COMMISSION OF THE EUROPEAN COMMUNITIES
Directorate-General Information, Communication, Culture

EUROPE
INFORMATION

DEVELOPMENT

THE EUROPEAN COMMUNITY, THE MEDITERRANEAN AND THE MIDDLE EAST

X/20/90-EN

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Introduction

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Both these "policies" are at the heart of the Community's relations with the "South". Born out of the optimism resulting from a long period of economic expansion, they survived, not without difficulty, the recession, which, after the second oil shock, hit Europe and many of its closest partners harder than other regions of the world. The second and then third enlargements of the Community (Greece in 1981, followed by Spain and Portugal in 1986), by aggravating the tensions of a commercial nature which arose from the recession, provided the opportunity for a new deal in the Community's relations with the non-EEC countries of the Mediterranean region

Maintained trade advantages, slightly increased, more appropriate aid, new forms of regional or multinational cooperation and the structures for a narrower, less formal dialogue–these are the elements around which the cooperation-based relations that are entering the third phase of their development are being consolidated today. After the hesitant beginnings of the 1960s and the definition of an "overall Mediterranean approach"–with the hopes it gave rise to and the disappointments caused by the harsh realities of recession–after the accession of Spain and Portugal to the Community and the adaptation of the Mediterranean agreements to this new situation, the Community's relations with the countries bordering on the Mediterranean have now entered their post- enlargement phase.

The Mediterranean and Middle East

An overall approach

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I. The principles

A North-South crossroads

The Mediterranean region today accounts for 6 % of the world's land area, 7 % of its population and 8 % of its wealth. Although these percentages are far lower than they would have been back in the time of the great Mediterranean empires (Phoenician, Roman, Ottoman), the Mediterranean area has remained a place where civilizations, religions and strategic interests meet, and a centre for trade and cultural exchanges.

Wealth is unevenly distributed between the northern and southern parts of the Mediterranean Basin, which is economically dominated by the power of the European Community. The four members of the Community which border on the Mediterranean alone account for more than two-thirds of the region's wealth and, in overall terms, the GNP for the European Community as a whole is 10 times that of the non-member Mediterranean countries. While average *per capita* GNP in the EEC is USD 10 000, in the non-EEC Mediterranean countries as a whole it averages USD 1 000, with enormous differences between the northern countries (Cyprus, Malta, Turkey and Yugoslavia) and those in the south (Maghreb, Mashreq).

Shared stability

These few facts illustrate better than any lengthy speech the stake which the Community has in the harmonious development of the Mediterranean region and the stabilizing role it must play in that area both economically and politically if it is to preserve peace on its doorstep and markets for its products. The short history of these relations amply demonstrates that the Community realizes it is vulnerable to the frailty of its close neighbours.

As for the Mediterranean countries, their economies are sometimes dangerously dependent on their exports to the Community market.

Following the locomotive role played by the European economies in the 1960s (in terms of immigration too), the difficulties caused by the recession, which led to contraction of the European markets (for instance, the crisis in the textile industry), and more recently the problems posed by the enlargement of the Community, have highlighted to varying degrees in a number of these countries economic, and hence social difficulties which, at a time of strong population growth, may generate tension with unforeseeable consequences.

In addition to the long-term obstacles to growth facing the poorest countries, the Mediterranean region will have to deal with ecconomic, political and environmental problems. Its ability to 'cooperate' is being tested now by pollution in the Mediterranean and natural scourges (migratory locusts, encroachment of the desert). The Community is aware of the extent of its responsibility as the dominant economic and political power in the area. But is it strong enough today to regain the confidence of its Mediterranean partners, severely eroded by its protectionist responses to the period of recession and the consequences of certain excesses of its agricultural policy? How this question is answered will determine the scale and impact of the Community's contribution to establishing in the Mediterranean an area of relative prosperity and effective, lasting cooperation.

Strong interdependence

The non-member Mediterranean countries provide the Community with its third largest external market and its biggest trade surplus. It is by far the main outlet for exports from the Maghreb, but also for Egypt, Syria, Israel and Malta. Only Jordan, Lebanon and Cyprus have Arab countries as their principal customers. Turkey and Yugoslavia, however, are large countries, geared to their domestic markets, and so are less dependent on exports to the Community. The bulk of exports from Algeria (98 %), Syria (94 %) and Egypt are petroleum products and, although the European market is still an important one as far as other products (Algerian wine, Egyptian cotton) are concerned, it is not absolutely vital for their economic and social stability.

The same is not true of Israel, however, which sells 80 % of its agricultural exports (fruit and vegetables, citrus fruit and flowers) to Europe. The same goes for Morocco: more than a quarter of its exports are agricultural products for which the Community is the main market. In Tunisia, agriculture's share of the export market has declined significantly in recent years, but olive oil, on which the livelihood of 200 000 farmers depends, is still of major economic and social importance—and Europe takes slightly more than half of Tunisian olive oil exports. This brings us finally to Malta, whose exports to the Community account for a quarter of national income.

In addition to earnings from exports to Europe, there are the remittances from migrant workers. More than a million North Africans, 700 000 Turks and 400 000 Yugoslavs work in Europe. The money they send home is equivalent to 20 % of visible exports in the case of Tunisia and more than 50 % in the case of Morocco. In so far as Turkey and Yugoslavia are concerned, these transfers rank second, after exports, as a source of foreign exchange. Migration and the human and social problems that go with it are a characteristic aspect of Mediterranean interdependence. These figures do not do justice to it but they do show that the migrant workers have not only contributed to our own prosperity, but are making what is sometimes a massive contribution to the foreign exchange reserves, and therefore the purchasing power, of their countries of origin. And Europe gets the benefit of much of this purchasing power.

The Mediterranean outlet

The Community is the major supplier of all these countries, and purchases from the EEC represent 60 % of total imports in Algeria, 50 % in Tunisia and 44 % in Morocco. In the Mashreq countries and in Israel, the figure varies between 30 % and 35 %, as it does in the Northern Mediterranean countries too.

The Mediterranean is a substantial market for the Community. It accounts for about 10 % of the Community's total exports, i.e. more than it sells to all the ACP countries combined, three times what it sells to Japan and half what it exports to the USA. Another important aspect is the fact that while the Community's trade with Japan or North America is in deficit, there has always been a large surplus in its trade with the Mediterranean countries. Moreover, for the Community this region has always been far more important as a dynamic market than as a rival producer. For instance, exports to the Mediterranean countries of motor vehicles alone are worth more than total textile imports from those countries.
As for exports of capital goods, they are worth twice as much as imports of other manufactured products.

This rapid survey of the economic aspects of interdependence would not be complete without mentioning the aid which the Mediterranean countries get from the Community and its Member States.

Aid provided under the cooperation agreements with the Community is still modest, although for some countries, this is augmented by substantial amounts of food aid. Egypt was the first to receive this form of aid and, in both 1986 and 1987, it obtained the equivalent of ECU 30 million in food aid.

Total European (Community plus Member States) plays a significant part everywhere. In 1987, it accounted for 28 % of the total aid received by the countries of Africa north of the Sahara, 44.9 % of all aid to European Mediterranean countries and 6.1 % of all aid to the Middle Eastern countries.

II. Birth of a policy

The first agreements

In 1958, the creation of the European Economic Community prompted all the independent countries of the region to seek to establish with this new entity relations that would safeguard their privileged position and their access to the European market.

Bilateral agreements were gradually concluded with all the Mediterranean countries that desired closer relations with the EEC. With Greece, Turkey, Cyprus and Malta, association agreements were to be concluded between 1963 and 1972. Albania and Libya did not seek closer relations. Yugoslavia did not do so until later on.

With the countries on the southern shores of the Mediterranean, cooperation got off to a tentative start. The Treaty of Rome had committed the Six in Africa and the Mediterranean. In 1958, Algeria was still French territory, and as such qualified for assistance under the first EDF; Morocco and Tunisia were explicitly referred to in a protocol to the Treaty of Rome, in view of their privileged economic relations with France.

Once independent, Algeria was slow, in the aftermath of its struggle for independence, to establish cooperation links with the Community. As early as 1963, however, Rabat and Tunisia called for negotiations to be opened with a view to concluding association agreements with the Six but it was not until 1969 that the agreements (to run for a period of five years) were signed,

and they were only preferential trade agreements. Some months later, a similar agreement was concluded with Israel and negotiations started with Egypt and Lebanon.

Here, then, were the separate elements which, two years later, the Community was to undertake to combine and organize in the framework of an 'overall Mediterranean approach'.

This piecemeal beginning, plus the historical and political conditions of the region, ruled out a collective, inter-regional approach of the kind adopted for black Africa.

The overall Mediterranean approach: a common framework

In 1971, the Commission's assessment of its Mediterranean policy was somewhat low-key. The considerable overlap of political and economic interests, it said, and the influence that Europe could have in this region made it possible to see development of the Mediterranean Basin as a natural extension of European integration. The agreements concluded with the countries in question were an inadequate expression of the interest Europe had in the region. The Community had so far made only a limited contribution to the economic development of this part of the world.

In October 1972, the Community's Heads of State or Government heard this appeal and, at their Paris summit, said that 'the Community attached vital importance to the implementation of its commitments towards the Mediterranean countries with which agreements had been or were to be concluded, and that these agreements were to be the subject of a balanced, overall approach.'

Consistency, non-discriminatory treatment of neighbouring countries, compliance with the GATT rules and development cooperation for the less developed countries are the basic principles behind the 'overall Mediterranean approach'.

Apart from Yugoslavia, with which a *sui generis* agreement was signed on 2 April 1980, the northern Mediterranean non-EEC countries are already in a relationship of association with the Community. Attention will therefore be focused mainly on the southern Mediterranean countries.

A few months after the Paris Summit, the Commission proposed to these countries 'overall cooperation agreements', which would run for an unlimited period and contain, in addition to preferential trade arrangements, various types of financial and technical assistance.

However, it was by no means easy for the Europeans to draw up negotiating directives. While they were all aware of the political and economic implications of such cooperation, they found it extremely difficult to bear them in mind when it came to deciding specific concessions, particularly with regard to agriculture. Europe was already having trouble with its Mediterranean agriculture as it was...

