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# **AGRICULTURAL TRADE LIBERLIZATION IN THE MEDITERRANEAN REGION: A COMPLEX AND UNEVEN PROCESS**

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# AGRICULTURAL TRADE LIBERLIZATION IN THE MEDITERRANEAN

## REGION: A COMPLEX AND UNEVEN PROCESS<sup>1</sup>

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In the Mediterranean region as in many others, international trade liberalization has been taking place as a result of many powerful internal and external forces, which national authorities everywhere, or at least very generally, appear to view as irresistible. Yet, the process of liberalization is very uneven and quite incomplete, particularly in the agricultural sector. This unevenness leads to multiple tensions and great uncertainties. The main purpose of this paper is to contribute to greater clarity on these issues. Three main questions will be addressed:

- 1) What have been the main components of agricultural trade liberalization in the region?

Most countries are involved in regional, bilateral and multilateral trade negotiations. Each one of these negotiation processes is long and protracted leading to uncertain outcomes. In each one, agriculture receives specific attention and is often given exceptional treatment, which generates tensions and further uncertainties. This paper will attempt to present a brief but comprehensive overview of the current negotiations and of their status.

- 2) What are the economic stakes involved in that process and how can they be assessed?

Public debates regarding trade liberalization are often dominated by ideological positions, pitching those who preach the benefits of free trade against those who denounce the malfeasance of 'ultra-liberal' solutions. Yet, there is no doubt that trade liberalization can often be a powerful instrument to bring about necessary, but politically difficult, reforms. But conversely so to speak, there is no doubt either that international trade liberalization always entails winners and losers, the latter being often among the weakest in society and therefore ill-placed to obtain the compensations of their losses, which would be theoretically possible since the gains of the gainers often exceed the losses of the losers. Thus, it is important to identify precisely the potential gains and losses, in other words the economic stakes of the negotiations. And this is particularly relevant for agriculture since the sector is so often politically sensitive. Is this political sensitivity justified by the magnitude of the stakes involved? We will show that precise specification of these economic

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stakes is not an easy task in the case of the mediteranean region, which may contribute to the confusion of the debates.

- What is the likely future of this liberalization process and how uncertain is this future?

On the basis of the clarifications resulting from the first two parts of the paper, we discuss what can be said about the future, in spite of the remaining uncertainties. It is important to try to do this because trade liberalization is such a major component of the on-going process of economic globalization, which all governments are confronted to.

## **I- THE MULTIPLE FACETS OF AGRICULTURAL TRADE LIBERALIZATION**

1- In the Mediterranean region the trade policy debate is dominated by the regional trade negotiations between the European Union and so-called 'Mediterranean Partner Countries' (MPCs) within what is called the Barcelona process<sup>3</sup>. This regional dimension is closely associated with a bilateral one since the Barcelona process itself entails bilateral agreements between individual countries and the EU. Other bilateral agreements have been signed by Mediterranean countries among themselves and with countries from outside the region, notably the USA. The impact of these regional and bilateral negotiations will depend on their individual and collective contents but also on the future of the WTO multilateral process since most countries either are, or have applied to become, members of WTO. Given this situation, it seems opportune to begin our analysis with the Barcelona process.

The lofty ambitions of the Barcelona process and the political frustrations it has produced have been well reported by the press, particularly at the occasion of the Barcelona Conference last November, which was convened to celebrate the tenth anniversary of the launching conference and which was unhappily boycotted by many heads of state or of governments from MPCs. This paper being about agricultural trade will not delve into the political aspects of this process but simply review what was attempted and what has been achieved in the domain of agricultural trade in the Mediterranean region. The literature on the matter is quite clear. Already in 2003, Dell'Aquila and Kuiper concluded their 'first assessment of EuroMed Association Agreements' by stating that success of the EMAAs was unlikely "for four reasons:

- 1) the poor growth record of the MPCs has largely domestic causes;
- 2) the liberalisation in the EMAAs has a very limited scope;
- 3) the hub- and- spoke structure of the Euro- Mediterranean RTA; and,
- 4) contradictory EU policies, especially in agriculture".

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<sup>3</sup> The 12 MPCs participating in the first Barcelona Conference in 1995 were Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey. Now Cyprus and Malta have joined the EU and Turkey's case is treated separately as accession negotiations have started.

Three years later, there is really no serious reasons to alter that diagnosis. In a recent paper, some of us have given a somewhat detailed description of the Barcelona process, its ambitions (in particular achieving a Euro-Mediterranean free trade area by 2010) and its limitations. (Emlinger et al., 2006). Thus, it will be sufficient to summarize the main points here.

