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COMMISSION REPORT TO THE COUNCIL ON THE EXPLORATORY TALKS
WITH THE MEDITERRANEAN COUNTRIES AND THE APPLICANT COUNTRIES

COMMISSION PROPOSALS CONCERNING THE IMPLEMENTATION OF A
MEDITERRANEAN POLICY FOR THE ENLARGED COMMUNITY

(Communication from the Commission to the Council)

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INTRODUCTION

1. In accordance with the Council's decision of 25 January 1983, the Commission has now held exploratory talks with all the Mediterranean countries linked to the Community by cooperation or association agreements, and with the applicant countries. In the following report it outlines the main points generally raised by the countries concerned, and puts forward its proposals to the Council for action along the lines it regards as essential for the continuance of the Community's global Mediterranean policy. These proposals, in accordance with the approach outlined by the Commission in its communication to the Council of 24 June 1982¹, take into account not only the possible impact of enlargement on the functioning of the relations built up under the global Mediterranean approach since 1972, but also the reasons why this global policy has not fulfilled the hopes placed in it and general economic trends since the entry into force of the agreements. The technical data and estimates on which these proposals are based will be presented in a separate communication, together with a detailed account of the positions adopted and the suggestions made by each of the countries concerned. While the talks revealed a broad measure of consensus, both on the nature of the problems and on the general policies needed, the situations of the individual countries nevertheless vary widely, both because of the nature of their agreements and the structure of their trade with the Community, for instance:

Turkey's association agreement with the Community has no equivalent and contains special provisions, notably regarding institutions. Also, the structure of Turkey's trade means it should be little affected by enlargement.

A country like Jordan is looking to the Community for technical, trade and financial cooperation rather than an expansion of trade links.

Yugoslavia's trade problems are just as acute as those of Israel or Morocco, but they are of a different kind, and enlargement will not have the same impact.

The Maghreb countries have coordinated their attitude towards the Community in recognition of their obviously similar interests and because of their common project for the future, to which the Community's Mediterranean policy could contribute, but their immediate problems are not the same.

Israel's worries reflect its very special position.

¹ COM(82)363 final, 24 June 1982.

Egypt is hoping that the Community will allow it to develop its potential, as it feels that it would be seriously and unfairly penalized by the simple maintenance of trade flows calculated by reference to a period when its trade was not geared to the Community.

There is no need to dwell on Lebanon's special problems.

Malta and Cyprus also have their own specific problems and prospects, because of their size, their vulnerability and, in Cyprus's case, the domestic situation and the future direction of the agreement.

I. THE EXPLORATORY TALKS

THE MEDITERRANEAN COUNTRIES

2. Most of the partners made clear from the outset the crucial importance they attach to their preferential relations with the Community and their concern lest the constant deterioration which has taken place in the last ten years should end with the whole relationship being called into question after enlargement. They therefore offered a detailed analysis of the causes of the deterioration, which would again lead to a similar impasse in future relations unless they are overcome. They attribute the failure of the 1972 policy largely to the fact that the Community, faced with recession, did not attempt to resolve the largely common problems in the spirit in which the agreements were concluded, by cooperation with them. Instead it turned in on itself and adopted a policy of protection against all comers, which the Mediterranean countries feel relegated them to the same status as countries without the same links or economic, political or cultural importance to the Community. All these countries referred in this context to the common agricultural policy and to the Community's textile policy, which has severely undermined the credibility of its commitments, removing from the agreements the vital element of security on which investors could have relied. The current state of development of the Mediterranean countries and the outlook for the future, heavily influenced in most cases by population growth rates, mean that whatever these countries' efforts to diversify their trading patterns they must continue to be able to rely on the Community as an export market and hence to count on the maintenance of their acquired rights under the agreements. For following the political choices which they wish to maintain, they see the Community as the major source of their imports of manufactured and agricultural goods, of technology and of services.

3. All of them, therefore, are keen to see the Community's Mediterranean policy relaunched and strengthened since its failure would jeopardize the political choices they have made. Accordingly, they welcomed the new procedure represented by the exploratory talks, seeing it as a sign of the Community's desire to take the interests of its preferential partners into consideration and confirm the special relationship it wishes with the Mediterranean countries as a whole.

A. SPECIFIC COMMENTS BY THE PARTNER COUNTRIES

(a) Trade

4. The Mediterranean countries were unanimous in their view that where trade was concerned the 1972 overall approach had not given the results expected - as witness their growing trade deficits with the Community and the import restrictions which balance of payments problems have forced most of them to adopt, hindering development.

5. They offered three main explanations for this state of affairs.

First was the "erosion" of their preferences as a result both of the extension of the initial concessions to all Mediterranean countries, and of concessions to other developing countries.

Secondly, industrial trade had suffered from the protectionist attitude of the Community - already mentioned - which had hit the Mediterranean countries although there was not proof of their responsibility for the problems, and little thought had been given to complementarity of interests between the Community and its preferential partners.

Thirdly, in the agricultural sector, although increases had been recorded, the Mediterranean countries regarded the performance of their exports to the Community as having been most disappointing, particularly given their production potential and the scope for increased sales to Europe which an international division of labour truly reflecting comparative advantages would have allowed. All the countries concerned pointed in this connection to the increasingly protectionist operation of the CAP, as reflected in the steadily widening gap between frontier prices and market prices. The CAP had resulted, they said, in "production increases and the creation of surpluses, regardless of the market situation and the interests of traditional preferential suppliers", forcing them to hold down their exports and sometimes to sell at a loss.¹

¹In this connection Tunisia mentioned olive oil and Yugoslavia baby beef.

