561 million in 2002, which was equivalent to 0.1% growth in real terms. There was a 3% increase in output, so that the production curve in 2002 was practically flat.

On 1st January 2002,there were 33,747 agro-food enterprises in Spain – i.e. 1.6% more than in 2001 – employing a workforce of 438,000 people at the end of 2002, 0.87% more than the previous year. It accounts for 13.8% of the workforce of Spanish industry. With regard to trade in processed products, imports increased 4% and exports 2.4%. The export-import ratio, which indicates the self-sufficiency rate in the sector, dropped to 86.56%, breaking the positive trend of previous years.

The extremely important role played by foreign direct investments in the sector since Spain joined the EC in the mid 1980s continued in 2002:, reaching a level of € 387.5 million, i.e. 27.6% of the total foreign direct investments flowing into Spanish industry. Almost all of these monetary flows came from EU countries (>98%).

Two further remarks on certain features of the Spanish agro-food industries: first, less than 1% of companies have more than 200 employees, a pattern similar to that of the rest of the industrial sector in the country. Only 62 agro-food firms employ over 500 employees. Another important aspect to be highlighted is that the breakdown of the sector into its production sub-sectors shows that it is quite diversified. Only the meat and dairy sub-sectors account for over 10% of the total turnover, whereas the remaining sub-sectors account for lower percentages within the whole sector.

In 2002, the production of the agro-food industry in **Morocco** developed at a lower rate than the overall GDP growth rate. It must be added, however, that that rate conceals the disparities within the agro-food sector, for although the agro-food industries per se registered an increase of 2.7%, there was a slight drop in production in the beverage and tobacco sectors (-0.1%).

There were 1,726 firms registered in the AFI sector in 2001, i.e. one-fourth of the total number of industrial plants in the country. The number of firms, which had been steadily decreasing for several years, rose in 2001 for the first time since 1998, although the increase was less than 2%. Yet both production and value added decreased in the sector by 1.9% and 4.5% respectively. Since the processing industries as a whole registered growth (of 2.5% to 3%), the AFI contribution to the total value added of the processing industries dropped from 35.6% in 2000 to 33.2% in 2001.

It is more difficult to estimate the number of workers employed in the sector in view of the unexplained changes in the official statistics on the data for the year 2000 and from 2001 onwards. For whereas last year the statistics recorded 106,283 jobs in the AFI sector for 2000, this year the same official sources report 88,883 jobs for 2000 and 89,781 jobs for 2001.

The decrease in investments (of 5% to 9% depending on the source) is worrying, particularly at a time when all industrial enterprises are supposed to be stepping up their programmes to modernise their plants in order to improve their chances of meeting the challenges of trade liberalisation and the opening of the market to international competition. The fact remains that for the time being it would seem that certain exporting branches are at least still managing to "cope", since there was an increase of almost 10% in AFI exports, bringing the sector's export rate up to 16.4% compared to less than 15% during the last few years.

There were 5,138 enterprises registered in the AFI sector in **Tunisia** in 2002, and a total of 79,464 workers were employed in the sector. The most important subsectors in terms of enterprises and employment are the oils and fats industry and the dairy industry.

In **Albania**, the food industry has developed appreciably over the past two years. Considerable growth was recorded in the meat by-product sector (43%), the fishing and fish canning sector (87%), the fruit and vegetable processing sector (15%), butter production, etc. (41%).

The new "Ferlât" factory, a very modern plant, was installed in the milk production sector in 2003, and three new plants are going to be built in this chain within the next year – in Saranda, Shkodra and Mat. This will be financed by the Albanian government in collaboration with private investors. Olive oil investments in the 2001-2002 period were focused on the construction of 14 oil mills with very advanced technology distributed evenly throughout the olive-growing areas, and a new mill is to launch operations in Fier in 2003. A total of 2.5 million US$ has been invested in these oil mills.

The agro-food industry is the most important sector of **Lebanese** industry accounting for 20% of industrial enterprises and 26% of GDP. The Lebanese food sub-sector includes traditional products such as alcoholic products (wine and arrack), confectionery, canned fruit and vegetables, bakery products and olive oil.

New industrial plants have been registered in recent years in the potato crisp and snacks , dairy products, frozen food, and vegetables sectors, as well as feed mills and poultry breeding centres.

According to the General Directorate for Industry, 824 new factories were established in 2002 (against 599 in 2001), employing 6,721 workers (4,425 in 2001).

Food and beverages industries account for 25% of the number of enterprises and 30% of employees in the manufacturing industry as a whole.

Food and beverage products are regarded as an important sector in the economy; the industry accounts for 10% of total exports (102 million US$). However, there is

a continuing need to focus on standards and technical specifications, as in the fruit and vegetable sector, for example. The success of this sector depends largely on that of the agricultural sector, its primary source of raw materials. More mechanisation is needed in agricultural production, and the growing needs for financing thus need to be met. On the other hand, the need to achieve and maintain levels of quality that satisfy international standards can be an important catalyst for the agro-food business. For example, wine production contributes little to exports (5% of the total export value).

This is all the more important if Lebanon is to take advantage of the EU market opportunities which the EU Association Agreement has opened up for the country.

Turkey, with its rich agricultural base, has a highly developed food-processing industry. Its agro-food industry brings together producers of varying status and size. They range from small individual units, large and small cooperatives, to multinational organisations that run their own research and development activities. The small to moderately large specialist and craft businesses, which offer limited but high quality products, often using traditional methods and recipes, also play an important role.

An analysis of agro-food production by major enterprises has revealed that there was an upward trend in production during the period under review in the case of dairies, macaroni producers and tomato paste firms in 2002 compared to 2000. There was a downward trend in the production of red meat and poultrymeat, rice, sugar, and olive oil, the latter in connection with biennial bearing.

The availability of almost all kinds of fruit and vegetables and the favourable environmental conditions which resulted in ample quantities and very high quality together formed a strong basis for improvement in the Turkish vegetable and fruit canning industry. The vegetable and fruit processing plants are generally located in the Aegean and Marmara regions.

The Turkish fruit juice industry started production in the late 1960s. Recently, the fruit juice and concentrate industry has become one of the progressive agro-industrial sectors in Turkey. The fruit varieties that are processed into fruit juice are in particular: apples, apricots, peaches, oranges, tangerines, grapefruit, lemons, sour cherries, cornelian cherries, strawberries, pomegranates and grapes.

The development of the Turkish dairy industry began with the establishment of the Milk Industry Association which is a State-owned enterprise consisting of a number of milk processing plants. The private sector has meanwhile also started to invest in this sector and, with the privatisation of the State-owned enterprises, the dairy sector is now dominated by the private sector. Furthermore, there has been a considerable increase in the number of foreign direct investments in the milk processing sector.

Olive oil production has undergone remarkable development since the 1980s, and more and more olive oil plants have either started to produce virgin olive oil or increased their production capacity. With the industry's modern processing plants, Turkey is now able to supply more than 300,000 tonnes of olive oil per year.

As regards the frozen fruit and vegetables sector, a rapid increase in export revenue has been observed over the last 10 years. Although it is quite a new sector in Turkey, the frozen fruit and vegetable industry has undergone various remarkable changes and is one of the leading export-oriented food sectors (75%-80% of production is exported) . Today, there are around 30 firms in Turkey using modern freezing methods. The majority of the plants are located in the Marmara region in Turkey, close to the area where the raw materials are produced.

Turkey now has a total of approximately 700-750 wheat flour factories with capacities ranging from 50 to 300 tonnes/day. The total capacity of these companies is about 18 million tonnes/year.

The agro-food industries in **Egypt** accounted for around 16% of total production and 19% of the value added of the manufacturing sector in 2000 (last year available). With 301 units, agro-food enterprises employed a workforce of 59,557 people, i.e. 13.8% of the workforce of Egyptian industry. The main sub-sectors by value added are sugar, oil and fats and mill products, accounting for around 86% of the total value added of the agro-food industry.

It should be underlined that the importance of the private sector as opposed to the public sector in the food industry and in industry in general has been increasing as the result of privatisation and the diminishing role of the State in economic activities in general. Whereas the number of government units and public enterprises is decreasing, the number of private units increased from 696 to 773 during the period under review, i.e. by 11% in 2 years. While the value of production in public enterprises and government units has decreased, the output of private units increased by 39.9% over the same period.

5.3 - Food consumption

There were no major changes in food consumption in the Mediterranean countries in 2002. The decrease in domestic consumption in relative terms was confirmed, except in the case of Spain, where the share of food expenditure in household budgets increased. It must be noted that non-domestic catering is beginning to account for an appreciable share of food expenditure – around 6%-10%.

In **Italy**, there was a 4.6% decrease in domestic consumption in terms of quantities purchased. Average retail prices rose by 3.6%, a factor which reduced the effect on expenditure (-1.4%). The most important decreases in purchases concerned fruit and vegetables, fish, bread and its derivatives, wine, oils and fats and milk, whereas

the increases in terms of quantities concerned beverages, alcoholic beverages, pasta and rice.

The drop in consumption is to be attributed to several factors. The lifestyle of Italian households, which has changed considerably, combined with an increase in non-domestic consumption and a lighter diet has undoubtedly had a marked effect on domestic consumption; bad weather conditions caused a sharp rise in the price of fruit and vegetables and also affected oil and wine production. And finally, the acceleration of inflation and the introduction of the euro contributed further to the decrease in consumption.

In general, food expenditure is a significant part of the average **Greek** household expenditure. Around 16.5% of total consumption expenditure is on food products, 0.5% on drinks and beverages and 4.5% on alcoholic beverages and tobacco. According to Baltas (2001), the share of food expenditure in the expenditure of Greek households will level off over the next few years, remaining just over 15%. However, certain changes in consumption patterns will be noticeable, such as:

- considerable growth in dairy consumption
- a minor increase in meat consumption
- a stagnant trend for bread and cereals (after years of slow decline)
- a stagnant trend for fisheries, sugar and coffee
- a minor decrease in fruit and vegetable and oil consumption.

Fruit and vegetables account for the highest share of all food products, but meat, dairy products and fish account for a little less than 50% of total food expenditure. Per capita consumption of many foodstuffs is quite high in Greece: meat consumption is around 88 kg/year (25 kg pigmeat, 23 kg beef), olive oil consumption is 18 litres/year and wine consumption is 30 litres.

Total food expenditure in **Spain** amounted to more than € 66 billion in 2002, a 3% increase measured at constant prices (7.8% at current prices), while in quantities consumed the rise was lower, only 1.9%. Total food expenditure is a combination of expenditure on household catering, the catering and hotel industry, and institutional catering; when broken down the figures are as follows: household catering approx. 72%, restaurants and hotels 24%, and institutional catering only 1.5%. Domestic catering expenditure has increased more than expenditure on non-domestic catering.

In **Morocco**, food consumption remains by far the most important consumption item, accounting for 43.1% of the budget. At the national level, the household food budget is devoted mainly to the following items in descending order of importance: red and white meats (24.5%), cereal crops and cereal products (19.4%), fresh vegetables (9.4%), fats (7.2%), and milk, dairy products and eggs (6.7%). Fruit, dried and canned beans, fish, sugar, and tea/coffee/aromatic plants account for

4.7%, 3.2%, 2.6%, 3.4%, and 4% respectively. Non-domestic catering, a fairly new factor, seems to account for a significant share of the budget, reaching a level of 5.5%.

With a per capita cereals consumption rate of almost 240 kg a year, Morocco is one of the leading cereals consumers in the southern Mediterranean region. But cereals actually seem to be an exception in this case, since Morocco is the lowest consumer of practically all other products. This applies in particular to vegetables (a per capita consumption of 106 kg compared to consumption ranging from 100 to 200 kg in the southern Mediterranean region as a whole). Fruit (63 kg compared to 60-95 kg in the "South"), meat (19 kg compared to 15-70 kg), and milk (33 kg compared to 15-150 kg), or oils and fats (13 kg compared to 10-25 kg). These figures to some extent confirm the deficits already highlighted by consumption surveys in Morocco, particularly as regards meat (both red and white), dairy products, seafood products, and fruit, where consumption levels are still too low.

Box 5.1 - Survey on household consumption in Algeria

Although very incomplete, the initial results of the survey on household consumption carried out in Algeria by the National Statistics Office in 2000 have at last been published. They show that the share of the average household budget devoted to food decreased from 52.5% in 1988 to 44.6% in 2000 and that the respective shares of all the other budget items (except education and leisure activities) increased; this was particularly the case with the housing, "various products", and "transport and communications items".

The results showed further that consumption disparities have decrease : the consumption share of the last decile decreased by 4% and all of the other deciles increased, but particularly the last two, which gained approximately 1.3%.

There is still a lack of food consumption data in **Lebanon**, which is a net importer of food products. The gap between domestic food production and consumption requirements is covered mainly by imports.

The food deficit is manifested mainly in cereals, although the share of milk and meat production in total requirements is still low. Red meats cover only 15% of domestic consumption, whereas milk and dairy products provide 62% of total domestic consumption, against 56% in 2000.

Fruit, vegetable and poultry production exceeded local market consumption and was thus able to contribute substantially to increasing exports.

In **Turkey**, there was surplus production of all foods in the 2000-2002 period.

Table 5.3 - Production and consumption of certain foods in Turkey (1000 tonnes)

	PRODUCTION			CONSUMPTION		
	2000	**2001**	**2002**	**2000**	**2001**	**2002**
Wheat	18,900	17,100	18,450	17,891	17,933	18,136
Legumes	1,311	1,518	1,556	1,241	1,320	1,306
Citrus	2,222	2,272	2,304	1,732	1,812	1,840
Vegetables	16,552	15,916	16,385	16,478	15,818	16,280
Meat	1,589	1,510	1,472	1,588	1,499	1,459
Milk	9,350	9,500	9,600	9,350	9,500	9,600
Eggs	635	600	570	631	582	550

Source: State Planning Organisation, Developments in the Economic and Social Sectors, Ankara, 2002.

There has been a negative change in the food consumption pattern in **Egypt**, as is reflected in the average individual share of foodstuffs. The average individual share of starches and sugar products (cereals, sugar and potatoes) has increased over the last 2 years. At the same time, the average individual share of meat, fish, milk, and vegetables, the main source of protein and energy for the individual, has apparently declined. Consumption per capita in 2001 was as follows: cereals 273.2 kg, potatoes 21.6 kg, sugar 25.9 kg, red meat 13.8 kg, and milk 58.2 kg.

Furthermore, we must take account of the findings of various studies, since they reveal changes amongst regions and rural and urban areas concerning the food consumption pattern. In this context, the inhabitants of Lower Egypt account for a greater share of food consumption than those of Upper Egypt (the south). Also, the urban population's average share is greater than that of the rural population, and the male individual share is greater than that the female individual share.

5.4 – Foreign trade

In the foreign trade field only 3 countries – France, Spain and Turkey – have a positive trade balance which confirmed growth in competitive capacity in 2002. Italy, Greece, Morocco, Algeria and Lebanon – several of the countries with a trade deficit in agro-food products – improved their trade balance, whereas Portugal and Albania, on the other hand, registered an increase in their deficit.

In **France**, after the deterioration observed in 2001, the situation improved considerably in 2002 with a surplus in the agro-food trade balance of €8.4 billion, i.e. a 14% increase. Exports increased by 4.1%, whereas imports, although on the increase, rose by only 1.7%.

It must be pointed out that there was a sharp increase in bulk commodity exports this year (+6.8%).

Performance per product category remained the same on the whole, with considerable results in the beverages industry (a 5.6% increase). The drop in world demand and the development of competition in the wine sector, on the other hand, are causing concern for the future.

The recovery in the meat sector must also be pointed out, particularly as regards beef (sales increased this year by 37% after a particularly mediocre 2001). There was a decrease in pigmeat exports, but much smaller than the decrease in imports. The situation in the poultry sector, on the other hand, is particularly worrying; the trade balance of this major exporting sector decreased by 15% from € 939 million to € 768 million. There was a slight increase in the milk sector, whereas the cereal crop trade balance, although still showing a marked surplus (+€ 3.3 billion) decreased by 3.3% due mainly to competition from Ukrainian and Russian wheat, which was selling on the Italian and Spanish markets at a much lower price than the world rate which serves as a reference for protection at the EU frontiers.

In terms of geographic zones it must be noted that 2002 was a year of growth in exports to third countries. The largest trade surpluses were still achieved with the UK and Germany, whereas the highest growth rate concerned the United States, although this progression is of course fragile due to the possible tensions within the World Trade Organisation and political differences at the end of 2002.

In **Italy**, the international market is an important outlet for the products of the food sector and the basis for the quantitative expansion of production. In 2002, the value of agricultural and food product exports was estimated at € 18.118 million, i.e. an increase of 3.4% compared to the previous year. The situation regarding imports seems to be more static, on the other hand, since a variation of only 0.5% was recorded; however, this meant nevertheless that the agro-food trade balance deficit could be reduced: a deficit of –3.9419 billion was recorded with a variation of –10.8% compared to 2001. It was agricultural commodities which generated the effect on the trade balance, which, although better than it was, is still negative. The balance of trade in these products showed a deficit of €4.4343 billion with a variation of + 1.6% compared to the previous year. Trade in foodstuffs offset the situation with a positive balance of €492.4 million.

There is no doubt that the favourable situation of foreign trade in foodstuffs was due to the continued success of two strategic markets such as the US and Germany.

The fresh fruit sector, with the citrus sector, is the most important subsector in the export field; the processed foodstuffs exported were rice, milled products, confectionery and bakery products, processed vegetables, beverages and wine.

The items which weigh negatively on the trade balance in terms of both value and volume include trade in live animals, particularly beef cattle. A further negative balance was registered in the case of fresh seafood products, cereals and tobacco.

Portugal's foreign trade registered a trade deficit in agricultural commodities, which is a major problem not only for the sector but also for the national economy as a whole.

In the period from 2000 to 2002, agro-food products accounted for 18% of the Portuguese trade deficit (17% in 1998-1999). More detailed analysis reveals that the trend was downward for most products. Fishery products play an important role in international trade, with a value of approximately €1 billion.

The value of agricultural imports in **Greece** amounted to around 11% of total goods imports in 2001, whereas agricultural exports accounted for 23.6% of total exports.

Agricultural exports fell by 6.3% in 2001, whereas imports fell by a mere 1.8%, thereby increasing the trade deficit by 105 million US$ or 17%. External trade performance in the food sector has been somewhat better, on the other hand: although both imports and exports have remained relatively stable (decreasing by 0.7% and increasing by 0.4% respectively), the food trade deficit has been slightly reduced. Although figures for 2002 are not readily available, it can be safely estimated that, given the appreciation of the Euro on the world market, Greek agricultural exports must have been affected. A significant proportion of Greek agricultural exports is directed towards (non-EU) Eastern European countries (ex-Soviet Union countries, Balkan countries). The subsequent price increase of Greek products on these generally low-income markets has thus been a major blow for competitiveness and relevant market shares.

Fruit and vegetables are the major Greek commodity exports. The value of fruit and vegetable exports exceeded 1 billion US$ and accounted for 43% of total agricultural exports and 63% of all food exports. Cotton is another major commodity, with a trade surplus of around 230 million US$, since imports are minimal. Tobacco is also an important crop for the Greek agricultural economy with a positive trade balance, although the quantities exported in 2001 plunged to 97,000 tonnes. Finally, the olive oil trade also showed a considerable surplus (of around 215 million US$), but it is a commodity that is oriented more to the domestic market rather than to exports. The volume of imports was thus negligible.

A trade deficit was registered for all of the remaining agricultural products (with the exception of rice), and primarily for animal products: meat imports in 2001 exceeded 600 000 tonnes resulting in a trade deficit of around 600 million US$, while the trade balance in dairy products showed a deficit of a further 330 million $. The deficit in the meat trade accounted for more than 80% of the total trade deficit, showing that when animal products are excluded Greece's foreign trade in agricultural products is positive.

The agro-food trade in **Spain** shows higher values for exports than for imports – in fact the export-import ratio in the agro-food trade balance was over 100%. On the other hand, the Spanish economy taken as a whole suffered from higher import

than export values, with an import-export ratio of about 75%. Another relevant aspect is that agro-food exports amount to around 17% of total exports, while agro-food imports account for about 13% of total imports.

Focusing on agricultural trade, both exports and imports grew at a lower rate in 2002 than in the previous year due to the stagnation of the economy. Exports thus increased by 3.5%, while imports rose by 2.1%. Total agro-food exports accounted for € 25.4844 billion, while imports accounted for € 24.5486 billion. A more detailed analysis reveals several facts that must be borne in mind:

a) The breakdown of exports shows that they were mainly concentrated in the food subsectors, while raw materials – timber, leather and textile fibres – accounted for a lower share; on the other hand, raw materials accounted for a higher percentage of imports in 2002: 18.7% as against 13.5% of exports.
b) With regard to the weight of animal, crop and forestry products in trade, there are also very marked differences between exports and imports. In fact, crop products and their preparations accounted for almost 60% of exports but only 43% of imports. On the other hand, animal products – including fish products – and their preparations accounted for lower shares of exports than of imports: 23% and 34 % respectively. And finally, the share of forestry products in imports was almost twice their share in exports: 11% versus 6%.
c) There is a high degree of specialisation within exports and imports: fresh fruits and vegetables account for one third of Spanish exports, followed by beverages, while on the import side fish and crustaceans alone account for around 17% of total imports. Cereals imports – used mainly as raw materials for feeding stuffs – are quite significant.

It should be pointed out that EU countries are the main destinations of Spanish exports. As new trade agreements are due to be signed – including an agreement on measures to strengthen the Euro-Mediterranean partnership with the progressive phasing-out of agricultural exceptions – Spanish farmers and exporting firms fear that their accession preferences will be eroded.

In **Morocco**, the trade deficit in agro-food products, including seafood products, is still as large as it has been in the past, amounting to €386 million in 2002.

The import-export ratio was 86%, 87% of which was registered for agricultural products (including seafood products) and 82% for foodstuffs. Agro-food exports accounted for 23% of total exports, whereas agro-food imports remained stable at 17%.

Exports exclusive of seafood products increased in value by almost 18%, whereas imports increased by almost 7%. Performance in traditional export products such as citrus and fresh tomatoes improved considerably in 2002, yielding an increase in earnings of 30% and 20% more than the previous year. These good results were the

result of better prices obtained on foreign markets but also of larger volumes exported (+10% in the case of both citrus and tomatoes). There was a 13% decrease in canned vegetable exports, on the other hand. As regards imports, oilseeds and crude vegetable oils were the two commodities which contributed most to the rise in the cost of imports: by increasing by 47% they were responsible for over half of the increase in total agricultural imports in 2002. However, there was also an appreciable increase in sugar and milk product imports (between 10% and 11%).

Moreover, this state of affairs confirms the country's high dependence on staples, a sector were local production does not satisfy domestic demand. The main staples concerned are cereals – chiefly common wheat and, to a lesser extent, durum wheat and maize –, seeds and vegetable oils, sugar and dairy products, all of which together account for 62% of imports. As regards exports, these now seemed to be dominated by seafood products, which alone account for 54%.

The share of agricultural and food imports in **Algeria's** total imports dropped from 30.4% in 2001 to 28.2% in 2002. However, these imports increased by 20.4% in absolute terms and expressed in US$. As regards the value of imports, the main commodities are cereals for human consumption (28.2%), milk and dairy products (14.1%), feed (12.1%), other foodstuffs (9.2%), oils and fats (8%) and sugar (7.8%).

The imports where the highest increase in value was recorded were: the other foodstuffs (+68%), cereals for human consumption (+32.6%), cereals for feed (+19.5%), and oils and fats (+17.6%).

A decrease was recorded in the value of certain imports: grain-mill products (-42.3%), fresh vegetables and dried beans (-15.9%), sugar and sugar confectionery (-10%), and milk (-8%). The increase in the overall value of imports was due mainly to the increase in quantities imported, since the world price trend was very favourable for Algeria.

Algeria's imports came essentially from the EU (46%), the NAFTA (North American Free Trade Agreement) (23%), and the countries of the Cairns Group (13%). Approximately the same volume of bulk cereals is imported from the EU and the NAFTA countries (40% and 42% respectively). The EU is by far the main source of processed cereals imports (96%), sugar (86%), live animals (85%), and powdered milk (59%). With regard to agricultural exports, the main clients are France (21.9%), Spain (14.6%), Italy (14.3%), and Jordan (11.9%).

Agricultural and food exports amounted to a value of 73.5 million US$, which was an increase of 8.5% compared to 2001. They covered only 2.3% of agricultural and food imports (as against 2.6% in 2001). Algeria's main agricultural and agro-food exports are hides and leathers (31% of exports in value), fresh and dried fruit (mainly dates) (22.5%), and oils and fats (12%).

Albania has a structural deficit in the agro-food trade balance, with an import-export ratio of 9.4%. The 2002 trade gap widened further in 2002 due to a 37% decrease in exports and a 17% increase in imports compared to the previous year. Foodstuffs accounted for a large share of imports: 62% of total agro-food imports. In the export field, agricultural products accounted for 60% of the total. Albania's imports come essentially from the EU, which accounts for 65% of the agro-food total, the main countries being Greece, Italy and Germany. The EU is still the main client for Albanian exports, accounting for 70% of total agro-food exports.

Growth in both the agricultural and the industrial sector in **Lebanon** brought a net improvement in trade in 2002 compared to 2001. Yet these sectors are still operating far below optimal capacity. In fact, exports increased by 10.8% and 18.0% in the two sectors respectively.

According to the statistics of the Higher Customs Council, total agro-food exports amounted to 175 million US$. The share of food and agricultural products in total exports was 16.7% in 2002 as against 18.9% in 2001. The largest export component of this category was the prepared foods, beverages and tobacco group (58.4%) followed by crop products (32.6%), live animals and animal products (4.7%) and oils and fats (4.2%).

The geographic distribution of agro-food exports shows that Lebanon's main trading partners are Saudi Arabia, the United Arab Emirates, and Kuwait. In fact, most of the fruit and vegetable industry's products are exported to Saudi Arabia (16%), the US and the UK.

Agro-food imports, on the other hand, amounted to 1.237 billion US$ in 2002 compared with 1.268 billion US$ the previous year. The main countries of origin are Brazil, Egypt, Iran, the Netherlands and the US.

Cereals are imported from the US (41% of total cereals), Australia (11%) and Germany (8%).

Most of the live animals and animal products are imported from France, Germany and Turkey. Lebanon is self-sufficient in poultry products. Egg exports amounted to 3,200 tonnes at a value of 1 million US$. The market for these products is mainly Kuwait (65%), Bahrain (18%), and Qatar (6%).

The total volume of imported fish (including crustaceans and molluscs) in 2002 amounted to 10,412 tonnes at a value of 30 million US$, as against a total of 12,871 tonnes (at a value of 35 million US$) in 2001. Turkey is the main country of origin (32% of total imports), followed by the UK (6%) and Kuwait (6%).

The favourable surplus trend in **Turkey** continued in the period under review in the crop sector; imports decreased in the 2000-2002 period. Livestock exports did not cover livestock imports in 2000, but the import-export ratio has improved over

the last 2 years. The export-import ratio in the fish sector was positive in the period under review. The breakdown of crop exports by major commodities reveals a decrease in barley, chickpea, potato and onion exports and a marked increase in lentil, citrus, and tomato exports for the same period.

The breakdown of Turkey's trading partners shows that OECD countries – and particularly EU countries – have a higher share in exports. The EU and US, which form Turkey's main destination markets, have a share of almost 69% of the total exports. The share of the EU in Turkey's total exports is around 50%. Exports to the Middle East and other American countries have decreased by 9.8% and 15.2 % respectively. The situation is similar as regard to the breakdown of imports: the EU is the principal region of origin, accounting for 45% of Turkey's total imports.

Throughout the period under review (1999-2002), major changes came about in agricultural foreign trade in **Egypt**. Agricultural exports declined drastically throughout the first 2 years, then increased unexpectedly throughout 2001-2002. Similarly, there was a tremendous increase in agricultural imports in the 2001-2002 period. Thus, the agricultural trade balance, remaining constantly negative, followed the same trend, rising during the first 2 years, then decreasing during the last 2 years and ending up at -969 million US$ with an import-export ratio of 35% in 2002. These changes can be explained in the light of the following factors:

1. The trend towards importing in 1999-2000. The effects of the Asian Crisis, which had resulted in the drastic collapse of the currencies of those countries, were felt during those 2 years and thus encouraged Egyptian importers to import more necessary and unnecessary goods from those countries. At the same time, and for the same reason, the value of agricultural exports to those countries decreased, leading to the decrease in aggregate Egyptian agricultural exports.
2. The economic policies adopted in Egypt since 2000, which aim to reduce the deficit in the trade balance, encouraging exports by all means and reducing imports at the same time.
3. The continuous decrease in the value of the Egyptian Pound may also have been a contributory factor.

Agricultural exports tend to be concentrated on European countries in general and to be increasing in that area, while agricultural imports from North American countries (mainly the US) tend to be expanding.

This situation can be explained by the fact that cereals constitute the major component of Egyptian imports (80% of total agro-food imports), and they are imported mainly from the US (82% of maize imports and 27% of wheat imports) and then from European countries. At the same time, Egypt's agricultural exports are composed mainly of cotton, potatoes and oranges and all of these crops are exported mainly to European countries and then to the US and Arab countries. Cotton alone accounts for 62% of total agro-food exports.

6 *Agriculture and agri-food policies*

6.1 - The main trends in agricultural policies

Agricultural policies were of course influenced by the international context in 2002, and primarily by the World Trade Organisation negotiations, in which all countries take part except for Algeria and Lebanon, which have observer status and which are scheduled to become members over the next few years. In particular, the European Union – the major actor in these negotiations – presented a full offer in January 2003 which, if applied, would not significantly affect the Common Agricultural Policy. However, the EU was preparing a new reform at the same time (see Chapter 1) based on the decoupling of direct aids, one of the objectives being to be able to include these aids in the "green box", which is not subject to reduction.

For most of the other countries, including non-members of the WTO, it is now a question of anticipating the forthcoming agreements in the three main fields: opening of markets, internal aids for agriculture, export aids. Strictly speaking, the latter field concerns essentially the European Union. Public enterprises which market and export agricultural commodities and the indirect aids which exported products enjoy are thus called in question; this concerns a number of Mediterranean countries on the other hand.

The diminishing importance of the public sector is also one of the main areas of focus of the policies for adjusting agricultural structures which have affected the countries of the South. The plan is first to progressively privatise the enterprises which process and market agricultural commodities so that the conditions can be created at the microeconomic level for managing these enterprises more efficiently, combating market distortion, and, more generally, achieving the macroeconomic objective of reducing public expenditure. This process continued in the year under review – at varying rates, of course, in the different countries and in certain cases with steps backward in order to contend with specific difficulties concerning certain markets or certain categories of producers.

In the case of two of the countries under review, Turkey and Albania, one of the important parameters for decisions on agricultural and agro-food policy is the prospect of accession to the European Union, although the timescale for that accession is still very uncertain in both cases. The gradual approximation of the standards and policies in effect in the European Union concerns primarily competition policy and measures to reduce direct State intervention in production and food chains. Quality standards and the legal status of land and farms are also essential issues in the reforms on which these countries have embarked. Turkey is furthermore planning to reform the support for cereals markets on the basis of the Common Market Organisation currently in force in the EU.

The political decisions of the European Union also influence all of the countries in the southern and eastern Mediterranean. We would point out that in 2000 imports of agricultural commodities from the EU accounted for 37% of the total agricultural imports of those countries and that the corresponding percentage for exports was 47%. The application of the Euro-Mediterranean Agreements is thus of major importance for these countries; this point is analysed in Chapter 1.

In order to understand the context of the development of the agricultural policies of the Mediterranean countries in 2002 the political changes which came about in three of these countries must also be taken into account: there was a marked change of course in Portugal and France following the general elections; in both cases a right-wing government came to power which, on the strength of the support of the major agricultural producer organisations, took decisions on several issues which contradicted those previously taken by a left-wing government. There was also a change of government in Morocco, where a more "technical" team took over which for the time being seems to be less concerned with agricultural issues than its predecessors. The general slowdown in economic growth observed in most countries this year finally resultedin the contraction of funds allocated to agricultural policy in some countries, and in particular to investments, a field where irrigation always accounts for the major part of expenditure.

Besides the main trends already observed in previous years, which were confirmed or developed in 2002, new topics would also seem to be emerging this year.

In the European Union food quality has been a policy issue for many years. The "food security" component has been stepped up since the recent health crises and in particular the BSE (bovine spongiform encephalopathy) crisis, and a systematic policy of traceability has been made compulsory by a directive adopted this year. In the WTO, the Union has furthermore pursued a very active policy for defending specific quality products and in particular geographic designations. In the other countries these quality policies concern safety, of course, as well as compliance with the standards required for export, particularly to the EU. We would also underline the first measures to encourage farmers to produce specific quality products, the introduction of aids for organic agriculture in Algeria being a particularly significant example.

And finally, the attention devoted to rural development issues in addition to agricultural policies per se was already noted in previous years; in the European Union, rural development (which of course includes structural measures of agricultural policy) has been the "second pillar" of the CAP since the Agenda 2000 reform, and the new reform makes provision for increasing the means allocated to the sector. In the other countries, policies are gradually being elaborated – with limited means – which aim primarily to maintain or improve rural infrastructures with a view to narrowing the gap in living standards between rural and urban areas. More recently, public incentives have been implemented in many countries to develop non-agricultural activities in rural areas.

6.2 - Structural policies and investment aids

Since the "Agenda 2000" reform, structural policies have been organised in the countries of the European Union in conjunction with agro-environmental policies within the framework of the "second pillar" of the Common Agricultural Policy, through the Rural Development Regulation (RDR), which allows the member countries wide scope in the choice of tools and level of funding. These policies will be described in essence in Chapter 6.4. However, with the agreement of the European Commission, the countries may grant contingency aids to certain categories of farmers in difficulty. They have full autonomy with regard to taxation, insurance, farmer training and extension services[24], and they can effect specific public investments such as in the irrigation field.

In the other countries, the main issues in 2002, as in the previous years, were:

- land tenure: reform and consolidation of farm status, elaboration of a land register, divestiture,
- action to finance farm development. In this field, limited resources and retrenchment policies have generally resulted in more restrictive policies, particularly with regard to reduced-interest loans. There has also been a marked trend towards privatisation and "depoliticising" of specialised banking organisations, and this trend continued in 2002.

Investments in the irrigation sector remain an essential budget item; they are dealt with in Chapter 6.5.

In **Portugal**, the new government introduced a number of reforms in this field as soon as it came to power:

- action to restructure the departments of the Ministry;
- establishment of a National Agro-Forestry Programme Contract with professional associations in the sector;
- general reform of research, higher education and vocational training in the field of agriculture;
- creation of a Comprehensive Agricultural Insurance, whose integration into the CAP is also to be proposed.

The idea of developing a system of subsidised insurance which could at least partially replace market support is an idea currently advocated by several European countries.

In **Spain**, the national insurance scheme is one of the main policies implemented by the Ministry of Agriculture. It consists of a mixed scheme in which technical regulations, premiums, and general planning and control are carried out by public

[24] In the field of training, the RDR also allows co-financing of measures for farmers but also for foresters and other actors in the rural environment.

institutions, while the insurance is provided by private enterprises. It was observed that more agricultural professionals availed themselves of this insurance scheme in 2002. In fact the value of premiums paid by farmers increased by 31.5%, amounting to a total of €358 million. Part of those premiums were paid direct to insurers by public administrations, since central and regional governments pay subsidies in order to encourage farmers to take out agricultural insurance[25].

A total of 433,770 claims were filed, involving losses amounting to €347.55 million, an increase of 11.27% compared to 2001.

Several new insurance schemes were introduced for 2002: one specific scheme concerned strawberries grown in southern provinces, another persimmon fruit, and a third on-farm deaths; the latter insurance was contracted by almost all animal producers. Coverage for persistent rain was also introduced in every crop scheme as a general improvement.

In **France**, the new government also wants to have a study carried out on a harvest insurance scheme, which could benefit from government support and could complement the system of public aid for regions affected by agricultural disasters[26] and the hailstones insurance which fruit and vegetable growers take out. Actions were carried out as an experiment in 2002 in the tree-growing and wine-growing sector (frost and hailstones) and covering all weather hazards in the case of arable production. Cereal crops were excluded from this experiment but were included in the scheme in 2003. These actions are currently being evaluated.

In order to combat the crisis in the poultry production sector, which is seriously affecting Brittany in particular, France presented a plan in November 2002 for reducing production capacities and adapting production to market needs: closure of poultry housing (paid per square metre of poultry housing closed) and aid for restructuring poultrymeat packing stations. An appropriation of €6 million has been earmarked for this plan, which has the backing of the European Commission but is financed by France.

