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IN SEARCH OF A NEW BALANCE BETWEEN AGRICULTURAL TRADE AND DEVELOPMENT IN THE EURO-MEDITERRANEAN

*Marko Lovec**

Introduction: Refocus on Agriculture

Growing food commodity prices on world markets, resulting in economic pressures on the Middle East and North Africa (MENA) as the largest net food-importing region in the world and contributing to political instability, highlighted the importance of the development of agriculture. The latter has long been neglected by the policies pursued by national elites and international institutions that were based on imports of cheap food commodities. Furthermore, existing policies have been said to facilitate environmentally-intensive specialisations of agriculture in the region (Ferragina and Canitano, 2015).

The food crisis focused attention on the role of agriculture in Euro-Mediterranean relations. During the past decade, the trade deficit in agricultural and food commodities of MENA countries with the European Union (EU) increased. Trade and development asymmetries contributed to the growth of immigration from the Southern towards the Northern Mediterranean. The 1995 Barcelona Process, promising to liberalise trade in the region, according to Lopez et al. (2013a, p. 11), "has not deepened EU-MENA trade. The progress in expanding trade, fostering investment in the region and accelerating the convergence in living standards, was limited and did not live up to expectations." This was specifically important from the perspective of agriculture as a comparative advantage of Southern and Eastern Mediterranean Countries (SEMCs). The Common Agricultural Policy (CAP), providing support for EU farmers, is often held responsible for failed integration (García-Alvarez-Coque, 2002). Over the last three decades, the CAP underwent substantial reforms that were supposed to make it less trade distorting and better target new objectives such as environmental sustainability and structural development. However, the reforms merely dressed the old policy in 'new clothing' (Lovec, 2015).

* Research fellow at the International Relations Research Centre, Faculty of Social Sciences, University of Ljubljana.

The purpose of this paper is to analyse the challenges faced by agro-food systems in SEMCs,[1] with specific attention to the role of the Euro-Mediterranean integration and CAP (reform). In given order, the paper analyses (a) economic and environmental conditions for agriculture in selected SEMCs, (b) implications of the regional process of integration and (c) developments in the CAP, including the role of changes in institutional settings that are relevant to it. Analysis is based on existing studies, reports and indicators. The paper concludes by discussing possible improvements of existing policies.

Agriculture in Southern and Eastern Mediterranean Countries

Economic conditions

With average GDP in per capita terms around €4,000, the majority of SEMCs can be categorised as 'developing countries'. Agriculture contributes 10-20% of national GDP on average and employs up to double the share of active population. According to the World Bank et al. (2009), only 20% of all poor in SEMCs, being heavily urbanised, live in rural areas. However, over half of the population living in rural areas is poor. Agriculture in SEMCs produces cereals and animal products for domestic consumption, while fruits and vegetables represent cash crops produced for exports. Farm households are, on average, small and overpopulated, employing relatively old and unskilled labour and struggling with lack of capital. In Egypt, 90% of farms are smaller than two hectares and, in Morocco, farms smaller than five hectares represent 71% of all farms.

The majority of SEMCs are less than self-sufficient in agricultural commodities, with imports accounting for 25-50% of consumption (see Table 1). In contrast with the image of a healthy Mediterranean diet consisting of fish and vegetables, the majority of calories consumed in the region are derived from cereals, especially wheat (over 50%) and sugar. The MENA region is the largest importer of cereals in the world, accounting for 12% of total world import. Purchasing power of SEMCs is limited.

1 The research is particularly focused on Algeria, Libya, Morocco, Tunisia, Egypt, Jordan, Lebanon and Syria.

Furthermore, SEMCs derive most of their export revenues from markets such as agricultural commodities, energy and labour intensive manufactured goods, which are characterised by price instability and global competition (Breisinger et al., 2012). Increased food prices on world markets in the 2006-2008 period have put SEMCs under substantial economic strain. The increase in the wheat import bill by 0.5-2 times influenced trade balances. With spending on food accounting for around one third of household expenditure, negative inflation and welfare effects were inevitable. In Egypt, inflation on food prices in 2010 was 20%. In response, diets were further impoverished. Syria and Egypt, applying across-the-board food subsidies with costs exceeding 1% of GDP, faced fiscal pressures (World Bank et al., 2009).

