

POLICY BRIEF – No. 09/2025

Trade in the Great Sea: The Future of EU-Southern Neighbourhood Trade Relations

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EXECUTIVE SUMMARY

This policy brief looks into the future of EU-Southern Mediterranean trade relations. It evaluates the current trade and contractual instruments governing these relations and asks if they are sufficient or if more is needed to exploit trade opportunities and manage trade challenges in the region.

The policy brief shows why and how the current trade instruments are no longer sufficient. There are two main reasons for this: first, they do not really tackle areas such as services, investment and non-tariff measures (NTMs), all of which are important to unlock economic value for both sides in today's economy; and second, new economic and political developments reinforce the need for better agreements. As trade becomes more political and intertwined

with other issues such as energy, critical minerals, the environment and industrial policy, it is necessary to improve the agreements and instruments that govern trade.

The policy brief lists some of the upgrades in EU-Southern Mediterranean trade agreements that are necessary. However, it also analyses what challenges there are to pursue these upgrades and what can be done to overcome the problems. The policy brief concludes that working towards these aims will be challenging but not impossible if there is the necessary political will on both sides. Both sides should realise that the price of not doing anything might be higher than the effort that is required to bring their trade instruments up to the standards needed.

1. INTRODUCTION

In a previous policy brief, entitled "Trade in the Great Sea: A Brief State of Play of EU-Southern Mediterranean Trade Relations", an account was provided on the current state of play of trade relations in the region. The brief looked into the trade instruments specifically applicable between the two sides and noted how they have brought positive results for both the EU and Southern Neighbourhood Countries (SNCs)¹ throughout the years. The purpose of this policy brief is to look into the future, namely by trying to evaluate whether these instruments are enough or if more is needed to exploit trade opportunities and to manage the trade policy challenges in the region.

The Southern Neighbourhood and the EU share a geography and have strong historical ties (social, linguistic, etc.). They are of paramount importance to each other for various political reasons. Nevertheless, there is definitely room for improvement when it comes to trade. In 2023, the region represented 4.9% of total EU external trade. Total trade in goods between the EU and the SNCs amounted to €247.3 billion.² These statistics are far from impressive. For comparison, Switzerland represented 6.4% of all EU trade in goods with €327 billion in total trade in the same year, whilst Turkey on its own represented 4.1% with €206 billion trade in goods.³

New developments reinforce the need for better agreements. Beyond the classic understanding of trade as a means for economic gain and wellbeing, there are other perspectives on trade that are becoming more important for the EU and the SNCs. Trade is increasingly being intertwined with geopolitics and now sits in the ambits of security (both economic and national security) and in other areas such as environmental policy and energy. As seen in the previous policy brief, trade relations between the EU and the SNCs are locked in a status quo with trade instruments that are outdated. As trade has evolved and the EU has reached new agreements with other trade partners around the world, the effectiveness of agreements with the SNCs have diminished. Even if the current trade instruments in the region have brought positive results for both sides, it is clear they are not enough to harness the economic potential that exists between the two sides and respond to present trade challenges and the evolving nature of trade.

This policy brief will consider the future of EU-Southern Neighbourhood trade relations on the following basis: (i) reviewing the current trade instruments to understand how and why they are inadequate; (ii) zooming out from the trade instruments *per se* and looking at the bigger picture to see what is lacking more generally and what challenges there are to address existing gaps; and (iii) proposing ways forward to address the problems.

¹ The term Southern Neighbourhood Countries (SNCs) covers Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia.

² European Commission (2025) 'Trade and Economic Security: Southern Neighbourhood'. Available at: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/southern-neighbourhood_en#:~:text=Trade%20relations%20between%20the%20EU,essentially%20cover%20trade%20in%20goods. (Accessed on 25 January 2025)

³ European Commission (2025) 'Trade and Economic Security: EU Trade by country / region'. Available at: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions_en (Accessed on 25 January 2025)

2. WHY ARE CURRENT TRADE INSTRUMENTS NO LONGER SUFFICIENT?

Even if a lot has been happening in the EU-Southern Neighbourhood on trade, the linchpin of EU-SNC trade relations remains the old-generation trade agreements that are part of the larger Association Agreements. It is therefore pertinent to start by focusing on them before zooming out to see the bigger picture. A good starting point is what the Commission's Ex-Post Evaluation of Trade Chapters of the Six Euro-Mediterranean Association Agreements with the EU's Southern Neighbours⁴ notes on what is lacking in these agreements. The Evaluation provides a detailed, authoritative and relatively updated account of these agreements; here only its most salient points are being restated.

