

THE BENEFITS AND THE DRAWBACKS OF THE EU – ALGERIA ASSOCIATION AGREEMENT

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Abstract. *On September 1, 2005, the Agreement of Association between Algeria and the European Union came into force. This agreement is part of the Euro-Mediterranean Partnership, also known as Barcelona Process, launched by the EU in November 1995 and aimed, in the economic aspect, the creation of a free trade area in the Mediterranean. The implementation of this agreement, signed in Valencia (Spain) in April 2002, is the first step for Algeria towards a wide and varied program of restructurings to integrate the European market. Except that, the achievement of this objective has a significant financial cost, which will weigh on the general macroeconomic balances, following the lifting of tariffs, on one side, and the weakness of the services responsible for tax collection, on the other hand. Algeria may, against part of its commitment to this program, be eligible for the aid offered by the European part under the provisions of this agreement and other windfalls arising from the restructuring of financial institutions responsible for tax collection. Indeed, the MEDA program, the acronym of "adjustment measures", which is a financial instrument for the implementation of the Euro-Mediterranean partnership, and through which the EU is supposed to provide financial and technical assistance to the Mediterranean partners, including Algeria, to allow them to achieve the objectives of the Barcelona declaration in these three areas: political, economic and social. Thus, the new program (MEDA) replaces the bilateral financial protocols that previously existed with the countries of the Mediterranean Basin and encourages the EU partners for the establishment of an economic environment, favorable to the requirements of the transition in these countries. Certainly, the EU remains the main partner in trade of Algeria. Thus, the situation is rather mixed since the implementation of the Association Agreement has no impact on the level and diversification of Algerian non-hydrocarbon exports to the EU countries, because Algeria wanted, through the implementation of the Association agreement, to achieve a diversification of the Algerian economy to allow the development of non-oil exports. The results being below the expectations of Algeria, informal consultations for the revision of tariff dismantling took place between the both parts. The purpose of these consultations is to postpone the deadline for the implementation of the free trade area in 2020 instead of 2017 and to provide the recovery of customs duties, according to the provisions planned by the agreement of association for a list of sensitive products.*

Keywords: *Algeria; EU; Association Agreement; Free Trade Zone; MEDA.*

Introduction

During the nineties, Algeria has adopted a strategy of economic restructuring which aimed to establish an open market economy to the outside world. For this purpose, for trade liberalization and with the prospect of a consolidation of its place in the world economic scene, Algeria has joined to Euro-Mediterranean process of association which resulted in the signing of an agreement with the European Union on 22 April 2002 and which won the approval of the Algerian parliament in March 2005, which finally entered into force on 1 September 2005.

This agreement stipulated the gradual cancellation of customs duties for a transitional period of twelve years and which would allow, by the year 2017, the emergence of a free trade zone between Algeria and the European Union. On the other hand of this lifting of tariffs, the European Union should provide financial and technical support for the upgrade of the Algerian economy, so that it becomes competitive, and to limit the losses due to the implementation of these measures of liberalization of the Algerian market.

For Europe this agreement comes after a series of projects, it makes sense constituted an instrument for the realization of the great Mediterranean project launched by "the Barcelona Declaration in 1995" which aims to stabilize the Mediterranean region by the spread of democracy which can't be done without economic openness.

Only by coming to the brink of bankruptcy in the mid-90s that the country resolves some initiatives such as opening the national capital, the attraction of foreign capital, WTO membership or signing of Association agreements with the EU. From all of these goals, only the one with the EU association agreements could be completed in 2002; As for the other, we could speak of failure, so far when Algeria is not yet a WTO member, the domestic private investment remains far short of what is expected, the country attracts little FDI and this focus particularly in the oil sector. And this is how the simple result of the Agreement is the tree that hides the forest; its benefits are oversized and minimized its drawbacks. The agreement would be a new path that opens before the country and provides solutions to its many problems.

"Before reviewing the advantages and the inconveniences of this Algerian-European agreement and the challenge of the Algerian economy to maximize profits and suffer the fewest constraints on the occasion of the application of the measures of this agreement, it is advisable to review the process of conclusion of the agreement of association concluded between Algeria and the EU, and the conditions surrounding the negotiations between the two parties" (Strategica, 2005, p.6).

After over ten years of the entry into force of the Association Agreement between Algeria and the EU, could we estimate its contribution to the objectives? How much is it better cooperation, reconciliation, and understanding between Algeria and the European Union? Is it in the hopes of living in better conditions? Will he be able to achieve good ambitions of the northern countries and reduce the prosperity gap between the two parts of the world?

Algerian - European cooperation

El Arabi (1990) said that during the emergence of the European Community, Algeria has benefited from a series of customs advantages comparable to those granted by the Rome Convention, in consideration of its status of the full member, being colonized by France. After the independence of Algeria in July 1962, the European Community has maintained these benefits granted prior to Algeria.