In addition, they all also complained of the export refunds which enabled the Community to compete with them on third-country markets, towards which it had itself sometimes urged them to turn; they felt that "the Community's somewhat unpredictable export policy had become at least as dangerous as its import policy".

(b) Social policy

6. Relations in this area were felt to be unsatisfactory, owing in the first place to the position the Community has taken on equality of earnings and of social security rights, but also to the manifestations of hostility and of racism directed towards immigrant workers throughout the Community. Every country which had a sizeable contingent of its workers in the Community regretted "the failure of the Community authorities to speak out against movements which traded on the public's ignorance of the real facts about immigration." All these countries also deplored the measures taken in certain Member States to try and push workers to return home which, in their view, smacked of compulsion rather than choice.

(c) Cooperation

7. Turning finally to cooperation, our partners made a point of mentioning the somewhat sporadic and limited nature of the measures of economic cooperation undertaken in some sectors. They were generally prepared to accept some measure of responsibility themselves for this state of affairs, which they considered particularly regrettable in that recession should have prompted a stepping up of cooperation.

8. All drew attention to the modesty of the sums made available for financial cooperation, and the trend towards less generous terms of aid. Israel and Yugoslavia also mentioned the lack of any provision for the financial support of cooperation activities. This state of affairs was exacerbated by the slowness of procedures which, although things had improved as the recipients gained experience, lead to inflation eroding the value of the aid still further.

(d) The impact of enlargement

9. All our interlocutors stressed that enlargement had an important part to play in stabilizing and thus enhancing the security of the region and, they hoped, in increasing the Community's sensitivity to its needs.

Similarly, the two applicant countries' traditional ties with the Arab world raised the hopes of certain partners that the Community might become more active in seeking solutions to the problems which continued to divide certain countries in the region.

Some of our Mediterranean partners already have substantial economic links with the applicant countries, Spain particularly; these have intensified over the past few years, a trend which should be encouraged by the incorporation of these links into the preferential agreements of the Community.

10. Having said that, the Mediterranean countries were unanimous in asserting that Portuguese and Spanish membership would accentuate most of the problems at the root of the crisis in their relations with the Community. There would be an increase in the number of sensitive sectors, freedom of movement for Portuguese and Spanish workers, a paring down of the money available for financial cooperation and, above all, the risk of a proliferation of the sort of measures which in the past have blocked the application and development of the agreements. That would be very serious for them, since it could only exacerbate the recent tendency of investors to transfer their investments to the applicant countries, to whom such measures would no longer apply. The aim of the agreements, to contribute to our partners' development, would be frustrated by such a deviation from the objectives set together by both sides.

In agriculture, apprehension is mainly aroused by the prospect of the development of Spanish production (whose potential is generally judged to give cause for concern even if assessments of it vary greatly) with the consequences that would have on the Community's future attitude. In this connection the recent revision of Community legislation, undertaken with a view to enlargement, was felt to be a bad omen.

11. That said, noting that competition from the applicant countries (and in particular from the Mediterranean sector of Spanish agriculture) continued to intensify as it had in the past, they considered it of the utmost urgency to put an end to the procrastination of the last few years. This was in order to tackle, within the framework of a revised Mediterranean policy, all the existing, and worsening, problems, the nature and development of which required a concerted approach by all parties.

B. SUGGESTIONS MADE BY THE PARTNER COUNTRIES

12. All the partners, in putting forward their suggestions, pointed out that developments were continuing and it was impossible for them at this stage to give their definitive views. Their first request was therefore that the procedure of consultations in parallel to the enlargement negotiations should continue.

All were keen even at this stage, however, to emphasize their support for the guidelines the Commission submitted to the Council in June 1982, which took account of their concerns.

13. With regard to the incorporation of these principles in the agreements, they offered the following comments on the various sectors:

(a) trade

The guarantee of access for their exports to the Community market formed the very foundation of the agreements.

In the industrial sector this should mean:

- (i) in the short term, a return to both the spirit and the letter of the agreements in areas where the Community had imposed restrictions incompatible with its commitments;
- (ii) in the medium and long term, the establishment of a dialogue which would allow the parties to act jointly in good time to prevent the emergence of crises and the systematic use of the safeguard clause; also the creation of a suitable framework for the development of concertation on the industrial policies of the Community and the partners, that would allow both sides to make the most of their comparative advantages.

As for agricultural exports, access to the Community market was vital for these countries, and required that their products be accorded like treatment to that given Community products. In return they would be willing to play their part in the necessary discipline which producers all round the Mediterranean basin were going to have to accept.

As regards exports to third markets, they wanted more coordination of export policies between the parties to allow them to follow, with greater security, policies for reorientating exports and diversifying outlets.

To supply their domestic markets, they called for support for their strategies for agricultural development and self-sufficiency in food, in the form of:

- (i) multi-annual contracts for the supply of basic commodities, on stable terms at least as favourable as those accorded them by other suppliers;
- (ii) technical cooperation, supported by specific funds, to provide a stimulus for the necessary reconversion in economically and socially acceptable conditions;
- (iii) a more suitable food aid policy.