In **Italy**, the government has added tax aids to the restructuring incentives organised within the European framework: the deduction of investments effected by farmers, including cooperatives; extension of the special VAT scheme for agricultural producers to 4% on average, freeze on rates of regional taxes on production activities at 1.9% in 2002, confirmed at 3.75% for 2003 instead of 4% as is the case in the other sectors; and finally, exemption from taxation on the diesel oil used for greenhouse crops.

The variability of weather conditions which marked the farm year and which affected economic results obliged the government to make extraordinary financial

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[25] Around 25% of the value of Total Agricultural Output is currently covered by an insurance scheme.
[26] In 2002, expenditure on this chapter of "disaster" aid was low.

efforts to support incomes. It actually had to carry out emergency intervention measures, which involved increasing budget expenditure in order to limit the damage caused by the floods and drought which hit various regions of the country and to contribute to concessional insurance policies in order to encourage farmers to take out insurance. At the same time the government opened the debate on the revision of regulatory instruments for public protection against natural disasters making provision for a fund in order to reduce insurance costs, promote the broadening of the risks covered by agricultural insurances, and make it easier for farmers to take out comprehensive insurance policies.

Structural policy in **Albania** was still dominated by the land tenure question in 2002: action to consolidate titles and resolve conflicts, and measures to develop the land market. The situation differs widely from one region to another. At the present time, 97.7% of the land which was supposed to be distributed pursuant to Act no. 7501 of 1991 has already been appropriated privately, and 95.5% of this land is held by landowners with official legal title.

As a result of the work of the regional and national land commissions and the legal solutions proposed by the Ministry of Agriculture, a large number of ownership disputes were resolved in 2002, particularly in the most problematic regions such Lezha, Kurbin, Shkodra, Vlora, Puka, Fier, Berat, Dibra, etc, and several new agricultural land transactions were effected. Absolute titles were registered in the land registry offices for 108 land zones, while pilot monitoring processes were introduced to define obstacles and measures were taken to reduce them by promoting land zones in the vicinity of motorways and priority zones for developing tourism.

A special contract was signed in December 2002 between the "Project Registration Management Unit" and the American company ARD for carrying out the initial registration procedure throughout 2003 in 168 other land zones where indexing work is commencing for the first time and in 457 land zones where work is already underway. The plan is to start indexing first and foremost in zones which will be crossed by new motorways and national highways and in priority zones for developing tourism.

In 2002 the Ministry of Agriculture collaborated with the Ministry of Local Communities and Decentralisation on the creation of administrative sections and land protection mechanisms in districts, which will take the form of multi-functional land registry services. A decision of the Council of Ministers (No. 532) was adopted on 31.10.2002 "on the working methods of district land administration and protection units and municipal land management and land protection offices". In view of the new phenomena which are emerging regarding land ownership and use by private farmers but for which no provision has been made in Albanian legislation, the Ministry of Agriculture has also:

(i) drafted a parliamentary bill on "amendments and changes in the Farming Families Civil Code";
(ii) worked on a new law on land protection and elaborated a "plan of action for land protection" in collaboration with the Ministry of the Environment, since, due to the absence of rules on the exploitation of rivers, 1,497 ha were damaged in 2002, 7,700 ha were subject to erosion, and 22,020 ha were exposed to risk;
(iii) conducted specific studies on farming families and their behaviour.

In **Turkey**, the intention to bring agricultural policy into line with that of the European Union, which is manifest in market management and privatisations, is also reflected in farm structures.

The government has similarly been implementing a nation-wide farmer and land registration system. Approximately 2.2 million farmers (some 60% of the total) and about 11.8 million ha of farmland (50%) have been registered. Electronic cross-checks are carried out on the basis of title deeds, farmers' identity documents, and plot numbers. Land registry work in rural areas has also been progressing and 85% of those areas have now been covered; 10% of property maps are now digitised. Furthermore, Turkey has introduced a law changing inheritance rules with a view to reducing farmland fragmentation.

At the same time, State commitment in investments has been reduced, and the status and practices of the Bank of Agriculture (Ziraat Bankası), whose capital was opened to the private sector in 2000, have been brought more in line with European standards.

In **Lebanon**, the share of agriculture in GDP is very low, and that of the Ministry of Agriculture in the budget is even lower. In 2002, an all-time low of 0.37% of the total was recorded (this improved slightly in 2003: 0.40%). The fact that these means are so limited and that any form of structural aid is thus illusory, is offset to some extent by a general scheme of aid for SMEs through concessional credit. This scheme is having a growing effect on agriculture, which accounted for 7.3% of the total in 2002 (with a 56% increase in aid compared to 2001. The share of agriculture in total bank lending to the economy increased from 1.64% in 2001 to 1.72% in 2002.

In **Egypt**, the downward trend in the share of the budget appropriated to agriculture that was already observed in previous years continued in 2002. This is primarily the result of the policy of progressive market liberalisation, which, as we shall see, has resulted in a decrease in the sums appropriated to supporting agricultural prices. It is also the result of the gradual abolition of concessional credit which has been under way since the 1990s; these reduced-interest loans are now reserved for plant and for financing crops on new land. In the latter case the nominal interest rate is 6% compared to a market rate of 13% (applied to all other agricultural loans). It must be noted that the total amount involved in these

concessional loans is now very low compared to the situation in the mid-1990s. Most Egyptian agriculture credit now takes the form of short-term loans.

In **Tunisia**, the State intervenes to help farmers improve conditions for agricultural production. Three main tools are used: agronomic research, advisory services, and farm credit.

There are three main lines of agronomic research: promoting production and productivity in the field of strategic commodities, natural resources, and various research activities concerning, for example, animal health, biotechnology, and so on; these activities are carried out in partnership with producer organisations so as to integrate the profession into the designing and implementation of development research programmes.

Advisory services concerning production techniques that are provided for farmers take the form of the implementation of a 10-year master plan for developing agricultural advisory services with a view to unifying central and regional departments, the adoption the principle of the “farmer's single adviser-partner", the reform of the planning, monitoring and evaluation of these activities, and the consolidation of the linkage between research and extension services. The Agency for Advisory Services and Agricultural Training was set up in this context in 1991 with the objectives of organising central advisory services and consolidating regional services. The Agency's priorities are to coordinate the various actors by involving them in research, thereby devoting special attention to strategic commodities and staples, and to gradually transfer advisory activities to the profession, thereby building up technical centres so that they can take over this task.

And finally, credit and investment incentive policy is based on the three essential components of access to bank lending, specific schemes for small farmers, and direct incentives for agricultural investments. The main measures involved are as follows:

- in the case of commercial farmers, action to strengthen confidence in the banking system;
- in the case of small farmers, measures to set up associations to complement banking institutions and meet farmers' financial needs through a mutual credit system, thereby involving farmers in the forming and management of these associations;
- action to set up a system of insurance and guarantee against weather hazards, which would thus encourage the banking system to increase its contribution towards financing the sector;
- reform of the agricultural investment incentive system by replacing the subsidisation of interest rates with investment premiums, liberalising the sector and reducing State intervention so that operators can base their

investment decisions on the sole criteria of profitability while fully assuming the risks involved.

In **Algeria**, a law on agricultural guidelines has been drawn up by the relevant departments of the Ministry of Agriculture and Rural Development and is to be submitted to the Government Council in the course of 2003. It provides a general framework for developing the sector, setting out the main lines of policy and clearly defining the field of competence of the national authority and that of economic operators.

A parliamentary bill modifying and complementing Act no. 97-19 of 08.12.1987 was drafted in 2002; it defines a specific legal framework for the “corporate farm” – whose members can be shareholding members of individual or collective farms and contributors of capital accepted by the former – but has not yet been examined by the government (end of June 2003). The Corporate Farm would enjoy the "concession" of land by the State. According to its authors, if this law is passed it will provide a basis for modernising agriculture on land in the former independently managed sector through new investments which would be effected by owners of capital interested in agriculture. It is in fact intended more as an attempt to regularise the common practice of certain persons to whom land is attributed which consists of "withdrawing" (in return for payment) from land that they are farming for the benefit of wealthy buyers (or persons well placed in the *nomenclatura*). In the same line of thought, the Ministry of Agriculture and Rural Development launched actions in 2002 against the practice where members of collective farms vest non-agricultural companies with property rights to use and enjoy the land.

In **Morocco**, the financing of agriculture and the future of the agricultural credit system are still as topical as they have been in previous years. Whereas overborrowing by farmers has been the primary issue in the agricultural credit debate for several years, attention has clearly shifted this year to measures to restructure the Caisse Nationale du Crédit Agricole (national agricultural loan fund – CNCA), in which there have been new developments which were barely on the agenda before 2002.

From the point of view of the CNCA, the problem of the overindebtedness of a large number of farmers and of the bank's outstanding claims has not yet been completely resolved. The last of the various systems proposed (the "full and final settlement" system) was scheduled to expire on 31 December 2002. Although the Ministry of Agriculture wanted to renew the system, the CNCA directors were unwilling to repeat the experience. In March 2003 the CNCA Director-General pointed out that, as the result of the various operations for dealing with the farmers' debt, part of that debt – from 10% to 40% depending on the case – had been written off, the remainder had been rescheduled over long periods, and the interest rates had been reduced for the benefit of 90,000 clients, the entire

operation having "cost the bank 5 billion dirhams". This issue would seem to have been closed again for the time being, although it is obviously far from having been brought to a conclusion, since the remaining cases have to be dealt with according to the "normal" procedures.

The fact remains that since the beginning of 2003 a very different project seems to be taking up the time and energy of the CNCA directors. For after the tremendous financial difficulties experienced by the National Bank for Economic Development (BNDE) and its subsidiary, the Moroccan Bank for Africa and the Orient (BMAO), the public authorities, which control the BNDE through the Deposit and Management Bank (CDG), proposed that the CNCA take over the BMAO as well as the network of BNDE branches. Since it transpired after the audit and valuation that the real market value of the BMAO was fairly negative, the CNCA would not only take over that bank by paying only the "symbolic dirham" but would also receive 300 million dirhams (the negative balance between the bank's assets and liabilities).

Through that operation the CNCA should then account for 14% of the establishments of the entire Moroccan banking system. Even better, with these acquisitions it would considerably improve its market shares: the deposits raised should increase from 12 to 16 billion dirhams and the CNCA's share from 6.1% to 8.1%. In terms of credit extension, the CNCA's share should amount to 18.3 billion dirhams, i.e. a market share which should increase from 9% to 10.6%.

A further important issue in Moroccan policy is the reallocation of government land. A total of 270,153 ha of State-owned land were recorded in the last general agricultural census conducted in 1996-1997 (i.e. 3.1% of the AAU). The greater part of this land has been managed since the beginning of the 1970s, when it was recovered from the colonial power, by two State enterprises set up for that purpose, the SODEA and the SOGETA[27]. These two companies have been going through a crisis for some time, with the result that the land they manage has already been reduced to 124,000 hectares. Two contracts signed on 26 May 2003 in the presence of the Prime Minister and the Ministers of Agriculture and Finance give concrete form to the validation and launching of the plan for restructuring the two companies concerned, which begins with a "bailout plan" covering the period from 2003 to 2006. This plan has 3 components: land tenure, financial measures and social measures.

The land tenure dimension is obviously the most sensitive and beyond doubt the most controversial issue under debate for quite some time. The necessary arbitration was finally carried out on the various allocations of the 124,000 ha still held by the two companies. The first option put forward is that the State would in

[27] Société de Développement Agricole (Agricultural Development Corporation) and Société de Gestion des Terres Agricoles (Agricultural Land Management Corporation). In principle, land under crop was assigned to the first body, and non-wooded arable land to the second.

future withdraw from agricultural production in order to "refocus on the strategic public mission of producing breeders' seeds and certified seedlings on 40,950 hectares". This would mean that 33,923 ha would have to be transferred to private investors, both Moroccan and foreign, on long-term leases and on the basis of invitations to tender and specifications laying down the criteria for the planned investment, production, jobs to be created, technology transfer, etc.

A further part of the land situated in urban or suburban zones would be sold to operators on the property market with a view to promoting social housing and tourism, and the rest would be attributed to the private domain of the State, part of it (7,000 hectares) being allocated to young agronomy and veterinary graduates.

6.3 - Price and market policies

In the European Union 2002 was marked by the presentation of the reform project known as the "Mid-Term Review" of the Common Agricultural Policy: the Commission's first draft was published in July of that year and the final project in January 2003, and the Council ratified the reform on 26 June 2003. The main lines of this reform are presented in Chapter 1 of the present report. One essential issue is the decoupling of direct aids for products; the Mediterranean countries, which are against the proposed decoupling, adopted very similar positions during these discussions.

The principles are the same with regard to prices and market organisation, with either a completely free market or a minimum price guaranteed by an intervention mechanism, depending on the product. The intervention prices are now very close to world market prices, and the reform adopted in June 2003 does not in fact bring any reduction. The only exceptions are milk products and rice, for which the present guaranteed prices are still high and important reductions have been decided.

A permanent trend in the other countries were measures to build up markets (infrastructures, information systems) and competition policy, all countries being concerned to varying degrees: privatisation of marketing and processing enterprises, reduction of the role of the State. Price support and consumption subsidies or input subsidies are continuing to decrease with a few limited exceptions in the case of products in crisis. In fact a new policy seems to be emerging in the development of subsidies for improving product quality, primarily in export sectors, and support for specific quality food chains. Since organic agricultural production in Europe cannot yet meet the high demand for such products, organic farming benefits from active policies in several non-EU countries. In the EU, subsidies for promoting organic agriculture fall within the field of agro-environmental policy and will be dealt with in Chapter 6.5.

In **Morocco**, one of the priorities announced by the new government when presenting its new programme to Parliament is action to organise and upgrade food chains. The 3 cases of the olive, citrus and date production sectors are cited below as an example.

Box 6.1 - The new government and food chain policy

In addition to infrastructures and agricultural measures, the government has focused its public investment policy on developing the main food chains.

The national plan for the oil production sector will thus increase the area under crop to 1 million hectares in 15 years and will triple production and double exports, achieving an output of 125,000 tonnes of olives and 20,000 tonnes of oil. The same applies to the date production sector, where the objective is to restore and extend the plantations affected by fungal diseases. Farmers have already been provided with 100,000 quality variety seedlings, and a planting rate of 150,000 seedlings a year will be applied henceforth in order to bring the number of plants up to 6 million in 8 years. In addition to renewing plantations, emphasis is placed on improving production techniques and on installing processing and conditioning units, the objective being to achieve an output of 135,000 tonnes a year instead of the current 85,000. In view of the economic, social and biological importance of the national palm groves, UNESCO has now declared them a biosphere reserve.

As regards the citrus production sector, where exports amounted to 3 billion dirhams a year, current measures are focused on renewing plantations, modernising irrigation systems, building and equipping conditioning plants and cold storage units, and consolidating research and development in the field. The objective is to achieve an output of 1,850,000 tonnes by 2010, 850,000 tonnes of which are intended for export.

Similar efforts will be made for other fruit plantations, in particular almonds and rosaceous fruit trees, which contribute considerably to the development of mountain regions.

The upgrading of these food chains calls for considerable private investments, which are supported by the State through a series of incentives managed through the Agricultural Development Fund, which mobilises considerable resources in the form of premiums or subsidies for the use of breeders' seeds or for equipping farms with a special focus on water-saving irrigation techniques and for building cold storage plants.

Source: "Status report" presented to Parliament by the Prime Minister.

The food chains concerned are export chains, and in fact these plans are a new version of former plans, which were presented in previous reports but which were behind schedule.

We would further underline an initiative taken to promote the stabilisation of the cereals market following the good harvest in 2002: in order to reassure the population concerned the government has stated that it has taken adequate import protection measures and has set up an incentive scheme for collecting and stocking

cereals in order to avoid a break in market prices and to better support farmers' incomes.

In **Algeria**, two new initiatives have been action to boost oilcrop production and measures to support organic farming.

Algeria imports approximately 320,000 tonnes of crude oils every year to cover virtually all of its needs. In order to reduce this high dependence in the future a framework agreement was signed between the National Institute for Arable Crops and AGROPOL (a French firm) in September 2002 making provision for the construction of a plant for crushing Algerian-grown oilseeds (costing US$ 120 million) in the Guelma region, where farmers will be encouraged to produce oil crops through appropriate measures (output prices, subsidisation of specific equipment, etc). The Association for International Agronomic Development (a French body) and AGROPOL will be in charge of training producers, technology transfer, monitoring, and project impact assessment (BENOUARET, 2003). Projects were already launched in the early 1980s to boost oil crop production (sunflowers, safflowers, soybeans), but they all failed for various reasons (low output prices, poor management of technical processes resulting in very low yields, malfunctioning of crushing plants, etc).

A scheme for supporting organic farming was launched by the Ministry of Agriculture and Rural Development in 2002-2003 for the first time in the history of Algerian agriculture. A unit for controlling and certifying organic products that was set up by ministerial decision in December 2002 is responsible for drawing up the regulations on these products, launching control and certification procedures, and contributing to technical support. These products are supported by the National Fund for Agricultural Regulation and Development. In return for compliance with specifications, organic producers are paid subsidies for tillage (deep tillage and retilling : 3000 dinar/ha, hoeing: 3000 dinar/ha) and input purchases (between 2000 and 5000 dinar/ha, depending on input), as well as an output premium (3 dinar/kg for horticulture, 5 dinar/kg for dates and 4 dinar/kg for other fruits). Premiums are also planned for organic product exporters.

Tunisia is continuing to implement an active market organisation and price stabilisation policy in order to protect farmers against a fall in prices and consumers and the processing industries from steep rises. This policy is based on the following guidelines:

- in the case of basic essentials, prices are still administered, the principle being to guarantee that products are marketed at prices that are fixed in advance (intervention prices) depending on the trend in production costs and on an income level which is an incentive for producers. However, producers are not obliged to deliver their output at these prices.

- in the case of products subject to the liberalisation of the distribution trade within the framework of the structural adjustment programme for agriculture, price policy is based on real cost pricing, the principle being to ensure that market mechanisms are regulated in such a way that the supply of these products (supplementary imports, increase in storage capacities, price stabilisation fund) and the demand for them can be better matched. However, in order to control price freedom throughout all the stages of agricultural commodity marketing a clear and transparent marketing procedure needs to be set up in both the wholesale and retail trade. The main measures taken in this context are thus as follows:
  - a law on wholesale markets was passed in 1998. It aims to set up a network of "production markets" providing the appropriate framework for determining real prices by virtue of their specialisation in certain products and their proximity to production regions;
  - measures have been taken to extend the scope of the Fund for Developing the Competitiveness of the Agricultural and Fishery Sectors and to revise its operating methods;
  - action has been taken to strengthen the role played by the specialised professional institutions in market regulation and marketing.

It must be pointed out that at the distribution level agricultural commodity prices are still subject to fixed profit margins, a situation which inevitably has an adverse effect on the marketing of agricultural commodities, particularly since it impedes product differentiation through the adoption of specific quality standards.

In the foreign trade field, the measures initially introduced have been accompanied by steadily increasing economic protectionism. The main regulatory instruments used are the fixing of producer prices for agricultural commodities at levels higher than the world rates, the subsidisation of inputs for agricultural use, subsidisation of the consumer prices of staple commodities, and the taxation and control of imports. A transfer fund known as the "General Compensation Fund" was set up back in the early 1960s in order to finance these various intervention measures.

In the WTO negotiations Tunisia has presented an offer concerning essentially a minor reduction of internal support (1.33% reduction of the AMS per annum over a 10-year period and consolidated customs duties that are generally higher than the duties actually levied at the present time. It thus does not seem to be on the agenda to call the current policy in question to any great extent.

In **Egypt**, the dual system described in previous reports has been maintained: minimum prices for a large number of agricultural commodities with public purchases at those prices and consumption subsidies for staples in the case of disadvantaged social groups, whereby ration coupons are issued. Input subsidies now only concern products for processing cotton with a view to combating the most serious health risks.

There have been few changes in **Lebanon** compared to the information already presented in the 2002 report. We would, however, draw attention to a procedure for public purchasing of olive oil: 1500 tonnes are purchased at a price covering production costs and resold at half price to certain institutions and/or distributed free of charge to humanitarian organisations. There has also been an appreciable increase (plus 50%) in input subsidies (seeds, pesticides, veterinary treatment).

In **Turkey**, the privatisation of all public marketing and processing enterprises – except for the Turkish Cereals Corporation – has been continuing in line with the objective of harmonising agricultural policy with that of the European Union. In 2002 these privatisation operations actually concerned the TEKEL – the public tobacco, salt and alcohol monopoly – so that the sector is now open to competition (decision taken in 2002 and actually applied in 2003). The same applies to the TSFAS, the public sugar monopoly; in this sector the administered price has been replaced by an agreement between the representatives of producers and processors combined with the system of quotas, which also concerns starch sweeteners. The tea monopoly (ÇAYKUR) is also due to be privatised.

The system of guaranteed prices for cereals has been abolished since 2002, and the TMO has become a body for market regulation on the European model. Its purchases can now only concern surpluses with a view to regulating the market; storage capacities and other premises will be leased out to firms and bodies representing producers. The minimum intervention purchase prices were fixed at lower levels in 2002 and then again in 2003 according to a complex system which takes account of varieties and seasons.

And finally, the plan for the medium-term is to gradually replace price support schemes by direct aids to farms, which will promote poor farmers. A scheme of this nature was introduced in 2001 as an experiment, and direct income support for small farmers was applied generally. The scheme was continued in 2002 and accompanied by the establishment of a new system for registering farmers.

In **Albania**, regulation is the main task in this field: products need to be brought up to standard first of all and food safety needs to be ensured. A series of laws were passed in 2002 for that purpose with a view to bringing Albanian legislation into line with that of the EU:

- warranty periods
- standards for products used in non-domestic catering
- labelling
- qualification of foodstuff analysis laboratories.

Similarly, action is being taken to improve marketing structures and methods:

(i) improvement of the level and practices of the agrifoodstuffs trade by building up new wholesale markets in the districts of Shkoder, Lushnje, Vlore and Korce;

(ii) increase in the number of pilot centres for assembly, protection and sales operations;
(iii) improvement of structures for collecting and circulating information on markets;
(iv) providing of training and development of technical assistance in the marketing field;
(v) agro-food export incentives.

In the countries of the European Union, besides the discussion of the project for reforming the CAP that has already been mentioned, 2002 constituted the last stage in the application of the Agenda 2000 reform (reduction of the per hectare premium for oilseed crops) and in the application of the new "mutton and lamb" and "fruit and vegetables" schemes presented in the previous report.

The member countries have very little leeway in the market management field except for emergency measures in the event of a major crisis or natural disaster. The actions described in this section in the 5 Mediterranean countries of the EU concern such measures as well as action to promote the organisation of food chains and the production of quality products. Aids for promoting organic farming, which are being implemented in Greece in particular, are presented in Chapter 6.5 "Natural resources".

In **Greece**, the first few months of 2002 (as well as the last few months of 2001) have been described as one of the worst periods in recent Greek history in terms of natural disasters (floods, frost, fires, etc). As a result, during the period from December 2001 to December 2002 the Ministry of Agriculture thus introduced 8 different compensatory schemes for farmers and 2 further compensatory schemes for shellfish (mainly mussel) producers whose production was infected with toxic plant plankton.

Growing farmer discontent in view of the decrease in subsidisation and protection that is affecting their incomes as well as several major demonstrations held in 2002 (blocking of highways and government buildings) forced the government to introduce relief measures for farmers that were scheduled to enter into effect in 2003. Other actions in the field include:

- the recognition of the National Inter-Professional Organisation for Olive Oil
- implementation of the restructuring programme for vineyards for the 2002-2003 period
- specification of the types and varieties of fruit crops to be included in promotion measures
- implementation of a technical regulation for controlling and certifying potato nodules
- implementation of a technical regulation specifying prerequisites for horticultural varieties.

In **Italy**, milk quotas have been a recurrent problem in market management, that is to say, the problem of complying with the Community system of quota restrictions on milk production; it has now finally been resolved after 10 years of litigation. In June 2003, the EU Council of Ministers agreed to allow the sanctions which have been accumulating since 1995 due to production in excess of the reference quota ceiling established by the EU, and which amount to approximately €1 billion, to be settled by Italian producers in 14 annual repayments at zero rate. However, the 600 000 t increase in the national reference quantity allowed as of 2000, bringing the quantity up to a total of 10.3 million tonnes, has not been sufficient to resolve the problem, since Italian production exceeded the quota allocated again in 2002, and this resulted in a complex administrative and legal situation. More generally, the problem of the milk quotas of the Mediterranean countries is still unresolved: these countries are far from self-sufficient in cow's milk production, and their production structures were underdeveloped when the quotas were being set. They have meanwhile obtained several increases, and the 2003 reform also makes provision for more favorable treatment for these countries, but they are still asking for more in this field.

The low degree of integration of the agricultural production sector and the processing and marketing sectors is still a factor which restricts performance in the Italian agro-food system. A new intervention instrument has therefore been introduced, the "food chain contract", to promote the integration of the agro-food industry and to consolidate production areas. The food chain contracts concluded with operators will be promoted and financed (59%) by the Ministry of Agricultural and Forestry Policies in order to implement interprofessional investment schemes in line with Community regulations on State aid. The fruit and vegetable sector will be particularly important in these food chain contracts.

Policies for improving quality have become more and more important in the guidelines for agricultural policy. The lines of action for developing quality concern essentially the following issues:

- organic products, which currently account for 8% of the agricultural area;
- the development of origin and quality labels for typically Italian products; there are now over 100 PDO (protected designation of origin) and PGI (protected geographical indication) products;
- foodstuff traceability. According to ministry guidelines, provision is being made for a dual traceability system: compulsory traceability, for which provision is also made in EC Regulation no. 178/2002 (due to enter into force at the end of 2004) and which aims to guarantee food safety, and quality traceability based on voluntary food chain agreements. The current debate is focusing essentially on whether the indication of the origin of the raw material(s) on the label should be compulsory or not.

In **France**, no major market management initiatives have been taken this year except for action to cope with the poultry product crisis mentioned in the previous

section. The new government took a major decision in a related field in July 2002 when it decided to abolish the "modulation" of direct "compensatory" aids paid to arable crop producers and producers of beef and veal and mutton and lamb. Since the modulation facility was provided in Agenda 2000, France decided in 2000 to set up a complex system for limited reduction of the aids paid to farmers receiving the highest amounts. This modulation worked effectively in 2001, and the amounts thus saved were used to finance the Regional Farming Contracts. The abolition of the modulation was in line with the wishes of the major farmers' unions; it must be pointed out that the new reform now makes it compulsory to apply more limited modulation of aids as of 2005 (or 2007) in the case of all farmers receiving aids amounting to more than €5,000.

In the discussions preceding this reform France adopted a firm stance against the decoupling of aids, that is to say, the replacement of these direct aids per hectare of crop or per livestock headage with aggregate assistance paid to farms irrespective of what they produce. France gave two reasons in support of its position: the risk of the food chains being disrupted due to violent reactions of agricultural commodity supply to cyclical market variations, and the risk of the deterioration of the products and production potential of disadvantaged regions. All of the Mediterranean countries adopted similar positions in the negotiations.

As was the case in France, one of the first decisions of the right-wing government which came to power after the March elections in **Portugal** was to abolish the aid modulation scheme which had just been introduced by the previous left-wing government. In view of the structure of Portuguese agriculture, the number of farms concerned was extremely small, so that this measure was more symbolic than anything else.

In the discussions on the reform of the CAP Portugal took a firm stand in favour of the status quo, whereas the previous government had advocated reform that would promote rural development in particular, the "second pillar" of the CAP. The Minister is now using the uniqueness of Portuguese agriculture as an argument to ask for more structural aids, in particular an increase in production quotas and aids (milk, durum wheat, tomatoes, meat, etc), through which European subsidies could be increased.

Portugal had to cope with the continuing BSE crisis in 2002, which was the first year that the number of cases diagnosed began to drop. That crisis revealed the weakness of the Portuguese food safety system compared to the other countries in the EU, a situation which was identified by the inspection missions of the European Commission.

Important measures were taken in this field in 2002:

- redefinition of the structure and working methods of the Food Quality and Safety Agency;

- definition of a national strategy for restructuring the services responsible for safety and fiscal control in the food sector;
- creation of a vertical institute in the health inspection field;
- creation of an integrated animal welfare and protection system;
- creation of a centralised system for monitoring the quality of milk and milk products;
- revision of the national cattle identification system and creation of a similar system for pigs, sheep and goats;
- measures to strengthen the beef and veal labelling system.

Furthermore, Portugal took legislative measures in the field of quality products: methods were defined for certifying products with a geographical indication, new designations of origin and geographical indications were recognised, and a system was created for promoting the upgrading of fishery products and improving their quality.

6.4 – Rural development policies

In **Morocco**, decision-makers seem to make little reference to the "Rural development strategy for 2020", which was drawn up in 1999. However, several actions were carried out in the field over the 2002-2003 period:

- a further 2,500 villages were electrified, benefiting approximately 1 million inhabitants; this should bring the number of beneficiaries up to 6,365,000 by the end of 2003 (about half of the rural population);
- 750,000 people were supplied with drinking water in 2003 (twice as many as were supplied in 2002);
- 1,762 kilometres of rural roads were built in the course of 2003 (the plan was actually to complete 1,500 kilometres);
- 37 projects were launched within the framework of the Integrated Rural Development Programmes; they are to run for about 10 years and are being conducted in partnership with the local authorities and inhabitants, consisting mainly of measures to develop and rehabilitate agricultural land and to establish essential infrastructures. They involve an investment of 2.4 billion dirhams and should benefit some 2 million people in various rural areas throughout the country;
- other small and medium-scale irrigation programmes were launched involving 46,000 ha in 15 provinces; in Phase 1, which involves 3 provinces (Azilal, Khenifra and Al Haouz) 9,450 ha of land should be equipped by 2006;
- several projects were launched in the Northern Region and in the Middle Atlas with a view to developing forest areas and protecting water catchment areas (a budget of 1.2 billion dirhams is to be allocated to these projects over a 5-year period).

And finally, the government is preparing to launch "operations to promote women and young people in rural areas and to provide accompanying measures in the implementation of income-generating micro projects".

In **Algeria**, the major event was the appointment of a Minister of State for Rural Development in June 2002; this Minister is attached to the Ministry of Agriculture, which has thus become the Ministry of Agriculture and Rural Development (MADR). In 2001, rural development received major support through appropriations from the National Fund for Agricultural Development (FNRDA) and from the National Fund for Developing Land through Transfer (FNMVTC). In addition to farm equipment, FNRDA expenditure supports the creation of agro-support and downstream enterprises (consultancies, contract service firms, cold storage firms, enterprises processing agricultural commodities). FNMVTC expenditure broadly subsidises rural infrastructures (electrification, rural feeder roads, watering stations and sometimes even rural housing), in addition to land development. Furthermore, the investments which both funds subsidise have provided valuable assistance for the establishment and support of small businesses in rural areas thanks to the markets which have been created in that context. It has been reported, for example, that 2,070 agricultural service enterprises were created in 2001 and 4,944 kilometres of basic infrastructures (electric cables, roads and feeder roads) were constructed (Ministry of Agriculture, 2002).

Since early 2002, the Ministry of Agriculture and Rural Development has been working on an action programme for rural development, which comprises the original feature of coordinating actions of the various ministries in this field – for the first time since independence. Through its decentralised departments the MADR began by identifying rural communities (the level below village level: douar, mechta, dechra) which were particularly poor and isolated. Extension officers, who are often recruited from amongst the members of each community, where possible, are assigned the task of interviewing the members of the community and identifying their various (economic and social) needs. In cooperation with the community the extension officer draws up an integrated rural development plan for the medium term together with the daira agricultural administration, and this project is presented to the wilaya agricultural administration, which forwards it to a wilaya committee for examination and endorsement; that committee is made up of representatives from all of the ministries whose resources are to be expended in the various rural development fields Ministries of Water Resources, Crafts and Trades (Crafts Fund), Energy (for rural electrification), Housing and Construction, and, of course, the Ministry of Agriculture and Rural Development. Once the community development project has been passed, each ministry takes responsibility for carrying out the respective actions in its particular field under the supervision of the decentralised departments of the MADR.

In **Egypt**, the 2001-2002 Plan makes provision for implementing the following policies in the rural development field:

- continuing efforts to develop villages as the cornerstone of social development policy with a view to ensuring State security and stability;
- encouraging rural populations to save, to finance themselves, and to take part along with the State in the financing of rural development projects;
- encouraging the private sector to invest in rural areas;
- continuing efforts to improve productivity and agricultural products in terms of both output and quality with a view to promoting exports and conserving the environment;
- providing State aid for training programmes designed to improve productivity and to help young people to set up businesses in the environmental field and small industries.

In **Lebanon**, 4 studies on rural development were drawn up by the World Bank in 2002 through a donation from Japan, these studies concerned:

- a plan and strategy for integrated rural development
- the assessment of urgent needs in the rural development field
- the marketing of agricultural commodities
- possible options with regard to institutions.

Furthermore, the Council for Development and Reconstruction is running several projects in the rural development field.

- The "Post-conflict socio-economic rehabilitation programme for Southern Lebanon", which was launched with the UNDP in 2000. This programme focused on young people, agricultural cooperatives, and municipalities in 2002. Some 20 youth clubs were set up and training was provided for 45 cooperatives, 20 of which were supported in efforts to design small projects. Furthermore, capacity-building measures were carried out in 9 municipalities to help them to gain access to the resources of the programme and to run small-scale projects.
- The Community Development Project, which is financed through a loan of $20 million (Lebanon contributing over 5 million) and was launched in January 2003, aims to improve the working conditions and living standards of communities in greatest need. It involves mainly NGOs.
- The Economic and Social Fund for Development is a project financed by the European Union (€25 million provided by the EU and €6 million provided by Lebanon). It was launched in 2003 and is to run for 4 years.

In **Turkey**, almost 35% of the population is rural, and the majority make their living through farming. Rural development policies are thus particularly active, the South-East Anatolia Project being a perfect example. The main infrastructures have already been constructed (electrification, communications, stabilised roads and feeder roads), but need to be modernised to some extent. 90% of rural zones have drinking water, but only 52% of this water is supplied through distribution networks. The rural housing sector is probably the sector with the greatest

problems. In 2002 only 3,399 families – living in 59 villages – obtained loans to build their own houses, and in the period from 1974 to 2000 only 250 villages (with a total of 283,410 families and 422 cooperatives) enjoyed subsidisation through various projects run by the Directorate General for Forestry and Rural Affairs.

Many rural development projects have either been completed or are currently underway or under consideration. The Eastern Anatolia Project and The Eastern Black Sea Regional Development Plan have been completed, for example, whereas studies are still underway for the South-Eastern Anatolia Project, the Aegean Regional Development Plan and the Western Mediterranean Regional Development Plan. Studies have also been started for the Central Black Sea Regional Development Plan and the Yeşilırmak Basin Development Plan. A preparatory study for the Central Anatolia Regional Development Plan and the Eastern Mediterranean Regional Development Plan was launched at the end of 2002. All of these projects are scheduled to have been completed by the end of 2005.

In order to focus rural development policies more effectively the government is currently setting up a system for registering farmers and agricultural land; 2.2 million farmers (some 60% of the total) and 11.8 million ha of farmland (about 50%) have already been registered in this fully digitised system. Land registry work in rural areas has also been progressing and 85% of those areas have now been covered; 10% of property maps are now digitised. Furthermore, Turkey has introduced a law changing inheritance rules with a view to reducing farmland fragmentation.

In **Albania**, integrated rural development is one of the priorities of the Ministry of Agriculture. Rural development policy aims:

(i) to reduce rural poverty by ensuring stable growth in production and increasing rural families' incomes,
(ii) to step up vocational training and alternative employment in both agricultural and non-agricultural activities such as small agro-food industries, rural tourism, crafts and trades, etc,
(iii) to provide equal opportunities for all areas and regions, the aim being to provide quality of service for the population,
(iv) to improve rural infrastructures such as roads, rural markets, drinking water supply and sanitation, and to reduce the number of power cuts, etc,
(v) to increase access for rural populations to funding and credit and to expand non-banking financial services in the rural environment,
(vi) to build capacities, boost initiative and encourage rural communities to take part in development projects and the decision-making at the local and regional level,
(vii) to curb rural depopulation and create close links between rural communities and their local areas.

Decentralisation and measures to increase the capacities of local structures in rural areas are two further important components of the work carried out in 2002 in this context:

(i) action is underway to transfer pastureland, woodland, water resources, irrigation and drainage systems, etc from the administration or co-administration level to the local authorities;
(ii) a series of laws have been passed and decisions taken to improve the rural regulatory framework (including the inclusion of the tax on agricultural land, the establishment and running of land management offices at the regional level, etc);
(iii) financial aid for small farmers' associations operating at the local level has been increased with a view to rehabilitating irrigation and drainage systems;
(iv) in the field of the improvement of irrigation management, the administration of 15 irrigation schemes and 6 water use associations has been transferred to those associations, and 4 new federations have recently been created.

