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EU-North Africa Association Agreements and Trade Integration

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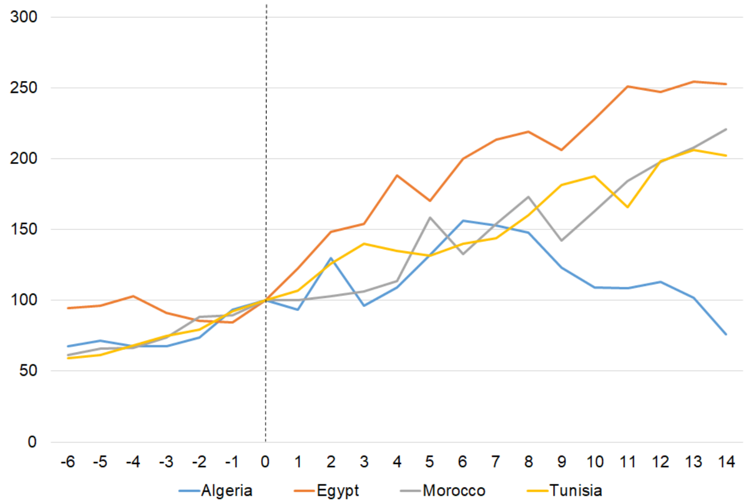
- Starting in the late 1990s, the European Union (EU) entered into four association agreements with North African countries – Tunisia in 1998, Morocco in 2000, Egypt in 2004 and Algeria in 2005 – containing provisions for economic, trade and financial cooperation with a view to gradually establishing a Euro-Mediterranean free trade area. The agreements have spurred the growth of trade between northern and southern Mediterranean countries, although EU market share has come under pressure from the rise of emerging countries, especially China and Turkey. Also, the comparative preferences warranted by the agreements have diminished over time, with the EU entering into deeper and more ambitious agreements with other trading partners. Ever since the agreements came into force and owing to the impact of these two trends, North Africa's trade balance with the EU has deteriorated, but to a lesser extent than with the rest of the world.

- As the association agreements were implemented, trade within a number of industrial sectors rose, aiding the development of Euro-Mediterranean value chains, chiefly in the automotive and aerospace sectors.

- The 1995 Barcelona Declaration, which brought about the association agreements, also sought to boost intra-regional trade in North Africa. These countries have, however, made little progress in economic and trade integration.

- With negotiations for Deep and Comprehensive Free Trade Agreements (DCFTAs) currently at a standstill, despite the alignment of EU and North African interest in deepening trade relations, the European Commission is exploring a more flexible approach to trade in order to increase business ties with North Africa. One such new cooperation arrangement could involve harmonising regulations governing industrial products in order to create and expand North-South and South-South industrial partnerships in the Mediterranean region.

Trade performance of North African countries with EU-27



Source: Eurostat, DG Trésor calculations.
How to read this chart:
- Total value of trade (exports + imports), in €
- Base 100: Year 0 corresponds to when the agreement came into force
- Data estimated prior to 1999

1. Growth in EU-North Africa bilateral trade stymied by the rise of emerging countries and the erosion of trade preferences

1.1 North Africa's trade deficit with the rest of the world has widened more than with the EU

In line with the Barcelona Declaration, which in 1995 laid the groundwork for a Euro-Mediterranean partnership, the EU entered into seven association agreements with its southern Mediterranean partners, including four with North African countries (Tunisia in 1998, Morocco in 2000, Egypt in 2004 and Algeria in 2005, see Table 1). The agreements primarily called for economic, trade and financial cooperation by gradually eliminating tariffs and trade-restrictive measures.

Despite a difficult global economic environment which saw the 2008-09 financial crisis, the Arab Spring and the European debt crisis unfold, trade in goods between the EU-27 Member States (hereinafter "the EU-27") and North Africa[1] picked up pace overall after the association agreements entered into force during a period running from 1998 to 2005. One notable exception, however, was trade with Algeria, as oil and gas exports to Europe make up the lion's share of the country's exports. Goods exports from the EU to North Africa increased by €2.5bn annually over the 12-year period following the various association agreements' entry into force, compared with a rise of €1.5bn over the six-year period leading up to their establishment. North African exports to the EU, by contrast, fell after the association agreements took effect, as the EU imported less oil and gas from Algeria, while exports to the EU from Egypt, Morocco and Tunisia rose slightly, from €0.7bn to €0.9bn annually.

