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**EMERGING REGIONAL ARRANGEMENTS:
DEEPER INTEGRATION BETWEEN EGYPT
AND THE EUROPEAN UNION (EU)**

Introduction

Economic and trade relations between the EU and the neighboring Southern Mediterranean (MED) countries are organized by the Euro-Mediterranean Partnership (also referred to as the Barcelona Process), which was launched in November 1995. The partner countries are Egypt, Algeria, Jordan, Israel, Lebanon, Morocco, Syria, Tunisia, the Palestinian Authority, and Turkey. The EU-Egypt Association (Partnership) Agreement forms the legal basis organizing relations between Egypt and the EU. It is modeled on the network of Euro-Mediterranean Partnership Agreements between the Union and its partners on the southern flank of the Mediterranean Sea.

The agreement with Egypt includes free trade arrangements for industrial goods and concessionary arrangements for trade in agricultural products, and opens up the prospect for greater liberalization of trade in services and farm goods. The EU-Egypt Association Agreement was signed in Luxembourg on 25 June 2001 and entered into force on 1 June 2004, following ratification by the Member States and by Egypt. It replaced the earlier Co-operation Agreement of 1977. A Protocol has been concluded which amends the Agreement to accommodate the enlargement of the Union to 27 Member States.

Findings

- In 2007, EU exports to the MED countries reached approximately €120 billion, or 9.7 percent of the total EU exports. On the other hand, imports from the MED countries reached approximately 7.5 percent of the total EU imports, worth €107 billion. EU exports to the MED countries have increased by an average of 8 percent annually since the mid-1990s. The largest average annual growth rates are recorded for the West Bank and Gaza, albeit from a low level, followed by Turkey, Morocco, Jordan and Algeria.

- EU exports to MED countries are dominated by manufactured products, in particular machinery and transport equipment and chemicals, which account for 80 percent of the total.

- The relative size of the MED countries' chronic trade deficit with the EU has decreased over time. In the mid-1990s, the trade deficit in goods stood at more than 20 percent of bilateral EU-MED trade. More than ten years later, this deficit has shrunk to an average of 7 percent. This may partly be explained by the liberalization of trade with the EU, opening up the EU market for most of the MED countries' exports, while providing the MED countries with a grace period of 10-12 years for opening up their own markets.

The preamble of the Association Agreements between the EU and its Mediterranean partners emphasizes the importance of the principles of the United Nations Charter, in particular the observance of human rights, democratic principles and economic freedom. Respect for human rights and democratic principles constitute an essential element of the Agreement.

The agreement underlines the priority of political stability and economic development of the region through the encouragement of regional co-operation, opening a regular political dialogue in bilateral and international contexts on issues of common interest, and maintaining a dialogue on scientific, technological, cultural, audio-visual and social matters for the benefit of both parties.

The main text refers to regular political dialogue at ministerial and senior official levels, and at parliamentary level through contacts between the European Parliament and the Parliament of Egypt. Emphasis is placed on peace, security and regional co-operation and on the need to contribute to the stability and prosperity of the Mediterranean region, to promote understanding and tolerance.

Furthermore the agreement includes provisions on freedom of establishment and liberalization of services, free movement of capital, competition rules, the strengthening of economic co-operation on the widest possible basis and co-operation on social matters, supplemented by cultural co-operation.

The Association Agreement establishes two main bodies for EU-Egypt dialogue. The EU-Egypt Association Council (held at ministerial level) and the EU-Egypt Association Committee (held at the level of senior officials) are intended to meet at regular intervals, to discuss political and economic issues as well as

bilateral or regional co-operation. The EU and Egypt met at foreign ministerial level in Luxembourg on 13 June 2006 for the 2nd Association Council, under the chair of the Austrian Presidency. The EU and Egypt issued a statement outlining their assessment of the EU's relations with Egypt, and setting out perspectives for the future of the relationship. The statement stressed the importance the EU attaches to its partnership with Egypt, to be developed within the policy framework of the European Neighborhood Policy, and urged the Egyptian authorities to agree to the Action Plan, which would form the basis for co-operation in all spheres in the medium term. The EU encouraged the process of political reform in Egypt, and noted the priority the EU gives to human rights. In preparation for implementing the Action Plan, the EU announced it had taken steps to create nine sub-committees to deal with specific technical areas of dialogue and co-operation in the areas of migration, social and consular affairs (working group); internal market; industry, trade, services and investment; transport, environment and energy; information society, research, audiovisual matters, education and culture; agriculture and fisheries; justice and security; and customs co-operation; political matters, human rights and democracy, and international and regional issues. Discussion at the Association Council covered regional developments, including the Middle East, Iran and Iraq.