It should also be noted that a number of infrastructures were created in the rural environment in 2002:

(i) the Albanian Development Fund (FZHSH) started work on building 73 aqueducts in rural areas (56 have been completed and 18 are still under construction), and the rehabilitation of 155 aqueducts was funded through the State budget; as a result, 67% of the rural population has access to drinking water more than 5 hours a day;
(ii) the number of families and villages with access to the sewerage system has increased;
(iii) 20 new schools have been built and 102 primary and secondary schools have been rehabilitated;
(iv) a large number of health centres have been rehabilitated;
(v) 42 telephone operators obtain authorisation to operate in rural zones; 9 of these are already operating with approximately 6000 clients registered in 2002, whereas 2 mobile telephony operators, AMC and VODAFON, considerably expanded network coverage of all rural zones.

With regard to institutional reforms in the integrated rural development field, Albania carried out the following measures in 2002:

(i) a special rural development department was set up within the structure of the Ministry of Agriculture and Food;
(ii) a platform and regulations were drawn up for the National Regional Development Forum and its field of competence was defined;
(iii) a national rural development strategy was drawn up in cooperation with the World Bank, and the institutional structures for its implementation were planned.

Rural development policies in **Greece** are based on the third Community Support Fund (CSF) for 2000-2006, whose measures are included in the 2000-2006 National Programme for Developing Agriculture and Restructuring Rural Areas.

By the end of November 2002, 238 projects had been approved within the framework of this programme, involving a total budget of €880 million (the national budget appropriation plus the European contribution).

The launching of the LEADER+ programme was an important event for Greece in 2002. By the end of July 2002, 40 local projects had been selected through the evaluation process, over one-third of which concerned Macedonia and Thrace, the others concerning Crete (4), Thessaly (4), Western Greece (4), the Ionian Islands (3), etc.

The LEADER+ and programme for Greece comprises 4 priorities:

- the "Integrated pilot development strategy for agriculture", which takes up 90% of the Community funds,
- "Support for cooperation between rural areas", which receives 4% of Community funds,
- "Networks", for which 1% of Community funds is reserved, and
- "Programme management, monitoring and evaluation", to which 5% of Community funds are allocated (this is the share of the LEADER+ administration).

In **Italy**, rural development was the second-largest budget item in terms of subsidies paid through the Agricultural Aid Agency (AGEA) in 2002. It actually received 16% of the funds allocated (a subsidy of €1 billion), coming second after the budget line of subsidies for land for cultivation, which amounted to over €2.134 billion (35% of the total payments made in Italy). Furthermore, the new EC Regulation no. 445/2002 laying down detailed rules for the application of rural development policies essentially reflects the commitment to promote diversification and the multi-purpose aspect in agriculture. Two new features influencing the future management of rural development policy can be underlined in this context as far as Italy is concerned: the measure concerning entries of young farmers, which makes provision for a decision to grant support for the 12 months following the date of their establishment, support for investments being granted directly by the Regional Authority in the case of amounts below €25,000.

In **France**, rural development policy in 2002 was marked by the abolition of a specifically French agricultural policy measure – the Regional Farming Contracts (CTEs). This abolition was part of the right-wing election programme, a measure which was originally distrusted by the major (right-wing) farmers unions and had proved labourious to implement due to its complexity and the preliminary studies it required. For this reason France only managed to use a small proportion of the available European rural development credits in 2001. The CTEs really got off the ground in 2001 and 2002, however, since simplified versions were implemented in the départements, sometimes departing from the original spirit of the measure, which was to give precedence to personalised projects that were adapted specifically to the economic and environmental situation of the farm concerned.

Over 20,000 CTEs had been signed or were in the process of conclusion whenever they were suspended.

This government decision was primarily the result of the abolition of the modulation of aids in the case of the largest farmers (this mechanism was described in detail in the report on the year 2000); it was the major farmers' unions which had called for the abolition of modulation, whereby the amounts saved (which actually were not large, since modulation was very limited) were used for financing the CTEs. The government also wanted to simplify agro- environmental aids and lay down more specific objectives. The CTEs were replaced in the autumn with Sustainable Farming Contracts (CADs), whose principles are more or less the same as those of the CTEs, but for which rules of application have still to be defined (application decrees have not yet been issued) at the time of writing the present report.

In **Spain**, the number of farms is continuing to drop, and farms are becoming more and more specialised. The 1999 census registered a decrease of 21.7% in the number of farms, although the usable farm area increased by 6.4%.

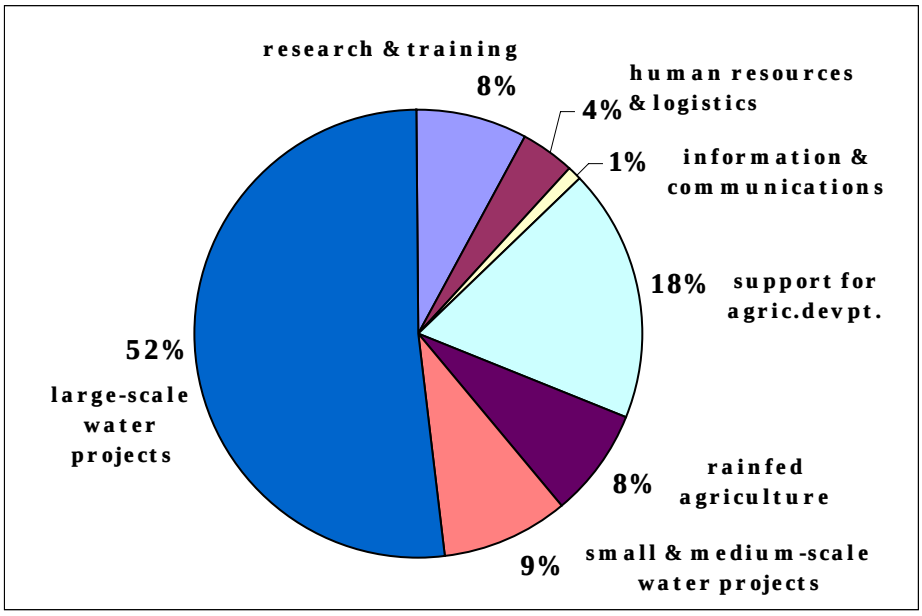
6.5 - Natural resources management policies

6.5.1 - Water

In all Mediterranean countries, despite increasingly frequent and urgent calls for efforts to seek broader-based, demand-determined water management, supply-determined management continues to prevail.

In **Morocco**, the greater part of the budget of the Ministry of Agriculture was again expended on large-scale water projects in 2002 (52% of total resources), an increase compared to previous years, when these investments tended to amount to well under half of the budget (see figure below). This is mainly to be explained by the plan to equip the irrigation areas dominated by recently constructed dans. The fact remains, however, that the volume of resources required for that purpose leaves little leeway for meeting the needs of other agricultural sectors, which are at least as important.

Figure 6.1 – Structure of the investment budget of the Department of Agriculture in Morocco, 2003



In **Algeria**, environmental problems are gradually becoming a concern of which there is growing awareness in government policies. As is the case in other southern Mediterranean countries, this is because leaders are beginning to realise that prevention in this field costs less than repairing the damage once it has been done.

In the National Plan for Agricultural Development (PNDA) considerable importance is attributed to soil and water. In the irrigation field, an area of a 37,624 ha was equipped with irrigation machinery for the first time in 2002, and in the case of 19,909 ha this was drip irrigation (also known as dribble or trickle irrigation) machinery. Whereas only 10 years ago drip irrigation was virtually inexistent, it now covers 80,209 ha (2002), an increase of 33% compared to 2001. This quantitative leap is due primarily to the level of subsidies granted within the framework of the PNDA to water-saving irrigation methods.

As regards the other water resources, although desalination will cost $1 per cubic metre (and consumers will be charged 3,5 dinar), the Ministry of Water Resources has drawn up an impressive programme for installing seawater desalting plants, especially in coastal zones. A study is underway "for the installation of desalting plants by 2020 producing a total of 4 million cubic metres per day, enough to cover the needs of 10 million inhabitants". This programme seems to have been implemented in haste without any serious economic study. For before making

water available at such a high cost there are other less costly possibilities to be explored. Water can be economised, for example, by systematically replacing the traditional surface flood irrigation systems with linear move sprinkler or spray systems. Even if these systems are subsidised 100%, the water that would thus be saved would be less expensive than desalination water. What is more, crop yields could be increased.

In **Egypt**, the quantity of water drawn from the Nile has not changed for many decades, but in view of population growth this means that the quantity of water available per inhabitant is constantly decreasing. The satisfaction of water needs in agriculture will depend on measures to rationalise consumption and improve irrigation and drainage techniques, to adjust agricultural production structures more efficiently, to introduce more crops which are less water-demanding, to use treated waste water more systematically and to extend the use of groundwater. Unless such action is pursued on a permanent and sustained basis, Egypt is liable to have serious water shortages in the short or medium term.

In **Albania**, measures to rehabilitate irrigation and drainage systems and improve their administration have continued through the increase of investments in this field and action to restructure water management bodies, create new Drainage Boards and strengthen water users' associations and federations (400 new associations were created in 2002). The action to reorganise the national structures of the Water Directorates at district level has been completed, resulting in the reduction of the number of such bodies from 35 to 11 and changing them into "Regional Water Directorates". These have been set up at the level of watersheds and dams. As regards measures to improve irrigation management, many powers of the central administration were transferred direct to the water users' associations (associations of small farmers operating at the local and regional level) in the course of 2002, and 15 regional irrigation schemes were drawn up. It is a priority for the Ministry of Agriculture and Food that water and irrigation scheme management should be carried out by farmers organised in associations and regional federations. These associations currently manage the use of irrigation water on 166,214 ha.

In **Spain,** the government approved a National Irrigation Plan in April 2002, which aims to modernise existing irrigation systems and create new irrigated areas over a 7-year period. Spain currently has 3.3 million ha of irrigated land (13% of the AAU), the major part being supplied by "traditional" water resources (groundwater and surface water), whereas other resources are negligible (desalination, treated waste water).

Gravity-fed irrigation is used on approximately two-thirds of the irrigated acreage (2 million ha), whereas sprinkler or drip irrigation techniques are used on one third (1.3 million ha). The latter techniques are considered essential in regions where there are considerable water shortages and water quality is poor (in the south of the peninsula and on the Canary Islands).

The objectives of the Plan, which are to be achieved by 2008, are as follows:
- improvement and modernisation of the existing irrigation systems on 1,134,891 ha
- re-equipment of 138,365 ha
- improvement of irrigation in areas of social interest on 86,426 ha
- measures to encourage private initiative in the irrigation field on 18,000 ha.

The central and regional administrations plan to co-finance the Plan as follows:
- total investment ..... approx. € 5 billion
- private investment ..... approx. €2 billion
- central government ..... approx. €1.4 billion
- regional governments ..... approx. €1.6 billion

The debate on this Plan is also continuing. Whereas the main agricultural organisations and the central government are anxious for it to be implemented rapidly, several regional governments and environmental organisations argue that it does not comply with the European water directive, mainly as regards the principle of cost recovery and environmental principles. The central government plans to have the Plan co-financed by the European Union through the Integrated Operational Programmes of the Structural Funds (mainly operations for transferring water from one drainage basin to another).

6.5.2 - Soil, natural vegetation and environment management

In **Algeria**, less plantation work was carried out in 2002 compared to the previous year in the fields of afforestation (8,138 ha compared to 10,177 in 2001), fodder and grassland planting (542 ha compared to 1,037 ha in 2001). But more measures were taken in the fields of forest maintenance (forestry work on 19,000 ha - an increase of 65% compared to 2001) and efforts to fight erosion (torrent regulation and benches), although they were still very limited compared to the tremendous needs in these fields.

There were appreciably fewer forest and scrubland fires in 2002 compared to 2001 (a decrease of 23% and 4% respectively). This was no doubt in part the result of the recent policy of the Forestry Commission to involve riparian populations in the management of forest land. Authorisation was granted for the use of approximately 214,000 ha of forest estates in 2002, and the administration procedures have been finalised for permits for the use of a further 223,000 ha. Furthermore, 2,483 lessees were approved (1,853 for arable blanks, 6 for quarries, 624 for bee-keeping, rangeland, olive groves, orchards, etc). Action was taken to develop mountains zones in August 2002 consisting of the afforestation of watersheds with breeding varieties which are economically productive. These measures will be continued until 2004 depending on the financial resources allocated.

Grassland ranges will henceforth benefit from a development fund, the National Fund for Combating Desertification and Developing the Steppe (FLDDPS), which was established in January 2002 pursuant to the 2002 Finance Act; it has been appropriated a budget of 500 million dinar (143.6 million of which were spent in the course of the year).

Although the Directorate General for Forestry only carried out 542 ha of fodder and grassland planting in steppe zones in 2002 (1,037 ha in 2001), the work carried out in 2002 by the High Commission for Developing the Steppe (HCDS), which is the main institution specifically in charge of grassland ranges, were on average significantly more extensive than in 2001, except in the case of the development and equipment of watering stations (-15% and -2% respectively). There was in particular a considerable increase in farms benefiting from fruit planting (plus 73%), areas of integrated steppe management (+27%), creation of watering stations (+57%), construction of water conduits (+295%), water and soil conservation work (+71%), and spate irrigation (+110%). And finally, the HCDS took action to protect soil and natural vegetation resources on 2,528,952 ha (2,448,100 ha of which are restricted areas and 8,138 ha are tree plantations), approximately the same acreage as that covered by measures in 2001 (2,584,000 ha).

With regard to soil and water, according to the MADR report, the usable farm area of the country was increased by 73,108 ha (+153% compared to 2001) as the result of subsidised action to develop marginal land (land development through transfer). One would imagine that not all of this area is entirely new usable area, since land development through transfer often affects land which is marginal but nevertheless farmed. However, this land benefited from improvement work which in many cases was fairly extensive (stone clearing, soil breaking, irrigation, etc.) and justifies its being classed as "new AAU".

In **Egypt**, efforts to develop new land continued, increasing the arable acreage from 7.9 million feddans[28] in 1999 to 8.2 million feddans in 2002. This extension was due in part to the advantages offered to persons investing in the development of new land:

- exemption from any form of taxation on development investments for 10 years, and this can be extended to 20 years in Upper Egypt and the South Valley,
- 5% reduction of customs duties on all imports connected with development,
- facilitation of credit for development (7% interest rate on loans and extension of the loan period),
- reduction of the fees charged on the transfer of desert land for development,
- opening of the Sinai Desert to development (formerly prohibited for security reasons).

[28] 1 feddan = 1.038 acres

But the rate of arable land extension has slowed down compared to the 1980s (92,000 feddans per year on average throughout the period from 1992 to 1997, whereas only 22,000 feddans were registered in 2000 and only 12,700 feddans in 2001). Consequently, arable land is continuing to be subject to heavy human pressure and the acreage available per farmer is still very limited (0.13 feddan per member of the working farm population). It must be pointed out, furthermore, that arable land is continuing to be eaten up as the result of the extension of urbanisation and infrastructures (15,640 feddans over the 3-year period from 1999 to 2001, 5,641 in 2001).

In the environmental field, the Egyptian Ministry of Agriculture and Development adopted a plan of integrated pest control measures with a view to conserving the environment and producing good-quality commodities for export. Agronomic research centres have obtained results in this field in the case of cotton, rice, sugar cane, and maize. Furthermore, the use of insecticides has been reduced by approximately 4,000 tonnes per year through biocontrol.

As a further environmental measure the government adopted an environmental development plan in 2002 consisting of expanding tree plantations and increasing the number of green belts in urban areas.

In **Lebanon**, the National Action Plan (NAP) for combating desertification was launched on 17 July 2003. It comprises water resources management, sustainable agriculture, soil conservation, rangeland management, protected areas, socio-economic conditions, land management and the institutional and legislative framework. A map has also been drawn up of the regions affected by desertification.

In **Turkey**, the implementation of the National Action Plan for the Environment and the National Action Plan for Biological Diversity is long in coming. The fundamental measures and priorities defined by the former need to be reviewed in coordination with, and with the participation of, the main stakeholders. The Plan itself should be revised and updated to take account of legal issues. Furthermore, sustainable development indicators should be developed for more efficient management of the Plan. As regards the National Plan for Action for Biological Diversity, the law on biological safety should be promulgated and a biosafety authority should be set up.

In **Albania**, forest land and pastures cover approximately 50% of the area of the country (36% woodland and 14% pastureland). An inter-ministerial task force has been set up with a view to achieving the government's main objective of controlling and protecting woodlands on the basis of a national strategic programme. This has resulted in considerable reduction of illegal felling in forests and of trafficking in forest raw materials. The powers of the State forestry administration are currently being transferred to municipalities with a view to sustainable forest management (this transfer has already concerned 27,000 ha). Special measures have also been

taken to protect forest fauna. At the institutional level, structures are being created for managing protected areas within the framework of the collaboration of the Ministry of Agriculture and Food and the Ministry of the Environment.

Thanks to the Rural Development Programme for the 2000-2006 period and the agro-environmental measures it comprises**, Greece** hopes to make progress in the environmental field. Whereas organic agriculture covered less than 2000 ha in 1994, it covered over 30,000 ha in 2001. In view of the launching of the LEADER+ programme in 2002 and the measures taken to enhance it in 2003, it is to be hoped that this form of agriculture will be extended. Furthermore, the government set up a National Organic Farming Council in 2002 to assist the new department that has been established within the Ministry of Agriculture with the mission of developing organic farming. The following priorities have been set in this field:

- measures to improve and simplify procedures for farmers wishing to invest in the field,
- action to adapt the role of the organic farming certification bodies,
- establishment of an Institute of Organic Farming within the National Foundation for Agronomic Research (NAGREF),
- measures to grant investors in the field more significant advantages.

Furthermore, the Ministry of Agriculture relaxed the requirements for the recognition of organic (fruit and vegetable) producer organisations in 2002, particularly those concerning turnover.

And finally, a programme entitled "Organic livestock farming 2001-2006" also entered into effect in 2002. Its objectives are as follows:

- production of meat products according to organic farming standards,
- improvement of animal living conditions,
- environmental protection,
- preservation of the biodiversity of agricultural ecosystems and farm landscapes,
- sustainable use of resources,
- creation of viable organic animal husbandry zones through small economies of scale.

7 Fisheries

The analysis of fisheries in the Mediterranean countries, as usual around the world, has historically been focused on the state of marine living resources, neglecting those economical and social issues related with the fishing activity as, for instance, those of commercialization, employment, import-export of fishing products and food supply.

That is probably because the biological sustainability of resources, as may be the maintenance of spawning stocks size above a critical minimum size, must be ensured before objectives concerning output maximization from fisheries, as maximization of yield or socio-economic benefits to society, can be pursued. However, it is important to bear always in mind that without these economic and social elements that constitute an essential part of fisheries it is almost impossible to manage fisheries formulating regulation measures.

In this context the purpose is to provide a first attempt for an overview on the Mediterranean fisheries through an analysis of the most common and available indicators, i.e. those biological, economic and social data or combinations of data for a clearly defined analytical or policy purpose.

Fishery indicators are used to assess and monitor the state of the fishery sector and the performance of its governance. These indicators which, at present and in many cases, tend to be limited to biological components of the fishery system as it is the case of stock biomass (B) and fishing mortality (F), provide an operational tool for providing advice for fisheries management.

Changes in indicators over time, cannot be meaningfully interpreted without considering them in relation to a reference value corresponding to the sectorial or societal objectives and ecosystem constraints which must not be exceeded as, otherwise, it might endanger the self-renewal capacity of fishery resources exploited by fishing fleets.

The Scientific Advisory Committee (SAC) of the General Fishery Commission for the Mediterranean (GFCM) in 2003 decided to start to work, together with catch/landings, fishing effort and the catch per unit effort (cpue) as indicator of the Biomass abundance, with the following new biological indicators: The percentage of virgin Spawning Stock Biomass (SSB/SSBo), which, in the case of hake, for instance, should be maintained between 0.3-0.4, the Fishing Mortality rate (F) the total mortality rate (Z) and the Exploitation Rate (E=F/Z) which, in case of small pelagic fishes, should not exceed the value of 0.4.

Other biological or ecological indicators such as, for example, catch structure, relative abundance of target species or direct effects of fishing gear on non-target

species can also be used in the context of the new Ecosystem Approach to Fisheries (EAF). In this context, it may be that indicators such as the average Trophic Level (aTL) of catches or the Percentage of Primary Production Required (%PPR) to support a given level of catches can be used as ecological indicators which are relatively easy to obtain provided that a limited amount of basic information is available.

Furthermore, as it has been already said, until now, not enough attention has been paid to defining indicators that could be used to assess the economic and social aspects of fisheries and interaction with the pursuit of sustainable development objectives. In 1999 the OECD/OCDE Committee for fisheries decided to develop fisheries social and economic indicators to be used as tools in policy analysis. In 2002 the Organization for Economic Co-operation and Development (OECD/OCDE) agreed that the overall goal of this activity should be to contribute to improvement in the measurement of economic and social dimensions of sustainable development of fisheries and, where possible, relate these to resource and environmental dimensions.

The Scientific, Technical and Economic Committee for Fisheries (STCEF) of the European Commission in 2001 issued a document presenting a general set of economic and social fisheries stability indicators. The underlying notion is that to be economically and socially sustainable a fishery must be capable of being exploited profitably at some biologically sustainable level. The purpose of indicators must therefore be to show whether a fishery is currently sustainable, economically, socially and biologically, and, if not, whether it is capable of being exploited in a sustainable way at all and, if so, at what levels of capital, of labour employed and of fish stocks.

The GFCM in 2002 recommended, inter alia, to adopt for the Mediterranean the following economic background data and indicators: Fish capture and aquaculture production, value of this production, Import-export weight and value, fleet data (Number of fishing vessels, Gross tonnage and Engine Horse Power of fishing vessels), Employment (crew) and fish consumption.

GFCM-SAC suggested in 2003 the following sociological indicators: Fishermen age, number of years of active fishing, capital share, education attainment, house hold structure, social background and professional experience

However, it has to be stressed that the main constrain and what could be the major difficulty in the following years to establish a system of indicators for fisheries in the Mediterranean is the lack of availability of regular and feasible **series of data** on which base the analysis. In fact the analysis has evidenced a lack of fishery databases with enough coverage and reliability for a correct assessment of fisheries. Some statistically valid series exist only in a few areas and short time periods which can be used, in some cases, as a reference value.

Few sources of authorized information on fisheries, covering all the region and updated on annual basis, are available and make possible to obtain some background data useful to perform an overall preliminary analysis giving us some sort of reference. These data bases which have been used for the present analysis are summarized in Table 1.

Table 7.1 - Data bases and Background data used

Source	Background data
FAO Fishstat	Production (catches and aquaculture volume and value) statistics
FAO Faostat Fisheries data	Consumption. Import-export volume and value.
OECD/OCDE Review of fisheries-country Statistics	Fishing fleets: Number and characteristics of fishing vessels. Employment. Value of landings. Import-export value
EUROSTAT Fisheries yearbook	Fishing fleets: Number and characteristics of fishing vessels. Employment, Value of landings. Import-export value.
Complementary Info from Faostat (Country Profiles, Food Balance sheets) and provided through Internet by Fishery Ministries of Countries	Fishing fleets: Number and characteristics of fishing vessels. Employment. Gross value of fisheries output.

Regarding the **spatial references for the analysis**, in the case of "Fisheries" it has been considered that, at this moment, it is better to revise the situation at Mediterranean regional level, introducing, of course, were special common characteristics can be identified as much comments to countries, groups of countries and areas as possible. In this context and regarding the area and the countries to be covered the analysis refers not only the aspects related with production, but also those related to means of production, trade and consumption. The analysis takes into account the overall fishery sector in the Mediterranean countries, Portugal included, and not only that part related with the Mediterranean production. Because of that and also due that in the cases of Spain, France and Morocco frequently it is impossible to separate in the data bases the information corresponding to the Atlantic from those corresponding to the Mediterranean, for these countries, fishery sector will be analyzed as a whole, giving, of course when possible, references in order to allow to estimate which part corresponds to the Mediterranean. In case of aquaculture, information on Bulgaria and Rumania has been also included. Additionally, it has to be indicated that most attention has been put on CIHEAM countries.

Five groups of countries have been identified (the Black Sea Fisheries will not be taken into consideration):

- European Union Member Countries: Portugal, Spain, France, Italy and Greece
- Countries that will joint the EU in 2004: Malta, Slovenia and Cyprus
- Countries of the Magreb area: Morocco, Algeria and Tunisia

- Rest of CIEHAM Countries: Albania, Turkey, Lebanon and Egypt
- Other Mediterranean Countries: Libya, Israel, Syria, Gaza Strip, Serbia-Montenegro, Croatia and Monaco

7.1 – Means of production

7.1.1 - Fishing fleets, harbors and fishermen

Mediterranean fisheries are enormously diversified, with many fleets based all along the coast in a great many ports. Trawlers[29] clearly predominate, given the quality and value of their catches. However, purse seiners[30] and small-scale fleets[31] also constitute an important element of the Mediterranean fisheries. The number of fishing nets and gears included in the small gear category is usually almost as high as that of fishermen, e.g. trammel nets and their varieties; driftnets; bottom or surface long lines; the different types of traps and many others. Usually, each one of these fishing gears is specialized to catch a specific species or a group of species with similar behavior patterns.

Although there is no accurate background information about the capacity and size of all countries' fleets, it is generally accepted that a modernization of both semi-industrial and small-scale fleets is taking place. This policy aims not only to increase the technical capacities of these fleets but also to improve fishing efficiency and to improve the living conditions of fishermen. Except for the industrial fleets fishing large pelagic species in open seas, most Mediterranean fleets are artisanal. "Artisanal" is used to describe low-capital ventures where the fisherman is often the owner of the vessel, in contrast to industrial fisheries involving major investments by companies or financial groups. Based on the OECD/OCDE and EUROSTAT Databases and using some complementary information from FAO and provided through Internet by Fishery Ministries of Countries, the total number of fishing boats belonging to the Mediterranean countries can be, at this moment, estimated at approximately between 125000 and 130000, of which between 7000 and 8000 are trawlers or purse seiners. It is to point out that, in the case of Spain, France and Morocco an important part of this fleets doesn't operate in the Mediterranean and that in the Eastern part of the Mediterranean, 44% of Turkish fleet operates in the Black Sea and many Egyptian boats operates in the Red Sea. In consequence, the

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[29] Trawl fish with a large net, dragging on the bottom or up in the water column behind a towing vessel. The mouth of the net is held open by two large "doors" which are attached to either side of the net. The net is dragged behind the boat with a thick steel cable.

[30] Purse seining is a type of fishing in which a long rectangular net with a weighted bottom edge and a buoyant top, floated by the cork line, is run around a school of fish to contain it. Addressed to species that live in large concentration of fish: sardine, anchovy, etc.

[31] That use a very large number of artisanal or small small scale gears that present differences across the Mediterranean Sea.

number of fishing vessels operating across the Mediterranean can be estimated at approximately 100000 of which, in the EU countries, up to 80% are small vessels of less than 12 meters of length overall using small scale gears (Tables 2 and 3). In the non EU countries the percentage of small vessels is bigger an in general over 90-95% of the fleets. For this reason and in order to make possible to analyze fishing fleets, it is recommended, when possible, to desegregate data into boats under and over 12 meters length.

Table 7.2 - Number of fishing vessels

Num.Vessels	1995 (1)	2000 (1)	2001 (2)
Spain (3)	18483	16660	15386
France (4)	6586	8173	7935
Greece	18483	16676	20129
Italy	16352	17654	16496
Portugal	12120	10811	10514
TOTAL EU	**74019**	**71974**	**72461**
Cyprus	542		
Malta	1609		
Slovenia	95		
NEW EU	**2246**		
Morocco (5)	2416	18825 (6)	
Tunis	14242		
Algeria	1750		
MAGREB	**18408**		
Albania	110		
Turkey		17319	
Lebanon	1000		
Egypt	4052		
CIHEAM	**116517**		
Croatia	6043		
Gaza			
Israel	456		
Libya	3561		
Yugoslavia			
Syria	1490		

(1) EU countries: EUROSTAT; Others: FAO Fish.Circ.927.
(2) OECD/OCDE Review of Fisheries 2001
(3) In 2003, 4305 fishing vessels operating in the Mediterranean. 995 trawlers, 365 purse seiners and 220 long liners.
(4) Around 1750 operating in the Mediterranean.
(5) Official data provided by Morocco: In 2003, 3133 fishing vessels operating in the Mediterranean. 285 are trawlers or purse seiners and 248 long liners.
(6) FAO Country profiles (see Table 7.3).

Table 7.3 - Information on fishing fleets

Country	Year(1)	Landing Places All / major harbours	Fishing Fleets (number of vessels)		
			Trawl	Purse-seine	Small gears
Spain (25)	2000		2600	1000	12667
France (7)	1996		1000		6000
Italy (9)	1993	802/100	1678		
Portugal (10)	1997				
Cyprus	1998		14 (24)		450
Malta	2000	2	45 (12)		1.691
Slovenia (11)	1997				80
Morocco	2000	133/7(2)	428 (6)	397 (6)	18000 (13)
Tunisia	1997	30/10	347 (4)	349 (5)	4300 (26)
Algeria	1996	25/4	285 (14)	602	1.090
Turkey (8)	1997		359	509	8872 (15)
Egypt (12)	1998	4/?	1589 (16)	218 (17)	1209 (18)
Israel	1996		31 (19)	26 (20)	n.a.
Libya	1996	129 (3)	85 (21)	130 (22)	3477 (23)

(1) Year in which the information was given. **(2)** 4 in the Atlantic and 3 in the Mediterranean. **(3)** 79 permanent. **(4)** 420 in 2000. 400 HP. **(5)** 373 in 2000. 45-320HP/11-17m. **(6)** Other 690 polyvalent and 454 vessels of distant fleets (357 in 1998). **(12)** Powered vessels: 30-800 HP; Production: 24% Sea, 61% Inland and 15% Aquaculture. **(8)** 44% of vessels operate in the Black Sea. **(7)** 7021 vessels. 73% less than 12m and 14% are trawlers of 16-25m. 10 deep-sea freezer trawlers and 34 tuna vessel operating in tropical waters. Since 1988 fishing capacity has fallen very sharply. **(25)** Since 1990 fishing capacity has fallen sharply. 16703 vessels. 12.667 artisanal , 3000 trawlers and purse seiners and 600 vessels of distant fleets mainly trawlers. **(9)** The fleet is under reduction since 1999. 16788 motorized vessels. 10% trawlers and 415 of more than 100 GRT. 53 are fishing outside of the Mediterranean. **(10)** 11189 vessels 85% less than 5 GRT decreasing since 1989. **(11)** 14 industrial vessels of 24-30 m, 5 pelagic trawls, 15 vessels 10-16 m bottom trawl and seines. (12) more than 15m. (13) 2GT/8-25HP. (14) 60-400HP, 11-22m. (15) 8-10 m/10-25HP. (16) 1.355 Med. Sea. 300-800 Hp. (17) 135 Med. Sea. 20-30 crew members. (18) 930 Med. Sea. (19) max. 25m. (20) 10-12m. (21) 13-33m. 160-950HP. (22) 18m. (23) (1993) 1.014 more than 10m and 2/3 motorized. (24) 20-30 meters. (26) vessels with motor; 7585 without motor.

Source: From FAOstat Country Profiles.

The available information on fleet characteristics is scarce and usually is not given by fishing modalities or groups of boats. The available information (Tables 3 and 4) indicates that the average Gross Registered Tonnage (GRT) of fishing vessels of European Countries operating in the Mediterranean is between 13 and 16 Tones except in Greece that is 5,4 Tones. In the case of France and Spain if vessels operating outside of Mediterranean are included the average GRT can be estimated around 30 Tones. Regarding Engine Power the information is even worse, the

average estimation in Spain, for Mediterranean fleets is 110 Kw and in France, all fleets included up to 139 Kw.

Table 7.4 - Information on Gross Registered Tonnage of EU fleets (Metric tons)

GROSS TONAGE	1995 (2)	2000 (2)	2001 (1)
Spain	658166	526134	528491
France	178460	222205	230861
Greece	116778	114320	108992
Italy	260357	231983	217921
Portugal	125418	117105	116969
EU	**1339179**	**1211747**	**1203234**

(1) OECD/OCDE, Review of Fisheries in OECD/OCDE Countries, 2001.
(2) EUROSTAT.

The EU has been pushing to reduce the fishing capacity of their fleets, for which reason the number of boats of the European fleets have been decreasing since 1990. But on the other hand, and independently that no figures are available, the fishing fleets in the non EU countries are continuously growing. Furthermore, the trend towards modernization and more efficient, larger boats in a race for fish results is a constant increase in fishing effort.

Regarding employment in fisheries, it can be roughly estimated (Table 4 and 5) that, apart from the significant number of part-time fishermen, at present there are around 450000 fishermen in the Mediterranean countries of which around 300000 are working in the Mediterranean fisheries. In Spain for instance, the OECD/OCDE informs that there are 44676 fishers, and the Spanish "Instituto Social de la Marina" informs that, in the Mediterranean harbors, there are 12021 fishers registered what represents a 27%. In France, in 2001 of 29000 fishers, 23132 were on board more than 3 months a year, something more than 11% in the Mediterranean.

Furthermore and assuming that each job at sea generates a number of jobs on land working in the various fisheries sectors (commercialization, fishmeal industry, administration, research and training, etc.), it is not unreasonable to say that an important part of the population living on the Mediterranean countries and mainly in the Mediterranean coastal regions depend on fisheries activities for their livelihoods.

Box 7.1

In consequence and in a preliminary approach, referring to means of production, three groups of countries can be identified:

The EU countries, with larger fleets (between 8000 and 20000 units, 80% small scale) and with a total fleet of more than 70000 units . These are fleets with high fishing capacity but decreasing.

The second group, are countries with smaller fleets (between 2000 and 18000 units, 90-95% small scale) and lesser individual fishing capacity. Morocco, Algeria, Tunisia, Libya, Croatia, Turkey and Egypt with a total of around 65000 units. In many cases, these fleets include an important percentage of not powered boats; however, these countries are developing their fleets, increasing the number of vessels and improving their technological characteristics.

A third group, with smaller fleets under development, is performed by a group of small countries or with a reduced littoral (Israel, Lebanon, Syria, Malta, Cyprus, Albania and Slovenia) that totalized, all together, around 5000 vessels in some cases not powered or even undecked. Looking at the employment, it can be pointed out that the crew members in vessels of similar characteristics is bigger in fleets of the two last groups than in those of the EU countries. That explains why in these countries concentrate two thirds of the total employment in the region.

Table 7.5 – Employment - primary fishermen (number of fishermen)

Fishers	1975 (2)	1985 (2)	1995 (2)	2000 (1)	2001 (1)
Spain	112647		75009	46189	44676
France			38270 (1)	26016	26036
Greece	8337	12973	19840	16308 (2)	37490
Italy			45000	52184	49637
Portugal				25.021	23.580
EU			**178119**	**140697**	**157839**
Cyprus	537	1234	1097		
Malta	1037	1320	1707		
Slovenia			102	118 (2)	
NEW EU	**1574**	**2554**	**2906**		**0**
Morocco	17000	35000	99885		
Tunis		40779	61258		
Algeria			23000		
MAGREB			**184143**	**0**	**0**
Albania		3300	720		
Turkey				50000	
Lebanon			9000		
Egypt		52988	36000 (3)		
CIHEAM					
Croatia			11756		
Gaza					
Israel			1250 (3)		
Libya			4700 (3)		
Yugoslavia					
Syria			4200 (3)		
Total			**452514 (4)**		

(1) OECD/OCDE, Review of Fisheries in OECD/OCDE Countries, 2001
(2) EUROSTAT
(3) FAO Fish.Circ.927
(4) France, Spain and Morocco, Atlantic fishers included. Using 2001 data for EU countries

Table 7.6 - Employment information

Country	Year(1)	Employment (number of fishermen)	
		Primary Fishermen	Second
Spain	2000	6800 (2)	85085
France	1996	18369	38936 (3)
Italy	1991	50450	20360
Portugal	1997	27347 (4)	
Cyprus	1998	970 (5) 5000 (6)	350
Malta	2000	525 370 (5)	1902
Slovenia	1997	512	
Morocco	2000	120000 (1998)	280000 (1998)
Tunisia	1997	64000 (1994)	36000 (1994)
Algeria	1996	23500 (1993)	
Turkey	1999	68000	190000
Egypt	1998	200000 (7)	
Israel	1996	1500 (5)	2400 (5)
Libya	1996	9.500 (8)	2300

(1) Year in which the information was given.
(2) Crew members. Other sources indicate that 12.021 is the total employment in the Mediterranean.
(3) Processing, market and distribution plus13.945 marine aquaculture sector
(4) Total employment; (5) full-time; (6) part-time; (7) licensed; (8) 5000 part-time

Source: From FAOstat Country Profiles.

