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The “Euro-Mediterranean Association Agreement” Is It Worth For Syria?

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Introduction

In May 1998, Syria started the formal negotiations with the EU. Negotiation at the technical level took place over 12 rounds. The common will of the parties allowed finalizing the text initiated by Syria and the European Commission on 19 October 2004 that is now waiting for signature and ratification. The Association Agreement (AA) foresees the creation of a free-trade area between Syria and the EU and will encourage Syria to pursue the harmonization of domestic laws and standards with international rules, which is expected to be beneficial for Syrian operations in foreign markets. The EU is committed to provide financial support to adjust Syrian economy and its administrative system to the new environment that will be created by the free trade agreement. The AA covers well beyond trade regulation, such as the liberalization of government procurement and adoption of technical standards and certification procedures on the EU model as well as wider cooperation in the social, cultural and political fields. On these, however, there are no detailed commitments or target dates as those established in the trade domain. Overall, the AA has the potential to achieve a deep regional integration, for which the EU is committed to provide support assistance. contributing to the creation of a larger Euro-Mediterranean area by the envisaged date of 2010

Eu-Syria Trade Relations

Total Syrian exports to the EU increased at an annual growth rate of 5.3% between 1996-2003 (EU =62-57%, Arab countries= 20% of total Syrian exports to EU). Total Syrian imports from EU decreased annually by 0.8 % (Asian countries = 21%, EU = 19%, Arab C= 13% over period 1996-2003). Also, Syrian Trade values to EU increased annually by 2.1% (1996 to 2003). The export performance of other sectors “non-oil sectors” is weak (mainly concentrated on textiles and agriculture), but exports of textiles have increased recently. Imports are mainly of industrial products (notably equipment) and agri-food products.

The Eu-Syria Association Agreement

Like all Association Agreements with partners in the Barcelona Process, the Agreement with Syria covers three areas (chapters):we will talk about economic and social areas.

On the **economic chapter**, the Association Agreement foresees the creation of a free trade area between the EU and Syria. The agreement covers trade in goods, services, public procurement, rules for the protection of intellectual property rights, as well as dispute settlement provisions in line with those in the WTO. The agreement also foresees co-operation in a large number of areas including on customs, transport, tourism or environment.

The Association Agreement also comprises a **chapter on co-operation in social and cultural matters**. Cooperation will extend to a wide range of fields, from education and

culture to the fight against crime, money laundering and drugs. Regarding co-operation in the field of Justice and Home Affairs in particular, the agreement includes provisions on: institution-building and strengthening the rule of law, movement of persons, control and prevention of illegal immigration, legal and judicial co-operation, fight against organised crime, money-laundering, racism and xenophobia, drugs and drug addiction as well as corruption.

Following signature and pending parliamentary ratification of the agreement, both parties have agreed to an early entry into force of the trade chapter of the Association Agreement by means of an interim agreement.

The EU has concluded Association Agreements with Mediterranean countries within a process launched by the Barcelona declaration (1995). Ten years after the initiation of the Barcelona process, agreements have been concluded with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority Tunisia and Syria. Malta and Cyprus have already achieved the EU Membership while relations between the EU and Turkey (accepted as a candidate country) are ruled by a Custom Union agreement.

Potential Impact Of The EU-Syria Association Agreement

The AA will entail a reduction to zero of the EU applied rates for most imports from Syria. The resulting margin of preference for Syrian exporters to the EU market, compared to EU Most Favoured Nation partners, would be roughly equal to the EU Common External Tariff (CET)¹, or 6.5% on average. For most tariff lines, Syria already benefits from a preferential access to the EU market through the 1977 Cooperation Agreement as well as through the EU General System of Preferences (GSP) scheme by which the EU unilaterally gives tariff reductions to developing countries. Both schemes have had limited impact on Syrian export success. Nevertheless, tariff preferences are not enough to ensure increased competitiveness of exports². A more comprehensive approach is needed, combining tariffs and non-tariffs barriers reduction to business-friendly domestic policy reform. This is precisely what the AA emphasizes. To ensure that the export opportunities entailed in the AA are effectively exploited, domestic policy reforms are an essential pre-requisite. Market opening provides opportunities, but fully using them depends on exporters' competitiveness and business friendly government policies.

We should keep in mind the present pattern of Syrian agricultural trade. Syria indeed exports the majority of its agricultural production to the Arab Countries. Syria exports essentially basic and low value agricultural products to the EU (high concentration on raw cotton) and imports from the EU a lot of processed or semi-processed agricultural products.

A challenge of the AA implementation will be for Syria to catch the opportunity to diversify its agricultural exports (through appropriate structural reforms) towards high value markets. This means enhancing export to the Europe without losing competitiveness in the Arab markets.

One of the trade reform objectives could be to create an enabling environment for attracting EU FDI that aim to target the whole regional market (in this case, it is crucial also to develop a deep regional integration among Arab countries).

In addition, impact of trade preferences may be limited by the increasing EU requirements related to technical and sanitary standards. This implies a needed effort for preparing the country to export good quality products adapted to international standards.