The negotiations too were long and arduous. They took place in successive rounds. Begun in 1974, the negotiations conducted in parallel with Algeria, Morocco and Tunisia were concluded in 1876. The agreements were signed in the three capitals on consecutive days. Success, despite everything! Mr Claude Cheysson, then the European Development Commissioner, speaking in Rabat, said that Europe was embarking on a dialogue, on integrated cooperation with Morocco and its Maghreb neighbours, as it would soon be doing with their brothers in the Mashreq, and as it had already done with the whole of

The Mediterranean agreements

1962 — 1 November: Greece (agreement setting up an association)
1963 — 12 September: Turkey (agreement setting up an association)
1970 — 29 June: Spain (preferential trade agreement creating a free-trade area)
— 5 December: Malta (agreement setting up an association)
1972 — 19 December: Cyprus (agreement setting up an association)
1975 — 11 May: Israel (free-trade and cooperation agreement)
1976 — 25 April: Tunisia (overall cooperation agreement)
— 26 April: Algeria (overall cooperation agreement)
— 27 April: Morocco (overall cooperation agreement)
1977 — 18 January: Egypt (overall cooperation agreement)
Jordan (overall cooperation agreement)
Syria (overall cooperation agreement)
— 3 May: Lebanon (overall cooperation agreement)
1980 — 2 April: Yugoslavia (cooperation agreement)

black Africa through the Lomé Convention. On their side, he said, there was a clear desire to achieve Arab unity. If they stood back for a moment, they would see an exceedingly interesting picture taking shape, in which each of the three major groups—Africa, the Arab world and Europe—was endeavouring to develop its cohesion, assert its desire to be independent and reject outside intervention. And each of these groups had resolutely decided to rely on and support the other two.

In 1977, similar agreements were concluded with Egypt, Jordan, Syria and then Lebanon. An agreement with Israel had been concluded in 1975. Despite the tensions and conflicts in this part of the world—the troubles between the Israelis and the Arabs were not the only ones—it proved possible to weave a network of cooperation with the region as a whole. It embraced economies that were more developed, nearer and hence more directly competitive than those of black Africa. That is why people said that the southern Mediterranean policy, which was Lomé transposed, would be the real test. But unlike Lomé, the overall approach did not result in a collective agreement. Could the Euro-Arab dialogue, which was launched in 1973, provide cooperation between the two shores of the Mediterranean with the dimension it lacked?

Beyond the Mediterranean, the Arab world

The whole of the Arab world beyond the Mediterranean shores is concerned. The cooperation agreements with the Maghreb and Mashreq countries involve seven nations that are members of the Arab League; four others—Djibouti, Mauritania, Somalia and Sudan—are parties to the Lomé Convention; an agreement was concluded in 1984 with North Yemen and a regional agreement was signed in 1988 with the Gulf Cooperation Council.

The Euro-Arab dialogue has attempted to round off these individual agreements with collective

The Euro-Arab dialogue

Origins

On the occasion of the Copenhagen Summit in December 1973, a few months after the first 'oil shock', all the Arab countries informed the Nine that they wanted the Community to develop its relations with the Arab world and embark upon long-term cooperation with it in all fields.

Different stages

In June 1975, the first meeting of the Euro-Arab dialogue was held in Cairo. The aims and rules of the dialogue were laid down in a joint memorandum and a series of working groups was set up.

The first meeting of the General Committee (the organizing body of the dialogue) was held in Luxembourg in May 1976. Three other meetings took place—in Tunis (1977), Brussels (1977) and Damascus (1978)—before the dialogue was suspended at the request of the Arab League (March 1979), following the signing of the Camp David agreements.

The Venice declaration of the Heads of State or Government of the Nine in June 1980, by recognizing the political dimension of the dialogue, gave grounds for thinking that a resumption might be possible.

A 'political' meeting was held in Luxembourg in November 1980 to lay down guidelines and arrangements for continuation of the dialogue and, in December 1983, the General Committee met again in Athens. However, inability to reach agreement on the political aspects prevented progress in other areas of cooperation.

A fundamental misunderstanding

As the European Community is primarily an economic body, it cannot deal with political questions—such as those of the Middle East—unless it does so outside its usual structures, i.e. within the framework of political cooperation. The Arab League, which is primarily a political organization, saw the dialogue principally as an opportunity to influence European views on the Middle East. In June 1988, a new attempt was made to relaunch the dialogue. Despite the two parties' proclaimed desire to pick up the threads of the dialogue again, the success of this attempt seemed to be linked to their flexibility with regard to circumventing the political obstacles to the resumption of a dialogue which would be strengthened by the reintegration of Egypt within the Arab League.

Areas of cooperation

Apart from political questions, the dialogue has made it possible to deal with a number of topics—the transfer of technology, investment protection, trade promotion, agricultural development, studies of industrialization, scientific cooperation and cultural exchanges—and both parties have allocated financial resources.

cooperation (see inset). Its ups and downs and stops and starts have shown both how difficult and inevitable a process it is. They have also illustrated the extent to which political and economic problems are interwoven, inseparable even, in the Mediterranean—hence the difficulty for a Community which is still more economic than political in nature. Rather than as an illustration of this political weakness, the Community's determination to maintain cooperation relations with everyone, regardless of tensions and conflicts, should be seen as a major political act and not as an inability to make a proper choice.

Ten years later...

Ten years after the adoption of the overall Mediterranean approach and the conclusion of the agreements that resulted from it, the balance-sheet is not conducive to optimism.

The implementation of financial cooperation has continued in a satisfactory manner, providing finance primarily for infrastructure but also for training and research projects. The main complaint from the Community's partners is that the funds available are very limited.

Partly because of the recession, difficulties and disappointments have emerged in the trade sector, however. The Community's partners are unanimous: the 'Mediterranean policy' had not lived up to expectations. The proof of this, they feel, is their continuing or worsening trade deficits with the Community. They consider that there are three main reasons for this state of affairs.

'First, by extending the initial concessions to all Mediterranean countries and by granting concessions to other developing countries, the Community has eroded their preferences.

Secondly, although it has not been proved that they are the cause of the Community's own problems, the Community has adopted a protectionist attitude towards them in the industrial sector (textiles), without paying proper attention to the complementary nature of its own and its preferential partners' interests.

Thirdly, the common agricultural policy has become an increasingly protectionist operation, resulting in production increases and surpluses regardless of the real market situation and the interests of traditional preferential suppliers.'[1]

A large trade deficit

Although the results have not lived up to the hopes the various parties had placed in the cooperation agreements, the European view of the way trade has developed is less negative. On the whole, the various countries concerned still have a trade deficit with the Community (only Algeria has benefited from a special situation because of its hydrocarbon resources). However, since 1975 in most countries the extent to which exports cover imports has improved, despite the increase in imports that has been necessary to meet their development requirements.

It is true that the Community did ask some of its partners to subscribe to voluntary restraint agreements in the textile sector in 1978, even though there was no provision for this in the cooperation agreements. However, these measures were more favourable than those which the Community negotiated with its non-preferential partners. The statistics show that they have not halted the development of exports, even if the rate at which these have increased has slowed down. Between 1978 and 1981, for instance, Morocco's textile exports increased by 25% in volume and 52% in value, while Spain's textile exports increased in volume by only 5.6% and Portugal's by 14% over the same period. With regard to agricultural products, the difficulties which the Community has encountered with its own Mediterranean produce may have prevented the vigorous expansion of trade which its partners wanted from the agreements, but they have not resulted in a general decline in exports. On the contrary, these have increased. Although less severe than might have been thought at first sight, the restrictions on access to the Community market that resulted from the recession, have indeed fallen short of the promises made under the overall

[1] Commission report to the Council on the exploratory talks with the Mediterranean countries and the applicant countries (COM(84)107 of 11 May 1984).

approach. This is felt particularly acutely by the Mediterranean countries that are partners of the Community, since their young economies are more vulnerable and have been affected more seriously by the crisis. The recession has also shown that trade measures, while they may be relevant during the prosperous years, are not in themselves likely to meet the requirements of development when times are more difficult.

Ten years later, the Community has lost some of the credibility it had previously acquired among its Mediterranean partners. It has ceased to be a source of growth and hope and become an uncertain factor in their development strategies.

The situation after enlargement

Enlargement of the Community to include Spain and Portugal had the merit of injecting a note of urgency into the review that would have had to be undertaken anyhow.

However, the accession of the two new southern States considerably complicated the practical application of a policy covering the whole region to the greater good of everyone concerned.

Not that the political project has ever been called into question. Very early on, the applicant countries supported it unreservedly. Portugal emphasized 'the obvious interest of keeping and extending a coherent Mediterranean policy for the enlarged Community' and Spain pointed out that 'political stability in this area is a central feature of Spanish foreign policy... and that such stability is closely linked to economic stability...'.

And yet it is these very 'affinities' between the Mediterranean countries which, while they justified the political project, have complicated the process of putting it into practice in economic terms. The trouble is that the Mediterranean lands all produce roughly the same crops. The Mediterranean products do not complement one another but compete with one another. Worse still, production often outstrips consumption, not just in the Community but in the Mediterranean region itself. The enlarged Community became self-sufficient in many areas. Its coverage of its own needs rose from 96 % to 106 % in the case of olive oil, 49 % to 86 % in the case of citrus fruit and to nearly 100 % in the case of many fresh vegetables, while the wine surpluses grew even larger.

In addition to their worries over agricultural products, the non-member Mediterranean countries were unanimous in stressing that the accession of Spain and Portugal would accentuate most of the factors behind the crisis in their relations with the Community—an increase in 'sensitive' sectors in the Community, freedom of movement for Spanish and Portuguese workers, dwindling resources for financial cooperation... and a tendency for investors to shift their investments to the applicant countries, etc.[1]

[1] Commmission report to the Council on the exploratory talks with the Mediterranean countries and the applicant countries (COM(84)107 of 11 May 1984).

Review of the Community's strategy

The 'exploratory talks' held in 1983 and 1984 between all the Mediterranean countries concerned, including the applicant countries and the Commission of the European Communities, were fully taken into account by the Commission in formulating the guidelines on which the policy of the enlarged Community should be based.

