

**EMBARGOED UNTIL 12:00 HRS CET (GMT +1) SATURDAY 26 NOVEMBER 2005**

## Euro-Med: ensuring a fair deal

26 November 2005

### Introduction

When the Euro-Mediterranean Partnership (Euro-Med) was announced in Barcelona with a great fanfare in 1995, it was hoped that it would herald a new age in relations between the European Union (EU) and its ten southern Mediterranean partner countries,<sup>1</sup> bringing unprecedented opportunities in the social, economic, and political fields.

But, while the Barcelona Declaration of the Euro-Med Partnership promised to create 'an area of shared prosperity', there have been few concrete benefits for poor people living in southern Mediterranean countries over the past decade, and poverty in the Middle East and North Africa has increased in the last 15 years.<sup>2</sup> There is a real risk that trade liberalisation – one of the main instruments of the Euro-Med process – will lead to further impoverishment of rural communities in the southern Mediterranean countries.

The heads of 25 EU member states and ten southern partner countries meet in Barcelona on 28 November 2005 to celebrate the tenth anniversary of the Euro-Med partnership. This occasion offers an historic opportunity to put poverty reduction at the heart of Euro-Med. The future direction of the partnership and the five-year work programme drawn up by the leaders of Euro-Med countries must be set up and realised in such a way that it will result in tangible benefits on the ground and make a difference to people's lives.

## Potentially devastating consequences on livelihoods

Over the past decade, the EU has negotiated and signed, on a bilateral basis, trade agreements with each of the ten partner countries, with the aim of establishing the Euro-Mediterranean Free-Trade Area (EMFTA) by 2010.

Now that measures to promote free trade in industrial goods in the Mediterranean region are being implemented, the EU is speeding up agricultural trade talks with southern Mediterranean countries, based on the European Commission's recently prepared 'road map' for the reciprocal liberalisation of agricultural trade across both shores of the Mediterranean. Within a year, the partner countries are expected to agree upon a 'high degree of liberalisation with a very limited number of exceptions and a timetable for implementation'.<sup>3</sup>

Oxfam is concerned that reciprocal agricultural trade measures will undermine the livelihoods of millions of small-scale farmers in the southern Mediterranean countries, given the stark differences in agricultural development levels between the EU and the southern countries. Small-scale farmers in the southern Mediterranean countries are already struggling to make a decent living. Opening their agricultural markets to EU agricultural goods, before their farmers are in a better position to compete, could have devastating consequences on a region where the livelihoods of up to 40 per cent of the population are affected by agriculture. Producers of cereals, other field crops, livestock and dairy produce, are likely to suffer the most because of increased competition from EU producers. This is especially true in a context where the EU's overall spending on the Common Agricultural Policy (CAP) will remain at around €43bn per year until 2013.

The preliminary findings of the EU-commissioned Sustainability Impact Assessment (SIA) suggest that the 'the overall result [of EMFTA agricultural liberalisation on southern Mediterranean region] may be a fall in rural employment, with higher poverty levels, and increased migration to the cities in search of alternative livelihoods' in the southern region.<sup>4</sup> Agricultural trade liberalisation 'will increase the vulnerability of both rural and urban households to fluctuations in EU and world market prices', threatening their food security. Women, in particular, are likely to bear the brunt of these adjustment costs, and agricultural liberalisation is predicted to have significant adverse effects on gender relations in partner countries. For example, new production arrangements are likely to favour male workers over female workers.

The report also highlights the potentially high financial costs of the Euro-Med agreements. Dismantling tariffs on EU goods will substantially decrease government revenue of southern Mediterranean countries, as many countries rely heavily on taxation of imports, and the SIA report predicts that this is likely to have a detrimental effect on health and education expenditure. This, in turn, will have serious implications for the ability of the southern Mediterranean partner countries to achieve the Millennium Development Goals.

As a first step, Oxfam urges the Euro-Med countries to freeze ongoing talks on reciprocal agricultural trade liberalisation until the SIA is finalised at the end of 2006 and the recommendations discussed with stakeholders. Any future trade negotiations, including any related development aid and technical assistance packages, should be adjusted according to the final findings of the SIA.