Before the COVID-19 crisis hit, EU-North Africa trade ties were highly resilient. In 2009, when EU-27 exports to the rest of the world (excluding North Africa) fell a sharp 17% as the financial crisis took hold, exports to North Africa were significantly more resilient, declining just 6.9%. In 2012, in the wake of the Arab Spring and the European debt crisis, EU-North Africa trade far outpaced the bloc's trade with other regions. To illustrate, EU exports to North Africa were up 12.3%, while its exports to the rest of the world increased by a smaller 8.9%. EU imports from North Africa rose 5.6%, compared with 2.2% for imports from the rest of the world. In 2020, however, the COVID-19 crisis had a greater impact on the EU's trade with North Africa than on its trade with the rest of the world: EU exports to North Africa dropped 13.8%, totalling €61.5bn, compared with a 9.2% decrease for such trade with the rest of the world. EU imports from North Africa fell 18.4%, amounting to €41.5bn, mainly owing to a steep decline in the trade of oil and gas with Algeria, whereas EU imports from other regions were down by a lesser 11.4%.

Table 1: Status of EU-North Africa association agreements

	Algeria	Egypt	Morocco	Tunisia
Year association agreement came into force	2005[a]	2004	2000	1998
Negotiation of a Deep and Comprehensive Free Trade Agreement (DCFTA)	No	Negotiations stalled (began in 2013)	Negotiations stalled (began in 2013)	Negotiations stalled (began in 2015)
Post-Brexit agreement with the UK[b]	Proposed	Signed (December 2020)	Signed (October 2019)	Signed (October 2019)

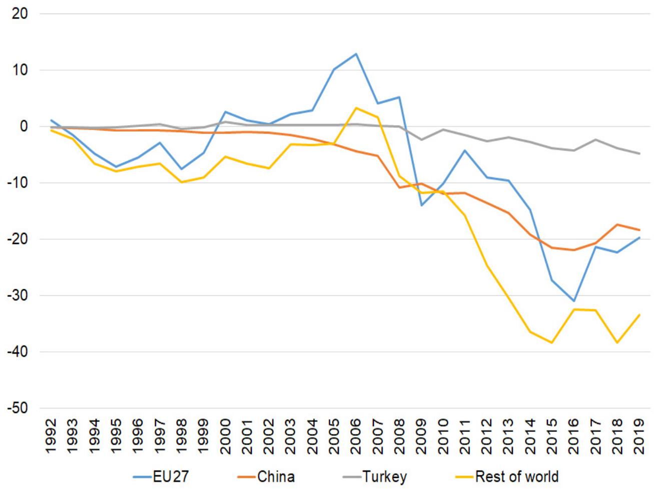
a. Because the association agreement with Algeria came into force in late 2005, this study uses 2006 as the baseline.
b. In the aftermath of Brexit, Egypt, Morocco and Tunisia entered into trade agreements with the UK, the content of which chiefly mirrored the trade preference measures provided for under the EU association agreements.

Source: DG Trésor.

(1) The North African countries included in this study are Algeria, Egypt, Morocco and Tunisia.

EU-North Africa association agreements ended up pushing up the EU's trade surplus with North African countries (excluding Algeria). After being roughly even in the early 1990s, the EU-27's trade balance with North Africa has improved. For North Africa, the region's growing trade deficit with the EU – such trade fell $19.7bn, representing 3.1% of North Africa's GDP – is less substantial than the region's trade decline of $56.7bn, or 9.0% of GDP, with the rest of the world, including a decrease of $18.4bn with China alone (see Chart 1).

Chart 1: Trade balance performance of North African countries with main partners (in €bn)



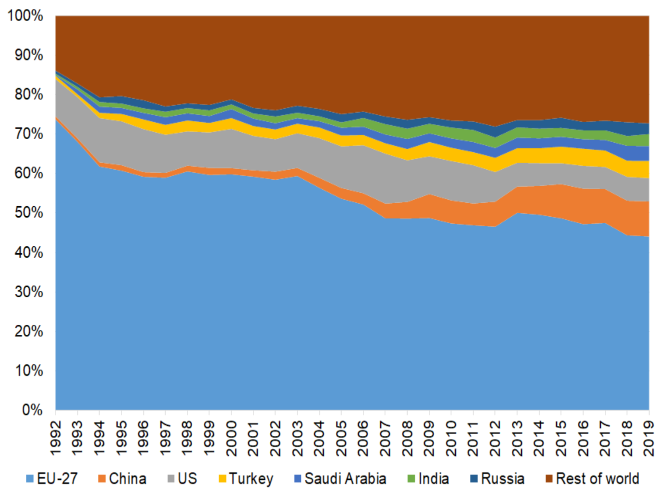
Source: World Bank, DG Trésor calculations.