These guidelines emphasized:

(i) the need to define a new Mediterranean policy that would take account of both the consequences of enlargement and the shortcomings encountered in the implementation of the agreements;

(ii) the importance of a continued expansion of trade in order to maintain the momentum of development within the Mediterranean Basin, i.e. for the Community the need to confirm that its market will be open to industrial products (which means ultimately dropping certain restrictive measures) and, in the agricultural sector, to maintain the patterns of trade in products that are of major economic importance to the partner countries (fruit and vegetables, olive oil, wine). To that end, the Commission has also introduced the idea of greater cooperation on agricultural matters, by providing in particular for Community support for its partners' food strategies, with a view to diversifying out of surplus products;

(iii) the need for other areas of cooperation to be encouraged too, such as measures to promote regional integration, scientific and technological cooperation, the development of small and medium-sized enterprises and regional cooperation in general;

(iv) the need to increase the amount of financial aid to be granted by the Community, in order to contribute towards the economic and social development of the Mediterranean countries and develop with them a strategy of complementarity;

(v) the importance of the social sector. The Commission rules out any policy of compulsory return of migrant workers but provision must be made for support for vocational training both within the Community and within the framework of assistance with voluntary repatriation.

These Commission guidelines were accompanied by an unambiguous appeal: 'The next enlargement will increase both the Community's sensitivity and its responsibilities towards this region. It should prompt greater awareness of this and stimulate the political will to deal not only with the immediate consequences, important and difficult as they are, but also with the longer-term problem of the fundamental interests of the Mediterranean countries as a whole, which makes the short-term cost and sacrifices seem very modest—as in fact they are'.[1]

The statement of 30 March 1985: a political undertaking

In this statement, made on the eve of the enlargement of the Community to include Spain and Portugal, the Council solemnly defined the guidelines and priorities for future Community action in the region.

A fundamental principle was proclaimed:

'The Mediterranean policy of the enlarged Community will have to be of an ongoing nature and... in terms of economic development, make for significant and stable results in the medium term.

From an overall and long-term point of view, the Community will direct its efforts to pursuing financial and technical cooperation with the Mediterrenean partners in order to make an appropriate contribution to their economic and social development.'

[1] Commission report to the Council on the exploratory talks with the Mediterranean countries and the applicant countries (COM(84)107, 11 May 1984).

A political commitment

With regard to the substance, no Member State will dispute the sentiments expressed here. The negotiations for the adaptation of the Mediterranean agreements will therefore be conducted on the basis of a political undertaking by the Council, namely the **statement of 30 March 1985** (see inset). In practice, the following four guiding principles should make it possible to continue and develop each of the agreements, in the spirit of the overall approach:

(i) trade advantages maintained;
(ii) more appropriate, slightly increased aid;
(iii) new forms of regional or multilateral cooperation;
(iv) the structures of a less formal dialogue.

Trade advantages maintained

The adaptations of the trade provisions of the agreements in order to take account of the new conditions of competition between Mediterranean countries have had to be dealt with on a case-by-case, country-by-country, product-by-product basis, in accordance with a single principle: the maintenance of traditional patterns of trade.

Some Mediterranean countries, such as Cyprus, Israel, Morocco, Tunisia, Turkey and Yugoslavia, have specialized in supplying the Community market with agricultural products such as citrus fruit, early potatoes, onions, olive oil, hazelnuts, cut flowers, avocados, wine, table grapes and tomatoes. Since these exports have a considerable influence on the economic and social situation of the countries concerned, they have had to be taken into account on a case-by-case basis.

As a general rule, two guidelines were followed that are applicable to all the Mediterranean countries with which adaptations were to be negotiated:

(i) in the tariff sector, customs duties, which have already been reduced under the agreements concluded, will be gradually abolished, in parallel with the equivalent measures applying to Spain and Portugal. This solution should lead to the abolition of duties by 31 December 1995 and, for some products, as early as 1992, in order to take account of the timetables applying to the two new Member States;
(ii) in addition to the tariff measures, specific arrangements are provided for in respect of certain products, such as those referred to above, in order to take account of both the partner countries' strategies and particular features of Community law on agricultural matters, or even, in the case of certain industrial products, of changes affecting industry in the Community.

Increased, more appropriate aid

The new trade arrangements must not only contribute towards maintaining trade flows but also strengthen the complementarities between Mediterranean and Community producers and help the Mediterranean countries to achieve a better balance in their trade with the Community.

The priorities adopted for cooperation are of three kinds:

(i) support for food strategies, in order to reduce food dependence;
(ii) the development of specific forms of cooperation—industrial, scientific and technological, commercial, training—in which the impetus and support given by the Community must help reinforce the dynamism of firms;
(iii) support for efforts to develop regional and multilateral cooperation, with Africa as well.

In order to support these priorities, economic cooperation must be **strengthened**. The Community will make an effort to increase the amounts provided for in the financial protocols to the agreements so that they at least take account of inflation (although they will still fall short of what the Commission says is needed), but the **nature** of economic cooperation must also **change**, in order to facilitate greater coordination between public and private finance. For instance, one of the innovations introduced in the financial protocols to the Mediterranean agreements will be the creation of risk capital (see inset).

Risk capital

The contribution towards risk capital formation, the amount of which is specified in each protocol, is intended in particular to facilitate the implementation of cooperation in the industrial sector, which is one of the priorities selected. According to the terms of the protocols, this instrument is to be used principally for providing equity capital for firms in the partner countries, particularly firms with which natural or legal persons of the Member States of the Community are associated. It may also serve as a contribution towards projects undertaken by those firms. In the earlier financial protocols, the possibility of using such an instrument was already referred to, but in a less systematic manner and without the financial limits being specified. Risk capital is henceforth to be seen as one of the preferred ways of encouraging cooperation between firms themselves, particularly in the context of joint operations or joint ventures.

New forms of regional or multilateral cooperation

True to its regional convictions, the European Commission could not let slip the opportunity provided by enlargement to stress that the bilateral relations maintained by the Community with each Mediterranean country should, when the time comes, be able to be inserted into a regional framework or one of agreements with sub-regions. The economic conditions of cooperation should, it stated, be defined in such a way that, when the political circumstances enable the matter to be brought to a conclusion, such an agreement could be drawn up rapidly.[1]

The Mediterranean countries' industrialization efforts, like the complementary development of the agricultural economies, would be greatly facilitated if they could be undertaken within a multilateral framework encompassing the whole region, or at least each sub-region, along the lines of what existed in the economic area that had been created in Western Europe. The Commission felt that the efforts to achieve closer cooperation in the Mediterranean should be actively supported, in the interest of other Mediterranean countries, as in the Community's own interest, with a view to creating a better integrated, common economic area.

Such a development would inevitably be a long-term operation, and the Community's direct contribution could only be a modest one. Its effectiveness would depend mainly on the desire of the Mediterranean partners themselves to follow this path.[1]

In practical terms, the Community will undertake to assist with specific operations, whether regional or multilateral, either via the financial protocols or via the budget heading created for the purpose ('Operations to encourage an overall approach to regional and subregional cooperation in the Mediterranean'), or even propose that invitations to tender for contracts financed from the resources of a protocol should in future—subject to reciprocity—be open to firms from other countries in the region that are linked to the Community by similar agreements, including the ACP countries.

A less formal dialogue

The often excessively formalistic nature of the meetings of the Cooperation or Association Councils is regularly called into question by partners who are keen to develop their privileged relationship with the Community through more specialized and more intimate contacts. Furthermore, it has been proved that, particularly with regard to trade, a genuine search for complementarity requires regular exchanges of information on trade and production. Thus the protocols adapting the agreements provide for a new body, the **Economic and Trade Cooperation Committee**. One of the aims is to predict more accurately the trend of the Mediterranean partners' exports, particularly of agricultural products, in order to ensure that they are kept in line with the objectives laid down in the protocols, without causing disruption on the Community market.

[1] 'The Community and the Mediterranean: guidelines for economic cooperation', Commission communication to the Council, 25 September 1985.

III. Instruments and outlook

The southern shores: a standard agreement, with eight variations

The cooperation agreements signed one after the other with the Maghreb countries (1976) and the Mashreq countries (1977) were based on a single model, thus reflecting the concern for consistency that inspired the Community in its search for an 'overall' Mediterranean approach. The agreement with Israel, although also based on the same model, is somewhat different, because of the level of development which Israel has attained.

Like the Lomé Convention, these agreements established 'overall' cooperation between the Community and its partners, combining various instruments capable of contributing to the economic and social development of the countries concerned. They deal with both trade arrangements and economic, financial and technical cooperation. They are seen as a lasting undertaking: the agreements run for an indefinite period, while only the protocols fixing the amounts of financial assistance are for a limited period (five years). Furthermore, the institutional arrangements provide for a dialogue between the parties concerned (Cooperation Committee at plenipotentiary level or Cooperation Council at ministerial level,[1] in such a way as to enable a joint evaluation to be made of the results obtained and new guidelines to be defined.

With regard to the two main aspects of cooperation—trade and development assistance—the similarities between the agreements outweigh the differences.[2]

Preferential trade arrangements

The trade arrangements are based, except in the case of Israel, on non-reciprocity, although liberalization of trade is still the long-term aim. As with the Lomé Convention, the Community merely enjoys most-favoured-nation treatment, although exceptions may be made in favour of other developing countries or within the framework of regional integration policies. While European exports do not receive special treatment on the markets of the Maghreb or Mashreq countries, exports from those countries to the Community enjoy preferential terms.

Industrial products

The general principle is free access (no customs duties or quantitative restrictions), although there are limits on textile exports, agreed under arrangements concluded with Morocco, Tunisia and Egypt, outside the framework of the agreements. Nevertheless, these limits constitute an exception to the rules laid down in the agreements and, under the trade protocols concluded on the basis of the Council statement of 30 March 1985, the Commission has undertaken to do away with them as soon as possible. The provisional maintenance of these limitations has made it possible to abolish the restrictions which the Community was applying *vis-à-vis* Egypt under the Multifibre Arrangement (MFA).