7.1.2 - Aquaculture fish farms and production systems

The diversified character of Mediterranean coastal aquaculture is based on geographical differences (coastal lagoon, islands, etc.) together with a range of historical and socio-economic factors. The technology applied has evolved rapidly.

As regards fish farming, in the Mediterranean there are small family or big companies for almost all the production systems (extensive, semi-intensive, intensive, monoculture, polyculture, etc.) and techniques (freshwater raceways or pond production, coastal lagoon management, marine land based installations, cage farming, etc.). This being probably the main reason why statistics about the number of units is scarce, disperse and not collected at a regional level. Due that, the figures available only compile information about industrial fish farms (intensive and semi-intensive) in Mediterranean countries.

Table 7.7 - Fish Farms (intensive and seem-intensive) in Mediterranean Countries

Country	bass & bream hatcheries	bass & bream ongrowing	tuna	turbot	salmon	marine trout
Spain	9	58	7	17	2	
France	9	29		5	1	7
Greece	33	266			4	
Italy	15	79	2	4	2	
Portugal	5	61		3		
Cyprus	4	8				
Malta		5	2			
Morocco	1	3	1			
Tunisia	2	5				
Algeria						
Albania						
Turkey	16	324		1		11
Lebanon						
Egypt	3	N.D.				
Croatia	4	37	9			1
Israel	2	6				
Total	**103**	**881**	**21**	**30**	**9**	**19**

Country	freshwater trout	eels	carps	tilapia	mullets	others
Spain	132	2	1	-	-	3[b]
France	480		900[a]			
Greece	96	10	12			
Italy	589	74	50	2	500	193
Portugal	30	1				13
Cyprus	7					
Malta						
Morocco	1	1				
Tunisia						
Algeria						
Albania						
Turkey	967		68			
Lebanon						
Egypt			N.D.			
Croatia	16		27			
Israel						
Total	**2.368**	**88**				

a: Most are part time activity b: tench units and 1 sturgeon unit N.D.: no data

Source: Developed in 2002 by B. Basurco, CIHEAM, in collaboration with the FAO-SIPAM Network and through personal contacts.

Regarding marine fish farming, the most cultured species are seabream and seabass. For them the production technology has evolved rapidly, both in modifying existing facilities (e.g. water recirculation for land based installations) and in developing new projects (e.g. off-shore cage technology). It is pointed out that cage units are the predominant ongrowing system, some 82% of about 900 units (table 7.7). Seabream and seabass companies are very diverse, ranging from large companies with several ongrowing farms to small family enterprises. Besides the ongrowing units, there are about 100 land-based marine hatcheries, with a production capacity ranging from 5 to 12 million fingerlings or more.

Besides seabass and seabream, it is worth mentioning turbot, which accounts for about 30 units in Mediterranean countries. Turbot, which is mainly produced in Spain and France, is cultured only in land based installations, both hatcheries and ongrowing. Eels, with over 80 units, are also produced in land based installations, either in ponds or in highly intensive recirculation systems.

Besides mentioning the case of sea trout (18 units), which is mainly reared in Turkey (11 units) in cage farms, the case of Bluefin Tuna (*Thunnus thynnus*) fattening is here highlighted. During the last 3-5 years there has been a very important development of tuna farms in the Mediterranean, now reaching about 20 farms. Although Spain (7 farms) and Croatia (9 farms) are the main producers, other countries have already initiated (e.g. Malta and Italy) this production or have shown a growing interest in it, e.g. Turkey.

7.2 - Production

7.2.1 - Fisheries (catches/landings: volume and value)

In 2001 49% of the total catches corresponded to the EU member countries and 51% to the non EU member countries and this share is 40% and 60% respectively if we lock only at the Mediterranean catches. Actually, the trend in the share of catches observed, in the last 30 years, shows a progressive decrease of the European share from 80% recorded in 1970 to the one indicated in 2001. The same trend is observed at global level around the world, i.e. industrialized countries are reducing their own share in the total landings in favour of those of developing countries.

Table 7.8 - Landings in metric tons

	Mediterranean Landings						Total Landings
	1975	**1985**	**1995**	**2001**	**MAX.70-00**	**Year**	**2001**
Spain	141436	140290	149008	138573	163022	1982	1084820
France	39329	43505	37977	43065	50804	1982	606194
Greece	62859	94709	139510	85043	168357	1994	94388
Italy	354920	430188	375976	294317	430188	1985	310397
Portugal	0	0	446	288			191214
EU	598544	708692	702917	561286	812371		2287013
Cyprus	919	2382	2505	2258	2762	1994	75803
Malta	1529	2520	922	882	2520	1985	882
Slovenia	0	0	1849	121	3612	1992	1827
NEW EU	2448	4902	5276	4761	8894		78512
Morocco	15442	35061	39676	28149	41804	1984	1083276
Tunis	45131	91105	82931	97647	102074	1988	98482
Algeria	37693	66001	105879	100000	135410	1994	100005
MAGREB	98266	192167	228486	225796	279288		1281763
Albania	5500	7419	1128	1845	8732	1987	3310
Turkey	10544	34648	81628	70290	104521	1993	484410
Lebanon	2400	1400	4065	3650	4115	1996	3670
Egypt	5392	16567	39463	59653	81001	1999	428651
CIHEAM	722175	963413	1058609	923402	1292548		4489699
Croatia	0	0	16157	21186	26812	1992	21186
Gaza	0	0	1229	3000	3791	1997	3000
Israel	7836	4972	3577	3400	8336	1972	5000
Libya	4949	14006	34010	33010	34010	1995	33239
Monaco	1	2	3	3	3		3
RFYugoslavia	0	0	372	418	426	2000	1088
RFSYugoslavia	31694	48516	0	0	54951	1987	0
Syria	876	1245	1950	2322	2750	1998	8291
TOTAL	768450	1034536	1120261	990620	1430001		4639136

Source: FAO FISHSTAT.

The General Fisheries Comission for the Mediterranean (GFCM) is annually assessing the Mediterranean marine living resources and, in their Report of 2002 included the following recommendations referred to the state of resources:

“The members in the GFCM geographical subareas concerned, are encouraged to adopt measures aimed at adjusting the fishing effort for selected demersal species and to rationalize their exploitation on the basis of the advice of the Scientific advisory Committee (SAC)” and also “The members in the GFCM geographical subareas concerned, are encouraged to take measures aimed at minimizing the capture of small pelagics below the size needed to maintain recruitment stock at level compatible with sustainable resource exploitation”.

Box 7.2

These GFCM recommendations can be translated into simple language saying that measures have to be taken in many areas to prevent the over-exploitation of resources due to the over-capacity of fleets. The main goal of these measures should be addressed to assure that spawning stocks are maintained into Saved Biological Limits for a sustainable exploitation. Furthermore, we can estate that using the catches/landings as reference or rough indicator, a Target Reference Point to manage Mediterranean fisheries can be situated between the current value of catches and the maximum one registered in the past (Table 7.8). The Target Reference Point for the fishing effort to perform a Harvest or Recovery Control Rule can be the registered fishing effort at that point of maximum catch taken as reference.

If such reduction of current levels of fishing effort is carried out, an increase in yields should be produced in several years. Of course, before the yields will recover a period of losses will take place. In any case, it is important also to bear in mind that the reversibility of the exploited ecosystems at previous states, when the fishing pressure has exceeded the recommended thresholds and limits for exploitation for a maximum sustainable yields, is not assured. Actually, the probability for recover populations of harvested species is minor when these populations have been driven to excessively low levels of biomass; however this seems not to be still the general situation in the Mediterranean.

In any case, what is important is bear always in mind that fish stocks are finite and, hence, cannot be increased in size, as with many other business activities, by increasing productive inputs. In the Mediterranean, the fishing effort is in excess of the minimum required to generate the target fishing capacity, i.e. the maximum amount of fish that can be produced by a fishing fleet if fully utilized. This results in a situation of overcapacity and management measures have to be taken to avoid the collapse of the fisheries.

To allow a more detailed analysis of fishing production, table 7.9 presents Mediterranean landings distributed by species groups, including in the case of Turkey, those coming from the Black Sea.

Table 7.9 - Landings in Metric tons by group of species

	Moluscs no cephalopods		Crustaceans		Cephalopods	
	1995	**2001**	**1995**	**2001**	**1995**	**2001**
Spain	5702	2120	5095	6056	7200	9065
France	2063	813	13	58	1415	1745
Greece	14295	2543	3347	2826	8674	5505
Italy	65697	85336	23613	18543	33679	20987
Portugal						
EU	**89752**	**92813**	**34063**	**29484**	**52963**	**39303**
Cyprus			5	7	453	279
Malta			5	36	6	7
Slovenia	7	55		3	46	80
NEW EU	**7**	**55**	**10**	**46**	**505**	**366**
Morocco	8	34	215	419	366	74
Tunis	1343	546	3875	5674	5625	9923
Algeria			2.105	3.260	834	860
MAGREB	**1351**	**580**	**6195**	**9353**	**6825**	**10857**
Albania			30	86	112	111
Turkey	960	11831	2130	3301	1866	2095
Lebanon			25	55	25	50
Egypt	140	4173	4997	4828	1097	1554
CIHEAM	**1100**	**16004**	**7182**	**8270**	**3100**	**3810**
Croatia	16	125	597	308	1015	1132
Gaza			116	180	56	170
Israel			260	170	50	100
Libya						
Yugoslavia	1	1	14	16	26	36
Syria			90	57		
TOTAL	**92227**	**109578**	**48527**	**47884**	**64540**	**55774**

Table 7.9 (contd.)

	Tuna fishes		Small pelagics		Demersals and other nei		TOTAL	
	1995	**2001**	**1995**	**2001**	**1995**	**2001**	**1995**	**2001**
Spain	8581	4635	76300	78331	46078	38344	148956	138551
France	9608	6159	20044	25431	4733	8572	37876	42778
Greece	5610	5731	52797	32811	53888	33382	138611	82798
Italy	17843	14972	97010	88045	137512	66200	375354	294083
Portugal	446	204			12	72	458	276
EU	**44083**	**33702**	**248146**	**226619**	**244218**	**148571**	**713225**	**570492**
Cyprus	109	251	16	18	1.922	1.703	2.505	2.258
Malta	656	315	372	345	117	179	1.156	882
Slovenia			1769	1350	28	133	1850	1621
NEW EU	**765**	**566**	**2157**	**1713**	**2067**	**2015**	**5511**	**4761**
Morocco	3456	3807	27559	17569	8065	6243	39669	28146
Tunis	3513	8560	29253	37919	39176	34865	82785	97487
Algeria	2343	4302	88683	78576	11907	13002	105872	100000
MAGREB	**9312**	**16669**	**145495**	**134064**	**59148**	**54110**	**228326**	**225633**
Albania	1	32	293	171	691	1444	1127	1844
Turkey	13470	15920	466842	375890	78620	72680	563888	481717
Lebanon	500	450	1975	1550	1540	1545	4065	3650
Egypt	1227	1850	13869	26431	18131	20816	39461	59652
CIHEAM	**15198**	**18252**	**482979**	**404042**	**98982**	**96485**	**608541**	**546863**
Croatia	1437	957	8381	12317	4448	2625	15894	17464
Gaza		130	0	1940	1057	580	1229	3000
Israel	215	100	936	570	2116	2130	3577	3070
Libya	1540	1950	13200	13000	19260	18050	34000	33000
Yugoslavia	45	47	113	115	166	201	365	416
Syria	155	370	595	613	1110	1282	1950	2322
TOTAL	**72750**	**72743**	**902002**	**794993**	**432572**	**326049**	**1612618**	**1407021**

Source: FAO FISHSTAT.

The Directorate of Fisheries of the Europeans Union initiated in 1993 an exercise based in an International Bottom Trawl Survey in the Mediterranean (MEDITS) to develop a standardized observation network on demersal resources in the area with the aim to produce periodic large scale assessment of demersal resources to serve as reference for their management. At this moment nine Mediterranean countries are associated in the programme which covers all the trawlable areas along their coasts from 10 to 800 meters depth. From 1994 one survey was carried out each year, applying common standardized protocols and estimating, inter alia, the instantaneous coefficient of mortality (Z) and the numbers of fishes recruited at the stock of the main commercial species as hake, red mullets, anglerfishes, sole, shrimps, octopus, etc. The data bank produced is still under-utilized, however the current analysis of these data would be very useful in the near future for fishery assessment and management purposes.

Table 7.10 shows the available information on the value of landings. This table includes figures in US dollars in the case of data provided by FAO and Euros when they are provided by OECD/OCDE or EUROSTAT.

Table 7.10 - Value of landings

TOTAL million €	**1995 (1)**	**2000 (1)**	**2001 (2)**	**Gross value of fisheries output at ex-vessel prices (5) (millions US$)**
Spain	1898	1453 (2)		2265.9 (2000)
France	849 (2)	647	835	1493.7 (1996)
Greece	270	236	163	
Italia	882	823	147	1828.0 (1991)
Portugal	280 (2)	274 (2)	292	300.0 (1997)
EU	**4179**	**3433**	**1437**	
Cyprus				23.5 (1998)
Malta				3.5 (2000)
Slovenia				329.0 (1997)
NEW EU				
Morocco				517.0 (3) (2000)
Tunisia				194 .0(1997)
Algeria				
MAGREB				
Albania				
Turkey	719 (2)			902.5 (1999)
Lebanon				
Egypt				3010.0 (1995)
Israel				64.5 (1996)
Libya				136.0 (4) (1996)

(1) EUROSTAT Cronos
(2) OECD/OCDE
(3) Data provided in Moroccan Dirham and transformed using the rate in 2003 1USDollars=9,3 Dh (1€=10,8 Dh)
(4) Data provided in Libyan Dirham and transformed using the 1995 rate 1 US$=0, 34 Dh.
(5) FAO Fishery Country Profiles

Box 7.3

In economic terms, the fisheries component of a Mediterranean Transboundary Diagnostic Analysis (TDA) performed by the GFCM Technical Secretariat in 1997 estimated that the value for Mediterranean landings was some 3800 million dollars annually and that, if fisheries were brought to Maximum Sustainable Yield conditions the result would be an increase in income to the order of 451 million dollars (12%) and that if effort dropped still further to Maximum Economic Yield income would go up by some 790 million dollars (19%) with respect to Maximum Sustainable Yield conditions. The estimation of value of landings performed by the TDA is probably underestimated looking at the information provided by the FAO country profiles in Table 7.10. However, the expected increases as consequence of more sustainable exploitation estimated by the TDA, even if they are considered in relative terms, constitutes a very useful picture of which the current situation is. The estimation of value of landings provided by EUROSTAT and OECD/OCDE, is of some 8000 million Euro and in case of the Gross Value of fisheries output at ex-vessel prices provided by FAO Country Profiles, the estimation totalise more than 10000 million US dollars annually. In consequence, the expected incomes estimated by TDA in absolute values should be modified rising.

7.2.2 - Aquaculture production (volume and value)

As in many parts of the world, aquaculture production in the Mediterranean has been expanding rapidly over recent years. The share of the aquaculture in total fisheries production has grown from 4% in 1980 to about 13% in the year 2000. Moreover for some species, such us mussels, clams, oysters, sea bream, sea bass, trout, tilapias and carps the majority of total production comes from aquaculture. Total aquaculture production in the region reached 1349777 t in 2001, which represents approximately 3% of the world aquaculture production (48413,635 t). Although Mediterranean aquaculture used to focus more on mollusc production (62% in 1992), the share of fish production is progressing constantly (from 37% in 1992 to 53% in 2001), parallel to global trends of world aquaculture. Mediterranean aquaculture production has grown steadily over the years. If we examine the annual growth rate, we will observe that total aquaculture production in the region reached 1349777 t in 2001, which represents an increase of 81,8% from 1992 to 2001 and an annual growth of 7,1% in this period.

Table 7.11 - Aquaculture Production by Species Groups in metric tons

Metric tones	1992	1995	1998	2001	Growth 92-01	Annual Growth Rate
Molluscs	461828	566595	633560	626080	35.6	3.7
Freshwater fishes	122700	104406	156297	293449	139.2	12.0
Marine fishes	33701	68408	136835	253137	651.1	25.7
Diadromous fishes	119045	146746	171306	173812	46.0	4.4
Aquatic plants	5052	5100	3060	3013	-40.4	-4.5
Crustaceans	240	273	560	286	19.2	8.9
Total	**742566**	**891528**	**1101618**	**1349777**	**81.8**	**7.1**

Within the fish sector, the group that has shown the fastest growth has been the marine finfish (seabream, seabass, mullets, etc.) that moved from 33701 t in 1992 to 253137 t in 2001, which corresponds to an annual growth rate of 25,7% in this period. Freshwater fishes (tilapias and carps mainly) also experimented a very significant growth rate in this period (122700 t to 293449 t, which correspond to 12% of annual growth. Diadromous fishes (trouts at the head), however, had an annual increase of only 4,4% in this period (from 119045 t in 1992 to 173812 t in 2001).

Besides fish, mollusc production has developed less significantly with an annual growth of 3,7% passing from 461828 t in 1992 to 626080 t in 2001. Mussels, oysters and clams represents the main productions. Output of crustaceans and seaweeds is still limited. Gracilaria is the main species of seaweed cultured in the area with over 3,000 t in 2001. Crustacean production (shrimp and Red swamp crawfish, *Procambarus clarkii*, reached only 260 t and 26 t respectively in 2001.

As regards aquaculture production by countries, this is dominated by six countries: Egypt, Spain, France, Italy, Greece and Turkey (table 7.12), which supply 96% of the total production in the region. Whilst in Spain, France and Italy the production is mainly based on molluscs (mussels, oysters, and clams respectively), in Egypt the production is based in the semi-intensive production of freshwater (i.e. tilapia and carp) and marine finfish species (i.e., mullet). Greece and Turkey, among others, concentrate most of their production in the intensive production of finfish (seabream, seabass and trout). The average growth rate in these countries is impressive, with 24,6 in Egypt, 26,4% in Turkey and 20% in Greece.

The growing in production of countries such as Malta, Cyprus and Israel, mainly finfish, should also be pointed out. On the opposite side there are countries that have evolved negatively, i.e. Algeria and Romania, or others that have a minimum weight in the region, i.e. Albania, Algeria, Lebanon and Libya.

Table 7.12 - Aquaculture Production by countries and species Groups in metric tons

Country	1980	1990	Molluscs	Diadro-mous fishes	Marine fishes
Spain	194618	182865	256403	36186	19929
France	182159	210398	191330	44866	5111
Italy	23	7236	149000	47200	20700
Greece	50640	112444	25970	3252	68082
Portugal	143	2.701			
EU	**427583**	**515644**	**622703**	**131504**	**113822**
Cyprus		52		83	1725
Malta		3		-	1235
NEW EU	**0**	**55**	**0**	**83**	**2960**
Morocco	90	395	156	120	506
Tunisia	56	874	46	11	1304
Algeria		105	20	20	40
MAGREB	**146**	**1374**	**222**	**151**	**1850**
Albania	100	4443	150	15	100
Turkey		1434	5	38064	28485
Lebanon				300	-
Egypt	10600	32000		1	98890
CIHEAM	**438429**	**554898**	**623080**	**170035**	**145492**
Croatia			3000	1261	2500
Israel		84	-	940	4530
Libya			-	-	-
Bulgaria			-	893	-
Romania			-	600	-
Syria			-	-	-
Total	**438429**	**555034**	**626080**	**173812**	**253137**

Table 7.12 (contd.)

Country	Fresh-water fishes	Crustacea	Aquatic Plants	Total	Increase 1992-2001
Spain	13	116	-	312647	85.3
France	10692	53	10	252062	0.7
Italy	1350	19	3000	221269	29.9
Greece	498	-	-	97802	381.6
Portugal					
EU	**12553**	**188**	**3010**	**883780**	
Cyprus	-	75	-	1883	1114.8
Malta	-	-	-	1235	147.0
NEW EU		**75**		**3118**	
Morocco	580	-	-	1362	83.8
Tunisia	507	-	-	1868	117.5
Algeria	201	-	-	281	91.2
MAGREB	**1288**			**3511**	
Albania	7	14	-	286	-28.0
Turkey	687	-	-	67241	640.1
Lebanon	-	-	-	300	130.8
Egypt	243964	9	-	342864	436.6
CIHEAM	**258499**	**286**		**1301100**	
Croatia	3405	-	-	10166	49.5
Israel	14630	-	-	20100	64.6
Libya	100	-	-	100	25.0
Bulgaria	717	-	3	1613	-80.2
Romania	10218	-	-	10818	-56.1
Syria	5880	-	-	5880	14.9
Total	**293449**	**286**	**3013**	**1349777**	**81.8**

Source: FAO FISHSTAT 2001.

As regards molluscan shellfish the production is represented mainly by 4 species (*Mytilus edulis, M. galloprovincialis, Crassostrea gigas, and Ruditapes philippinarum*) and is concentrated in three EU countries: mussels in Spain (over 250,000 t), oysters in France (over 135000 t) and clams in Italy (over 50000 t). The contribution of other Mediterranean countries is still very low.

At finfish group, the main element to be noticed is that although marine fish is the group with a higher growth rate, the first two species produced are still freshwater fishes, i.e. Nile tilapia with over 150000 t and Rainbow trout with over 120000 t. Most tilapia cultivation is based on extensive and semi-intensive farming systems in Egypt. As regards trout farming most production is in freshwaters and takes place in concrete raceways or pond farms in Italy, France, Spain and Turkey.

The rapid increase in production marine carnivorous fish, especially Gilthead seabream and European seabass is very evident, with over 80000 t in 2001 in the case of the first species and almost 60000 t for the second. Another significant

species, although produced in Atlantic coast of Spain and France is the increasing intensive marine on land production of turbot with 4338 t. The production now seems to stabilize due to lower prices and high competition in the markets. Noticeable is the production for *Mugil cephalus*, which with 102470 t, is mainly coming from Egypt and which according to this country reports, has experienced a growth even faster than that of seabass and gilthead seabream.

Table 7.13 - Aquaculture. Value of production (1000 $)

Aquaculture	1990	2001			
Value 1000 US$	**Total**	**Total**	**Fishes**	**Moluscs**	**Crustaceans**
Spain	353836	397880	260317	136587	975
France	527595	425223	135290	289264	668
Greece	63135	308683	299548	9135	
Italy	336511	426291	239299	176607	335
Portugal	29546	53676	31448	22227	
EU	**1310622**	**1611752**	**965903**	**633820**	**1979**
Cyprus	1690	9527	8489		1038
Malta	18	3080	3080		
Slovenia		3.515	3376	138	
NEW EU	**1708**	**16122**	**14946**	**138**	**1038**
Morocco	3659	3211	2876	335	
Tunis	4448	9196	9145	50	
Algeria	1062	763	692	71	<1
MAGREB	**9169**	**13170**	**12713**	**457**	**0**
Albania	3003	529	338	73	117
Turkey	31379	142311	142307	4	
Lebanon	280	900	900		
Egypt	124602	756980	756926		54
CIHEAM	**1479074**	**2528722**	**1882167**	**634354**	**2150**

Source: FAO FISHSTAT.

Although trials to produce new marine finfish species are on-going in most countries since the beginning of the 1990s, no real replacement has been found for seabream and seabass, the two major species which have experienced a considerable decrease in price due to the fast growth in production. Many of the trials have centred on sparid species, and although it is doubtful that these could be considered real replacements from a marketing point of view, they may represent an alternative to explore. In this respect, according to the Federation of European Aquaculture Prodducers (FEAP) sources in 2000 there is production already recorded for species such as Sharp-snout seabream, *Puntazzo puntazzo,* with 1500 tons produced in Greece), or White seabream, *Diplodus sargus,* with about 350 tons produced in Italy.

A special case of aquaculture or capture-based aquaculture is the case of the Bluefin Tuna (*Thunnus thynnus*) farming (Spain at the head), where most of the

Mediterranean catch quota for this species is already used for farming (fattening) purposes (4446 t). During the last 3-5 years there has been a very important development of tuna farms in the Mediterranean, now reaching about 20 farms.

An ad hoc Working Group of the General Fisheries Commission for the Mediterranean (GFCM) and the International Commission for the Conservation of Atlantic Tuna (ICCAT) agreed a definition for this practice in order to be sure that the same process is had in mind when considering the Bluefin Tuna Farming. The agreed definition is the following: "Tuna farming currently involves the collection of wild fish, ranging from small to large specimens, and their rearing in floating cages for periods spanning from a few months up to a few years. Fish weight increment and change in the fat content of the flesh is obtained through standard fish farming practices. Confinement of captured fish during short periods of time (2-6 months) aimed mostly at increasing the fat content of the flesh, which strongly influences the prices of the tuna meat on the Japanese sashimi market, can also be referred to as 'Tuna fattening'. Future tuna farming practices may evolve to encompass a closed life cycle, i.e. the rearing of larvae in laboratory conditions".

Table 7.14 includes some data from ICCAT and "Fish Information and Services Int'l Co. Ltd. & DOTT Symposium" in order to show the evolution and the importance of the Bluefin Tuna Framing process in the Mediterranenan bearing in mind that, in recent years, fish farmed bluefin tuna has reached an average price in early 2000 of 4500 yen per Kg.

Table 7.14 - Japanese Import of Mediterranean farmed bluefin tuna and total catch in tones of this species in the Mediterranean (ICCAT)

Tons	1997	1998	1999	2000	2001 (1)	2002
Spain	261	1456	3346	5806	5839	6006
Italy					115	1640
Malta				16	842	2311
Croatia		103	277	664	1349	3190
Others						5
Total	**261**	**1559**	**3622**	**6487**	**8146**	**13153**
Catches	26813	24036				

(1) Farmed production in Spain was 7000 t in 6 farms, in Croatia 3000 t in 6 farms and in Malta 1200 t in 2 farms.

Although FAO statistics do not consider this production, which only in Spain for the year 1999 was estimated at over 3000 tons. For the region, it is estimated that about 70% of the Mediterranean recommended catch quota is already being used for this production, which is mainly exported to the Japanese market.

7.3 - Trade in fish and fishery products

7.3.1 - Import and export

The import and export data used are considering the trade activity of fish and fishery products landed by fleets of Mediterranean countries operating inside the Mediterranean region, but also the trade activity of those products landed by other non Mediterranean fleets of Mediterranean countries. It is also important to take into consideration that these countries have trade not only between them but also with the rest of the world. This facts can difficult the appreciation of the Mediterranean Sea situation, especially in the case of France, Morocco, Spain and Portugal which fleets are also fishing in the Atlantic Ocean, of Turkey in the Black Sea and of Egypt in the Red Sea . However, this kind of analysis provides a whole overview of fisheries in each country.

In the area taken into consideration, Italy, France, Spain and Portugal appears as the main importers as shows the table 7.15. The same countries, together with Morocco, are also the main exporters, as shows Table 7.16. However, exports are mainly addressed to EU countries, for which reason, imports value of EU countries, is not compensated by the value of exported products.

Table 7.15 - Import value in million Euros

IMPORTS 1000€	**1976 (1)**	**1985 (2)**	**1995 (2)**	**1999 (1)**
Spain		542	2384	3650 (4)
France	514	1385	2489	3279 (4)
Greece	27	108	167	318 (4)
Italy	355	1307	1765	2764 (4)
Portugal	99	265	584	932 (4)
EU	**995**	**3610**	**5006**	**7294**
Cyprus			30	31
Malta			13 (3)	19
Slovenia			20	28
NEW EU			**63**	**78**
Morocco			6	10
Tunis			8	12
Algeria			25	12
MAGREB			**40**	**35**
Albania				4
Turkey			39	59
Lebanon				19
Egypt			61	143
CIHEAM	**995**	**3342**	**5160**	**10290**
Croatia			25	33
Israel				122
Libya				11
Yugoslavia				41

(1) OECD/OCDE (2) Eurostat-Cronos (3) FAO (4) 2000

Table 7.16 - Export value in million Euros

EXPORTS 1000€	1975 (1)	1985 (1)	1995 (1)	1999 (2)
Spain			923	1744 (3)
France	161	479	767	1198 (3)
Greece			125	250 (3)
Italy	43	190	213	410 (3)
Portugal	59	142	213	308 (3)
EU	**205**	**668**	**2028**	**3602**
Cyprus			3	5
Malta			2	7
Slovenia			3	7
NEW EU	**0**	**0**	**9**	**17**
Morocco			617	728
Tunis			61	80
Algeria				2
MAGREB	**0**	**0**	**678**	**810**
Albania				4
Turkey			70	94
Lebanon				
Egypt				1
CIHEAM	205	668	2779	4518
Croatia			34	33
Israel			8	10
Libya				30
Yugoslavia				0
Syria			0	

(1) Eurostat-Cronos (2) OECD/OCDE (3) 2000

Table 7.17a - Export-Import volume in 1000 tons by product category

Metric tons	Fish		Moluscs & crustaceans		Others		Total	
	Export	Import	Export	Import	Export	Import	Export	Import
Spain	683.8	860.1	200.1	516.7	40.1	156.4	924,0	1533.2
France	303.4	679.1	60.6	236.1	78.9	142.8	442.9	1058,0
Greece	60.9	66.1	18.5	40.9	6.2	89.6	85.6	196.6
Italy	84.4	458.1	42.1	307.4	8.2	118.4	134.7	883.9
Portugal	78.4	262.9	14.2	54.7	3.2	18.5	95.8	336.1
EU	**1210.9**	**2326.3**	**335.5**	**1155.8**	**136.6**	**525.7**	**1683.0**	**4007.8**
Malta	2.3	13.7	0,0	1.7	0,0	1.9	2.3	17.3
Morocco	163.9	5.4	126.6	6.1	81.1	1.7	371.6	13.2
Algeria	0.3	7.5	1.2	0.5	0,0	0,0	1.5	8,0
Tunisia	3.5	16.9	11.5	0.3	0,0	0,0	15,0	17.2
MAGREB	**167.7**	**29.8**	**139.3**	**6.9**	**81.1**	**1.7**	**388.1**	**38.4**
Albania	1.8	5.4	0.2	0,0	0,0	0,0	2,0	5.4
Turkey	17.7	12,0	7.6	0.8	2.1	37,0	27.4	49.8
Lebanon	0,0	21.5	0,0	1.4	0,0	4.7	0,0	27.6
Egypt	0.7	206.3	0.6	1.5	0,0	53.5	1.3	261.3
CIHEAM	**1401.1**	**2615.0**	**483.2**	**1168.1**	**219.8**	**624.5**	**2104.1**	**4407.6**

Source: FAO Fishstat 2001.

Table 7.17b - Export-import value in million US $ by product category

Thousands US Dollars	Fish		Moluscs & crustaceans		Others		Total	
	Export	Import	Export	Import	Export	Import	Export	Import
Spain	1300.5	1918.9	526.9	1737.8	35.8	85.1	1863.2	3741.8
France	696.4	1905.9	284.7	1106.4	53.2	82.2	1034.3	3094.5
Greece	180.9	159.8	25.9	93.4	5.8	59.9	212.6	313.1
Italy	239.5	1635.2	139.1	1031.2	8.8	72.6	387.4	2739,0
Portugal	204.9	740.6	64.5	188.8	7.4	10	276.8	939.4
EU	**2622.2**	**6360.4**	**1041.1**	**4157.6**	**111,0**	**309.8**	**3774.3**	**10827.8**
Malta	13.2	17.3	0	4.3	0	1.4	13.2	23,0
Morocco	356.5	6.2	455.7	1.9	62.2	1.5	874.4	9.6
Algeria	0.6	13.6	4.3	0.3	0	0.1	4.9	14,0
Tunisia	24.9	18.1	61.4	0.6	2.7	0.2	89.0	18.9
MAGREB	**382.0**	**37.9**	**521.4**	**2.8**	**64.9**	**1.8**	**968.3**	**42.5**
Albania	5.9	5.2	0.9	0	0	0	6.8	5.2
Turkey	46.9	10.7	26.2	0.9	1.7	19.1	74.8	30.7
Lebanon	0	44.4	0	8	0	2.7	0.0	55.1
Egypt	0.8	132.2	0.5	1.8	0	29	1.3	163.0
CIHEAM	**3071.0**	**6608.1**	**1590.1**	**4175.4**	**177.6**	**363.8**	**4838.7**	**11147.3**

Source: FAO Fishstat 2001.

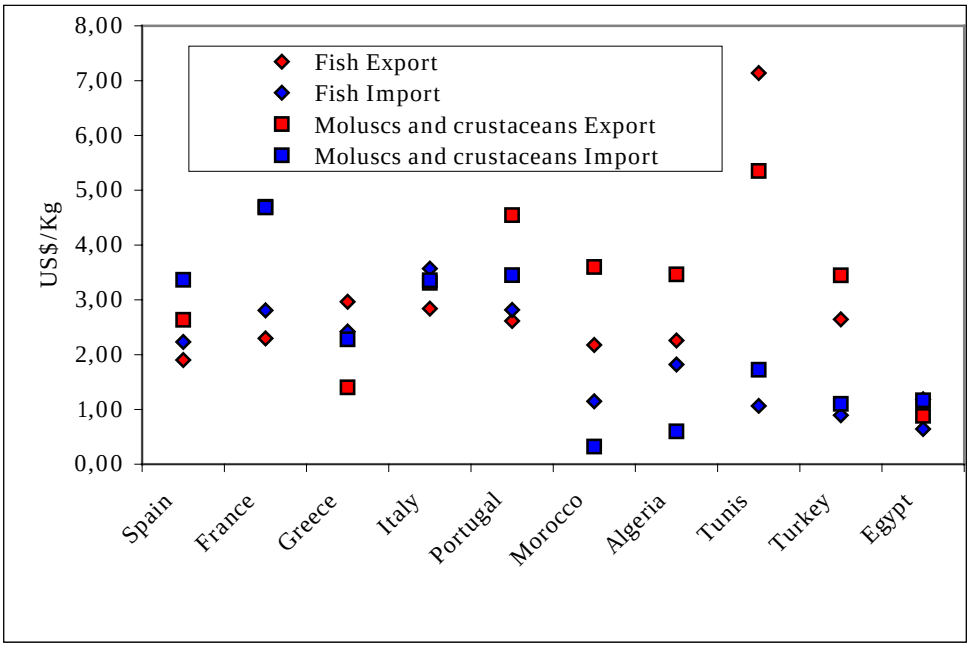
Table 17c and Figure 7.1 present the average prices in the international market estimated from the FAO import-export data (Tables 17a and 17b). Given the variety of the species included in each category, it is difficult to reach a clear conclusion from these figures and even more if we take into account that products from the Atlantic fisheries are mixed with the Mediterranean products. However, two scenarios can be identified (Figure 7.1): Those of the EU countries with import prices slightly over the import prices and the rest of countries, especially the major "fishery countries" as Morocco or Turkey, where export prices are well over the import ones. These is probably due to that EU countries are importing more expensive products of those that they export and that the contrary occurs in the rest of countries. The fact that, in general, prices does not present important differences, especially in case of EU countries and for each category of products, can be due to the fact that the market of fishing products is actually a very open market. Furthermore, EU countries, due to the shortage of product together with the increasing demand barriers to trade for fish and fishery products have progressively been disappearing. That also constitutes an important difficulty for gathering information on trade between EU countries.

Table 7.17c - Export-import prices per Kg in USDollars by product category

US$/Kg	Fish		Moluscs and crustaceans		Others		Total	
	Export	Import	Export	Import	Export	Import	Export	Import
Spain	1.90	2.23	2.63	3.36	0.89	0.54	2.02	2.44
France	2.30	2.81	4.70	4.69	0.67	0.58	2.33	2.92
Greece	2.97	2.42	1.40	2.28	0.92	0.67	2.48	1.59
Italy	2.84	3.57	3.31	3.35	1.07	0.61	2.88	3.10
Portugal	2.61	2.82	4.55	3.45	2.31	0.54	2.89	2.79
Morocco	2.18	1.15	3.60	0.32	0.77	0.90	2.35	0.73
Algeria	2.26	1.82	3.46	0.60		2.89	3.26	1.76
Tunis	7.14	1.07	5.35	1.72			5.92	1.09
Turkey	2.64	0.89	3.45	1.10	0.82	0.52	2.72	0.62
Egypt	1.19	0.64	0.88	1.17	1.56	0.54	1.07	0.62

Source: FAO Fishstat 2001.

Figure 7.1 - Average prices in US Dollars per Kg in the international market



Source: Estimated from the FAO import-export data for finfish and mollusks and crustaceans.

7.3.2 - Trade Balance

To understand the trend of Mediterranean fish trade it is necessary to look at the trade balance (tables 7.18 and 7.19). These tables show as the European countries (Italy, France, Spain and Portugal) have a negative trade balance while countries as Morocco and Turkey have a positive trade balance.