Table 1: Self-sufficiency rates (2005-2008)

Commodity	Algeria	Libya	Morocco	Tunisia	Egypt	Jordan	Lebanon	Syria
Cereals	28.4	8.7	51.2	38.7	69.2	2.9	18.4	73.7
Wheat	27.6	6.9	55.5	48.1	55.2	2.5	27.1	119.5
Vegetables	99.7	99.8	110.1	100.6	101.6	176.2	91.7	117.1
Fruits	94.2	89	122.1	105.9	104	82.4	142.8	100.9
Meat	86.7	82.8	99.1	97.3	86.1	71.1	82.1	99.3
Milk equiv.	49.1	46.1	82	96.9	90.9	67.9	46.7	94.5

Data source: FAO food balance sheet (FAO, 2013)

The sustainable development trend of the agro-food sector in SEMCs has been negative for the past decades. Population growth and urbanisation rates have been high. The trend has been influenced by 'urban bias' policies, favouring development of the industrial sector and services based on keeping food prices low. Migration of young and skilled male labour from rural areas affected agricultural production structures negatively. Structural Adjustment Programmes (SAP), applied by SEMCs since the 1980s, further reduced support programmes in agriculture, strengthening dependence on cheap food imports. Specialisation of agriculture in a limited number of cash crops produced for export markets strengthened the competition for scarce natural resources and increased the marginalisation of smaller, traditional and mixed farming systems. Since the 1990s, the growing purchasing power of the rising ‘middle class’ resulting in growing demand for a variety of food products strengthened import dependency (FAO, 2013).[2]

Natural environment

Agricultural production in the region is facing difficult natural conditions. Around 87% of an area extending over 14 million square kilometres is covered with desert. More than half of the crops grown in each SEMC and 80% of all field crops are rain fed. Rainfall in the growing season reaches 250-600 mm and is unevenly distributed. SEMCs face severe water stress: in Algeria, Egypt, Lebanon, Libya, Morocco, Tunisia and Syria water availability is near or below 1,000 cubic metres per person per year, which is the benchmark for water scarcity. Around 80% of water is used by agricultural production. Climate change, resulting in temperature increases, strengthening evapotranspiration and increasing the number of extreme weather events, is expected to exacerbate the problems of natural resource scarcity, negatively affecting productivity.[3] Following Ferragina and Canitano (2015), the specialised export-oriented production model is environmentally intensive. Crop rotation, intercropping and more extensive production practices were discouraged, leading to decreased soil fertility, more common pests and plant diseases, and desertification of marginal lands.

Euro-Mediterranean Integration in Agriculture

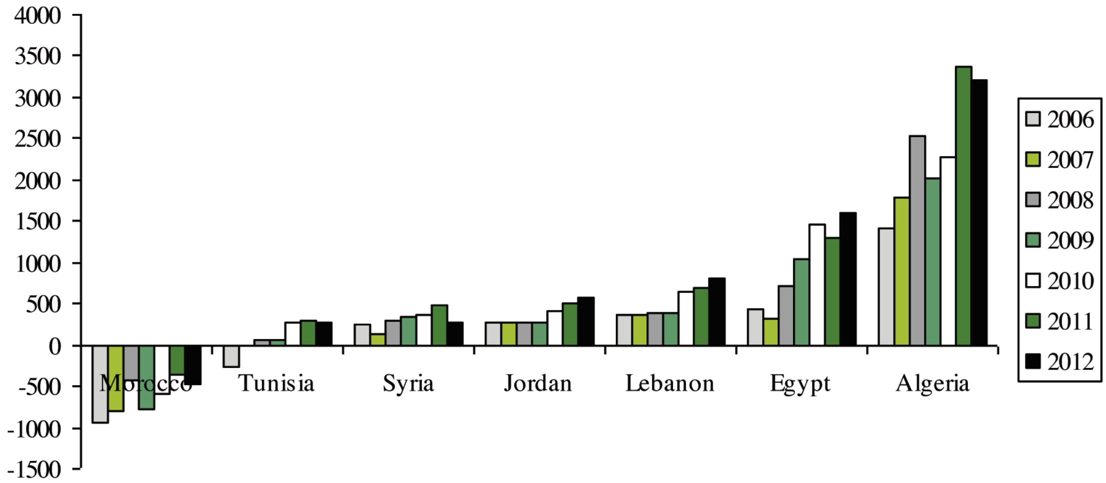
Trade and development

The EU is the major source of ‘Northern’ products such as cereals for SEMCs and the main export market for ‘Southern’ products such as fruits, vegetables, dates and olive oil. The trade balance of SEMCs with the EU in agricultural products, which (except in the case of Morocco and Turkey) has traditionally been negative, recently