The political objective of the European Union in the region is foremost to promote political stability; and to do so the establishment of a free-trade area by 2010 as well as the promotion of social and cultural interactions are privileged instruments. These are implemented through bilateral agreements negotiated with each individual MPC<sup>4</sup>. Each bilateral agreement includes political dialogue, the promotion of human rights and democracy; economic cooperation in many sectors and cooperation in the areas of social affairs and migration. In addition to these bilateral agreements, the European Union has provided financial support through a specifically dedicated instrument (MEDA).

This Barcelona process follows on earlier trade agreements which were parts of a so-called "Global Mediterranean Policy" initiated in 1976 and which had to be revised after Spain, Portugal and Greece joined the EU. The 1995 Conference was an attempt to revitalize economic cooperation and integration in the region. More than ten years later the results are generally perceived as disappointing. Trade liberalization is progressing very slowly, notably because the agricultural sector has not been included in the free trade area to be completed in 2010. The financial resources allocated to MEDA have been very small compared to the resources devoted by the EU to promote the development of its new members from Central and Eastern Europe during the same period. In addition, the disbursement of the credits which were allocated has been very slow, pointing to serious structural constraints within the MPCs themselves. These constraints may also explain why the level of foreign direct investments, normally an important positive impact of trade liberalization, have been disappointing, particularly if one compares them with similar flows to other regions.

As a result, the European Union has attempted recently to give a new impetus to the Barcelona process. The task to develop explicitly a "strategy for accelerating the liberalisation of trade in agriculture" has been given by the Council to the Commission in November 2004. In accordance with the Dublin Mid-Term meeting of Euro-Mediterranean Foreign Ministers, which had taken place in May 2004, consultations at the senior experts level led to the establishment of a 'road map', which was more or less endorsed at the Barcelona Conference of November 2005. A new and ambitious approach for liberalizing agricultural trade, excluding only sensitive products, has been proposed.<sup>5</sup> This puts agricultural trade liberalization high on the policy agenda

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<sup>4</sup> By 2004, all MPCs, but Syria, had signed an association agreement with the EU

<sup>5</sup> The following quotations from the road map illustrate the ambition of the new approach: "Over the ten years that have passed since the Barcelona process, the generally adopted approach of liberalising agricultural trade, based on traditional trade, has led to a limited degree of liberalisation by both sides under a certain number of tariff headings. The negotiations have often been laborious, being limited to sensitive issues which were hardly

and presents the research community with the challenge of assessing as precisely as possible the real economic stakes for the products perceived as sensitive by the policy makers. The fact that practically all Mediterranean countries are involved in other multilateral, regional and bilateral trade negotiations complicates the assessment of these economic stakes.

2- Almost all Mediterranean countries are directly or indirectly involved in the multilateral trade negotiation process, either as members of WTO or as candidates to become members.<sup>6</sup> At the time of writing this paper, the outcome of the current Doha Round of negotiations is very uncertain. But the issues on the table are very important and could have significant impact on Euro-Mediterranean agricultural trade. Obviously, the elimination of export subsidies by 2013, which has been agreed at the Hong Kong Ministerial meeting last December, could have a major impact on exports of several products, particularly cereals, from the EU since in the past these exports have been very much supported by European subsidies. Similarly, improved market access to the EU for fruits and vegetables could greatly benefit several MPCs. But on this point, the real impact is very uncertain for two main reasons: first, the consequences of the, yet unknown, future multilateral commitment of the EU on market access for the specific and very complex set of protection instruments in the fruit and vegetable sector are still very uncertain. Secondly, the outcome of the Round may entail some degree of preference erosion for those MPCs benefiting from significant trade preferences, such as Morocco for tomatoes for instance<sup>7</sup>. And it is impossible to predict what the ultimate preference erosion will be.

Another difficulty in assessing the impact of multilateral negotiations in the region is linked to the extreme differentiation of situations of, and positions taken by, Mediterranean Countries in these negotiations.<sup>8</sup> For instance, Egypt as a member of the G-20, seems to be pressing more for the reduction of farm support in OECD countries, whereas Morocco, Turkey and Tunisia seem to align themselves with developing countries resisting pressures to open their domestic markets for agricultural products, while Israel, as a

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conducive to making major advances.

A high degree of liberalisation must be achieved for agricultural products, processed agricultural products and fishery products. There is a need to move towards progressive trade liberalisation, as foreseen in the Barcelona process and the European neighbourhood policy, with the possibility of excluding a limited number of sensitive products given the negative impact on the economic and social equilibrium in certain regions or sectors. A liberalisation of agricultural trade (including processed agricultural products and fishery products) would create benefits for all the countries concerned. It is a source of wealth and job creation, and boosts productive investments....