The already mentioned high demand of fishing products and their relative shortage in relation with the demand in the north, together with the also mentioned decrease of landings due to reduction of fishing fleets and over-fishing, are pushing to increase the prices and also stimulating the development of fisheries in the south and eastern countries, where the fisheries represent a source of income and employment. The fact that the southern and eastern Mediterranean countries are not far from the markets in the EU countries, where there is an important demand, represent an advantage for these countries over other countries around the world, because these countries can provide fish without major problems of conservation and in a very short period of time. It is also necessary to take into consideration

that no important investment it is necessary to develop these fishing industries, and for this reason it is normal the rapid growth observed in the last years.

Box 7.4

Actually, two trade models exist in the Mediterranean region. By one side the EU member and candidate countries which are "importer countries" and in the other side the Magreb countries and Turkey that are "exporter countries". This scenario has been the one observed in the recent years and is expected to follow in the next future. However, this process of development of fisheries can jeopardize it in the future. Given the limitation of resources, only if the level of production is maintained it will be possible to assure the positive contribution of fishing to development in southern countries, i.e. recovering investments and maintaining employment as well as providing food fish supply to EU consumers.

Furthermore, import prices in EU countries are slightly over the export prices, but in the rest of countries, export prices are well over import prices.

Table 7.18 - Trade balance in volume in 1000 Metric tons

	Fish		Others		Total		Balance Exp-Imp
Metric Tons	**Export**	**Import**	**Export**	**Import**	**Export**	**Import**	
Spain	683.9	860.1	200.1	516.8	884,0	1376.9	-492.9
France	303.4	679.1	60.6	236.1	364,0	915.2	-551.2
Greece	60.9	66.1	18.5	40.9	79.4	107,0	-27.6
Italy	84.3	458.1	42.1	307.4	126.4	765.5	-639.1
Portugal	78.5	262.9	14.2	54.7	92.7	317.6	-224.9
EU	**1211,0**	**2326.3**	**335.5**	**1155.9**	**1546.5**	**3482.2**	**-1935.7**
Malta	2.3	13.7	0	1.7	2.3	15.4	-13.1
Morocco	163.9	5.4	126.6	6.1	290.5	11.5	279,0
Algeria	0.3	7.5	1.2	0.5	1.5	8,0	-6.5
Tunisia	3.5	16.9	11.5	0.3	15,0	17.2	-2.2
MAGREB	**167.7**	**29.8**	**139.3**	**6.9**	**307,0**	**36.7**	**270.3**
Albania	1.8	5.4	0.2	0	2,0	5.4	-3.4
Turkey	17.7	12	7.6	0.8	25.3	12.8	12.5
Lebanon	0	21.5	0	1.4	0,0	22.9	-22.9
Egypt	0.7	206.3	0.6	1.6	1.3	207.9	-206.6
CIHEAM	**1401.2**	**2615,0**	**483.2**	**1168.3**	**1884.4**	**3783.3**	**-1898.9**

Source: FAO Fishstat 2001.

Table 7.19 - Trade balance in value (million Euros)

1000€	1976 (1)	1985 (2)	1995 (2)	1999
Spain			-1461	-1904.5 (3)
France	-352.5	-907.4	-1723.4	-2080.7 (3)
Greece			-41.7	-68 (3)
Italy	-311.7	-1118.1	-1551.9	-2355.1 (3)
Portugal	-40.5	-122.6	-371.1	-625.2 (3)
EU	**-704.7**	**-2148.1**	**-5149.1**	**-7033.5**
Malta			-11.3	-12.4
Morocco			609.9	716.8
Algeria				-9.9
Tunisia			53.2	67.2
MAGREB	**0,0**	**0,0**	**663.1**	**774.1**
Albania				0.8
Turkey			31.4	35.2
Lebanon				
Egypt				-142.2
CIHEAM	**-704.7**	**-2148.1**	**-4465.9**	**-6378,0**

(1) OECD/OCDE (2) Eurostat-Cronos (3) 2000

Source: FAO Fishstat 2001.

7.4 – Summary

The present analysis constitutes a first steep to describe the situation and to establish a system of indicators to assess Fishery sector in the Mediterranean countries. For this reason, it has been given priority to the identification of the available information related with the background data needed to calculate indicators than to identify these indicators. Actually, the lack of data constitutes a major difficulty to establish this system of indicators, even more when data with enough coverage, reliability and updated in regular bases are looked for a correct assessment of fisheries.

Only a few indicators can be calculated in regular bases and major difficulties exist to calculate those indicators related with the capacity of fishing fleets and the fishing pressure exerted by fishing fleets on resources as well as the investments carried out. For this reason, this first attempt has been focused on the identification of background data needed to estimate the indicators, in order to make possible to decide which indicators can be identified as the most appropriate and feasible.

Finally, it has to be indicated that especial attention has been given to the CIHEAM member countries

7.4.1 - Production, demand and supply (consumption) of fish and fishery products

As explained before, there are two groups of countries or two models which can be identified. In this case also fish supply or apparent consumption constitutes a characteristic in both cases. The EU and candidates countries present a high consumption, growing despite the resource limitations. The demand is much bigger in the EU member and candidate countries as well as in Israel than in the rest of countries. Inside the EU, Portugal (58 Kg.) and Spain (41Kg.) have the highest consumption, meanwhile the other member countries and candidates have a consumption between 20 and 30 Kg per capita and year. In the other countries the consumption is relatively low, with a level under 10 Kg per capita and year. However, in all the countries the evolution is positive despite the continuous increase of population, with a growing demand.

Table 7.20 – Population and per capita supply/consumption

	Population (x1000)	**Supply/caput/Year (Kg)**			
	2001	**1975**	**1985**	**1995**	**2001**
Spain	39921	33,3	34,6	40,8	44,7
France	59453	22,8	25,6	29,9	31,1
Greece	10623	15,9	17,2	24,3	25,1
Italy	57503	14,0	21,7	23,3	24,7
Portugal	10033	44,0	54,6	58,0	76,1
EU	**177533**				
Cyprus	790	10,1	15,4	26,3	25,1
Malta	392	14,7	22,5	35,8	37,6
Slovenia	1985			7,3	7,7
NEW EU	**3167**				
Morocco	30431	3,7	7,8	7,6	8,7
Tunisia	9562	7,5	11,0	9,8	11,0
Algeria	30841	2,3	3,6	4,1	3,5
MAGREB	**70834**				
Albania	3145	3,5	3,9	2,6	4,0
Turkey	67632	2,6	8,6	9,4	7,6
Lebanon	3556	4,0	0,6	5,4	6,2
Egypt	69081	4,0	6,6	8,4	15,3
CIHEAM	**392173**				
Croatia	4655			3,3	11,3
Israel	6172	14,4	18,4	24,6	20,6
Libya	5408	9,9	4,9	7,1	5,9
Bosnia Herzegovina	4067			1,8	2,7
Macedonia	2044			4,8	5,5
Serbia Montenegro	10538			1,1	2,3
Syria	16611	2,2	2,4	1,0	2,8
TOTAL	**444443**				

Source: From FAOSTAT Fish and Seafood supply.

The production system is similar in all countries and the differences observed in the supply are likely not due to the use of different fishing systems, but because the resources available and accessible in each area and because the trade process and the consumer habits. As can be appreciated in the table 7.21a the main part of Mediterranean production or fish supplies corresponds to Spain and Morocco (over 1 million tones each). However, the fleets of these countries are also fishing in the Atlantic Ocean. In fact other countries with a production of half to one million tones, as it is the case of Italy, Turkey, Egypt and France, most of them also fishing outside the Mediterranenan, are also very important in the Mediterranean context. The production of the rest of countries is relatively limited.

The population concentrated in the Mediterranean region is also a major element to be taken into consideration. The population of Mediterranean coastal states is up to 445 million, Portugal included, and more than one-third of the Mediterranean population is currently concentrated in the Mediterranean coastal regions. The Blue Plan for the Mediterranean Environment and Development, estimates that population is expected to reach approximately 600 million in the year 2020. Furthermore, the distribution of population varies dramatically between northern and southern Mediterranean countries: in 1950, the 'north' represented two-thirds of the total population, while today it is only 50% and may be one-third in 2025, and one quarter in 2050.

Table 7.21a- Summary I. Volume production and supply (1000 T)

2001	Production			Import-Export		
	Capture	Culture	Total	Export	Import	Import-Export
Spain	1084.8	312.6	1397.4	884	1376.8	492.8
France	606.2	252	858.2	364.1	915.2	551.1
Greece	94.4	97.8	192.2	79.4	107	27.6
Italy	310.4	221.3	531.7	126.4	765.5	639.1
Portugal	191.2		191.2	92.6	317.6	225
EU	**2287,0**	**883.7**	**3170.7**	**1546.5**	**3482.1**	**1935.6**
Malta	0.9	1.2	2.1	2.2	15.4	13.2
Morocco	1083.3	1.4	1084.7	290.5	11.5	-279
Algeria	100	0.3	100.3	1.5	7.9	6.4
Tunisia	98.5	1.9	100.4	14.9	17.3	2.4
MAGREB	**1281.8**	**3.6**	**1285.4**	**306.9**	**36.7**	**-270.2**
Albania	3.3	0.3	3.6	2	5.4	3.4
Turkey	527.7	67.2	594.9	25.4	12.8	-12.6
Lebanon	3.6	0.3	3.9	0	22.8	22.8
Egypt	428.6	342.8	771.4	1.2	207.9	206.7
CIHEAM	**4532.9**	**1299.1**	**5832**	**1884.2**	**3783.1**	**1898.9**

Source: Estimated and provided by FAOSTAT.

In addition the Mediterranean is the biggest tourist region in the world, with tourism increasingly concentrated on the coasts of the north-western part and heavily seasonal. According to Blue Plan, the number of tourists in the Mediterranean countries will increase from 260 million (135 million of them in the Mediterranean coastal region) in 1990 to 440-655 million (235-355 million of them in the Mediterranean coastal region) in 2025. All together indicates that an important increase of demand of fishing products can be expected in the future.

Table 7.21a shows as mainly Morocco but also other countries result to have an over supply of fish in relation with the figure of consumption provided by FAOSTAT and this is probably because sub products for non-food uses are included in the production. For other countries, the apparent consumption obtained is under the value provided by FAOSTAT is obtained. FAOSTAT for the fish and seafood category. In some cases as is the case of Egypt that could be due to an underestimation of the aquaculture production or in the case of EU countries to a deficient control of trade.

Figure 7.2 - Production, trade and consumption by countries in metric tons

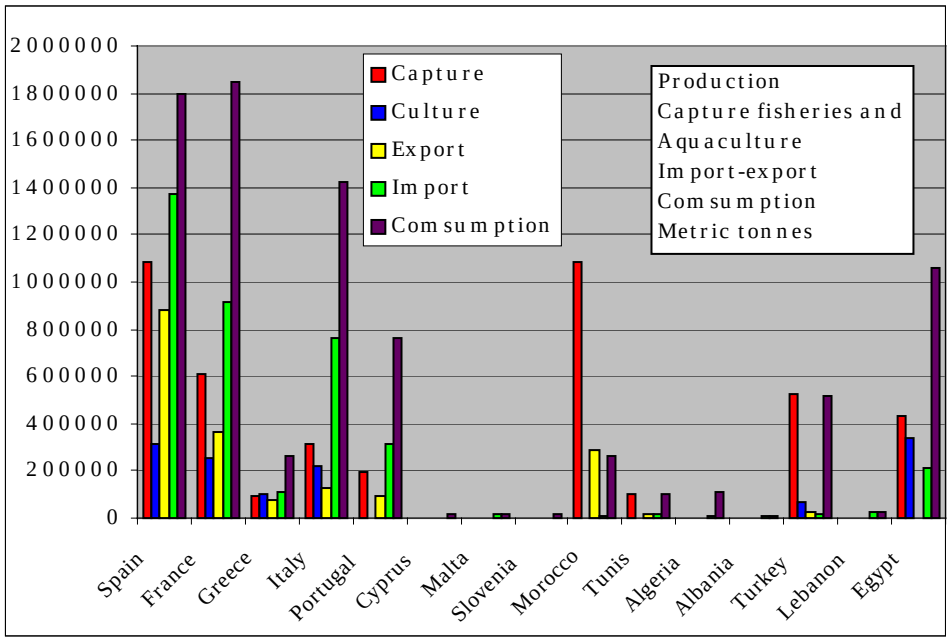
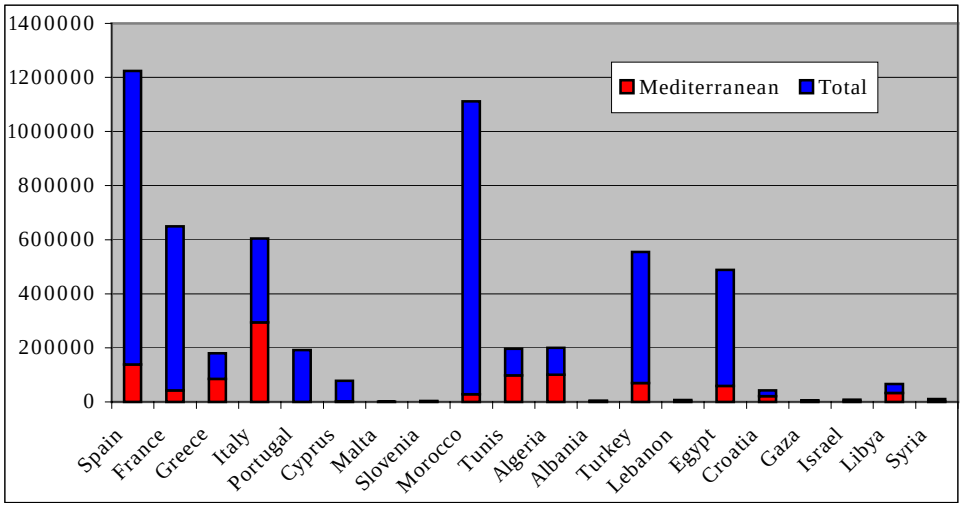


Figure 7.2 shows different levels of volumes of production, trade and consumption of fishing products in the Mediterranean countries. Figure 7.3 shows the share of total production corresponding to the Mediterranean sea. Spain, France and Italy

in the result to be, in the Mediterranean context, the main fishery countries in the EU area and Morocco, Turkey and Egypt in the southern and eastern areas.

Figure 7.3 - Total landings in metric tons by countries and Mediterranean share



7.4.2 – Means of production and value of production

Table 7.22a- Summary II – Value of production, Employment and fleets

	Production (value in Million €)					
	Capture (1)	**Culture**	**Total**	**Import (2)**	**Export (2)**	**Balance (Exp-Imp)**
Spain	1453	398	1851	3649	1745	-1904
France	835	425	1260	3279	1198	-2081
Greece	163	309	472	318	250	-68
Italy	823	426	1249	2765	410	-2355
Portugal	292	54	346	933	308	-625
EU	3566	1612	5178	10944	3911	-7033
Malta	4*	3	7	18	6	-12
Morocco	480*	3	483	10	727	717
Tunis	194*	9	203	13	80	67
Algeria		1		12	3	-9
MAGREB	674	13	686	35	810	775
Albania		1		4	4	0
Turkey	902*	142	1.044	59	94	35
Lebanon		1		19		-19
Egypt	3010*	757		144	2	-142
CIHEAM	8156	2527	10683	11223	4827	-6396

Table 7.22a (contd.)

	Employ (3)	Fleets (4)		
	Fishermen	**Number**	**GRT**	**Mean GRT**
Spain	44676	15386	528491	34 (5)
France	26076	7935	230861	29 (5)
Greece	37490	20129	108992	5
Italy	49637	16496	217921	13
Portugal	23580	10514	116969	11
EU	181459	70460	1203234	
Malta	1707	1609*		
Morocco	99885	18825(6)		
Tunis	61258	14242*		
Algeria	23000	1750*		
MAGREB	184143	34817		
Albania	720	110*		
Turkey	50000	17319*		
Lebanon	9000	1000*		
Egypt	36000*	4052*		
CIHEAM	463029	22481		

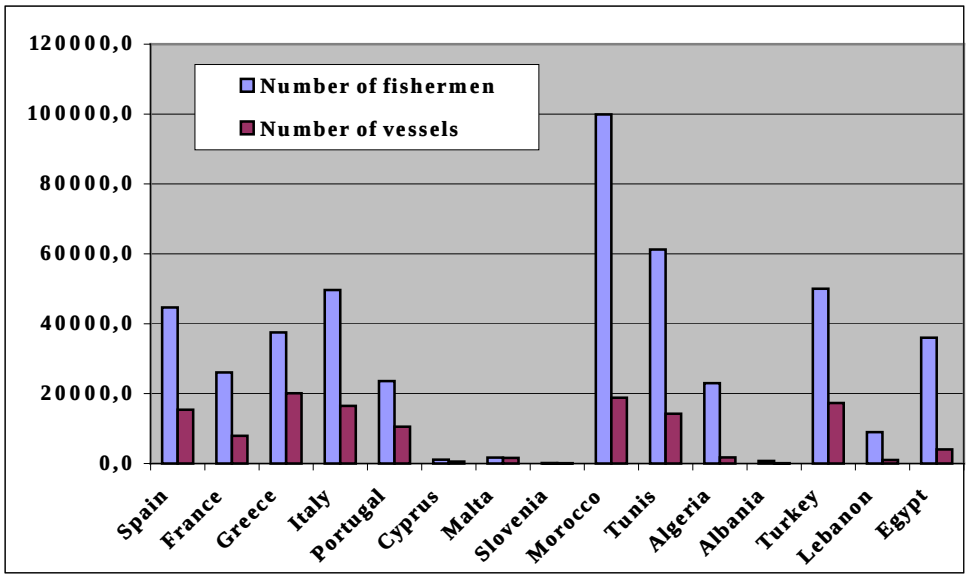
* Data from FAO Country Profiles not updated regularly
(1) OECD/OCDE 2000 - 2001
(2) OECD/OCDE - EUROSTAT 1999 - 2000
(3) OECD/OCDE 2001for EU countries and EUROSTAT 1995 for the rest
(4) OECD/OCDE 2001 for EU countries and FAO 1995 for the rest
(5) Atlantic fleets included. 4305 spanish vessels and 1750 french vessels with an average GRT between 13 and 16 MT are fishing in the Mediterranean
(6) FAO Country profiles

It is difficult to obtain a homogeneous overview of fishing fleets and in general for the means of production because no enough data are available. The lack of data mainly refers to fleets in general and their main features (size, gross tonnage, horse power, etc) as ell as investments and employment. Figure 7.4 shows as EU and Morocco, Turkey and Tunis seems to concentrate the main part of means of production of capture fisheries.

Regarding resources and assuming that, in general terms, it seems that fleets are over-fishing the resources and furthermore, some of these resources are already over-fished, a reduction of fishing effort or fishing activity should produce, after a period of losses, an increase of catches.

The EU is reducing the fishing capacity of their fleets, for which reason the European fleets have been reducing the number of boats since 1990. But on the other hand, and independently that no figures are available, the fishing fleets in the non EU countries are continuously growing. Furthermore, the general trend towards modernization and to build more efficient and larger boats in a race for fish, results in a constant increase of fishing effort.

Figure 7.4 - Number of fishermen and vessels by countries



It is not easy to evaluate the global evolution of Mediterranean fleets and of employment. However, not being clear if the total number of vessels is decreasing or increasing, fishing capacity is probably increasing. The reason is clear; By one side in EU countries less vessels have the same or more fishing capacity than before. In EU the state of the resources is not improving and in the better situation they remain stable. Outside of EU, the number of vessels is increasing and the technologies are also very efficient because they profit from the last technical developments and from the push of the demand at high prices.

In many EU countries the costs are going up because the need for improving the fishing techniques constantly, but at same time the incomes go down or remain stables because the reduction of the resources. This phenomenon has an impact over the wages; related directly with the landings in a wage system based in a proportion of the sales. When the wages go down, many crews go outside of the activity to find best wages in other sectors. Recently, many these jobs in the northern fleets are covered by fishermen from the southern countries opening a social group that was closed since centuries. These fishermen know the fishery, for which reason, in general, they are qualified for this work. They are coming from a labour market with an average wages under the ones of EU countries and for this reason they accept to work on the European fleets when the local fishermen don't. The result is a migratory movement from Morocco to Spain, Algeria to France, Tunis and Albany to Italy, Egypt and Turkey to Greece. However, it is probable that if wages not improve, with a new equilibrium between cost and resources state,

those of these new workers that will remain in the northern countries will probably move to the other sector of activity in the medium term.

It is obvious that for further analysis, more data and more detailed data on fleets and employment are needed, but also it is necessary to gather more detailed data on the trade balance, desegregated by countries of origin and destination allowing to differentiate the trade inside and outside the European Union. Furthermore and in order to complete a general overview of fisheries in the Mediterranean countries, information on investments, costs, subsidies and other economic aids received by the fishery sector will have to be allocated.

PART III

Agro-food development and policies in the Mediterranean region

8 Trends in the agro-food economy in the Mediterranean region

The agro-food economy is a branch of economic science which developed at the end of the 1950s on the basis of the work on "agribusiness" carried out by Goldberg and Davis (1957) of Harvard University. Departing from the classical rural economy, which focused on farming, these authors showed that the dynamic of the agricultural sector could only be understood by analysis embracing all of the agro-support and downstream activities, since these activities were tending to become more significant and to act as a more powerful driving force than agriculture itself. In the 1960s, Louis Malassis (cf. Malassis, Ghersi, 1996) developed and theorised this concept adopting both a renewed approach to food consumption and national accounting tools which provided a basis for analysing inter-sectoral relations within the agro-industrial complex. And finally, more recent work has provided a means of defining the concept of food system more specifically (Rastoin, in Miclet, Thuyer, Sirieix, 1998).

Taking systems theory as a basis, a food system can be defined as an interdependent network of actors (undertakings, financial institutions, public and private bodies), which is located in a given geographic zone (region, State, multinational region) and which participates either directly or indirectly in the creation of flows of goods and services geared to satisfying the food needs of one or several groups of consumers either at the local level or outside the zone in question.

This definition is based on three systems of reference: morphology (the actors involved), area (the geographical zones of internal/external activity), and dynamics (origin and movement of the flows of foodstuffs and food services, including information).

To illustrate this, the table below gives a description of the food system in France and Morocco.

Table 8.1 - Outline of the food system in Morocco and France, 2000

Actor	Number of enterprises		Jobs (in thousands)		Turnover (billion €)	
	Morocco	France	Morocco	France	Morocco	France
Agro-supply and associated industries and services	50,000	42,000	570	1,200	8	47
Agriculture	1 400,000	600,000	4,500	1,000	7	64
IFA	1,700	60,000	110	600	8	120
Distribution	200,000	110,000	850	1,200	12	140
Non-domestic catering	40,000	130,000	130	600	1	50
TOTAL	1 691,700	942,000	6,160	4,600	36	421

Source: Our calculations according to INSEE (National Statistical Institute) figures (2001), national accounts.

In France, which has almost 1 million undertakings, 4.6 million jobs, and a cumulative turnover of € 420 billion, the food system is shown to be the leading economic sector in terms of consumption. In Morocco, the employment level in the food system is much higher due to the significance of agriculture and to the fact that activities are still highly fragmented: almost 1.7 million production units with a total workforce of over 6 million workers. The value of the goods produced remains limited, however, reflecting low labour productivity.

In both Morocco and France the food system is extraordinarily complex due to the vast number of actors involved and to the diversity of their status and size: in both countries multinationals cohabit with family units. This heterogeneity will prove to be a serious handicap for regulating the system but probably also a favourable factor for cyclical adjustments and innovation.

Since it is difficult to obtain access to the necessary information, it will not be possible to deal with all of the actors involved in the food system in the present chapter. However, we underline the fundamental significance of the food system in the performance of each of those actors (farmers, industrialists or shopkeepers) irrespective of the country concerned.

We shall thus approach the analysis of the Mediterranean agro-food economy from the angle of the food subsystem in effect, considering:

- the predominant trends in the system in recent years (1990-2000);
- food consumption;
- international trade in agro-food products;
- foreign direct investments in the Mediterranean region;
- the agro-food industries.

As will be seen, we have opted to emphasise the aspects related to the globalisation of food systems in the region.

8.1 - Trends in the agro-food economy in the Mediterranean region

The precise identification and assessment of the various components of the food subsystem in effect poses tricky problems regarding scope and method. For food production and distribution is not a "pure" activity in that it is carried out within undertakings and institutions which are not 100% "food-centred". This is the case with agriculture, which markets wood, the AFIs (agro-food industries), which produce biochemical substances, and the large-scale food retailing industry, where almost 50% of turnover is non-food-related. The national accounts for individual sectors provide a means of correcting this bias, although they do not eliminate it completely[32], since the major difficulty is caused by what are known as associated activities.

Three types of indicator can be selected in an initial approach to characterise the food system:

- macroeconomic aggregates
- the final value of food products
- openness to world markets.

8.1.1 - Macroeconomic aggregates

There are many such indicators, taken from national accounts. The statistical sources available generally provide a basis for considering production, value added (and thus intermediate consumption), investments, external flows (imports and exports), trade margins, taxes levied, and household consumption. The tool used here - and one which has now become classical - is the input-output tables of national accounts. Due to the inadequacies of this tool, social accounting matrices have been elaborated with which the sector known as the informal sector can be taken into account. Unfortunately, these tables are not available in the case of practically every Mediterranean country.

On the basis of a simple aggregate model, the value of food production in France purchased at the final stage (i.e., at the stage of household consumption) can be estimated at approximately € 180 billion for the year 2000. A turnover "cascade" in the food system can be demonstrated and is to be explained by the concept of value added:

- agro-support turnover: € 37 billion, in 2000
- agricultural turnover: € 74 billion

[32] A branch covers all establishments with the same main activity, but establishments are often multi-product establishments.

- AFI turnover: € 114 billion
- "consumer" turnover: € 180 billion

Household consumption turnover is equivalent to agricultural turnover multiplied by a factor of 2.4, which indicates a very marked "cascade of value added". It is observed furthermore that the food function is being satisfied more and more directly and globally with growing externalisation: domestic catering, which involves purchasing, preparing and serving food, is in decline, whereas non-domestic catering is progressing. We have used this observation to complement a historical typology which was built up by L. Malassis on the basis of the relative shares of value added within the agro-industrial production complex (AIPC) (AIPC = agriculture + AFIs), by also taking account of the distribution of household expenditure between domestic catering and non-domestic catering. This type of typology can be used either for observing the stages of development of the food systems in a given country or for comparing the situation of the food systems in various countries in a given year. It can be seen at the world level that the various categories of food systems now coexist.

Table 8.2 - The stages of food system development

Stage	Characteristics	Value added of the production complex		Consumption mode (%)	
		Agriculture	AFI	Domestic catering	Non-domestic catering
Agricultural	Self-subsistence, poverty	80	20	100	
Artisanal	Differenciation, urbanisation	60	40	90	10
Agro-industrial	Mass production/ distribution	50	50	70	30
Agro-tertiary	Services, segmentation	< 50	> 50	50	50

Source : Malassis (1979), Rastoin (1998).

This historical model gives a clear picture of the structural changes that have taken place in the food system over a long period. When one examines the indicators for 2000 by country it will be seen that the member countries of the EU have all entered the agro-industrial stage, whereas the Mediterranean partner countries are still at the artisanal stage on the whole, although they nevertheless do have some sectors which can indeed be termed agro-industrial - most of these being geared to exports.

Box 8.1 - The 4 stages of the food system in Mediterranean countries

- The "agricultural" stage is that of a short-circuit self-subsistence economy. The very large majority of consumers also produce their own food. The processing and marketing of agricultural commodities are limited, and the AFI and distribution sectors, where they exist at all, are marginal. This stage was characteristic of Europe for many centuries after the fall of the Roman Empire. It is now still typically the case of what are known in World Bank terminology as the least developed countries. These countries are very poor (with a per capita GDP of less than 700 US$ per annum) and are essentially rural. Due to the development of industry and trade, none of the Mediterranean countries - taken as a whole - is now in this category (Morocco and Syria, the poorest countries in the region, had a per capita GDP of just under 1,200 US$ in 2001). The Mediterranean economies have very asymmetrical internal structures, however, and the majority of the food systems in the Mediterranean partner countries can be considered to be still at the "agricultural" stage.

- The "transition" stage is the stage where a craft industry processing raw materials external to agriculture and/or an agro-industry related to export crops develops. A commercial sector (shops, markets) and street catering or catering related to the accommodation of travellers develop as "cities" emerge. This phase is typical of the division of labour observed in the prosperous societies of antiquity and then from the emergence of the Renaissance onwards in Europe. It is very closely connected with growth in trade and financial flows. Today it concerns most of the so-called "low-income" developing countries (700 to 2,800 US$ per capita per annum) and most of the Mediterranean partner countries.

- The "agro-industrial" stage is reached whenever AFI value added reaches the level of that of agriculture in the food production complex (agriculture + AFIs). This situation means that due to the industrialisation of agriculture (increase in intermediate consumption) and to consumer preference for processed products (less time spent on preparing meals - a factor connected with the employment of women and the non-stop working day) the AFIs have engaged in mass production, including the value of their activity in the price of food products. There is also a high rate of growth in non-domestic catering due to the acceleration of urbanisation[33] as well as changes in lifestyle related to increasing incomes[34]. All high-income countries have now entered the agro-industrial stage. In France, AFI value added was equivalent to the gross agricultural product in 1993, and in 2000 the share of non-domestic catering in the household food budget was almost 20%. All of the countries in the European Union are currently at this stage.

[33] The urban population will probably account for 60% of the world population by 2025.

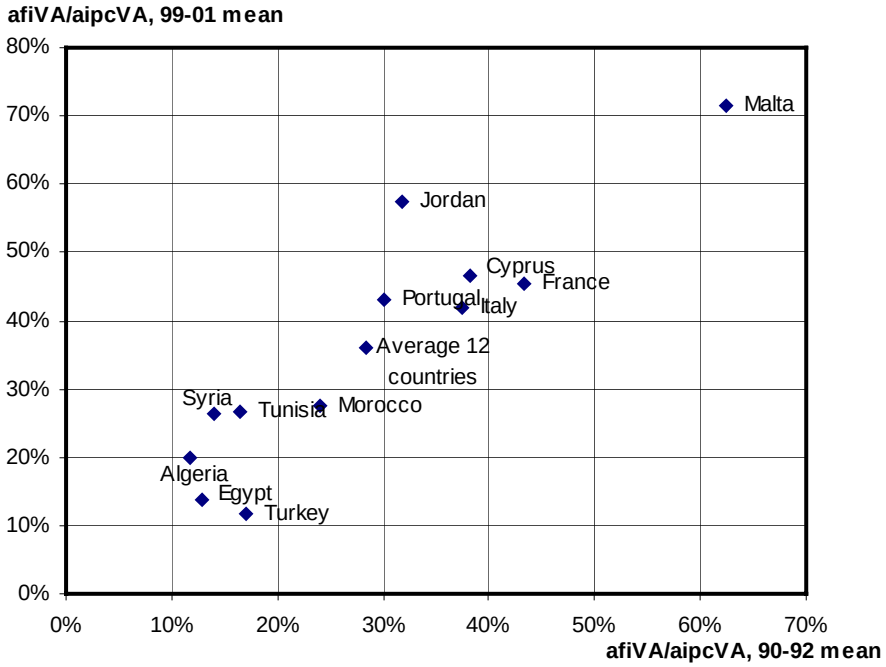
[34] The French devoted 16.1% of their budget to food in 2000, to which almost 4% must be added in the form of restaurant expenditure.

Box 8.1 (contd.)

- The "agro-tertiary" stage, which is marked by the predominance of services within the food system: non-domestic catering expenditure becomes comparable to domestic catering expenditure. However, the final price of catering is made up of approximately 2/3 services and 1/3 goods. Furthermore, in the food production chain as a whole material inputs are decreasing to the advantage of non-material inputs (advertising costs account for more than 15% of the final price of breakfast cereals, for example, and for 10% in the case of confectionery[35]). The United States has been at the "agro-tertiary" stage since the beginning of the 1990s, and France, Italy, Spain and Israel are close to that stage.

When one selects the first indicator of the distribution of value added within the AFPC, one observes wide diversity in the food system development stages in the Mediterranean region.

Figure 8.1 - Typology of food systems in the Mediterranean area



Source : Our calculations based on UNIDO and World Bank data (2003).

In Fig. 1 we show the development of the share of AFI value added in the total value added of the AIPC in the last 10 years. It will be observed that that share progressed

[35] Nestlé spent more than 1.8 billion US$ (3.7% of turnover) on advertising throughout the world in 1998.

in every case - with the exception of Turkey[36] - in the period between 1990-1992 and 1999-2001, a fact which confirms the theory that food products are being upgraded increasingly through industrial processing and the inclusion of services (preservation, practicability). Furthermore, attention can be drawn to a relation between living standards (per capita GDP) and the significance of the AFIs in the AIPC on the basis of the 3 Mediterranean countries in the European Union included in the figure (Italy, Portugal and France had a ratio of above 40% in the period from 1999 to 2001). The cases of Malta and Jordan are to be explained by industrial activities on imported raw materials. The 6 countries that are below the average in the region can be described as having an emerging AFI (transition stage).

8.1.2 - Analysis of the final value of food products

The so-called "food value" analysis consists of breaking down the value paid by the final consumer of a foodstuff or beverage into elements corresponding to each of the production and distribution subsystems (agro-supply, agriculture, AFIs, distribution). We have chosen to compare it to Mediterranean countries with contrasting situations: France (23,990 US$ in purchasing power parity in 2001) and Morocco (3,600 US$).

Table 8.3 - Creation of value in the food system by industry and the services (sectoral contributions to the final price of agro-food products)

Actor	France 1999 (%)	Morocco 1998 (%)	Development 93-99, France
Suppliers-agriculture	18	40	-3 %
Suppliers-industry	22	26	8 %
Suppliers-services	8	1	35 %
V.A. food industry	21	16	10 %
Trade margins	19	11	12 %
State	11	6	39 %
Total	160 billion €	9 billion €	12 %

Sources: INSEE and Moroccan Directorate for Statistics.

This diagram shows that Morocco is in a situation of "transition" from a strictly agricultural system to an agro-industrial system, with an emerging food industry, a high share of agricultural inputs in the final value, and a very low share of services. In France, on the other hand, the services have become predominant (almost 40% of the final value when administration costs are included). It must furthermore be mentioned that in Morocco agro-food products account for only 56% of household food consumption, as against 72% in France. The margins for growth of the food

[36] The indicator used can be influenced by relative variations in prices and/or volumes.

system through industrialisation and services are thus very wide in Morocco, as is the case in most of the Mediterranean partner countries.

8.1.3 - Openness of the Mediterranean systems to international trade still limited

The degree of commercial integration into the world economy can be measured through the following coefficient:
fX + fI / AIPC value added
where fX = food exports[37]
fI = food imports
aipcVA = value added of the agro-industrial production complex (agriculture and AFIs)

A coefficient of 100 is considered to represent a relatively open economy. Table 4 shows that the Mediterranean countries have not yet attained a level of international trade in the food sector. There are in fact only 5 countries which attain or exceed this value of 100, including 2 insular economies (Cyprus and Malta) and 1 land-locked country (Jordan). Portugal and France are in this category with flows varying widely in volume (France is the world's second-largest exporter of foodstuffs (€ 34 billion in 2001) and Portugal achieved a level of just under € 1.7 billion in the same year.

[37] "Food" is understood to mean the following sections of the Standard International Trade Classification (CITC): Sections 0 (food and live animals, 1 (beverages and tobacco), 4 (animal and vegetable oils) and division 22 (oilseeds and oleaginous fruits).

Table 8.4 - Openness of the food systems of the 14 Mediterranean countries to international trade (%)

Rank	Country	(fX+fI)/aipcVA Average 1999-2001	Variation 1991-2000*	fX/aipcVA Average 1999-2001	fI/ aipcVA Average 1999-2001
1	Jordan	312	73	83	229
2	Cyprus	147	8	50	97
3	Malta	140	7	22	119
4	Portugal	100	73	26	74
5	France	99	18	57	42
6	Spain	86		45	41
7	Italy	73	25	30	42
8	Greece	53		22	31
9	Morocco	43	42	22	21
10	Algeria	43	12	1	42
11	Tunisia	38	5	17	21
12	Syrian Arab Rep.	22	-16	8	14
13	Egypt, Arab Rep.	22	-44	2	20
14	Turkey	22	27	15	7

* Variation of the ratio (fX+fI)/aipcVA between the averages for the 1990-92 et 1999-2001 3-year periods

Source: World Bank, WDI, 2003.