Agricultural products

It was not possible to make such generous concessions on agricultural products, but variable tariff cuts (from 20% to 100%) are provided for the bulk of agricultural exports (between 80% and 90%). Despite its limitations, the whole system was explicitly intended to boost trade and, because it was to be a permanent feature and thus provide security, to contribute towards the industrialization of the partner countries.

When Spain and Portugal joined the Community, the principle to which the Community had committed itself of maintaining its Mediterranean partners' traditional exports, meant that the arrangements to be applied to their agricultural exports would have to be adapted.

With regard to tariffs, the principle adopted for all the Mediterranean countries of gradually phasing out the remaining duties, in parallel with the dismantling in favour of Spain and Portugal, is to be found in the protocols on the economic

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[1] And, since 1986, an Economic and Trade Cooperation Committee (see page 47).

[2] Unlike the Lomé agreements or any other cooperation agreement, the agreements with the Maghreb countries contain provisions regarding labour: non-discriminatory with regard to rates of pay and working conditions, measures in the social security field.

adaptation of the agreements to the consequences of enlargement.

These protocols provide for specific arrangements for:

— **wine**: the gradual elimination of the flat-rate amount added, in respect of wines imported in bottles, to the reference price applicable to imports; in the case of wines imported in bulk, the possible application of a special frontier price;
— **olive oil**: the application of a special levy on imports of olive oil originating in Tunisia, within the limits of the quantities exported traditionally by that country (46 000 tonnes annually);
— **oranges, small citrus fruit, lemons, tomatoes, table grapes**: if this proves necessary in order to maintain traditional exports, the Community will be able, as from 1990, to modulate the entry price to be taken into account for the purposes of applying the reference price system.

Agreement has been reached with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia. The respective protocols have already entered into force or should do so in the near future. Negotiations with Syria were completed in June 1988.

Different amounts of money

Israel is a special case. Because of that country's level of development, the 1975 agreement explicitly refers to the gradual attainment of a free-trade area, at least in the industrial sector, which is to be completed in full by 1 January 1989. So Community concessions were matched by Israeli concessions on Community exports: the gradual dismantling of tariffs and the removal of quantitative restrictions on industrial products and limited tariff cuts on some agricultural products. For the same reasons, EEC-Israel cooperation was initially conceived as trade cooperation. Economic, financial and technical cooperation arrangements were not defined until a later stage in 1977 (additional and financial protocols), while the basic agreement dates from 1975. Admittedly, the scope offered by these arrangements is as wide as in the case of the Maghreb and Mashreq countries, but the funds available under the financial protocol are modest and involve only European Investment Bank loans, on market terms.

Apart from the agricultural concessions, which are based on each partner's export interests, the main thing that distinguishes the different agreements (or rather the financial protocols attached to them) is the amount of money made available to each country.

The first protocols covered the period November 1978 to October 1981. The second generation ran from 1982 to 1986, with a total increase in funds of 52 % at current prices, the price index having gone up by about 43 %. However, as the relative proportions of loans and grants were on the whole less favourable, it has to be admitted that Community aid has only increased in line with inflation (for the amounts of each protocol, see Part Two: Cooperation in practice).

The breakdown of total funds between recipient countries does, however, favour the least developed countries (Egypt and Morocco), and Lebanon.

The third financial protocols

The renewal of the financial protocols provided an opportunity for the Community to give practical effect to the Council statement of 30 March 1985, in which it expressed its desire to contribute effectively to the development of the countries in question and, in particular, continue financial and technical cooperation.

The new guidelines, which were intended to increase the effectiveness of Community operations by giving priority to certain areas of cooperation, were agreed to by the Mediterranean partners. Apart from the special case of Israel, the priorities adopted in the financial protocols may be summarized as follows: development of the Mediterranean countries' agricultural production, strengthening of the economic links between the Community and the countries in question via the development of certain forms of cooperation, regional and multilateral cooperation.

Under the terms of the protocols, the development of agricultural production should be concentrated on food crops for domestic consumption, to reduce costly dependence on imported food. The diversification of agricultural production, and therefore of exports, is also to be promoted. The importance of such an objective must be stressed, given that Mediterranean countries cannot increase their traditional agricultural exports to the Community to any great extent.

The priority also given to strengthening economic links between the Community and each of its partners via certain forms of cooperation was motivated by a desire to contribute to their development in an effective manner, without having to have considerable financial resources available, such as are needed, for instance, for the infrastructure projects that have hitherto occupied first place in Community financing operations. Projects in the fields of industry, technology, research, training and trade are referred to in the protocols as forms of cooperation to which preference should be given.

The protocols are quite specific on the subject of industrial cooperation, indicating the methods to be used (encouragement of direct contacts and joint ventures between firms from Member States of the Community and Mediterranean firms, exchanges of information, the promotion of investment and private capital contributions, support for small and medium-sized enterprises).

The overall financial appropriation fixed by the Community for the third financial protocols is ECU 1 618 million. As with the earlier protocols, this amount is for a period of five years (31 October 1986 to 31 October 1991). It is 59% up on the amount provided for in the second financial protocols. The view can be taken that, overall, there has not been any improvement, given the rate of inflation over the past few years. However, readjustments have been made between the recipient countries with regard to the share of the Community contribution allocated to each of them, in order to take account of their economic situation (in particular, indebtedness, available budgetary resources).

With regard to the detailed arrangements of financial cooperation, two innovations must be emphasized: (a) there are no longer any loans on special terms but only grants from Community budget funds, and (b) some of the resources can be used in the form of contributions to risk capital formation.

The northern shores: association and cooperation

The Community's relations with the countries on the northern shores of the Mediterranean, although an integral part of the overall Mediterranean approach, have not been handled in as uniform a manner as relations with the southern shores.

Since the accession to the Community of Greece, then Spain and Portugal, three countries—Cyprus, Malta and Turkey—remain linked to the Community by association agreements. In April 1980, a *sui generis* cooperation agreement was signed with Yugoslavia.

These countries have in common a far higher level of development in terms of GNP than the southern Mediterranean countries (with the exception of Israel).

The association agreements signed in 1962 with Turkey, in 1963 with Malta and in 1972 with Cyprus were intended to lead gradually to a customs union. Only the EEC-Turkey agreement explicitly refers to the possibility of accession.

The trade provisions of these agreements are based on the principle of gradual reciprocity. In return for the opening up of the Community market, which was fully liberalized right from the beginning in respect of industrial products and a limited number of agricultural products, the customs duties applied by the countries in question to Community products entering their markets are to be gradually reduced.

The financial protocols to the agreements provide for EIB loans on special terms and grants that are intended to encourage the industrial development needed to allow those countries to face up gradually to competition from Community products.

Each agreement has set up an Association Council, which enables a regular dialogue to be maintained.

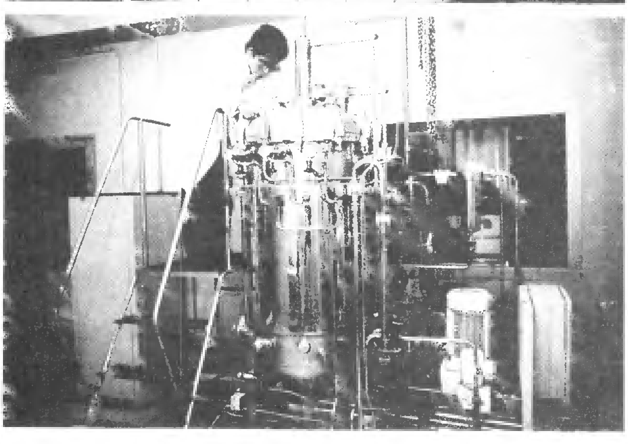
The cooperation agreement concluded in 1980 with Yugoslavia succeeded two non-preferential trade agreements, dating from 1970 and 1973 respectively.

Being specially designed for Yugoslavia, a country which is European, Mediterranean, a member of the Group of 77 and non-aligned, the 1980 agreement cannot be compared with any of the others. However, it was concluded for an indefinite period, and, like the other cooperation agreements, contains provisions on trade and economic and financial cooperation. Under the latter heading, the two financial protocols to the agreement (1980 and 1985) provide only for EIB loans.

The outlook

The new 12-Member Community has clearly expressed its desire to maintain and strengthen relations with the Mediterranean countries. Certainly, the Community, by becoming more Mediterranean, has become even more aware of how important these relations are, despite the problems to which they may give rise.

The experience gained in implementing the cooperation agreements and the new situation resulting from the southward enlargement of the Community further emphasize the need for the trade and aid aspects of the agreements to complement each other. Given the limits which the traditional exports of the Mediterranean partners face, mainly in the agricultural sector, progress must be made in diversifying their trade with the Community. Cooperation is one way of encouraging diversification, but it should not be confined to trade. Particular significance should be attached to strengthening economic relations between the Community and the Mediterranean countries, this being one of the aspects on which the new financial protocols are based. Stronger economic relations, which must be expressed through the implementation of cooperation projects in a whole range of sectors, can only be beneficial to the Mediterranean countries. However for this aim to be achieved in full, finance must be raised on the capital markets to augment the resources available under the protocols, the amounts of which are inevitably limited because of the Community's budgetary constraints. For cooperation to flourish, the involvement of firms that have the required technology and management expertise is also necessary. When all is said and done, the success of the agreements, in terms of both trade and cooperation, depends on the extent to which it will be possible to bring about a true complementarity of interests between the Community and its Mediterranean partners, and even among the Mediterranean countries themselves, as, with 1992 looming up, the strengthening of European integration is making a region-to-region dialogue a matter of even greater urgency.



IV. Cooperation in practice, region by region

The bilateral agreements concluded by the Community with each of the Mediterranean countries—the formal frameworks for preferential relations—make available to the countries concerned a number of cooperation instruments. The use made of these instruments depends very much on the choices and priorities of the governments concerned, as well as the momentum given to the agreements by the bodies responsible for managing them, notably the association or cooperation councils.

Everywhere, these agreements find expression in the implementation of specific operations concerning the exchange of goods, services and technologies and development cooperation.

In the following pages, some of the more significant operations have been selected to illustrate cooperation in each country or sub-region.

A brief chronology of relations with the Community and a summary of trade with the EEC supplement these examples.