Overall, the Evaluation found that the performance of the Agreements is largely in line with the objectives set for them but that not all of the objectives have been reached to the same extent. Enforcement and implementation of the agreed FTAs are key for the achievement of their objectives and for the realisation of trade benefits, but the implementation status varies from one FTA to another. The FTAs have preserved the earlier market access concessions and in some cases created new opportunities for Euro-Med trade and supported the economic performance in both the EU and the SNCs. They were also an important factor supporting intra-Med trade initiatives. They have also helped achieve the broader goals of the European Neighbourhood Policy, Association Agreements, action plans and Partnership Priorities.

Nevertheless, because of the differences in initial tariff levels and the gradual erosion of the effective Euro-Med tariff preferences, it seems that the FTAs have generated fewer and more asymmetric new market access opportunities than may have been intended at their conception. However, the goal of the agreements was, both, expanding the trade relationship and safeguarding existing market access for the SNCs to the EU, which would have been lost without the agreements. Taking this into account, the picture is more positive.

As traditional FTAs, which focus on reductions of import tariffs and have a limited coverage of non-tariff measures (NTMs), they have become less relevant for addressing current issues faced by the EU and the SNCs. Remaining competitiveness in today's global economy relies not just on low import tariffs but also other costs incurred along the whole value chain, including those implied by various NTMs. NTMs, because of their lesser transparency and potentially higher trade restrictiveness, are still a major factor constraining the realisation of gains from the Euro-Med tariff liberalisation. The traditional FTAs are also lacking when it comes to trade in services and foreign direct investment (FDI).

⁴ European Commission (2021) 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

In this context, the Evaluation identified the following challenges⁵:

- *Non-tariff measures*: As the FTAs focused on tariff reductions, many NTMs were not addressed in the agreement, while the analysis of economic impacts showed that these NTMs (such as certain technical standards and sanitary and phytosanitary measures, which are the most frequently maintained NTMs both in the EU and in the SNCs) can be more important for market access than tariffs;
- *Missing factors*: Factors relating closely to trade in goods such as trade in services and FDI have only been covered to a limited extent in the existing FTAs;
- *Limited effectiveness with which the institutional structures of the FTAs were able to address the remaining or arising concerns*: While the EU and the SNC governments meet on a bilateral basis to discuss barriers (both barriers that violate the agreement or are outside of the strict provisions of the agreement), the problems are often not easily solved;

Beyond the issues and omissions in the text of the agreements per se, the Evaluation also notes the following challenges for the trade and business environment in the region:

- *Improved access of third countries to the EU market (preference erosion)*: This has particularly been an issue in the textile and clothing sector, as some countries that are generally more competitive in the sector have also received improved access to the EU market, which undermined preferences enjoyed by the SNC exporters. This was the case with China (after the abolition of the Multi-fibre and the subsequent Textiles and Clothing agreements) and Bangladesh (through the Everything but Arms (EBA) Agreement);
- *Constraints in the business environment as a barrier to structural adjustment and trade*: Together with the large differences in economic strength and productivity between the EU and the SNCs, the significant lowering of import tariffs by the SNCs also meant that structural adjustment in the SNCs was needed to fully benefit from the agreement. However institutional development and the functioning of product and factor (labour and capital) markets in the SNCs lag behind the EU as well as other countries with comparable income per capita levels, and impede such adjustment;
- *Entrepreneurship and competitiveness*. The private sector has led the way in taking advantage of opportunities associated with the Euro-Med FTAs, which has required certain skills (ex. related to marketing and sales, networking and management skills) and attitudes (ex. risk-taking, persistence). While these aspects have not been analysed in detail in the Evaluation, the selected measures of competitiveness reviewed suggested that competitiveness has stagnated or

⁵ *ibid.* p.20

even worsened over time in some the SNCs, which is also related to the business environment discussed above;

- *Opportunities in other markets.* Several business representatives considered that the costs of entering the EU market are relatively high as a result of the EU's high standards and technical requirements (NTMs). Others pointed to the fragmented nature of the EU market (and thus relatively high costs of entering and remaining in the market) because of the differences in rules and regulations but also business culture between different Member States. In some cases, these factors made other countries (including the domestic market) relatively more attractive.