(b) social policy

The main requirements expressed were:

- (i) rapid implementation of the agreements;
- (ii) a vigorous information campaign, to resist the hostility being stirred up against their nationals. Some of the countries concerned also wanted a formal declaration at the highest Community level acknowledging the contribution which immigrant workers have made to the Community's economic development;
- (iii) a policy of consultation and coordination to create the best conditions for voluntary return, no form of compulsory repatriation, whether direct or disguised, being acceptable.

(c) financial cooperation

The financial protocols were a necessary backing to cooperation and all the partners felt they should be improved, in terms both of the amount and conditions of aid and more flexibly applied. A general demand was that each partner be allowed to

participate in the realization of protocol-financed projects in other Mediterranean or developing countries.

(d) multilateral cooperation

In connection with trade issues in particular, our partners - especially the Maghreb countries - pointed out the desirability of promoting at regional level the multilateral cooperation which was essential for the success of industrial and agricultural development strategies.

They also called for the study of ways of working towards multilateral cooperation involving the whole Mediterranean area, or various parts of it. In this connection the three Maghreb countries, Israel and Yugoslavia supported the Commission's views on the desirability of using existing public or private bodies, or indeed of setting up such bodies where a need was felt. The need for a financial "lever" to promote regional measures was also mentioned.

POSITION OF THE APPLICANT COUNTRIES

14. The Commission informed the applicant countries of the tenor of the talks and the suggestions put forward by the Mediterranean countries. Both Portugal and Spain first emphasized that the obvious need to find ways of consolidating the Mediterranean policy must not be allowed to become a drag on the accession negotiations. Subject to that they expressed their willingness to deal with the problems even now, and contribute to the search for solutions, it being understood that the responsibilities involved in implementation of those solutions must be equitably shared within the enlarged Community.

15. Portugal: Given "the obvious interest of maintaining and consolidating a coherent Mediterranean policy for the enlarged Community, which Portugal fully shares", the Portuguese delegation felt it was important to give timely consideration to the problems of substance posed by relations between the Community and the Mediterranean countries, provided the various procedures were kept independent and the solutions severally arrived at were consistent.

On the substantive issues, Portugal approved the general objectives set out by the Commission in 1982 and would examine ways of implementing them, taking into consideration notably the treatment it was itself accorded as a member of the Community.

As regards industrial trade, the Portuguese delegation noted that imports into the Community from the Mediterranean countries enjoyed special treatment which Portugal had no intention of calling into question. Portugal's real problem was how to use the transition period to restructure its own industry. This restructuring was necessary for smooth integration into the Community and would help prevent the emergence of conflicts of interest with the Mediterranean countries. It thought the Community, in agreement with the Mediterranean countries, should provide backing for the development of economic activities geared to the satisfaction of domestic demand, which was currently met by imports, an approach which, felt Portugal, could also be advantageous to Community industry.

With regard to the agricultural sector Portugal, having pointed out the structural shortcomings of its own agriculture, felt that despite the problems posed by Mediterranean products and their impact on the CAP the preservation of trade flows was both a necessary and a realistic objective.

Portugal also pointed out the potential benefit the Mediterranean countries could derive from the opening up of a market which was currently more or less inaccessible to them.

In conclusion, the Portuguese delegation confirmed its willingness to continue a flexible form of dialogue on the Mediterranean dossier, on the basis of the comments and positions put forward by the countries concerned and the Community guidelines to be adopted with regard to them.

16. Spain: the delegation confirmed Spain's interest in and willingness to deal immediately with problems that concerned a region of great importance to it and with relations which it was keen to see maintained and strengthened after accession. It pointed out that political stability in the area was a cornerstone of Spain's foreign policy, and Spain realized this would depend

very largely on economic stability and a tolerable balance of trade situation, which in turn were crucially dependent on these countries' relations with the Community.

The Spanish delegation said it understood the partners' analysis of, and concern with, the results of the global policy which had been adopted in 1972, pointing out that Spain was keen to see the Mediterranean policy become a sound basis for the general economic development of the Mediterranean region. In that connection it felt that, while agriculture would continue to be extremely important in the short term, the Mediterranean countries' development would be essentially dependent on industry. It was therefore Spain's conviction that the Community could and should play a part in their industrialization process by adapting better than in the past its actions to these countries' needs and to the choices they have made quite independently. The delegation said the development of special relations with the Mediterranean countries would be an important element in the Community's own development, once the few initial problems had been surmounted.

On trade, the delegation said it was aware that the Mediterranean countries' development would depend to a considerable extent on an improvement in the balance of trade with their main trading partners, especially the Community.

The Spanish delegation believed the opening up of the Spanish market would be of great importance to these countries, particularly in the industrial sector, as demand in Spain was less sophisticated than in the Community, provided that they could get over their marketing deficiencies - here Community cooperation could have a role to play. The delegation said that from 1976 to 1981 Spain had trebled its imports from the Mediterranean area and thought this trend would continue still more strongly after accession.

On agriculture the delegation pointed out the difficulty of taking a position at this stage, particularly given the situation of this dossier in the accession negotiations. However, once the present differences of treatment between Spain and the other Mediterranean countries on the Community market had been eliminated and the Community as a whole had agreed to accept the consequences of the new policy for these countries, Spain was prepared

to examine all the issues together with the other Member States and to seek the most suitable solutions, accepting its due share of the responsibilities. The delegation also emphasized in this connection that it was desirable whenever possible to favour measures which would not lead to the creation of further surpluses, and with this end in view encourage reconversion in the Mediterranean countries as well in order to meet their domestic demand for food.