It is proposed that the gradual approach (consisting of periodical reviews limited to mutual concessions based on traditional trade) be abandoned, with a move instead to a reciprocal liberalisation process for all sectors. Nevertheless, a negative list could be established with each negotiating party excluding a limited number of sensitive products from total liberalisation.”

<sup>6</sup> The EU, Albania, Croatia, Egypt, Israel, Jordan, Morocco, Slovenia, Tunisia and Turkey are members. Algeria, Bosnia- Herzegovina, Lebanon, Libya, Serbia and Montenegro and Syria have applied for membership.

<sup>7</sup> See Chevassus et al., 2005.

<sup>8</sup> For a recent comprehensive review of these questions see Alvarez- Coque, 2006.

member of the G-10, together with such developed countries as Japan, Switzerland and Norway, supports the maintenance of a high level of protection and support to agriculture.

3- In addition, nine of the Mediterranean countries are involved in the Arab Economic Union, created by 18 of the 22 members of the Arab League in 1997. These countries decided to create a free trade area by 2008. Implementation has been slow however, which explains why four of the countries involved (Egypt, Jordan, Morocco and Tunisia) decided to accelerate the process among themselves through an agreement signed in Agadir in 2004. It is noteworthy however that in a recent comprehensive review paper of regional trade agreements in the world and of their potential impact on the WTO multilateral trade negotiations, the author does not mention these two initiatives (Bouët, 2006). Does this imply that they are not significant? The same question can probably be raised for the many bilateral agreements signed by the MPCs with various countries.<sup>9</sup> Two such bilateral agreements stand out however: those signed by the USA with Jordan and with Morocco, given the economic and political size of the USA. Although very little has been published on the potential impact of these agreements<sup>10</sup>, direct informal contacts with experts having been close to the negotiation of the US/Morocco agreement indicate that the short term impact of the agreement will probably be small. However, the agreement includes long term commitments, which in time may become significant. For instance, the Moroccan commitments on access to their domestic market for cereals may in due time ensure that the USA will have a minimum share of the Moroccan import market. Conversely, the improved access to the US markets for some fresh and processed fruits and vegetables may prove attractive to foreign investments in these sectors in Morocco. And this represents another economic stake to be assessed.

## **II- ASSESSMENT OF THE ECONOMIC STAKES INVOLVED**

Two sectors have been especially sensitive in past trade negotiations: fruits and vegetables in Europe and cereals in several MPCs, with great variations from country to country however. It is important to carefully assess the importance of the economic stakes involved in these sectors, as preliminary anecdotal evidence suggests that the magnitude of these stakes does not often justify the extreme political sensitivities which can be observed. We will attempt to review what is known on these sectoral stakes and to identify specific questions which need to be further investigated. It is also important to assess the economy-wide effects of potential changes in agricultural protection. These tend to be neglected in many policy debates whereas there is evidence that they may be significant and that taking them into account may lead to different policy recommendations than those arising

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<sup>9</sup> See a table listing these bilateral agreements in Emlinger et al., 2006.

<sup>10</sup> See however Ait El Mekki A. & W. Tyner (2004):

from taking only a sectoral perspective. Accordingly, the last paragraphs of this section will be devoted to a brief review of these economy- wide effects.

**The emblematic role of cereal imports in many Southern and Eastern Mediterranean countries** cannot be overemphasized. It is related to deep concerns about national food security<sup>11</sup>. Everybody is aware that the region is a major importer of cereals: it absorbs 27% of world cereal imports whereas the regional population is only 8.4% of the world total. For some large countries the rate of self- sufficiency is low, for instance in 2004: 77% for Egypt, 53% for Tunisia and even 36% for Algeria. Furthermore, projections indicate that, most probably, this dependency on foreign supplies will increase in the future (See the graph in the appendix, drawn on the basis of projections by IFPRI, an authoritative source on the matter).

This situation explains the widespread view that cereals are commodities of geo- strategic importance, as illustrated for instance most recently by the 2006 Annual Report of the CIHEAM. In his brief Foreword to the Report, the General Secretary of CIHEAM, Bertrand Hervieu, writes: “The phenomenon of massive cereals imports by low-income countries raises the question of how to achieve greater food security...Efforts to implement appropriate national policies and to seek international and Euro- Mediterranean cooperation with a view to improving cereals supplies in the Mediteranean region are an absolute imperative and remain the priority.”