Trade between the EU and Egypt has risen substantially in recent years and particularly after the entry into force of the EU-Egypt Association Agreement in 2004. Egypt is a major trading partner for the EU in the Southern Mediterranean region. It is part of the Euromed process for creating a free trade area for the Mediterranean. The EU and Egypt have made significant progress in freeing up trade between them. Since the signing of the new EU-Egypt Association Agreement in 2004, half of the EU industrial exports to Egypt has already been liberalized and special preferential treatment for agriculture has significantly boosted agricultural trade. Ongoing negotiations are aimed at furthering this agricultural liberalization and improving conditions for services trade and for companies seeking to establish businesses in both markets.

In 2007, Egypt concluded a free trade agreement with the European Free Trade Association, (EFTA – Norway, Switzerland, Iceland, Liechtenstein) and a free trade agreement with Turkey which resulted in a surge in bilateral trade and some major Turkish investments in the textile sector. This FTA includes a Pan-Euromed protocol on rules of origin providing for diagonal accumulation among the countries concerned. Concerning customs, Egypt now applies the Harmonized System (HS) 2007. Egypt has moved forward on the modernization of its Customs Administration, with EU support and in line with ENP Action Plan undertakings, in risk-based customs control, the definition of standards for certifying operators, training (including in valuation and origin), and computerization.

Egypt confirmed in 2007 its commitment to negotiate an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) and selected the priority sectors to be included therein. Egypt continued with the transposition

of relevant European standards in the priority sectors, as well as in the areas of legislative approximation on essential safety requirements, accreditation, conformity assessment and market surveillance.

The Egyptian Organization for Standardization (EOS) is working to align the Egyptian system to that of the EU, in terms of drafting technical regulations which regulate essential health and safety requirements. Through the five working groups which were established by the EOS, a legislative gap analysis has been carried out and a work program towards an ACAA is being prepared. Egypt is establishing a national quality institute as a separate body to cover all activities related to promotion of quality amongst Egyptian manufacturers. All activities will be carried out under the national quality plan, which is operated by the Industrial Modernization Centre (IMC).

Significant work remains to be done to set up the related implementing infrastructure and the compliant institutions and on voluntary standardization, accreditation, metrology, conformity assessment procedures and a post-market surveillance system. As of January 2008 Egypt is an affiliate member of the European standards body CEN.

Regarding sanitary and phyto-sanitary issues, the European Commission acknowledged a reduced interception record regarding potato exports to EU and Egyptian controls. The European Commission therefore allowed potato imports for the 2007/2008 season. As aflatoxine (a contaminant) was repeatedly found in peanuts imported from Egypt, Member States are carrying out a strengthened testing regime and the European Commission plans to evaluate the matter in 2008.

Egypt is preparing a law on food safety and has started to work towards the establishment of a single food safety body. Avian influenza remains, since the 2006 outbreak, a serious challenge in Egypt, having caused human fatalities. In this context, Egypt adopted an integrated plan for avian and human influenza in 2007/2008. Egypt participated in workshops under the European Commission's "Better training for safer food" program.

Egypt, a strategic energy partner for the EU, is an important oil and gas producer and exporter as well as a key transit country for world markets. It is the sixth largest gas supplier to the EU. Egypt participates in the Euro-Mashraq gas centre in Damascus, which is facilitating the development of a Euro-Mashraq natural gas market. Egypt is a key partner in the construction of the Arab Gas pipeline, which should increasingly enhance the region's energy security and will lead to improvement of that of the EU.