Mahjoub (1994) shows that Algeria, in the sixties, has not signed an association agreement with the European Community as was the case with Morocco and Tunisia. In April 1976, Algeria signed a cooperation agreement as part of the overall Euro-Mediterranean policy that was not limited by time and included the commercial, financial and social as well as technical cooperation. The objective of this agreement was the upgrade of Algerian products to enter the European market and the development of trade within the European Community and the promotion of trade between the two parties.

Alaoui (1994) demonstrated that this agreement also allowed Algeria to gain benefits similar to those granted to certain Mediterranean countries including those of the Arab Maghreb. The trade cooperation between Algeria and the European Community has not had the expected results view that trade has focused on industrialized products represented only 2% of Algerian exports as we shown in the table below.

Table 1. The Algerian exports (1976-1987) in % (Algerian Office of Statistics, 1999, p.101)

Exports	1976	1980	1984	1988
Food	2.7	0.8	0.4	0.4
Industrial products	2.1	0.9	1.9	3.2
Hydrocarbons	95	98.2	97.7	94.5
Machinery and production equipment	/	0.01	0.01	1.3
Transport equipment and spare parts	0.05	/	/	0.3
Consumer products	0.1	0.04	0.02	0.2
Totals	100	100	100	100

Regarding the financial support granted to Algeria from 1976 to 1996, their amount reached 850 million ECU (European Currency Unit), whose value is calculated based on a basket of currencies of the Member States of the European Economic Community (EEC) whose composition reflects the share of each country in the production and intra-community trade) and only 40% of this amount has been paid during this period.

The process of Euro-Mediterranean cooperation

The concept of Euro-Mediterranean cooperation was a new plea which aimed the development of the whole region and which was approached for the first time during the Barcelona Declaration in November 1995 and in conventions of integration which connected the European Union with each country of the Mediterranean. For that purpose, this new form of cooperation came to correct inadequacies noticed in cooperation policies adopted during the seventies and eighties. Several factors have helped in the development of this new approach from which we can quote in particular:

International factors: El Majdoub (2000) said that the world knew, at that time, a vision which tended towards the creation of large regional and international economic and trading blocs to explore new markets at the end of the Cold War and the emergence of new world order after the fall of the Communist bloc.

European factors: European Commission (1997) affirmed that the European Economic Community met, in the late eighties, major challenges which consisted in adapting themselves to the new situations of these economic relations with the rest of the world and which required the modernization of the European Union through the extension to other countries of the European continent. This new vision has been clearly adopted at the convention of Maastricht in 1991.

Factors related to the southern countries: the Southern Mediterranean countries have undergone, during the nineties, a large depreciation in the rate of development and there was a big difference between incomes in these countries, compared to those European countries where an imbalance in trade and investment flows. This has led some plagues in the Mediterranean region such as illegal immigration and the emergence of conflicts of interest in the southern Mediterranean countries, which prompted the European Union to find solutions to restore stability in the region through association agreements which ultimately will bring balance to the countries of the south and north of the Mediterranean. For that purpose and according to the Barcelona Declaration (1995), the Euro-Mediterranean cooperation process was devoted to three areas:

The political and security field: the Euro-Mediterranean countries are expected to respect the principles of democracy and human rights, as well as the fundamental rights quoted in the United Nations Charter and to fight against terrorism in all its forms.

The economic and financial field: which aims eventually to create a flourishing and prosperity region by improving the living conditions of the people and reduce the disparities in economic development by progressively establishing a free trade area.

The social, cultural and human field: it is aimed at developing human resources and promoting dialogue between cultures as well as a close collaboration between the components of civil society.

Algeria and Euro-Mediterranean cooperation

Algeria has agreed since 1993 to establish a Euro-Mediterranean cooperation even before the ratification of the Barcelona Declaration in November 1995. On September 1, 2005, the Association Agreement between Algeria and the European Union entered into force putting out the provisions of the Barcelona process which consisted in promoting partnerships, trade, solidarity and development in the Euro-Mediterranean zone. This association agreement represented for Algeria an opportunity for the economic, financial and technical cooperation and the development of the relations with its European partners as shown below in the illustrative tables of external trade of Algeria.

For the European Union, the agreement represented a part of the overall strategy to strengthen the relations of the European Union with its neighbors in the Southern Mediterranean in order to create a free trade area.