II. THE COMMISSION'S APPRAISAL

17. The Commission does not agree with all the criticisms levelled at the the Community in order to explain the disillusionment felt over the results of a decade-long preferential relationship. Such criticisms ignore the unquestionable efforts which the Community has made, in spite of frequently difficult circumstances, to take account of the special nature of its relations with its Mediterranean partners and which are reflected in the results, less negative than their analysis of them would suggest, in the context of the Mediterranean approach.

It is not true, for example, that the Mediterranean countries have been treated, as they claim, without any regard for the specific nature of their agreements, particularly in the context of the textiles policy which has not prevented them from steadily increasing their exports.

In the case of agriculture, the problems encountered by the Community in the Mediterranean products sector may not have allowed the agreements to be implemented dynamically in the manner urged by the partner countries, but have not led to a general decline in their exports, which, on the contrary, have increased. Moreover, it is not always true that the problems encountered, on the Community market as well as on that on the non-member countries, have been systematically caused by the application of CAP measures. The performance of other suppliers subject to the same rules shows that a certain inability on the part of the Mediterranean countries to adjust to changes in demand has sometimes been the basic reason for the loss of some markets. This is, for example, shown by the fact that the Community's withdrawal, at the request of associated countries, from certain markets in other countries has resulted in both parties losing the market to a third supplier.

Furthermore, the Commission cannot accept the criticism made by the partner countries concerning "the erosion of their preferences and the compensation that should follow". It has not failed to remind them that by concluding agreements with them, the Community has never had the intention of restricting its capacity to act in the field of external relations and that moreover, the development and the comprehensive nature of the agreements, supported by cooperation, especially financial cooperation, have preserved the special nature of the Community's relations with them, compared with the relations it has with the main countries or groups of countries whose competition they fear on the Community market.

In this connection, the Commission has also taken care to stress that the real significance of financial cooperation cannot be measured solely on the basis of the sums available under the financial protocols in relation to the needs of the recipient country, but that account should be taken of the overall impact and multiplier effect of the aid, which, by the very fact of its existence, mobilizes other sources of funds. Furthermore, Community aid must be viewed also in the light of aid provided by the Member States either bilaterally or through other international organizations in which they participate. It has also to be said that the slow implementation of financial and technical cooperation, which has been the subject of criticism, results partly from procedures internal to the partner countries themselves.

18. With regard to the applicant countries, the Commission must first of all stress the positive attitude which they have adopted towards the Mediterranean policy, their appreciation of its importance and their willingness to assume their share of responsibility and of the efforts needed for its implementation. The Commission, moreover, can only endorse their view that discussion of this issue must not delay further their accession. It is necessary in this regard to note the evolution of the Mediterranean countries' own thinking; all of them have expressed the wish to see an end to the uncertainty they have experienced since the beginning of the process of enlargement of the Community.

This is an approach fully shared by the Commission, which has constantly stressed, on all occasions when this issue has been raised, the damaging effects of any dilatory measures or procedures.

Moreover, although it is true that the Mediterranean countries will be able to derive certain benefits from the opening-up of the new Member States' markets - as the Commission itself pointed out in the talks - the fact is that such benefits can do little to offset the more broad-based fears expressed by the Mediterranean countries, for the advantages will be relatively spaced out in time and will not benefit all the partner countries in the same way.

19. Leaving aside these criticisms for the moment, the high degree of convergence of the positions expressed by the various partners with regard to the analysis of the results achieved by the agreements currently in force, to the approach towards enlargement and to the action to be taken in the future, constitutes an important political fact which must be taken into account.

The need to dispel some misunderstandings, to reestablish a trust that has unquestionably been shaken and to reaffirm the credibility of the Community's commitment is all the greater since the importance attached by all the partners to the Mediterranean policy has been reaffirmed beyond doubt. The very concept of the global policy, based on the common interest of all the countries in the region and on total respect for their internal and external political choices, relieves each of them of the political fears that too great an economic dependence on certain markets can engender. To this extent it considerably enhances the importance of the bilateral link binding each country with the Community and is felt to be a vital and irreplaceable factor for the development of the Mediterranean region as a whole.

The corollary of this assessment, which the Commission shares, is that each party, and in particular the Community, is committed to making every effort to avoid any dislocation of this network of relationships, at a time of increasing instability in this region of prime importance for the peace and prosperity not only of all the countries that make it up but also, as the Spanish delegation has pointed out, of the Community itself.

20. This attachment to a political project whose aims are still valid but which has still been only partially realized, means therefore that a number of responses must be made both immediately and in the longer term to the requests of the partner countries.

The first concrete request by all the partner countries concerned procedure, all parties stressing the need for the accession negotiations and consultations with them to be conducted in parallel.

The Commission delegation has urged, in the talks, the need to avoid making the procedures too cumbersome and to take account of the requirements of the negotiations with the applicant countries, with whose rhythm excessively rigid parallel procedures would not be compatible. This said, the very logic of the procedure set up requires a certain continuity of the process now begun; to break with this logic would have serious political consequences, since the partner countries would see thwarted the hopes that they had entertained as a result of the decision to listen, in good time, to what they had to say. The Commission intends therefore to continue the dialogue on the essential issues, with both the Mediterranean countries and the applicant countries, so that the exchanges of view kept abreast of developments in the analyses and positions of the partner countries. The Commission will be sure to keep the Council informed, through the most direct channels, of those countries' concerns or suggestions and of its assessment of them.

