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Final Report
on

Syrian-EU Association and its Impact on Agriculture

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Annexes

Preface

According to the Terms of Reference of this policy study (see annex), the Consultant was asked to carry out a study on the consequences of an Association Agreement (AA) between Syria and the European Union (EU). The analysis has two dimensions. First, an assessment of the challenges and opportunities for Syria related to its integration into the Association strategy. Second, the proposal of recommendations and actions to be taken in order to:

(i) adapt the Syrian agriculture and its agribussiness sector to a more competitive environment;
(ii) take advantage of the enhanced export access to foreign markets, and
(iii) provide an adequate environment for the attraction of Foreign Direct Investment (FDI).

To accomplish the assigned tasks, three missions to Syria for the Consultant were envisaged. During the first mission (three weeks), the Consultant undertook the first essential steps for the elaboration of the study, including field visits and interviews with concerned parties. During the Second Mission (two weeks), the Consultant focused on the data elaboration, its corresponding analysis, the clarification of questions concerning the Syrian trade and macroeconomic policies, and the discussion, with the national task force, of the preliminary findings. The Third Mission (three weeks) was devoted to the drafting of the policy study and the presentation of results in a workshop that took place in Damascus on the 29th of April, 2001.

It is worth stressing the time opportune of this Policy study. As a matter of fact, on the 23rd and 24th of April of 2001, the sixth round of negotiations between the Syrian and European delegations took place in Damascus, with the objective of speeding the AA negotiations. It is hoped that the AA could be signed before the end of 2001. The present Policy study will therefore provide background information to assist the Syrian administration even during the current process of negotiations, although the study should look at the further adaptation of the Syrian agriculture to the AA provisions. On the other hand, given the fact that at the present stage of negotiation it is difficult to predict the final results, any of the scenarios and findings of the present study should be taken as a purely provisional and prospective.

To assist the collection of information and its further analysis a national task force was formed by:

National consultants
1. Mr. Ghassan Habach - Director of International Relations at the Ministry of Economy and Foreign Trade
2. Mr. Atier El Hindy, National Project Director, who also acted as a national consultant given his knowledge about the Syrian stance in the agricultural chapter of the AA negotiations.

Trainees
1. Mr. Almuhammad Melhim
2. Mr. Abdul Rahman Nasmeh
3. Mrs. Abeer Munla Hassan
4. Ms. Mayada Hammoud
5. Mr. Haitham Alashkar
6. Mr. Jihad Mukdad

The Policy study benefited from the active trainees's participation, who were precisely working on a similar subject in their individually tailored training programme to the one covered by the present policy study. Consequently the policy study contributed to one of the project's goals, which is the strenghthening of human capacities in the public administration. A training session was carried out on the 27th of march 2001, where the trainees presented their own contribution to the policy study. The Consultant is indebted to the task force's members.

It should be indicated that the results achieved could not have been realized without the enthusiastic support of the project staff. I should like to specifically acknowledge the CTA's supervision (Mr. Emad El Hawary), the National Project Director's availability (Mr. Atieh El Hindi) and the Agricultural Economist's technical support and patience (Mr. Ciro Fiorillo). Discussing with all of them the development of the work and its main hypothesis was always fruitful. Mr. El Hindi and Mr. Habach, members of the national task force were always collaborative and open. The Consultant also appreciated the ideas and comments received by Prof. Alexander Sarris, responsible for the coordination of the Agricultural Strategy in Syria, by Prof. Fabrizio De Filippis, trainee' supervisor and by Dr. Hector Maletta, FAO Consultant.

Last but not least, the Consultant really appreciates the translation of this report by Ms. Asma Al Matar, and her professional interpretation work (complemented in some interviews by Mrs. Lina Bito and Ms. Rola Diab). Ms. Shahed Alloush kindly provided for secretarial assistance. Ms. Raja Al Awa was always willing to help the Consultant to solve those little problems that can become large for a visitor. Mr. Nasouh Kelani solved the connection problems to the local network and on the communications through Internet. The other Project's staff (including drivers Mr. Mazen Boukai and Mr. Souhail Maila') were extremely helpful.

Executive summary

This study provides an ex ante assessment of the consequences of an Association Agreement (AA) between Syria and the European Union (EU). The AA covers negotiations on reciprocal free trade of manufactures and the extension of mutual concessions for agricultural goods. Syrian government has confirmed its wish to strengthen links with Europe, as a part of the economic reform recently activated. **Chapter 1** provides an introductory picture of the status of Syria under the Euro-Mediterranean partnership and on the treatment of agriculture under the Barcelona process and. Although the main focus of this policy study is assessing the impact of the bilateral trade arrangement on Syrian agriculture, the AA must be seen as a substantive framework for economic reform and its provisions go beyond the single formation of a Free Trade Area (FTA). Given the significance of agriculture in Syria and other non-EU member Mediterranean Countries (MCs), it seems striking that the Barcelona process has not paid more attention to this area. The agricultural chapter remains an exception of the trade liberalisation program, and has been a source of serious debates and delays in negotiations between the EU and MCs..

Chapter 2 supplies a first picture on the trade relations between Syria and the European Union. The issue of the “asymmetry” (bilateral trade balances and differences in trade composition) is addressed as for considering the relative negotiating situation of both partners. Syrian trade experience with the EU is disappointing, and reflects a “North-South” pattern. Only 15 percent of Syrian exports to EU against 87 percent of Syrian imports from the EU are processed products. The net bilateral agricultural trade balance is negative for Syria and has declined over the last years. The net balance for food processed products has fallen from –156 million Euro in 1995-97 to –164 million Euro in 1997-99. Five products concentrate 90 percent of Syrian exports to the EU. Out of them only potatoes show a positive development. Concentration of Syrian exports on raw cotton is marked, and this product accounts for 73 per cent of Syrian agricultural exports to the EU. The export pattern of Syria to the EU is also different from other MCs. Mediterranean products (fresh and processed fruit and vegetables, and olive oil) account for only 6,2 per cent of agricultural Syrian exports to the EU, against the 63 percent observed for the whole group of MCs. Bilateral intra-industrial trade with the EU was only significant for 11,6 percent of tariff positions. Syrian dependence on EU products is also significant. the EU being the source of 28 percent of Syrian agricultural imports.

Chapter 3 identifies the main constraints for a full consideration of the agricultural trade in the FTA. While the WTO rules concerning regional blocks refer to a full tariff liberalisation for a substantial volume of trade, the Barcelona process calls for a progressive liberalisation of agricultural flows. Actual Syrian agricultural exports to the EU accounted for only 5,3 percent of total Syrian exports to the EU in 1999. However, this would not open the door for excluding agriculture from the bilateral liberalisation programme. Syrian actual exports have adapted to the EU tariff structure and they have tended to concentrate on the “windows” open by EU policies (products with zero tariffs). On the other hand, Syria has also interests in pursuing a trade liberalisation with other Arab countries. The EU represents the 12,6 percent of Syrian agricultural exports against the 57,3 percent represented by the Arab countries. Both regional strategies, the AA with the EU and the Arab FTA are compatible and both will push forward a pattern of tariff reductions in Syria as in its partner countries. Perhaps the main constraint to the inclusion of agriculture in the trade liberalisation program is related to the opposition of the farm concerns in the EU. The European Commission has indicated that the market impact of the Euro-Mediterranean integration will not be significant on EU agriculture. However, the present political momentum is not the most opportune to expect a full tariff liberalisation of EU markets of Mediterranean products. The entry price system continues to be the main barrier faced by the Syrian horticultural products, and it is a real penalisation for low-cost supplies to the EU. Strong competition among Syrian trade operators could result in additional charges, in particular if the Syrian AA does not consider entry price reductions as those obtained by other MCs. A final comment on constrains refers to the lack of "tradability" of tariff concessions showed by the EU. The EU will not be willing to accept high concessions to Syrian "Mediterranean" products, even when Syria is willing to offer high concessions to EU "continental" products. Farm interests in the EU are locally concentrated. On the other hand, the EU negotiators are also concerned about the possible new requests for concessions by other MCs.

Chapter 4 explains with more detail the extent and nature of the "agricultural exclusion" within the AA framework. Previous studies on AAs have suggested that the negotiated concessions have largely been explained by "traditional flows". While this is the initial approach by the EU during trade negotiations, the actual results of the AA negotiations for different Mediterranean partners indicate that there has been a certain degree of flexibility in implementing the "traditional flows" approach. Key issues for the Syrian-EU agricultural negotiation are identified in the chapter, including the "preferential entry price", the import licensing system, the cumulation of rules of origin, and the introduction of an "agricultural component" in the tariff calculation of process agri-food products. Some of these barriers will remain as real constrains for Syrian exports to the EU, even if the AA establishes an abolishment of the *ad valorem* tariffs.

Chapter 5 calculates some static gains of the AA. The benefits of the previous Co-operation Protocol are first considered. Although the Syrian agricultural exports benefiting from zero tariff account for the 91,4 percent of the Syrian agricultural export value to the EU, only 1 percent of it benefited from a real preference. Syrian export composition has tended to adapt to the EU tariff structure and does not properly reflect the comparative advantages of Syrian foreign exports. The export performance of preferential products has been weak, and trade preferences do not seem to have been enough for promoting Syrian export diversification. The results of the negotiation with the EU will probably lie between two extreme scenarios. The first would be that based on the "traditional flow" approach, which would yield insignificant gains for Syria. The second would be the "best of the worlds" for Syria, based on a full tariff liberalisation without quantitative limits. The preference margin was calculated for a hypothetical scenario where a full tariff preference is granted but Syria does not react by changing its actual export structure to the EU. Such preference margin would be slightly above the 0,5 percent of Syrian agricultural export value to the EU. This means export gains significantly lower than those calculated by published assessments of other signed AAs. To realise export gains above such estimate, it is crucial for Syria: (i) not to be constrained by quantitative limits in the form of tariff rate quotas (TRQs) or reference quantities (RQs), and (ii) that export activities are supported by an adequate domestic environment for business and investment. Market access in the EU is a necessary condition for improving export performance but does not seem to be sufficient. Syrian export composition must diversify to high-value products, if export gains are pursued. Preference indices, calculated to assess the relative specialisation of EU imports on Syrian supplies compared to other MCs, indicate that export performance of Syrian products is significantly worse in the EU than in other countries. Syria might wish to improve its participation in the EU markets of some products, such as anise, apple, apricots, green beans, broad beans, dry broad beans, melons, cherries, cucumbers, garlic, grapes, lentils, mushrooms, peaches, pears, pistachios, plums, potatoes, and tomatoes. On the other hand, there are other products with low trade, but a significant surplus situation in Syria. These products are citrus, apples, potatoes and olive oil. Free market access to the EU could help to create adequate incentives for the development of such products.

Taking advantage of the newly negotiated tariff concessions will depend on (i) the existence of opportunities for Syrian products in the EU; (ii) the constraints for Syria to exploit such opportunities; and (iii) the potential for Syrian exports, provided that there is an adequate domestic environment for export growth. These three aspects are examined in **Chapter 6**. Market opportunities in the EU do exist, although there has been a significant trade diversion against non-EU suppliers during the last years. Extra-EU imports for processed fruit and vegetables, tomato, citrus fruits and olive oil are still significant and this would open a scope for Syria to improve its export performance to the EU. Seasonality still remains as an important factor of horticultural trade. In some markets, the MCs enjoy significant shares of extra-EU imports for specific seasons, and this might become the case for Syria too, under the bilateral FTA. The EU offers market "windows" that depend on the availability of local production as well as on the operation of tariffs and entry prices, which also vary along the season. However, the constraints to Syrian exports are also supply-related. While farm-gate prices in Syria are below farm-gate prices in EU countries for a number of fruit and vegetables, high marketing costs (incl. Logistics, post-harvest operations, transport, etc.) still difficult Syrian competitiveness in the EU markets. Non-price competition has a significant influence on the European demand for imports of Mediterranean products. Ten retail holdings represent 36 per cent of food retail markets in Europe. This involves some challenges for Syrian exports that go beyond the traditional trade barriers. A wider access to the EU markets can be constrained by European specifications for quality, but the new situation can create incentives for further implementation in Syria of grades and environmental standards accepted in the EU markets. Potential gains for Syrian exports from a wider access to the EU market can be significant. Just by balancing the participation of Syria in total MCs' exports with the participation of Syria in total EU imports from MCs, the Syrian export value would increase by 52 million Euro, for a group of 7 goods of export interest for Syria. This calculated potential gain would be 36 percent of total Syrian agricultural exports to the EU and 7 percent of total Syrian agricultural exports to the world.

However, for the potential gains become a reality, the agricultural FTA should be accompanied by structural reforms, promoted by the AA. **Chapter 7** stresses on the need for further reforms of the Syrian economy. A quick assessment of the regional integration with the EU suggest that the AA involves some efficiency gains by decreasing the import costs of equipment (these accounted for around 40 percent of the capital invested in agri-food projects under Law no. 10). The European Foreign Direct investment in the Syrian agri-food economy is insignificant. The tariff revenues originated in the EU imports are only 7,2 percent of total public revenues. With a long transition period (10-12 years), the Syrian manufacturing sector could soften the adjustment costs. A scheme of deep regional integration with the EU would assist the modernisation of the Syrian economy, with relatively low social costs. However, long transition does not mean an argument to slow down the path of policy reform. It is clear that a reform of trade practices, in line to the WTO rules, would be needed to easy the regional integration with other Arab countries and with the EU, and to introduce transparency in agricultural trade. A reform of policy instruments, leading to a full tariffication of border measures, could be undertaken. Tariff reductions would be a second priority, as far as agricultural imports are concerned. Price comparisons between the EU and Syria for some products of import interest for Syria (wheat, barley and sugar) suggest that the opening of Syrian agricultural markets should be progressive but gradual. The opening of the agricultural import markets should be accompanied by a number of actions addressed to bring more flexibility to the domestic pricing system, more in line with a market economy. Lower import prices would help to maintain consumer prices down and to counteract the inflating effects of a possible devaluation of the exchange rates used for custom valuing. The import ban list could be abolished (by introducing TRQs) as a way of promoting price competitiveness of Syrian products, also for those with export potential, such as processed fruit and vegetables and cotton.

The scope for Euro-Syrian co-operation is considered in **Chapter 8**. Increased market access in the EU and the progressive intra-Arab integration will improve the appealing of Syria as a destination of European FDI in the agri-food sector. However, the reform of the legal framework for the encouragement of FDI could help to simplify the business environment. The current process of reforms would need to be speeded, in relation to the banking system, the currency regulations, the movement of capitals and the administrative procedures for foreign commercial transactions. While the current direction of the reforms seem to be right, their timetable should be clearly defined. The Euro-Syrian joint ventures in the agricultural sector will surely react to the removal of existing constraints to FDI. The AA includes a series of provisions establishing clear commitments for economic reform, which represent and "intangible" asset of the Syrian-European co-operation. More explicit co-operation programs can be considered, under the MEDA framework, as an important tool for development assistance. The Syrian-European MEDA framework suffered a significant delay in being ratified. However, several projects are now operational, with little attention to the agricultural economy (30 percent of Syrian GDP). Available funds will not solve all the financial needs for structural adjustment in Syrian economy, but can facilitate the economic reform process. Syrian MEDA budget should pay proper attention to agricultural and environmental concerns (environment and water resources could limit expansion of export crops if adequate measures are not taken to rationalise intensive production).

Discussion on policy implications is presented in **Chapter 9** with reference to:

أ) Agricultural policy reform. This includes the abolishment of quantitative import restrictions and measures of equivalent effect on the bilateral trade between Syrian and the EU. As trade measures are converted into tariff barriers, TRQs for imports from EU and Arab countries can progressively be opened, in the framework of the agreed FTAs. A gradual approach would avoid perturbations of domestic markets.

ب) A transition strategy is needed for supporting reform, with a clearly defined schedule of reforms. These could reform trade policies, as a first step, to undertake later a bilateral tariff liberalisation with the EU. If the AA is signed before the end of 2001, the process until the entry in force of the AA will hardly last less than 2 years, which provides with some leeway for the first step. Once the AA entries in force, the tariff liberalisation can be scheduled with a varied rate of abolishment, according to the sensitivity of the products. The ongoing reform process should continue in order to overcome the “bottlenecks” in the economy and to adjust the role of the public sector. At the end of the transition, the tariffication of import measures, accompanied by their limited liberalisation, will encourage competition and a push for restructuring public and private enterprises. Tariff liberalisation is consistent with export promotion. The EU should not underestimate the contribution to Syrian development of a widening of market access, beyond the “traditional flows”. Trade concessions will become a sign for Syrian operators that “the EU market matters”. Encouraging competition in the marketing sector and promoting FDI are key elements to correct this situation. These will call for actions at two levels. At the regulatory level, to continue the reforms of the banking system, exchange rate regulations, access to hard currencies and investment policy. At the micro level, the creation of an investment promotion agency (with private sector participation), and alternative options for foreign marketing should be studied, taking as a reference the experience of private inter-branch organisations in Europe.

ج) International networking can be useful approach to enhance possible interactions among economic actors. As an example, the participation through of the National Agricultural Policy Centre (NAPC) in international projects on policy monitoring of agricultural negotiations could be supported. Another possible actions would be the participation of Syria in the regional MEDA programmes (with subregional groups of countries) and in other international initiatives, such as the International Centre of High Mediterranean Agricultural Studies (CIHEAM). Communication with EU farmers' organisations could be attempted, in order to study possible complementarities between MCs in the fields of production and trade.

د) The agricultural chapter in MEDA should be strengthen in co-ordination with the Institutional and Sector Modernisation Facility (ISMF). One option would be the co-ordination between ISMF and a technical unit of support to international negotiations that could be created at the NAPC, with the support of MEDA funds.

ه) The agricultural negotiations have to be prepared as a part of a long-term strategy. Although Syria will not probably obtained full tariff liberalisation for all exports to EU markets, it seems feasible for Syria to obtain tariff quota that depart to a certain extent from traditional flows. Accordingly, Syria could ask for an early implementation of substantial parts of the agricultural chapter of the AA, before the end of the ratification process, with the commitment of a review of the agricultural trade chapter a 5 years after the AA is signed. This is consistent with the consideration of the AA as a dynamic process where concessions are not static and can be periodically reviewed.

و) Needs for assistance. Implementing most of the recommendations included in the past pages will require appropriate technical assistance. This will look at the trade policy reform (including tariffication, standards, import procedures and cumulation of rules of origin), the permanent outlook of international negotiations, the improvement in foreign marketing and the adoption of sustainable methods of production. Project profiles presented in **Chapter 10** provide with examples of areas to benefit from technical assistance. These projects outlined are:

- Monitoring EU trade policies and its impact on Syrian horticultural exports
- Monitoring EU quality standards and their impact on Syrian agriculture
- Assessing environmental constrains to export expansion
- Monitoring international negotiations
- Training program for foreign marketing of fruit and vegetables
- Trade and market policy reform in Syria

1. The Barcelona process and its current status

The current approach of Euro-Mediterranean partnership was outlined at the Barcelona Conference in November 1995, and focuses on a Free Trade Area (FTA) between the EU and the Mediterranean countries (MCs). The Association Agreements have aimed at establishing a free trade area for each partner country, covering negotiations on free trade of manufactures, extending concessions in agricultural goods and also providing substantial financial assistance to assist the necessary adjustments.