These concerns explain that cereals, together with a few other basic agricultural commodities, benefit from significant government support in most Southern and Eastern Mediterranean countries, as reflected in the following tables giving nominal and effective coefficients of protection for a few commodities in a selected sample of countries.

**Table 1 : Nominal Protection Coefficients \* (six year average 1995- 2000)**

	<b>Turkey</b>	<b>Egypt**</b>	<b>Morocco</b>	<b>Tunisia</b>
<b>Wheat</b>	1,18	1,42	1,44	1,28
<b>Milk</b>	1,24		1,19	1,32
<b>Sugar Beets</b>	1,78	1,08	1,67	
<b>Oranges</b>		0,84	0,91	1,58
<b>Tomatose</b>	1,1	0,74	0,91	1,89

\*The nominal protection coefficient is the ratio between the domestic price and the world price expressed in national currencies

\*\* pour 98/99 only ; this figure may be an overestimate and is dependent on hypotheses regarding the actual physical flows of imports.

Source : Jacquet 2004, after Allaya, Petit, 2004

**Table 2 : Effective Protection Coefficients\* (6 year average 1995- 2000)**

	<b>Turkey</b>	<b>Egypt**</b>	<b>Morocco</b>	<b>Tunisia</b>
<b>Wheat</b>	<b>1,38</b>	<b>1,62</b>	<b>1,54</b>	<b>1,73</b>
<b>Milk</b>	<b>1,46</b>		<b>1,73</b>	<b>1,72</b>
<b>Sugar Beets</b>	<b>2,93</b>	<b>1,17</b>	<b>2,05</b>	
<b>Oranges</b>		<b>0,81</b>	<b>0,9</b>	<b>1,82</b>
<b>Tomatoes</b>	<b>1,11</b>	<b>0,71</b>	<b>0,9</b>	<b>1,94</b>

<sup>11</sup> Perhaps one should remember that Egypt was one of the victims of the use of food as a geo- strategic weapon when the US government decided to withhold its shipments of food aid from 1968 to 1973, on which Egypt had become very dependent, in retaliation against the hostility of Nasser’s Egypt against Israel.



*The effective protection coefficient measures the ratio between the unit added value computed at domestic prices and the same value computed at world prices expressed in domestic currencies*

*\*\*for the 98/99 year only*

Source : Jacquet 2004, after Allaya, Petit, 2004

What would really happen if cereal imports into Southern and Eastern Mediterranean countries were liberalized? Are the concerns just discussed above justified by major economic stakes? Empirical evidence on the matter is limited. Given the large number of economic parameters involved in any liberalization process and the need to make *ex ante* assessments, the quantitative evaluation of the stakes involved can only be based on modelling approaches. Admittedly, models are necessarily very imperfect. In particular, they neglect the dynamic impacts over time of policy changes. But they are the only tools available to provide orders of magnitude. Actually, there is a significant body of literature on the evaluation of the potential impacts of trade liberalization in the Euro-Mediterranean region<sup>12</sup>. As discussed further below, models may be most useful to assess economy-wide impacts. Yet, several sectoral models indicate that producers of cereals and livestock products in Mediterranean countries could suffer significant losses from trade liberalization (Jacquet, 2004). Since many of these producers are poor, these results explain the political sensitivity of this issue. This also explains why much of the “liberalization” that has occurred has been through the introduction or expansion of tariff rate quotas. In Morocco, for example, wheat has been highly protected with a tariff system that resembles a variable levy. This protection approach contributes to domestic price stability. The expansion of import quotas has been used as a bargaining chip in bilateral negotiations with the European Union and with the USA.<sup>13</sup>

**For the European Union, the politically sensitive sector is that of fruits and vegetables.** This is reflected in the level of protection and, more importantly, in the diversity and complexity of the protection instruments used (TRQs, seasonal quotas and tariffs, threshold prices, and a host of preferential arrangements, often country by country, related to individual instruments etc.)<sup>14</sup>. The political sensitivity may be explained by the fact that fruits and vegetables are important in many member countries, representing about 25% of the value of agricultural production in Spain, Italy, Greece, Portugal, Malta and Cyprus (European Commission, 2003). The sector is also labour intensive, which magnifies its social significance. Yet, results of sectoral models do not indicate major impacts of trade liberalization on the European fruits and vegetables sector (Dell'Aquila and Velasquez 2002).

This result is important because it suggests that the economic stakes of trade liberalization in the fruits and vegetables sector are not so huge as to justify a major political concern.

But several considerations, which temper this general assessment, must be born in mind. Firstly, it is very difficult for models, even fairly detailed ones

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<sup>12</sup> For a brief review, see Emlinger et al., 2006.