The second response concerns the trust which the partner countries, and in particular investors, should place in the agreements. It is true that, apart from the fact that criticisms on this subject have contained points of misunderstanding or even exaggerations, the Community's credibility has been damaged and it is necessary to take this into account in the future; for if investors were unable to rely on the promises made in the agreements in their planning, the agreements would not be achieving their objective. The Community obviously welcomes the fact that a process of foreign investment in the applicant countries is under way because of accession. However, the switching of an investment from an associated country to an applicant country with the sole aim of sheltering it from certain measures which could no longer be applied in the latter would certainly not represent a success of Community policies but, on the contrary, a serious failure of the Mediterranean policy. This is because, although the partner countries have considerable fears about the effect of enlargement in the agricultural sector, which is currently of prime importance and will always be very important for them, the realization of the hopes which they have placed in the agreements depends rather on the opportunities offered by the industrial clauses, which is where the real potential of the Community's contribution to their development lies.

21. Against this background, the Commission sets out below its proposals for each section of the agreements, first and foremost the trade section. About this it pointed out, in its communication of 24 June 1982, that "it is on the operation of the trade clauses of the agreements that the success of the Community's Mediterranean policy must depend". The proposals take account of both the political impact of the Community's Mediterranean policy - both on the Community itself and on all the western countries - and the economic importance of the Mediterranean region to the Community. The Mediterranean countries as a whole take some 10% of the Community's total exports and the Community has run a trade surplus which rose from around \$3 000 million in 1973 to about \$11 000 million in 1979. This fell to \$8 000 million in 1980 and has since declined further as a result of the substantial reductions made by our partners in their imports of industrial goods, which was forced on them because of their balance of payments situation. This trend is a serious one for them in so far as it could not continue without endangering their development, but at the same time it is harmful to the Community, which provides the bulk of their imports, and not only industrial products but also agricultural products supplied on normal market terms.

III. PROPOSALS

The industrial sector

22. The import of industrial products duty free amounted to recognizing the interest of the industrial development of the Mediterranean countries, through specialization based on relative competitiveness. If the Community market were closed or not open enough, this would be an additional hindrance to their development, no matter what efforts they might expend to make their industrial development more self-reliant (on a national or subregional basis). It would therefore be of no avail to allay their fears as regards agriculture without making sure that the industrial sector functions dynamically.

In its Communication of 24 June 1982 the Commission stressed the need to confirm the openness of its market, as laid down in the agreements. The continuing recession must not, despite the difficulties, cause it to renounce the objective of the global Mediterranean policy of 1972. Not only is the pursuit of this objective essential to the development of the Mediterranean countries, but the trade relations developed under the

Mediterranean agreements are also highly advantageous to the Community. In addition, over and above this confirmation of the opening-up of the market, three types of measures must be adopted.

23. In the case of textiles, the Commission has said that, although it is impossible to envisage renouncing, in the immediate future, the regimes introduced under the Community's textiles policy, thinking about the future should now begin. This should be done in the context of our future relations with the Mediterranean countries, with account also being taken of the Community's internal and external textiles policy after 1986.

This having been said, the Community should envisage, so far as is possible, returning to the normal regime of the association or cooperation agreements, to be negotiated and administered within the framework and in the spirit of these agreements, in accordance with the specific objectives of the Mediterranean policy.

The return to the normal regime should be inspired by the progressive liberalization of trade between the present Community and the new member states. It should also take place in parallel with the introduction of greater industrial concertation, so that further disruption, such as that caused by development projects which are incompatible with foreseeable outlets on the Community market, can be avoided.

24. Secondly, it is essential to improve concertation, so that developments in sensitive sectors can be followed more closely and also so that agreement can be reached on the measures to be taken in order to prevent, as far as possible, situations in which the safeguard clause is the only recourse left.

In the case of products which could at a later stage prove sensitive and require temporary measures of trade regulation, arrangements inspired by the provisions of article 20 of the agreement with Yugoslavia¹, among other things, should be provided for in the other agreements.

¹See Annex.

It would not be a matter, of course, of going back on the principles embodied in the agreements, since such provisions should not come into play unless the cooperation described above has failed to prevent a crisis in a given sector.

25. Lastly, the Community must reaffirm its determination to maintain the preferential nature of the Mediterranean agreements and accept the consequences. These agreements signify in the first place that any difficulties which may arise in their application should be dealt with by the procedures and the measures which they lay down. They also mean that in the event of a crisis the contractual partners should not be subject to measures which in practice are tantamount to suspension of the agreements, if the partners did not play a part in the emergence of the crisis which could justify such measures.

In order to take these requirements into account, the Community must therefore make sure that the commitments it envisages taking relative to other countries are coherent with those it has already taken and with the possibility of honouring them all without creating unbearable strains on its markets.

The agricultural sector

26. The Commission notes that the analysis and guidelines which it presented in 1982 concerning agriculture have been very substantially confirmed by the exploratory talks. This is true both of the need to consolidate export flows, allowing the products concerned effective access to the Community market, and also of the aims and means of cooperation.