Another type of analysis can be conducted on the basis of Table 4 by considering the structure of the trade flows of each country, i.e. the ratio of exports to imports. One can then find agro-exporting countries with a net contribution to the international balance of trade (exports exceeding imports) and countries which depend on foreign countries for their food supplies. There are only 3 countries in the first category: France, Spain and Turkey, which distinguish themselves on account of their considerable agricultural basis (AAU) and a powerful food industry. Most Mediterranean countries are agro-importers. It is to be observed in particular that Algeria, Egypt, Jordan, Portugal, Malta and Cyprus are highly dependent on international markets. These countries are marked by low agro-climatic potential and a weak agro-industry as well as strong population pressure. Between these two categories there are countries where the food trade is virtually balanced: Morocco, Tunisia, Greece, and Italy. And finally, it is to be observed that the dynamics of integration into international trade vary widely from one country to another. Jordan and Portugal obtained the highest score with a food trade growth rate of 73% over the period from 1990 to 2001. Jordan attained this level by developing exports, and Portugal by developing imports. Only 3 other Mediterranean countries - Italy, Malta and Spain - have managed to improve their international trade balance.

To sum up, as an initial approximation, it can be considered that the Mediterranean area is only participating to a minor extent in the globalisation of

agro-food markets (cf. Chapter 3.3 below). In order to confirm this hypothesis, a further indicator, foreign direct investments (FDI) in the region, must be considered (cf. Chapter 3.4 below)[38].

8.2 - Food consumption and food habits: a market undergoing profound changes and extremely heterogeneous despite the use of common sources

With its 500 million consumers[39], the Mediterranean market offers the commercial farmers and food industries in the region a large and attractive potential market, since it accounts for almost 1/10 of the world population. The specific customs, cuisines and food consumption habits that have evolved over the centuries in this region are now considered by experts to be very healthy. Due to the rapid development of consumer behaviour, the globalisation of markets, and economic and demographic parameters are together bringing about profound changes in food consumption patterns in Mediterranean countries.

8.2.1 - Consumers divided by an economic gulf which is a matter of serious concern

If one takes per capita income as an initial indicator of the "average level of wealth" of a country, one observes that that level is now 3 1/2 times as high in the North as it is in the South (it was only 1 1/2 times higher in 1980). As the result of this two-track growth, the material resources of the region have become concentrated over time in the rich countries of the North, in which development dynamics have been faster and which account for over 4/5 of production in the region (Medistat). In more recent years it has been observed that the project for creating an "area of shared prosperity" that was launched in Barcelona in 1995 has been a failure: per capita GDP expressed in purchasing power parities decreased in all of the southern Mediterranean countries - with the exception of Tunisia, Cyprus and Malta - in the period from 1995 to 2001 (cf. Annex 1).

When one adds to this the considerable disparities observed in the distribution of wealth within individual countries in both North and South plus the problems of poverty which are caused by this "backwardness", we have one of the key problems at Europe's door at the beginning of the 21st century: the fight against poverty and efforts to seek more balanced development for mankind.

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38 The globalisation process can be evaluated in terms of growth in the flows of goods and services, capital (particularly FDI), information, and technologies, human migration for occupational or tourist purposes, and production location movements (GEREFF G., KORZENIEWICZ M., (1994)). Only trade and agro-food FDI will be analysed within the limited framework of the present report.

39 The exact figure was 522 million inhabitants for the Mediterranean in the broad sense of the term in 2001 according to Medagri compilations. And, according to FAO forecasts, this figure should come close to 700 million by 2025.

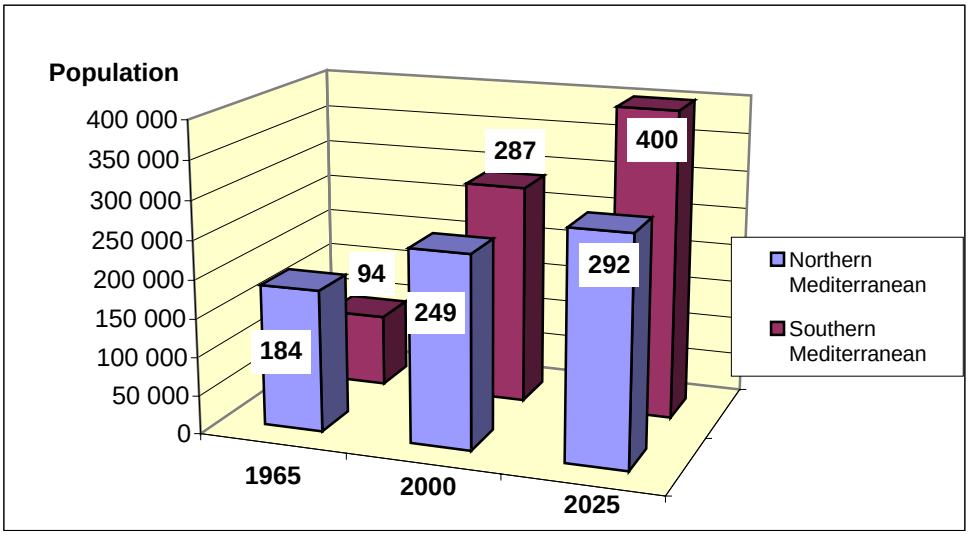
Over and above the problems of equity which it poses, the high degree of heterogeneity of demand explains the wide - and growing - diversity of the agro-food industries, which, by virtue of their resilience, manage to meet extremely variable consumer demand. It also explains the coexistence of very heterogeneous subsystems in the same region and period of time ranging from self-supplier consumption to the survival of short circuits, the consolidation of the informal sector, and the development of hypermarkets. This multi-tier development of the agro-food sector is without a doubt a problem to which we must devote attention, since it calls for diversified strategies on the part of both public and private actors.

8.2.2 - Disrupted population equilibrium and growing urbanisation

The aggregate population development in the Mediterranean region in the broad sense of the term, that is to say, including all Arab countries in the region, should lead to marked population growth from 500 million to 700 million inhabitants over the next 25 years (Fig. 2). This constitutes a considerable local market potential for those countries in the region that are able to seize such opportunities.

In the northern Mediterranean, birth rate has stabilised and the population is ageing considerably (more than half of the population will be over 50 years of age by 2025). In the eastern Mediterranean, on the other hand, the population is entering a phase of appreciable rejuvenation. Birth rate should begin to level off noticeably as of 2010, however, and this stabilisation should be confirmed by 2025. The stabilisation dynamic has been slower in the southern Mediterranean, so that the demographic transition is unlikely to begin before 2025. As the result of this dual development, almost 60% of the Mediterranean population will be living in the countries of the South by 2025, whereas it was the countries in the North which accounted for almost 70% of Mediterranean consumers in 1950.

Figure 8.2 - Population development in the Mediterranean: comparison between North and South in million inhabitants

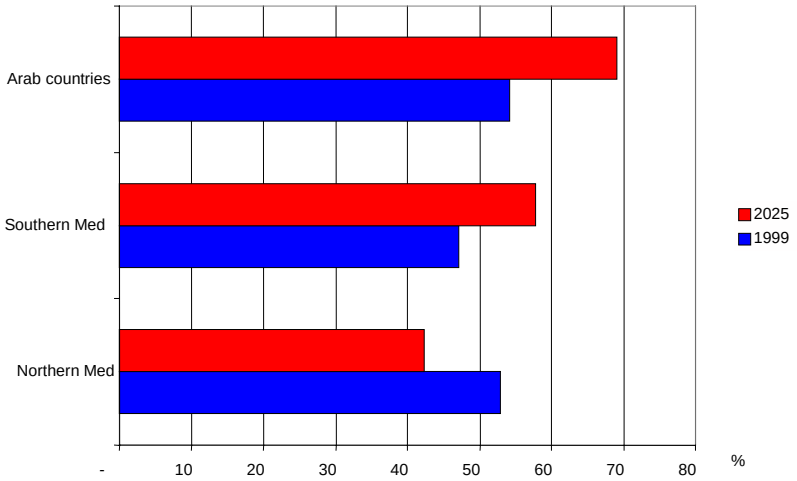


Source: World Bank 1994, UNDP 1995 and MAP/MEDIT.

This new population equilibrium goes hand-in-hand with an urbanisation phenomenon which is accelerating, particularly in the southern Mediterranean. Figure 3 below gives a good idea of the sustained urbanisation rate which will mark the countries of the eastern and southern Mediterranean until 2025[40], whereas the urban populations in the North will tend to become stabilised and, in certain cases, will even decrease.

[40] In the eastern Mediterranean countries Istanbul is the urban centre with the most marked development; the growth rate since the 1950s has achieved a spectacular 500%, and the population will increase by a further 50% in the next 15 years. The urban population in countries such as Lebanon, Libya and Turkey has more than doubled since 1960.

Figure 8.3 - Development of the percentage of the urban population in the Mediterranean by major zone



Source: World Bank1994, UNDP 1995 and MAP/MEDIT.

Combined with the problem of poverty and the inability of certain agro-food industries to cope with demand, this extremely rapid urban growth raises many questions.

8.2.3 - The impact of these changes on food consumption

This population dynamic, openness to world markets, the massive migration of rural populations to the cities, and economic growth are causing major changes on the food markets in the Mediterranean region.

Several of the major features of these changes will be examined below.

- First of all, population dynamics affect the age structure of the extremely young populations in the South and the ageing populations in the North. In Morocco, for example, 61% of the population is under 30 years of age[41], and in Egypt 40% of the population is under 15 years of age.

- Secondly, due to women's participation in economic life, Mediterranean women, who, traditionally, have been tied to domestic life and have been responsible, inter alia, for providing high-quality food, are now devoting more

[41] CERED projections for 2002, in CERED, 1997; Situation et perspectives démographiques du Maroc. Centre d'Etudes de Recherches Démographiques, Rabat, Maroc. *(Population situation and outlook in Morocco, Centre for Demographic studies and research, Rabat, Morocco.)*

and more time to occupational activities. An increasing number of women are thus working outside the home (7% in Jordan, 17% in Algeria, 24% in Tunisia, 29% in Morocco, 43% in both Turkey and Croatia[42], and the 'time' constraint can become as significant as, if not more significant than, the 'income' constraint in explaining the change in domestic consumption.

- Urbanisation and the fact that people are engaging in several activities, often because they have no other choice if they want to have a decent standard of living, explains why nuclear families are forming in which the number of children is steadily decreasing. The size of households is consequently declining rapidly. In Egypt, for example, the number of persons per household dropped from 5.2 in 1990 to 4.3 in 1996 (Soliman, 2002). In Turkey, the average number of persons per family is 3.6 (Dogruel, 2002); in Morocco, the number of persons per household is still high: 5.6 in urban areas as against 6.4 in rural areas (Directorate for Statistics, 2000).

- And finally, new patterns of working time: the non-stop working day, which is now widespread, and the fact that people are engaging in several activities have resulted in the growing use of institutional, fast-food or street catering. And even if these "time-saving" meals that are taken outside the home are still often traditional, changes of this nature have considerably influenced the transformation of Mediterranean consumption patterns, which, traditionally, have been based essentially on the lengthy and complex preparation of dishes for meals eaten at home and at a more leisurely pace as an important feature of family life.

- These phenomena of non-domestic catering, which concern mainly adults, are compounded by the impact which the general application of compulsory schooling has had on the lives of the younger generation. It is to be observed practically everywhere in the Mediterranean region that the institutional environment is gradually replacing the traditional family environment, and that this is happening at an increasingly early stage in people's lives. In this context it is not surprising that the tastes of both young and not so young, which are being influenced more and more by the development of institutional catering and by the effects of advertising, are tending to become westernised.

8.2.4 - Highly heterogeneous and rapidly changing food markets

Even if the "Cretan model" tends to be presented rather simplistically as typical of the entire region, it is now essential to examine the "Mediterranean consumption pattern" from the point of view of its diversity, given the degree of intermixing of

[42] Sources: Department of Statistics, Jordan, 2001; National Statistical Office, Algeria, 1998; National Statistical Institute, Tunisia, 2002; Directorate for Statistics, Morocco, 2001; State Institute of Statistics, Turkey, 1990; Central Bureau of Statistics, Croatia, 2001.

the populations and civilisations of the Mediterranean, which has contributed to a large extent to the differentiation of Mediterranean diets.

A diet marked by its diversity and intercultural nature:

A simple comparison of the foods available in the Mediterranean region reveals a marked contrast between the North, the Balkans and the South.

- In the South, cereals still constitute the basic diet. They are complemented by legumes, whereas animal products are rare and expensive (10%, and often less, of the calories ingested are of animal origin).
- Food intake in the riparian countries in the North, on the other hand, is characterised by its rich animal product content (Table 5). Since the 1990s the structure of this food intake has been very close to the western model, the only difference being more fish and legumes and less sugar (Fig. 4).
- The Balkan countries have an intermediate food intake structure situated between the structures of the North and the South: intake is richer in animal products compared to the South and contains more cereals and legumes than in the North, with a lower calorie count.

Table 8.5 - Regional comparisons of food intake per capita per day 2000

Regions	Final calories available	% of animal calories	Equivalent vegetable intake*
Northern Mediterranean	3563	28	9550
Balkans	2913	22	6760
Southern Mediterranean	3222	10	5155

* Number of plant calories + Number of animal calories x 7
Northern Mediterranean : Spain, France, Greece, Italy, Portugal
Southern Mediterranean : Algeria, Cyprus, Egypt, Israel, Lebanon, Libya, Morocco, Syria, Tunisia, Turkey
Balkans : Bosnia-Herzegovina, Croatia, Albania, Serbia-Montenegro, Slovenia

Source: Our calculations based on FAO data.

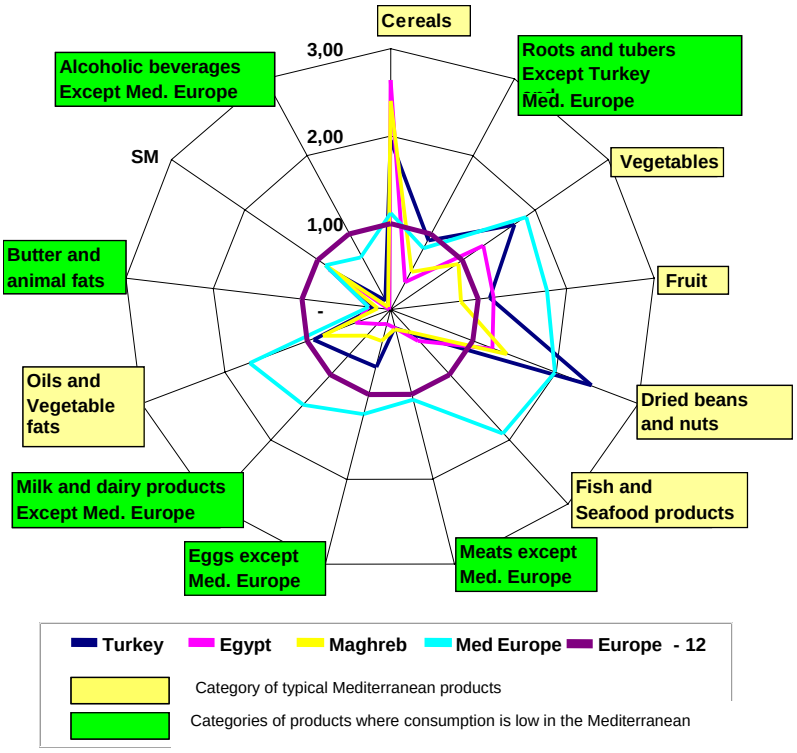
In addition to the interregional diversity of the Mediterranean zone there are also substantial differences in diet within the subregions.

- In the group of European Mediterranean countries, Spain and Portugal are characterised by high potato, fish and seafood consumption. Consumption in Italy is based mainly on cereals and dairy products. In Greece it focuses more on cereals, legumes, fruits and "feta" cheese. France is without a doubt the most "westernised" Mediterranean country, with a comparatively high level of meat and milk consumption. The Mediterranean diets are the product of a history which has not always taken account of geographical frontiers. Greece, for example is still very influenced by oriental and Ottoman cuisine, whereas Spain is marked by the influence of the Moors, and Sicily and Provence are very similar to Italy.
- There is also great diversity of diets in the Balkans. Although consumption of legumes, fish, sugar, and fats is low throughout the region, consumption of the other foodstuffs varies widely from one country to another. In Albania animal products (milk, meat) and legumes play an important role in the diet, whereas in Yugoslavia and Slovenia milk and its derivates, cereals and fruit are predominant. In Bosnia the main items are legumes and meats, in Croatia root vegetables, tubers and fruit, and in Macedonia essentially legumes.
- Food patterns in the South are fairly homogenous. Fruit and legumes and root vegetables and tubers differentiate Turkey and Lebanon from the other dietary patterns. Milk and dairy products are typical of countries with a pastoral tradition such as Turkey, Syria and Algeria.

Rapidly changing behaviour:

In addition to the wide diversity observed in diets, all Mediterranean consumers are affected in their food habits by the opening of their economies and markets to the world market.

Figure 8.4 - Comparison between the average consumption model of the Europe of the 12 and several typical Mediterranean models



Here again there are of course wide variations between individuals and regions, but despite the resistance of certain food habits and the preference for certain local products, the same trend is observed throughout the region, as is illustrated in Fig. 4.

- In the southern Mediterranean the average food model seems to depart from the western model, since the consumption of products such as cereals and legumes was higher in 2000 than it was in 1963, whereas no progression is visible in the consumption of animal products.

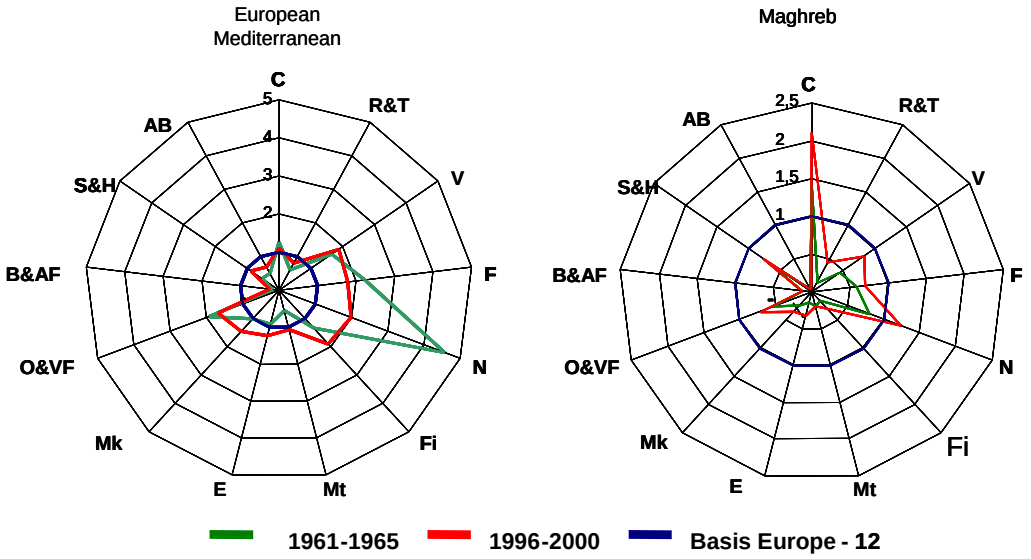
- Taken as a whole, the calorie count of average food intake has progressed appreciably in all of the countries in the region, but the resulting nutritional structure and quality of food intake[43] have not progressed to the same extent. Jordan seems to be the only country where the situation has improved

[43] The international nutritional standards are as follows: food intake must have a protein content of 8% - 12%, a carbohydrate content of 50% - 58%, and a fat content of 30% - 33%.

appreciably over the last 35 years, whereas it seems to have even deteriorated in other countries.

- Comparison of the food situation in the Balkans in 2000 with the situation in 1963 shows marked deterioration: the availability of all products seems to be reduced with the exception of animal products. The nutritional balance in Bosnia, and in particular in Croatia, has also deteriorated considerably, whereas Yugoslavia and Slovenia show a relative balance, and there is slight improvement in Albania and Macedonia - but at levels far below a nutritional balance.

Figure 8.5 - Development of the food profiles of the Mediterranean countries in Europe and the Maghreb - 1961/1965, 1996/2000



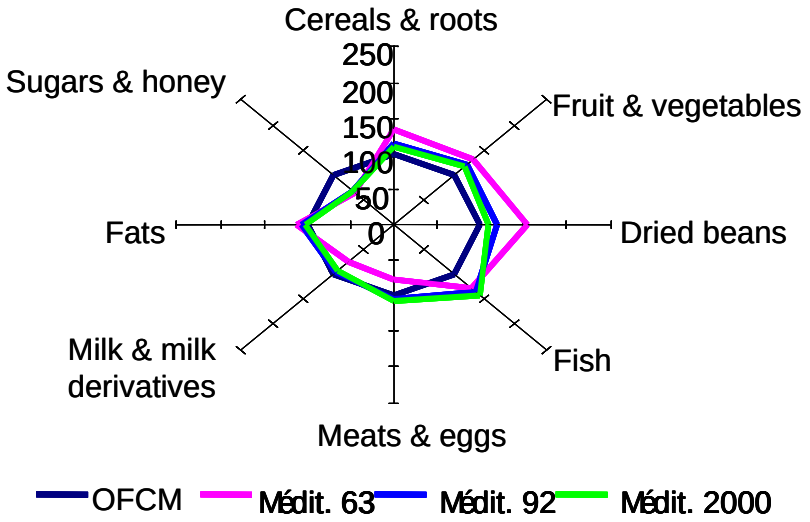
C: Cereals - **B&AF**: Butter and animal fats - **O&VF**: Oils and vegetable fats - **Mk**: Milk and dairy products except Med. Europe - **E**: Eggs except Med. Europe - **Mt**: Meats except Med. Europe – **Fi**: Fish and seafood products - **N**: Dried beans and nuts - **F**: Fruit - **V**: Vegetables - **R&T**: Roots and tubers except Turkey and Med. Europe – **S&H** : Sugar and honey – **AB** : Alcoholic beverages

- And finally, in the northern Mediterranean the health model which has developed over hundreds and even thousands of years is in the process of changing to a Western model whose excesses are constantly emphasised (Fig. 5).

Taken as a whole, the nutritional balance has been upset in this region (Fig. 6): there has been an increase in the quantities consumed and levels considered excessive have now been attained (3,300 - 3,600 Kcal per capita per day in average

food availability in 2000 as against 2,600 - 3,200 Kcal in the 1960s), a very high level of animal product consumption accounting for 22% to 38% of the calorie intake in 2000 as against 13% to 30% in the 1960s. There has also been a marked increase in the proportion of fats added to intake evaluated in terms of energy: it has risen from 20% - 30% of intake in 1963 to 32% - 40% 30 years later. The type of fats consumed has changed in particular in Portugal, Spain and Italy (marked increase in animal fats), whereas in France and Greece it is vegetable fat consumption which is progressing more rapidly. Even if the Mediterranean model has still retained several of its basic characteristics despite these changes, one might well ask how long this will continue.

Figure 8.6 - Development of the food profiles of the Euro-Mediterranean countries - 1960/2000



OFCM: Occidental Food Consumption Model

The hedonic aspect is still very significant:

Mediterranean consumers are still particularly concerned about product quality. They are very aware of the risks of faulty preservation and hygiene and sometimes of certain cases of fraud. But "quality" is not limited to health aspects for Mediterranean consumers. Taste, flavour and perfume still influence consumer behaviour to a large extent, since they are perceived as factors determining the product quality sought and for many people are the main factors of confidence in products and distribution networks.

Mediterranean consumers thus trust the brands and products they know, and they tend to trust local shopkeepers with whom they have neighbourly relations.

In Egypt, since the cold storage chain has not been adequately complied with, consumers have lost confidence in shopkeepers and higher-income consumers have turned to the large-scale retail trade, although the "békala" (local shopkeeper) culture is still very widespread in the lowest income brackets due to the relational aspect that has developed over many years (Soliman, 2002).

The modification of commercial structures in the various countries has undoubtedly changed purchasing habits, particularly with the advent of modern distribution: Carrefour in Tunisia and Egypt, and Marjane/Auchan in Morocco. However the change has not been the same for all population groups; some consumers have taken to the new forms of distribution more rapidly, whereas others keep to the traditional forms, and a third category has developed a behaviour pattern patronising the various sales outlets. The choice of shop is in fact very closely linked to purchasing power.

In Morocco, an important factor in choosing the local grocer's shop for buying most food products is the credit facility granted by the grocer to local residents. Furthermore, the local grocer's shop is also more accessible since supermarkets are generally situated at some distance from working-class districts, whereas most households do not have a car and bus services are unsuitable.

However, the boundaries between the various types of shop are not always clearly defined. Irrespective of their income, households patronise all types of shops depending on the products they want to buy and consumption situations.

For a strategy for enhancing the value of Mediterranean products:

The consumption pattern presented by Mediterranean diets is far from homogeneous; these diets involve a wealth of products with their own very typical features and are extremely varied. According to nutritionists, it is that diversity which provides a certain level of nutritional and social well-being for the various populations. Mediterranean producers should put their food knowledge and know-how to better advantage and structure the image of Mediterranean food around four main aspects, which are closely related to identity:

- combining pleasure and health: they should revive the concept of nourishing food, distance themselves from the "health emphasis" of American food culture, emphasise the sensual aspect, and relax the dichotomy between what is enjoyable and what is good for the health;
- emphasising the value of Mediterranean culture with its diverse flavours and colours and establishing a Mediterranean identity; it should no longer be a question of "eating other people's food" but of "providing and eating one's own food";
- mobilising a desire for renewal and "reassurance" by returning to traditional foods;

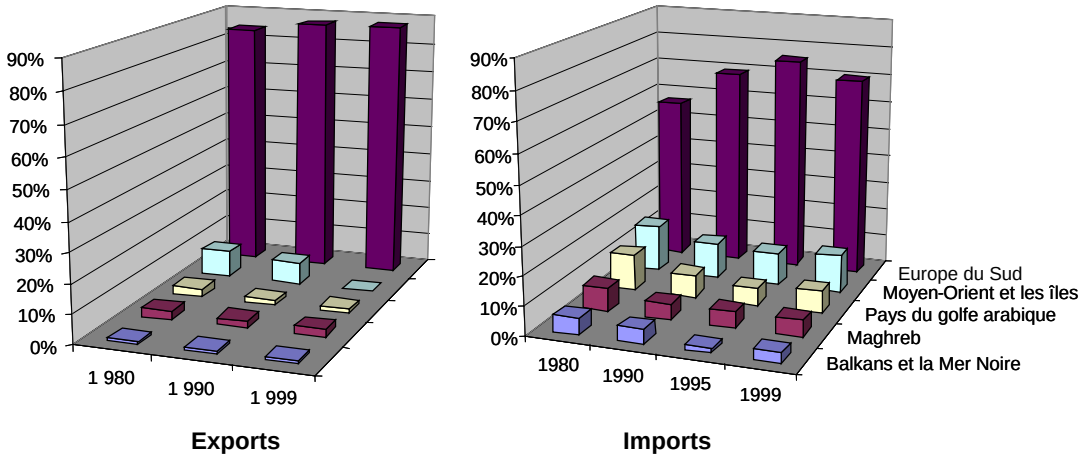
- guaranteeing consumers an appropriate solution to their concern for "health" and "food safety"; the new medical angle on Mediterranean food will help to create new foods with traditional ingredients and to make the Mediterranean diet part of a movement of reconciliation with tradition, in which the ancestral knowledge of the people is acknowledged by the elite.

9 *The international food trade*

9.1 - Globalisation through Mediterranean trade

In the last few years history has been accelerating in the Mediterranean as it has throughout the world, and the "global market" is continuing to develop. In 2000 world trade in goods exceeded the symbolic threshold of 6,000 billion US$, and world agro-food trade amounted to almost 600 billion US$ in the same period. One of the main features of this trade is its concentration - the 10 leading exporting countries alone account for almost two-thirds of world exports of agricultural commodities and agro-food products. It is in this context that the Mediterranean agro-food trade takes place.

Figure 9.1 - Structure of bulk commodity and agro-food exports and imports in the Mediterranean region



First and foremost, the countries in the Mediterranean region account for a very considerable share of world trade in agricultural commodities and agrifoodstuffs, achieving 23% and 19% of bulk commodity and agrifoodstuff imports and exports respectively in 1995. This fairly good performance is due essentially to the countries in the northern Mediterranean, however, and conceals the considerable disparities amongst the countries in the region, which are highlighted in the figure below.

When analysed from the point of view of the export-import ratio, these foreign trade figures reveal a very worrying situation for a number of Mediterranean countries, which is compounded by a certain degree of instability due mainly to weather conditions.

Table 9.1 - Development of the bulk commodity and agro-food imports and exports of the Mediterranean countries and development of the import-export ratio from 1961 to 2001 (million $)

	Imports		Exports		Exp/Imp ratio (%)	
	1961-65	1997-2001	1961-65	1997-2001	1961-65	1997-2001
France	2.4	24.8	1.5	35.6	60	143
Greece	0.1	3.5	0.2	2.8	162	80
Italy	1.9	22.5	0.7	15.8	35	70
Portugal	0.18	4.1	0.07	1.5	40	36
Spain	0.4	11.5	0.4	14.5	103	126
Cyprus	0.01	0.05	0.03	0.5	202	104
Malta	0.03	0.3	0	0.04	12	15
Northern Med	**5.1**	**67.1**	**2.9**	**70.7**	**57**	**105**
Morocco	0.1	1.6	0.1	0.7	118	42
Algeria	0.2	2.7	0.2	0.03	143	1
Tunisia	0.04	0.8	0.06	0.5	129	58
Maghreb	**0.3**	**5.1**	**0.44**	**1.17**	**132**	**23**
Turkey	0.08	3.18	0.2	4.4	275	138
Egypt	0	3.4	0	0.5	0	0
Lebanon	0.08	1.2	0.03	0.14	35	11
Total Mediterranean	**5.6**	**76.6**	**3.6**	**76.4**	**64**	**100**

The most worrying factor, however, is the continuing deterioration of the food security situation of the southern and eastern Mediterranean countries. For, whereas the situation is improving in the North as a whole, since bulk commodity and agro-food exports are increasing more rapidly than imports, the opposite applies in the southern and eastern Mediterranean, where food deficits are steadily growing and dependence on the world market for foodstuffs is increasing at alarming rates. Analysis of the national foreign trade statistics reveals particularly marked disparities, however. From 1970 to 1999 the export-import ratio in France rose from 100% to 138%, whereas the ratio in Algeria plummeted from 126% to 1%. The ratios also differ widely across countries within the same group as is the case in the Maghreb, where food dependence ranges from 100% in Morocco to 1% in Algeria. With the exception of several southern European countries, the situation has deteriorated considerably in every case over the last 30 years and a number of Mediterranean countries have become extremely dependent on their agro-food imports.

Analysis of origins and destinations reveals a high degree of concentration of the bulk commodity and agrifoodstuff trade in the Mediterranean region (cf. Annex 2). Five countries - the United States, France, Canada, Argentina and Australia - account for almost half of the bulk commodity and agro-food imports of the southern and eastern Mediterranean countries.

Table 9.2 - Distribution of the international bulk commodity and agrifoodstuff trade of certain Mediterranean countries in 2000, by origin and destination (million $)

	Destinations			Imports					
Origins	**Algeria**	**Egypt**	**Israel**	**Lebanon**	**Morocco**	**Tunisia**	**Turkey**	**Total**	**%**
USA	348.5	1171	581.9	185.2	236.6	93.9	896.2	**3513.5**	24.1
France	601.9	79.6	79.5	123.4	371.8	111.2	198.1	**1565.5**	10.7
Germany	188.4	104.8	102.4	46.1	42.9		146.7	**631.3**	4.3
Argentina	66.8	235.6	51.3	39.7	92.6	72.7	69.2	**627.9**	4.3
Canada	310.8	33.9	11.9	8.8	190.8	1.8	66.6	**624.6**	4.3
Netherlands	103.2	107.9	103.1	51.7	65.1	31.9	78.2	**541.1**	3.7
UK	41.6	28.2	241.4	34.4	49.7	23.3	117.4	**536.0**	3.7
Australia	18.8	311.2	28.3	21.7	20.8	1.8	93.3	**495.9**	3.4
Brasil	34.3	48.1	31.3	42.5	101.9	23.4	74.8	**356.3**	2.4
China	20.1	150.8	21.7	15.1	73.2	8.6	31.6	**321.1**	2.2
Italy	70.3	35.1	59.3	45.9	13.9	15.9	73.1	**313.5**	2.1
Spain	70.1	18.4	31.9	27.9	54.1	37.4	67.2	**307.0**	2.1
Ireland	21.7	165.5	20.7	55.6	9.9		16.1	**289.5**	2.0
Greece	17.8	30.1	22.5	6.1	2.7	19.7	175.4	**274.3**	1.9
Malaisia	21.1	101.1	5.6	4.1	4.1	7.5	104.4	**247.9**	1.7
Switzerland	13.9	93.4	71.5	7.7	7.3	7.7	38.9	**240.4**	1.6
Belgium	73.5	6.2	34.8	21.2	22.2	11.2	20.3	**189.4**	1.3
India	6.9	78.9	18.4	10.6	2.5	7.4	10.1	**134.8**	0.9
Denmark	8.6	33.3	23.3	21.7	13.5	2.8	13.9	**117.1**	0.8
N. Zeland	30.1	34.6		2.6	18.2	2.9	17.2	**105.6**	0.7
World other	501.5	616.9	289.3	320.1	284.8	203.2	949.8	**3165.6**	21.7
Total	**2570**	**3485**	**1830**	**1092**	**1679**	**684.3**	**3259**	**14598.3**	100.0

	Origins			Exports					
Destinations	**Algeria**	**Egypt**	**Israel**	**Lebanon**	**Morocco**	**Tunisia**	**Turkey**	**Total**	**%**
Germany		20.4	92.5	9.2	42.3		573.5	**737.9**	11.6
France	20.4	7.8	94.1	3.8	293.4	38.8	145.9	**604.2**	9.5
Italy	0.8	39.9	55.9	1.6	20.5	161.3	161.2	**441.2**	7.0
USA		19.5	116.7	21.3	37.3	9.9	216.6	**421.3**	6.6
Netherlands	0.1	12.9	209.9	0.1	27.3	0.8	168.6	**419.7**	6.6
UK		8.1	167.8	3.2	30.7	2.6	180.7	**393.1**	6.2
Saudia Arabia		44.6		26.6	10.6	3.9	118.1	**203.8**	3.2
Spain	1.5	2.7	34.5	1.1	31.5	28.6	78.2	**178.1**	2.8
Libya	0.1	34.5		0.9	25.9	91.5	13.5	**166.4**	2.6
Belgium	2.2	4.1	42.3	0.2	26.5	1.9	85.6	**162.8**	2.6
Japan		10.9	44.4	0.2	11.1		60.8	**127.4**	2.0
Switzerland	0.3	1.5	16.9	0.8	6.5	8.8	63.4	**98.2**	1.5
World other	6	295.8	279.5	69.6	145.9	43.8	1551	**2391.4**	37.7
Total	**31.4**	**503**	**1155**	**139**	**710**	**392**	**3417**	**6345.5**	100.0

Cereals account for a very large share of this trade: wheat alone accounts for 1/5 of agro-food imports, and all of the main cereals together account for 30% of total trade in these goods, the main destinations being Egypt, Iran and Algeria. It is no doubt due to this high concentration of trade on cereals that the major focus of imports from the leading serial-exporting countries in the world is to be explained.

Table 9.3 - Cereal imports of the southern and eastern Mediterranean countries in 2000 (million $)

	Algeria	Egypt	Israel	Lebanon	Morocco	Tunisia	Turkey	Total	%
Wheat	719	719	182	54,6	517	136	126	**2453.4**	61.7
Rye	68.6	1.1	39.6	6.4	105	29.2	5.2	**255.0**	6.4
Rice	0.9		0.2	0.1	0.4		59.6	**61.2**	1.5
Maize	175	583	90.9	30.2	108	75.3	147	**1209.2**	30.4
Total	**964**	**1303**	**313**	**91.3**	**730**	**241**	**338**	**3978.8**	100.0

Bulk commodity and agro-food exports are also concentrated to a large extent in that less than 10 countries absorb over 50% of the bulk commodity and food exports of the southern and eastern Mediterranean countries. These exports account for over 36%[44] of the total exports of the bulk commodities and agro-food products sold on the external market by the main southern and eastern Mediterranean countries included in our calculations. This proportion is even higher in some of these countries, amounting to an estimated minimum of 50% of Algerian bulk commodity and agro-food exports, 260% in the case of Morocco and 40% in the case over Turkey and Lebanon.

Fruit and vegetables are the main agricultural commodities and agrifoodstuffs exported by the Mediterranean partner countries (38% of the total).

[44] Cf. tables giving details of the main fresh and processed fruit and vegetable products exported by the southern and eastern Mediterranean countries; Table 9 gives the synthesis of the values. These figures cover the main fruit and vegetable imports and the main agro-food products obtained from them. The overall value of exports is thus even higher and is no doubt close to 40%.