¹ The common tariff that members of a customs union, common market or economic union impose on non members

² Syria already benefits from a preferential access to the EU market through the EU General System of Preferences (GSP) scheme by which the EU unilaterally gives tariff reductions to developing countries. However, the actual rate of utilisation of EU GSP preferences by Syrian exporters is just 30%.

The welfare benefit to the economy coming from integration is estimated to be about 3 percent of GDP. Yet, in the short run, the Syrian Government will face falling tariff revenues and tightening budgets. There are four major channels through which integration may enhance growth:

- 1) Competition, which should result in better cost discipline, innovation and productivity growth;
- 2) Technology transfer, which should be facilitated by the harmonization of standards;
- 3) Direct foreign investment; and
- 4) Better access to external markets.

These are the issues to be taken into consideration when looking for gains from trade agreements. There is also a substantial investment effort to be made in basic education and training, if Syria with its current labor force expects to be able to compete. This investment will take a minimum of a decade to begin to pay off, and will have to include currently employed workers who need new skills in order to adapt to the changing economic environment.

The Economic Context

In the first years of this decade, the Syrian economy benefited from a number of positive developments. The rise in oil prices, and a rebound in agricultural output after the widespread drought in 1999 led to growth rates 3.4% in 2001, 3.2% in 2002 and 2.5% in 2003. This downward trend should be reverted (to reach growth rates between 5% and 7%) to lift standards of living and to provide jobs for a new generation entering the labour market. An estimated 350,000 persons enter the labour market every year and unemployment is very high especially among the urban youth. This situation is hardly sustainable without an increased growth rate outside the petroleum sector.

Syria has recently started a gradual opening of its centrally-planned economy to market-oriented reforms. Structural measures aimed at economic reform have been announced in support of the private sector in order to create a legislative and regulatory environment more favourable to investments. A more far-reaching programme of reforms is expected as a part of the next five-year plan. The most important reforms so far are the revision of Law No.10 (1991) allowing better terms for foreign investment, and the new banking law, which since 2003 has allowed the establishment of private banks with some foreign ownership. The exchange rate mechanism has also been simplified, even if there is still a system of multiple overvalued exchange rates.

Conclusion:

Association Agreement could potentially lead to improve export opportunities and enhance the efficiency of the Syrian agricultural sector. However, domestic policy reforms are an essential pre-requisite for development. Market opening provides opportunities, but fully using them depends on exporters' competitiveness and business friendly government policies.

Further References:

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2. Atieh El Hindi, 2005 *Agriculture in the Syrian – EU Association Agreement*, National Agricultural Policy Center (NAPC).
3. Euromed Internet Forum, <http://www.euromed>. *Web site on the Euro-Mediterranean partnership*.

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6. José-Coque, 2001, **Syrian-EU Association and its Impact on Agriculture, National Agricultural Policy Center(NAPC)**
7. José-Coque, 1999, **The EU-Mediterranean Association Agreements: Options, Constraints and Opportunities for Syria, National Agricultural Policy Center(NAPC)**
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Box 1. EU-Syrian Association Agreement- Agricultural Provision (El Hindi,2005)

1. Raw Agricultural Products Exchange

A. *The Syrian products that got advantages to access EU:*

- Special treatment: more tariff reduction.
- Tariff exemption for some of them.
- Full exemption for several products.
- Quota for the vulnerable products to be increased by 3% annually over 3 years.
- when the quota is exceeded a tariff reduction by 40 - 60% is applied.

B. *The European products that got advantages to access Syria:*

- Quota for two European products with full exemption : 2.250 Tons orange, 2.500 Tons apple
- Tariff Less 5% will be eliminated immediately.
- Tariff 5 - 10% gradual dismantle over 4 years.
- Tariff 10 - 40% gradual dismantle over 7 years
- Tariff 40 - 100% transfer to 40% then dismantled over 12 years
- Tariff 100% and over transfer to 70% then dismantled over 12 years

2. The Processed Agricultural Products

A. *The Syrian products that got advantages to access EU:*

- - Preferential tariff treatment .
- Full tariff exemption for many Syrian agricultural processed products.
- Quota for some processed products.
- Full tariff exemption for many processed products, keeping others (Surcharge per Kg, Sugar Tax, Flower tax)
- Gradual reduction for other tariff over 12 years.

B. *The European products that got advantages to access Syria*

- Tariff reduction by 40% for certain quantities of some products.
- Tariff Less 5% will be eliminated immediately.
- Tariff 5 - 10% gradual dismantle over 3 Years.

- Tariff more than 10% and less than 29% dismantled over 6 Years.
- Tariff more than 29% dismantled over 12 Years.

3. Fish

A. The Syrian products that will export to EU:

- Preferential tariff treatment.
- Reduction for all tariffs applied to all kind of fish: from 6% or less will be eliminated.
- The remaining tariff will become 6% gradually:
 - reduction by 60% upon entry into force of the agreements, first year 80%,second year 100%
- Exemption for quota of 100 tons for some species in the second item, upon entry into force.

B. The European products that will export to Syria:

- For less than 10% tariff: upon entry into force exemption.
- 10% - 30% tariff reduction over 5 years.
- 30% - 80% tariff reduction over 7 years.
- Tariff over 80% reduce to 80% then dismantle over 12 years.