27. Effective access to the Community market, particularly in a situation of saturation, requires the protection mechanisms defined under the CAP to be modulated to enable the products concerned to enter into competition with Community products. The Commission therefore proposes that for the products covered by the agreements in force and for the quantities equivalent to the Mediterranean partners' traditional exports, the future preferential regime should provide for such a modulation of the operation of the mechanisms in force at the Community's frontiers, whether these are customs duties or any other additional or alternative measure. The rules for applying such measures should be tailored to the specific requirements of each sector, and should include provisions which would prevent the partners' products from being offered at prices not justified by the objective sought, and which could cause prices on the Community market to collapse. The quantities to be fixed, for each partner, must be determined on the basis of previous exports, calculated from the average for five representative years, with the possible exception of certain special cases, such as Egypt or Lebanon.

This concession could be managed by using the procedure of ceilings, which is applied to industrial imports under certain agreements. This means that, if the ceiling has been reached, the regime defined by the agreements currently in force (i.e. a regime which already involves an element of tariff concession) is reestablished as soon as a Member State or the Commission so requests.

This concession should come into full effect at the moment when the same products from the new member states are fully covered by internal Community arrangements. It will therefore have to be implemented gradually during the transitional period provided for in the acts of accession, so as not to cause discrimination against the candidate countries.

Such arrangements would, in the Commission's opinion, be both necessary and sufficient whenever Community preference is ensured by specific mechanisms at the Community's frontier, as is at present the case for fresh fruit and vegetables and wine, in particular.

28. The case of olive oil, however, is more complex. Following enlargement, this product will be in a particularly difficult situation in the Community, and outlets are relatively limited. The fact is that this product is of vital importance to Tunisia, which will remain the only sizeable producer and exporter outside the Community. The Community market is consequently indispensable to Tunisia and will remain so for many years. At the same time, it would be illusory to count on the growth of outlets capable of absorbing the surplus in the foreseeable future. Hence it will be necessary, under the cooperation arrangements, to establish with Tunisia measures of Community support both for consumption of the product in Tunisia itself and for conversion of the olive-growing areas of this country.

In the meantime, until such a policy brings substantial results, it is vital that access to the Community market for the quantities traditionally exported by Tunisia be maintained;

To take account of all these considerations, the Commission considers that a guarantee of purchase should be granted Tunisia, as such a measure would entail fewer disadvantages than a preferential regime, which, in order to attain the objective sought, would have to apply to all the measures affecting the conditions of competition between Community and imported products. This Community guarantee should be degressive and complementary to Community support for olive oil consumption in Tunisia, so that the country can adjust without harmful economic or social upsets to the trend of the market for this product.

29. The proposed mechanisms should not however block changes in market situations. It will be necessary to introduce, in the framework of cooperation, every measure that would improve the situation as soon as possible. This involves the Community's participation in measures designed to reduce the difficulties: the reconversion of production, winning of alternative markets, encouragement of domestic consumption.

30. The Commission is fully aware of the difficulties which the need for such arrangements creates for the Community. It nevertheless considers that without such an approach it will be impossible to avoid jeopardizing trade between the Community and the Mediterranean countries, and this trade is an essential element of the Community's Mediterranean policy. It cannot be denied that such an outcome would bring the Community, in political, economic and social terms, far more serious disadvantages than the regime proposed by the Commission for the agricultural sector. The Commission also wishes to emphasize:

- (i) such an approach is not without precedent;
- (ii) since it is a matter of consolidating traditional export flows from the Mediterranean countries to the Community, which already absorbs the bulk of the candidate countries' exports, this concession should not in itself be a source of market disturbance or an incentive to increase production;
- (iii) the Mediterranean countries have stated that they are ready to cooperate with the Community in disciplining production and marketing, which should prevent any significant deterioration in the market at Mediterranean level.

Cooperation

31. Cooperation, which is an essential factor in the system of relations between the Community and its Mediterranean partners and was instituted in 1972 as part of the overall Mediterranean approach, has only partially attained its objectives, as the exploratory talks have shown. It is therefore essential to redefine it in function of the development desired of these relations, especially since the circumstances surrounding the future development of relations between the Community and the Mediterranean countries will probably prove difficult.

32. Trade cooperation must obviously be aimed at ensuring that the expansion of trade, the fundamental objective of the agreements, comes about as smoothly as possible and with minimum conflict. This means that each side should seek as much complementarity as possible, and that concertation should be intensified so that crisis situations can be avoided by more suitable measures to deal with dangers of market disturbance. In order to fulfil these objectives better, the Commission proposes, first of all, to take as a model Articles 5, 7, 39 and 52 of the EEC-Yugoslavia agreement when the agreements are revised.

¹ See Annex.

Trade cooperation should also direct production in the Mediterranean partners' countries, as far as possible, towards meeting domestic requirements and towards developing trade among the Mediterranean countries. This objective will be met all the more fully as the integration of regional markets within the Mediterranean region develops. For this reason the Community must use all the means at its disposal to support these countries' efforts in this direction, notably by favouring projects which could further such integration.

33. Scientific and technological cooperation should have a bigger role in relations between the Community and the partner countries, as a means of answering the latter's development needs. Scientific and technical cooperation operations were mounted under the first financial protocols, and this kind of cooperation should continue not only within the framework of the protocols but also in a more general way using the other budgetary resources available.

Scientific and technical cooperation should in fact be the means of providing new solutions in basic sectors such as agriculture, industry, medicine, energy, environment, information and training. The strengthening of indigenous scientific and technical capacity must, however, remain the priority aim to be pursued, in order to establish the right conditions and an appropriate climate for the transfer of technology. Technological innovation can play a constructive role in the economic and social development of the Mediterranean countries only if it meets the real needs of the population and is integrated into existing structures.