All these points raised in the Evaluation are valid. However, there is more to be said on trade more generally, partly because trade policy has developed further since its publication and become more political. Geopolitics is one such area. For example, Europe's pursuit of strategic autonomy, national security and the so-called "de-risking" from China (and to a certain extent from the US under the second Trump administration) are partly executed through trade policy. Trade policy sits right at the heart of access to critical minerals and raw materials, energy cooperation, friendshoring/nearshoring and industrial policy. These subjects all have an impact on EU-Southern Neighbourhood trade relations.

Other issues are also being intertwined with trade. A case in point would be the EU's initiatives on environmental protection. Examples include the Carbon Border Adjustment Mechanism (CBAM) and environmental legislation which entails big adjustment costs for EU firms and that can no longer just be slighted off as protectionist NTMs when they are extended to include companies exporting to the EU. More controversially, trade is also increasingly affected by issues such as human rights and migration.

In this scenario it is becoming increasingly clear that the current EU-Southern Neighbourhood trade instruments are no longer sufficient to accommodate the current and future trade needs of the region. New approaches are needed.

3. HOW CAN THESE GAPS BE ADDRESSED?

The Evaluation mainly proposed the following ways forward:

- *Addressing non-tariff measures:* To be able to take advantage of the opportunities offered by the FTAs, all parties should work on reducing trade costs related to non-tariff measures, with a focus on the most pressing NTMs (e.g., non-automatic import licences, unnotified technical regulations and making technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures as conducive to trade as possible). As NTMs can have important social effects (e.g., ensuring food safety), the focus should be on decreasing the trade-distorting nature of NTMs. The reduction of NTMs does therefore not imply reducing the protection level for consumers, workers or the environment, but rather means simpler procedures, the

use of internationally recognised standards and avoiding unnecessary duplication of conformity assessments or other administrative procedures;

- *Expanding the coverage of trade agreements:* The parties should consider expanding the trade agreements through bilateral and reciprocal trade negotiations, making the FTAs more relevant for addressing current barriers to trade, in areas such as NTMs, agriculture, services and FDI;
- *Improving the business environment:* The SNC governments should improve the business environment to enhance competitiveness. This could cover measures to reduce bureaucracy and increase transparency, but also policies to encourage foreign and domestic investment. The latter can include the upgrading of skills, increasing access to finance, and improving the environment for technology transfers, etc. The EU could support these policies, for example by providing technical assistance and promoting further economic co-operation;

These proposed ways forward are important and should definitely be pursued. Yet the question remains: how should geopolitical issues, in which trade is increasingly playing a role, be tackled? The Evaluation does not address this matter.

Here the fundamental first decision that needs to be taken concerns whether these issues should be tackled by upgrading the FTAs or the AAs they form part of – or whether smaller separate sectoral agreements would do the job better. Taking into consideration the dynamics on both sides, pursuing sectoral agreements would yield faster and more effective results. This would prevent key ambitions from getting bogged down in the inevitably complex process of upgrading the trade agreements as one whole unit. For example, pursuing this sectoral approach through ad hoc agreements would be the right way forward for tackling access to critical minerals and energy cooperation. Such as sectoral approach is already being pursued on these two topics.

For some of the geopolitical issues, improvements could also be achieved through foreign and trade diplomacy coupled with the use of advantages that the trade agreements may already offer (e.g., using trade diplomacy to encourage industrial investment in the SNCs in order to have "friendshoring", whereby the manufactured goods could also be brought tariff free into Europe under the existing trade regime).

4. ZOOMING OUT: THE BIGGER PICTURE AND THE CHALLENGES TO PURSUING THE NECESSARY UPGRADES

More than change or replacement, EU-Southern Neighbourhood trade relations need an upgrade that builds on the current instruments whilst introducing new additional instruments to tackle certain issues (for example for trade in critical minerals). How feasible is such an agenda, considering the realities on the ground and political relationships in the Mediterranean region?