Egypt Exports to the EU and Imports from the EU: Breakdown by the EU's 27 Member States (in million USD)

| Country | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Exports | Imports | Exports | Imports | Exports | Imports | Exports | Imports | Exports | Imports |
| Hungary | 1 | 23 | 3 | 17 | 5 | 19 | 6 | 26 | 7 | 22 |
| Greece | 139 | 54 | 113 | 127 | 123 | 102 | 99 | 104 | 137 | 136 |
| Bulgaria | 8 | 29 | 9 | 24 | 8 | 41 | 7 | 37 | 11 | 30 |
| Poland | 2 | 44 | 5 | 38 | 4 | 43 | 12 | 59 | 8 | 56 |
| Romania | 20 | 103 | 27 | 144 | 32 | 185 | 39 | 160 | 36 | 156 |
| Finland | 1 | 97 | 1 | 117 | 4 | 175 | 4 | 193 | 4 | 232 |
| Cyprus | 17 | 10 | 40 | 6 | 46 | 14 | 57 | 21 | 77 | 17 |
| Estonia | 0 | 18 | 0 | 6 | 0 | 6 | 0 | 4 | 2 | 9 |
| Latvia | 1 | 2 | 1 | 6 | 2 | 3 | 2 | 0 | 2 | 3 |
| Lithuania | 0 | 1 | 0 | 2 | 1 | 4 | 0 | 1 | 2 | 4 |
| Slovenia | 8 | 40 | 12 | 29 | 13 | 93 | 13 | 69 | 13 | 36 |
| Czech Rep. | 4 | 84 | 3 | 61 | 2 | 82 | 1 | 54 | 3 | 195 |
| Slovakia | 1 | 4 | 1 | 13 | 1 | 9 | 1 | 3 | 1 | 7 |
| Spain | 288 | 127 | 432 | 138 | 808 | 242 | 1036 | 270 | 1,037 | 238 |
| Portugal | 47 | 11 | 35 | 7 | 18 | 18 | 32 | 9 | 26 | 12 |
| Denmark | 4 | 55 | 14 | 57 | 6 | 67 | 6 | 46 | 8 | 110 |
| Sweden | 19 | 131 | 2 | 149 | 11 | 258 | 21 | 192 | 3 | 241 |
| Austria | 2 | 40 | 3 | 47 | 3 | 58 | 11 | 57 | 6 | 94 |
| UK | 147 | 261 | 150 | 307 | 179 | 358 | 459 | 345 | 392 | 450 |
| Ireland | 8 | 35 | 14 | 55 | 9 | 41 | 11 | 50 | 19 | 68 |
| Italy | 759 | 537 | 982 | 614 | 1,080 | 830 | 1,266 | 849 | 1,587 | 1,124 |
| Belgium | 94 | 110 | 107 | 145 | 179 | 201 | 191 | 170 | 266 | 278 |
| Germany | 120 | 714 | 140 | 859 | 109 | 1,026 | 153 | 1,083 | 152 | 1,781 |
| France | 168 | 449 | 163 | 413 | 369 | 596 | 799 | 622 | 503 | 575 |
| Malta | 38 | 0 | 87 | 2 | 116 | 1 | 27 | 21 | 32 | 0 |
| Netherlands | 229 | 178 | 392 | 210 | 503 | 288 | 396 | 343 | 369 | 337 |
| Luxembourg | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2,125 | 3,157 | 2,736 | 3,593 | 3,631 | 4,760 | 4,649 | 4,788 | 4,703 | 6,211 |

Source: The Central Agency for Population Mobilization and Statistics (CAPMAS), Egypt; & Trade Point, Ministry of Foreign Trade and Industry, Egypt.

Egypt Exports to the EU and Imports from the EU & the Egyptian Trade Balance (in million USD)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------|--------|-------|--------|-------|--------|
| Exports | 2,125 | 2,736 | 3,631 | 4,649 | 4,703 |
| Imports | 3,157 | 3,593 | 4,760 | 4,788 | 6,211 |
| Trade Balance | -1,032 | -857 | -1,129 | -139 | -1,508 |
| Trade Volume | 5,282 | 6,329 | 8,391 | 9,437 | 10,914 |

Source: Calculated by the author from the data of the previous table.