Cooperation will therefore have to be aimed at helping to strengthen indigenous scientific and technical capacities at both the human and material levels, and also at stimulating the transfer of technology. Increased assistance for scientific and technical infrastructure, the training of specialized scientific personnel and the exchange of relevant information must be one of the prime aims of such cooperation and at the same time a key component of it.

34. Industrial cooperation: the establishment and strengthening of industrial links between the Community and its Mediterranean partners is vital to the development of a stable economic relationship founded upon long-term considerations. The Community has but limited scope for direct

industrial cooperation measures, since such cooperation is entirely a matter for the business world. However, it must make every effort to encourage the process by suitable means (including symposiums, the supply of information and market studies to interested businessmen, and the promotion of all the appropriate types of contact). In particular, it should try and encourage the setting-up and development in the Mediterranean countries of small and medium-sized enterprises (SME), which have an enormous role to play in these countries, particularly in subcontracting and in fostering indigenous development and job creation. This measure should cover both small and medium-sized European firms wishing to establish plants in the Mediterranean countries and aid for the establishment of indigenous SME in those countries, through increased emphasis on operations in this field already undertaken in the framework of financial cooperation.

Particular attention should be given to exploring the scope for concertation and cooperation in two sectors, food processing and mining, where there are real common interests and complementarity.

There are also, of course, the measures mentioned in paragraph 38, which could be used to provide incentives for private Community investment in the Mediterranean countries. In any event, the Community will have to give preference to individual, specific projects requested by our partners which are in the mutual interest of the parties.

35. Agricultural cooperation should be particularly strengthened and conducted with a broader end in view, the fostering of complementarity and conversion whenever possible but taking into account the partner countries' limitations and constraints, and the diversification of markets and the reduction of dependence on food imports. The Community should heed the wishes of most of the Mediterranean countries, and direct agricultural cooperation more towards providing support for their food strategies.

This should be backed up by specific financial cooperation measures, food aid and long-term contracts for the supply of foodstuffs on terms at least as favourable overall as those on offer from other suppliers. It is conceivable

that the very fact of seeing their exports to the Community consolidated might allow the third Mediterranean countries to consider making the Community their first choice as supplier, on the basis of multiannual contracts.

Accordingly, the Community should take another look as soon as possible at the question of long-term contracts, as this would enable the Mediterranean countries which have shown interest to programme their supply of essential products within a multiannual framework; this would be a major contribution to the stability and security of their supplies.

36. With those ends in view it would be very much in the interests of all parties, first and foremost the Community itself, to develop a system of multilateral cooperation among all the producers in the Mediterranean area, the main aims being to prevent over-concentration on sensitive industrial sectors and provide better control of agricultural production trends so as to avoid the build-up of structural surpluses which the market could not absorb in acceptable conditions and to improve the coordination of marketing seasons.

In this connection the Commission mentioned in its 1982 communication the possibility of arranging joint meetings of the various institutions set up by the agreements, in particular the Cooperation and Association Councils or Committees. It continues to support this idea. Ways of putting it into effect will have to be discussed with the partners, but should be as flexible as possible to respond to circumstances.

The Commission would also point out the interest the institutions that manage the agreements would have in making use of the work done by private or semi-public bodies in which Mediterranean countries (present and future Member States and non-members) are represented, since such bodies have the facilities and experience to undertake the technical work necessary for taking decisions. It would, for example, be desirable to promote in the various sectors the establishment or development of bodies such as already exists for citrus fruit.¹ Within these bodies, trade representatives and officials from the different participant countries could exchange at regular intervals information on production, supply and demand, and thus

¹CLAM: Liaison Committee for Mediterranean Citrus Fruit Culture.

help to make markets more transparent. The Commission will present at a later stage proposals for implementing such an approach.

37. Social affairs: in the Commission's view, the function of cooperation on social matters should be, firstly, to integrate immigrants more fully into the economic and social fabric of the host country in the case of those that choose to remain, and secondly to provide measures to help those wishing to return to their country of origin to overcome the difficulties connected with returning home; there should be no policy of systematic or compulsory repatriation.

As regards integration in the host country, the Community should encourage the coordination of existing or planned bilateral measures, with the main purpose of increasing the scope of protection to be accorded to migrant workers. The aim essentially would be to do everything possible to help workers wishing to stay in the Community to adapt, while leaving the option open to them to return home.

It would be necessary to provide for, in particular

- (i) the intensification of language teaching;
- (ii) the reorientation of advanced training and of the upgrading of skills so to ensure a better long-term match between job supply and demand.

Assistance for repatriation would involve cooperation with the countries of origin in the matter of job creation in those countries and support for vocational training, to help SME and artisanal firms in particular, and assistance to help workers overcome the cultural problems of re-integration in their countries of origin.

The funds could be provided through trilateral arrangements (country of origin, host country and Community) along the lines of the European Social Fund operations carried out to help Community migrants since 1974.

Lastly, the Commission feels that the Community will need to make a formal acknowledgement of the contribution made by immigrant workers to the Community's development and condemn the racist attitudes of which they are increasingly the victims. Such a statement should be made at an early date by the European Council itself.