The challenges are considerable and each SNC brings its own particularities. However, some challenges are common to all:

- *The EU's high level political interest in the region became lukewarm with time:* There was a lot of high-level political interest in the Southern Neighbourhood from the mid-1990s to the mid-2010s. During this period a lot was achieved. From then on, the momentum slowed down, especially when the long-term effects of the Arab Spring started being felt. It is fair to say that the EU tried to upgrade relations during this time but the SNCs were not able reciprocate much. In the meantime, the EU's attention became occupied with other issues, such as growing concerns with China's trade and investment actions, the protectionist and abrasive US trade policy actions under the first Trump administration and also Brexit. Moreover, the world was also hit by the COVID-19 pandemic and much attention needed to be focused on other issues. Throughout these moments, political interest often turned to the Mediterranean only whenever it came to irregular migration and the human tragedies that ensued from it. Today the EU's attention has shifted even further with the war in Ukraine and Russia's revanchism, the wars and mosaic of events in the Middle East that go well above trade issues and the extreme disruptive policies being pursued by the second Trump administration. That said, at lower and technical levels there was (and still is) a lot of activity going on. The EU has been slowly but surely working behind the scenes to develop its relationship with the Southern Mediterranean as much as possible, especially since 2020. Moreover, the new Commission seems to be on the track to refocus political interest in the region.
- *Weak institutions and political instability in the SNCs:* The political situation in some SNCs does not allow their administrations to undertake the work necessary to upgrade trade relations and deliver on obligations. A lot of their political capital is spent on fighting own problems rather than upgrading relations with others. At the same time, countries such as Libya, which were already difficult to engage with pre-Arab Spring, currently do not have the state apparatus to engage on trade agreements. Regionally, many SNCs are still prisoners of old conflicts that are as alive as ever. For example, Euromed meetings, whatever the agenda, have often been affected by bad blood emanating from the Israeli-Palestinian conflict.

- *The difficulty of reaching common ground that satisfies the mosaic of heterogeneous interests:* The Southern Neighbourhood is made up of many heterogeneous parts. In institutions such as the Union for the Mediterranean (UfM), which includes the 27 EU Member States and 15 Southern and Eastern Mediterranean states, the differences are even wider. Reaching an agreement requires working patiently and often going for the lowest common denominator. In resorting to all kinds of policy and legal acrobatics to satisfy all parties, the results sometimes lead to instruments that are too complicated to be used and not as strong as they should be to deliver on their purpose. An example is the transitional arrangement that was reached for the Pan-Euro-Mediterranean (PEM) convention on preferential RoOs. The solution arrived at here is not easily workable.
- *The perception in some SNCs that the EU is expecting too much, too fast:* The EU rightly wants to upgrade the regions' trade instruments to reflect the modern economy. In doing so it is pushing policies on issues such as sustainability and investment protection in its own image. Although such policies benefit both sides, the question is if the SNCs can take up such obligations in a way and at a speed that does not limit their economic development. The same concern applies to sectors such as services: more trade openness for European companies, for example, might quash some home firms in the SNC's. Similarly, there is also the view that the EU is overloading trade with many other issues that are very difficult for the SNCs to deliver on (such as human rights) and that would be better managed outside of trade agreements.
- *Populism in the EU and the perception that the EU expects too much whilst offering too little:* There is apprehension in the SNC countries that whilst the EU pushes its offensive interests, it offers too little when it comes to opening sectors where the SNCs can really benefit from trade with the EU. A case in point would be agricultural products. The SNCs are known to be competitive in agriculture and the EU remains relatively closed, partly through the application of NTMs that make it difficult for the SNCs to export to the EU. Such protectionist postures also seem exacerbated by populist tendencies in some EU Member States, which limits even more the EU's ability to offer meaningful agricultural market access.
- *The perception that the SNCs are only interested in quick wins and financial assistance without making the necessary reforms:* One other argument is that the SNCs are only interested in short-term results and obtaining as much financial assistance as possible from the EU, without committing themselves to the reforms necessary for upgrading the trade relations.