By early 2001 the implementation of this policy had already covered a number of bilateral agreements (see Annex 1.1). Association Agreements have entered into force with Tunisia (1998), Morocco (2000), and Israel (2000), and with the Palestinian Authority on an interim basis (1997). The Agreements with the remaining Partners have either been signed and await ratification (Jordan, signed in 1997), have been negotiated and await signature (Egypt), or are in the process of negotiation (Algeria, Lebanon, Syria). Relations with Cyprus, Malta and Turkey are governed by first-generation of Association Agreements concluded in the 1960s and 1970s providing for Custom Unions.

The co-operation between the EU and Syria dates back to 1977, with the signature of the Co-operation Agreement. This provided for free access to EU markets for manufactures, for some tariff concessions for agricultural products and for financial assistance to Syria through the Financial Protocols. In October 1997, Syria formally confirmed its intention to start negotiations on the Association Agreement. It was the last Mediterranean country to do so. By May 2001, six rounds of talks had taken place (May 1998, October 1998, March 1999, November 1999, December 2000 and April 2001).

President Bhashar el Assad has expressed the Syrian wish to strengthen links with Europe, while maintaining good relations with other countries, mainly in the Arab world. The Government has activated a programme of structural measures aiming at economic reform in support of the private sector by creating a legislative and regulatory environment more favourable to investments. The Association Agreement cannot be understood as a something decoupled from the economic reform process in Syria. As matter of fact, the Association Agreement will become an instrument for economic reform.

At the moment of drafting this report, it was felt that both parties of the negotiation were under strong political pressure to achieve an “acceptable” agreement. While the main focus of this report is on agriculture, it seems necessary to stress that the scope of the Barcelona process covers something more than creating a single Free Trade Area. It intends to create a spirit of partnership that supports economic reforms and encourages investment, private sector development, culture, and regional networks such as agricultural professional organisations, Chambers of Commerce, industrial federations, foreign policy institutes, economic policy institutes) bringing civil agents together to work towards common goals. We should not neglect this comprehensive scope when talking about one sector, say agriculture. Specific recommendations in the agricultural chapter will not function without consolidating such comprehensive approach. This will be a source of middle term benefits, some of them intangible, that have to be weighed with the (short-term) economic impacts on a specific sector.

The last Euro-Mediterranean Conference, held in Marseilles (15-17 November 2000), underlined the need for reinvigorating the Barcelona process (European Commission 2000a and 2000b, Euromed Report 2000). Trade between Mediterranean partners (what can be called as “South-South” trade) has to develop more from its very low starting point and there still exist a strong dependence of the Mediterranean countries on the EU. Mediterranean countries send globally around 51% of the exports to the EU, and receive from it 53% of their imports. The EU investment in the region remains low. Many countries in the Mediterranean region show a narrow fiscal base and a lack of diversification and competitiveness of their production structure. The assymetries between the EU and the Mediterranean countries are outstanding (see box 1.1).

Box 1.1 Euro-Mediterranean Economic Facts

- Intra-regional trade accounts for only 5% of the 12 Mediterranean Partners' trade volume.
- The per capita income in the EU is approximately ten times higher than that of the Mediterranean Partners.
- The combined GDP of the Maghreb States (Morocco, Algeria, Tunisia; population: 66 million) is less than that of Portugal (population: 10 million), while the GDP of the Mashrek States (Egypt, Lebanon, Syria, Jordan; population: 86 million) roughly equals that of Greece or Finland (population: 10 and 5 million respectively).
- Only 1% of worldwide Foreign Direct Investment (FDI), and a mere 2% of European FDI flows into the Mediterranean region.

Source: European Commission (2000b), p. 12

The agricultural sector in the Mediterranean countries, however, is relatively large if compared to the EU (in terms of agricultural GNP, about 20 per cent of the size of EU agriculture for the group of Mediterranean countries that signed the Barcelona declaration with the EU). In spite of the intangible benefits of the Euro-Mediterranean partnership, the Barcelona process has not put high emphasis on what could be an area of common interest for Euro-Mediterranean partnership: agriculture. Trade in agriculture is subjected to a weak liberalisation, within the present framework of the Association Agreements, while the main difference with the former generation of Cooperation Agreements between the EU and the Mediterranean countries is the EU's demand for reciprocity in industrial trade.

Given the significance of agriculture in Mediterranean countries, it is striking that this area has not attracted more interest in the four Euro-Mediterranean conferences celebrated up to now. From the political point of view, this could be explained by the strong market competition existing in some of the products that are typical of the region. Several Mediterranean countries show a very similar product composition of exports. This is the case of Cyprus, Algeria, Spain, Israel, Turkey, Balkan countries and Morocco, all of them with an agricultural sector orientated to "speciality products", mainly fresh fruit and nuts, and preparations of these products. Turkey, Israel and Morocco are the main non-EU member exporters of these typical Mediterranean products. The EU was for a long time a net importer of these "speciality products". The enlargement of the EU to include Greece, later Portugal but especially Spain provoked a change in the traditional trends. EU imports of horticultural products from the non-member Mediterranean countries are clearly constrained by the Common Agricultural Policy (CAP).

The agricultural chapter has been a source of serious debates in some of the negotiations between the EU and some Mediterranean countries. While some of the trade provisions of the AAs have been applied before ratification by the EU Member States in the case of Morocco, Israel and Tunisia, negotiations with other countries have suffered delays. This is the case of the negotiation with Egypt, which faced sensitive questions on the agricultural chapter. The entry in force of the EU – Morocco agreement was delayed for about five years because the lack of formal ratification by some EU member states, which questioned some of the agricultural provisions chapter of the agreement.

2. The "photography" of the agricultural trade flows

2. 1 Comments on data sources

Along this report, we are going to exploit several sources for trade data, mainly based on international organisations (FAOSTAT), European sources (COMEXT database – EUROSTAT) and Syrian national sources (Central Bureau of Statistics, Central Bank of Syria). It is quite often that data extracted from different sources are not exactly comparable, and results should be taken with care. When we perform international comparisons we will make use of international sources, such as FAOSTAT and COMEXT, although we will rely more on ratios than on absolute figures where a comparison is carried out between data extracted from both sources. On the other hand, in most of the analysis of this study, "agricultural trade" will cover Chapters 1 to 24 of the EU Combined Nomenclature (CN), plus headings 41.01 to 41.03 (raw hides and skins), 51.01 to 51.03 (raw wool) and 52.01 to 52.04 (raw cotton). This does not mean that we will give up to make references to processed skins, wool and cotton when it is needed. When total world exports and imports are needed in order to perform international comparisons, data will be taken from FAO statistics according to the SITC classification (total agricultural products and fishery products) and here there are little deviations from the given definition (though we feel that they are not significant). Agricultural trade will be subdivided in basic agricultural products and processed agricultural products. The first group will include the CN chapters n01.01 ؛ to 04.01, 04.07 to 07.09, 07.13 to 08.10, 09.04 to 10.08, 12.01 to 12,07, 12.09 to 13.01, 14.01 to 14.04, 24.01, 41.01 to 41.03, 51.01 to 51.03 and 52.01 to 52.03. The remaining positions are qualified as processed products.

2. 2. The EU-Mediterranean agricultural trade: an asymmetric relation

If we looked for a word to characterise the bilateral trade relations between the EU and the Mediterranean countries, that could be "asymmetry". Let's consider a group of eight Mediterranean countries (we will call it MED8), which includes Turkey, Morocco, Tunisia, Egypt, Cyprus, Lebanon, Syria and Jordan. Of course, size matters, and the EU is a more important trading partner for MED8 than the MED8 group is for the EU. Over 50 per cent of total exports and imports of this group of countries are traded with the EU (table 2.1): Dependence on the EU is lower when agricultural trade is considered, but still high. The EU is the destination for 42 percent of MED8 agricultural exports and the source for almost 29 percent of MED8 agricultural imports. However, the Mediterranean region has not the same weight in the EU trade. Only 3,6 per cent of total EU exports go to MED8 and only 7 per cent of total EU imports are originated in MED8.

Overall, the MED8 group had in 1997 with the EU a total trade deficit over 20 billion Ecu. One half of such deficit was accounted by Turkey. On the other hand, as far as agricultural trade is concerned, the MED8 group had an overall trade superavit with the EU, although here the situation is more heterogeneous because Turkey, Morocco and Tunisia showed a positive agricultural trade balance with the EU.

The Syrian situation in this picture is quite peculiar. On the one hand, Syrian agricultural exports have a lower dependence on the EU market than the rest of the MED8 group. As seen in table 2.2, in 1999 only 17,4 per cent of Syrian agricultural exports went to the EU markets. However, the EU was the source of 27,7 per cent of Syrian agricultural imports. The smaller specialisation on the EU markets of actual Syrian exports should not lead to the conclusion that agricultural trade is not an issue for the Association strategy. This fact should rather invite us to perform a further investigation of the potentialities that a major trading power like the EU could offer to Syrian agricultural exports.

On the other hand, Syria is the only country in the MED8 group with overall trade superavit with the EU, although most of it is explained by exports of crude oil and petroleum products, which accounted for 86 per cent of Syrian exports to the EU in the period 1991-1997. However, the standardised bilateral trade balance in agricultural products against the EU has been worsening in the last years, as reflected in table 2.3, showing a dramatic decrease compared to other Mediterranean countries. Consequently, a quick view to trade developments underlines the need for Syria to diversify its export structure to the EU and to improve its agricultural export performance in the EU markets.

Standardised bilateral trade balances in table 2.3 suggest that the Mediterranean region could be subdivided into two subgroups, at least regarding export performance in the EU markets. The first group, represented by the major exporters in the region, Turkey, Israel, Morocco and Tunisia, shows a relatively high and improving standardised bilateral trade balance with the EU, while the second group, formed by Egypt, Algeria, Lybia, Lebanon and Malta, shows a negative standardised trade balance. Syria has an intermediate position between both groups of countries, with a less negative standardised trade balance, although Syrian bilateral position against the EU has worsen significantly in the last years.

Table 2.1 Total trade and trade with the EU of selected Mediterranean countries

1997-1999

Total exports and exports to the EU

(in million Ecu)

	Turkey	Morocco f	Tunisia	Egypt	Cyprus	Lebanon	Syria	Jordan	MED8
Total exports to the world (FAO) a	23143	4043	4906	3458	1099	632	3453	1618	42353
Total exports to the EU (Eurostat) b	11872	4750	4017	2637	373	154	2027	174	26002
100*b/a (in percent)	51,3	117,5	81,9	76,3	33,9	24,3	58,7	10,8	61,4
Agricultural exports to the world (FAO) c	5.206	832	530	442	740	144	1.037	139	9070
Agricultural exports to the EU (Eurostat) d	1.990	992	366	202	89	25	160	12	3836
100*d/c (in percent)	38,2	119,3	69,1	45,6	12,0	17,0	15,4	9,0	42,3

Total imports and imports from the EU

(in million Ecu)

	Turkey	Morocco f	Tunisia	Egypt	Cyprus	Lebanon	Syria	Jordan	MED8
Total imports from the world (FAO) a	42.905	6.923	6.923	11.649	3.263	6.578	3.552	3.614	85406
Total imports from the EU (Eurostat) b	22377	5329	5285	6758	1959	3095	1354	1200	47357
100*b/a (in percent)	52,2	77,0	76,3	58,0	60,0	47,1	38,1	33,2	55,4
Agricultural imports from the world (FAO) c	3.609	1.262	802	3.031	860	984	747	730	12025
Agricultural imports from the EU (Eurostat) d	1067	341	319	680	246	436	190	147	3426
100*d/c (in percent)	29,6	27,0	39,8	22,4	28,6	44,3	25,4	20,1	28,5

Sources: FAO (1998) for total trade and total agricultural trade, Eurostat (various issues) for trade with the EU, own calculations

f FAO figures for total trade and Eurostat figures for trade with the EU are not exactly comparable and sometimes inconsistent, as the reporting sources are different.

Table 2.2 Syrian total trade and trade with the EU

Syrian total exports and exports to the EU (In million Ecu)

	1995	1996	1997	1998	1999
Total exports to the world	3028	3142	3445	2849	3243
of which with the EU	1731	1958	1887	1297	1981
In percent:	57,2	62,3	54,8	45,5	61,1
Agricultural exports to the world	479	564	838	755	600
of which with the EU	171	137	160	136	104
In percent:	35,8	24,2	19,1	18,0	17,4

Syrian total imports and imports from the EU (In million Ecu)

	1995	1996	1997	1998	1999
Total imports from the world	3592	4227	3544	2538	3587
of which with the EU	1138	1294	1078	1064	1037
In percent:	31,7	30,6	30,4	41,9	28,9
Agricultural imports from the world	554	694	664	384	690
of which with the EU	190	155	190	212	191
In percent:	34,3	22,3	28,6	55,1	27,7

Agricultural trade as a part of Total trade (in percent)

Syrian exports to the world	15,8	18,0	24,3	26,5	18,5
Syrian exports to the EU	9,9	7,0	8,5	10,5	5,3
Syrian imports from the world	15,4	16,4	18,7	15,1	19,2
Syrian imports from the EU	16,7	12,0	17,6	19,9	18,4

Sources: Eurostat (various issues) for all trade with the EU, Central Bureau of Statistics and Central Bank of Syria for total trade with the world. Own calculations. Trade data from Syrian sources are valued at the official exchange rate (LS 11,25 = US$1). Exchange rates USD/Ecu are taken from Eurostat

Table 2.3. Standardised bilateral agricultural trade balances between Mediterranean countries and the EU

	1995	1996	1997	1998	1999
Syria	-0,07	-0,09	-0,10	-0,25	-0,33
Lebanon	-0,89	-0,87	-0,90	-0,89	-0,89
Egypt	-0,40	-0,47	-0,55	-0,53	-0,47
Tunisia	0,04	0,13	0,03	0,03	0,27
Morocco	0,25	0,46	0,46	0,37	0,39
Algeria	-0,94	-0,90	-0,94	-0,94	-0,94
Libya	-0,93	-0,95	-0,95	-0,99	-0,98
Cyprus	-0,01	-0,05	-0,40	-0,32	-0,30
Malta	-0,90	-0,86	-0,91	-0,90	-0,88
Turkey	0,33	0,33	0,36	0,43	0,51
Israel	0,16	0,25	0,16	0,21	0,24

Source: Comext Database (see Annex 2.1.) and own calculations.
Standardised trade balances: (X-M)/(X+M), being X : agricultural exports to the EU; M : agricultural imports from the EU

2. 3. The Euro-Syrian agricultural exchanges

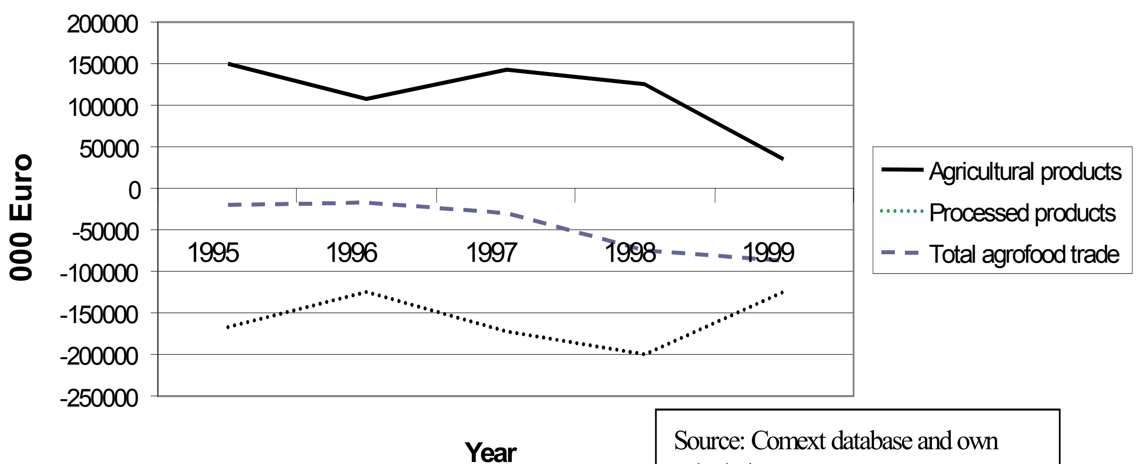
2. 3.1. Overall trade balances

The pattern of bilateral trade between Syria and the EU is quite consistent with a “North-South” pattern of exchanges. Thus, the share of processed products in total Syrian agro-food exports to the EU remains relatively low (3,6 per cent as a 1997-1999 average, which is lower than the average level for 1995-1997, see Annex 2.2). At the same time, the share of processed products in total Syrian agro-food imports from EU sources remained high (85,3 per cent for the same period). The total agricultural bilateral trade balance of Syria against the EU dropped from –22,5 million Ecu in 1995-1997 to –64,8 million Ecu in 1997-1999 (figure 2.1). Therefore, the EU sells more agricultural products to Syria than it buys from Syria. And this imbalance has increased during the last years.

The worsening of the bilateral trade balance was the result of a drop of both the balance for basic agricultural commodities (falling from 134 million Ecu in 1995-1997 to 99 million Ecu in 1997-1999) and the balance for processed products (falling from a negative level of –156 million Ecu to –164 million ecu between both periods).

The sharp drop of the bilateral trade balance of Syria against the EU for basic agricultural products reflects, of course, the impact of the drought suffered by the Syrian agriculture during 1999. However, the Association agreement between the Syria and the EU should take into consideration the persistency of the bilateral trade deficit with the EU, and the traditional specialisation of Syria as an importer of processed (high-value) products and exporter of basic (low-value) products.

Figure 1. Bilateral Trade balance Syria-EU



Source: Comext database and own calculations

2. 3. 2 Inter and Intra-industrial exchanges

Bilateral trade balances for each trade position at four digits of the CN are shown in Annex 2.3, with the corresponding Grubel-Lloyd indexes (GLI) of intra-industrial trade (1- |x-m|/(x-m)). Bilateral trade exists for 173 positions, although the GLI only was over 0,5 for 20 positions (11,6 per cent). The GLI was zero for 90 positions (52 per cent). Therefore, the Euro-Syrian trade is of a marked inter-industrial nature. This result seems sensible given the economic differences between both partners and their complementary productive activities. However, the fact that both the EU and Syria maintain a significant border protection against agricultural imports indicates that the productive adjustments after bilateral integration could be substantial. The absence of intra-industrial trade in the preexistent situation does not help to soften the productive adjustments after the integration takes place.

Annex 2.4 compares the GLI calculated at the CN 2-digit level for the trade flows between the EU and Syria, on the one hand, and between the EU and the overall Mediterranean countries, on the other (the Med8 group + Lybia and Palestine). Of 27 positions (1 to 24 + 41, 51 and 52), only 8 registered higher GLI for the EU-Syrian trade flows than those calculated for the average EU-Mediterranean trade flows. Consequently, intra-industrial trade flows with the EU are more common in the rest of the Mediterranean region than in Syria.