2 Following Breisinger et al. (2010), between the 1990-1992 and 2007-2009 periods, cereal import dependency in Algeria went from 62.4 to 70.7%; in Egypt from 37.9 to 35.5%; in Morocco from 27.2 to 53%; in Tunisia from 35 to 60.2%; in Syria from 30.3 to 49.1% and in Turkey from 5.3 to 13.8%. In Lebanon and Libya, around 90% of cereals are imported.
3 Climate change models indicate temperatures will rise on average by 2-4°C, while rainfall will decrease by 4-30% by the end of this century in the MENA region (UNEP Plan Bleu 2012 in Ferragina and Canitano, 2015).

deteriorated. While exports to the EU in the period 2006-2011 increased from €3.1 to €3.5 billion, imports from the EU almost doubled from €4.9 to €9.6 billion (Lopez et al., 2013a, p. 12, see Chart 1). Asymmetrical trade is explained in terms of the limited number of export products in SEMCs and their relatively stronger dependency on the EU market (the EU is a much more important import and export market for SEMCs than vice versa). The position of SEMCs is further weakened by limited South-South integration, with intra-SEMC trade stagnating at around 5% of total trade.[4] Some of the products exported by SEMCs also face increasing competition from other world exporters (García-Álvarez-Coque et al., 2012). The average tariff in agriculture applied by the EU is 30%. Around 80% of products from SEMCs enjoy duty free access to the EU market.

Chart 1: Balance in agricultural trade with the EU (in million €)



Data source: Abis (2013)

Comparably, 30% of products from the EU enjoy free access to SEMCs. Access to the EU market is, however, hindered by seasonal restrictions, quotas and minimum entry prices. Various Non-Tariff Barriers (NTBs) also play an important role. Producers

4 Following Ben Zid (2014, p. 42), Euro-Mediterranean trade in agricultural products takes place on an axis running from the Maghreb (Morocco, Algeria and Tunisia) to the European Mediterranean countries (Italy, Spain and France), given their geographical proximity. Middle Eastern countries (Egypt, Lebanon and Syria), in contrast, have developed more substantial trade relations with the Gulf countries.

and exporters in SEMCs face problems related with meeting the standards and entering supply chains, lack of infrastructure for storage and transport, and lack of finance supporting investments. Policies mitigating trade effects require fiscal resources and well-functioning governance and civil society institutions, which SEMCs often do not have. This explains why benefits of trade liberalisation were concentrated with a narrow margin of hyper-specialised intensive production, while most of the agricultural sector faced increased structural pressures.

Cooperative agreements

Cooperation between SEMCs and the European Economic Community (EEC) dates back to the 1960s. By the 1990s, most SEMCs enjoyed some kind of preferential access to the EU market. The Barcelona Process, launched in 1995, introduced the Euro-Mediterranean Partnership (EMP), providing for mutual liberalisation of trade based on bilateral agreements, taking into account development asymmetries. By 2002, all SEMCs except Syria signed Free Trade Agreements (FTAs) with the EU.[5] In order to support socio-economic sustainability of trade liberalisation, the Mediterranean Development Aid (MEDA) instrument was introduced with a budget of €3.4 billion for the period 1995-1999. In the period 2000-2006, the budget was increased to €5.4 billion. In agriculture, the support programme targeted the promotion and enhancement of products and investment. Only 2% of MEDA I and II, however, was spent on agriculture and rural development. In 2003, the European Neighbourhood Policy (ENP) was introduced to reinforce the EMP as one of its two key regional dimensions (the other one being the Eastern Partnership). In 2004, Tunisia, Morocco, Jordan and Egypt signed the Agadir Agreement freeing mutual trade. FTAs were also signed between Israel and Jordan and between Turkey and other Southern Mediterranean Countries. SEMCs signed agreements with the USA, Brazil, Russia, Ukraine and China, which became importers of agricultural products. Numerous trade agreements that the EU signed with third parties strengthened competition in its market. Since 2007, MEDA has