Some of the operations included fall outside the framework of the agreements (e.g. cooperation on fisheries with Morocco, additional financing granted for Mediterranean projects), proving that this framework is not limitative.

Should the more specifically regional operations be referred to separately? It will be seen from the pages dealing with the Magreb and the Mashreq, for instance, that for locust control, assistance has been given for all of the countries involved. Since regional coordination of the locust-control programme was carried out under other auspices, it has not been included as such in the cooperation embarked upon with the EEC.

Under the specifically regional operations, mention would probably soon have to be made of the **Medspa** programme (Strategy and Plan of Action for the environment in the Mediterranean). This programme, which was drawn up by the Commission, initially concerns the Mediterranean countries in the Community. It is certainly intended to include the Mediterranean partners, as protection of a semi-enclosed sea such as the Mediterranean is conceivable only in a multilateral framework, involving all the countries with a Mediterranean coastline. However, this programme and the arrangement for implementing it are unlikely to be decided by the Council before 1990.

Here too, there is no doubt that, under the effect of political attitudes and ecological imperatives, cooperation is under way at regional level.

The southern Mediterranean

Maghreb

The agreements and their adaptation

The cooperation agreements signed with the Maghreb countries in 1976 go far beyond the mere trade cooperation that existed previously.

These agreements, which are of unlimited duration, provide for the implementation of economic, financial and technical cooperation, trade cooperation and measures regarding labour.

Each of the agreements was augmented in 1986 by an additional protocol, designed to take account of the consequences of enlargement.

The agreements are managed by a Cooperation Council, consisting of, on the one hand, members of the Council and the European Commission and, on the other, representatives of the governments of the Maghreb countries.

Other forms of cooperation

Apart from the operations carried out under the financial protocols, the Community has contributed towards the financing of six research projects (ECU 225 000) in Morocco, under the 'science and technology for development' programme.

Tunisia and Morocco have also received contributions under the budget headings 'Campaign against hunger in the world' and 'Ecology in the developing countries'. A number of small projects have been co-financed with non-governmental organizations in the three Maghreb countries.

Significant operations

Financial and technical cooperation

- Infrastructure projects such as port installations, water supplies, roads and railways, dams and power plants predominate among those financed by the Community under the first two financial protocols with Morocco and Tunisia. For instance:
  The Aït Chouarit dam (Morocco). This will supply water to the town of Marrakesh and for agricultural purposes in the Haouz region. It will also supply energy to a hydroelectric plant. Total cost: ECU 242 million. The Community is providing a third of the finance (ECU 89 million, of which ECU 52 million from the EIB and ECU 37 million from the Commission budget).
- Training and education, areas which are particularly crucial to development, received more modest financial assistance, except in Algeria (70% of the aid).
  Training centres (Tunisia). The Commission and Tunisia are co-financing three training centres which will be specializing in the upkeep of communal buildings, engineering, and masonry, joinery and electrical engineering for the building trade. The Commission budget is supplying half the total financing (ECU 3.9 million).

The EEC-Morocco fisheries agreement

On 31 July 1987 the bilateral fisheries agreement between Morocco and Spain expired. An interim agreement made it possible for fishing to continue during the negotiations for an EEC-Morocco agreement, which replaces the bilateral agreement.

The agreement in question, which was initialled on 25 February 1988, is to run for four years and is a genuine cooperation agreement. It provides for:

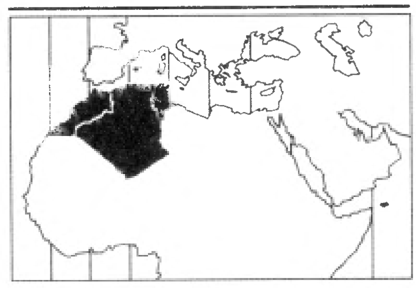
(i) aid to increase research into the biological conditions of the species fished;

(ii) the establishment of joint ventures, to encourage the industrial and commercial exploitation of fisheries;

(iii) port improvements and extensions, plus technical assistance for Moroccan crews.

Morocco will also receive ECU 70 million annually to cover the fishing rights granted to vessels from Community countries.

This is the most important fisheries agreement concluded by the Community to date, in terms of both the scale of the financial compensation and the variety of cooperation provided for.



Food aid

For the period 1982-86 Tunisia received aid in the form of dairy products worth ECU 25 million. The counterpart funds generated by this aid contributed towards strengthening infrastructure in the dairy sector and improving productivity of the local herds via artificial insemination.

For the same period, Morocco received exceptional emergency food aid worth ECU 36.7 million.

Chronology

1969 — Commercial agreements signed with Tunisia and Morocco

1976 — 25 April: EEC-Tunisia cooperation agreement

— 26 April: EEC-Algeria cooperation agreement

— 27 April: EEC-Morocco cooperation agreement

1986 — December: signing of the protocol adapting the EEC-Tunisia cooperation agreement

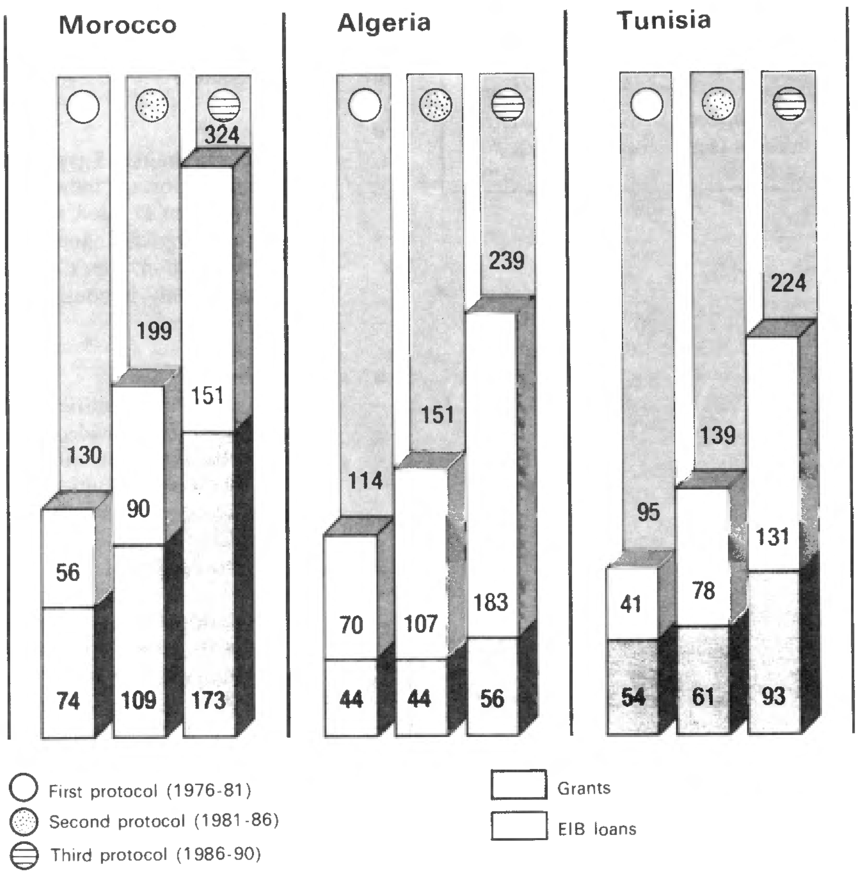
1987 — June: protocol adapting the EEC-Algeria agreement to take account of the consequences of enlargement

— July: Morroco applies to join the Community

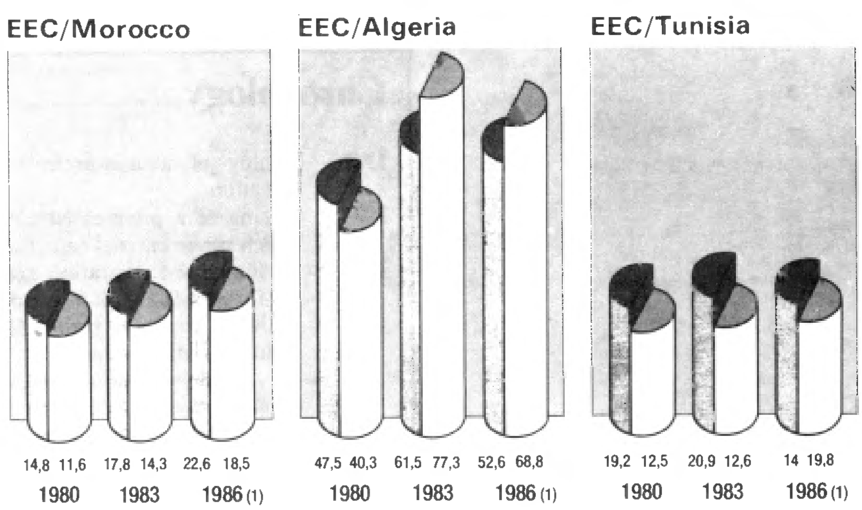
1988 — February: signing of the adapting protocol to the EEC-Morocco cooperation agreement

— EEC-Morocco fisheries agreement (25 February)

The financial protocols



Trade



Source: OSCE

[1] EUR-12

The southern Mediterranean

Mashreq

The agreements and their adaptation

Identical to the cooperation agreements signed with the Maghreb countries (see preceding page).

Significant operations

Examples of development projects that have received Community financing in the following sectors:

- *infrastructure*:
  — **The Helwan project (Egypt)**. A sewage network is under construction to serve this important industrial area to the south of Cairo. The treated water will then be used to irrigate some 15 000 ha of desert land. The project is being co-financed by Europe and Egypt and the total cost is ECU 183 million. The Commission is providing ECU 84 million from its budget, Italy is contributing ECU 5 million and the Netherlands ECU 10 million.

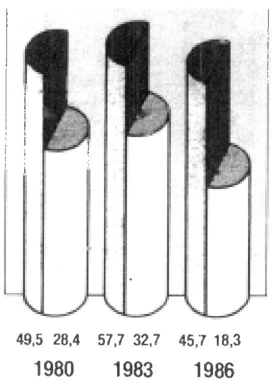
- *scientific cooperation*:
  — **The Centre for Scientific Study and Research, Damascus (Syria)**. The Commission has provided scientific equipment for remote sensing, solar energy, optics (laser), minicomputerization and lubrication. The total aid of ECU 5.4 million also includes the technical assistance required to run the equipment in and train Syrian scientific staff.