2. 3. 3 Syrian exports to the EU

There is a high degree of concentration of the Syrian exports to the EU on a limited number of products (see Annex 2.5. At the CN four digit level, in 1995-1997 five products accounted for 87,1 per cent of total agricultural exports to the EU. The degree of concentration of exports in the first five products increased to 89,7 per cent in 1997-1999. Table 2.4 presents those exported products that account more than 1 per cent of total Syrian agricultural exports to the EU. The number of products with this characteristic decreased from 10, in 1995-1997, to 8, in 1997-1999.

It is worth underlining the high degree of concentration of agricultural exports in one specific product –cotton, non-carded nor combed-, which accounted for almost 73 per cent of Syrian agricultural exports to the EU. Out of the ten leading exported products from Syria to the EU, seven showed a negative growth between 1995-1997 and 1997-1999. The only outstanding positive development is the emergence of Syria as an exporter of potatoes, which grew from a share of 0,09 percent in 1995-1997 to a share of 2,8 per cent in the most recent period. In summary, Syrian export composition to the EU markets indicates:

(أ) a stabilisation of raw cotton exports,

(ب) a general drop in traditional exports (guts and blades, raw skins, wool, olive oil, dried legumes and locust beans), and

(ج) the very recent appearance of some fast-growing products, such as potatoes and other fruit and vegetables and their preparations.

Table 2.4 Products with a share over 1 percent of total Syrian agricultural export value to the EU (triennial averages)

Products ranked in order of their importance In percent of total agricultural export value (triennial averages)
Period:

1995-1997			1997-1999			
Product	CN Code	Share in exports	Product	CN Code	Share in exports	Interperiod Growth-rates
COTTON ON CARDED NON COMBED	5201	62,495	COTTON NON CARDED NON COMBED	5201	72,983	-0,4
GUTS, BLADDERS AND STOMACHS	504	8,626	GUTS, BLADDERS AND STOMACHS	504	9,399	-7,0
RAW SKINS OF SHEEP OR LAMBS	4102	8,526	POTATOES, FRESH OR CHILLED	701	2,822	2741,7
WHEAT AND MESLIN	1001	4,213	VEGETABLE PRODUCTS N.E.S.	1404	2,278	26,4
OLIVE OIL AND ITS FRACTIONS, WHETH	1509	3,201	WOOL NON CARDED NON COMBED	5101	2,242	-28,1
WOOL NON CARDED NON COMBED	5101	2,661	COTTON WASTE	5202	1,881	-21,8
COTTON WASTE	5202	2,054	SEEDS OF ANIS, BADIAN, etc.	909	1,392	17,4
DRIED LEGUMINOUS, SHELLED	713	1,625	DRIED LEGUMINOUS, SHELLED	713	1,074	-43,6
VEGETABLE PRODUCTS N.E.S.	1404	1,538				
SEEDS OF ANIS, BADIAN, etc.	909	1,011				

Source: Comext database and own calculations. See Annex 2.5

Annex 2.6 presents the Syrian average exports to the EU in 1995-1997 and 1997-1999 and the export growth between both periods of specific agricultural commodities, descending to a six digit level of the Combined Nomenclature. In the quoted Annex, it is worth referring to the boost of Syrian cotton yarn exports to the EU from 7 million Ecu, in 1995-1997, to 19 million Ecu in 1997-1999. This product is currently subjected to monitoring by the EU trade authorities, with the release of import certificates in order to a possible application, if considered necessary, of increased import tariffs against Syrian exports.

Table 2.5 compares the composition of Syrian agricultural exports to the EU with the composition of total exports for a group of 10 Mediterranean countries (Syria included). EU imports of agricultural products from the MCs, on the other hand, are concentrated on fruit and vegetables, fresh as well as processed, olive oil (included in the product group fats and oils), fish and, to a lesser extent, cotton. The differences between Syria and the Mediterranean countries' export composition to the EU become clear (see Annex 2.7 for details). In the period 1997-1999, 42,7 per cent of Mediterranean Countries exports to the EU were fresh fruit and vegetables (against 5,4 per cent for Syria);12,9 per cent were processed horticultural products (against 0,4 per cent for Syria); 7,7 per cent were fats and oils (0,4 per cent for Syria). Cotton exports only represented 4,7 per cent (against 73 per cent for Syria). Given the location of Syria in the Mediterranean area and its climatic conditions for Mediterranean cultures, a question to be addressed is why Syria has not been able to build a more balanced structure of exports.

Table 2.5 Composition of Syria and Mediterranean countries agricultural export value to the EU (in percent of average value for 1997-1999)

Products	Syria	Mediterranean countries (*)
LIVE ANIMALS	0,0	0,1
MEAT AND EDIBLE MEAT OFFAL	0,0	0,0
FISH AND SEA FOOD	0,2	10,1
DAIRY PRODUCE and EGGS	0,1	0,4
OTHER PRODUCTS OF ANIMAL ORIGIN	9,5	2,4
LIVE TREES AND OTHER PLANTS	0,0	0,7
EDIBLE VEGETABLES AND ROOTS	5,2	11,5
EDIBLE FRUIT AND NUTS	0,2	31,2
COFFEE, TEA, MATE AND SPICES	1,4	0,9
CEREALS	0,8	0,5
PRODUCTS OF THE MILLING INDUSTRY	0,0	0,5
OIL SEEDS AND OLEAGINOUS FRUITS	1,0	2,1
LACS; GUMS, RESINS	0,0	0,6
VEGETABLE PLANTING MATERIALS;	2,3	0,4
ANIMAL OR VEGETABLE FATS AND OILS	0,4	7,7
PREPARATIONS OF MEAT AND FISH	0,1	4,2
SUGARS AND SUGAR CONFECTIONERY	0,1	0,8
COCOA AND COCOA PREPARATIONS	0,0	0,1
PREPARATIONS OF CEREALS, FLOURS.	0,1	0,3
PREPARATIONS OF VEGETABLES	0,4	12,9
MISCELLANEOUS EDIBLE PREPARATIONS	0,0	0,6
BEVERAGES, SPIRITS AND VINEGARDS	0,0	1,3
RESIDUES AND WASTE FROM THE FOOD INDUSTRY	0,5	0,5
TOBACCO AND MANUFACTURED TOBACCO	0,1	3,1
HIDES AND SKINS	0,3	0,9
WOOL, NEITHER CARDER NOR COMBED	2,2	0,3
COTTON, NEITHER CARDED	73,0	4,7
COTTON WASTE,	1,9	1,1
Total Agricultural trade	100,0	100,0

(*) Med8 + Lybia and Gaza+Jericho
Source: Comext database and own calculations

2..3. 4. EU exports to Syria

EU agricultural exports to Syria also show a high degree of concentration on a few products but at a lesser extent than the case of Syrian exports to the EU (Annex 2.8). The first five leading exported products from the EU to Syria accounted for 76,3 per cent of total EU agricultural export value to Syria in 1995-1997, and such share dropped to 73,7 per cent in 1997-1999. The structure of EU exports to Syria is more balanced than in the other direction: 13 products had a share over 1 per cent of total agricultural export value from EU to Syria in 1995-1997 and this number increased to 14 in 1997-1999. However, sugar accounts for about 54 per cent of the EU export value to Syria (see table 2.6). Other significant EU exports to Syria are: barley (5,8 per cent), butter and other fats (5,4 per cent), milk and cream (5,2 per cent), flours, meals and pellets of meat (3,3 per cent), seeds for sowing (3,1 per cent), malt extract (3 per cent), rice (1,8 per cent) and potatoes for sowing (1,8 per cent). Annex 2.9 shows the recent export development for specific EU products targeting Syria. 64 agrofood products showed a positive export growth between 1995-1997 and 1997-1999. Out of them, 44 were processed or semi-processed products.

Table 2.6 Products with a share over 1 percent of total EU agricultural export value to Syria (triennial averages)

Products ranked in order of their importance In percent of total agricultural export value (triennial averages)

Period:

1995-1997			1997-1999		
Product	CN Code	Share in exports %	Product	CN Code	Share in exports %
SUGAR	1701	54,852	SUGAR	1701	53,929
MILK AND CREAM,	402	6,547	BARLEY	1003	5,810
BUTTER AND OTHER DAIRY PRODUCTS	405	6,205	BUTTER AND DAIRY PRODUCTS	405	5,419
PREPARATIONS FOR ANIMAL FEEDING	2309	5,338	MILK AND CREAM	402	5,282
WHEAT OR MESLIN FLOUR	1101	3,313	FLOURS, MEALS AND PELLETS, OF MEAT	2301	3,268
FLOURS, MEALS AND PELLETS, OF MEAT	2301	3,086	SEEDS, FRUITS AND SPORES, FOR SOWING	1209	3,086
SEEDS, FRUITS AND SPORES, FOR SOWING	1209	2,161	MALT EXTRACT; FOOD PREPARATIONS	1901	3,006
MALT EXTRACT; FOOD PREPARATIONS	1901	2,127	PREPARATIONS OF A KIND USED IN ANI	2309	1,850
ANIMAL OR VEGETABLE FATS AND OILS	1516	1,605	RICE	1006	1,832
FOOD PREPARATIONS N.E.S.	2106	1,578	POTATOES, FRESH OR CHILLED	701	1,815
RICE	1006	1,573	FOOD PREPARATIONS N.E.S.	2106	1,666
UNDENATURED ETHYL ALCOHOL	2208	1,049	WHEAT OR MESLIN FLOUR	1101	1,614
POTATOES, FRESH OR CHILLED	701	1,033	ANIMAL OR VEGETABLE FATS AND OILS	1516	1,545
			UNDENATURED ETHYL ALCOHOL	2208	1,122

Source: Comext database and own calculations. See Annex 2.8

3. The constrains of the Association

3.1 The "agricultural exclusion"

Traditionally, the EU has used the policy of trade preferences as a strategy of co-operation for development, and the former Co-operation Protocol with Syria should be viewed in this framework. Trade concessions have been granted by the EU on unilateral basis, for Syrian exports of manufactures, and for a limited number of agricultural products. The AA corresponds to a "new-generation" of agreements, which take further steps for a trade liberalisation on a bilateral basis. This is called « reciprocity » in the vocabulary of regional trading blocks. Most Mediterranean countries already enjoyed non-reciprocal preferential access under the earlier Co-operation protocols with the European Communities. In the present strategy, there is an objective of establishing a Free Trade Area. This involves reciprocal liberalisation on industrial products and gradual liberalisation in agricultural and fisheries products. The Barcelona declaration set the principles for taking the agricultural trade as an exception of the liberalisation programme. The declaration states that

"*Taking as a starting point traditional trade flows, and as far as the various agricultural policies allow and with due respect to the results achieved within the GATT negotiations, trade in agricultural products will be progressively liberalised through reciprocal preferential access among parties,…"*

This means that « traditional flows » matter and that agricultural trade might not be completely liberalised, within the Association Strategy. Thus, food products are implicitly excluded of the Free Trade Area (pursued by 2010).

From the political point of view, total liberalisation of agriculture has never been possible in the different AA signed between the EU and the Mediterranean partners. It is true that Mediterranean non-member States have historically enjoyed trade preferences to their agricultural exports to the EU in form of tariff cuts with or without limits to quantities. Trade preferences have tended to freeze existing market shares, in a consistent way with the « traditional flows » approach, mentioned above. This contrasts with the situation in industrial products. All industrial exports from the partners already have duty-free access to the EU market. And the EU industrial exports to the Mediterranean partners will benefit from duty-free access, as the AAs are entering in force.

Studies of the prevailing concessions in agriculture (Togan, 1998) revealed that Israel, Tunisia and Turkey have obtained from the EU relatively satisfactory concessions. All of the three countries have obtained preferential treatment for most of the agricultural commodities with relatively higher share in their total agricultural exports. On the other hand, Morocco and Egypt have not met their expectations of agricultural concessions granted by the EU. In summary, the agricultural exception is not perceived in the same way by all Mediterranean countries. However, from a political point of view, Mediterranean countries would need further signals of reciprocity from the EU's side, in order to justify the measures undertaken to open their industrial markets. One signal would be an increased access of agricultural products to EU markets. Given the importance of agriculture in most part of the region, excluding the agricultural trade from the reciprocal concessions would mean reducing the opportunities for private investment to take advantage of the Euro-Mediterranean economic area. The limited access offered to the Mediterranean countries stands in contrast with the agreements concluded between the EU and Central and Eastern European countries.

3.2. Is the "agricultural exclusion" compatible with WTO rules?

The EU will have to notify the AA to the WTO, independently of the status of the country that signs the agreement with the EU. Syria is not a WTO member, but this fact does not prevent the

EU from complying with its obligations with the WTO. In article XXIV of the GATT, the WTO imposes conditions so that regional integration helps to perfect, but not to contradict the multilateral trade system. To this end, paragraph 8 of article XXIV establishes that if a free trade zone or a customs union is created, customs duties and other obstacles to trade must be reduced or abolished in "substantially" all sectors of the group. Trade with non-member countries must not be restricted any more than it was prior to the establishment of the regional group.

The term "substantially" has been interpreted, from the quantitative point of view, as referring to 90% of the world trade of those involved in the agreement. This may theoretically mean the possible exclusion of part of the trade in so-called "sensitive" products, as is the case of many agricultural products in the EU. Article XXIV of the 1994 GATT (paragraph 5.c) establishes that the agreement leading to the formation of a free trade area must include a timetable by which the free trade area would be completed within a "reasonable" period. In the Uruguay Round Understanding this period is defined as being 10 years. It may also be possible to exceed this period in "exceptional cases". Therefore, in the agreements negotiated by the EU, there is a door open to the possibility of prolonged transition periods for some sensitive sectors of European agriculture -though in these cases the WTO Trade of Goods Committee might require an adequate justification. It has to be noted that not all the WTO Members share this flexible interpretation of Article XXIV and its corresponding Understanding.

However, the EU approach for the FTA signed with the Mediterranean partners has been to exclude “sensitive” agricultural products from the liberalisation programme. Until now, the Union has successfully included many sensitive agricultural products within the 10% of trade that can be excluded in accordance with article XXIV of the 1994 GATT. This is consistent with the quoted reference in the Barcelona Declaration to a "progressive liberalisation" of agricultural trade between the associated countries, but not to a "total liberalisation". But, could the agricultural trade be excluded from the Euro-Mediterranean free trade area?

Taking the Med8 group of countries as a reference, agricultural flows represent around 14 per cent of total MED8 exports to the EU and around 7 per cent of total MED8 imports from the EU. In the case of Syria, these proportions reverse. In 1999, 5,3 per cent of Syrian exports to the EU were agricultural products but this group of goods accounted for 18,4 per cent of total Syrian imports from the EU (table 2.2). These figures suggest that the EU might claim for the inclusion of its agricultural exports to Syria into the liberalisation programme. May Syria claim the same for its exports? Syrian exports to the EU show a lower degree of specialisation on agricultural products than Syrian exports to the world, and this situation could indicate a potential for a more balanced pattern of specialisation. Actual flows can be weak because of a lack of Syrian domestic competitiveness in the EU markets, but also because of the impact of actual trade barriers imposed by the EU to agricultural exports where Syria could enjoy comparative advantage. When actual trade flows don’t indicate the real comparative advantages, we cannot argue that agriculture could be excluded from the liberalisation programme. The own European Commission (1998) has recognised that the formation of FTAs should involve sufficient product coverage of all the products that could be potentially integrated in the trading arrangement.

3.3 Regional-multilateral choices for Syrian agriculture

Syrian government has expressed its wish to strengthen its links with Europe, but at the same time, aims at increasing commercial relations with the rest of the world, in particular with other Arab countries. From the commercial point of view, the question could be addressed on the compatibility of different schemes of liberalisation that may overlap. One possible choice is between bilateral and multilateral liberalisation. Both parties in the negotiation, the EU and Syria, face a similar choice. However, the EU has been more active as a participant in both types of strategies, regional and multilateral.

For Syria, the participation into a regional integration scheme with the EU involves a challenge for the Syrian economy, perhaps at a lower risk of adjustment costs than if the regional process overlapped with a move to a multilateral liberalisation (e.g. WTO membership). However, regarding the trade impact of the AA, several forces threaten the potential benefits for Syria to enter in a regional arrangement with the EU. Firstly, the expected improvement in trade preferences of the new AA is relatively low, compared with the existing situation. Secondly, the multilateral reduction of tariff barriers, a process resulting from multilateral agreements within the framework of the GATT and the WTO, is eroding the preference margins.

The erosion of the tariff preference margins of some developing countries, because of multilateral negotiations, should not be neglected. The study by Grethe and Tangermann (1998a) showed that, with the previous preferential agreements with third Mediterranean countries, the Uruguay Round commitments caused a 17% reduction of the preference margin for Mediterranean countries as a whole. The reduction was 27% for Israel, 16% for Morocco and 7% for Tunisia. For Syria, the erosion of the preferences obtained under the 1977 Protocol was around 21 per cent, although the previous preferences under such Protocol were, from the beginning, much more limited than for the majority of the Mediterranean countries. The AA (and its further review) could partly neutralise the erosion of the preference margin, but as the EU goes ahead with the multilateral negotiations, the static gains of trade preferences for Syria will progressively be eroded. Moreover, other countries like Morocco have declared their interests to be taken into account where any concessions and advantages are granted to other MCs under future agreements. That means that trade concessions are not static and that the Syrian preferences will depend in the future on the actual deals between the EU and the individual MCs (inc. Syria). On the other hand, the EU will probably be reluctant to grant higher concessions in the different reviews of the commercial part of the AAs because of a fear that individual demands for deeper concessions spread across the whole MCs and erode as well the Common Agricultural Policy (CAP, see below).

This "wearing down" of the preference margin may cause Syria to reflect on its political view on the trade preferences to obtain from the EU. At least other aspects of the AA should be taken into consideration, beyond its trade component, e.g. as an instrument for the reform of the economic system.

From the point of view of agricultural exporter, Syria has stronger links with other Arab countries than with the EU. The EU represents the 12,6 per cent of Syrian agricultural exports against the 57,3 per cent represented by the Arab countries (table 3.1). From the view point of Syria as an agricultural importer, the situation is quite different: the EU accounts for 26,9 per cent of Syrian agricultural imports against the 9,4 per cent represented by the Arab countries. This pattern reveals the interest for Syria to consolidate its exporting position in the Arab countries. Syria is involved in the conformation of the Arab FTA (AFTA). This will lead to the elimination of import duties and other barriers to trade on goods of Arab origin over a ten-year period since it came into effect on January 1, 1998. Syria and Lebanon agreed to reduce their customs on locally-manufactured goods by 25% every year as of the same date.

Table 3.1 Distribution of Syrian agricultural and total trade among main areas

Export value in 000 SP		**Average 1997-1999**		
	EU	**Arab countries**	**Other countries**	**World**
Agricultural trade	1221834	5570153	2924764	9716751
Total trade	21339375	9609842	7504016	38453233
In percent of exports to the world				
Agricultural trade	12,6	57,3	30,1	100,0
Total trade	55,5	25,0	19,5	100,0
Import value in 000 SP		Average 1997-1999		
	EU	**Arab countries**	**Other countries**	**World**
Agricultural trade	2411864	842812	5727351	8982027
Total trade	13956255	3646252	26386581	43989088
In percent of imports from the world				
Agricultural trade	26,9	9,4	63,8	100,0
Total trade	31,7	8,3	60,0	100,0

Source: Central Bureau of Statistics and own calculations.