Table 9.4 - Fruit and vegetable exports of the southern and eastern Mediterranean countries in 2000 and share of those exports in total agricultural commodity exports (million $)

	Algeria	Egypt	Iran	Israel	Jordan
Fresh and processed fruit	14.9	33.9	111.5	243.9	17.8
Fresh and processed vegetables	0.8	86.8	78.5	173.5	61.2
Total fruit and vegetables	31.4	502.7	867.5	1154.5	269.1
Share of fruit and veg. in total exports (%)	50	24	22	36	29

	Lebanon	Morocco	Tunisia	Turkey	Total
Fresh and processed fruit	31.8	248.6	44.7	893.5	**1640.8**
Fresh and processed vegetables	22.6	159.1	26.9	439.9	**1049.3**
Total fruit and vegetables	138.6	709.5	391.9	3416.1	**7481.5**
Share of fruit and veg. in total exports (%)	39	57	18	39	**36**

9.1.1 - Trade dynamics

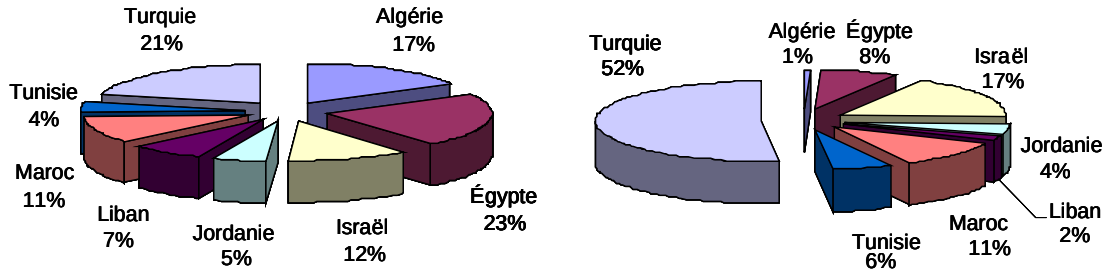
The current structure of trade, that is to say, the type of products, volumes, and the origin and destination of trade flows, is no doubt to be explained by the comparative advantages of the various countries and by the trade strategies pursued by the various actors concerned (private actors in an increasing number of cases), but it is also influenced to a very large extent by the rules and limits imposed on access to national markets and by measures to support national products.

Agriculture is still a key sector of European integration. In the last 20 years, for example, the share of intra-European trade in total European trade has increased much more rapidly in the case of agricultural commodities and agro-food products than is the case with other goods. The accession of Mediterranean countries to the European Community has no doubt been the principal factor that has disrupted this trade in the case of the southern and eastern Mediterranean countries, particularly in the fruit and vegetable sector. The reorientation of the agricultural exports - particularly fruit and vegetables - of these new EU members to the EU has been a contributing factor in the appreciable reduction of the relative preference vis-à-vis Europe enjoyed hitherto by the southern and eastern Mediterranean countries, whose EU exports are now having to contend with protection instruments designed to provide that Community preference. The products exported by these countries do enjoy preferential customs duties, but within the limits of quotas for sensitive products and in particular during periods of the year when they do not compete directly with EU products. Furthermore, these exports

are subject to the application of reference prices on entering the European Union, the aim being to prevent price competition.

The agro-food specialisation of the exports of all southern and eastern Mediterranean countries has thus gradually disappeared over the last 30 years. In 1970, for instance, agricultural commodities and agro-food products accounted for 41% of their exports (as against 20% of exports at the world level), they now account for only 9% (as against 8% of exports at the world level). On the other hand, it is now - unfortunately - in their imports that agricultural specialisation is appearing, clearly reflecting the growing food dependence of these countries. But these general figures conceal disparities between the individual countries. Figure 8 shows the individual countries' respective shares of the total imports and exports of the southern and eastern Mediterranean countries (excluding the EU Mediterranean countries).

Figure 9.2 - Southern and eastern Mediterranean countries' respective shares of agricultural commodity imports and exports in the Mediterranean region, 2003



Sources:
FAO WATM 2003 et nos calculs

The group of importing countries includes Egypt and Turkey (due to the size of their populations) and Algeria (which enjoys considerable oil revenue), followed by Israel and Morocco. This group actually proves to be fairly mixed, since it includes both countries with a fairly high level of income which import few agricultural commodities compared to other products (Turkey and Israel) and other countries where, on the other hand, the share of agricultural commodities in total imports is much higher (Algeria and Egypt). Several remarks on these food imports:

- In most countries wheat is the major commodity imported, accounting for 20% to 30% of the value of agricultural and agro-food imports in Morocco, Egypt and Tunisia.

- The main commodities and agro-food products of first-stage processing (according to FAO nomenclature) also include tea (in the case of Morocco, Egypt and Tunisia), sugar (Morocco and Tunisia) and edible oils (Morocco, Tunisia and Egypt).

Exports are concentrated to a much greater extent than imports, since Turkey accounts for 52% of the exports of this group of countries, followed by Morocco and Israel. To comment on these export flows:

There is very little diversification of exports, which consist mainly of fresh and processed fruit and vegetables: oranges, clementines, and canned tomatoes and olives in the case of Morocco; olive oil, dates and concentrated tomatoes in the case of Tunisia; hazelnuts and raisins in the case of Turkey; cotton, potatoes, rice and oranges in the case of Egypt.

And there is also very little diversification of export destinations, the concentration being much more marked than with imports, since the European market is the main outlet.

9.1.2 - Decline in agriculture in the foreign trade of Mediterranean countries

On the whole, with very few exceptions, the emphasis in the general dynamics of international trade is tending to shift away from the agricultural sector towards other sectors of the economy:

- The share of agriculture in Egypt's trade has decreased slightly in the case of both imports and exports. The sharp decline in cotton exports from 1991 onwards is clearly visible in the trend of staple commodity exports.
- The situation appears to be rather different in Turkey due to the historical significance of agricultural commodities in exports (over 50% in the 1980s). But this predominance of the agricultural sector is steadily decreasing as the result of the stagnation in agricultural growth and of the development of other export sectors. The share of agricultural imports in trade is still under 5%.
- Morocco is the Mediterranean country with the most specialised commodity and agro-food exports at the present time; these products account for a large and growing share of exports, amounting currently to 35%. The share of agricultural imports in total imports ranges from 10% to 30%, but there is no particularly marked trend.
- And finally, in Tunisia, bulk commodity and agro-food exports account for only 10% of total exports, with a slight upward trend. Agriculture is not significant in the import field either, accounting for 10% to 20% of imports, with a fairly marked downward trend.

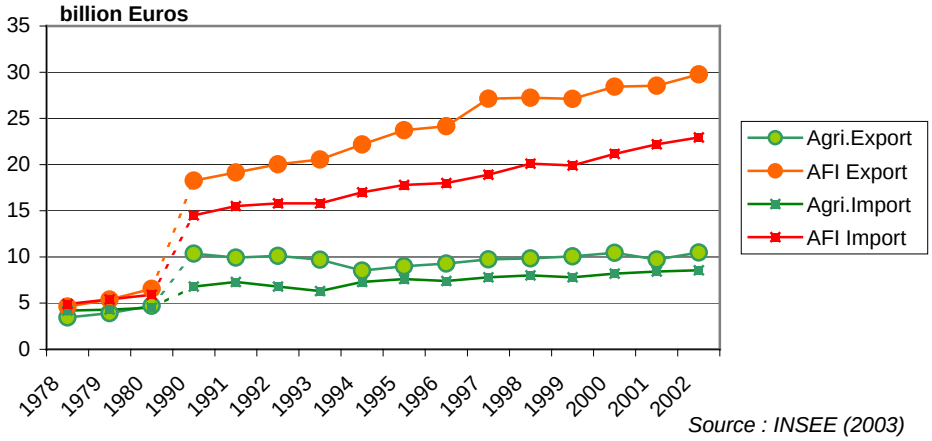
9.1.3 - The inevitable rapid growth in agro-food products in the food trade

As soon as countries progress from the artisanal stage to the agro-industrial stage, there is growth in AFI products in terms of both domestic consumption and foreign trade. This is to be explained by the dynamics of national and international demand. Urbanisation, the employment of women outside the home and the non-stop working day at the place of employment, combined with the technical progress and the economies of scale that industrialisation brings, develop markets for processed foods, which become cheaper and more practical.

In France, for example, AFI exports increased – at current value – by 450% in the period from 1980 to 2002, whereas agricultural commodity exports increased by only 220%. Imports followed the same trend, although to a lesser extent (increasing by 390% and 190% respectively). Taken as a whole, there was a considerable increase in the external balance in the case of agrifoodstuffs (+61.4% in the period from 1992 to 2002), whereas the agricultural trade balance deteriorated in the same period (- 42.2%).

The agro-food sector can thus constitute a powerful factor in the dynamics of international trade with marked effects on national economies. This type of phenomenon is observed in all EU Mediterranean countries, despite the fact that imports sometimes weigh heavily on the trade balance. In the partner countries, examples where AFI products contribute appreciably to foreign trade are much rarer: seafood products and olive oil in Tunisia, seafood products and olive confectionery in Morocco. On the other hand, the import of processed products such as flour and semolina, sugar, powdered milk, and oils causes heavy deficits.

Figure 9.3 - Agricultural and agro-food foreign trade – France



Source : INSEE (2003)

9.2 - Foreign direct investments (FDI) in the Mediterranean region: flows that are still very inadequate given funding needs

FDI is the second fundamental component of globalisation. UNCTAD (UNCTAD, 2002), defines FDI as "an investment that involves a long-term relationship and reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another country". FDI is composed of equity stake (generally more than 10%), reinvested earnings and intra-enterprise lending and borrowing. A distinction is made between the investments flowing into a given country (FDI inflows), investment outflows (transfers of capital to other countries) and FDI stock (the value of capital stock and reserves attributable to the foreign parent companies).

In this chapter we shall examine the main trends in total FDI in the Mediterranean countries successively; these figures will provide the basis for defining the attractiveness of the region and the impact of FDI on the AFIs (cf. Annex 3).

9.2.1 - FDI in the Mediterranean countries: marked North-South and South-South asymmetry

One of the most spectacular manifestations of globalisation is the growth in foreign direct investments (FDI), which have increased by 1200% at the world level since 1982 and by 360% in the period from 1990 to 2001, culminating at almost 1500 billion US$ in 2000 (UNCTAD, 2002). This progression is closely correlated with GDP growth. In the case of the southern Mediterranean countries, FDI has taken over to a certain extent from public development aid, which has dwindled considerably over the same period. The FDI boom is a major economic phenomenon that is to be attributed essentially to the strategies pursued by multinational undertakings to adjust their activities to emerging markets. The repercussions on the world economy are very visible; it is estimated, for example, that the foreign subsidiaries of multinationals now account for one-third of world exports.

The situation in the Mediterranean is similar to the situation in the rest of the world: major North-South distortions and wide variations from one season or year to another, and the phenomena observed are intensifying. The 5 Mediterranean countries in the EU account for 98% of outflows and 88% of inflows; FDI growth is much more marked in the 12 partner countries, however, particularly in the former Yugoslavia and Albania. Furthermore, as is the case with foreign trade, there are virtually no South-South investment flows.

Table 9.5 - FDI in the Mediterranean region (%)

Regions	Inflows	Outflows	Capital stock	Inflows
	1999-2001 average as % of the total of the Mediterranean region		Year 2001 in % of total Med. Region	Variation between 1990-95 and 1999-2001
EU countries	88	98	85	x 2.7
Partner countries	10	2	13	x 3.3
Other countries	2	0	2	x 6.3
The Mediterranean region in the world as a whole				
Total Mediterranean	103 billion $	191 billion $	730 billion $	x 2.8
Mediterranean/World	9	19	11	

Source: Our calculations on the basis of Unctad data (2002).

With 7% of the world population, the Mediterranean region receives 9% of FDI inflows at the world level. It thus is not correct to say that this region is disadvantaged in this respect compared to other regions. However, it is an extremely mixed region with considerable capital needs. It can thus be said that there is an FDI deficit in the region.

The per capita FDI indicator is 230 US$ on average in the Mediterranean countries and 182 US$ at the world level, the two extremes being 1,528 US$ (Malta) and 15 US$ (Syria). The indicator is around 500 US$ for the EU countries, 43 US$ for the Mediterranean partner countries and 87 US$ for the other countries in the region (former Yugoslavia and Albania). Let us take a closer look at the situation in several southern Mediterranean countries.

Table 9.6 - Starkly contrasting FDI situations in the Mediterranean partner countries

Country	FDI inflows in million US$ (1999-2001 average)	1993-2000 Variation (3-year centres averages)	Per capita FDI in US$ (average 1999-2001)
Israel	3 442	x 5,9	570
Croatia	1 401	x 11,7	298
Tunisia	544	x 1,3	58
Morocco	1 236	x 2,9	58
Turkey	1 677	x 2,3	25
Algeria	714	x 28,5	24
Egypt	1 555	x 2,5	23

Source: Our calculations based on Unctad data (2002).

Morocco and Tunisia share a similar intermediate position. Israel and, more recently, Croatia have enjoyed a major inflow of capital, whereas Algeria and Egypt, whose openness to the world market is still very limited, have remained on the sidelines of foreign investment activities.

Box 9.1 - A method for analysing a country's attractiveness for FDI

UNCTAD has defined FDI performance and potential indicators which serve as a basis for ranking countries. FDI performance in a given country is measured as the ratio of that country's individual share (FDI_i) in global FDI inflows (FDI_w) to its share in global GDP (GDP_w).

$$Iperf = \frac{(FDI_i/FDI_w)}{(GDP_i/GDP_w)}$$

The potential index is a weighted combination of 8 economic and structural variables (per capita GDP, GDP growth over 10 years, the share of exports in GDP, the number of telephone lines per 1000 inhabitants, commercial energy use per capita, R&D expenditure as a percentage of national income, number of students in higher education as a percentage of the total population, country risk). It is the ratio of the value of each variable calculated for a given country i to the difference between the extremes of the variable:

$$Ipot = Sum [(iV - minV) / (maxV - minV)], \text{ where } 0 < Ipot < 1$$

The classification of countries at the beginning and end of the 1990s shows the degree of backwardness accruing in many Mediterranean countries. It is from this point of view that the situation is worrying and calls for reaction.

Table 9.7 - Benchmarking of several Mediterranean countries on the basis of FDI

Country	Classement des pays selon l'indice de performance de l'IDE (rang sur 140 pays)		Classement des pays selon l'indice de potentiel de l'IDE (rang sur 140 pays)	
	1988-1990	1998-2000	1988-1990	1998-2000
Algeria	126	111	76	96
Egypt	21	91	90	66
France	60	69	13	19
Morocco	76	101	88	90
Spain	26	52	27	29
Tunisia	68	67	86	74

Source : Unctad (2002), WIR.

This classification shows FDI under-performance in the case of Morocco in recent years, since the country ranks more favourably according to the potential index than it does in the performance index.

9.2.2 - FDI in the Mediterranean agro-food industry

Examination of FDI figures confirm that the internationalisation of the agro-food industry is still very limited: in 1999[45], the capital stock accruing in foreign countries in the AFI sector by the 15 countries of the EU account for less than 5% of the stocks held in all sectors together and 13% of the stocks invested in the manufacturing industry[46]. The figures are slightly lower for the agro-food capital of the EU countries that is controlled by foreign firms, which account for 12% of the entire manufacturing industry. The EU thus has a positive FDI balance: the capital surplus held by European firms in the AFI sector in foreign countries is approximately 50% higher than the stock controlled by foreign firms in the EU (Eurostat, 2002). As is the case with trade flows, it is to be noted that intra-Community investments account for a large share of the capital exchanged: 40% of stocks held abroad, 50% of FDI in the EU. The impact of the single market is very visible here. The openness of the European AFI sector to the international market is much higher than that of the United States, which is the second dominant power on the world agro-food scene. The volume of EU capital stocks involved is more than twice that of US capital stocks.

Table 9.8 - Stock of foreign capital in the European AFI sector in 1999

Billion €	Intra-EU	Extra-EU	Total EU	United States
EU - Capital held by national firms in foreign countries	43	63	108	39
EU - Capital of national AFI firms controlled by foreign companies	36	34	72	20
Balance	7	29	36	19

Source : Eurostat (2002), FDI Yearbook.

Eurostat only has (partial) data on capital stock in the AFIs for 3 of the 5 Mediterranean countries in the EU. France (€ 13.5 billion), Italy (€ 5.2 billion) and Portugal (€ 27 million) account for 20% of the capital held by the EU in the AFI sector in foreign countries. Italy, on the other hand (€ 5 billion) and Portugal (€ 834 million) are more dependent on foreign capital than France (€ 6.2 billion). The three countries together account for 28% of the FDI in the European AFI sector.

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45 There are unfortunately no sectoral FDI data available for the Mediterranean countries as a whole, the EU member states being the only countries which publish more or less harmonised statistics. The figures on capital stocks were last published in 1999 and the most recent figures on FDI flows were published in 2000.

46 This proportion is close to the share of AFI production in the total production of the manufacturing industry in the countries of the EU. However, certain sectors such as the automobile, pharmaceutical or electronics industries are significantly more open to foreign capital.

The United Kingdom is by far the leading investor in that sector in foreign countries (€ 46 billion, i.e. 43% of the total stock held). The United Kingdom and the Netherlands are the two leading European countries hosting foreign capital in the AFI sector (approximately € 12 billion, i.e. 17% of the total amount in each case).

The development of ***FDI flows in the AFI sector*** has been spectacular in recent years similar to what has been observed for all sectors of activity. Outflows from the EU countries increased by 900% in the period from 1995 to 2000 and investments flowing into the EU almost doubled.

Investments flowing into third countries concern mainly the CEECs and Asia. In 2000 the sharp increase in FDI outflows concerned mainly those zones to the detriment of the EU countries, where disinvestment was observed. This phenomenon is related to the migration of production units, or "outsourcing". The industrial restructuring that results from efforts to constantly reduce costs always follows the logics of economies of scale (increase in labour productivity) and cutting the payroll - an important budget item in the AFI sector, which is still a labour industry.

FDI investments flowing out of the EU Mediterranean countries amounted to only € 854 billion in 2000 (6% of the EU total), France thereby accounting for the major part. Disinvestment was registered that year in Italy and Spain.

The flows entering both the EU and the United States are extremely volatile. The above figure confirms the bipolarity of the "world economy" (Japan being involved only to a very minor extent in the international movements of agro-food capital): FDI flows vary in the opposite direction in the two zones, reflecting periods of alternating attractiveness. The Mediterranean countries of the EU (Spain, France, Italy) capture a large (but very fluctuating) share of FDI in the agro-food sector (around 30% over the 1995-2000 period). These flows concern mainly fruit and vegetable processing due to the large areas producing raw materials in these countries.

As a corollary of the relative "capitalist autonomy" of the European AFI sector, there is a major deficit in EU agro-food capital movements.

The AFI thus follows the general characteristics of FDI, seeming to be a stable sector which is penalised when there is a bubble (NCIT at the end of the 1990s) and becomes attractive during a period of crisis (safe investment). However, this sector is undercapitalised in the Mediterranean partner countries, accounting for only 11% of FDI, whereas it represents a larger fraction of the manufacturing industry.

Examination of the density of operations carried out by the agro-food giants in the various geographic zones throughout the world reveals starkly contrasting situations.

Table 9.9 - Alliance operations carried out by the leading 100 multinational agro-food companies in the period from 1997 to 2001 by geographic zone

Region	Number of operations	Distribution	Relative density index (No. oper./ population)
EU	726	45,9 %	738
North America	305	19,3 %	372
Eastern Europe	168	10,6 %	532
Latin America	127	8,0 %	94
Asia	121	7,7 %	13
Southern Mediterranean	**49**	**3,1 %**	**48**
Oceania	34	2,2 %	420
Africa	25	1,6 %	16
World total	**1580**	**100,0 %**	**100**

Source: Agrodata, Ciheam-Iamm, UMR Moisa, Montpellier (2002).

The two geo-economic zones which are still the main focus of activities of multinational agro-food companies are the EU and North America. These are followed by the CEECs, Latin America and Asia, where location rates are very similar, with high growth rates in Eastern Europe and South America. The Mediterranean, Oceania and Africa are areas of very limited interest for investors.

However, when the number of operations carried out is weighted according to population, Oceania joins the club of countries with a high rate of multinational activity. The main developing economies in Africa, Asia and Latin America are unattractive on the whole (indexes < 100, as against over 400 in high-income countries).

Before the 1990s the Mediterranean region did not really attract agro-industrial multinational groups. Despite the high population growth rate and the overpopulation of urban centres, the socio-cultural structure and lifestyles of northern and eastern Mediterranean societies certainly did not offer ideal conditions for the giants of the agro-food world, which rushed to the newly industrialised countries where per capita GDP was twice or three times as high as in the countries of the Maghreb, Mashreq or Balkans. We consequently concluded that that region of the world had been left out in the globalisation of the economy.

This trend seems to have been changing to the benefit of the countries in question since the second half of the 1990s. We think that the growth strategy adopted by the major multi-product transnational groups, which aim to develop their world brands on a global scale (Danone, Nestlé, H.J. Heinz, Campbell Soup, etc.) is orienting them to hitherto unappreciated markets including those in the southern

and eastern Mediterranean. They are operating there by merging with or buying up local firms with a well-developed national distribution network and well-tried know-how and production management, which offer foreign investors almost one-third of the share of the national market. This trend is particularly clear when it comes to Danone's majority interest in dairy firms and biscuit factories in Tunisia, Morocco and Israel, where the capital comes directly from the founder families. In Turkey, multinational groups are joining forces and forming partnerships with leading conglomerates such as Sabancı Holding, Koç Holding or Tekfen, which alone control over one-third of the Turkish manufacturing industry and tertiary sector. In Morocco, Danone and Auchan's alliances with the diversified group ONA, and the current negotiations between the Blanky Group and French agro-food firms in Algeria, for example, are a development of similar strategic moves. It is to be observed in this context that the structure of the activity portfolio of the most powerful private groups in both Turkey and the Maghreb is similar to conglomerate forms of enterprise which were widespread in the AFI sector in the US and UK in the 1970s and thus heralds adjustments in the individual trades in the long run.

The multinational groups bring not only their technology but also their management methods and international distribution networks, which is an advantage for host country firms in view of non-tariff international trade barriers and the barriers preventing access to the world food oligopoly.

FDI determinants have been widely studied in the economic literature (in particular by Hymer, Caves, Vernon, Graham and Krugman: cf. review in Lindert and Pugel, 1996). A distinction is made between economic policy factors (in particular taxation and competition), the business climate (measures to promote investments, corruption, efficiency of the administration, business organisation), and local resources (infrastructures, labour, raw materials, etc.). These are all levers which must be activated in order to improve a country's attractiveness. It has been observed that investment codes have been revised in most countries in order to enhance that attractiveness. According to UNCTAD, 71 countries introduced 208 changes in their codes in 2001, 194 of which were favourable for foreign investments.

In the Mediterranean partner countries the statutes concerning FDI are following this trend. Foreign investors have been granted national treatment in several countries (Algeria, Egypt, Jordan, Morocco) and the repatriation of profits is now applicable throughout the region (except in Syria). In the absence of special courts in some countries (such as Egypt and Jordan) the ordinary courts deal with litigations involving foreign investors, and most countries recognise the international courts. And finally, foreigners can take part in the privatisation measures that are becoming increasingly widespread in the Mediterranean partner countries (Handoussa et Reiffers, 2003).

There is thus a dynamic of openness both in the Mediterranean region and at the world level, which is increasing competition for access to capital. On the other

hand, it is essential that the States ensure that positive externalities are obtained from FDI, in particular through the consolidation of the learning capacities of local industry.

10 The agro-food industries in the Mediterranean region

10.1 - Fragmented supply structure and strategic deficits

The food industry probably emerged in the regions around the Mediterranean at the same time as agriculture and settlement some 11,000 years ago in the Neolithic Age[47]. The essential objective of that activity, which was integrated into agricultural production as a family craft activity for a very long time, is to process perishable agricultural commodities into stockable foodstuffs that can be used directly for preparing meals. The food industry in the contemporary sense of the word did not emerge until much later (in the 19th century) during the industrial revolution. Major agro-food firms (Nestlé in Switzerland, Unilever in the Netherlands and the United Kingdom, Armour in the United States, Liebig in Germany, etc.) emerged at the end of the 19th or beginning of the 20th century, but market structures did not develop significantly until the Second World War: almost half of the first 100 multinationals in the agro-food sector have gone out of business over the last 30 years as the result of the whirlwind of mergers and takeovers.

Industry is an economic activity based on reducing production contingencies by standardising processes and products.

The general trend in the manufacturing industry is towards the development of unified packing operations, standardisation being imposed by the retail trade, and towards the growth in quality control mechanisms in response to consumer demand. These phenomena are more marked in the AFIs and will make the management of agro-food firms more complex, for realising interest margins in an environment where industrial plants are highly specialised and raw material and finished product markets are exposed to contingencies is a particularly delicate exercise.

As the result of competitive pressure (the need to reduce costs on increasingly saturated markets) and technical progress (the development of new processes and products), AFIs firms and industrial sites are tending to specialise; this trend is now general throughout the old industrial countries (OECD) and is beginning to develop in the countries in transition.

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47 Traces of such activities are found in the first great civilisations of the Middle East (Mesopotamia and Anatolia) and Asia (India, Japan, China) as early as the 8th millennium BC. Later, in Babylonia, the Code of Hammurabi (1785 BC) mentioned the brewing of beer and baking of malted bread using fermenting barley.

10.1.1 - Supply structure and performance of the Mediterranean agro-food industries

Despite the numerous difficulties due to the absence of a rigorous and homogeneous definition of AFIs and to the inadequacy of statistics in many countries[48], we have endeavoured to describe this industrial sector at the world level and in terms of major geo-economic zones. This can only be done with a limited number of indicators.

Table 10.1 - Characteristics of the world food industry - 1998

Estimates	Production (billion $US)	Y (%)	VA (billion $US)	Number of employees (thousand)	E (%)	Number of Firms
North America	584	24.4	251	1 818	8.0	30 477
Latin America	168	7.0	67	1 782	7.8	48 692
Europe	982	41.2	313	7 036	30.8	169 741
Asia	564	23.7	187	10 899	47.7	180 501
Africa	46	1.9	14	1 069	4.7	20 490
Oceania	39	1.6	14	238	1.0	6 496
World total	2 383	100.0	846	22 842	100.0	456 397
Mediterranean countries	328	13.8	84	1 814	7.9	

AFI = ISIC-31, foodstuffs, beverages tobacco – sectoral statistics
Y : yield, VA : value added, E : employed population

Source: Our estimates according to UNIDO, World Bank and CIAA data (2002).

With a production value of over 2,383 billion US dollars in 1998, the food industry accounts for approximately 23% of the world manufacturing industry and is thus the leading branch of industry.

The AFI has been characterised by a very steady growth rate over a long period - in the order of 2% to 3% per year. It is an industry which is geared to a basic consumption function that is influenced to a very large extent by population growth in all countries and by the increase in purchasing power in low or medium-income countries (Engel's Law). The other manufacturing industries, on the other hand,

[48] The UNIDO is the only organisation that provides "standardised" data at the world level. We have thus based our analysis mainly on that institution's database, drawing the reader's attention to the quantitative and qualitative disparities of that instrument. For, on the one hand, the definition of the AFI varies from one country to another (in some cases only branch 311 - foodstuffs - is taken into account, whereas in others the AFI also covers branches 312 - beverages - and 313 - tobacco), and on the other hand the conversion of values into US dollars, which is essential in order to allow cross-country comparisons, biases estimates. And finally, 1998 is the most recent year for which relatively comprehensive figures are available.

are geared to non-reducible markets and are thus subject to greater fluctuations - both upward and downward.

Analysis of the geographical distribution of AFI production shows that Europe is undeniably in the lead with 41% of world production. North America and Asia come second with approximately 24% each, and the other zones lag far behind: Latin America (7%), Oceania (2%), Africa (2%). The Mediterranean region as defined in the present report (northern and southern shores) accounts for 14% of world production. Production level reflects favourable endowment with factors such as agro-climatic potential and human and technical resources. It is also conditioned by the size of the macro-regional market. However, productivity and economic performance vary widely from one region to another. Since rigorous analysis of AFI characteristics and results cannot be based on continents as geographical areas, since they are too disparate, it is essential to analyse the data at the national level. The table below shows the classification for the Mediterranean region according to this criteria:

Table 10.2 - The AFI in the Mediterranean countries in 1998

Country	Production		Employment	Value added (million $)
	(M.$)	%		
Turkey	13 000	31.4%	136 000	3 400
Israel	7 000	16.9%	50 000	1 800
Egypt	6 000	14.5%	200 000	1 200
Morocco	4 600	11.1%	92 000	950
Tunisia	3 100	7.5%	34 000	500
Algeria	3 000	7.3%	90 000	800
Syria	1 800	4.4%	24 000	400
Lebanon	1 500	3.6%	15 000	350
Cyprus	550	1.3%	8 000	200
Jordan	550	1.3%	16 000	120
Malta	240	0.6%	3 000	70
MPC	**41 340**	**100.0%**	**668 000**	**9 790**
France	120 000	41.9%	450 000	33 700
Italy	90 000	31.4%	270 000	20 000
Spain	61 000	21.3%	290 000	17 000
Portugal	9 500	3.3%	87 000	1 500
Greece	6 000	2.1%	49 000	1 800
MC-EU	**286 500**	**100.0%**	**1 146 000**	**74 000**
TOTAL MC	**327 840**		**1 814 000**	**83 790**

Source: Our estimates based on UNIDO, World Bank and CIAA data (2002).

The AFI in the Mediterranean region is massively dominated by 3 countries - France, Italy and Spain, with Turkey a close runner-up. The other countries have a turnover of less than € 10 billion. This panorama must be qualified by the fact that the French AFI, which is the leading power as a national entity, accounts for only 14% of its turnover in its 4 Mediterranean regions in the "Deep South". However, there are considerable North-South distortions within the Mediterranean region: the countries in the south of Europe account for 87% of agro-food turnover in the zone. And this difference is found again in the business performance indicators.

Table 10.3 - Benchmarking of AFI performance in the Mediterranean countries

Rank	1998e	Labour productivity (Y/W)	Value added rate (VA/Y)	Production capacity (Y/ population)	Dynamism (variation of value added rate 95-98)	Score
1	France	267	28%	2 026	-1%	5,128
2	Italy	333	22%	1 564	3%	4,686
	MC-EU	*250*	*26%*	*1 616*	*-26%*	*4,431*
3	Spain	210	28%	1 528	37%	4,181
4	Israel	140	26%	1 159	11%	3,242
	Total MC	*181*	*26%*	*793*	*-23%*	*3,000*
5	Cyprus	69	36%	702	11%	2,688
6	Greece	122	30%	566	1%	2,564
7	Portugal	109	16%	948	-10%	2,418
8	Malta	80	29%	615	8%	2,360
9	Lebanon	100	23%	429	5%	2,007
10	Turkey	96	26%	195	-14%	1,798
11	Tunisia	91	16%	328	-8%	1,549
	MPC	*62*	*24%*	*175*	*-7%*	*1,490*
12	Syria	75	22%	111	11%	1,425
13	Algeria	33	27%	99	-15%	1,353
14	Morocco	50	21%	154	5%	1,279
15	Jordan	34	22%	112	16%	1,185
16	Egypt	30	20%	88	3%	1,060

Source: Our calculations based on UNIDO, World Bank and CIAA data (2002).

We have compiled a synthetic index of the performance of agro-food firms based on labour productivity, added value rates, production capacity and relative growth of value added. Each indicator is expressed as a percentage of the mean value for the Mediterranean countries. The index is composed of the sum of the ratios obtained. It does not take account of the size of the sector so that the figures for the various countries can be compared. It is the differences between countries, rather than the

classification itself, which are revealing: from 1 to 5 between Egypt and France, but from 1 to 2 between Lebanon and Turkey and Spain. Within the Mediterranean partner countries the gap between Cyprus and Morocco or Jordan and Morocco is not of any great significance, which means that there are margins for rapid progress in the AFIs. It is labour productivity much more than value added rate that shows the differences between Mediterranean countries. Productivity ranges from € 30,000 per worker in Egypt to over € 300,000 in Italy. It can thus be presumed that the factors explaining the situation are to be sought in industrial plant (undercapitalised in the Mediterranean partner countries and thus obsolete, lacking maintenance and technologically outmoded) and the labour force (lower skills). Furthermore, numerous empirical studies underline the deficiencies of the associated AFI sectors: there are difficulties in relations with the agricultural sector, for instance, which is unable to supply the raw materials required (volumes, delivery dates, prices, quality), absence of industrial plant maintenance structures, non-existent or inefficient packing industry, research and training services unsuited to market requirements, etc.

One of the main areas of effort in the Mediterranean partner countries, and one which concerns not only the AFIs, is thus action to upgrade enterprises. Various programmes have been launched in the context of the Mediterranean free trade area with EU and UNIDO support. Some local project managers find the results disappointing to date, and many fear that the local industrial fabric will be disrupted as the result of the opening of national borders[49]. At the same time it is observed that some undertakings that are taking advantage of State divestiture are flourishing.

[49] This hypothesis is confirmed by an econometric study conducted by the Mediterranean Institute using the Gasoriek, Smith and Venables model: depending on the degree to which customs tariffs are dismantled, the share of the "domestic market lost" by national agro-food enterprises apparently amounts to between 20% and 50% [Augier, Gasoriek (2000) in Reiffers].

Box 10.1 - The needs of agro-food firms in the Mediterranean partner countries: the point of view of a professional

Mr Tarek Ben Yahmed, the President of the National Federation of Agro-food Industries (FENNAL, created in 1990 within the Tunisian Union of Industry, Trade and Craft Industries), considers that the action taken by the Tunisian AFI with a view to the future Euro-Mediterranean free trade area should focus on the following priorities:

- improving business management methods,
- carrying out the financial restructuring measures (consolidation of owner capital) necessary to enterprise durability,
- modernising agriculture in order to ensure the quality and availability of raw materials for industry,
- ensuring product traceability.

Source: Interview in AgroLigne no. 26, Montpellier, December-January, pp. 42-43.

10.1.2 - Where is agro-food capitalism in the Mediterranean region heading ?

The far-reaching privatisation movement in the production sector that has been continuing in most countries since 1990 has affected the agro-food sector to varying degrees. After a period of hesitation, which was understandable given the high political sensitivity of the food problem (agricultural basis providing a large number of jobs, desire to achieve food security in the literal sense of the term), all of the Mediterranean countries have now embarked on the course of market liberalisation, opening the capital of State enterprises to private operators and gradually relaxing the constraints on access to inputs and prices, with the exception of staple commodities.

As a result, demand and supply structures have developed on lines similar to the pattern observed in rich countries.

The extent of liberalisation varies from one country to another, however. Since the privatisation of the tobacco sector in Spain and France in 1999, there are now no State-controlled agro-food sectors whatever in the broad sense of the term in the EU countries. In Algeria, Egypt, Jordan, Tunisia and Turkey, the State still holds capital - often a majority interest - in some agro-industrial complexes in the sugar, oil and tobacco sectors (Tozanlı, Ghersi, 2003).

As the second stage of industrial structuring conglomerate forms of enterprises emerge and specialised SMEs are created which generally take over public agro-

food assets. Examples of the former are groups such as Cetival in Algeria, Poulina in Tunisia, the ONA in Morocco, Lakah, Orascom and Ghabbour in Egypt, and Koç Holding and Sabancı Holding in Turkey. These groups are generally very diversified (metal industry, building industry, services) and accompany the emergence of the agro-food product market by investing in specialised subsidiaries. They often operate with foreign partners which are leaders on their markets and bring them technical and marketing skills. Typical examples are the ultra-fresh dairy product or bottled water industries (alliances with Danone or Nestlé) or the non-alcoholic beverages industry (Coca-Cola). Multinationals are thus present on expanding markets in most Mediterranean countries. In the light of the experience of the countries in the North, the conglomerates are liable to split up in the years that lie ahead due to pressure from financial markets (principle of profitability conditioned by specialisation in a particular trade) and consumers (product traceability and business transparency requirements).

The creation of specialised SMEs is less visible but probably continuing, since local private capital is often available and on the lookout for investment possibilities offering short-term profitability. Two types of problem arise in this case:

- growth management (management of working capital)
- managerial and personnel skills.

For these SMEs have to contend with pronounced market distortions and are often sandwiched between large State enterprises, which are in many cases economically moribund but continue to have banking facilities at their disposal for social reasons (employment and food prices), and conglomerates, which benefit from their national relational networks and multinational backing. It is thus essential to support the development of these SMEs, which are the only businesses that can develop local resources on the basis of a concept of authentic local products and can contribute to balanced area management.

And finally, the decisive role played by the large-scale food retailing trade must be underlined. This trade is gradually becoming established in most Mediterranean partner countries in the dynamic of the agro-food chains, and particularly of the AFI, and is changing consumer behaviour and stimulating corporate modernisation (product quality and marketing). Studies are currently underway to measure the impact of this phenomenon.