In 2007, EU imports from Egypt were dominated by energy (43.4%), and textiles and clothes (10.1%). EU exports to Egypt were dominated by machinery (26.2%) and chemicals (15.4%). This shows that almost half of the Egyptian imports from the EU are related to production. Part of the output of this production is exported again to the EU. This type of relationship is part of the development process in Egypt.

The previous tables indicate that the trade volume between the parties almost doubled. This was matched by an approximate doubling in both exports and imports. Egyptian trade is chronic, but it reached its peak before the partnership in 2004. This also reflects higher energy prices in some cases but is also, in others, the fruit of a long process of structural and market reforms which led to increased competitiveness.

In 2007 Egypt exported to the EU-27 mainly travel (57%) and transportation (31%) services. Its services imports from the EU were dominated by business services (57%). Again this type of relation is ultimately a part of the development process in Egypt. Egypt experienced an increase in foreign direct investment (FDI) in 2006 as a result of the privatization process and economic reforms. Overall FDI inflows have neared €2 billion since the start of the reforms. EU direct investment in Egypt amounted to €1 billion out of the total stock of €5.3 billion.

The Joint Action Plan between Egypt and the EU was formally adopted at the EU/Egypt Association Council in Brussels on 6 March 2007. The Joint Action Plan brings Egypt into the series of partnerships set up under the European Neighborhood Policy. The Neighborhood policy supports political and economic cooperation between Egypt and the EU and is the framework for financial assistance from the EU to Egypt.

The Joint Action Plan opens the way for further liberalization of trade in agriculture and services (the EU accounts for 40% of Egypt's trade volume), for which negotiations have already begun. It offers Egyptian exporters the prospect of a greater share in the EU's market of over 450 million consumers. The Action Plan calls for greater collaboration in common energy strategies, in linking transport systems, co-operation in environmental issues, such as a cleaner Mediterranean Sea, and on pollution control, in nuclear safety, EU scholarships for Egyptian students, broader links between EU and Egyptian scientific institutions, enhanced political dialogue and support for Egypt's political and judicial reforms, co-operation in security issues, public health, investment in the transport, energy and environment sectors and investment facilities for greater lending from EU development banks. Egypt and the EU have undertaken in the Action Plan to incorporate the important role of civil society, improving contacts between youth, cultural and sports groups, academics, business and trade unions. The European Neighborhood Policy Instrument – ENPI – will be endowed with €11.9 billion for 2007-2013. Egypt will receive a share of this. The European Commission has agreed a €558 million package of financial support for Egypt for 2007 to 2010, to support implementation of the

Action Plan, Egypt's reforms in democracy, human rights and judiciary, improving economic competitiveness, education and health sector reforms, and interest subsidies for lending in energy and the environment. Egypt is eligible for a number of European Neighborhood Policy instruments to encourage investment, support governance, cross-border co-operation, and sustainable development.

On 25 February 2004, Egypt signed the Agadir Agreement with Jordan, Morocco and Tunisia. This committed all parties to removing substantially all tariffs on trade between them and to harmonizing their legislation with regard to standards and customs procedures. It entered into force in July 2006. The effective implementation started in April 2007 with the creation of the Agadir Technical Unit in Amman. Egypt has also had a free trade agreement in force with Turkey since March 2007 and, more recently, with EFTA countries. These agreements cover the application of the new Pan-Euro-Mediterranean system of accumulation of origin, which Egypt also adopted bilaterally with the EU.

The Union for the Mediterranean was launched by 43 European and Mediterranean heads of state and government at the Paris Summit for the Mediterranean on 13 July 2008. Having acknowledged the widening disparities in the development between each side of the Mediterranean, thereby increasing the risk of instability in the whole region, the President of the French Republic, joined by all his European and Mediterranean counterparts, has initiated a new dynamic impetus to promote partnership in the Mediterranean. It was built on the achievements of the Barcelona Process, inaugurated 13 years ago mainly on the initiative of Spain and France, but also intends to considerably develop its aspirations, functioning and means for action.