Table 2. The Algerian exports by region (1992-1998) in % (NSO - Algiers, November 1999, p.11)

Economic zones	1992	1993	1994	1995	1996	1997	1998
European Union	72.8	68.9	69.7	64.9	60.0	63.5	63.9
North America	14.2	17.5	17.9	19.0	19.0	19.4	19.10
Other European Countries	5.0	3.6	4.5	8.0	11.4	7.0	7.15
Asia	2.1	1.7	2.8	2.3	1.9	1.5	0.93
Arab Maghreb Union	2.3	2.9	2.2	2.7	2.0	2.1	1.25
Latin America	3.5	5.1	2.6	2.8	5.5	6.3	7.38
Arab countries	00	0.2	0.1	0.2	0.1	0.1	0.23
Africa	0.1	0.1	0.2	0.2	0.1	0.1	0.05
Rest of the world	00	00	00	00	00	00	00
Total	100	100	100	100	100	100	100

Table 3. Algerian imports by region (1992-1998) in % (NSO - Algiers, November 1999, p.8)

Economic zones	1992	1993	1994	1995	1996	1997	1998
European Union	63.3	58.3	55.9	59.3	62.5	56.7	57.4
North America	13.1	17.7	18.3	17.3	14.1	16.2	16.1
Other European countries	7.7	6.7	9.5	6.7	6.9	9.4	9.9
Asia	8.6	10.2	8.6	8.7	8.1	9.2	8.9
Arab Maghreb Union	2.6	2.4	2.7	1.8	1.4	0.3	0.3
Latin America	2.1	1.8	2.3	3.4	3.9	2.2	2.0
Arab countries	1.2	0.9	1.3	1.2	1.4	3.9	2.8
Africa	0.3	0.5	0.5	0.4	0.8	0.7	0.8
Rest of the world	1.1	1.5	0.9	1.0	0.8	0.7	0.8
Total	100	100	100	100	100	100	100

The effects of the Algeria-EU Association Agreement

The coming into force of the Association Agreement between Algeria and the European Union should allow freer trade and greater cooperation between the two parties which would lead to a gradual entry of the Algerian economy within the global economy. This agreement also stipulates the adoption of a restructuring and upgrading program of Algerian companies to face competition from European companies and that, in order to minimize to the maximum the negative effects of the lifting of tariffs. At that time, the Association Agreement was closely followed by Algerians who were awaiting the results of the abolition of tariffs. They expected that European products were going to invade the country to the detriment of local products and the Algerian companies for which foresaw an uncertain future.

Regarding industrial products, the Association Agreement plans the dismantling of the customs duties and related to it, in three stages to arrive in 2017 at a total lifting of

such rights. The first step is to eliminate 2076 unnecessary tariff lines on a product list subject to customs taxes between 5 and 15%. These products are raw materials, raw products and materials not produced locally which are intended for industrial production in the field of chemical industry, textile industry, metallurgy and building materials.

The second step consists in removing 1,100 tariff lines over a period of 5 years from the third year of the coming into force of the Association Agreement. The concerned products are the property of industrial and agricultural equipment including pharmaceuticals, mechanical equipment, electronic and electrical equipment, rail transportation equipment, automobile and spare parts and devices and measuring control instruments.

The third stage which spreads out over 10 years, from the third year of the coming into force of the Association Agreement, will see the total elimination of tariffs in 2017, in the case of the finished products, or 1964 tariff lines. This schedule is not final because it may, at any time, be subject to a review in the case of difficulties encountered by Algeria, and exceptional measures of limited duration can be applied to infant industries, or to some sectors in the course of restructuring.

Regarding agricultural products, the Association Agreement provides an extension of the concessions to new agricultural products and processed products, as well as fisheries products and in a period of five years, and after that period, Algeria and the EU will agree on another liberalization step. Products listed below receive one of the following concessions:

- A customs duty -free access.
- Access with partial reduction of customs duties.
- A free access to tariffs with reference to tariff quotas.
- Access with customs duty exemption but with a specific right for processed agricultural products.

Some seasonal agricultural products are submitted to timetables and exemptions concern only the party of ad valorem customs duties and not the specific rights. Moreover, Article 17 of the third chapter (paragraph 4) provides that Algeria eliminates, at the latest on January 1, 2006, the temporary additional right applied to a list of 108 products listed in Annex 4 of agreement's association.

The positive effects of the Association Agreement

It is difficult to make a statement of the positive consequences of the Algeria-EU Association Agreement since we cannot measure that in the long term. Also, they are related to the contributions of foreign investments in the Algerian economy and efficiency of the Algerian economic policy, but they include some of the benefits:

- The fulfillment of economic reforms agreed between Algeria and the European Union in the field of upgrading Algerian companies that will benefit from technical and financial assistance offered by the European partner.
- The competitiveness of Algerian products with regard to the European product, which will push the Algerian investors to improve the quality of their products in order to market it in the European space.