1.2 Association agreements have maintained North Africa's share of EU trade, even as other emerging countries capture a growing share

Since the late 1990s, North Africa's share of EU trade has remained stable, on a like-for-like basis in terms of geographic scope, with the region reporting, for 2019, an export share of 3.3% (€70.2bn) and an import share of 2.6% (€50.9bn). The region has also expanded its trade with several southern European countries, including Bulgaria, Greece, Portugal and Spain. By contrast, the EU's share of trade with the North African countries studied herein declined between 1999 and 2019, from 67% to 53% on average for exports and from 55% to 39% for imports. While each country has a varying level of trade in goods destined for the EU market (in 2019, Tunisia carried out 67% of its trade with the EU, Morocco 51%, Algeria 50% and Egypt 31%), nearly all have faced lower trade flows with the EU since the association agreements entered into force, with the exception of Egypt, whose share of trade with the EU has remained steady.

This shift is attributable to major emerging economies' more active participation in trade over the last 20 years, with China and Turkey at the forefront.[2] In 1992, China and Turkey each accounted for less than 1% of trade with the countries studied, and a mere 2% or so in 2000. In 2019, China's share of trade with North Africa stood at 9% (13% of total imports), while Turkey's was 4% (5% of total imports). India, Russia and Saudi Arabia, which all had a small share of North African trade at the start of this century, today collectively represent almost 10% of trade with the countries studied (see Chart 2).

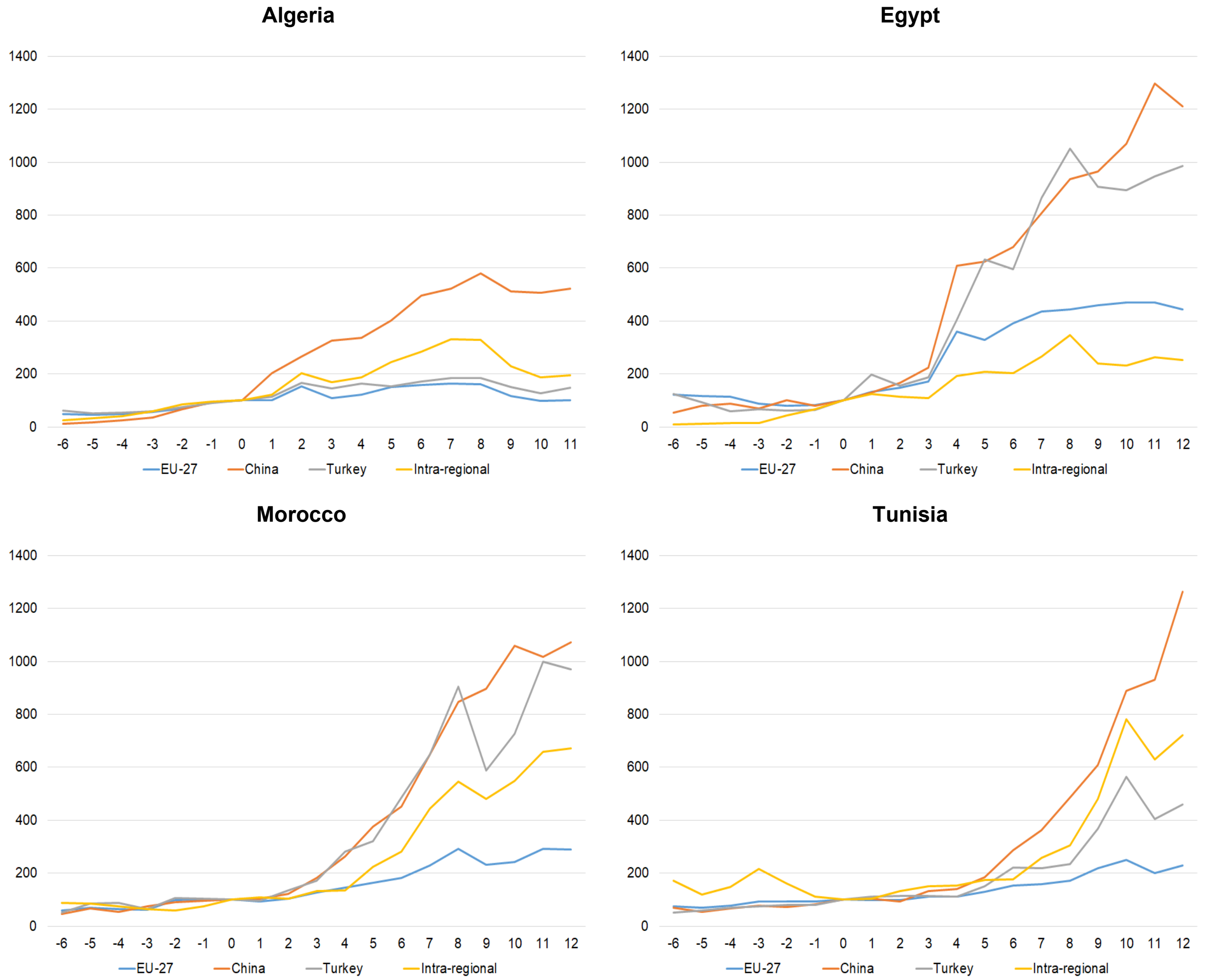
Chart 2: Share of trade of North Africa's main partners (as a percentage of trade)