Both regional strategies, the Association with the EU and the AFTA are perfectly compatible. There is some indication that the levels of intra-trade in the Arab region (around 5%) are below normal (Zarrouk, 1998, Yeats, 1996). However, Syria has larger flows with Arab countries (25 per cent of total Syrian exports and 8 per cent of total Syrian imports). The intra-Arab integration could effectively create a regional trade pattern, which could contribute to attract European investment interested in serving the area.

However, some temporal exceptions to the implementation of the AFTA are allowed for agricultural products. The AFTA executive program allowed agricultural products to be outside the tariff reductions scheme during the crop/harvest seasons, which allow protecting those products for most of the transition period. Syria still applies a protection list that puts high tariffs on a number of products during the peak production seasons, although it is being progressively reduced, especially for some countries (see Annex 3.1). The caveats of the AFTA scheme are:

(أ) its excessive focus on tariff elimination, thus giving small room for a deeper scheme of integration that goes beyond tariffs, and

(ب) the fact that the decision to allow exceptions even subject to the drawn guideline might lead member countries to take advantage of this loophole, thus reducing the ability of the Arab FTA to realise its full potential for regional trade expansion.

Consequently, the Association with the EU could be complementary with other liberalisation schemes faced by Syria and push for a deep integration that includes an action programme for economic reform. Is important to note that the AA will serve to push forward a pattern of tariff reductions in Syria as well as in its partner countries, helping Syria to face further multilateral liberalisation.

3.4. The CAP and the AA

3.4.1. The CAP as a constraint

The deferment of substantive negotiations of liberalisation of trade in agricultural products has been a constant of the Euro-Mediterranean partnership. This is largely explained by the political difficulties of reforming the EU's CAP and by the resistance on the part of European farmers who compete with non-EU member Mediterranean countries. The southern enlargement of the European Community in the eighties redefined its relation with the Mediterranean partners. Spain, Greece and Portugal account together for over 25 per cent of the EU imports of fruit and vegetables. These countries' political influence largely explains the limits to trade concessions through tariff quota and reference quantities. However, the European Commission has not considered trade concessions to Mediterranean countries as a serious threat for European products. This was the main conclusion of the Commission's analysis of the impact of the agricultural concessions to Mediterranean countries (European Commission, 1997). Among eleven Mediterranean partners, only Turkey, Morocco and Israel appear as important agricultural exporters to the EU. In general, imports from Mediterranean countries account for a relatively small share of total EU imports and domestic production.

Can we expect that the EU would open its imports from Syria as the result of an AA? From the legal point of view, the Barcelona process and the WTO rules might provide the EU with an argument to defend the exclusion of a substantial part of the agricultural trade from the free trade provisions of the AA. In fact, trade liberalisation in the EU's agricultural sector will take place as the result of political processes that are far of being influenced by the Euro-Mediterranean process. The first is the current WTO negotiation in Geneva, which will eventually lead to a further opening of the EU import markets. The second is the EU Enlargement, with 12 candidate countries queuing for accessing the EU. This will involve a further pressure for reforming the CAP in the direction of the reduction of market intervention and the move to a truly rural development policy. The third is the EU participation in other FTAs, after the signature of AAs with South Africa (1999) and Mexico (2000). Mercosur remains a potential challenge for the current CAP. Finally, the sanitary crisis in the animal activities (the "mad cows" and the foot and mouth diseases) will bring a new push for changing to quality policies instead of the traditional market interventions that encourage yields.

As the result of these developments, we could say that the liberalisation of EU markets is a matter of time. However, the present political momentum of the AA is not the most opportune to expect a dramatic short-term liberalisation of the EU policies, even within the framework of a bilateral agreement signed with a small country like Syria. This study must look at the existing "windows" for Syrian exports, and this includes a reference to constrains imposed by the current EU's Common Agricultural Policy.

A comprehensive study of how the CAP affects the international trade of products of interest for Syria lies far beyond the scope of this report. However, it is worth stressing that the EU agriculture remains benefiting from a high support. Thus,

(أ) The Producer Support Estimate (PSE), a measure of the economic transfer from the society to the agricultural sector amounts to 17 thousand dollars per farmer (OECD, 2000);

(ب) Subsidies account for around 29 per cent of the EU total farm income (European Commission, 2000c).

(ج) The Common Agricultural Policy will remain the most important outlet of EU public expenditure, at around 41 billion Euro per year, for the next five years (46 per cent of the total EU budget).

(د) Total agricultural support notified by the EU to the WTO for 1997/1998 is

> slightly above 100 billion dollars. Around 55 per cent of this amount are "amber box" subsidies, that is, trade distorting subsidies; 25 per cent are subsidies of "blue box" nature, that means direct payments to farmers partially decoupled from production incentives. These payments will become an issue of the ongoing negotiations at the WTO.

Olive oil is an example of a highly subsidised crop in the EU. The 1998 reform of the Common Market Organisation (CMO) of olive oil includes a producer subsidy that can reach 1322,5 Euro per hectare if the Member States' production is lower than their respective Guaranteed National Quantities (GNC). The producer subsidies in percent of total gross earnings of olive growers (market price + subsidies) have increased from 20 per cent, in 1992, to 40 per cent, in 2000 (Garcia-Alvarez-Coque, 2001). The Percent PSE (PSE as a percentage of gross earnings) in olive oil is above 50 per cent, of which 15 points are due to price regulations (basically border protection) and 35 points are the result of payments to producers. Attempts to reform this system are facing strong opposition by the major producer Member States (Spain and Italy).

The fruit and vegetable sector is not as highly subsidised as the olive oil sector. The fruit and vegetables account for 16 per cent of the final agricultural production value but only for 3,5 per cent of total CAP budget. For fresh produce, producer organisations (POs) can receive partial compensations from FEOGA (the CAP fund) for surplus produce withdrawn from the market, if prices fall below certain levels (European Commission, 2001a). For some products destined for processing (e.g. tomato and citrus) processing aids can be paid, subject to certain conditions. Under the new Regulation adopted in 1996, "operational programmes" can be submitted by the POs to improve product quality, promote marketing, develop environmentally sound cultivation practices, etc. Approved programmes are part-financed by FEOGA. A limited share of the funds can be used for withdrawals. Potatoes are not included in the Common Market Organisation and they don't enjoy the same benefits as the rest of fruit and vegetables in the EU.

Export subsidies of olive oil and fruit and vegetables are bounded by the WTO commitments. The finally bound expenditure on export subsidies for fruit and vegetables in the year 2000 both, fresh and processed, are 75,8 million ECU, and for olive oil is 21 million Ecu. These amounts are around 2,5 per cent of the value of fruit and vegetables and 3,3 per cent of the value of olive oil exported by the EU in 1999.

The EU trade preferences to be obtained by product groups of special export interest to Syria have to be seen in relation to the nature of EU import policies in these sectors. In both "Mediterranean" sectors –olive oil and fruit and vegetables-, import duties are applicable within the limits imposed under the Uruguay Round Agreement. Annex 3. 2 provides a table with information about the import duties applied by the EU to selected agricultural products. EU imports of olive oil are subject to high specific tariffs in the range from 1194 to 1737 Euro/t resulting from the Uruguay Round (UR) process of tariffication of the former variable levies. As we will see in the next chapter, Tunisia benefits from a preferential tariff quota for olive oil. Fresh fruit and vegetables are subject to *ad valorem* tariffs from zero to 21 per cent. Duties are generally higher for some "sensitive" products and during periods of peak EU production. Additional duties can be applied and only suspended if certain "entry prices" are respected: these, as well as duties have been progressively reduced under the Uruguay Round provisions, but remain high for some products and seasons. Under the "entry price" system, the EU charges additional duties, if the import shipment concerned undercuts a minimum import price. These additional duties are high enough to provide a strong incentive to the importer not to undercut the minimum import price, and an economic rent results in many cases (when the CIF import price is below the minimum import price). This rent accrues to the importing or exporting companies - depending on their negotiating position. Implicitly, the minimum import price defines a maximum import quantity and therefore has an effect similar to that of a voluntary exports restraint (see Grethe and Tangermann, 1998b for a discussion of the entry price system). For processed fruit and vegetables, the EU applies a mixture of specific and *ad valorem* tariffs. For typical temperate zone products like meat, dairy products and cereals, the EU applies high tariffs, which are prohibitive in many cases. These products, however, are not of export interest to Syria, with few exceptions.

Another product of export interest for Syria is cotton. EU imports are free of duty but it is worth noting that EU cotton growers benefit from a “production aid” that is calculated as the difference between a “guided price” and the world price. The CAP expenditure per hectare amounts to over 2000 Euro per hectare (Garrido and Mesquida, 1997). This subsidy is considered an “amber box” measure, what means that it will probably be challenged and subjected to adjustment as the result of the current WTO negotiations.

3. 4. 2. A case study: the entry price regime for fruit and vegetables.

The entry price system (see Swinbank and Ritson, 1995, Martin and de Gorter, 1998; Grethe and Tangermannb, 1998b, for further comparative analysis with its predecessor, the reference price system) applies to a subset of fruit and vegetables considered particularly "sensitive" in the EU. It provides a high degree of protection to EU growers of these products. The entry price system guarantees that imports of a list of fruits and vegetables (see table 3.2) are not sold on the EU markets below the minimum entry price (MEP).

Table 3.2 Fruit and Vegetables Covered by the EU Entry Price System

Product	Period in which an entry price applies
Tomatoes	01.01. - 31.12.
Cucumbers	01.01. - 31.12.
Artichokes	01.11. - 30.06.
Courgettes	01.01. - 31.12.
Oranges	01.12. - 31.05.
Clementines/mandarins	01.11. - 28.02.
Lemons	01.01. - 31.12.
Table Grapes	21.07. - 20.11.
Apples	01.01.- 31.12.
Pears	01.07.- 30.04.
Apricots	01.06.- 31.07.
Cherries	21.05.- 10.08.
Peaches/nectarines/plums	11.06. - 30.09.

Source: Taric – Market Access database (European Commission) and own elaboration

As a consequence of the Uruguay Round provisions, the EU decided to retain some form of minimum import prices, now renamed "entry prices", in order to maintain the protective effect of the reference price system. Even if this is in conflict with the spirit of “tariffication”, the EU’s trading partners accepted it "as the lesser of two evils" (Swinbank and Ritson, 1995, p. 49). In this system, the EU sets a “maximum tariff equivalent (MTE)” for each one of the “sensitive” products. The EU also establishes two kinds of tariffs for each product where entry prices are applied. One applies to imports at or above entry price and a second one to imports below the entry price. Only the "normal" ad valorem tariff is charged on imports at or above the entry price. If a shipment is imported at a lower import price, but not more than 8 per cent below the entry price, an additional duty is charged which equals the difference between the entry price and the import price. If, however, the import price is lower than 8 per cent below the entry price, the full MTE plus the ad valorem tariff will be charged. This regime turns out to be an almost prohibitive barrier for most imports below 92 per cent of the entry price. However, the entry price system provides a sort of an “escape clause” from the application of the MTE

(Martin and de Gorter, 1998) If the entry price of the shipment is above the 92% of the entry price, then the importer is exempted from paying the MTE and this is ultimately to the exporter's advantage. Third countries obviously accepted this approach as a quid pro quo for the continuation of a system under which they could export to the EU at high prices without paying high tariffs.

Table 3.3 shows examples on the entry price levels for products of export interest for Syria. The "normal" *ad valorem* tariffs are added to obtain the "minimum import price" for shipments originated in non-preferential countries ("Most Favoured Nations"). "Minimum import prices are considerably high during the periods when there is significant European produce at the market.

Table 3.3- EU "Minimum" import prices: entry prices plus MFN tariff

Product	**Entry Price** Euro/t	**Ad valorem tariff (%)**	**Minimum import price** Euro/t
Tomatoes			
April	1125,6	8,8	1224,7
1 - 15 may	725,6	8,8	789,5
16 - 31 may	725,6	14,4	830,1
1 Jun - 10 Jul	525,6	14,4	601,3
11 Jul - ago	525,6	14,4	601,3
September	525,6	14,4	601,3
Oct	625,6	14,4	715,7
Nov - 20 Dec	625,6	8,8	680,7
21 dec-31 Dec	675,6	8,8	735,1
Jan - mar	845,6	8,8	920
Oranges			
Dec - mar	354,2	16	410,9
April	354,2	1,4	359,2
1 -15 may	354,2	4,8	371,2
16 - 31 may	354,2	3,2	365,5
Jun - 15 Oct	354,2	3,2	365,5
16 Oct - Nov	354,2	16	410,9
Clementines			
Dec - Feb	648,6	16	752,4

Source: TARIC- Market Access database (European Commission) and own calculations

The system is administered on a shipment-by-shipment level. In practice, importers would not tend to declare a c.i.f. price below entry price, intending not to pay any additional charge. In addition, much of the fruit and vegetable trade is on consignment and no agreed c.i.f. price exists at the moment of importation. Hence, compliance with entry prices cannot often be monitored based on c.i.f. prices. Therefore, import prices are usually monitored on the wholesale EU markets, where prices can be monitored by origin. Importers can chose between three options to check compliance with the entry price:

(أ) Import duties can be based on a Standard Import Value (SIV), calculated by the European Commission each working day for each product and origin.

(ب) The importer can declare the f.o.b. invoice, adjusted for insurance and freight costs. In certain instances the importer may have to lodge a security equal to the difference between the duty he would have paid based on the SIV and the duty he paid based on the invoice entry price.

(ج) The deductive method: In this case, the import charge is based on the effective selling price of the shipment concerned. In this case, too, the importer has to lodge a security as high as the tariff he would have paid if he had imported by using the SIV.

If the SIV is above the entry price no additional duty will be charged to the importer who opts for the SIV method (i). If the SIV is below the entry price, the importer can try to avoid paying an additional duty by opting for (2) or (3). Experiences reported by importers on the entry price system (Grethe and Tangermann, 1998b) suggest that they have had relatively little difficulties with it, with some exceptions, such as tomatoes from Morocco during the winter season 1996/97. Traders tend to opt for the SIV method for most of the imports, because the other two procedures involve significant administrative efforts. On the other hand, the entry price system seems to provide some opportunities for circumvention by the importer, either legal or illegal, especially when the method used of custom clearance is by invoice.

Although in a lower degree than the old reference-price system, the entry price system continues to represent a penalization of low-cost supplies. When strong competition between exporters exist, there is a risk that the rent resulting from price-competitiveness will be transferred to the EU in form of tariffs. This might create an incentive for Syrian administration to promote co-ordinated actions to avoid that Syrian exports are penalised for the additional charges that would result from low-price supplies. We will go back to this question when we analyse the effect of trade preferences on market shares of countries participating in AAs with EU.

3. 4. 3. European fears

It is not surprising that fears about the AA would occur normally in European horticultural cropping regions that suffer the increasing competitive pressures, because of the similarities of the productive specialisation with Syria. There is a widespread concern among European producers, specially from the South, that trade liberalization with developing countries will impoverish EU farmers: a fear articulated by some European farm loobies in their denuntiation of the accords signed with Tunisia, Morocco and Israel. Experience with other AAs suggests a huge reluctancy of the EU to open trade of goods locally produced. There is also a political problem related to the imbalances of protection among the different EU agricultural activities (CIHEAM, 2000). Although EU border protection of olive oil and given fruits and vegetables is significantly high, Southern European producers don't easily accept a more open market, taking into account that the CAP gives much more support to Northern European producers. Horticultural products, which account for the 16 per cent of the final agricultural production, and only receive the 3.5 per cent of total expenditure funded by the European Agricultural Guarantee and Guidance Fund (EAGGF). Cereals, with about the 11 per cent of agricultural final production, receive almost the 40 per cent of total subsidies. Of course, there is a economic logic in this imbalance of support. Horticultural sector in Europe is not considered as a really problematic sector and it is widely accepted that farms in Southern Europe can easily adapt to changes in their economic environment. But, from the view point of European producers of Mediterranean products, it is difficult to understand why the inefficient « Northern » producers are supported by non-selective subsidies while the horticultural operators are supposed to be more dynamic. It is true that these remarks don't provide any justification of why the EU should limit concessions to Syrian exports. However, they provide a description on the political forces underlying the EU stance.

Of course, the Syrian stance can also offer arguments to request a higher openness in the key products, one of them, and not the least important, that the actual Syrian flows to the EU are far from destabilizing the EU markets (see below). On the other hand, Syrian stance has also allies in Europe, from different sources :

(أ) The trading sector (eg. EUCOFEL, European Trading Federation) and trading authorities, which realize the commercial gains from a regional integration covering manufactures as well as agricultural products.

(ب) The European Parliament and a significant part of the European politicians who recognise that only a shared space of prosperity in the Mediterranean can guarantee stability and development.

(ج) Some views in Northern Europe, where competiting products are less produced, as illustrated by a British newspaper's article: « north Europeans stress the importance of market access, knowing that it is south European farmers who would suffer most from north African competition" (*Financial Times*, 27 November 1995).

However, in other fields of the agricultural policy, this liberal doctrine falls into contradictions when vested interests are involved. While collectively Northern European countries have expressed a preference for "trade rather than aid", several of these governments defended the EU's Common Agricultural Policy (that is, in those countries where this protectionist policy serves the interest of the domestic agricultural sector) even though it constitutes and impedimient to MCs export growth. This was shown by the Dutch, German and Belgian last-minute concerns expressed about the effects on their producers of increased Moroccan exports to Europe of cut flowers, tomatoes and potatoes. And, of course, it is also shown by the imbalance of support between "continental" and "Mediterranean" products, referred above.

A further comment on the expected rigidity of the European position in its negotiation with Syria refers to the lack of «tradability » of concessions given for different products. One might expect that higher Syrian concessions in « continental » products imported from the EU would be exchanged by higher European concessions in « mediterranean » products. However, farm interests in the EU are locally concentrated and there is little room for such tradability, which would have been easier in the case of a more diversified productive structure of specific rural regions in Europe. In other words, the tradability of concessions for the import and export side of the « negotiation equation » seems questionable.