The Union for the Mediterranean project is based on three simple but essential principles: political mobilization at the highest level through summits of heads of state and government every two years; governance on an equal footing, in the form of a North-South co-presidency and a permanent secretariat with equal representation; prioritizing of concrete projects with a regional dimension that create de facto solidarity.

The Paris Summit for the Mediterranean was attended by the heads of state and government of the 27 Member States of the European Union, the 12 Mediterranean countries which are members of the Barcelona Process and the other four countries bordering the Mediterranean, together with the heads of the largest international and regional organizations, and already promises to be a major political event.

The President of the French Republic (current President of the European Council Union) together with the President of the Arab Republic of Egypt were elected to head jointly the Union for the Mediterranean for the next 2 years. The adoption of the first main concrete projects of the Union for the Mediterranean are: environmental and energy problems, focusing on proposals for the de-pollution of the Mediterranean; the development of solar energy and water management; solutions to increased natural hazards and the infrastructure and transport deficit

through joint civil protection programs and the development of maritime highways; economic and social development challenges in the Mediterranean which could be partially resolved by actions to support small and medium enterprises and by support programs for higher education and research.

The Agreement to liberalize trade in Agricultural and Fishery Products between the European Union and the Arab Republic of Egypt was reached in Brussels on 4 July 2008.

A preliminary agreement has been reached by negotiators to further liberalize trade in agricultural, processed agricultural and fish and fishery products between the European Union and the Arab Republic of Egypt. This will form the basis of a future agreement, subject to completion of both sides' internal procedures. The agreement will give the EU free and immediate access to the Egyptian market for around 90 percent of agriculture and fisheries exports. There will be full liberalization for all products except tobacco, wines and spirits and pig meat, for which current arrangements will remain in place. For confectionery, chocolate, pasta and bakery products, duties will be halved. In return, the EU market will be liberalized for all products except tomatoes, cucumbers, artichokes, zucchinis, table grapes, garlic, strawberries, rice, sugar, processed products with high sugar content and processed tuna and sardines, where current arrangements will also continue to apply.

Under the framework of the Barcelona Process and in accordance with the Euro-Mediterranean Roadmap for Agriculture (Rabat roadmap) adopted on 28 November 2005, the European Commission entered into negotiations with the Arab Republic of Egypt on further liberalization of trade concerning agriculture, processed agricultural, fish and fishery products. Egypt gives free and immediate access for all farm and fishery products, with the exception of tobacco, wines and spirits and pig meat, which is the subject of no additional concession relative to the previous agreement. Chapters 1704 (confectionery), 1806 (chocolates), 1902 (pasta) and 1905 (pastry making) will benefit from a reduction of 50 percent of the customs duties for unlimited quantities, reducing the duty to 12.5 percent on average.

This agreement should make it possible to strengthen the position of European exporters on the Egyptian market, which is the most important market in the Middle East. Community exports for the sectors involved reached almost €600 million in the period 2005-2007, representing a positive balance for the EU compared to the value of Egyptian exports for the same period (€540 million). Some 90% of European exported products will benefit from completely free market access on the Egyptian market, which is growing in size due to strong demographic growth.

In return, it is proposed to completely liberalize the EU market for Egyptian imports with the exception of certain products which are considered to be the most sensitive, and for which certain protection is maintained (tomatoes, cucumbers, artichokes, zucchinis, table grapes, garlic, strawberries, rice, sugar, processed products with high sugar content and processed tuna and sardines). For these products, the maintenance of calendars and/or tariff quotas, and respect of the entry price

system without any further modification in relation to the currently applied situation, should allow the integration of Egyptian exports to the EU market while encouraging complementarities between the two production systems. This agreement should send a positive signal to the ongoing market access negotiations with Egypt (services, in particular).

