Editorial/*Editorial*

Agricultural Liberalisation and Euro-Mediterranean Cooperation Agenda

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The agricultural trade liberalisation in the Euro-Mediterranean area has recently gained a renewed political *momentum*. In 2005, a roadmap for agriculture was adopted and, in 2006, the European Commission started new negotiations with the Mediterranean Partner Countries. The Luxembourg roadmap aims at achieving full reciprocal trade liberalisation for agricultural fresh and processed products, with the exception of a limited number of sensitive products in order to avoid a negative impact on the social and economic equilibrium existing in certain regions. It is foreseen that the pure liberalisation process will be combined with complementary measures for rural development, quality improvement, food safety enhancement and other non-trade concerns.

Clearly, the guiding principles of the ongoing negotiations are in rupture with those adopted in the Association Agreements signed during the 1995-2005 period between the European Union (EU) and most Mediterranean countries. Those agreements were based on a gradual market opening taking into account traditional trade flows and they were guaranteed to the trade preferences for certain products of the Mediterranean countries. A double asymmetry - regarding trade volume and tariff dismantling time spans –was also granted in the preferential arrangements. However, in practice, the process success in achieving major advances in agricultural liberalisation has been limited. The new approach introduces the principle of reciprocity in the commercial concessions: partner countries will have to open their markets as much as the EU will do. Asymmetry would remain guaranteed only during the periods of protection dismantling. Furthermore, given the stated objective to set up a free trade area by 2010, the EU is reluctant to long transitional periods requested by some partner countries. Moreover, despite the regional approach of the political process, trade negotiations are solely mandated on a bilateral basis.

This ambitious process entails stakes and risks that need to be carefully managed owing to the strategic importance of the agricultural sector in the Mediterranean region. Undoubtedly, this importance has been critically strengthened with the recent soaring food prices and commodity and financial markets turbulences which have endangered the food security of many southern countries.

Assertions about the effects of agricultural trade liberalisation in the region - defined as the removal of different forms of agricultural support – need to be grounded in solid facts and sound analysis in order to avoid misconceptions and misunderstandings. Because in reality, even if agricultural liberalisation ranks high in the Euro-Mediterranean cooperation agenda and is receiving large public attention, considerable confusion remains on the possible impacts on the countries concerned, and whether there are potential losers and, if so, what could be done about it.

Available empirical evidence appears to suggest that the largest beneficiaries from a full agricultural trade liberalisation are the EU countries, not the southern countries. Negative impacts in the EU would be rather limited, amongst other things due to the quite small participation of the Mediterranean partners in its external agricultural trade. Meanwhile, market opening enlarges European export and sourcing possibilities to and from southern countries, where dependency on foreign markets is strong and growing. Only in some regions of southern Europe, producers would be potentially affected by increased competition in similar productions (mainly olive oil, fruits and vegetables).

Conversely, the impacts on the southern countries would be much more negative, spilling over the agricultural fram-

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ework to also affect the political and socioeconomic setting (such as rise of unemployment, rural migration, substantial losses of public revenues, greater vulnerability of poor households, stronger pressure on water and land resources). Due to the dualist agricultural structure in these countries, only a few export-oriented agribusiness enterprises could resist and take advantage from economic liberalisation, while traditional, ill-equipped farms would suffer in such a scenario.

Still, further compelling assessment of these impacts is needed. A key element that is typically difficult to cope with in trade models – amongst other things, due to lack of good-quality data - is the heterogeneity of products and protection measures subject to liberalisation. The status of the Euro-Mediterranean countries in the international trade context, their economic and geopolitical alliances, and the degree of socio-economic development also vary substantially.

It is well known that in the EU the agricultural sector receives a significant level of support basically through payments to producers (increasingly decoupled from output), and border protection measures (mainly import tariffs and, to a much lesser extent, export subsidies). Meanwhile, most southern countries do not possess the needed financial resources to provide support to their agricultural producers, almost exclusively resorting to border policies to protect sensitive products in their economies.

A priori, an agricultural liberalisation in a prominent world trade player like the EU could result *ceteris paribus* in a rise in the world prices of the products subject to tariffs and subsidies, as removing protection tends to increase aggregate demand and consequently prices in the world market. The increase in world prices would affect other countries' real income differently depending on whether these are net exporters or net importers of the protected products: while net exporters would benefit, since their terms of trade would improve, net importers would be harmed, since their terms of trade would deteriorate. The impact of liberalisation on world prices also depends on other determining factors such as the degree of substitutability between imported and domestic products - in general, if the degree of substitutability is high the impact of liberalisation is small and vice versa.

Mediterranean partner countries would benefit from improved market access to the European market as a result of tariff cuts, but they would be negatively interested by subsidy removal because they are net importers of products subsidised in the EU (cereals, sugar, dairy products). Therefore, whether partner countries would gain or lose importantly depends on the type of liberalisation to be implemented.

The existence of trade preferences is another prominent issue in the Euro-Mediterranean trade relationships. The EU provides preferential treatment to exports of certain products from certain partner countries. The biggest share of Euro-Mediterranean agricultural trade is covered by preference schemes. Exports under preferential trade enter the EU market at a tariff rate that is below the most favoured nation (MFN) rate, being the difference between the MFN rate and the preferential rate a measure of trade advantage. Any perceptible reduction in MFN tariff rates would reduce that advantage, and beneficiary countries would consequently suffer from preference erosion.

Preference erosion could be a concern for countries that rely on export earnings deriving from products benefiting from preferential programmes (e.g. Tunisia for olive oil, Morocco for mandarins and tomatoes). These countries could suffer substantial losses in export earnings as a result of preference erosion. Otherwise, the magnitude of any preference erosion is likely to be low, especially if the value of the preferential margin is small with respect to the total value of exports, or when the costs of complying with the trade procedures entailed in preferential schemes are significant compared to the preference value.

Of course, the process of liberalising the Euro-Mediterranean agricultural trade should take into consideration other related factors, including the EU Common Agricultural Policy reform, the ongoing WTO's Doha trade negotiations – in which the difficulties encountered in reaching a successful agreement on agriculture are provoking a further shift from multilateral to bilateral and regional agreements- and the rise of countries like Brazil, China and India in the global agricultural and trade arena. It also has to deal with the "new challenges" shaping the future of Mediterranean agriculture, especially climate change, water scarcity and energy efficiency.

Admittedly, the year 2008 is seeing the Mediterranean as a central element in the European foreign policy. Attention to the region is being drawn again through the French initiative for a new "Union for the Mediterranean". So, benefiting from this circumstance, maybe now - after years of hesitation - the time has come for reviewing the Euro-Mediterranean relationships on different bases, bringing more balanced exchange conditions within the centre of the new strategy, and concertedly developing the right policy mix to make the region a beneficiary of the global trading system (not its victim). Otherwise, imbalances would get deeper and the cause of making the Mediterranean a space for solidarity and shared prosperity would be compromised.