- *industrial development*:
  — **The Industrial Development Bank (Jordan)** has obtained an ECU 6.3 million loan (ECU 6 million from the EIB's own resources and ECU 0.3 million in the form of special loans). The Community is thus supporting the development of small and medium-sized businesses via loans to development banks.

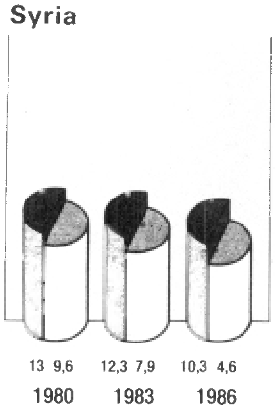
- *Rehabilitation of schools damaged by the war (Lebanon)*:
  — Several hundred schools throughout Lebanon, thus serving all the country's different communities, are included in a rehabilitation programme undertaken by the Government in 1983. Since June 1984, the shortage of funds in Lebanon has prompted the EEC to intervene. Work on 300 schools, costing a total of ECU 18 million, has been covered.

Trade

Egypt

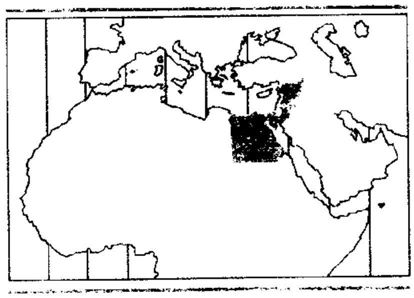


Syria

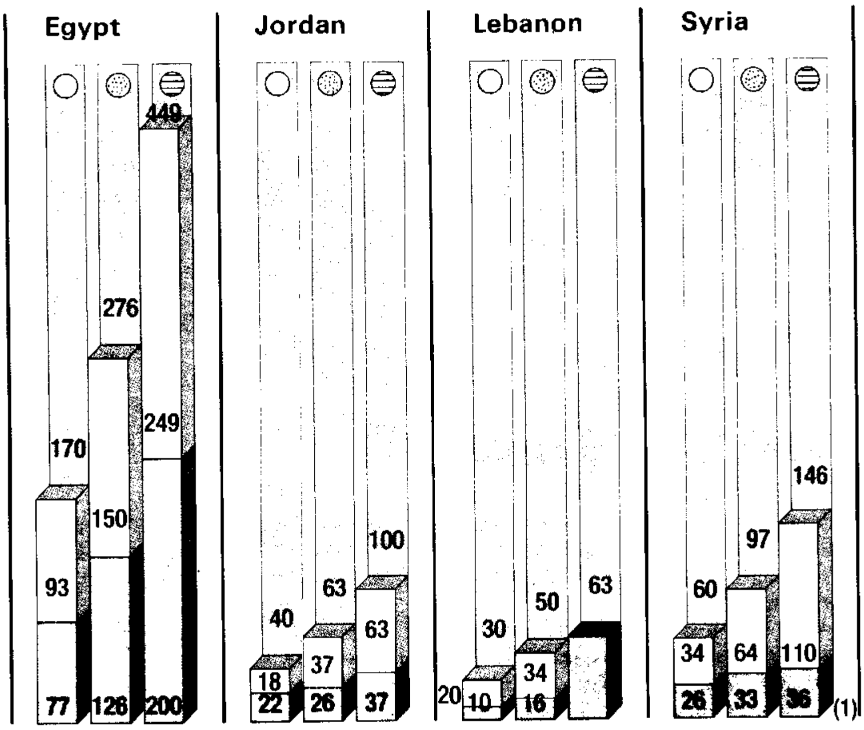


Chronology

1965 — signing of a non-preferential agreement between the EEC and Lebanon
1972 — signing of a preferential agreement between the EEC and Lebanon which never entered into force
1977 — 18 January: cooperation agreements with Egypt, Jordan and Syria
— 3 May: EEC-Lebanon cooperation agreement
1987 — 25 June: signing of protocols adapting the EEC-Egypt agreement as a result of enlargement
— November: signing of the protocol adapting the EEC-Jordan agreement.
1988 — 16 June: signing of the protocol adapting the EEC-Syria agreement



The financial protocols



First protocol
Second protocol
Third protocol

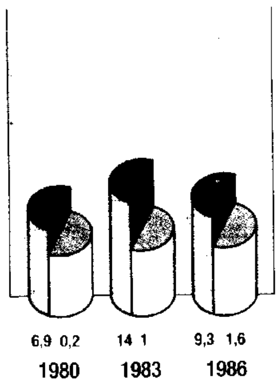
Grants

EIB loans

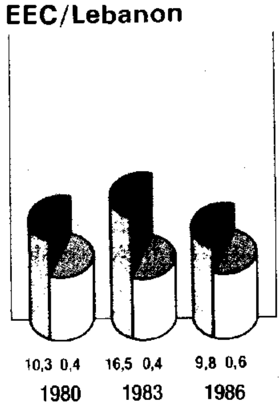
(¹) Since the negotiations for the additional protocol with Syria were blocked for political reasons, the sums referred to in respect of the third financial protocol are not being allocated to that country for the time being.

Trade

EEC/Jordan



EEC/Lebanon



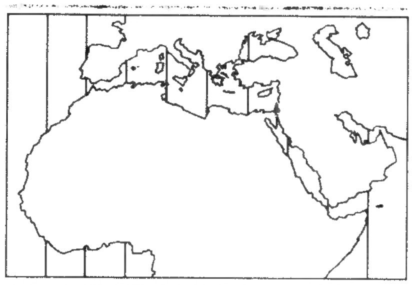
Food aid

Egypt was the first country to receive food aid from the Community in the form of cereals. In 1986 and 1987, the 170 000 and 190 000 tonnes of cereals granted to Egypt represented a significant increase in the Community effort, to take account of the difficult situation that Egypt was in. The counterpart funds generated by the sale of the aid contribute towards financing development projects under Egypt's food strategy. The problem of food self-sufficiency is one of the Egyptian Government's main economic concerns. At the beginning of the 1970s, Egypt more or less met its food requirements. Since then, population growth (2.7% a year) and increasing urbanization and, even more than these factors, the increase in *per capita* consumption (7 to 8% a year) over the past 10 years or so mean that cultivable land is being used to the limit. Egypt has done much to gain new agricultural land, but the results are often disappointing. Today, it is the second biggest importer of wheat in the world, after China.

Humanitarian aid

Since 1975, Lebanon has received more than ECU 65 million from the Community in the form of: food aid (ordinary and emergency), the co-financing of small-scale projects presented by the NGOs, and contributions to the Palestinian refugee camps. Also, on 11 February 1987, the Commission launched an appeal for the conditions to be created for the distribution of relief to the people of Lebanon.

The southern Mediterranean



Israel

The 1975 agreement and its adaptation

This agreement provides for the gradual establishment of a free trade area between Israel and the Community.

With regard to agriculture, the Community has reduced customs duties on Israeli exports of fruit and vegetables. In return, Israel has granted it concessions on a number of products.

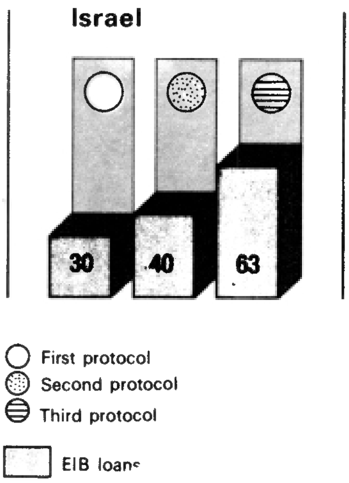
In the industrial sector, all tariff and quantitative barriers have been done away with by the Community since 1 July 1977, and will be abolished by Israel on 1 January 1989.

An additional protocol provides for economic cooperation between the parties concerned.

A **financial protocol** to the agreement, which was renewed in 1981 and 1987, provides for the granting of EIB loans on market terms of up to ECU 30 million for the first, ECU 40 million for the second, and ECU 63 million for the third protocol.

Israel is also receiving loans under the Community budget for financing cooperation projects.

The financial protocols



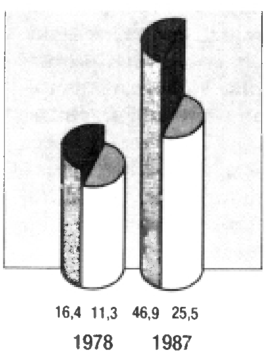
Significant operations

Of all the Mediterranean countries, Israel is in the strongest position to benefit from the concessions granted by the Community because of its ability to diversify the structure of its exports and the progress it has made with its industrialization.

With regard to cooperation, a number of projects have been financed outside the financial protocol, under the Community budget, in particular:

- measures to promote cooperation between European and Israeli firms regarding medical equipment, robotics, security equipment, software, telecommunications and biotechnology;
- a programme of measures dealing with applications in the Mediterranean regions of the Community of Israeli methods for the development and dissemination of irrigation technologies;
- a joint scientific research programme 55 % financed by the Community and 45 % by Israel.

Trade between the EEC and Israel



Chronology

1958 — Israel was one of the first countries to apply to establish diplomatic relations with the Community

1964 — Conclusion of a trade agreement

1970 — Preferential trade agreement

1975 — 11 May: agreement concluded under the overall Mediterranean approach

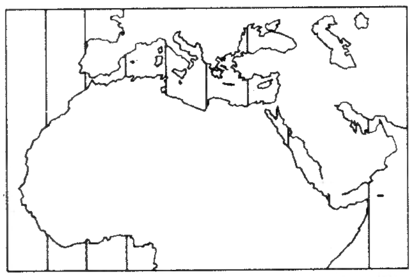
1978 — Additional protocol concerning the establishment of economic cooperation (industrial, scientific, agricultural) and financial cooperation

1987 — 15 December: signing of the protocols adapting the agreement following enlargement

The Arab world

The cooperation agreements with the seven Arab countries of the Maghreb and Mashreq and the Lomé Convention, to which four Arab countries are party (Djibouti, Mauritania, Somalia and Sudan), marked the beginning of the Community's relations with the Arab world. Following the Venice European Summit in June 1980 and in parallel with the efforts to relaunch the Euro-Arab dialogue, the Community invited the countries of the peninsula (the Gulf countries, Iraq and North Yemen) to conclude non-preferential cooperation agreements. To begin with, only the Yemen Arab Republic replied to this invitation (see below). The opportunity was, however, taken to establish links with the six Gulf States, which joined together in a regional organization on 25 May 1981 (the Gulf Cooperation Council). An initial agreement with that organization, which was less ambitious for the time being than the Gulf countries would have liked, was signed in June 1988 (see below). At the same time, contacts are being pursued in order to relaunch the Euro-Arab dialogue.