<sup>13</sup> See a note on the impact of such quotas, written by Wally Tyner, in the Appendix to this paper.

<sup>14</sup> For a detailed analysis of this protection, see Chevassus-Lozza et al., 2005

at the sectoral level, to capture the complexity of the fruits and vegetables sector itself and of the protection instruments used in this sector. There are many fruits and vegetables; there is a great variability for each one of them, with large differences of quality and many are quickly perishable. All this means that there are many individual economic goods to consider. As a result it is not surprising that a recent original analysis of the vulnerability of European producing regions indicates great variations from one region to another (Montigaud and Rastoin, 2005). More simply, an examination of the existing trade flows, comparing 'export structure similarity indices', suggests that for some products and for some specific countries, there is indeed real competition (Emlinger et al. 2006). Such is the case for raisins between Turkey and Italy, for citrus between Spain and Morocco, for beans between Morocco, Egypt and Spain, for dry vegetables between Egypt, Spain, the Netherlands and Italy, for tomatoes between Israel and Spain, and for other fresh fruits between Turkey, Morocco and Spain. Interestingly, the competition for tomatoes between Spain and Morocco does not appear in this list. This absence is probably due to the limitations of the index used. Spain and Morocco do not export many tomatoes towards the same importing countries at the same time, leading to a low value of the index. But rather than pointing to an absence of competition, this result may on the contrary be due to the effectiveness of the EU seasonal protection which prevents Moroccan tomatoes from entering the EU market during the months when Spain is producing.

Another indirect indicator of the effectiveness of protection instruments<sup>15</sup> is provided by an examination of the relationship between the volume of exports of specific products by a given country and the extent of the trade preference granted to that country for the product considered. Thus Morocco, which benefits from a high preference for citrus and tomatoes, exports large amounts of these products to the EU. Similarly, Turkey exports large amounts of paprika and Egypt large volumes of potatoes. Admittedly, these examples constitute only anecdotal evidence; and other examples demonstrate that this impact of preferences is not universal: Israel exports large quantities of potatoes to the EU without special preference as do South Africa, Chile and New Zealand for apples.

The bottom line of all these considerations regarding fruits and vegetables can be formulated as follows: the potential impact of liberalizing European imports of fruits and vegetables would probably not be huge at the aggregate level. But they can be significant for some producers in specific places. Identifying precisely the potential losers and estimating the amount of their losses is not an easy task. The political consequences of these two economic considerations are that here as in any liberalization process there are potential losers among European producers. The magnitude of the losses are probably small enough that the losers could conceivably be compensated by the gainers. But the uncertainties, regarding both the evaluation of the economic losses and the vagaries of the political process to ensure

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<sup>15</sup> The effectiveness of a protection instrument leads one to presume that liberalizing, which means eliminating or lowering that protection instrument, would have a significant impact on trade flows.

compensation of the losers, are such that those who fear that they may end up as losers exert political pressure to oppose liberalization in their sector.

**The economy-wide impacts of a Euro-Mediterranean trade liberalization** would be larger than the sectoral ones just discussed in the previous pages. Yet, paradoxically, they are not prominent in the policy debates on agricultural trade liberalization. We first discuss what is known about these impacts and subsequently reflect on why they receive little attention in the policy debate. General equilibrium models are used to evaluate economy-wide impacts. Several liberalization scenarios have been envisioned, as for instance in the case of the synthesis study conducted by the FEMISE network (Rawdan and Reiffers 2003). Most modelling studies suggest that agricultural trade liberalization would lead to collective welfare gains, including in Southern and Eastern Mediterranean countries. Consumers would gain from the lower food prices resulting from liberalized imports of cereals, oils, sugar and livestock products. And increased exports to the European Union would entail direct gains to producers with secondary positive effects on the whole economy. But here again serious nuances temper this generally positive assessment.

Distribution effects must be considered. Thus, much of the global welfare gains in Southern and Eastern Mediterranean countries come from lower food prices, particularly grain prices, which benefit consumers; cereal producers however lose, as already indicated above. Within this social group however, the poorest gain, as shown in the case of Morocco by Doukkali, who has built one of the most disaggregated general equilibrium model available. (Doukkali, 2003). This somewhat paradoxical result is due to the simple, but little recognized, fact that many very poor cereal producers are net buyers of cereals. They do not produce enough for their family needs; and in addition, they are often short of cash, which forces them to sell some of their production at the time of harvest, when prices are low, and to buy later in the crop year, when prices are high<sup>16</sup>. In the same vein, Ravallion and Lokshin, using Doukkali's model and results of a major household survey, have shown that the impact of trade liberalization on poverty in Morocco would be very mixed, depending on a complex set of parameters reflecting the diversity of household situations. (Ravallion, & Loshkin, 2004)

