

The future of EU-Southern Neighbourhood trade relations. The FTAs are dead, long live the (DC)FTAs?

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EU-SN trade exchange

Trade relations are an important part of European Union's (EU) relationship with countries in its Southern Neighbourhood (SN), currently governed by trade chapters of the Euro-Mediterranean Association Agreements signed between 1995 and 2002 (henceforth: FTAs). The relationship is far from straightforward, though, and partner countries have been raising a number of issues and concerns regarding their effectiveness and efficiency over the years (CASE – Center for Social and Economic Research et al., 2021). A crucial complain regards the extent to which the relationship is asymmetric: while the EU is the main trading partner for eight out of ten countries in its Southern Neighbourhood (all but Jordan and Palestine), the exchange of goods with the SN accounts for only 4.8% of EU's trade (as of 2022) (European Commission, 2022). As the FTAs were signed two and, in some cases, three decades ago, they are "old generation" deals: their scope is limited, and provisions are outdated, despite additional protocols being signed with some of the partner countries over time. At the same time, implementation of the provisions that are in place is limited. Finally, many privileges stemming from the AAs have eroded over time, as the EU has been signing more modern and comprehensive trade deals with other countries (CASE – Center for Social and Economic Research et al., 2021). Overall, both the partner countries and the EU are unsatisfied with the current state of the mutual trade relationship and with the rules that govern it, and the debate on how the situation can be improved has been ongoing for over a decade now.

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A solution suggested by the EU was the signing of Deep and Comprehensive Free Trade Agreements (DCFTAs), something offered to countries in the Eastern Partnership countries as well. The general idea behind the DCFTAs is to integrate the economies of the partner countries into the EU market as “deeply and comprehensively” as possible for a non-EU member state. As already mentioned above, the FTAs currently in place are seriously limited in their scope and exclude areas such as investment, trade in services, public procurement, intellectual property rights, competition, or sustainable development. DCFTAs would cover all these areas, harmonising trade-related rules and regulations of the SN countries with relevant EU legislation and international standards (CASE – Center for Social and Economic Research et al., 2021).

A green light to commence negotiations on the DCFTAs with Egypt, Jordan, Morocco, and Tunisia was given by the Council of the EU to the European back in 2011, following the onset of the Arab Uprisings (European Commission, 2011). However, just as the democratisation dreams of the populations across the Southern Mediterranean have not materialised, not much progress has been made on the DCFTA negotiations process either.

Years in the making

Negotiations with Morocco and Tunisia, ongoing since 2013 and 2015 respectively, have been stalled. The former suspended the process in 2014, following the first round of negotiations, in order to conduct its own evaluation of the potential impacts of the DCFTA. Nearly ten years later, negotiations are yet to be officially resumed, despite completion of the said evaluation, as well as the 2019 joint EU-Morocco declaration for the 14th meeting of the Association Council mentioning the relaunch of the negotiation process (a step enabled by adjusting EU-Morocco agricultural and fisheries agreements in order to satisfy a ruling of the Court of Justice of the European Union regarding their applicability to territories of the Western Sahara) (Council of the EU, 2019).

In case of Tunisia, four full rounds of negotiations took place between April 2016 and May 2019 (Sidło & Cohen-Hadria, 2022). The Strategic Priorities for EU-Tunisia partnership currently in place stress that “[b]oth sides remain fully committed to the process of negotiations towards a Deep and Comprehensive Free Trade Agreement (DCFTA)” (EU-Tunisia Association Council, 2018). While a “concrete action plan for 2018” was supposed to be made in order to accelerate the negotiation process to finalise it “as soon as possible” (EU-Tunisia Association Council, 2018), the process is at a standstill.

As for Egypt and Jordan, negotiations have not even commenced yet. Tellingly, while Partnership Priorities for both countries for the previous programming period contained references to DCFTAs (EU-Egypt Association Council, 2017), the 2021-2027 priorities for Egypt and 2022-2027 priorities for Jordan do not (EU-Egypt Association Council, 2022; EU-Jordan Association Council, 2022).