5 In 1996, a customs union between the EU and Turkey was implemented; the EMP agreement with Tunisia has been operative since 1998, with Morocco since 2000, and with Jordan and Lebanon since 2002. An agreement was signed with Algeria in 2001 and with Egypt in 2004.

been replaced by the ENP Instrument (ENPI), which was considered more flexible and policy driven. In the Union for the Mediterranean (UfM) of 2008, agriculture was removed from the list of priorities due to stronger interests in other areas. This was followed by negotiations on Deep and Comprehensive Free Trade Areas (DCFTAs) that go beyond trade liberalisation to cover regulatory issues relevant to trade such as investment protection and public procurement. Negotiations were first launched with Egypt, Jordan, Morocco and Tunisia and later extended to Algeria and Lebanon. After being rejected by the European Parliament's Agricultural Committee in 2011, in the context of the Arab Spring, the EU-Moroccan FTA was approved by the Plenary in 2012. The European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) under the renewed ENP[6] has put agriculture at the centre of attention, focusing on modernisation, sustainable development, rural areas and the civic dimension. Programmes adopted so far account for €63 million. Even though this amount was more than appreciated, it only represents around 0.1% of funds received by EU farmers under the CAP.

The European Union's Common Agricultural Policy

The CAP provides support for EU producers, thus influencing the market position of producers from SEMCs. The majority of the support goes to producers of temperate zone products such as cereals, dairy and meat, which are imported by SEMCs. Traditionally lower levels of support received by EU producers of southern products strengthened pressures against competition from SEMCs. The negative effects of EU-Mediterranean trade liberalisation would be concentrated in some of the least developed EU regions, such as North Douro in Portugal, Andalusia and the Canary Islands in Spain, Thessaly in Greece and Calabria in Italy. Northern member states, being net contributors to the CAP budget, were unwilling to finance additional compensatory and restructuring measures, resulting in limited trade

6 The models for these programmes were the Special Accession Programme for Agriculture and Rural Development (SAPARD) and the Instrument for Pre-Accession Assistance for Rural Development (IPARD), applied in the process of Eastern EU enlargement.

liberalisation (García-Álvarez-Coque, 2002, pp. 410-11). The process was further hindered by decision-making settings allowing individual actors to block policy changes, thus strengthening the status quo bias.

Policy reforms

During the last 30 years, the CAP has undergone substantial reforms. Price and production support of the early CAP resulted in overproduction, depressing world prices and requiring growing budget expenditures. In the 1990s, price supports in the main product groups were replaced with compensatory payments based on average yields, farm area and animal heads. The CAP reform reducing support prices in the EU decreased the value of preferences for SEMC export and negatively affected import tariffs based revenues in SEMCs. In the 2000s, 'direct support' was decoupled from production, meaning that farmers were no longer required to produce base products to be eligible for support. They were, however, expected to comply with certain production requirements and to keep lands in 'good agricultural and environmental conditions' defined by member states. Member states were enabled to move towards regional area-based support. Through mechanisms of 'modulation' and 'degressive capping', part of the direct support to the largest beneficiaries (CAP Pillar I) was redistributed to finance 'rural development' structural support measures (CAP Pillar II). Southern products were brought into a direct payment scheme.[7] Despite being decoupled from production, in practice direct support still acts as a subsidy for using land on which they are based for production purposes. Structural support was better targeting sustainable development of agriculture. However, due to budget pressures, administrative and co-financing requirements, their scope was limited. The 2010s saw the introduction of area-based payments with increasing convergence between regions/member states, which were conditioned upon new environmental actions.[8] Market intervention measures were simplified and generalised, a new crisis mechanism was introduced, and the role of

7 In 2004, support regimes in cotton, hops, olive oil and tobacco were reformed, followed by the reform of the sugar regime in 2005.
8 The 'greening' requirements include preservation of permanent pastures, diversification of crops on farms over 10 hectares of arable land and introduction of Ecological Focus Area (EFAs) when arable land is over 15 hectares. Organic farming is considered to fulfil the environmental obligations *ipso facto.*

producer organisations (POs) and inter-branch organisations (IBOs) was strengthened. Member states became increasingly flexible in redistributing funds. Due to the limited effects of 'greening' of direct payments, the ability of member states to reverse the effects of regionalisation of support and weakening of structural measures through the flexibility to switch funds, questions were raised about whether the CAP was actually reformed (Lopez et al., 2013b, see Table 2).