- *European financial assistance does not match ambitions⁶*: Many years after the launch of the Barcelona Process, despite the gradual construction of the Euro-Mediterranean Partnership, there is a perception that actual benefits have fallen far short of the expectations. While the construction of the Euro-Mediterranean Partnership was always gradual, some argue that European financial assistance has been skeletal and far too small for achieving the defined goals. This critique is still alive and likely to linger for a long time.
- *Players other than the EU*: Europe is no longer the only game in town for the SNCs. Saudi Arabia and the Gulf States have pushed their agenda in the region. Turkey and Russia have increased their engagement, reflecting their vision to rekindle their influence in the world. China has also invested heavily in the region and pushed its interests, similar to its projection of power in many other regions. These powers also tend to go for quick wins, putting aside long-term interests and the type of ambitions usually promoted by the EU (such as sustainability and human rights) that the SNCs often find difficult, patronising and sometimes hypocritical.

5. HOW CAN PROGRESS BE MADE?

In spite of these challenges, upgrading EU-SNC trade relations and making them fit for the present and the future economy is important. The following steps could help to take the relationship forward:

- The EU should, firstly, do the obvious and seek to upgrade the current trade instruments. In this context, the EU should unlock the negotiations for EU free trade agreements with Tunisia and Morocco and also seek a mandate to upgrade the rest of the agreements where it is politically possible for the SNC in question to engage.
- In rebuilding the trade relationship, there should be an emphasis on tackling NTMs, services and investment in new agreements. Addressing NTMs should increase trade in goods, which would benefit both sides. Better conditions for services trade would boost economic activity and release economic values outside the traditional goods sectors. Including investment would also benefit the economy and allow the EU friendshore distant trade and secure its supply chains whilst helping the SNCs to improve their economies.
- In pursuing these aims, the EU should be realistic in its outlook. First, the EU needs to consider making attractive offers to the SNCs in areas where they enjoy a competitive advantage and where they can truly reap instant benefits, such as in agricultural products. This will be politically difficult for the EU since agricultural market access is already under fire, especially in the context of the EU-Mercosur trade agreement. Moreover, the industry is facing other regulatory challenges from

⁶ Florensa, S. (2021) From the Barcelona Process to the Union for the Mediterranean – A project for a Shared Future. Available at: <https://revistaidees.cat/en/from-the-barcelona-process-to-the-union-for-the-mediterranean/> (Accessed on 25 February 2025)

the EU with initiatives that are unrelated to trade (such as those emanating from the European Green Deal). However, unless the SNCs see the potential to benefit from any upgrade in the short term, they are unlikely to support new agreements. Second, when it comes to issues such as environmental clauses, the EU should acknowledge that SNCs are a good distance away from EU ambitions. Certain issues on this subject would be better tackled at a later stage or outside of trade policy.

- The EU should continue pursuing other agreements on certain issues, separately from the framework of the current AAs and trade agreements. This will ensure focus on the relevant issue without having to deal with the complexities of negotiating various issues under a single unit. This should be the case for energy cooperation and access critical minerals.
- The EU should consider implementing the economic initiatives underlined in the Joint Communication on a Renewed Partnership with the Southern Neighbourhood and to mobilise the funds mentioned therein.
- Even though its plate is already full, the EU must put some of its focus back on the Mediterranean area. Given current geopolitical realities, it is unrealistic to expect the Mediterranean to become a top issue on the EU's agenda overnight. But a renewed focus is definitely necessary. The EU's attention and good work at a technical level should continue and increase if possible. In the meantime, a new EU legislature, the appointment of a Commissioner for the Mediterranean, and the new Directorate-General for the Middle East, North Africa and the Gulf (DG MENA) are an opportunity to bring the necessary political focus on EU-Southern Neighbourhood trade relations. The ambitions listed in the mission letter for the Commissioner⁷, which include working towards a New Pact for the Mediterranean and to scale up and deepen trade and investment with Mediterranean, are encouraging.

In conclusion, the prospects of the future EU-Southern Neighbourhood trade relations are mixed. These trade relations need an upgrade. Working towards this aim will be challenging but not impossible if there is the necessary political will on both sides. Both sides should realise that the price of not doing anything might be higher than the effort that is required to bring their trade instruments up to the standards needed.

⁷ European Commission (2025) 'Dubravka Šuica – Mission letter'. Available at: https://commission.europa.eu/document/24039223-f92e-40a0-a440-a27d9715051a_en (Accessed on 01 March 2025)