Source: World Bank, DG Trésor calculations.

(2) Turkey has entered into bilateral free trade agreements with Egypt, Morocco and Tunisia.

Chart 3: Trade performance of North African countries



Source: World Bank, DG Trésor calculations.
How to read this chart:
- Total trade (exports + imports)
- Base 100: Year 0 corresponds to when the agreement came into force
- Currency expressed in today's US dollars

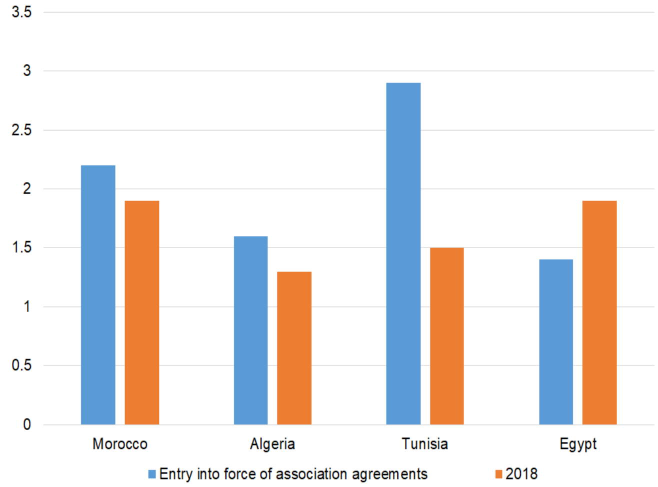
1.3 The erosion of comparative preferences under the association agreements has also contributed to the declining trend in EU-North Africa bilateral trade

The European Commission[3] has found that the effective preference margins granted to North African countries by the EU (including the UK) have eroded over time. The Commission has also noted that the association agreements have produced positive results in terms of increasing intra-Mediterranean trade and fostering economic growth in southern Mediterranean countries. The effective preference margin is an indicator that measures the advantages North African countries benefit from on the EU market. It amounts to the difference between (i) the weighted average tariffs applied by the EU on imports from the rest of the world, and (ii) the weighted average tariffs applied on imports from North Africa. The Commission has determined that the resulting margins are consistently positive, ranging from 1.3 to 1.9 percentage points (pp) depending on the country, but they have fallen sharply between the time the association agreements first came into force – which coincided with the elimination

(3) European Commission, "Ex-post Evaluation of the Impact of Trade Chapters of the Euro-Mediterranean Association Agreements With Six Partners: Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia – Final Report", March 2021.

of EU tariffs on imports from North Africa in many sectors – and now. This is particularly true for Tunisia (from 2.9 to 1.5 pp), and to a lesser extent for Morocco (from 2.2 to 1.9 pp) and Algeria (from 1.6 to 1.3 pp). By contrast, the effective preference margin has increased for Egypt (from 1.4 to 1.9 pp – see Chart 4).

Chart 4: Changes in effective preference margins for North African exporters accessing the EU market[4] (percentage points)



Source: European Commission, World Integrated Trade Solution (WITS).

The effective preference margin enjoyed by the EU on trade with its North African partners has increased steadily since the association agreements entered into force, as North African countries applied more gradual tariff reductions on imports from the EU. The effective preference margin thus rose from 0.5 to 7.6 pp for EU exports to Morocco, from 0.6 to 7.0 pp for EU exports to Egypt and from 5.4 to 9.3 pp for EU exports to Algeria. Only a marginal increase – from 0.6 to 0.7 pp – was observed for EU exports to Tunisia.