Why the delay? Main criticism towards the DCFTAs

The protracted nature of the (pre)negotiation process is closely related to the level of controversy surrounding the DCFTAs themselves and the resulting lack of appetite towards their implementation in partner countries, both among the civil society and the private sector, as well as authorities (CASE – Center for Social and Economic Research et al., 2021; Institut Arabe des Chefs d'entreprises [IACE], 2017; Sidło et al., 2021). As noted by some of the respondents to this year's EuroMeSCo Euromed Survey, DCFTAs have become highly politicised, with entire social movements and campaigns held against them (for instance, a powerful Tunisian General Labour Union UGTT led a "National Coordination of the fight against DCFTA") (Magnan, 2019).

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What is their main criticism towards the DCFTA?

In most general terms, and as indeed pointed out by Euromed Survey respondents from both the EU and SN, the DCFTAs are denounced for reflecting priorities of Brussels and not those of the partner countries, not being flexible enough, and not taking into consideration specificities of individual partner countries.

Fears pertain to the economic impact of the DCFTA on the already troubled economies of the countries in the SN, most importantly the cost of legal approximation, the risk of bankruptcy of local SMEs unable to compete with EU-based businesses, and resulting disturbances in the job market. Particular concerns are voiced by NGOs, CSOs and unions regarding potential adverse impacts on the agricultural sector in partner countries: the difficulty and costliness of adjusting to EU food and safety (SPS) regulations, the inability to compete with EU-based farmers (who enjoy subsidies from Brussels), and further increase of dependence of food imports (Magnan, 2019; Aouadi, 2020; Kaiser, 2019; CCFD-Terre Solidaire, 2019).

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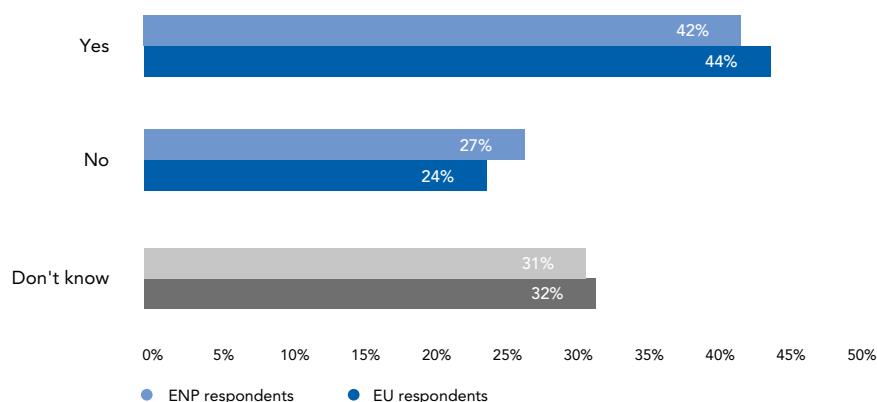
The requirement to harmonise local regulations and standards with relevant EU legislation is raising concerns, not just due to its cost and complexity, but also because it is seen by some as a threat to national security. Countries in the SN, unlike those in the EaP, are not motivated by the prospect of EU membership and as such, a process of legal approximation, if additionally monitored and evaluated by the EC, is viewed by some as handing over too much control to a foreign power (Van der Loo, 2021).

Finally, as noted by respondents to the EuroMed Survey, limiting the DCFTA to the free movement of goods and services but not of people is not in the interest of the partner countries. Indeed, granting temporary freedom of movement for business purposes is of key importance for both Moroccan and Tunisian governments, who moreover wish to tie DCFTA negotiations with talks on Visa Facilitation Agreement – something that Brussels is unwilling to consent to (Sidło & Cohen-Hadria, 2022).

Are the DCFTAs still the best paradigm for improving EU-SN trade relations? With all the above-listed criticism in mind, the question that arises is whether the DCFTAs are still the best paradigm to advance better trade relations between the EU and its Southern Mediterranean partners? The plurality (44%) of those who contributed to

this year's EuroMed Survey believe that the answer is yes, with respondents from the SN countries only slightly less enthusiastic about the DCFTA (by 2 p.p.) than those from the EU.