On 28 November 2005, the heads of the EU states and ten partner countries are expected to agree a work plan, which aims to finalise the agriculture negotiation

process by the end of 2006, possibly before the final SIA report is published. This would amount to paying lip service to the EU's commitment to sustainable development in Mediterranean region.

Before the report is finalised, the EU should speed up its rural development programmes – the European Commission, for example, does not plan to launch its regional co-operation programme on rural development until 2007, two years after the start of trade talks. National governments should also provide more effective support to small-scale farmers and implement development programmes to target rural poverty.

## Trade is not working for the poor

A quarter of the population in the Middle East and North Africa region live below the poverty line and of these, approximately three-quarters live in rural areas, making their living from agriculture. Most poor people will continue to live in rural areas for many years to come.<sup>4</sup> 34 million new jobs will have to be created and sustained over the next 20 years just to absorb the expanding workforce in Southern Mediterranean countries: agricultural growth and rural development are key to this job creation.

Recent empirical evidence reveals a strong link between poverty reduction and agricultural-led growth, if accompanied by participation and redistribution.<sup>5</sup> Research shows that every 1 per cent increase in per capita agricultural output leads to a 1.61 per cent increase in the incomes of the poorest 20 per cent of the population.<sup>6</sup>

As most of the southern Mediterranean countries have a comparative advantage in agriculture, particularly fruit and vegetables, improved access to the EU agricultural markets is important to stimulate export growth, create jobs, and provide sustainable livelihoods to farmers in these countries. It is estimated that Egypt, Jordan, Lebanon, the Palestinian Territories, and Syria could generate 119,000 new jobs, making a profit for producers of \$498 million and adding \$756 million to the value of their economies, just by meeting the EU's unmet demand for strawberries, grapes, dates, green beans, and sweet melons.<sup>7</sup> Commercial farms that are more mechanised will benefit the most from increased export opportunities, stimulating agricultural growth in the region. With more targeted national government support to smallholder agriculture, poorer farmers producing exportable goods would also be able to take advantage of improved market access.

However, this opportunity is being missed. Access to EU markets remains characterised by tariffs, quotas, exceptions, and timetables.

In conversations with Oxfam, farmers have explained their predicaments: 'We put our money into the ground and then no one buys our produce,' says Mahmoud Seif, who farms a small plot of land of less than half an acre in Giza, Egypt.

Critically, liberalisation under Euro-Med agreements has primarily involved products for which poorer farmers in the southern Mediterranean countries have no comparative advantage. Crops like olives (and olive oil), grapes, tomatoes, wine, and apples, for example, are well suited to the southern Mediterranean climate and can be produced more cheaply there, but are not freely allowed into the European market as trade is regulated through quotas. For example, Jordan's climate means that it can produce crops like beans, tomatoes, strawberries, sweet peppers, roses, and carnations competitively, but the EU has put limits on its imports of these crops by the use of tariffs, quotas, or timetables. The timetables are arranged so that the quotas come into force at the precise time when Jordan has seasonal over-production of crops<sup>8</sup> that are

competitive with Europe, such as cucumbers and grapes.<sup>9</sup> This means that poor farmers, who own most of the cultivated land,<sup>10</sup> have great difficulty in accessing markets and creating income for themselves and their families.

Environmental groups in the region are concerned that this unfavourable trade policy also encourages poor farmers to grow crops that are exempt from trade barriers but that are unsuitable for their climate and soil. This may lead to ecologically unsustainable agriculture with intensive use of water and chemicals in a region that is characterised by severe water scarcity. Not only is water scarce, it is also of tremendous environmental and political sensitivity in the region.