The complexity of assessing the potential impacts of liberalization is further illustrated by the writings of M. Kuiper, who has attempted to assess the impact of the EU/Med Association Agreements, comparing the cases of Tunisia and Morocco in particular. For instance, in a paper with F. Van Tongren, using a multi-regional, general equilibrium model reflecting the "detailed commodity profile (HS-6) of the provisions of the Association Agreements", she has estimated that Morocco and Tunisia would suffer welfare losses amounting to 3.5 and 2.6% of GDP, respectively. This rather startling result is mainly due to the fact that the Association Agreements are far from bringing full trade liberalization: they include a significant reduction of protection by the two Maghreb countries in labor intensive industrial

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<sup>16</sup>Ward C et al. (2003) estimated that farmers with less than 1 hectare sell 6% of their total production while those having 1 to 3 ha sell 13% of their production.

sectors but very limited improvements in their access to the EU markets for fruits and vegetables.

Given this complexity, the policy debate is often reduced to generalities. In addition, the potential losers are often vocal because they stand to lose much, whereas the potential gainers, who may be many but often poorly organized politically, such as the consumers, or socially marginalized, such as the rural very poor, have little voice in the debate. And this, we believe, fundamentally explains why economy-wide effects, which may be large but are diffuse, often receive less attention than sectoral ones.

### **III- FUTURE PERSPECTIVES**

Trying to predict the future is often hazardous. Yet, it is necessary to do so if one wants to contribute to more enlightened action, be it by individual economic agents or in terms of public policies. From the first two sections of this paper it should be clear that the Euro-Mediterranean region is engaged in a multi-faceted process of trade liberalization. This process could bring significant over-all welfare gains, in addition to the purely political regional benefits which have not been discussed here. But, so far, trade liberalization has been slow and very uneven, particularly in the case of agriculture. To assess its future, a political economy approach is necessary. This usually requires an identification of the main actors involved in the policy process and an assessment of the economic stakes influencing the behavior of these actors. As discussed above, the constraints to further trade liberalization in agriculture hamper the overall process. The main constraints are the timidity of the European Union to open more its markets for fruits and vegetables and the concerns of several Southern and Eastern Mediterranean countries for the future of large segments of their agriculture if they opened further their markets for grains and livestock products in particular. Is it likely that these obstacles will be overcome in the foreseeable future?

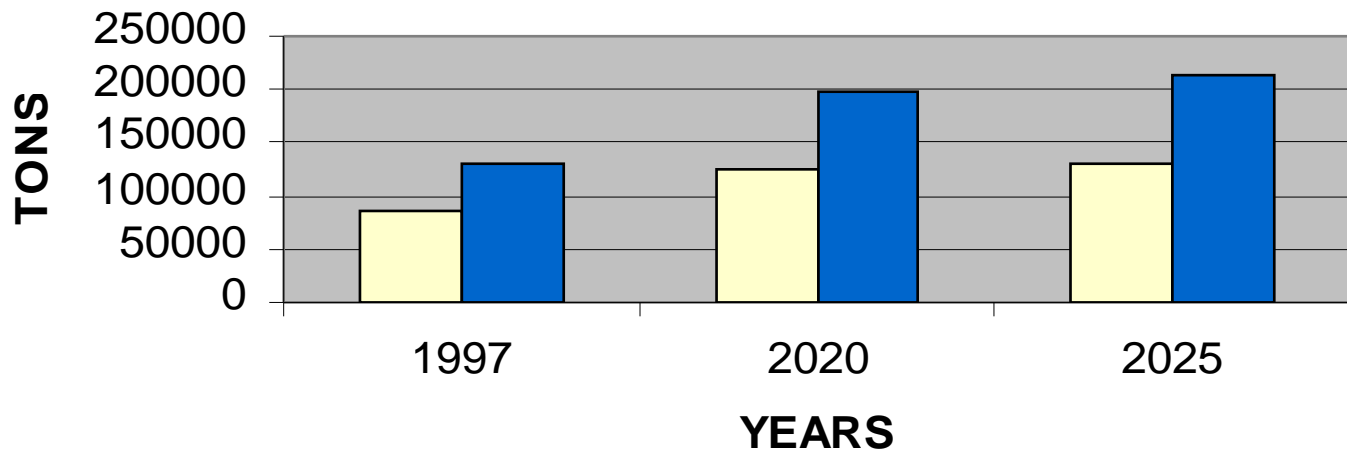
On the European side, the main actors involved in the matter are the Commission and the governments of member countries where fruits and vegetables are produced. Those are not only the Mediterranean countries but presumably the latter are the most responsive to pressures from their farm organizations, who are concerned with potential competition from abroad. Yet, evidence reviewed in this paper suggests that the economic stakes are not major. Undoubtedly, some producers of fruits and of vegetables, particularly in Spain and other southern European regions, risk to suffer significant losses. These producers are likely to continue putting pressure on public officials, both at the national and Union levels, to resist further trade concessions. But will these efforts be successful? The answer to this question is critical to the future of the overall process. As awareness of this fact grows in many member countries, it is likely that Southern European farmers will be less and less able to block the liberalization process. In this respect, the formulation of the recent 'road map' by the Commission for future negotiations with partner countries seems to be quite revealing. It does stress that liberalization is the