Yemen Arab Republic



The EEC-Yemen cooperation agreement

This is an outline non-preferential agreement of the type concluded with Asian and Latin American countries.

It provides for a Cooperation Council, which meets once a year. At its first meeting, in March 1985, the Cooperation Council identified a number of areas of possible cooperation, including trade, industry, energy, minerals, tourism and banking. Progress has been relatively slow, in particular because of the Yemeni authorities' mobilization with regard to the resources that would be obtained from the oilfields discovered in 1985. The last meeting of the Cooperation Council was held in March 1988.

Significant operations

North Yemen is eligible for Community financial and technical assistance to non-associated countries. Of the projects to which the Community has contributed, the following should be mentioned: In the agricultural sector, the EEC has pledged ECU 11 million for a national seed distribution project and ECU 2.4 million in financial and technical assistance for the Taiz agricultural centre.

A number of rural infrastructure projects have been co-financed with Member States of the EEC.

In 1983, the EEC contributed ECU 2.5 million to a project to improve housing following the Dhamar earthquake in 1982.

Chronology

1980 — The Community proposed to the Gulf States which so desired that cooperation agreements be concluded; Yemen gave a positive response

1981 to 1983 — Exploratory talks between the Commission and Yemen

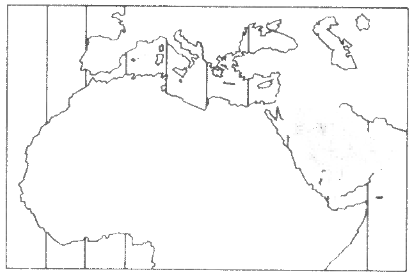
1984 — 9 October: Signing of the first EEC-Yemen cooperation agreement, which entered into force on 1 February 1985.

Other forms of cooperation

Emergency aid
ECU 1 million to help deal with the immediate consequences of the Dhamar earthquake in 1982.

Food aid
Between 1974 and 1981, the Community regularly supplied Yemen with aid and in the form of cereals, milk powder and butteroil.
In 1987, the delivery of 10 000 tonnes of cereals, 600 tonnes of skimmed-milk and 200 tonnes of butteroil helped the country cope with an immediate shortfall.

Stabex
The Yemen Arab Republic was one of the first beneficiaries of the export earnings compensation system for the developing countries that are not party to the Lomé Convention. In 1987, it received ECU 380 000 for losses on its earnings from coffee exports.



The Gulf Cooperation Council

The EEC-GCC cooperation agreement

This agreement provides for cooperation in a number of fields: economic (promotion of joint ventures and cooperation on standards), agriculture (contacts between firms and research institutes), energy (training, joint analysis on trade in oil, gas, petroleum products), investment promotion, etc.

With regard to trade, the agreement provides initially only for the maintenance of existing relations *(standstill)*, although the parties agreed to embark, as soon as the agreement had been signed, upon negotiations for a second agreement, aimed at improving access to their respective markets and liberalizing their reciprocal trade.

This agreement provides for a Cooperation Council, which will meet at least once a year or at the request of one of the parties.

Trade

The GCC countries represent the Community's third largest export market, without at present offering satisfactory guarantees for Community exporters—45 % of their exports have to pay high customs duties, as the Gulf countries are not members of GATT and can impose tougher conditions at any time.

The Gulf countries themselves consider that they should be entitled to the same terms as those granted by the EEC to Israel. They would appreciate a political gesture from the Twelve, symbolized by the gradual lifting of trade barriers.

The reluctance to liberalize trade currently stems from the threats which a greater opening-up of European frontiers to petrochemical products from the Gulf would pose in terms of employment for a European Chemical industry which has not yet completed its restructuring programme.

Chronology

1981 — **25 May**: six Gulf States (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) established the Gulf Cooperation Council, with its seat in Riyadh

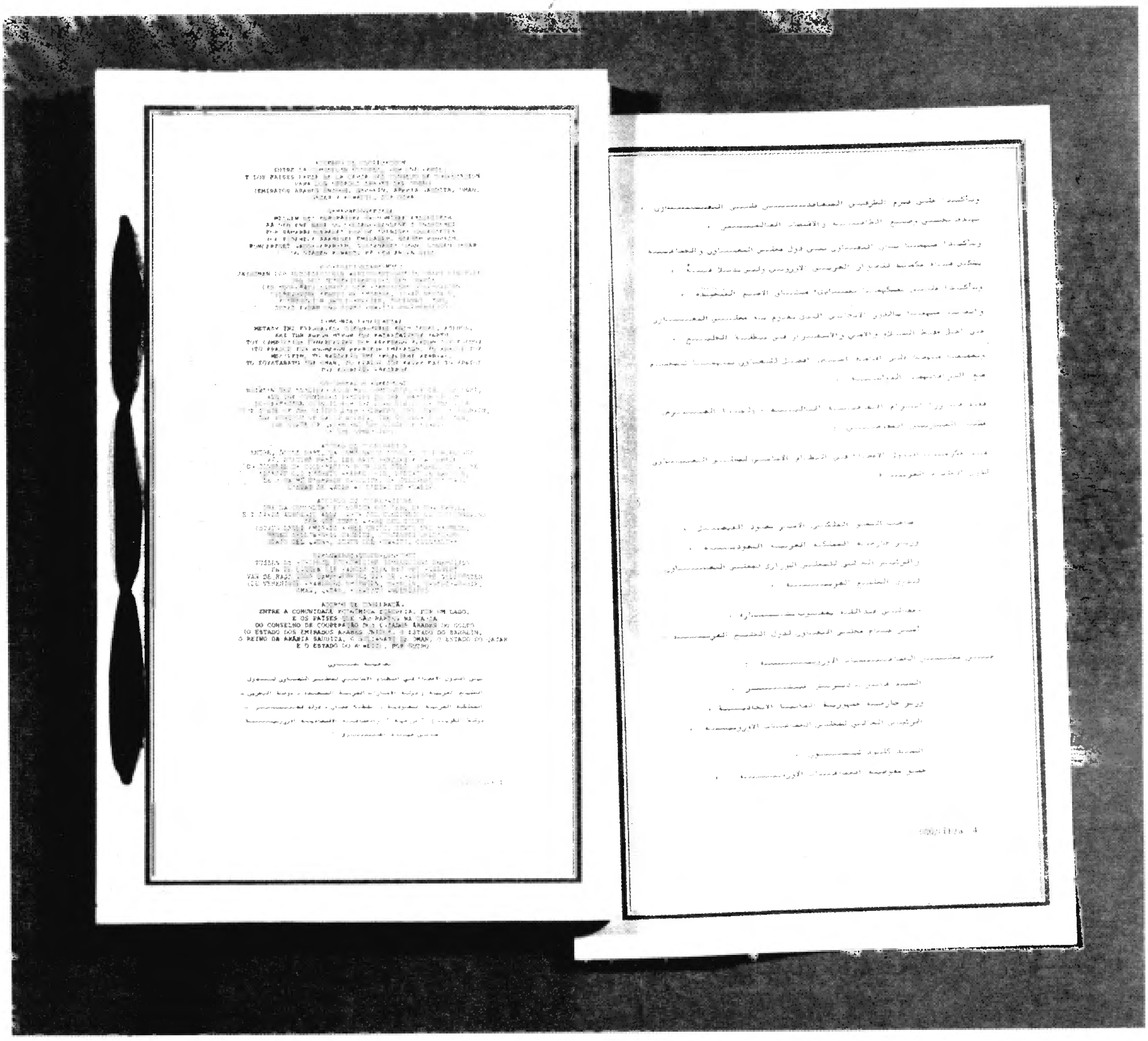
— **16 September**: The European Parliament recommended that cooperation links be established between the Community and the Gulf States

1982 — **19 December**: entry into force of the United Economic Agreement, which created a common market between the Gulf States, aimed at economic integration

1984 — **February**: the Foreign Ministers of the Ten approved the principle of closer relations with the Gulf Cooperation Council, in response to a request from that organization's secretariat

— **November**: first exploratory talks between the GCC's secretariat and the European Commission. The areas of cooperation identified are: market access, energy, science, technology, industrial cooperation and training, investment and financial cooperation

1988 — **June**: signing of the first cooperation agreement between the GCC and the Community



The Northern Mediterranean

Turkey, Malta, Cyprus

Chronology

EEC-Turkey

1963 — The EEC- Turkey association agreement, signed in Ankara in September, opened up the prospect of full membership
1970 — An additional protocol defined the rules for achieving a customs union and developing economic cooperation, including measures to achieve freedom of movement for goods, persons and services after a period of 22 years
1980 — **June**: the Association Council revitalized the agreement
— **December**: the overthrow of Turkey's civilian government caused the agreement to be put on hold. Financial assistance was suspended, only the trade provisions being maintained
1986 — Resumption of relations between the EEC and Turkey
— **September**: first meeting of the association council for six years
1988 — **20 April**: signing of the protocols adapting the agreement to take account of enlargement of the Community