These rising preference margins are partly attributable to the fact that, by comparison with North African countries, the EU has entered into more trade agreements in recent years, but the shift has also come about due to structural changes in Euro-Mediterranean trade. Since the association agreements came into force, the EU has entered into many free trade agreements with other partners which are more ambitious in the regulatory sphere, particularly in that they address non-tariff measures.[5] This has reduced the preference margin North African exports enjoy on the EU market – in the textiles industry, for instance – with several developing countries (including textiles producers) given special access to the EU market under the Generalised System of Preferences (GSP) and the Everything but Arms (EBA) initiative. Concurrently, all North African countries (excluding Morocco)[6] have entered into a limited number of substantial trade agreements with third countries.

Changes in preference margins are only one factor explaining changes observed in trade flows: Moroccan exports to the EU have picked up pace despite the country's reduced preference margin, while EU exports to Algeria have slowed despite the EU's increased preference margin. In general, North Africa has maintained its share of total EU trade, even with the rise of third-country competitors, such as China and Turkey, in the Euro-Mediterranean region.

2. Association agreements produce mixed results on regional integration

2.1 Association agreements have led to the development of several Euro-Mediterranean industrial partnerships

Association agreements have helped North African countries to better leverage their comparative advantages as exporters and increased the level of EU-North Africa trade in certain sectors, leading to the development of Euro-Mediterranean industrial partnerships. Moroccan exports to the EU and, to a lesser extent, Tunisian exports to the EU, have been driven by growth in the automotive and aerospace ecosystems: accounting for less than 1% of Moroccan and Tunisian exports to the EU-27 in the early 2000s, the share of the automotive sector in Morocco's exports today is 17%, while Tunisia's share stands at 4%. Aerospace exports now represent 3% of Moroccan and

(4) The difference between the average tariffs effectively applied by the EU-28 Member States ("the EU-28") on imports from North Africa and those applied by the EU-28 on imports from the rest of the world.

(5) Euro-North Africa association agreements contain few non-tariff measures. Some countries, like Algeria and Tunisia, have not signed a protocol on agriculture (the sector with the highest tariffs).

(6) Morocco is the only North African country to have entered into bilateral trade agreements with the United States and the United Arab Emirates.

Tunisian exports to the EU, whereas this percentage was insignificant at the start of this century. More broadly speaking, North African exports of electrical equipment and machinery – e.g. cables – to the EU-27 began to take off in the early 2000s. Today, this category accounts for a third of Tunisia's exports to the EU, a quarter of Morocco's and 8% of Egypt's. Agricultural goods and agri-food products have maintained their share of total exports in Morocco (roughly 20%) and Tunisia (6%), and even increased from 4% to 12% in Egypt. The textiles industry still represents a significant share of exports, although it has fallen by half since 2000 in Tunisia (down from 48% to 23%), Morocco (36% to 18%) and Egypt (23% to 11%). Despite growth experienced by some Egyptian sectors (agri-food, electrical equipment, fertilisers), oil and gas exports from Egypt to the EU-27 have risen and now account for over a third of the country's exports. For their part, Algerian exports to the EU remain highly concentrated in oil and gas (more than 95% of total exports), even as the share of chemical and fertiliser products has grown.

The breakdown of European exports reflects the concentration of EU-North Africa trade on specific industrial sectors along with the energy sector, with mechanical machinery for manufacturing as well as engines, including turbo-jet engines for the aerospace industry, continuing to dominate EU exports to North Africa (accounting for 15% of total exports, compared with 20% in the early 2000s). For their part, electrical equipment and machinery, such as cables, electrical panels and integrated circuits, make up a 10% share of EU exports to North Africa. The development of automotive trade between the EU-27 and North Africa has allowed Europe to export a growing number of automotive products, like motor vehicles and parts, to Egypt and Morocco in particular. These products currently represent 10% of EU exports to the region. Lastly, since the early 2000s, oil and gas exports – consisting primarily of petroleum products – make up 10% of EU exports to North Africa as a whole and even 14% to Tunisia on its own.