rule and that there will only be a small number of exceptions for 'sensitive' products.

On the other side of the Mediterranean, the mainly social concern for poor rural people and areas is not likely to disappear soon. But trade protection is not a very good instrument in the fight against rural poverty. And there is growing awareness of this truth. In addition, as emphasized earlier, the poorest people in rural areas would benefit from the lower food prices resulting from further liberalization. Thus, one can imagine a policy scenario in which markets would progressively be more and more open, while public investments in rural infrastructure, as well as rural development programs would be boosted.

Given these possible domestic trends, what is the likely future of trade negotiations? At the time of writing this paper, the final outcome of the Doha Round of multilateral negotiations seems quite problematical and its timing very uncertain. In addition, it seems quite clear today that the multilateral process is quite independent of what happens at the level of the Mediterranean region. As a result, the regional trade situation will only be affected by the outcome of current WTO negotiations in quite a few years at most. The most significant impact of an eventually successful Doha Round would be an erosion of regional trade preferences. Regarding the Euro-Med process, the main drivers will continue to be political, of a geo-strategic nature, and dominated by concerns of migrations, security and terrorism. Given the geographic proximity of EU and partner countries, these overriding concerns will not disappear. Thus, the most likely scenario is one in which the agricultural obstacles to further regional trade liberalization will not be ultimately permitted to block the regional integration process. But, of course, in the meantime, the path of successive changes may be quite chaotic.

# CEREAL SUPPLY AND DEMAND PROJECTIONS FOR MAGHREB AND MIDDLE EASTERN COUNTRIES



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## APPENDIX



## Wheat Quotas in Morocco<sup>17</sup>

by Wallace E. Tyner

Most of the modeling work that has been done assumes tariffs are lowered or eliminated and estimates impacts of this policy change. However, much of the “liberalization” that has occurred has been through introduction or expansion of tariff rate quotas. In Morocco, for example, wheat has been highly protected with a tariff system that resembles a variable levy. This protection approach contributes to domestic price stability, and encourages greater production of wheat in dryland and irrigated areas. In dryland areas, it has led to tremendous increases in wheat area at the expense of other cereals, other crops, and pasture. In effect, wheat has taken more of the better lands pushing barley onto even more marginal lands (Tyner, 2001). The high level of protection of wheat also has induced farmers to grow wheat on irrigated land which, absent the protection, would produce other crops for domestic and export markets.

In recent years there has been much discussion about lowering the protection on wheat. But, in reality, the protection has actually increased a bit. Some believed that the trade agreements with the US and EU would lead to a reduction of protection on wheat. But the outcome of negotiations in these two agreements is that tariff-rate quotas are being used. It is highly unlikely that the sum of the US and EU quotas would exceed Moroccan import demand, so the quota imports likely will have no impact on domestic price.

The operation of such a quota is illustrated in Figure 1. Line D represents the domestic demand for wheat. Line S represents the short-run supply; that is, the harvest for any given year.  $P_m$  represents the world price of wheat.  $P_m + T_1$  represents the import cost of wheat imported under the quota.  $P_m + T_2$  represents the world price plus the MFN tariff, which is the domestic price so long as imports occur beyond the quota. For any size of quota up to  $Q$  (the distance  $Q - S$  on the graph), the domestic price is not affected by either the quota or by the tariff on the in-quota quantity. In other words, up to quantity  $Q$ , neither the size of the quota nor the tariff on the in-quota quantity has any impact on domestic prices. The domestic price is determined by the price of out-of-quota imports ( $P_m + T_2$ ). If the quota is greater than quantity  $A$ , then the domestic price becomes  $P_m + T_1$ , or the world price plus the in-quota tariff. For any quota between  $Q$  and  $A$ , the domestic price is given by the intersection of the quota quantity ( $Q^*$ ) and the domestic demand curve. Thus, in this illustration, the domestic price becomes  $P^*$ .