4. Understanding the AAs

4.1 The scope for trade preferences

All the AAs include preferential agricultural trade. It has to be noted that in some cases, the commercial sections of the AA have partially or wholly been set in force provisionally, before ratification. The trade part of the AA with Israel entered in force in January 1996. In the case of Morocco, only the provisions on sardines, flowers and reduced entry prices were in force since January 1996. The trade part of the AA with Tunisia entered into force in March 1998, and the trade part of the AA with Jordan is not yet in force at the time of drafting. In the Consultant's view, the advanced implementation of the agricultural commercial chapter might be a specific request of the Syrian negotiating party. The formal structure in all AAs is very similar, although they may differ in the specific quantitative parameters of trade concessions in agriculture (tariff reduction, products covered and quantitative limits). As Annex 4.1 show, agricultural preferences granted by the EU are generally limited to fruit and vegetables, flowers, spices, wine, olive oil, durum wheat, bran, fish and some meats, and certain processed products.
The tariff concession is 100 per cent for many products, with smaller reductions for some "sensitive" products. Studies on trade preferences to Mediterranean countries suggest that tariff concessions are usually designed more to freeze traditional flows than to push export dynamics of agricultural exports from MC to the EU (Alvarez-Coque and Bautista, 1994). There are some reasons for such conclusion. First, the concessions tend to be more generous for products and seasons in which EU imports do not compete directly with domestic production. Second, tariff preferences (or entry price reductions) are very often granted under quantitative limits in the form of tariff quota (TRQ) or reference quantities (RQ). In the case of TRQ, the whole MFN tariff or a percentage of the MFN tariff is applied. For quantities exported in excess of RQs the tariff concession (and not the MFN tariff like with TRQs) is still to be applied, but the EU reserves the right to convert RQs into TRQs at the same level. For products where tariff reductions are granted without a quantitative limit, the EU reserves the right to set limits later if imports caused "difficulties" on EU markets. The EU has never applied none of these both provisions.

In some cases exports in excess of TRQ, or future TRQ resulting from the conversion of reference quantities, are not eligible for any tariff reductions. In other cases lower tariff reductions apply to exports exceeding the TRQ. Some of the TRQ and reference quantities have been increased by four equal steps of 3 per cent annually during the first four years after the AA was concluded. Finally, for some products the EU reserves the right to define reference quantities at any level if the volume of imports "threatens to cause difficulties on the Community market".

If the quantitative limits are binding (i.e. increased tariff for excess quantities), the preference margin does not involve a gain in market shares. Here the preference is at most an economic rent which is attracted by the "owner" of the import licenses allocated for trade under the tariff-quota. It is true that exporting countries benefit partially from that preferene, but it is not clear which part of the additional income represented by the tariff concession really flows to the exporting country.

Therefore, the economic gains for a preferential country will largely depend on the existence or not of binding quantitative limits for the tariff concessions. When this limit does not apply, the exporting country has the choice of either attracting the preference margin or selling at a lower price and therefore gaining a larger market share (Tangermann, 1997). When the limit is binding, any economic rent from the preference will be transferred to the EU. Syria has little experience, compared to other MCs, with reference quantities and TRQs in its relation to the EU. Under the Cooperation Protocol, the EU established a reference quantity of 840 tonnes for dried onions (CN code 0712.20.00). The export peak in the last four years has been 751 tonnes in 1997, and only a significant boost of exports could imply the risk for a loss of the tariff concession. However, Syria aims at improving its market access in a number of commodities and the EU might wish to apply TRQs and RQs. Thus, for Syria the problem is not that the EU will apply quantitative limits, but whether or not such limits will be binding or not.

Previous studies on other AAs have shown that the newly negotiated quantities can largely be explained by either past trade flows or "traditional flows" (Tangermann, 1997, pp. 27-30). However, there must have been some flexibility in the negotiations. For example, in the cases of onions from Morocco and Israel and wine from Tunisia, actual TRQs exceed both past trade flows and quantities agreed in former agreements. On the other hand, for some sensitive products the EU did not raise TRQs that had regularly been exceeded in the past (for example olive oil from Tunisia) or introduced new TRQ far below past trade flows (for example tomatoes and preserved turkey meat from Israel).

After a comparison of concessions within the different AA, Grethe and Tangermann (1998a) noted the huge variety of tariff cuts and quantitative limits (see Annex 4. 2). In the case of Israel only for 61 per cent of the products/product groups subject to preferential tariffs, tariff reductions were granted without quantitative limit, whereas this ratio was 89 per cent for Palestine and 90 per cent in the case of Tunisia. These differences could indicate that the EU felt a stronger need for quantitative limits in the case of countries with a higher export potential not yet exhausted.

Table 4.1 shows some examples of quantitative limits, under the current EU regulations, for some products of export interest for Syria. It can be seen that the actual exports have exceeded the quantitative limits in some cases, such as tomatoes for Morocco, cut flowers, new potatoes and tomatoes, for Israel, olive oil for Tunisia, concentrated tomato for Jordan, and new potatoes and oranges for Egypt.

4. 2. Issues of the agricultural negotiation

We next review the status of the agricultural chapter in the Association between the EU and some MCs. It is worth noting that the agricultural provisions of the AAs can be subjected to revision, as it has been the case of the entry price system for some Mediterranean countries. The renegotiation of the agricultural chapter with Morocco, Israel and Tunisia was resumed in 2000, with some specific results for the last country.

Table 4.1 Export quantities to the EU and quantitative limits (TRQs and RQs)

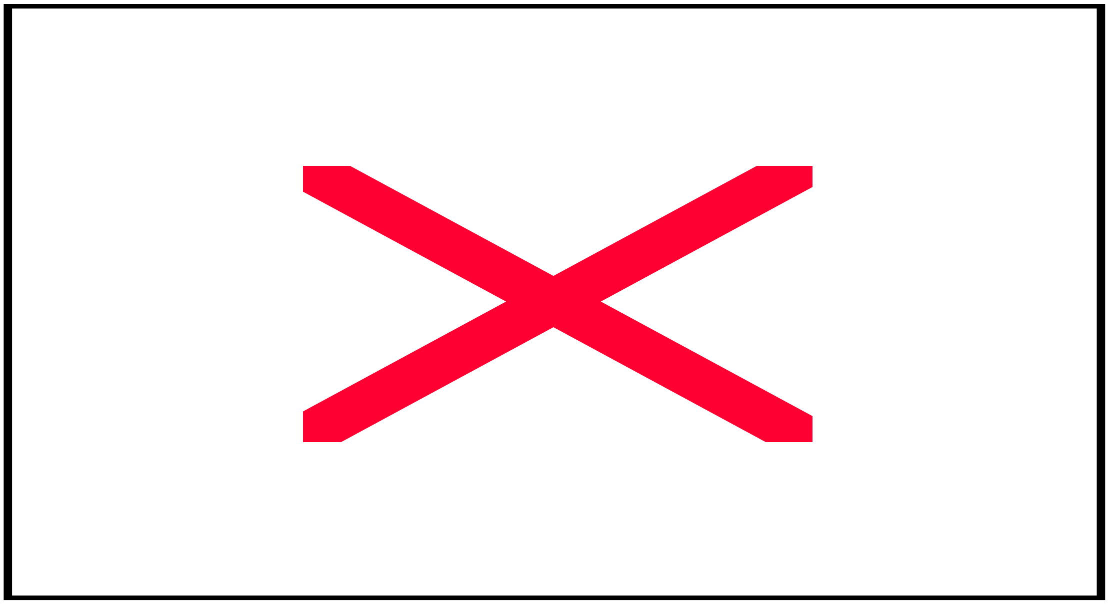
	Cut flower	New potatoes	Tomatoes	Concentrated tomato	Olive oil	Oranges
Morocco						
Exports						
1998	1992	26322	177825	1138	1358	206960
1999	1728	80183	195195	685	9492	195315
Limit	5000	120000	168757	[redacted]	a	380800
Israel						
Exports						
1998	40374	64514	10155	488	6	93420
1999	33636	81442	11633	377	17	69971
Limit	20100	22400	1000	[redacted]	[redacted]	200000
Tunisia						
Exports						
1998	25	783	1363	240	89576	22807
1999	71	5399	1032	705	139980	20815
Limit (*)	1000	16800	b	2500	46000	35123
Jordan						
Exports						
1998	2	0	71	5583		0
1999	0	0	57	4030		0
Limit	100	1000	c	4000	[redacted]	[redacted]
Egypt						
Exports						
1998	98	197428	276	2	0	8562
1999	146	128247	227	2	0	6518
Limit (**)	[redacted]	109670	[redacted]	[redacted]	[redacted]	8000
Syria						
Exports						
1998	0	388	0	0	1	0
1999	0	37377	0	0	489	25
Limit	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

a: 5 to 10 per cent of tariff reduction
b: tariff exemption for period between 15/11 – 30/4
c: tariff exemption for period between ½ – 30/4
(*) Before the 2000 review (**) Before AA signature
Sources: European Commission (2001b) and own elaboration.

From the table it is clear that if the new concessions to be granted to Syria were constrained by limits based on the past flows, there would be little room for an export growth to the EU. On the other hand, given the weakness of the past trade flows from Syria to the EU, this should open the door to a flexible interpretation of the "traditional flows" approach and, therefore, to the implementation of non-binding limits to Syrian exports.

4. 2. 1. The "preferential" entry price

In addition to tariff preferences, significant reductions of entry prices for limited quantities of some products have been negotiated with Morocco. The arrangements for importing oranges originating in Cyprus, in Egypt and in Israel into the Community has been adjusted by the Agreements in the form of an Exchange of Letters, including also a reduction of the entry price for this product. Reduction in entry prices enables the countries concerned to supply products to EU markets at a price significantly below that of shipments originating from other countries. However, this benefit must be qualified by the fact that entry prices faced by non-preferential exporters also will be reduced at the pace bound by the EU under the WTO. Thus, preferential status of these countries will suffer a certain degree of erosion due to multilateral liberalisation within WTO. Figure 4.1 provides an example on to what extent the reduction of the entry price system can involve an economic rent for the preferential supplier.



The figure shows the result of a simulation of the import prices after all border duties have been paid for the case of oranges (between 1/12 and 31/3). In the border duties we include:

(أ) the additional levy, which will result of the application of the Special Safeguard Clause (established by the Uruguay Round for the "tariffied" products),
(ب) the additional duty derived from the application of the entry price system when import prices are sufficiently low, and
(ج) the "normal" or *ad valorem* tariff.

Morocco is a preferential country, so within a TRQs there is an entry price reduction (from 354,2 Euro/ton to 264 Euro/ton) and a 100 per cent of rebate of the *ad valorem* tariff. Obviously, within the TRQ, there is a clear price advantage for Morocco against other suppliers. Such price advantage or preference margin can reach 28 per cent against MFN suppliers, and 19 per cent against other preferential countries that don't benefit from the entry price reduction. On the other hand, it is not clear the extent to which the preference margin is captured by the exporting country. When import licenses are established (see next section), the distribution will depend on the method adopted to allocate licenses within a TRQ (the owner of the license will own a"quota-rent"). If the licenses are issued to European traders, as it is normally the case (Grethe and Tangerman, 2000), the exporting country would lose a part of the economic rent. On the other hand, as the same authors point out, the entry price system acts as an invitation to the exporting countries to co-ordinate exports through export agencies. This could avoid that a part of the economic rent be transferred to European operators.

4. 2. 2. Import licensing system

When TRQs are established, one problem is related to the administration of the system. In the case of fruit and vegetables, the normal case is when preferential TRQs are administered on a first come first serve basis, i. e. no licenses are issued and the full MFN tariff is charged when trade flows exceed the TRQ. According to Grethe and Tangermann (1998), this system may also tend to transfer a part of the economic rent to the importing company, as this could offer prices on the worst-case assumption that the full MFN tariff has to be paid, at least when there is a risk of exceeding the TRQ.

For some products, such a courgettes and tomatoes, the EU and Morocco reached an agreement in the form of an Exchange of Letters, which established that Morocco would undertake not to export more than the agreed tariff quotas. The European Commission reserved the right to establish the issuing of import licenses if the export flows exceed the agreed quota. The system had a test on October 1999 when the tomato exports from Morocco to the EU exceeded by 190 per cent the amount agreed for such month. Import licenses were then issued by the Commission (EC Regulation N2767/1999 ؛ of December23, 1999). Import certificates are only thought to control whether or not the MFN tariff has to be applied, but it itself acts a non-trade barrier. During January the Moroccan tomato exports dropped dramatically and one month later the voluntary export control system was established again. However, the European Commission proved to have effective means to limit imports when market perturbations are felt in the EU wholesale markets.

The issuing of import licenses remains a sort of non-tariff barrier. It is true that if licenses are automatically granted, they don’t impose a restriction by themselves. However, the case of Syrian cotton yarn exports to the EU show that the simple issuing of automatic import licenses could become a “psycological” trade barrier. After a surge of Syrian exports of cotton yarn to the EU market (7 million Ecu in 1995-1997 to 19 million Ecu in 1997-1999), the European Commission attributed such increase to the drop in Syrian export prices over the last three years. In April 2001, the European Commission introduced import licenses as a tool for a monitoring system. While the Commission theoretical intention was to track the exports, the import licenses were observed in Syria as an indication that more stringent measures could be taken. The fact that Syria is not a WTO member makes it difficult a balanced solution of the dispute.

4. 2. 3. Rules of origin

The definition of the product origin may limit substantially the extent to which Syrian exports to the EU will actually benefit from the preferences granted in the agreements. In order to benefit from preferential treatment, imported goods should meet the legal rule of origin. Rules of origin have, of course, their logic, which is to avoid the diversion of trade in a free trade area. However, the EU has a very strict system of rules of origin that define degrees of “sufficient transformation” to be met for a product in order to be declared as “originated in Syria”, and therefore, eligible for a tariff concession.

Cumulation of rules of origin allows for imports from regional partners to be included in the determination of the local content, according to specific rules. In the context of the Euro-Mediterranean FTA, three kinds of cumulation are used: full cumulation, diagonal cumulation, and bilateral cumulation. With full cumulation, any kind of processing operations carried out in any country of the region is counted as local content, irrespective of whether it is sufficient to confer the originating status. To benefit from preferential treatment it would be enough that all the processing operations, carried out in the countries of the region, constitute a sufficient transformation. With diagonal cumulation, the products that originate in other country of the region can be counted as a local content when they are used for a processing operation in the country in question. Bilateral cumulation holds when the products originated in one of the partners of a bilateral relation are processed in the other partner. Thus, a European supply would be considered as a part of the local content of a Syrian manufacture.

Clearly, Syrian interests should favour full cumulation. The European Union has been reluctant to apply this approach, which has only been allowed for the countries of the Magreb. Regional full cumulation to the Near East countries is conditioned to the conclusion of the FTA among these countries. In order to encourage this process of sub-regional co-operation among the partners concerned the European Commission has called on the Mediterranean partners to adopt the harmonised protocol on rules of origin (as already accepted with Jordan and the PLO), as a basic condition for the functioning of a system of diagonal cumulation between all partners. Full cumulation will only be implemented once it has been demonstrated that all Mediterranean partners are correctly implementing the rules for diagonal cumulation.

Rules of origin have been defined bilaterally between the EU and Syria. This may involve a constraint for undertaking successive processing operations in different countries in the area before the final product is reexported by Syria, with a tariff concession. It is worth noting that rules of origin tend to be stricter for textiles and for certain agrofood products (cereal derivatives and dairy products) than for products not produced in the EU (tea and coffee). When rules of origin are very strict and complex, a country with limited industrial base like Syria will not draw full benefits from the AA. It is clear that there is here a huge scope for Euro-Syrian co-operation concerning custom operations, and with the simplification and harmonisation of rules of origin among different partners of the Euro-Mediterranean space.

4. 2. 4. Agricultural component and tariff escalation

For industrial products the EU has granted free access to its markets except for some categories of textiles and some processed agricultural products (the so called "non-Annex II products"). Some of the processed agricultural products (so called Non-Annex II products) are protected in the EU by an agricultural component plus an industrial component of the tariff. Under the AAs tariff concessions are granted for the industrial component of the tariff. The “industrial" component of processed agricultural products exported by Syria to the EU will enjoy a preference. However, the agricultural component may be maintained for most Non-Annex II products. The European protection will still apply to the "agricultural" component of these commodities, especially for “sensitive” products, unless the "basic agricultural product" receives a preference and the agricultural component is reduced in line with the agricultural preference. Almost no "basic agricultural product" receives any preferential treatment because only dairy products, cereals, rice and sugar are basic agricultural products for the calculation of an agricultural component of a tariff on a processed agricultural product. These are products for which, except for durum wheat, no tariff concessions are granted to Israel, Jordan, Morocco, Palestine and Tunisia. Consequently, tariff escalation remains an important barrier for processed food exports from the Mediterranean countries to the EU. This issue is, of course, important for Syria, for which the EU market could become a source of export diversification towards food processing.

On the other hand, the AAs signed AAs allow for the MCs to specify an agricultural component that may take the form of a fixed amount or an *ad valorem* duty.

4. 2. 5. Perceptions on the AA in other MCs

Perceptions about the expected gains from AAs are different across the Mediterranean Countries. The AA between the EU and Tunisia foresees progressive and reciprocal liberalisation of trade in agricultural products and extension of precedent concessions on a reciprocal basis. According to the Agreement, concessions were to be re-examined in the year 2001. Looking at the commodities with higher share in Tunisian agricultural exports, Tunisia has obtained for fish, crustaceans, molluscs and dates, duty free access to EU market. Consequently, the issues of increased agricultural access appear to have been less pronounced than in other countries, such as Morocco and Egypt. The exempted quotas for citrus fruit and wine have not been fully met. Olive oil, the main agricultural export item of Tunisia, was subjected to a customs duty of ECU 7.81/100 kg over the period 1996 – 1999, within the limits of a quantity of 46 000 tonnes a year. This amount has been revised after the reassessment of the trade provisions in 2000.

The Moroccan perception has been a little different. A study prior to the signed agreement (Rutheford, Rutstrom and Tarr 1993) indicated that unrestricted access for Moroccan fruits and vegetables to the EU would yield additional benefits equivalent to about 0,25 per cent of GDP, primarily by allowing higher export prices. According to Guesquiere (1998), the benefits resulting from the signed agreement would be more limited than estimated in the quoted study. The agreement actually concluded provided some widening of Morocco's preferential access for agricultural products between 1997 and 2000, but restrictions remain and the Moroccan party has expressed its claims for reviewing the current concessions. Interestingly, Morocco will maintain the level of border protection of its own agricultural sector. Whereas Morocco used to provide Most Favoured Nation (MFN) treatment to agricultural imports from the EU, under the Association Agreement preferential maximum import duties ranging from 2,5 to 215 percent apply on a list of products (mainly edible oils and fats, cereal, dairy and meat products). In most cases, tariff reductions apply only for specified amounts, essentially consolidating existing access conditions. These tariffs will be lowered if necessary to ensure that quotas are fully used up. In particular, the cereal, meat, dairy, and sugar sectors, which are vulnerable to reduced protection, remain broadly unaffected.

In the case of Egypt, the definition of the tariff-quota to be applied to some agricultural imports from Egypt constituted a serious obstacle of the negotiation with the EU. The main obstacles were posed in four products: oranges, rice, potatoes and cut flower. They are sensitive products for Southern European EU members but they are not the only countries that posed questions. The main difficulties were posed by Germany and France, which objected to an opening of the EU market of cut flowers and potatoes. The long negotiations for a new EU-Egypt Association Agreement were effectively concluded in June 1999 when both parties were able to close all outstanding positions. Trade relations with the EU have faced several outstanding phyto-sanitary trade issues. The earlier suspensions of Egyptian potato and peanut imports (because of ‘brown rot’ and ‘aflotoxin’ respectively) are now lifted. However, Egypt’s dioxin-related suspension of imports of a wide range of EU food products is still in force despite earlier Egyptian undertakings to resume normal trade.