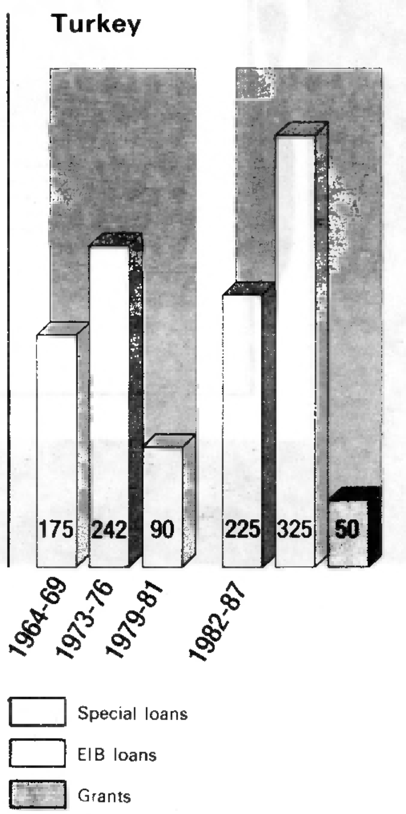
EEC-Malta

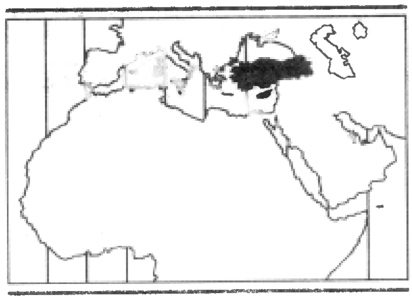
1970 — **December**: signing of the first EEC-Malta association agreement, which was aimed at establishing a customs union in two five-year stages
1976 — The agreement was augmented by a financial protocol
1985 — Signing of a second financial protocol
1986 — Protocol adapting the agreement to take account of the consequences of enlargement. The aim is to eliminate customs duties on agricultural arrangements as for the other Mediterranean countries

EEC-Cyprus

1973 — **1 June**: entry into force of the EEC-Cyprus association agreement. This agreement provides for the establishment of a customs union in two stages
1977 — The first stage was extended until the end of 1983
1979 — Entry into force of the first financial protocol
1984 — Entry into force of the second financial protocol
1987 — Signing of the protocols for the transition of the second stage of the agreement and for adapting it to take account of enlargement

The financial protocols





Trade

Trade between the EEC and **Turkey** more than doubled between 1981 and 1987. The Community is still Turkey's biggest customer, and Turkey is the Community's leading supplier of textiles (by volume), the other goods sold by Turkey to the Community being agricultural products, particularly hazelnuts, of which Turkey is the world's leading producer. Two agreements to limit textile exports have been concluded with Turkish industry.

Three-quarters of Malta's exports go to the Community and the same percentage of its imports comes from the EEC. **Malta** imports foodstuffs, machinery and means of transport and exports manufactures or semi-manufactures, including textiles. In the latter sector, only one product (trousers) is subject to limitations. Malta traditionally has a deficit in its trade with the EEC.

The EEC is **Cyprus's** main trading partner, accounting for 60% of that country's imports and 28% of its exports. Cyprus has diversified its exports and the EEC's share fell from 44% to 28% between 1975 and 1985. In the agricultural sector, new potatoes, wine, grapes and citrus fruit, which compete with the EEC's Mediterranean products, account for 75% of Cyprus's exports.

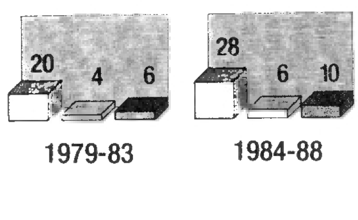
The association agreements

The association agreements concluded with Turkey, Cyprus and Malta are preferential trade agreements aimed at gradually establishing a custom union in accordance with procedures that have been adapted in the light of economic imperatives and the political situation in each of the countries concerned.

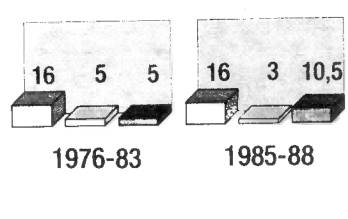
These agreements also contain provisions for financial assistance, to be used mainly for carrying out infrastructure projects.

The EEC-Turkey agreement also provided for the gradual establishment of freedom of movement for workers between Turkey and the EEC.

Cyprus



Malta



Significant operations

Turkey: Three projects have recently been financed via special aid worth ECU 10 million which was unblocked in 1987:

- a geothermal energy project in Anatolia (ECU 8 million);
- a project to combat malaria (ECU 1.5 million);
- a project involving the organization of a business week (ECU 0.5 million)

Cyprus: Four projects intended to benefit the two communities in Cyprus are being financed with Community aid: (i) development of the electricity network throughout the island; (ii) improvement of the domestic water-supply network in Larnaca, Nicosia and Famagusta; (iii) improvement of the sewage disposal networks in Nicosia; and (iv) the Southern Conveyor Project, which has absorbed ECU 26.6 million in EIB loans and ECU 3.7 million in special loans.

Malta: Telecommunications project (ECU 13 million from the EIB); waste recycling (ECU 3 million special loan and ECU 1.7 million grant); training in data processing and industry (ECU 4 million grant); and an EIB global loan (ECU 4 to 6 million) for developing the IMPs.

Yugoslavia

Cooperation agreement

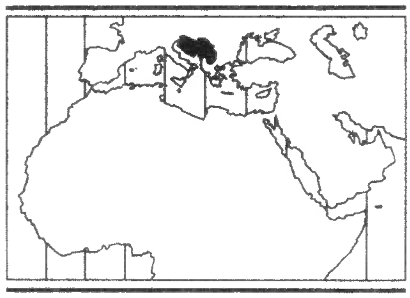
The *sui generis* cooperation agreement runs for an indefinite period and contains provisions on trade, financial assistance and cooperation in the fields of industry, science and technology, energy, agriculture, transport, the environment and tourism. Following enlargement with the accession of Spain and Portugal, further concessions were made on trade (agricultural and industrial), while cooperation is making a growing contribution to the development of a country which remains one of the most advanced of the non-EEC Mediterranean countries.

Development and structure of trade

Yugoslavia is the Community's second trade partner in the Mediterranean and its leading Mediterranean partner for industrial products. Of the Community's industrial imports from Yugoslavia, 90 % are already duty-free. The Community's imports from this country have increased considerably in recent years (1982: ECU 2 800 million; 1986: ECU 4 900 million). The Community's trade surplus fell from ECU 2 200 million in 1981 to less then ECU 1 000 million in 1988. During the first quarter of 1987, the Community became Yugoslavia's leading trade partner, overtaking Comecon.

Significant operations

- Business week in Belgrade (March 1983), followed by a seminar for businessmen in Bled in June 1984.
- Two EIB loans totalling ECU 50 million were used for linking up the Yugoslav high-voltage electricity distribution network with the Greek and Italian networks and building part of the trans-Yugoslav highway.
- Over the period 1980-85, an ECU 200 million loan for modernizing road and rail networks and extending the electricity distribution network.
- Over the period 1985-91, ECU 550 million from the EIB is to be invested in road and rail infrastructure and a number of industrial projects.
- Yugoslav workers have received a guarantee of non-discrimination as regards conditions of employment in the EEC.
- Yugoslavia is a member of the 'European Cooperation' group in the field of scientific and technical research (COST), which brings together 20 or so European countries under the aegis of the Council of Ministers of the European Community. With regard to science and technology, the Community has co-financed the study and execution of a number of Yugoslav projects, including:
  — decontamination of the water of the Danube;
  — seismology;
  — new biotechnological products.
  In so far as the environment is concerned, Yugoslavia was the first Mediterranean country to carry out, with Community assistance, a project to combat marine pollution (port of Rijeka).



Chronology

1970 — First non-preferential trade agreement between the EEC and Yugoslavia

1971 — The EEC implemented its generalized system of preferences in favour of export of manufatures from Third World countries. Yugoslavia was to become one of the first countries to be covered by it

1973 — Renewal of the 1970 agreement. A future developments clause provided for economic cooperation in areas of mutual interest

1976 — The Belgrade Declaration recognized that Yugoslavia is a Mediterranean European country, a member of the Group of 77 and non-aligned, and outlined the prospects for stronger links between the EEC and Yugoslavia

1977 — The ministers of the two parties, meeting within the Joint Committee, agreed on the need to negotiate a more wide-ranging agreement

1978 — Exploratory talks

1979 — Negotiations for a cooperation agreement

1980 — 25 February: The EEC-Yugoslavia cooperation agreement was initialled
— 1 July: Its trade provisions entered into force

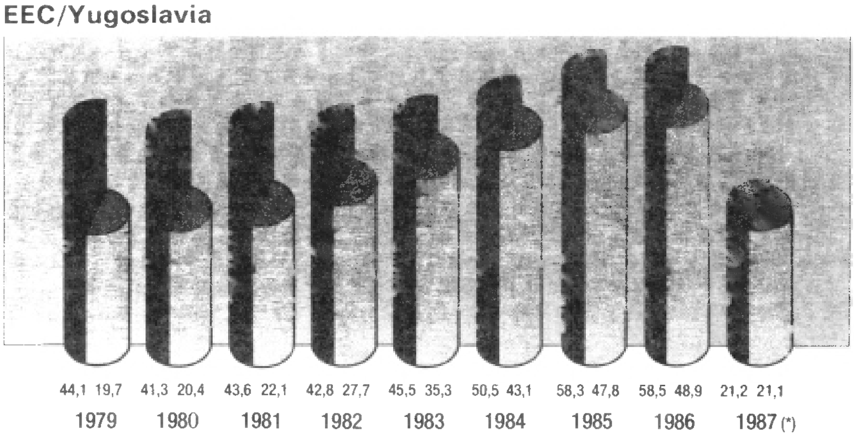
1983 — 1 April: The cooperation agreement entered into force
— 24 May: Meeting of the Cooperation Council
— Adoption of an initial cooperation programme covering industry, agriculture, science and technology

1985 — Yugoslavia specified its desiderata on the eve of the negotiation of new financial and trade cooperation arrangements

1987 — Yugoslavia emphasized the need to improve the political dialogue
— Visit to Belgrade by Mr Delors, President of the Commission
— **10 December**: signing of three additional protocols to the 1980 agreement (on trade, finance and adjustments)
— Adoption by the Cooperation Council of a resolution on the future of EEC- Yugoslavia relations

Trade between the EEC and Yugoslavia

EEC/Yugoslavia



Source: Eurostat

(*) 5 months