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<sup>17</sup> This appendix is taken largely from Tyner, Wallace E. “How Can Morocco Take Advantage of Its Climate and Resource Endowment to Increase Economic Growth and Development?” Paper presented at the Moroccan Association of Agricultural Economics (AMAEco) conference, May 20- 21, 2004.

Figure 1: Functioning of a Wheat Quota

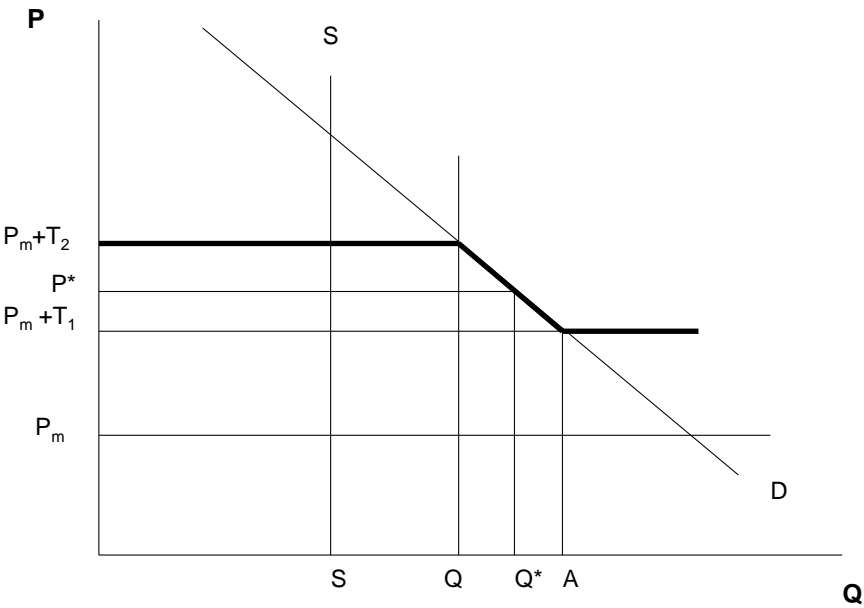


Table 1 provides a summary of the impacts of quotas. Clearly, the size of the quota relative to total imports matters a lot, as does the method of administering the quota. The Moroccan wheat quota in the US and EU trade agreements is a variable quota that is lower when Moroccan production is high and higher when Moroccan production is low. This provision virtually assures that the sum of the two quotas will always be less than total import demand.

The method of quota administration also matters in terms of who gets the quota rents. In Morocco the wheat quotas are administered through competitive bidding. Thus, much of the quota rents are bid away by importers competing for the right to import wheat. Early estimates indicate that the government believes it is capturing 70 percent of the quota rents through the competitive bidding process.<sup>18</sup>

Table 1: Summary of the Impacts of Quotas on Distribution of Rents and National Price Depending on the Market Situation and Quota Administration

Situation	Impact of Quota on National Price	Quota Administration	Distribution of Quota Rents

<sup>18</sup> Personal communication with ONICL, Morocco.

1. Sum of US and EU quotas are less than total import demand, so there are imports at the out- of- quota or MFN tariff	None – the national price is the world price plus the out- of- quota tariff or MFN tariff, whichever applies	Competitive bidding	Significant part accrues to the government, although there are costs in administering the system
		Other quota administrative systems	Quota rents are divided among exporters, importers, wholesalers, etc., with the division depending on the system
2. Sum of US and EU quotas are greater than total import demand even at the price determined by the in- quota tariff, so there are no imports at the MFN tariff	National price becomes the price resulting from the world price and in- quota tariff	All administrative systems	There are no quota rents, so the main difference is the efficiency of the administrative system
3. US and EU quotas are just binding and domestic price falls between levels determined by the in and out of quota tariffs	National price falls but is above the price resulting from the world price and in- quota tariff	Competitive bidding	Significant part accrues to the government, although there are costs in administering the system
		Other quota administrative systems	Quota rents are divided among exporters, importers, wholesalers, etc., with the division depending on the system
4. Quota is for a product that really does not exist in the current national market such as “Hilton” beef, which can be considered a weak substitute for domestic beef	The high quality import beef would displace some domestic beef and tend to lower the price of domestic beef, depending on the size of the quota relative to national production.	All administrative systems	There are no quota rents because the import price, in this case, is higher than the price of the substitute domestic product.