10.2 - Conclusion: Strategic outlook for the Mediterranean agro-food industry

In the strategic outlook - a "voluntarist vision of the near future"- a distinction can be made between three groups of countries from the point of view of the agro-food sector. **The first group,** composed of rich countries (in the Mediterranean region: France, Italy, Israel, Spain, Cyprus, Greece and Portugal by 2015), is marked by stagnating demand in terms of both volume and value due to the decrease in population and in the share of food expenditure in household budgets. These markets will still account for over 60% of food consumption in the region in terms of value, however, and will absorb two-thirds of agricultural commodity and agrifoodstuff exports. At the other end of the scale, **the second group** in our typology is composed of the poorest countries (Algeria, Egypt, Jordan, Morocco, Syria, Tunisia and Turkey, i.e. more than 288 million inhabitants with a per capita GDP of less than 3,000 US$ per annum). Due to the tremendous structural and socio-political difficulties already discussed, the food situation in these countries is unfortunately only improving very slowly and the food system is still based on self-subsistence agriculture with a large proportion of the population in a state of undernourishment which calls for international cooperation, but that cooperation is long in coming. Due to population development, food demand will probably have doubled in these countries by 2015. **The third group** is composed of intermediate countries or countries in transition towards a market economy (Lebanon, Libya and Malta, i.e. the 12 million people with a per capita GDP ranging from 3,000 US$ to 10,000 US$[50]. The agro-food markets in these countries are expanding rapidly. Incomes are beginning to rise, and it is a well-known fact that this is a situation which stimulates food expenditure as one of the basic priorities of the population. According to our estimates, the agro-food markets are also liable to double in these countries over the next 15 years.

Table 10.4 - Food outlook in the Mediterranean by 2015

Group of countries	Population as % of the region		Total food expenditure as % of the region		Development of food expenditure
	2000	*2015*	*2000*	*2015*	*2000-2015*
Low-income (<745 US$/tête)	53	59	27	35	+ 98 %
Average-income (746-9205)	3	3	2	2	+ 92 %
High-income (>9205)	44	39	71	62	+ 35 %
Mediterranean (17 countries)	416 million	478	794 billion US$	1215 billion US$	+ 53 %

Source: Our estimates according to World Bank Indicators Data Base, Washington, 2002.

[50] Turkey and Tunisia could join this group, provided that growth is sustained over the next 10 years.

This scenario of trends clearly explains why multinational firms in the agro-food system are investing selectively in these countries, whether they operate in the agro-supply sector, the food industry itself or the large-scale retailing trade: cramped on a stagnating "historical" market, these mega firms seek outlets for growth and target countries where purchasing power is seen to be progressing as both a result and a corollary of the well-known phenomena of industrialisation, urbanisation and marketisation, all factors conducive to the development of diversified mass consumption. It is thus the countries in group 2 and to some extent group 1 that are concerned.

The question which arises in these countries, which are generally referred to as countries in transition or emerging countries, is thus that of the **possible strategies for local firms** and of cohabitation with multinationals, for it is our hypothesis that the move towards a market economy will not be called in question (although we do not have time here to discuss the relevance of this move and the ways and means in which it is being accomplished). One of the major consequences of these developments is accession to agreements and supranational regulations such as those of the WTO or those established at the macro regional level such as the Euro-Mediterranean free trade area. Such accession presupposes that there are few obstacles to the movement of goods and services and of capital, and in particular to FDI (foreign direct investments), three-quarters of which are carried out by multinational undertakings.

Business management specialists have identified **3 potential strategies** - confrontation, alliance or circumvention.

Confrontation is hardly feasible in the context which has just been described. For, with extremely few exceptions, there are no mega firms in the emerging countries that are in a position - even with State support - to compete in terms of financial power but also of technological or managerial capacities with the agro-food multinationals, which with 80 subsidiaries in 20 countries and 35,000 employees achieved an average turnover and assets amounting to 9 billion US$ in 2000 (Agrodata, 2003). There are thus only two alternatives: alliance and circumvention.

Alliance strategies consist either of agreeing on partnership with a multinational or of forming a national or plurinational (that is to say, regional) group which can exert market power on multinational rivals. The case of the dairy industry in Tunisia is a good example of this strategy of alliance with multinationals: Danone, Nestlé and Sodiaal/Yoplait are now operating on the market there through joint ventures with national firms. The advantage of this system is that the national allies learn production and human resource management, marketing strategies and management supervision practices, provided that *knowledge management* is set up properly by the multinational and that the latter adapts more rapidly to the specific features (particularly the cultural features) of the national market. The plurinational approach has only been adopted to a very limited extent to date due to local individualism, which is often excessive, and the lack of mature

management knowledge in local firms. Yet in our opinion certain strong agro-food sectors in the countries of the South offer good prospects. The powerful cereals industry in Algeria, for example, could form (or could have formed?) a regional enterprise of critical size in an alliance with its Tunisian and Moroccan neighbours, through the process of privatisation of State enterprises that has been continuing for the last ten years and is struggling to arrive at a successful conclusion.

And finally, bypass strategies are possible and desirable since "distinctive" local resources are available and will meet consumer needs regarding local products both on the local market (nationals are attached to traditional products and tourists seek typical products) and in the export field ("exotic" products diversifying the diet). This is the huge field of agro-food effort in our region, which is being offered an exceptional opportunity through media promotion of the Mediterranean diet and growing world demand for the region's products. In the northern, southern and eastern parts of the Mediterranean region there is a dense fabric of agro-food SMEs that are deeply rooted in their local area and culture. One can cite in particular the fruit and vegetable chains (including olives, citrus, dates, tomatoes, etc.), cereal derivatives or sheepmeat (cf. the case of Italy, for example, in Fanfani et Pieri, 2003). The weaknesses of these SMES as regards both technology and managerial skills are well-known. We would underline the essential factor of human resources, where entrepreneurship is lacking and, in particular, people rarely think in terms of partnership due to the individualism that is still very prevalent in the Mediterranean company management model. Yet business research shows that networking is an effective solution in the market globalisation context. We consider one factor to be decisive in the current market dynamics: the recent and growing establishment of multinational firms in the large-scale retail trade is a major disruption which calls for partnerships in the agro-food industry in order to meet the demanding specifications regarding quality, volume, prices, and delivery dates for local SMEs. One possible solution (but are there perhaps others?) is a network for supervising the various parameters mentioned. It is thus urgent for SMEs to realise the opportunities that are being offered on both the local and the international market and for producer organisations and (local, national and European) public authorities to devise veritable agro-food policies and to activate institutions which can stimulate and accompany networking activities.

However, these considerations concerning enterprises must not detract from the fact that although food is undeniably a private asset within the meaning of economic theory it is also a problem of public health.

In addition to moral issues which make access to food the fundamental right of every individual, social and economic considerations (employment, creation of wealth) call for the implementation of **veritable agro-food policies**[51] over and above traditional agricultural policies in each of the Mediterranean countries based on a global and international vision of the food system as outlined in this chapter.

The whole difficulty lies in defining and then implementing such a food policy. For if we take the theory referred to here in this chapter as a basis, i.e. the theory of the food system, the objective of food policy is clearly to supply the population with a sufficient quantity of wholesome food and a balanced diet. This approach will induce the actors involved in the system to provide consumers with such a diet through appropriate institutional mechanisms, which can be grouped under the following headings:

- establishment of an independent appraisal body,
- definition, construction, control and approval of quality at the national and international level,
- consumer information and education,
- action to develop the competitive capacity of the actors involved in the system.

The idea of a "Food Safety Authority" has emerged as a result of the food crises which have been shaking Europe since 1996, that is to say, an independent public appraisal body which can anticipate risks related to a defective foodstuff and issue warnings. Agencies of this nature have now been set up in almost all of the countries of the European Union, in particular in Spain (AESA, 2002), France (AFSSA, 1998), Greece (EFET, 2000) and Portugal (ASAP, 2000), and the European Food Security Authority (EFSA) was established in 2002. Deliberations are underway for establishing agencies of this nature in several Mediterranean partner countries, but no decisions have yet been taken.

Since any countries which want to be integrated into the international market have to define public standards concerning food quality, particularly in the context of the FAO-WHO *codex alimentarus* agreement, the TRIPS agreement on intellectual property and brand names, and the SPS agreement on health standards (the latter being discussed in the WTO context). However, except in the case of high-income countries, national legislation is inadequate as regards both defining quality and elaborating it throughout the various food chains (traceability). And above all,

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[51] The term agro-food policy must be preferred to the term of food policy, since it embraces the component of supply in addition to the consumer component. In Europe, the White Book of the European Commission published on 12 January 2000 adopts this approach and indicates the tremendous importance attached to the issue by stating in the Introduction that, "Assuring that the EU has the highest standards of food safety is a key policy priority for the Commission." The Commission speaks here of food safety rather than food security since Europe has achieved its objective of self-sufficiency in food production as defined in the 1958 Treaty of Rome. There now seems to be a consensus to define food security as a food situation which is satisfactory from both the quantitative and the qualitative point of view.

monitoring mechanisms and systems for penalising quality defects are weak. As a result, food safety is still inadequate in the Mediterranean partner countries.

Consumer information concerns the labelling of food products, generic communication and advertising. Public regulations are currently being defined in this field and are the subject of heated debate between governments and producer lobbies. For the issues at stake are of considerable importance since information and, in particular, advertising has a tremendous impact on food behaviour. The role of the public authorities is crucial here, since the experts have clearly established links between nutrition and health. In several countries such as France and Tunisia "observatories for monitoring the nutritional status of the population" have been set up and communication campaigns have been launched to encourage people to improve their diet.

A further component of agro-food policy will concern all agricultural, industrial and commercial enterprises in the food system. For, once the objectives of food safety have been defined, action needs to be taken to promote the emergence of supply which can meet such objectives. This is a difficult exercise, for in a market economy a firm has to achieve adequate margins to ensure its durability and, if possible, its growth, that is to say, it must ensure that it is competitive on the domestic and, as the case may be, international market. But there are obviously contradicting interests throughout the food chains, since, by definition, a supplier wants to maximise his sales prices and the client wants to reduce his production costs. This results in marked tension between agricultural producers and agro-food industrialists on the one hand and between those industrialists and marketing enterprises on the other. Attempts to make adjustments are made through agricultural policy (farm income support) or competition policy (the Law on New Economic Regulations in France, for instance). It should be easier to reach agreement on less conflictual issues such as quality promotion, but there will always be the problem of sharing the cost of financing amongst the various actors involved. In short, it is obviously necessary to coordinate these various components of public intervention within an agro-food policy. Such coordination can begin with simple, inexpensive measures within the public administration itself by simplifying procedures and adopting the "one-stop agency" system.

And finally, there are two other aspects of food safety which may be of concern to the actors in the food chain and to governments:

- The reconciliation of a so-called modern chain and a so-called informal chain, both of which are extremely interdependent in the southern and eastern Mediterranean countries. The informal chain plays an important role in food security through the additional income it provides for thousands of people, through its geographical coverage and through its supply of culturally appropriate products. By virtue of the system of consumer confidence on which it is based it also constitutes a palliative for consumer dissatisfaction with health measures. However, in a State governed by the rule of law the informal

sector poses several problems: tax evasion (and thus inadequate public budgets for community expenditure), distortion of competition (through failure to comply with all sorts of regulations), and the quality and safety of foods. A specific programme should be set up in this context to ensure that this sector, which is essential to a socio-economic balance, will survive while at the same time gradually inducing the actors involved to become integrated into the legal framework.

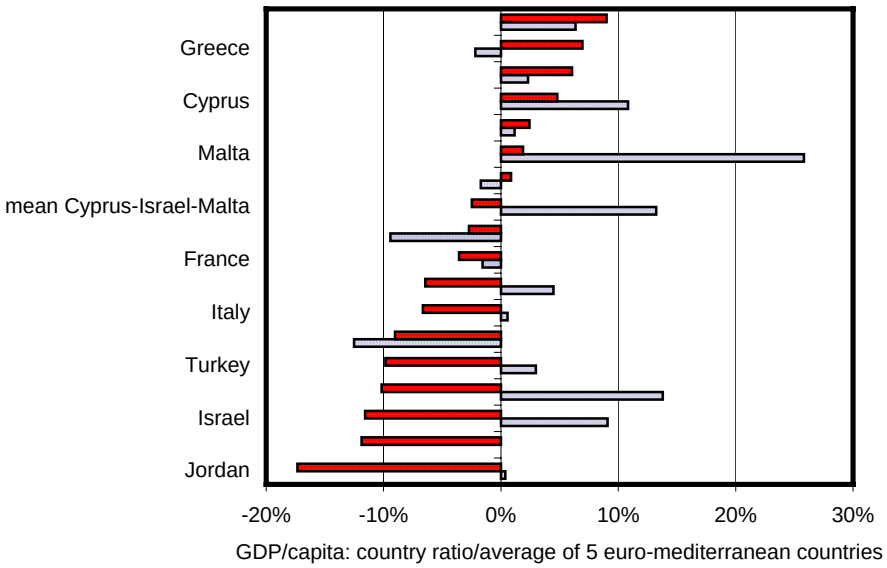
- The challenges of food transition, whose concomitants are diseases of overabundance as well as diseases related to malnutrition or deficiencies. The public authorities should contribute to a large extent to the efforts to inform and educate consumers. Furthermore, in addition to researching food safety, industrialists and distributors should invest in research into the nutritional properties of the products marketed, for the protection of nutrients in industrialised foods is a very topical issue as regards both the technological processes employed and the additives used in the various preparations.

Annexes

1. Income disparities in the Mediterranean region
2. FDI inward stock by host region & economy

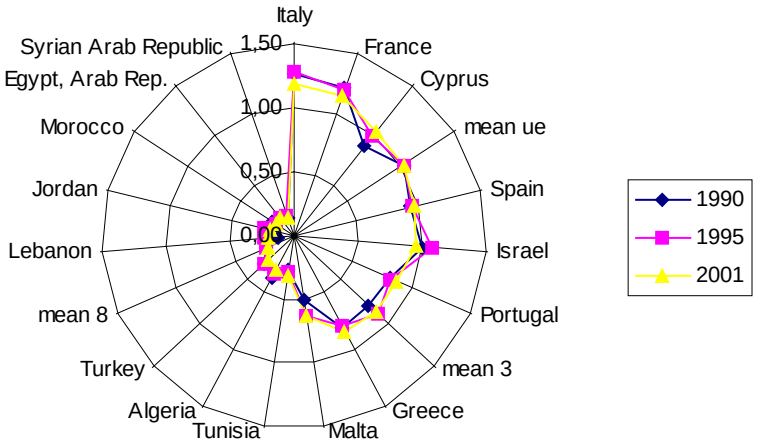
Annex 1 - Income disparities in the Mediterranean region

The Barcelone fail: Gaps are becoming larger in the euro-mediterranean between 1995 and 2001



Source : nos calculs sur données WB, WDI (2003)

GAPS on GDP/capita (ppp)



Source : nos calculs sur données WB,

Annex 2 - FDI inward stock by host region & economy

M.US$	1990	2000	2001	Change av. 1993/2000
World	1 871 594	6 258 263	6 845 723	3,7
EU	780 813	2 498 247	2 776 627	3,6
USA	394 911	1 214 254	1 321 063	3,3
Mediterranean Countries	271 188	649 195	730 174	2,7
Med./World	14%	10%	11%	
France	100 043	257 806	310 430	3,1
Greece	7 902	12 499	14 059	1,8
Italy	57 985	113 046	107 921	1,9
Portugal	10 571	28 161	32 671	3,1
Spain	65 916	144 508	158 405	2,4
Gibraltar	263	532	531	2,0
S/Total Med. UE	242 680	556 552	624 017	2,6
S/Total Med. UE/med.	89,5%	85,7%	85,5%	
Algeria	1 355	3 441	4 637	3,4
Egypt	11 043	20 845	21 355	1,9
Libyan AJ				
Morocco	917	6 141	8 798	9,6
Tunisia	7 615	11 451	11 672	1,5
Cyprus	1 146	2 062	2 226	1,9
Israel	2 940	21 450	23 089	7,9
Jordan	615	1 510	1 679	2,7
Lebanon	53	1 084	1 334	25,2
Malta	465	3 020	3 334	7,2
Syrian AR	374	1 699	1 904	5,1
Turkey	1 320	9 335	12 601	9,5
S/Total MCP	27 843	82 038	92 629	3,3
MCP/Med.	10,3%	12,6%	12,7%	

PART IV

Main indicators of agricultural and food development in the Mediterranean countries

11.1 - Introduction

This statistical section contains a short presentation of the main indicators of agricultural and food development in Mediterranean countries.

The data relate to demographic and economic aspects, resources and production means, consumption, and international trade.

In view of the fact that few data are available in several countries in the region, in order to ensure comparability we have deliberately limited our data to the indicators most frequently used for population growth, urbanisation, aggregate economic growth and growth agriculture, food consumption and international trade.

11.2 – Notes on methodology

11.2.1 – Data source

The agricultural statistics (land use, production, trade) have been drawn from the United Nations Food and Agriculture Organisation (FAO).

They are collected from the official bodies in the various countries and completed where necessary by estimates made by the FAO on the basis of provisional or unofficial information.

The macroeconomic information concerning population, national accounts, world trade, etc. have been drawn either from the United Nations series of statistics which are published in various yearbooks (statistical yearbooks, yearbooks of national accounts, population yearbooks, yearbooks of international trade) or from World Bank or IMF publications.

11.2.2 – Table of indicators

Table 11.1 - Population, demographic growth, urbanisation, agriculture ratio of employment, 2001-2002

Country	Tot.pop. (1)	Growth rate. (2)	Urb.pop./ Tot.pop. (3)	Rur.pop./ Tot.pop. (4)	Agr.pop./ Tot.pop. (5)	ALF/ TLF (6)	Inhtts/ A.E. (7)
	mn inhtts	%	%	%	%	%	
	2002	1965-01	2001				
Albania	3.20	1.45	43	57	48	48	4
Algeria	31.32	2.68	58	42	24	24	12
Egypt	66.37	2.20	43	57	36	33	8
France	59.44	0.55	76	24	3	3	69
Greece	10.63	0.60	60	40	13	16	14
Italy	57.92	0.27	67	33	5	5	45
Lebanon	4.44	1.41	90	10	3	3	79
Malta	0.39	0.70	91	9	2	1	196
Morocco	29.64	2.32	56	44	36	35	7
Portugal	10.03	0.30	66	34	14	12	16
Spain	41.18	0.61	78	22	7	7	32
Tunisia	9.79	2.03	66	34	24	24	10
Turkey	69.63	2.18	66	34	30	45	5

(1) Total population in millions of inhabitants
(2) Average annual demographic growth rate in period 1965-01 (%)
(3) Part of urban population in the total population (%)
(4) Part of the rural population in the total population (%)
(5) Part of the agricultural population in the total population (%)
(6) Part of the agricultural labour force in the total labour force (%)
(7) Number of inhabitants per agricultural employee

Source: Medagri 2004, our calculations based on FAO data.

Table 11.2 – Gross domestic product, economic growth, agriculture ratio to the GDP

Country	GDP	GDP/ inhtts	Exchange rate *	GDPGrowth rate.	AGDP/ GDP	AGDP/ Agr.E.
	mns $ 2002	$ 2002	MU p 1 $ 2002	% 91-2001	% 2001	$ 2001
	(1)	(2)	(3)	(4)	(5)	(6)
Albania	4695	1469	140.150	5.4	49.1	2701
Algeria	54195	1730	79.682	2.3	10.2	2069
Egypt	86120	1298	4.500	4.7	16.6	1869
France	1417184	23842	1.063	1.9	2.3	34964
Greece	132787	12492	1.063	2.5	6.2	9592
Italy	1184171	20445	1.063	1.7	2.4	20375
Lebanon	17294	3895	1507.500	4.0	11.9	
Malta	3891	9977	0.433		2.21	
Morocco	33875	1143	11.021	2.5	13.8	1090
Portugal	121720	12136	1.063	2.9	3.1	5338
Spain	653115	15860	1.063	2.8	3.57	16708
Tunisia	21031	2148	1.422	4.8	12.7	2681
Turkey	182772	2625	1507226	3.2	13.5	1376

(1) Gross Domestic Product in millions of $ US. 2002
(2) Gross Domestic Product per inhabitant in $ US. 2002
(3) Exchange rate. local monetary unit per 1 $ US. 2002
(4) Average annual growth rate of GDP on period 1991-2001 (%)
(5) Part of agricultural GDP in the total GDP (%). 2001
(6) Agricultural GDP per agricultural employee (1 $ US). 2001

* Euros per 1 $ US in Spain. France. Greece. Italy and Portugal
* MU per 1 $ = national monetary unit per 1 US dollar

Source: Medagri 2004. our calculations based on FAO data. world bank. IMF. and National data.

Table 11.3 – Cultivated areas. irrigated areas. means of production. 2001

Country	Arable land. perm.crops. 1000 ha	Cult.Land 1000 htts ha	Cult.Land/ Agr.E ha	Irrig.Land/ Cult.Land %	Cult.Land/ tract ha/tract.	Fert/ Cult.Land kg/ha
	(1)	(2)	(3)	(4)	(5)	(6)
Albania	699	222	0.9	49	88	27
Algeria	8252	268	3.2	7	88	13
Egypt	3338	48	0.4	100	37	392
France	19585	329	22.9	13	15	213
Greece	3852	363	5.1	37	15	109
Italy	10976	191	8.5	25	7	153
Lebanon	313	88	7.0	33	38	174
Malta	10	26	5.0	20	20	70
Morocco	9720	319	2.3	14	225	37
Portugal	2705	270	4.3	24	16	84
Spain	17948	450	14.5	20	20	122
Tunisia	4909	513	5.2	8	140	22
Turkey	26355	390	1.8	17	28	63

(1) Arable land and permanent crops. 1000 ha
(2) Cultivated land per inhabitant. ha
(3) Cultivated land per agricultural employee. ha
(4) Part of irrigated land in the cultivated land (%)
(5) Cultivated land per tractor. ha
(6) Fertilizers per hectare. kg

Source: Medagri 2004. our calculations based on FAO data.

Table 11.4 – Main agricultural products. 2002

Country	Cereals	Vegetables	Fruit	Milk	Meat	Sugar	Olive oil
	1000 T						
Albania	534	711	156	1010	79	3	1
Algeria	2099	2853	1544	1513	552		45
Egypte	19464	13851	7405	4059	1436	1525	
France	69158	7621	10679	25978	6564	5094	4
Greece	4591	3870	4170	1920	472	326	372
Italy	21887	14407	16979	12407	4087	1475	507
Lebanon	154	880	586	217	162	2	6
Malta	12	49	7	47	19		0
Morocco	5283	3677	2493	1395	609	505	35
Portugal	1567	2228	1748	2035	780	79	42
Spain	21567	12010	15432	7056	5072	1273	830
Tunisia	533	2075	993	990	233		30
Turkey	31940	24836	10996	9496	1314	2174	180

Source: Medagri 2004. based on FAO data.

Table 11.5 – Growth rate of agricultural products. 2002

Country	Cereals	Vegetabes	Fruit	Milk	Meat*	Sugar	Olive oil
	%						
Albania	-8.18	8.82	17.8	7.12	11.13	0.00	-72.0
Algeria	-16.11	11.22	7.24	0.00	2.89		0.00
Egypt	0.00	-1.89	1.69	5.75	-1.68	3.32	
France	14.35	-2.35	-4.39	1.48	3.51	21.43	0.00
Greece	18.45	-8.00	5.26	1.59	-5.01	-4.40	-11.85
Italy	9.07	-3.59	-7.61	-4.91	-1.77	3.15	-9.10
Libanon	60.1	-33.53	-55.39	-22.26	34.21	-95.25	-3.33
Malta	-1.67	-26.57	-7.14	-4.29	1.58		
Morocco	14.68	-0.54	14.40	14.72	3.15	-4.72	0.00
Portugal	16.33	-3.5	-5.02	2.11	5.70	32.17	2.44
Spain	18.59	0.48	4.02	1.97	0.08	19.19	-22.62
Tunisia	-70.69	-5.48	0.23	-1.98	-5.83	-100.00	-82.35
Turkey	24.91	12.89	3.15	-1.87	-4.22	-21.09	-2.70

* Meat = bovine meat + ovine meat + poultry meat

Source: Medagri 2004. our calculations based on FAO data.

Table 11.6 – Food consumption 2001. kg/capita /yr

Country	Cereals	Root	Sugar	Pulses	Vegetables	Fruit
	(1)	(2)	(3)	(4)	(5)	(6)
Albania	167.3	31.6	25.4	4.9	216.7	86.9
Algeria	223.7	29.0	29.5	5.8	84.5	49.3
Egypt	236.0	23.8	29.4	9.1	176.7	92.7
France	117.1	66.9	40.9	2.0	129.9	97.3
Greece	153.7	73.5	35.8	4.5	271.9	145.4
Italy	162.1	39.7	31.6	5.5	177.9	139.9
Libanon	129.9	52.5	33.7	10.6	240.1	136.4
Malta	185.7	86.1	56.5	3.2	151.5	63.9
Morocco	252.5	31.0	34.2	6.3	93.6	49.3
Portugal	132.2	123.7	34.1	3.9	187.5	132.0
Spain	101.3	82.9	32.6	5.7	154.2	122.6
Tunisia	212.3	31.9	29.7	8.8	166.5	82.1
Turkey	216.9	64.0	29.4	12.2	228.9	101.4

Country	Meat	Fish	Milk	Oil	Beverages
	(7)	(8)	(9)	(10)	(11)
Albania	32.7	4.0	300.7	11.2	21.1
Algeria	18.1	3.5	113.6	16.8	0.3
Egypt	25.1	15.3	51.0	8.9	1.3
France	102.4	31.1	272.3	36.7	95.7
Greece	91.5	25.1	242.4	31.0	68.0
Italy	91.2	24.7	247.1	38.3	83.4
Libanon	38.4	6.2	125.1	22.0	14.6
Malta	68.2	37.6	197.7	17.1	39.4
Morocco	19.5	8.7	33.0	12.8	3.6
Portugal	88.6	76.1	226.7	29.7	127.0
Spain	118.1	44.7	164.7	32.8	107.9
Tunisia	25.5	11.0	102.5	21.0	6.4
Turkey	19.4	7.6	114.4	20.0	12.6

(1) Cereals
(2) Roots and tubers
(3) Sugar
(4) Pulses
(5) Vegetables
(6) Fruit
(7) Meat. total
(8) Fish and seafood
(9) Milk and milk products
(10) Oils and fats
(11) Alcoholic beverages

Source : Medagri 2004. our calculations based on FAO data.

Table 11.7 – International trade ratios for agricultural products. 2001

Country	Total Import TI	Total Export TE	Agri. Import AI	Agri. Export AE
	millions $			
Albania	1331	305	254	23
Algeria	11530	20000	2611	27
Egypt	12756	5600	3222	629
France	328755	323523	23224	31003
Greece	28230	10238	3135	2414
Italy	233007	241235	20916	15687
Libanon	7291	889	1214	169
Malta	2722	1956	233	40
Morocco	10961	7122	1669	703
Portugal	38014	23927	4022	1466
Spain	142798	109727	11226	14505
Tunisia	9552	6609	846	454
Turkey	41399	31334	2421	4094

Country	Tot.Bal.std.*	TE / TI	Agr.Bal.Std.**	AE / AI	AI / TI	AE / TE
	%					
Albania	-62.71	22.92	-83.74	8.85	19.10	7.38
Algeria	26.86	173.46	-97.97	1.03	22.64	0.13
Egypt	-38.98	43.90	-67.36	19.51	25.26	11.22
France	-0.8	98.41	14.35	133.50	7.06	9.58
Greece	-46.77	36.27	-12.99	77.01	11.10	23.58
Italy	1.73	103.53	-14.29	75.00	8.98	6.50
Libanon	-78.26	12.19	-75.55	13.93	16.65	19.02
Malta	-16.37	71.86	-70.96	16.99	8.56	2.02
Morocco	-21.23	64.98	-40.73	42.11	15.23	9.87
Portugal	-22.74	62.94	-46.59	36.44	10.58	6.13
Spain	-13.10	76.84	12.74	129.21	7.86	13.22
Tunisia	-18.21	69.19	-30.17	53.64	8.85	6.86
Turkey	-13.84	75.69	25.67	169.06	5.85	13.06

* Total Standardized balance = (TE-TI)*100/(TE+TI)
** Agricultural Standardized Balance = (AE-AI)*100/(AE+AI)

Source : Medagri 2004. our calculations based on FAO data.

Table 11.8 – Euro-Mediterranean trade. 2002. all products

Country	EU exports TE	EU imports TI	Trade balance TE-TI
	million $		
Albania	1017	313	704
Algeria	7558	13501	-5943
Egypt	5943	3038	2905
France	227165	184601	42564
Greece	20959	5539	15420
Italy	143152	120646	22506
Lebanon	2783	173	2610
Malta	2529	1047	1482
Morocco	7172	5896	1276
Portugal	33861	21171	12690
Spain	117262	83754	33508
Tunisia	7092	5670	1422
Turkey	22746	20696	2050

Source: Eurostat 6B- Intra and extra EU trade. 2003.

Table 11.9 – EU agro-food trade with the Mediterranean countries: Exports from the EU to the Mediterranean countries. 2002

Country	Cereals	Milk	Oils	Sugar	Meat	Total
	million $					
Albania	2	5	9	18	8	42
Algeria	326	251	114	135	0	826
Egypt	209	65	12	25	0	311
France	307	1692	776	482	2199	5456
Greece	123	513	73	43	641	1393
Italy	637	2053	982	395	2719	6786
Lebanon	7	73	8	31	4	123
Malta	1	18	6	9	11	45
Morocco	163	58	39	5	1	266
Portugal	278	261	164	44	461	1208
Spain	705	925	177	406	561	2774
Tunisia	82	18	51	15	0	166
Turkey	48	27	54	8	0	137

Country	Cereals	Milk	Oils	Sugar	Meat
	1000 T				
Albania	6	4	15	75	11
Algeria	2483	148	233	595	0
Egypt	1850	40	19	102	0
France	1290	1344	910	708	949
Greece	810	286	84	42	305
Italy	4322	2399	911	488	1143
Lebanon	21	31	15	120	2
Malta	2	11	5	26	5
Morocco	1385	43	72	9	2
Portugal	2065	241	161	43	208
Spain	5575	802	310	575	219
Tunisia	596	19	118	64	0
Turkey	352	13	115	20	0

Source: Eurostat 6B- Intra and extra EU trade. 2003.

Table 11.10 – EU agro-food trade with the Mediterranean countries: Imports of the EU from the Mediterranean countries. 2002

Country	Vegetables	Fruit	Tobacco	Cotton	Total
	Millions $				
Albania	2	2	4	0	8
Algeria	1	13	0	0	14
Egypt	112	36	1	153	302
France	1095	1170	298	419	2982
Greece	96	250	113	210	669
Italy	605	1429	117	1043	3194
Lebanon	0	0	1	0	1
Malta	3	0	0	0	3
Morocco	295	235	0	43	573
Portugal	82	95	96	134	407
Spain	2975	3219	101	369	6664
Tunisia	5	59	1	62	127
Turkey	155	812	121	436	1524

Country	Vegetables	Fruit	Tobacco	Cotton
	1000 T			
Albania	2	2	1	0
Algeria	0	10	0	0
Egypt	255	41	0	50
France	3118	1385	46	90
Greece	69	286	37	107
Italy	763	1724	49	136
Lebanon	1	0	0	0
Malta	6	0	0	0
Morocco	314	284	0	7
Portugal	149	126	11	24
Spain	3400	4340	24	92
Tunisia	4	51	1	15
Turkey	198	636	28	159

Source: Eurostat 6B- Intra and extra EU trade. 2003.

Table 11.11 –Self Sufficiency ratios for main food products. 2001

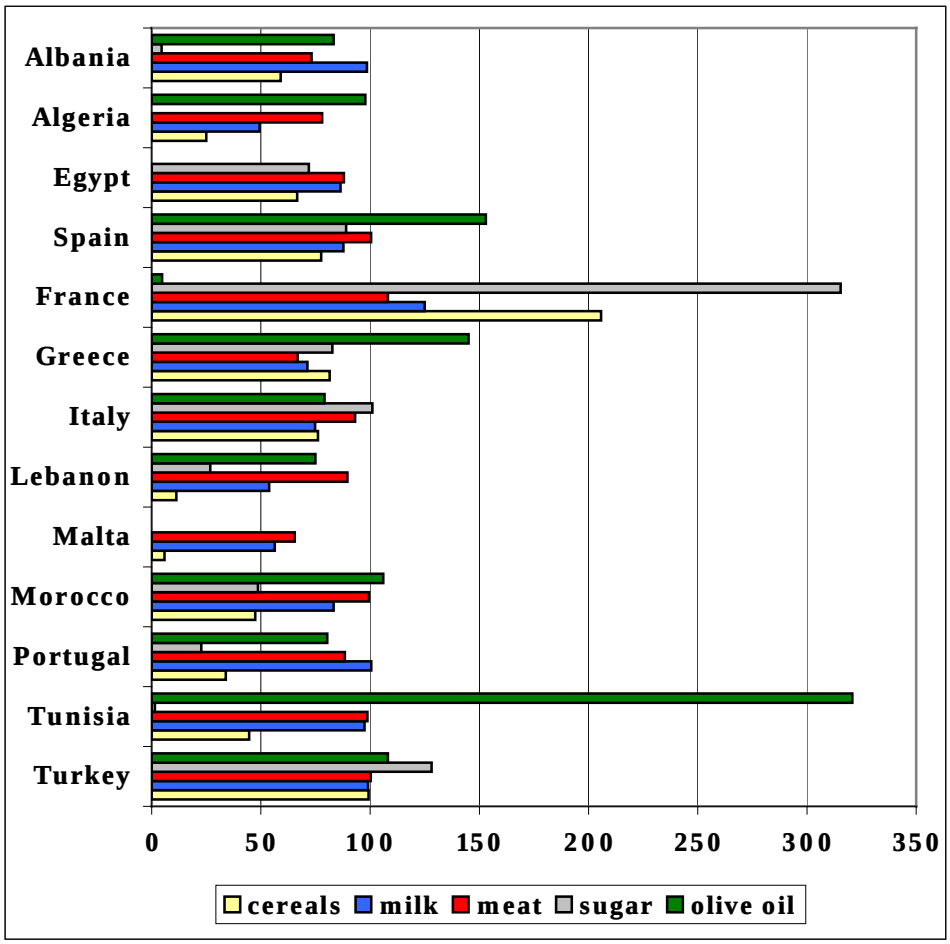
Country	Cereals	Milk	Meat*	Sugar	Olive oil
	%				
Albania	59.37	98.24	70.75	4.82	87.50
Algeria	27.24	45.55	99.07	0.00	99.88
Egypt	69.58	87.20	93.48	77.88	0.00
France	178.49	122.58	106.49	281.79	4.06
Greece	79.61	64.26	45.55	107.08	183.06
Italy	73.52	76.21	82.28	90.23	72.22
Lebanon	10.56	46.85	85.82	24.22	116.48
Malta	6.77	57.28	68.37	0.00	0.00
Morocco	48.02	78.96	99.50	50.84	86.37
Portugal	30.61	92.72	79.70	20.74	60.40
Spain	75.45	89.33	107.72	83.26	164.53
Tunisia	40.68	97.39	100.27	1.60	223.77
Turkey	101.57	99.80	101.66	151.19	213.99

* Meat = bovine meat + ovine meat + poultry meat

Self Sufficiency ratio = production*100/(production+import-export)

Source : Medagri 2004. our calculations based on FAO data.

Graphique 11.1 – Self sufficiency ratios for main food products. 2001. %



Source : Our calculations based on FAO data.

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PART IV
Chapter 11

- MEDAGRI (2004). *Annuaire des économies agricoles et alimentaires des pays méditerranéens et arabes.* M. Allaya, CIHEAM-IAM Montpellier.
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As is it the case each year, the present new edition of CIHEAM annual report offers a detailed panorama of the most recent developments in the agricultural economies and in the agri-food sectors of the Mediterranean states which are members of CIHEAM. It also studies the various scenarios with regard to the economic problems and international trade of those sectors.

The year 2003 was marked by three major events – the reform of the CAP, the enlargement of the European Union, and the crisis in the World Trade Organisation, which emerged at the Cancun Conference.

Such was the context chosen to observe, study, analyse and understand the current changes in Mediterranean agriculture and the role which the agricultural sector plays both in each individual country and in the region as a whole.

At the meeting of the Ministers of Agriculture and Fisheries of the European and Mediterranean countries, an event which took place in Venice from 27 to 29 November 2003, all of those administrators called upon the CIHEAM to clarify the role which agriculture, fisheries and food can play in the effort to build up a Euro-Mediterranean area of trade and solidarity and in the consolidation of a Mediterranean identity in the food sector at the world level.

It is our ambition to accommodate that request, and we trust that the present sixth report reflects that ambition.

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