5. Assessing gains in the Euro-Syrian AA

5.1. The Co-operation protocol

Describing the benefits for Syrian agriculture from the previous Co-operation protocol seems to be a single task. Only 13 agricultural products (at the CN six digit level) benefited from tariff concessions under the 1977 Co-operation Agreement. At present, seven of them have a MFN tariff equal to zero, and the remaining six with tariff preference are displayed in the following table:

Table 5.1 Syrian agricultural products benefiting from tariff concessions under the 1977 Co-operation Agreement (*)

		Export value to the EU (Averages in 000 ECU)		MFN Tariff	Preferential Tariff
CN Code	Product	1995-1997	1997-1999	2000	
				%	%
7031019	ONIONS, FRESH OR CHILLED (EXCL. SE	0	0	9,600	4,8
70320	GARLIC, FRESH OR CHILLED	14	2	9,600	4,8
7135090	DRIED BROAD BEANS AND HORSE BEANS,	1698	0	3,200	0
0807	MELONS	0	0	8,800	4,4
81310	DRIED APRICOTS	16	14	5,600	0
7122000	DRIED ONIONS, WHOLE, CUT, SLICED,	1407	995	12,800	0

Source: Official Journal of the European Communities (various issues)
(*) Only products where the MFN tariffs are over zero.

Only dried onions, which are subjected to a RQ, represents something more than an insignificant trade flow, which however accounted for less than the 0,75 per cent of total Syrian agricultural export value in 1997-1999. It is clear that the export orientation of Syria has influenced the nature of the preferences. Cotton exports represent around 73 per cent of total agricultural export value to the EU and the MFN tariff already applied to this exports is zero. The percentage of the Syrian agricultural export value that benefited from zero tariff at the EU markets was 89,2 per cent in 1995-1997 and 91,4 per cent in 1997-1999 (see table 5.2). However, this result might suggest that the Syrian export composition has tended to adapt to the EU tariff structure and doesn’t necessarily reflect the revealed comparative advantages of Syrian foreign exports. In addition, most of these exports don’t really benefit from any preferential margin and have to compete at the EU markets with MFN suppliers, in the same conditions. Product coverage (PC) or value of total exports really benefiting from preference only accounted for 3,1 per cent of the Syrian agricultural export value in 1995-1997, and this proportion went down to 1 per cent in 1997-1999 (table 5.2). With the 1977 provisions, there is no point in discussing whether Syria has been able to take full advantage of a system tariff concessions granted by the EU. Simply, the system has not simply existed, at least for agricultural trade. In a sense, the composition of Syrian agricultural exports to the EU reveals a rational pattern of adaptation to the tariff structure. Consequently, there are reasons for Syria not to be fully satisfied with the existing system of agricultural preferences.

Looking at the trade performance of the preferential products in table 5.1, it is striking that Syrian export value to the EU of these products is very small or insignificant. Some interviewed reported that the Syrian exporters have not made full use of trade preferences because some of the EU requirements (in particular in connection with the formal requirements of the certificate of origin called EUR1) are not properly understood by many Syrian traders. However, the poor trade performance make us reflect about the variables, beyond tariff preferences, affecting export performance. This may be a necessary but not sufficient condition for export growth.

5.2 Scenarios of the AA

Let us examine the possible Syrian stance as an agricultural exporter to the EU (we will discuss later the Syrian viewpoint as an importer). In chapter 4, it was clear that the framework of the AA has been applied in a relatively flexible form to the different Mediterranean partners. The negotiation will probably finish with the drafting of a list of concessions that will include different situations:

- Tariff reduction without any restrictions
- Tariff reduction within TRQs without reduction for quantities in excess of the TRQs
- Tariff reduction within TRQs with lower tariff reductions for quantities in excess of the TRQs.
- Tariff reduction within a fixed RQ. If this is exceeded, it may be changed into a TRQ without tariff reduction for quantities in excess of the quotas
- Tariff reduction within a fixed RQ. If this is exceeded, it may be changed into a TRQ, with lower tariff reductions for quantities in excess of the quotas
- Tariff reduction within given seasons, with or without TRQ or RQ, without reductions or with lower reductions for quantities in excess of the defined TRQs and RQs.
- Products for which TRQs/RQs are increased in different steps and in a given percentage each year
- Products for which tariffs are reduced, but RQ can still be defined, if the volume of imports ‘threatens to cause difficulties on the Community market’. No tariff reduction for quantities in excess of defined TRQs
- Products for which tariffs are reduced, but RQs can still be defined, if the volume of imports ‘threatens to cause difficulties on the Community market’. Lower tariff reductions for quantities in excess of defined TRQs

In addition, the tariff reductions and the size of TRQs and RQs will be implemented according to a defined schedule. Several lists of products could be established according to different schedules of liberalisation.

At the time of writing the report, the negotiation had not progressed enough to identify a concrete scenario of tariff liberalisation for agricultural trade, within the AA. Which could be such scenario? Of course, from the viewpoint of Syria, as an exporter, the “best of the worlds” would be that the EU would grant free market access for all the products with export interest for Syria. On the other hand, from the viewpoint of the EU as an importer, the “best of the worlds” (at least after taking into consideration the constraints imposed by the CAP) would be to minimise concessions in the most sensitive products. Perhaps, in such scenario, the EU would only grant preferences in products that are not produced in the EU. The EU could propose to use the “traditional flows” approach to apply TRQs and RQs based on past trade. Obviously, a strict application of this approach would minimise the export gains for Syria. Nothing would be gained from the commercial point of view. Annex 2.6 shows the export flows in volume from Syria to the EU during the period 1997-1999, indicating the low volume of many of them.

The result of the negotiation will probably lie between both extreme scenarios. The European side would easily depart from the traditional flows approach in those products for which:

(أ) Syria has little trade. Wide or no quantitative limits could be defined for such products.

(ب) They are not considered “sensitive” in the EU. This is the case of products with little European production, or products for which EU markets are already open.

The key products, where the negotiation will probably be harder, consist of a group of products of export interest for Syria, but at the same time, are considered as sensitive products in the EU (see below).

5.3 Preferential trade flows and static gains

In this study, the assessment of the static gains for Syrian exports derived from the commercial part of the AA is based on the methodology suggested by Tangermann (1997), and also applied by Grethe and Tangermann (1998b). These authors proposed a method to calculate the product coverage and the preference margin for Mediterranean countries as a result of tariff concessions included in the former Co-operation protocols and the already signed AA. Our intention is applying such methodology to the analysis of the hypothetical scenario of tariff liberalisation for Syrian exports to the EU.

One drawback of Tangermann's methodology is that his calculations are static, and therefore, they don't take into account the potential export growth that would result of a tariff liberalisation. This is why, in the next chapter, our study will have a look to such potential gains. On the other hand, the static approach can be justified when trade flows are subjected to strict quantitative limits. This may or may not be the case. Also, a quantitative limit may or may not be a constraint, depending on its nature (TRQ or RQ) and on the tariff level for quantities exceeding the defined limit.

In our case, it is difficult to advance any hypothesis of quantitative limits, at the current stage of the negotiations leading to an AA. However, from the static point of view, we will hypothesise a scenario where full tariff concessions are granted to all products exported from Syria to the EU for an export volume equal to the 1997-1999 average. This would be one of the "best of the worlds" scenarios, although we stress again the static nature of the calculations.

Estimation of the preference margin of the defined scenario for a specific commodity "j", that is to say, of the gain in export earnings for Syria resulting from the EU tariff elimination to "j", will be approached by $T_j X_j$, where T_j is the *ad valorem* MFN tariff and X_j is the C.I.F. value of EU imports of product "j", originated in Syria[1]. Preference margins are estimated for each product, for which actual trade was identified between 1997 and 1999, and then aggregated to yield the total preference margin for Syria in the studied scenario. It should be noted the static nature of the calculation, which does not necessarily yield an export gain if the preference marging is captured by the importer. On the other hand, tariff concession will result in an expansion of the Syrian exports. Therefore the potential economic gain is underestimated. Average trade flows of the period 1997-1999 were used to calculate the preference margin of the scenario of full tariff elimination for EU imports from Syria.

[1] In fact, Tangermann provides a slightly different formula, as he assummes that it migh be a preferential tariff different from zero. In our scenario, all the tariff concessions are full.

Table 5.2. Preference margin resulting from various arrangements (Co-operation protocol and hypothetical scenario of maximum preference).

	Previous Co-operation Agreement			Scenario of maximum preference with actual trade
	1997 **a**	**1995-1997** **b**	**1997-1999** **b**	**1997-1999** **b**
Total agricultural exports to the EU (million ECU)	160,1	156,1	133,4	133,4
Agricultural exports with zero tariff (million ECU)		139,2	121,9	129,0
in percent of agricultural exports to EU		89,2	91,4	96,7
Agricultural exports with preference (million ECU)	2,0	3,1	1,0	8,1
in percent of agricultural exports to EU	1,2	2,0	0,8	6,1
Preference margin (million ECU)	0,16		0,13	0,72
in percent of agricultural exports to EU	0,10		0,10	0,54

Sources: a: Grethe and Tangermann (1998a); b: Own calculations

Table 5.2 presents an overview of product coverage and preference margins under various scenarios, i.e. Co-operation protocol and the hypothetical scenario of full tariff liberalisation. Annex 5.1 presents the detailed calculations. The value of the preference margin for Syria under the Co-operation Protocol is insignificant. It is true that, under various revisions, preferences have been extended to the 100 per cent tariff reductions for some products (dried chickpeas, dried lentils, dried beans, dried apricots, liquorice roots, locust beans and dried onions). However, even after these extensions, the preference margin resulting of the current protocol is very small, about 0,13 millions ECU or 0,1 per cent of the value of Syrian exports to the EU, during 1997-1999.

Last column in table 5.2 assumes that EU tariff concessions are granted to most of the products exported from Syria to the EU, although we have excluded some products, such as cereals, sugar and dairy products, where not significant concessions are expected. This scenario is based on the assumption that actual trade flows benefit from a full tariff concession, i.e. MFN tariffs are not longer applied to Syrian exports and there is a 100 per cent of tariff rebate covering actual trade flows. In this scenario, the value of Syrian agricultural exports benefiting from zero tariffs will increase to 129 million ECU, that is, 96,7 per cent of actual value of agricultural products exported by Syria to the EU. However, again most of this trade will consist of products where MFN tariffs, applied by the EU, are actually nil. The product coverage of the products benefiting from actual preferences will increase from 1 million ECU, at the current situation, to 8,1 million ECU. However, this value would still be only around 6,1 per cent of the total value of Syrian agricultural exports to the EU. The preference margin would increase from 0,13 millions ECU to 0,72 millions ECU. While this would mean an increase of 453 per cent, the preference margin would still account for only 0,54 per cent of Syrian agricultural exports to the EU, against the 0,1 per cent of the previous situation. In other words, the static export gain, under the assumed change, would be slightly over 0,4 per cent of the value of Syrian agricultural exports to the EU.

Preference margins calculated by Grethe and Tangermann (1998b) for Israel, Jordan, Morocco, Palestine and Tunisia under the respective AA are 5,1%, 4,8%, 9,3%, 4,6% and 9,9%, as percentage of their corresponding exports values to the EU. Thus, the preference margin of 0,54% for Syrian under the analysed scenario would yield much less static earnings.

It is important to recall that the analysis has been carried out under the assumption that actual export flows from Syria to the EU are kept as in 1997-1999. The quantitative response of exports to new preferences could also be considered in more sophisticated equilibrium models. However, some lessons can be drawn from this exercise. First, static trade gains from tariff concessions do not seem to provide a definitive argument to justify the Euro-Syrian partnership, by itself. The scope for Euro-Syrian partnership must be put in a wider context, where economic reform is combined with co-operation. Second, for Syria to realise export growth from the FTA, domestic measures will have to be implemented in order to improve the export performance of Syrian exports (see below). Thus, the economic benefits potentially resulting from trade preferences granted by the EU could be of a transitory nature. The "multilaterisation" of the preferences under the various AA and the reduction of EU's MFN tariffs will further expose Syrian products to competition. These remarks don't have to be understood as if the tariff concessions were not crucial for Syria. In fact, EU tariff liberalisation would provide Syrian agricultural producers and traders with the message of a free market access to the EU, i.e. to one of the most important trading partners of the planet. But trade gains will mainly result of the adoption of an adequate environment for partnerships, business and investment, and not necessarily from the wider market access.

5.4 Key products and desirable preferences

At the time of writing, Syria was still in the process of negotiating its AA with the EU. From the Syrian perspective, a key issue to be considered is the product composition of the list of tariff concessions. It is clear that such list don't need to replicate the current structure of trade, although Syrian government was willing to include in it those products for which a preference is currently granted, under the 1977 Protocol. This is the case, for examples, of onion (07.03.10), garlic (07.03.20.00), dried legumes (07.08), fennel and coriander (07.12), apricot (08-09.10.00), anise and cumin (09.09), medical plants (12.11), licorice roots (12.11.10.00), and guts and bladders (05.04). However, Syria would obviously be interested in extending the list to add any of the products for which Syria has an export potential, as shown by their performance in world markets. In some of these products, Syria may not been able to use its potential fully to export to the EU. These products may attract particular attention in the negotiations with the EU.

In order to identify these products, let us calculate a preference index I_p, defined as the ratio between "actual" and "expected" exports by Syria to the EU: $I_p = m_{eu} / x_{sy}$, where: meu = share of Syria in total EU imports from MED8 ("actual trade") and x_{sy} = share of Syria in total MED8 exports to the world ("expected trade"). This preference measure (Alvarez-Coque and Bautista, 1994) indicates the relative ability of Syria or any other MC to export to the EU against a "control group" consisting of all MED8 countries (including Syria). The preference measure can be expected, other things the same, to have higher values for the countries and products which enjoy concessions in the EU. Strictly speaking, the disparity between shares m_{eu} and x_{sy} cannot be attributed solely to trade preferences. Other determining factors include geographical proximity, historical linkages, business practices, quality policy for products sent to the EU, and marketing organisation. Active trade with European trading companies has depended on tariff preferences but also on links related to historical accident, political relations and, of course, the business environment in the exporting country. However, the fact that the share m_{eu} is lower than x_{sy} for some Syrian exports (ratio index < 1), may help us to identify those products for which Syria might be interested in obtaining an improved access to EU markets.

The preference index was calculated for a group of 28 agricultural products for which Syria has reported some exporting activity to the world, and there are, at least theoretically, chances to improve their market access to the EU (cotton and cereals have been excluded, the first because it already enjoys zero tariff and a satisfactory competitive position in the EU, and the second, because no specific concessions are expected in such sensitive products). The main data sources for these calculations were the FAOSTAT database for country data on exports to world, and the COMEXT database for EU import data by geographical source. The 28 products from the FAO database have been related to their corresponding commodities or commodity groups as defined by the CN for the COMEXT data. Triennial averages for 1996-1998 for each good were calculated in order to obtain the share m_{eu} , for the “actual” competitive position, and the share x_{sy}, for the “expected” competitive position.

Preference indexes are given in Table 5.3. Results for other MED8 members are included in Annex 5.2. The preference index is only higher than 1 for wool and 24 products have an index below 0.4. As a general rule, the Syrian participation in MED8 exports to the world is lower than in MED8 exports to the EU. The goods for which Syria has a share over 5 per cent of MED8 exports to world, and Syria would wish to improve its participation into the EU market are: anise, apple, apricots, green beans, broad beans, dry broad beans, melons, cherries, cucumbers, garlic, grapes, lentils, mushrooms, peaches, pears, pistachios, plums, potatoes and tomatoes. On the other hand, there are a number of products with low trade for which Syria might wish to improve its competitive position in all markets (EU and the world) because there is a significant domestic potential according to some interviewed agents. That is the case for canned vegetables, olive oil and oranges. In fact, some Syrian products have a significant surplus that would aim at finding an export destination. These products and their corresponding surplus in a normal year are: citrus (20 thousand tons), apples (10 thousand tons), grapes (25 thousand tons), potatoes (20 thousand tons), tomatoes (5 thousand tons), water melon (15 thousand tons) and olive oil.

In these cases, interviews during the realisation of the present study suggested that there is a potential for those products that has not already been expressed in the form of revealed comparative advantage in the foreign markets. Free market access to the EU could help to create the proper incentives for the development of such products.

Table 5.3. Preference index of Syrian exports to EU markets (MED8 as a control group)

	Index of preference Ip	Syrian share in MED8 exports to world xsy	Syrian share in MED8 exports to EU meu
Anise, Badian, Fennel	0,436	0,298	0,130
Apples	0,000	0,087	0,000
Apricots	0,001	0,821	0,001
Artichokes	0,000	0,004	0,000
Beans, Green	0,000	0,625	0,000
Broad Beans, Dry	0,528	0,792	0,418
Cantaloupes+Oth Melons	0,000	0,295	0,000
Cherries	0,000	0,315	0,000
Cucumbers and Gherkins	0,001	0,107	0,000
Figs, Dried	0,000	0,047	0,000
Garlic	0,006	0,477	0,003
Grapes	0,000	0,318	0,000
Lentils	0,097	0,330	0,032
Mushrooms	0,003	0,108	0,000
Oil of Olive	0,435	0,037	0,016
Oranges	0,000	0,014	0,000
Pastry	0,612	0,007	0,004
Peaches and Nectarines	0,000	0,416	0,000
Pears	0,000	0,456	0,000
Peas, Green	0,000	0,000	0,000
Pistachios	0,009	0,713	0,006
Plums	0,001	0,432	0,000
Potatoes	0,007	0,073	0,001
Sugar Confectionery	0,262	0,048	0,012
Mandarins	0,004	0,022	0,000
Tobacco Leaves	0,246	0,008	0,002
Tomatoes	0,000	0,232	0,000
Wool, Greasy	1,486	0,212	0,314

Sources: FAOSTAT, COMEXT and own calculations

6. The EU market and the “windows”

In spite of the protection policies and the support to the local production, the EU still is the first importing market of Mediterranean products. This policy study does not intend to supply a comprehensive analysis of the EU markets. We will restrict to the attempt to address the following questions on:

(أ) the existence of opportunities for Syrian products in the EU market;
(ب) the constrains for Syria to exploit these opportunities,
(ج) the potential gains for Syrian products, provided that such opportunities are exploited.

Next we will refer to the market opportunities as related to the development of the EU import market, the performance of local versus foreign suppliers, and the seasonality, in connection with the availability of local supply and with the calendar of application of tariff and entry prices.

6.1. Import developments and seasonality

The focus will be on the products for which Syrian trading and public operators demonstrated a special interest for a further opening of the EU markets. We will mainly look at the following aspects: first, at the trends in import demand for such products in the EU markets; second, at the seasonality of EU imports and its relation to the existing EU trade-barriers and its seasonality. This will be put in relation to the export performance of other Mediterranean partners. There are other aspects concerning the marketing of Mediterranean products in the EU countries. One is price competitiveness. Other aspects refer to non-price factors, related to the concentration of the distribution in Europe and its increasing demands for quality. These will become a problem for Syria to consolidate a competitive position in the EU. We will review price and non-price factors affecting export performance in the next section.