Graph 1: Q.11 Do you think DCFTAs are still the best paradigm to advance better trade relations between the EU and its Southern Mediterranean partners?



Source: Compiled by the IEMed based on the results of the 14th EuroMed Survey

An undisputable advantage of the negotiations process is giving partner countries a push for reforms. It is generally accepted even by those most critical of the DCFTAs that economies of partner countries in the SN are in dire need of a reform, and agreements could provide a framework – and EU support – to do just that (see. eg. Aoudi, 2020).

A significant effort would need to be made to include civil society, NGOs, and private sector in the partner countries into the negotiation process and convince them to remain open-minded.

There are a number of caveats to take into account, however (as indeed noted by a number of respondents to the EuroMed Survey). Most importantly, both sides would need to be fully dedicated to the negotiation process and willing to make real concessions. Additionally, significant effort would need to be made to include civil society, NGOs, and the private sector in the partner countries in the negotiation process and convince them to remain open-minded; this was not always the case in the past, even though views diverge here between EU, local authorities and local stakeholders. In case of Morocco, the question of inclusion of Western Sahara into the DCFTA would have to be addressed as well.

Realistically, in the foreseeable future, the chances of signing a DCFTA with Morocco and Tunisia are slim, and with Egypt and Jordan (or other countries in the SN for that matter) – practically non-existent. As such, other formats of reshaping the trade and investment relationship between these countries and the EU are being considered (Sidło & Cohen-Hadria, 2022).

Alternative routes

One alternative option of reviving the existing trade relationship between the EU and its partner countries in the SN is modernisation of the existing FTAs, as suggested by the EU's Trade Policy Review – An Open, Sustainable and Assertive Trade Policy (European Commission, 2021) and a joint statement published during the 11th Union for the Mediterranean (UfM) Trade Ministers Conference that took place in November 2020 (although it is unclear to what extent this idea was supported by SN members of the UfM (Sidło & Cohen-Hadria, 2022)). However, while decidedly less ambitious than signing a DCFTA, modernising the existing FTAs might also prove too challenging as all the “least problematic” sectors such as industrial goods have already been liberalised and it is the challenging parts that remain to be agreed on (Van der Loo, 2021; Sidło & Cohen-Hadria, 2022).

Should that be the case, a “revival” of the FTAs might be considered – an objective (albeit admittedly not very clearly set one) more in line with the 2021-2027 priorities for Egypt and 2022-2027 priorities for Jordan which mention working closely to “strengthen[en] the existing trade and investment relationship” in place of referencing DCFTA as Partnership Priorities for previous periods did¹.

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Way ahead

With no easy solution in sight and no real hope for signing the DCFTAs soon, it might be worth for the EU and the partner countries in the SN to take another route floated more recently – one of signing stand-alone investment agreements. One of the most often voiced criticisms towards the FTA by the partner countries has been insufficient investment coming from the EU (even if, as already mentioned, FTAs do not cover investment issues; (CASE – Center for Social and Economic Research et al., 2021)). The EU, in turn, has even, since the outbreak of the Covid-19 pandemic been voicing a need to relocate at least part of its production closer to its borders, or of the so-called nearshoring/friend-shoring (Sidło et al., 2021).

Working out an investment deal satisfactory to both sides will not, admittedly, be an easy process, especially given the political situation in the SN. Among a number of obstacles to increasing EU's FDI in the SN, improving business climate in the partner countries will be the most challenging one to overcome, requiring a lot of political will. With enough dedication and sufficient support on part of the EU (both financial and technical), progress is achievable – or at least more attainable than a fully-fledged DCFTA.

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1. Indeed, after the present text was completed, EU and Egypt elevated their relationship to strategic and comprehensive partnership, agreeing to “fully implement and unleash the full potential of the Free Trade Area of the Association Agreement” and “explore various forms for the modernisation and review of the Association Agreement on the issue of trade and investment relations to better adapt them to today's challenges.” https://neighbourhood-enlargement.ec.europa.eu/news/joint-declaration-strategic-and-comprehensive-partnership-between-arab-republic-egypt-and-european-2024-03-17_en

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