2.2 Low levels of intra-North African trade highlight a lack of regional integration

One of the aims of the Barcelona Declaration was to build an "area of shared prosperity" by strengthening regional cooperation and economic integration, with the ultimate goal of building a Euro-Mediterranean Free Trade Area. For Europe, stepping up trade integration in the southern Mediterranean would create the right conditions for establishing value chains in the region. Despite the signing of association agreements and the existence of several South-South regional agreements,[7] North Africa continues to see extremely low levels of intra-regional trade. Intra-North African trade[8] makes up less than 5% of overall trade in North Africa, whereas intra-regional trade accounts for 16% of all trade in sub-Saharan Africa, 19% in Latin America, 51% in Asia, 54% in North America and 70% in Europe. Moreover, intra-North African trade is restricted to just a few products: Algerian oil and gas exports, Algerian imports of iron and steel, Moroccan exports of fertilisers and clothing to Algeria, Tunisian exports of chemical products to Egypt, and Egyptian exports of plastic products and electrical machinery to Morocco.

Shallow regional integration is due to high tariff and non-tariff barriers, limited land and air transport links and low levels of intra-North African migration, resulting from historical and geopolitical factors. According to a 2018 report published by the International Monetary Fund (IMF),[9] the trade complementarity index – which "indicates to what extent the export profile of the reporting country matches, or complements, the import profile of the partner country" – shows that "the product composition of Maghreb exports matches, or complements well, the product compositions of imports in the Maghreb region".

(7) Including the Agadir Agreement, which came into force in 2007, between Egypt, Jordan, Morocco and Tunisia, with Lebanon and Palestine joining in 2016, as well as the Greater Arab Free Trade Area (GAFTA) and bilateral agreements linking Morocco and Tunisia and Egypt and Morocco.
(8) Algeria, Libya, Morocco, Mauritania and Tunisia.
(9) IMF, "Economic Integration in the Maghreb – An Untapped Source of Growth", 2018.

3. How to expand trade and increase EU-North Africa complementarity

In an effort to strengthen trade ties with North Africa, the European Commission is exploring a new, more flexible approach to trade. In February 2021, the Commission introduced its new trade strategy and proposed to initiate the negotiation of investment facilitation agreements with North African countries, as well as sector-specific dialogues on issues of common interest. Updating the framework for EU-North Africa trade could, for one, involve harmonising technical standards (each party has a mutual interest in increasing productive investments in manufacturing and capitalising on value chain relocation efforts), incorporating sustainable development measures and trade in services (competition, public procurement, intellectual property rights, sanitary and phytosanitary standards), as well as, where appropriate, agriculture.

These cooperation initiatives could take the form of further standardising regulations by negotiating Agreements on Conformity Assessment and Acceptance of Industrial Products (ACAAs).[10] Doing so would foster the development of industrial sectors that are more closely integrated with the EU and reinforce the complementarity of EU-North African value chains based on the principle of trade regionalisation.

Additionally, the Commission intends to complete the process for updating the Pan-Euro-Mediterranean (PEM) Convention, which aims to establish a single set of rules of origin for the wider PEM area.[11] Harmonising origin protocols for trade between PEM participating countries would make inputs more readily available as well as facilitate the re-export of finished products between parties to the Convention. The membership of North African countries to such a revised convention would round off existing bilateral trade arrangements with the EU, thus allowing these countries to re-export products (such as in the textiles and clothing industry) under preferential rules to other parties to the PEM Convention.

Strengthening these cooperation initiatives raises, over the long term, the issue of Deep and Comprehensive Free Trade Agreements (DCFTAs), which aim to supplement existing association agreements by pursuing the elimination of tariffs and incorporating new aspects such as liberalisation of services, investments, sustainable development and regulatory issues. However, DCFTA negotiations are currently either stalled – owing to political and technical reasons (Morocco, Tunisia) – or have yet to be engaged, given that the implementation of existing association agreements (Egypt, Algeria) takes priority.

More generally, efforts are under way to improve the enforcement of existing association agreements in the region, which is one of the chief objectives of the Commission's new trade strategy, implemented under the auspices of the Chief Trade Enforcement Officer. With the development of a proactive industrial strategy, cooperation areas of common interest abound between the EU and North Africa, although how they will be structured in practice remains to be determined.

(10) A policy developed over the last 15 years which seeks to create an ambitious instrument enabling third countries to access the single market and partner country markets. Thus far, the EU has signed just one ACAA, with Israel, on pharmaceutical products.

(11) The PEM Convention includes the EU-28, the four European Free Trade Association (EFTA) Member States (Iceland, Liechtenstein, Norway and Switzerland), the nine Mediterranean partner countries of the Barcelona Declaration (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria and Tunisia) plus Turkey, as well as the countries participating in the EU Stabilisation and Association Process (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia), and certain partner countries of the Eastern Partnership (Georgia, Moldova and the Ukraine).

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