Table 6.1 reviews the recent evolution of EU imports of potatoes, tomato, processed fruit and vegetables, olives, olive oil, citrus fruits, table grapes and apples. Import volumes originated in the EU are compared with import volumes originated in non-EU countries. It is worth noting that the share of Extra-EU imports in total EU imports only tends to grow for mandarins and grapes, while it is stable for potatoes and decreasing for processed fruits and vegetables, tomato, apples and olive oil. Trade diversion may explain the increasing share of EU suppliers in total EU imports. Other developments, as the Eastern Enlargement, would contribute to change this picture, through a further widening of the EU market. However, extra-EU volumes are still significant and Syrian position might improve with enhanced market access to EU markets.

Table 6.1 IntraEU and ExtraEU imports and share of ExtraEU imports in total EU imports (Metric Tons and Percentages)

Product	CN Code	1995	1996	1997	1998	1999
Potatoes	701					
ExtraEur		700317	680475	945484	833976	682905
IntraEur		4566868	4524754	4470453	5266089	4452772
% ExtraEur in Total imports		**13,3**	**13,1**	**17,5**	**13,7**	**13,3**
Processed f&v	20					
ExtraEur		1698303	2178128	1796102	1850274	1715827
IntraEur		6760318	6955737	7286787	7864938	8011275
% ExtraEur in Total imports		**20,1**	**23,8**	**19,8**	**19,0**	**17,6**
tomato	7020090					
ExtraEur		414743	413106	106328	145448	145363
IntraEur		956574	1147009	1481366	1528699	1382253
% ExtraEur in Total imports		**30,2**	**26,5**	**6,7**	**8,7**	**9,5**
Oranges	80510					
ExtraEur		631515	545962	565958	551048	467239
IntraEur		1468308	1406305	1454384	1593166	1395959
% ExtraEur in Total imports		**30,1**	**28,0**	**28,0**	**25,7**	**25,1**
Mandarins	80520					
ExtraEur		219994	248529	334674	358981	331501
IntraEur		1032247	1020141	1120969	1162644	953169
% ExtraEur in Total imports		**17,6**	**19,6**	**23,0**	**23,6**	**25,8**
Grapes	80610					
ExtraEur		139285	203690	167810	142412	215694
IntraEur		664242	753070	731092	773357	723821
% ExtraEur in Total imports		**17,3**	**21,3**	**18,7**	**15,6**	**23,0**
Apples	80810					
ExtraEur		426856	477100	425653	380865	386873
IntraEur r		1798851	1681372	1640828	1750409	1775902
% ExtraEur in Total imports		**19,2**	**22,1**	**20,6**	**17,9**	**17,9**
Olive oil	1509					
ExtraEur		183962	168412	231725	223639	205110
IntraEur		316963	370512	564436	544839	488092
% ExtraEur in Total imports		**36,7**	**31,2**	**29,1**	**29,1**	**29,6**

Source: COMEXT database and own calculations

On the other hand, seasonality still remains as an important factor of the horticultural trade. The question is not just if the total yearly demand is growing but on the existence of seasons where Syrian exports could access the EU market. Seasonality also has a trade policy implication. As seen in section 3.4.1. (tables 3.2 and 3.3), the tariffs vary significantly along the year. Syrian tomatoes and citrus fruits can be cultivated along the whole year, depending on the production method (protected and field tomato), the variety and the producing region. Entry prices for tomatoes peak during April, when a significant EU domestic production is available, but are relatively low between May and December. Entry prices for oranges remain stable along the year, but Syria could request from the EU, as did Morocco and Egypt, a reduction of the entry price reduction for the earlier months of the season. Watermelons and potatoes are not subjected to the entry price system. Although ad valorem tariffs may increase in the period of European production, tariffs have a peak below 10 per cent. Concerning table grapes, the entry price does not apply since November 20 to the end of the year, which opens the door to Syrian produce, for which the exporting season can cover December.

Table 6.2 Seasonal distribution of EU imports by import source for selected fruits and vegetables

Import source:

Products	**Greece**	**Portugal**	**Spain**	**Italy**	**Other EU**	**Turkey**	**Morocco**	**Tunisia**	**Egypt**	**Cyprus**	**Other Non-EU**
	(in percent of total imports)*										
Potatoes											
New p. 1 Jan - 15 may	0,4	0,8	5,1	7,3	42,8	0,0	8,2	0,2	24,5	3,7	7,0
New p. 16 may - 30 July	0,6	0,9	9,8	27,0	54,5	0,2	0,8	0,0	1,0	3,3	2,0
Old potatoes	0,1	0,4	4,7	2,7	91,8	0,0	0,0	0,0	0,0	0,0	0,2
Tomatoes											
1jan - 31 mar	0,0	0,1	61,9	3,4	19,7	0,1	13,9	0,1	0,0	0,0	0,8
1 - 30 Apr	0,0	0,1	59,1	7,1	30,2	0,1	2,6	0,1	0,0	0,0	0,5
1 - 14 may	0,0	0,0	41,0	9,7	47,3	0,0	1,6	0,1	0,0	0,0	0,3
15 - 31 may	0,0	0,6	43,0	8,0	47,7	0,0	0,2	0,0	0,0	0,0	0,4
1 Jun - 30 Sept	0,0	0,2	26,9	11,5	61,0	0,0	0,0	0,0	0,0	0,0	0,3
1 - 31 Oct	0,0	0,1	44,4	5,6	45,3	0,0	4,4	0,0	0,0	0,0	0,2
1 Nov - 20 Dec	0,0	0,1	52,9	3,7	28,4	0,0	14,2	0,0	0,0	0,0	0,6
20 Dec - 31 Dec	0,0	0,0	64,0	1,3	15,5	0,2	17,6	0,1	0,1	0,0	1,2
Navel oranges											
1jan - 31 march	4,0	0,0	55,3	2,8	8,3	1,7	12,9	1,3	0,5	0,7	12,6
1- 30 Apr	3,2	0,0	49,2	1,6	10,0	0,6	20,8	0,7	0,6	2,3	10,9
1 - 15 may	4,9	0,0	45,7	2,5	10,1	0,2	22,1	0,1	1,0	2,0	11,4
16 - 31 may	2,3	0,0	34,5	0,7	10,4	0,0	33,9	0,0	0,9	5,0	12,4
1 Jun - 30 Sep	0,7	0,0	14,1	0,4	16,2	0,1	3,4	0,0	0,1	0,7	64,2
1 - 15 Oct	0,0	0,0	10,9	0,3	18,3	0,0	0,0	0,0	0,0	0,0	70,5
16 Oct- 30 Nov	1,3	0,0	77,2	1,4	14,3	0,1	0,9	0,0	0,0	0,0	4,9
1-31 Dec	5,0	0,0	77,0	3,4	7,6	0,3	5,3	0,0	0,1	0,0	1,3
Clementines											
	1,1	0,0	76,0	2,2	7,4	0,0	13,2	0,0	0,0	0,0	0,0
	0,3	0,0	76,1	0,9	9,8	0,0	1,6	0,2	0,0	0,0	11,1
	0,9	0,0	76,9	1,1	6,3	0,2	14,4	0,0	0,0	0,0	0,2
Lemons											
1jan-31may	1,8	0,0	70,3	8,8	9,2	3,7	0,0	0,0	0,0	2,4	3,8
1jun-31oct	0,1	0,0	36,8	2,6	18,3	0,4	0,0	0,0	0,0	0,0	41,7
1nov-31dec	1,7	0,0	74,6	3,0	12,1	3,4	0,0	0,0	0,0	4,4	0,8

Products	Greece	Portugal	Spain	Italy	Other EU	Turkey	Morocco	Tunisia			
Table grapes											
1jan-14jul	0,6	0,0	8,4	8,6	23,4	0,0	0,0	0,0	0,4	0,1	58,5
15 - Jul 20jul	0,2	0,0	22,5	54,8	13,1	0,9	0,0	0,0	1,5	4,1	3,0
21jul - 31oct	11,8	0,0	8,4	65,7	5,5	6,4	0,0	0,0	0,0	0,5	1,8
1-20 Nov	6,2	0,0	10,0	70,3	7,1	2,5	0,0	0,0	0,0	0,0	3,9
21nov - 31dec	1,8	0,0	23,8	43,8	9,1	2,0	0,0	0,0	0,0	0,0	19,5
Apples (Golden delicious)											
1jan-31marc	0,1	0,0	4,8	23,2	70,4	0,0	0,0	0,0	0,0	0,0	1,5
1apr-30jun	0,0	0,0	3,5	27,6	46,2	0,0	0,0	0,0	0,0	0,0	22,6
1jul - 31jul	0,0	0,0	3,4	22,8	43,7	0,0	0,0	0,0	0,0	0,0	30,1
1aug-31dec	0,1	0,5	2,1	22,6	72,7	0,0	0,0	0,0	0,0	0,0	2,1
Apricots											
1jan-31may	1,1	0,0	70,4	1,6	17,0	0,0	0,0	0,5	0,0	0,0	9,4
1-20 Jun	2,1	0,0	54,2	10,2	32,4	0,0	0,0	0,0	0,0	0,0	1,0
21 - 30 Jun	10,3	0,0	25,5	12,9	51,2	0,0	0,0	0,0	0,0	0,0	0,1
1 -31 Jul	4,7	0,0	15,6	17,3	59,9	0,5	0,0	0,0	0,0	0,0	1,9
1 Aug - 31dec	2,0	0,0	9,6	13,4	63,1	0,2	0,0	0,0	0,0	0,0	11,5
Cherries											
1jan-30apr	4,5	0,1	35,5	10,1	34,1	0,0	0,0	0,0	0,0	0,0	15,7
1 -20may	0,1	0,1	54,6	3,9	37,4	0,0	0,0	0,0	0,0	0,0	3,9
21-31 may	0,2	0,0	44,2	17,3	30,4	0,0	0,0	0,0	0,0	0,0	7,9
1jun - 15jul	13,7	0,0	10,0	20,9	20,2	21,8	0,0	0,0	0,0	0,0	13,6
16jul - 31jul	20,9	0,0	1,1	3,7	16,6	37,4	0,0	0,0	0,0	0,0	20,3
11-10 Aug	25,1	0,0	9,6	11,4	21,3	10,1	0,0	0,0	0,0	0,0	22,5
10 aug-31 Dec	28,7	0,1	4,5	13,5	33,2	0,9	0,0	0,0	0,0	0,0	19,1

Source: Eurostat - Comext Database. Own calculations

* The sum of the column percentages must be equal to 100

Seasonality of the EU imports from third countries (table 6.2) also suggest that there are "windows" open to Syrian products into the EU markets and that this situation will improve with the negotiation of new tariff concessions. In some markets, MCs enjoy significant market shares of the extra-EU import market, for specific seasons. That is the case of Egyptian and Moroccan potatoes (24,5 per cent and 8 per cent of the EU imports from January 1 to May 15; of Moroccan tomatoes (17, 6 per cent from December 20 to December 31, and significant shares for the rest of the period November to March). Moroccan presence in the EU markets is also significant from December to May, and also there seems to be room in April-May for a small country like Cyprus. Turkish grapes and cherries take also notable positions during the second part of the year. Given all these examples, the following question can be posed. If other Mediterranean countries find "windows" in the EU market, provided market access is granted, Syria should also be in a position to increase its exports to the EU. Of course, one could reflect on the domestic conditions that make it difficult for Syria to compete with other Mediterranean countries that enjoy similar natural conditions for the production of fruit and vegetables (see next chapter).

6. 2. Export performance and export capacities.

One of the AA's challenges refers to the ability of Syria to exploit the new market opportunities to be open in the EU. Has Syrian agriculture enough arguments to expect that development, once the FTA is in force?

6. 2. 1. Revealed Comparative Advantages

One would expect that Syrian exports should perform well in the EU market for those products for which Syria has already shown some comparative advantage in foreign markets. Revealed Comparative Advantage (RCA) indices of Syrian exports were calculated, taking as a reference the MED8 group (Morocco, Tunisia, Egypt, Turkey, Lebanon, Jordan, Cyprus and Syria). For each product "i", RCAi can be calculated by the expression: RCAi = Xi / XMEDi, where Xi = share of product "i" in Syrian agricultural exports; and XMEDi = share of product "i" in MED8 agricultural exports.

If RCAi > 1, there is a possible comparative advantage ("natural" of "policy-driven"). Analysis focused on 28 agricultural products where there is some reported export activity by Syria to the world (exc. raw cotton, where Syria is a reputed exporter). FAOSTAT database provided the data needed for the calculation of RCA. Compared to the MED8 group Syria showed RCA > 1 for anise, apricot, green beans, broad beans, melons, cherries, garlic, grapes, lentils, peaches, pears, pistachio, plums, tomato, and wool (see Annex 6.1). Note that, as the indicator's name shows, "revealed" competitiveness can be distorted by domestic policies and by the business environment. The indicator may not reflect the export potential of some goods, such as citrus and olive oil. Production potential in these crops represents a pressure for pursuing a further opening of foreign markets for Syria. An estimate 51 percent of orange trees have yet to reach twelve years and are not fully mature (Westlake, 1999, p. 17). With regard to the future situation of the olive oil sector, about 2 million trees have been annually planted in the last years, which means a potential increase of olive oil production of 200 thousand tons by year 2010. Moreover around 35% of the already planted trees haven't reached the full bearing age yet.

On the other hand, the fact that Syrian exports show comparative advantage, against other MCs, does not guarantee by itself that a further opening of the European markets would enhance Syrian performance in such markets. EU market is increasingly demanding in quality, grading, time of delivery, regularity, etc (see below).

A further development of the present study could consider the calculation of the Domestic Resource Cost (Tsakok, 1994, and Jabarin, 2001 for an application to the Jordan and Palestine case). This goes beyond the scope of the present policy study, in particular for the difficulties in approaching the domestic resources at social costs in Syria. Therefore, our analysis was constrained to price comparisons between Syrian and EU producers, which can contribute to the identification of the market windows, i.e. the seasons when Syrian produce could enjoy some price advantages.

6. 2. 2. Price competitiveness

Let's see first whether, in the current conditions, Syrian products have a natural price advantage at the farm level. Annex 6.2 includes price estimates of 10 fruit and vegetables of export interest for Syria, brought to the farm-gate level. Except for apples, apricots and oranges, Syria seems to show price competitiveness at the farm gate level, especially for some seasons of the year. This conclusion would not change too much if the Syrian prices were expressed at the wholesale level (about 15 percent above the farm gate levels). However, producer price comparisons for fruits and vegetables have to be qualified by several remarks, such as the following:

(أ) Targeting the EU markets involves a considerable effort of marketing for Syrian products, so a more precise price comparison would need to consider the transport and marketing costs to the relevant markets. Note that low farm-gate prices don't make the difference as a competitive factor for exports in the most developed markets. However, it seems difficult to perform, at the level of information collected by the present study, information on prices at different levels in Syria.

(ب) Some prices are calculated as averages, which include products of different qualities. Moreover, while Syria can show price competitiveness in some products, there is a long way to go for the improvement of their quality in order to meet the standards demanded by the European distribution. Producer costs don't make the difference where quality becomes the real constrain of the foreign marketing of fruit and vegetables (see below).

Calculation of export prices of Syrian products in EU markets, after adding marketing, transport costs and import duties, could represent a further development of this study. Present studies in Syria suggest that transport costs of fruit and vegetables represent a heavy constraint, mainly to the EU destination. According to a study carried out by the Syrian European Business Centre (SEBC, 2000), the costs of delivery from a packhouse in Syria to the international markets (including trading commissions, custom duties and transport costs, transport and other marketing costs) may account for very high percentages of the international wholesale market price, up to: 45 percent for oranges, 69 percent for stone fruit, 51 percent for vegetables, and 42 percent for potatoes. Marketing margins in Europe seem to be lower, due to the good transportation facilities (e.g. deliveries can be made by truck in less than one day from Spainish producing areas to Paris). We performed a comparison between farm-gate prices and export unit-values of Spanish produce to EU destinations[2]. This analysis indicates that marketing costs (including transport and commercial operations) can roughly explain a significant percentage of the export unit-value of the Spanish products, i.e. 31 to 47 per cent for navel oranges and 17 to 37 per cent for tomatoes. The lower margins are registered during the seasons where the availability of Spanish produce is lower, i.e., beginning of spring for navel oranges, and last quarter of the year for tomatoes. However, strong competition in European markets keeps pushing the marketing margins down.

Table 6.3 is based on supply prices and cost data supplied by a feasibility study of the exportation of Syrian fruit and vegetables (SEBC, 2000). Note that values are typical and their

[2] We calculated intra-Euro export unit values from trade quaterly data (Comext database). Monthly farm-gate prices were taken from the NewCronos data base, and aggregated on quaterly averages.

interest rests on the fact that they have been used for assessing the profitability of a new exporting enterprise. The export prices of the Syrian exports of oranges and tomatoes are calculated. In Table 6.3 we compare these figures with the observed import unit values in Germany, and with the defined « minimum import prices » to the EU (entry prices + ad valorem tariff). In this exercise, only the Syrian tomatoes enjoy a clear price advantage against German unit values. However, the foreign marketing is limited by the fragility of this product and the long distance transport that may cause losses. The table also underlines the importance of a reduction of entry prices for preferential suppliers like Morocco. In particular, in the exercise, the Syrian supplies, with an export price (including duties) of 65,4 Euro/100 Kg, should be paid an additional tariff in order to comply with the minimum import price at 73,2 Euro/100 Kg. A preference in entry prices, like that granted by the EU to Morocco, could avoid this problem.

Table 6.3 Comparison of Syrian export prices and EU import unit values for Valencia oranges and tomatoes (Euro/100 Kg)

	Oranges	Tomatoes
Minimum price MFN (a)	41,1	73,5
Minimum price Morocco (b)	26,4	46,1
Supply cost (d)	19,5	12,6
Packaging cost (e)	12,6	8,9
EXPackhouse price (f)	32,1	21,5
Cost of delivery (including duties) (g)	32,2	43,9
Syrian export price (including duties) (h)	64,3	65,4
EU export price (with tariff concession) (i)	55,4	57,2
Unit value Germany (c)	54,3	96,9

Sources : SEBC (2000), Comext, Official Journal of the European Communities and own calculations.
(i) : Entry price + Ad valorem tariff (16% for oranges, 14,4% for tomatoes)
(ii) : Preferential entry price for Morocco
(iii) : Intra-Eur Unit Values Calculated from Comext database: (1st quarter of the year for oranges, 4th quarter of the year for tomatoes). Quarterly import unit values are aggregated on a quarterly basis.
(iv) ExFarm producer price, extracted from SEBC (2000)
(v) Storage, grading, packaging, transport to packhouse, extracted from SEBC (2000)
(vi) = d + e
(vii) Including wholesaler and importer commission, custom duties and international and inland transport costs.
(viii) = g + f
(ix) = h / 1 + t, where t is the ad valorem tariff rate : t = 0,16 for oranges, 0,144 for tomatoes. It is supposed that oranges are traded during the first quarter of the year, and that tomatoes are traded during the last quarter of the year.
Exchange rates: SP/USD = 50; USD/ECU = 1,06578, corresponding to the 1999 average

As for other products, Syrian potatoes addressed to Germany, mainly of the Nicola and Diamond varieties, take already a market share during January when wholesale prices are high during few weeks. During the first quarter of 1999, when Syrian exports to Germany initiated its boost, Syrian potatoes showed a price advantage against Egyptian potatoes of almost 25%. Studies on the Syrian olive oil market (Malevolti, 1999 ; SEBC 1998) have stressed the relatively high prices of Syrian olive oils, and their high production costs, compared with those in direct Syria's competitors in the Mediterranean (Turkey, Tunisia and Morocco). However, the quoted studies also mention the fact that the Syrian domestic market keeps beeing considered by the farmers and oil producers as a « safe shelter » against foreign competition (SEBC, 1998, p. 73).