The European Commission has launched the fourth phase of the Tempus program, which supports the modernization of higher education in the 28 partner countries of Western Balkans, Eastern Europe, Central Asia, North Africa and the Middle East. A conference held in Cairo, Egypt, on 7-8 May 2008 concentrated on the issue of quality and the experience of the Tempus program in this field since its beginnings in 1990. The conference also served as a platform for dialogue between academics, experts and students from the 27 EU Member States and 28 Tempus partner countries. Tempus intends to promote the modernization of higher education in the partner countries, enhance the quality and relevance of higher education, and build up the capacity of higher education institutions in the partner countries. With Tempus, the European Commission is creating an area of cooperation in the field of higher education between the European Union and its neighbors. Since 1990, Tempus has funded 6500 projects, involving 2000 universities from the Western Balkans, Eastern Europe, Central Asia, North Africa and the Middle East.

Between 2000 and 2006, 788 Joint European Projects and 1492 individual mobility grants were funded. In addition, during the same period, Tempus supported 270 structural and complementary measures. The results of a study commissioned by the European Commission indicate that Tempus has had a considerable impact, particularly by setting in motion the long and difficult shift towards output-oriented rather than input-oriented education. The former revolves around the concept of what a person actually knows (the learning outcome), while the traditional, input-oriented, approach concentrated more on how long or where the person acquired that knowledge (the learning inputs). Most universities in Tempus partner countries have made progress in introducing quality assurance schemes. These are essential for building trust into the system. Tempus has also helped to create a large number of professional staff highly committed to change and reform. The majority of the 2000 universities participating in Tempus projects have developed internal guidelines for quality assurance, including methods for self-assessment and peer reviews.

In some countries, mainly in the Western Balkans, Tempus has helped to establish genuinely independent national quality assurance and accreditation agencies. However, if quality is to be recognized as a strategic issue at university level, its place within the universities should be more visible, and appropriate levels of human and financial resources should be allocated to it. In many countries of the EU's Eastern and Southern Neighborhood there is still an urgent need to develop effective materials and courses for staff development in quality assurance mechanisms.

Conclusion and Recommendations

It is clear from the above illustrations and findings that Egypt's position towards the partnership with the EU favors the Egyptian economy.

The above analysis shows that the type of partnership analyzed is not only limited to trade, but to other major aspects of development in Egypt.

The European Union is a relatively new world power in the international race with the United States of America, China, and other possible powers. The EU has expanded internally and externally. This is part of the requirement to be a world power, and to provide for economic security. Economic security includes, but is not limited to, securing raw materials, agricultural crops, oil and gas, feeding industry and labor. All this is to be done under an umbrella called "partnership". Therefore, the EU has equal interest with the Mediterranean member states in general and with Egypt in specific. Egypt is the EU's main partner in the Mediterranean.

It is, therefore, recommended that the following be applied for the best benefit of the Egyptian economy:

1. Maximize the use of EU technical and financial assistance in the industrial sector through the Egyptian Industrial Modernization Center (IMC) to reach all factories in Egypt. This means that the IMC must make more effort to reach new clients and not to depend on its current clients. Also, the IMC needs to provide more facilities to attract clients from Egyptian factories.
2. Conduct more studies about the needs of the EU markets.
3. Launch awareness campaigns to inform the nations on both sides – the EU and Egypt – about who businesses and individuals could cooperate with.
4. Egypt should apply an export-oriented policy in dealing with the EU, by producing products needed in the EU markets to be exported to the EU markets. Such products might be produced for export reasons only, and must be chosen on a comparative advantage basis.
5. Provide direct flights to transfer goods and individuals between Egypt and all the 27 EU member states. This is a prerequisite for trade and investment. In fact, currently there is a lack of direct flights between Egypt and some EU member states.
6. Improve the technical cooperation between the two sides by cooperating in research and development. This will improve the quality of Egyptian products, and develop the relationship so as not to be limited to transfer of technology, but to produce technology. This will increase the added value of Egyptian products and the value of Egyptian exports.
7. Put more emphasis on cooperation in the case of education. It is very important to inform Egyptian universities of the possible opportunities for cooperation with universities in the EU member states. It is also important to encourage EU universities to cooperate with Egyptian universities as part of the partnership process between Egypt and the EU.

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