## Reciprocity will lead to further impoverishment

Oxfam is concerned that the EU's demand for reciprocity will lead to small-scale farmers becoming even poorer. Given that farmers in the southern Mediterranean region are not starting from an equal position, such a demand that southern Mediterranean countries open up their own markets in exchange for enhanced access to EU markets is likely to lead to a fall in agricultural production. According to one estimate, total agricultural production will fall by 2 per cent, which will negatively affect communities at the household level.<sup>11</sup>

If trade negotiations do not provide southern Mediterranean countries with the scope to protect vulnerable sectors, particularly against imported agricultural products that are subsidised in Europe, rural poverty will increase. It is likely that the markets of southern Mediterranean countries will be flooded with cheap EU products, prices in local markets will fall, and many local producers will not be able to compete. The result would be that poor farmers, semi-subsistence crop farmers, and poor livestock herders, in particular, will be put out of business. In general, 'the consequences of trade-related job losses are a serious issue in agriculture, large losses will be borne by the more vulnerable segments of the rural population [in the Middle East and North African region]'.<sup>12</sup>

While urban consumers might benefit from lower prices of staple goods, the net development impact in the long run would be negative, as an impoverished rural sector would reduce domestic demand.

The Euro-Med agreements have already been signed and southern Mediterranean countries already committed themselves to a full and reciprocal trade liberalisation schedule for industrial goods. However, further liberalisation in agriculture is still open to negotiations within the Euro-Med process, and the EU should not use tough trade negotiations or aid conditionality to pressurise southern Mediterranean countries to open up their agriculture markets.

It is important to note that the non-reciprocal trade relations for industrial products under the trade agreements between the EU and southern Mediterranean countries (the 1970s Co-operation Agreements) have not been models for the liberalisation of trade in agricultural products, nor have non-reciprocal trade relations been continued for industrial products. The EU takes recourse to Article 24 of the General Agreement on Tariffs and Trade (GATT) when insisting on reciprocal liberalisations, which states that 'substantially all trade' has to be covered in such agreements. Reciprocal trade agreements would mean that southern Mediterranean countries would grant market access to the EU, without any guarantee that the CAP related subsidies, which lead to dumping, will be reduced within the ongoing World Trade Organisation (WTO) trade negotiations.

In line with the Doha mandate for the current round of multilateral negotiations, the Euro-Med process should adopt and put into operation the principle of non-reciprocity or differential treatment for southern Mediterranean countries.<sup>13</sup> The southern Mediterranean countries should be granted immediate and full access to EU agricultural markets, while retaining the flexibility to protect their own agricultural sector, on the grounds of food security, environmental protection and viable rural livelihoods. The EU, under its Doha Development Round commitments, should also eliminate its export subsidies and reduce other trade-distorting domestic subsidies.

## Not only about trade agreements

Some of the most serious problems for rural economies lie not in the trade agreements themselves, but at the national level. Oxfam interviews with farmers suggest that many problems relate to the lack of infrastructure such as cold storage, grading and sorting equipment, and poor technology. Lack of knowledge about new varieties and alternative crops, poor marketing information systems, and weak organisation of associations and co-operatives also limit growth possibilities.

As Ashaf Lotfi, a small vegetable farmer from Minya in Egypt, says, 'I sell to merchants in Cairo, but I never know the price beforehand and there are big fluctuations in the market.' Simply changing trade relations reciprocally in favour of the partner countries will not solve these problems.

The responsibility to act on these issues does not, however, lie solely with the EU but also with the southern Mediterranean countries themselves. The governments of these countries must take responsibility for putting poverty at the centre of their development strategies. Policies and programmes should support poor farmers alongside the more developed commercial farms that exist in some of the southern countries. National strategies need to be developed that lead to investments in rural development, including infrastructure and education, both in the farm and non-farm sectors. Rural communities, and especially small-scale farmers, can also capitalise on these opportunities by fostering co-operatives and business associations, which could take the lead in developing the farm and non-farm sectors.

The Middle East Development Assistance which is the EU's support programme to address these problems, has yet to fulfil its commitments to promoting rural development, and creating new infrastructure. Aid should focus much more on rural development because, without direct support, rural communities will not be able to benefit from the easier market access that the trade agreements might give them. The European Neighbourhood Partnership Instrument which replaces the MEDA programme in 2007, must also focus on sustainable development and rural infrastructure.

## Conclusion

The governments of the partner countries and the EU should tackle the issue of poverty and make deliverable commitments to 'creating an area of shared prosperity'. The Euro-Med agreement is called a 'partnership' and this term implies equality and mutual benefit. Reciprocal trade relations cannot be achieved while poor farmers bear the burden of inequalities created by the EU's subsidies and domestic structural constraints.