6. 2. 3. Non-price competitiveness

In fact, assessing foreign competitiveness means to take into account non-price factors, related to quality standards, grading, marketing organisation and human skills. This is particularly important if an improvement of Syrian exports to EU markets is pursued. Studies undertaken under the GCP/SYR/006/ITA project, suggest that most of the fruit and vegetable exports by Syria, mainly destinated to Gulf countries, are mostly sold under consignment, and they normally lack of regularity and volume (Rama 1999, Westlake, 1999). In the short term, this export behaviour does not suit to the EU markets. International competitiveness is also influenced by the availability of an efficient marketing system and by harvest and post-harvest technologies, refrigerated facilities and transport to the main markets. Non-price factors are of increasing importance in the marketing of fruit and vegetables, especially with respect to product quality, ability to adapt to the grades and standards of developed markets, promptness in delivery and terms of credits. One conclusion is that even with the difference of 6 to 1 in labour costs in favour of developing countries against EU producers, the European leading trading companies better administer the marketing organisation. Marketing costs can easily reach 2/3 of the total product value in the retail markets. Quality, technology and service will probably be more constraining for Syrian exports than the EU border protection. Distribution system in EU countries is increasingly concentrated (Montigaud and Berger, 1997). This implies a market of buyers who are really demanding in terms of quality and regularity of supplies. In Europe, the first 10 retail holdings represent 36 per cent of the food retail market and the first 50 represent over 2/3 of total food sales (Planells and Mir, 2000). With growing concentration at the retail stage, the Syrian exporter could still aim at targeting traditional outlets, such as wholesale markets. But this strategy, mainly based on a price advantage, has its limits.

In addition, exporters have to satisfy the specifications laid down by the distribution firms: that means responding to constraints as to quantity and quality, processing and services imposed by the purchaser. Modern European distribution is increasingly requesting shippers and farmers (and their organisations) to accept certain specifications (grades, packing, environmental concerns, time of delivery, etc), which can be imposed through two methods: approval ex post when the product arrives to the « platform » or store, and approval ex ante, when the producer is required to harvest the product in good conditions, to package and to transport it under controlled temperature conditions. Some big distribution firms in Europe are beginning to set up certification procedures (e.g. ISO 9002), which could facilitate control procedures. One of the most recent developments in Europe will be the establishment of EUREP-GAP, a protocol of Good Practices and use of HACCP by a group of European operators (e.g. Carrefour in France, Safeway in England, COOP Italia in Italy, etc.).

Such increasing request for quality certification actually becomes a real opportunity to those who adopt it, but a real constraint for those who don't. Syrian horticultural production for export to the EU will have to comply with environmental regulations and standards in the EU. In some cultures, such as citrus, biological control has been progressively introduced in Syria, with success. It is not organic agriculture, since most growers still use chemical fertilisers, but it has a potential for meeting some environmental specifications that don't require a completely chemical-free production. As regards to the quality of citrus sent to foreign markets, the reputation of Syrian citrus has improved during the last years due to an increase in post-harvest preparation and waxing. A wider access to the EU could create the right incentives for further implementation of grades and standards accepted in the EU markets.

As far as olive oil is concerned, the study by Malevolti (1999) indicates that over 50 per cent of the olive oil production could adapt to the extra virgin specifications, with an adequate improvement in the harvesting and processing methods. The Syrian Government will have to follow the evolution of the European standards, with an eye at the reform recently proposed by the European Commission, which modifies the classification of olive oil types in the EU (European Commission, 2000d). According to these proposals, still under discussion, the "extra virgin olive oil" will have up to 0,8 per cent acidity. The refined olive oil would be cut from 0.5 to 0.3°. A new category of olive oil, the "standard olive oil" will be defined as the olive oil obtained by blending refined olive oil and crude olive oil other than lampante oil, having a free acidity of not more than 1 per cent. Other suggestions concerning the classification of olive oils include banning the use of oil-extraction adjuvants that have a chemical or biochemical effect. There is a wide scope for EU-Syrian co-operation in order to adapt the Syrian production to the EU standards and quality requirements. The European Commission also aims at covering the whole range of production stage problems for virgin oils, and suggests the definition of a code of good mill practice as a reference, notably for minimum conditions for certain quality claims. There is also a need to improve the refining capacity in Syria to be able to look for an international outlet for second and lower quality Syrian oils (SEBC, 1999).

6. 3. Potential gains

Going back to the quantitative analysis of section 5.4, the revealed preference index for Syrian products in EU markets confirmed the status of Syrian products as "non-preferred" exports. One would expect from the AA that Syria should be able to raise its preference indices, expanding their agricultural exports to the EU, at least to the level of the "expected flows" x_{sy} . This would mean that the degree of specialisation of Syria´s agricultural exports on the EU markets would be equivalent to the degree of specialisation of Syria on total foreign exports. Consequently, at least as a policy target, Syria could aim at bringing the preference index I_p to 1, which means balancing the Syrian trade position in EU markets with respect to world markets. What would be the Syrian export gains if it succeeded in raising the preference index to 1?

This policy target for Syria could be expressed as achieving a target "actual export share" m^*_{eu} similar to the "expected export share" x_{sy} :

$m^*_{eu} = x_{sy}$;

If the target share were met, then the target export from Syria to the EU would reach the following level:

Target Syrian exports = m*eu M eu;

where: Meu = total EU imports from MED8 in a reference period.

Therefore, the potential export gain would be:

Target expected exports - Actual exports

Results of the calculations are presented in Table 6.4 for a group of 28 goods. Just by balancing the participation of Syria in total world exports of the MED8 group, with the participation of Syria in total EU imports from the same group of countries, Syrian export value would gain 104 million ECU. If the target share were only achieved in the 7 products for which Syria has expressed special interest in improving its market access in the EU, the gain would have been around 52 million ECU. Taking the period 1996- 1998 as a reference for this exercise, the calculated gain would be equivalent to the 36 per cent of total Syrian agricultural exports to the EU, and to 7 per cent of total Syrian exports to the world, for such period.

One could ask whether raising the preference index for the mentioned list of products is a feasible target for Syria. But the question can be put in another way. If Syria has a defined competitive position in the world markets, as compared to the "control group" (MED8), there should not be reasons why Syria would be impeded of achieving a similar position in the EU market, considering Syrian natural conditions for Mediterranean crops and its proximity to the EU markets.

Given the size of the potential gains for Syrian exports, the Syrian agricultural agents should not underestimate the significance of EU markets. A first necessary condition to exploit such potential gains is to obtain wider access within the AA framework. Once the rules of game are set up with the EU, a message of confidence should be transmitted to the agents of Syrian agriculture. This message would mean that it is worth making the effort to improve quality and to adapt to the European market demand. If this message is understood and backed by the Syrian administration with the appropriate structural reforms (see next chapter) Syria will have gone a long way in taking higher shares of the European market.

Table 6.4 Export gains from balancing the preference indexes (000 ECU)

						1996-1998
Product	**Current preference**	**Target share**	**EU imports from MED8 (000 ECU)**	**EU imports from Syria (000Ecu)**	**Syrian target (000 ECU)**	**Syrian target gains (000 ECU)**
Anise, Badian, Fennel	0,436	0,298	11312	1470	3369	1899
Apples	0,000	0,087	688	0	60	60
Apricots	0,001	0,821	1633	1	1341	1340
Artichokes	0,000	0,004	882	0	4	4
Beans, Green	0,000	0,625	27709	2	17309	17307
Broad Beans, Dry	0,528	0,792	5186	2168	4105	1936
Cantaloupes+Oth Melons	0,000	0,295	14942	0	4402	4402
Cherries	0,000	0,315	24722	1	7785	7784
Cucumbers and Gherkins	0,001	0,107	6034	1	645	644
Figs, Dried	0,000	0,047	47473	1	2220	2219
Garlic	0,006	0,477	5303	14	2528	2513
Grapes	0,000	0,318	29154	4	9271	9267
Lentils	0,097	0,330	10465	335	3448	3113
Mushrooms	0,003	0,108	3932	1	424	423
Oil of Olive	0,435	0,037	225721	3674	8451	4777
Oranges	0,000	0,014	136208	0	1935	1935
Pastry	0,612	0,007	5926	26	42	16
Peaches and Nectarines	0,000	0,416	4484	0	1866	1866
Pears	0,000	0,456	4408	0	2012	2012
Pistachios	0,009	0,713	4344	27	3097	3070
Plums	0,001	0,432	1952	1	843	842
Potatoes	0,007	0,073	117535	64	8604	8540
Sugar Confectionery	0,262	0,048	5314	66	253	187
Mandarins	0,004	0,022	121497	11	2660	2650
Tobacco Leaves	0,246	0,008	102881	194	788	595
Tomatoes	0,000	0,232	108508	0	25140	25140
Wool, Greasy	1,486	0,212	5316	1672	1125	-547
Total exports				9733	113724	
Total gains						103991
Total gains small group (*)						52367

Sources: FAOSTAT, COMEXT and own calculations
(*): Apples, grapes, oranges, mandarins, olive oil, potatoes, and tomatoes.

7. The risks of the Association and the need for reforms

7.1. Reference to horizontal impacts

The focus of this policy study has been on the assessment of the impact of the AA on the Syrian agricultural economy. However, it is worth mentioning that the Free Trade Area will affect the whole Syrian economy. "Reciprocity" is a key word that involves the obligation of eliminating tariffs on EU manufactures, within a defined schedule of 10 to 12 years. Syrian industrial exports already have duty-free access to the EU market. Tariff dismantling on EU exports will begin once the AA is in force. The short-term impact of free trade on local industries, which have benefited from decades of protection, is not easy to anticipate. Some agrofood industries have a significant weight in the manufacturing sector, such as food processing, cotton and sugar. Some of the largest industries are public enterprises. Since 1999, « management by objectives » has started to be introduced, as an attempt to make public enterprises more efficiently managed and more truly autonomous. There are also plans to undertake a comprehensive industrial rehabilitation plan designed by the Ministry of Industry, with an investment of 283,7 billion SP for the total transitional period (10 to 12 years). Since the implementation of Law n10 ؛, investment in manufacturing has increased. However, the foreign exchange and import restrictions as well as the lack of sufficient banking funding are a cause of difficulties for the development of the private industry. High marginal tax rates and poor marketing complete this picture of constrains. According to the IMF (2000) the manufacturing sector slowed its growth to less than 1 percent in each of 1998 and 1999.

It is clear that the AA with the EU should be understood as a part of the programme of structural reforms needed to stimulate private sector exports and reorient Syria towards global markets. The present import restrictions, still considerable, don't help to the development of a private sector. There are not reliable estimates on the impact of the AA on the Syrian industry. Some interviewed Syrian economists expressed that the short-term impact would be equivalent to what has been reported for other MCs. The governments of Morocco and Tunisia, the first to sign agreements, anticipate that one-third of the companies in affected industries are competitive enough to survive free trade while another one-third will require significant restructuring and capital investments. The rest is expected to face serious problems to survive.

Until local industry responds with increased efficiency and quality, Syrian consumers will likely increase their consumption of imported European goods. Further trade imbalances may occur as in, a sometimes painful, reorientation of resources and industrial production for the long-term benefits. However, an open trade environment seems necessary to promote private investments. Private sector in Syria is exporting manufactures of higher value added than the public sector but part of this higher value depends on high cost imported inputs (MEDA Team 2000). Imported machinery and equipment have accounted for a significant percentage of the capital investment in the projects approved under Law n10 ؛. According to the investment office, between 1991 and 1998 this percentage has rounded 39 per cent in agricultural projects, 41,5 per cent in food processing and packaging, and 56 per cent in the total industrial sector. Thus, continuing the opening the Syrian economy becomes necessary for encouraging economic modernisation. A sufficiently long transition (10 to 12 years) period will provide leeway to undertake the necessary reforms. Note that he schedule of tariff elimination can last up to 12 years after the entry in force of the AA. Considering that the ratification process is taking around 4 years, the timetable seems to be sufficiently long to provide the Syrian administration with the leeway to perform a programme of industrial rehabilitation[3].

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[3] Some AA give some room to the exceptional implementation of border measures, in the form of temporary import duties to protect infant industries, or certain sectors undergoing restructuring, or facing serious difficulties, particularly where these difficulties produce major social problems (eg. Article 14 of Moroccan and Tunisian AAs).

The AA will also enable Syria to commit to a harmonisation process of their domestic laws and standards with international rules - thereby making it easier for Syrian producers to penetrate foreign markets. On the other hand, the EU is committed to the provision of financial assistance for the adjustment costs resulting from the free trade agreement. It is a kind of “North – South” integration that is well justified as a way of modernising the Syrian economy. The AAs mention a number of issues that go beyond trade liberalisation, such as the liberalisation of government procurement and the adoption by partner countries of EU technical rules, standards, and certification procedures but without detailed commitments or target dates. Therefore the AAs have the potential to achieve a deep regional integration, with European assistance and limited commitments.

Another challenge is the possible "verticalisation" of trade relations and the emergence of a "hub and spokes" system in the Mediterranean region (Handoussa, 1999). The European Union would be the "hub" and the individual Mediterranean countries the "spokes". In the past, a significant part of Foreign Direct Investment (FDI) in some MCs was linked to the unilateral trade preferences that the EU granted to these countries. In a FTA context, the European investment might not find appealing to install in Syria, if the AAs (and the related domestic economic reforms) is not able to provide sufficient incentives for the desired increase in FDI. This "hub and spokes" effect will be stronger if there is not an effective regional integration between Mediterranean Countries. Each Mediterranean country would act as a market for EU enterprises but this would exclude the creation of a regional economic space. However, Syria faces the AA from very low starting levels of FDI and the former preferences have not attracted much European FDI. This gives some leeway for improvement. As a percentage of GDP in 1998, net FDI in Syria was around 0,5 percent of GDP, against 1,3 percent for Egypt, 3,3 percent in Tunisia and 5,5 percent in Jordan. Gross Foreign Direct Investment in Syria was below 1 per cent of GDP, as 1991-1998 average.

Another possible risk is the potential loss of public revenues derived from international trade with the EU. Abed (1998) reports that import taxes on the exchanges with the EU during 1994-1996 accounted for significant shares of the fiscal revenue in most MCs, up to 19,2 per cent in Algeria, 7,9 percent in Egypt, 12,1 percent in Jordan, 28,8 percent in Lebanon, 10,3 per cent in Morocco, 15,9 percent in Tunisia, but only 7,2 percent in Syria. In fact, the share of total taxes on imports has been declining in recent years, falling from 2,4 percent of GDP in 1994 to 2,0 percent of GDP in 1997-1998. The IMF attributes this development to the significant depreciation in the average effective exchange rate. The Syrian share of tariff revenues on GDP is lower than most countries that have significantly liberalised their foreign trade and reduced their tariffs (IMF, 2000).

Any macroeconomic assessment of the impact of the AA on the Syrian economy should be made in reference to the possible alternatives. At present, it seems difficult to find serious alternative strategies to promote sustainable growth and assisted economic modernisation.

7.2. The unavoidable openness.

Is Syria supposed to adopt a full elimination of agricultural import tariffs against the EU? If we recall the text of the Barcelona Declaration, the answer is no. However, it is probable that the EU will ask for a further opening of the Syrian import market for EU grains and other food products (livestock, beef, dairy products, sugar and processed products). Annex 4.1 provides the tariff concessions granted to the EU by three Mediterranean countries, in the framework of signed AA. Three different frameworks for liberalisation can be considered :

(أ) Extreme scenario of a full liberalisation of Syrian agricultural imports from the EU.

(ب) Concession of preferential tariffs to EU exports, without quantitative limits. This has been the case of Jordan, which have reduced the duties applied to imports originating in the EU, for a list of products.

(ج) « Managed » liberalisation based on the proposal of TRQs, which seems to be the way chosen by Tunisia and Morocco. This last scenario would call for a consolidation of the European exports to Syria. The manage trade approach would be eventually useful if Syria considered a possible application to the WTO. The TRQs negotiated with the EU, within the framework of an AA, could be proposed as a substantive part of the minimum access commitments of Syria, when it negotiates its WTO membership.

It is worth noting that the signed AAs suggest that the result of the bilateral negotiation between the MC and the EU has been flexible and has not undertaken the full liberalisation approach (i). In addition, all the countries that have completed AA with the EU until now are WTO members or candidates. In such cases, it is easy to negotiate on tariff reductions based on MFN rates and on TRQs. Interestingly, none of the mentioned countries have fully eliminated their tariffs against EU imports. Thus, Morocco reduced some tariffs to 2,5 per cent, but kept some important chapters at significantly higher rates, such as Common Wheat, with a 144 per cent rate. Given the fact that Morocco is a WTO member, the parameters of negotiation (TRQs, MFN tariffs, minimum market access, etc.) are similar to those used by the EU. In the case of Syria, a comprehensive tariffication of border measures has not taken place, as it would be the case of Syria as a WTO member. However, the AAs with the EU would be a good chance for the Syrian government to start to adopt trade measures that are compatible with the WTO rules. The intention is not just to prepare for an eventual accession of Syria to the multilateral organisation. It is rather to establish a common framework of trade policies that facilitate will negotiations with the EU and with other Arab countries.

7. 3. Adjusting trade policies

Table 7.1 shows the volume of EU agricultural products exported to Syria during period 1997 - 1999. They are only significant in the case of barley and sugar, although the drought suffered by the country during the season 1998-1999 severely affected the barley culture, which is 99 percent cultivated in rainfed areas. Traditional flows, except for the case of barley, could represent a base for the calculation of TRQs, in the case it be the choice taken by the Syrian administration in order to implement the transition toward a freer trade with the EU. However, the proposal for a « tariffication » of the Syrian import regulation will involve a pressure to reform some of the import practices traditionally applied by Syria :

(أ) The import ban of a number of products (see Annex 7.1) will have to be progressively eliminated, allowing the import of most products with few exceptions. At the time of drafting this report the Ministry of Economy and Foreign Trade was elaborating a valid negative list for imports from the EU comparable to the existing list for Arab countries. The declared intention for this negative list of imported products is that it will be cleared of any protective intention and only should include the commodities that cannot be imported for public health and safety reasons.

(ب) The Ministry of Economy and Foreign Trade has declared that actions will be taken to progressively remove the public monopoly on trade of certain commodities. Wheat and wheat flour imports were restricted to the public sector, although recently, imports of soft wheat and wheat flour for pasta