38. The Community will have to increase its direct contribution to financial cooperation, whose terms will also have to be improved. This direct financial cooperation, which reflects the Community's desire to play a part in its partners' development, meets a desire forcibly expressed by all of them during the exploratory talks. These highlighted the fact that the extent to which the Community can contribute to the economic and social development of its partners and works out with them a strategy based on complementarity of interests will constitute the decisive test of its commitment both to an overall Mediterranean policy and to meeting their individual expectations. The cornerstone will be the interaction of the trade and cooperation elements. A return to the concepts originally underlying the Mediterranean agreements supposes a Community market fully open to industrial imports from the countries in the area. This is bound to provide an incentive for an increase in direct private investment in them, provided that the legal and administrative conditions are felt to be right. If certain protective measures are maintained, on the other hand, the Community will hardly be able to avoid providing compensation in some form or other, since it would be breaching the whole purpose of the agreements, which are based on acceptance of market forces.

In a number of Community fora ideas have been put forward for increasing the volume of Community official assistance through channels additional to the conventional financial protocols. The Commission is considering the various possibilities and will put forward its proposals at a later stage.

The Community should also be looking for ways of stimulating private investment. The Commission has had occasion elsewhere to indicate the importance of effective action of this kind for cooperation in general. The Community should, for instance, provide more information for Community

investors on investment conditions in the countries concerned, help establish in close collaboration with the governments of the countries concerned, the means of mastering or simplifying procedures and of following up foreign investments, and consider setting up facilities for guaranteeing investments against certain risks.

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39. This Communication is not seen as the final word on the nature and scope of the problems involved in consolidation of the Mediterranean policy. Consideration of them has been going on since the start of the enlargement process, and must continue.

In this context the Commission must, moreover, reiterate what it pointed out in its Communication of June 1982: given the regional disparities that exist in the Community, the development of the Mediterranean policy presupposes making a rigorous effort to restore balance in favour of the less-developed regions. Otherwise the overall advantage derived by the Community from its economic relations with the Mediterranean countries would conflict with the internal policy of convergence which is, moreover, being promoted through a strengthening of Community solidarity. The Mediterranean regions of the Community are, on balance, more exposed than the rest to the consequences of the southward enlargement of the Community and of the Community's Mediterranean policy. Consequently, their situation calls for specific measures. It was in response to this need that the Commission sent to the Council in August 1983 its proposal on integrated Mediterranean programmes.¹

The debate on external Mediterranean policy must not only continue but must involve our Mediterranean partners and, of course, the applicant countries, and be conducted on a level appropriate to what is at stake - something of which the Community is not yet sufficiently conscious. The network of relations the Community has constructed with the countries of this area, where a return to balance and stability is so vital to world peace, both gives it special responsibilities and considerably amplifies the role of the Member States in this regard. It is also an important factor in the process of economic growth and recovery in the Community itself.

¹ COM(83)495 final of 16 August 1983 and COM(83)641 final of 3 November 1983.

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 growth of political will to deal not only with the immediate consequences, important and difficult as they are, but also with the long-term aspects, the fundamental interests of the Mediterranean countries as a whole, set against which the cost and sacrifices to be borne in the short term can be rightly seen as very modest.

COOPERATION AGREEMENT BETWEEN THE EUROPEAN COMMUNITY AND YUGOSLAVIA

Article, 5 (1), Last indent

1. The purpose of cooperation in the industrial field between the Community and Yugoslavia shall be to promote in particular:

- the exchange of available information on short- and medium-term prospects and forecasts for production, consumption and trade.

Article 7

1. The main aims of cooperation between the Community and Yugoslavia on agriculture shall be:

- to encourage scientific and technical cooperation on projects of mutual interest, including projects in third countries,
- in particular, to promote mutually advantageous investment projects and in that connection encourage efforts to find points of complementarity.

2. To this end the Community and Yugoslavia shall:

- step up the exchange of information on the guidelines of the respective agricultural policies, including short- and medium-term production, consumption and trade forecasts,
- facilitate and encourage the study of practical schemes for cooperation in the mutual interest of the Parties,
- encourage the improvement and broadening of contacts between economic agents.

Article 20

1. For certain products which it considers to be sensitive, the Community reserves the right to call upon the Cooperation Council to determine such special conditions for access to its market as may prove necessary.

The Cooperation Council shall determine the conditions in question within a period not exceeding three months from the date of notification. Failing a decision by the Cooperation Council within that period, the Community may take the necessary measures. However, such measures may not be wider in scope than those applicable, in respect of the products in question, pursuant to the provisions of Protocol 1 under the conditions laid down in that Protocol. 7 annual tariff ceilings 7

2. For the purposes of applying paragraph 1, the Contracting Parties shall hold periodic exchanges of information in the Cooperation Council before determining, if appropriate, special conditions for access by the products concerned to the respective markets of the Parties. The Contracting Parties shall exchange information in particular on trade flows and medium- and long-term production and export forecasts.

3. The Cooperation Council shall examine periodically the measures taken under paragraph 1 to ascertain whether they are compatible with the objectives of the Agreement.

Article 39

In the event of a sudden and very substantial worsening of the trade imbalance which is liable to jeopardize the smooth functioning of the Agreement, the Contracting Parties shall hold special consultations within the Cooperation Council to examine the difficulties that have arisen with a view to keeping the Agreement functioning as normally as possible.

Article 52

Where, in the course of the exchanges of information provided for in this Agreement, problems arise or seem likely to arise in the general functioning of the Agreement, particularly in the trade field, consultations shall take place between the Contracting Parties in the Cooperation Council with a view to avoiding market disturbances in so far as possible.