Table 2: CAP reforms and Euro-Med integration in agriculture

	1990s	2000s	2010s
Market support (CAP Pillar I)	- Reduction (+/-)	- Reduction (++/-)	- Safety net - Strengthening of POs and IBOs (-)
Direct payments (CAP Pillar I)	- Introduction (-)	- Decoupling (+) - Different support schemes (+) - Cross compliance (+)	- Regionalisation (area-based support) (+) - Greening (+) - Redistributive mechanism (-)
Rural development measures (CAP Pillar II)	- Strengthening (+)	- Modulation (++) - Degressive capping (++)	- Flexibility to switch funds between Pillars I and II (-)

Legend: ++/-- very positive/negative effect; +/- positive/negative effect
Source: compiled by the author

Changes in institutional settings

CAP reforms were influenced by changes in decision-making settings that strengthened the opportunity for policy change. The Uruguay Round Agreement on Agriculture of 1994 constrained the scope of price and production support in agriculture for the first time. The Doha round of trade negotiations was expected to further liberalise trade in this sector. The changed multilateral trade framework reduced trade distortions in agriculture, but also strengthened competition. Secondly, growing budget expenditures on the CAP increased pressures to reduce support levels and use money more efficiently. However, the 'just retour' logic of intergovernmental bargaining also hindered a more efficient allocation of resources on the Community level. Thirdly, in spite of certain problems with their definition and targeting, new policy objectives such as environmental concerns and rural development contributed to a more sustainable and integrated development of the sector. Finally, changes in representation and decision-making institutions, such as the emergence of non-agricultural interest groups, the path dependency of the reform process and the introduction of the Qualified Majority Vote (QMV) that prevented individual member states from blocking the reform, and the strengthened role of the European Commission as a pro-reform actor, increased the opportunity for the reform. The regular decision-making procedure introduced by the Treaty of Lisbon in 2009, allowing the European Parliament to block and amend CAP reform, increased the number of possible blockades in the process, hindering policy change (Lovec, 2015).

Discussion and Conclusion: New Balance between Trade and Development in Agriculture

Sustainable development of agriculture has been recognised as a key challenge for the MENA region. The 'urban bias' and 'trade liberalisation' policies resulted in negative externalities such as food import dependence, underdevelopment of agriculture and rural areas, and environmentally-intensive specialisations. In order to revert these trends, more attention should be paid to fostering investment in agriculture, improving governance and civic institutions, and developing production standards and regulation. Actions taken by national policy planners and international institutions can be considered as mutually reinforcing. Existing ideas such as knowledge transfer, improved horizontal and vertical integration, and building of multi-stakeholder partnerships should be acknowledged.

The MENA region is of key geopolitical importance for the EU. The Barcelona Process, which was based on trade liberalisation with some asymmetrical elements and on structural support, seems to have failed globally precisely because it has failed in agriculture. Analyses showed that trade liberalisation in the Euro-

Mediterranean area would be beneficial for consumers in SEMCs. Combined with structural development programmes, it could have positive effects for agriculture and rural areas as well (Ahmad et al., 2007; Tovias, 2010). Development of joint regulation and standards could help to use trade as a means of reducing the environmental footprint. Cooperation between research institutions (e.g. CIHEAM), cooperation between producer groups (e.g. the Spanish-Moroccan tomato committee) and joint ventures should be promoted and extended further (Lopez et al., 2013a; 2013b). Deeper South-South cooperation would support the emergence of southern regional players and strengthen the position of SEMCs against third parties.

The CAP has hindered Euro-Mediterranean integration. New policy objectives, such as environmental sustainability and rural development, reduce CAP antagonisms and enable positive spill-over effects. The change in the multilateral trade framework, which has effectively influenced support policy, had mixed effects for SEMCs, depending on their preference position (Matthews, 2010). Recent debates on the CAP in the EU, such as the emergence of the food security issue, which are used to argue in favour of continuous support for EU producers (Zahrnt, 2011), point out that the EU's agricultural and regional policies need to be de-compartmentalised and made more coherent and consistent.

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