Non-reciprocal and asymmetrical trade relations are necessary because the huge subsidies paid to EU farmers have to be taken into account. It is the only way to make trade fair, fight poverty, and make the Euro-Mediterranean region richer and more secure. The EU, partner country governments, and rural communities need to take responsibility for making this happen.

Fighting poverty in Europe's neighbouring countries will also further European security and political interests. Rural development will ease migration pressure from rural areas to the cities within the partner countries, and from the partner countries to the EU. A healthy social and economic environment is essential for stable political development in the partner countries. By contrast, social despair and poverty can lead to political and religious extremism, which affects the stability and security of the region.

Ten years have passed by already and there is still much to be done. Now is the time for action.

## Notes

<sup>1</sup> Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia, and Turkey. Libya has had observer status since 1999.

<sup>2</sup> 68 million people in the Middle East and North Africa region (including non-Mediterranean partner countries) live on less than \$2 a day, compared with 50 million people in 1990. UK Department for International Development (DFID) (2003) Regional Assistance Plan Middle East and North Africa, Consultation Draft.

<sup>3</sup> European Commission (2005) 'Tenth anniversary of the Euro-Mediterranean Partnership: A Work Programme to Meet the Challenge of the Next Five Years', Communication to the Council and the European Parliament, Com 139, 12 April 2005.

<sup>4</sup> University of Manchester (2005) 'Sustainability Impact Assessment of the Euro-Mediterranean Free Trade Area', Final Report on Phase 2 of the SIA-EMFTA Project, Preliminary Consultation Draft.

<sup>4</sup> World Bank (2002) *World Development Index 2002*, Washington: World Bank.

<sup>5</sup> Mellor, John W. (1999) *The Relation Between Growth in Agriculture and Poverty Reduction*, Washington, Abt Associates, Washington, DC and others.

<sup>6</sup> Gallup, J., S. Radelet and A. Warner (1997) 'Economic Growth and the Income of the Poor', CAER II Discussion Paper No 36., USA, Harvard Institute for International Development. A major cross-country analysis concludes that, on average, every 1 per cent increase in agricultural yields reduces the number of people living on less than a dollar a day by 0.83 per cent. Cross-country studies estimate that for every 1 per cent increase in agricultural output, farm employment increases by between 0.3 and 0.6 per cent. Furthermore, the same study concludes that 'the same cross-national data show little effect on poverty reduction of urban growth or of growth in the manufacturing sector. Typically, high rates of agricultural growth bring a reduction by half in poverty levels in a 15- to 20-year period'. Therefore, it is not only the agricultural sector that is important — the rural non-farm sector also needs to develop.

<sup>7</sup> Muaz, S. (2004) *The Impact of Euro-Mediterranean Partnership on the Agricultural Sectors of Jordan, Palestine, Syria, Lebanon and Egypt*, Institute de la Méditerranée: Femise Research Programme.

<sup>8</sup> Around 75 per cent of the EU's imported tomatoes are off-season (November to March), whereas 80 per cent of Jordanian tomatoes are usually exported from May to November.

<sup>9</sup> Muaz, S., *op. cit.*

<sup>10</sup> More than 90 per cent of farms in partner countries are smaller than five hectares.

<sup>11</sup> This section draws from Chemingui and Dessus 'The Liberalisation of Tunisian Agriculture and the European Union: A Prospective Analysis' in Dessus, Devlin and Safadi (eds) (2001) *Towards Arab and Euro-Med Regional Integration*.

<sup>12</sup> World Bank (2003), *Trade, Investment and Development in the Middle East and North Africa: Engaging with the World*, Washington: World Bank.

<sup>13</sup> The Barcelona Declaration implicitly recognises the need for differential treatment in trade. However, there has been thus far no systematic effort to give an operational definition of this, i.e. it remains unclear whether this includes long transition period for tariff cuts, permanent exemptions and direct or indirect support basis. See the Centre for European Policy Studies (2003), *Euro-Med Partnership*, Eric Phillipart.

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