- The general equilibrium models of the Euro-Mediterranean countries show that the direct negative effects of the creation of a free trade area remain minimal and the positive effects remain very encouraging in the case of multilateral liberalization on both sides.
- The end of the marginalization of the Algerian economy, because since its membership in the Euro-Mediterranean space establishes an opportunity for the emergence of its economy into the world economy.

The negative effects of the Association Agreement

There were spontaneous and direct negative effects resulting from the Algeria-EU Association Agreement, such as:

- The removal of tariffs will cause a great pressure on the macroeconomic balances that will be directly affected as a result of falling customs revenues, which constitutes a large part of the fiscal resources of Algeria. The fiscal resources represent 2.2 % of gross domestic product (GDP) and 19.2 % of total tax revenue except for hydrocarbons as shown in the following table.

Table 4. The fiscal resources of the countries of the southern Mediterranean from trade with the European Union (on average between 1994 and 1996) (Leveau, 2000, p.89)

Country	Taxes on imports		The EU share in total resources	Taxes on imports from the EU	
	of total tax revenue in%	f GDP in %	in %	of total tax revenue in%	f GDP in %
Algeria	30.0	3.5	64.1	19.2	2.2
Egypt	19.7	3.4	39.8	7.9	1.3
Israel	1.3	0.4	52.4	0.7	0.2
Jordan	34.6	5.8	35.0	12.1	2.0
Lebanon	59.3	6.8	48.6	28.8	3.3
Libya	-	-	67.3	-	-
Morocco	17.6	4.3	58.8	10.3	2.5
Syria	21.8	2.4	33.1	7.2	0.8
Tunisia	22.2	4.5	71.5	15.9	3.2

- A reduction of revenues arising from the taxable trade of the non-European partners towards the European partners not submitted to tariffs.
- A reduction of revenues due to substitution by the Algerian consumer's local product with a product imported from the European Union at low prices, which will cause a decrease in activity of the Algerian companies and consequently a reduction of the tax revenues of Algeria.
- The financial support provided by the European Union is not at the same level of the sacrifices made by Algeria to benefit from upgrades of companies within the framework of technology transfer, and moreover, the assistants are often dependent on political and strategic criteria, then economic, as shown in the table below.

Table 5. The distribution of financial support within the MEDA program (Euro/person) (Leveau, 2000, p.54)

Country	Meda (1996-1999) in %	Populations in 1998, in millions	Euro/person
Algeria	6%	30.0	5.0

Egypt	24%	61.4	11.0
Palestinian authority	3%	2.3	36.0
Jordan	9%	4.6	54.0
Lebanon	6%	4.2	43.0
Turkey	13%	63.5	6.0
Morocco	22%	27.8	23.0
Syria	3%	15.3	6.0
Tunisia	14%	9.4	43.0

Conclusion

In a comprehensive and inclusive global economy which tends to grow exponentially, the Association Agreement between Algeria and the European Union, within the framework of the Barcelona process, is not an end in itself, but it is a way for the liberalization of the Algerian market and for its integration into the global economy. This integration clearly has positive and negative effects and the Algerian government and all Algerian economic operators need to meet this challenge and ensure that the benefits are greater than the negative effects due to the application of the provisions of this agreement.

The success of this association agreement is not only dependent on the European Union's efforts but it also arouses a lot of effort on behalf of the Algerian economic actors to achieve a series of deep restructurings in the traditional economy and this goal can only be achieved, if certain changes are adopted as:

- The adoption of reorganization measures of economic, social and institutional policies in order to attract more direct foreign investment in the Algerian economy and the increase of national development rate.
- Reducing the negative effects of the measures contained in the Association Agreement due to the lifting of tariffs on goods and services from the European Union with new measures meant to cover its fiscal losses.

It is necessary to intend to separate from uncompetitive companies with European companies and even reduce the activity of other companies, while waiting for their upgrade, but without sacrificing the entire local economy in order to avoid that Algeria becomes a market for European products. Streamlining and optimizing the use of European financial support to mitigate the effects concerning the coming into force of the Association Agreement despite their low amounts.

In turn, the European Union should invest further by increasing the financial support and accelerating the transfer of know-how and the transfer of technology required for the upgrade of Algerian companies. And finally, the Algerian companies necessity for support, by the Algerian government through the consolidation of basic infrastructure (roads, highways, dams, transportation, port, training, etc.) and in other financial and technical areas necessary for the development of enterprises, to make them more competitive with their European peers.

In 2012, Algeria presented the legal and economic arguments to convince its European partners on the credibility of a request focused on the identification of 1058 products considered sensitive from the economic point of view, before starting consultations

with the European side, under the legal provisions of the Association Agreement. Pursuant to these discussions, Algeria has obtained the adjournment of the free trade area with a sliding from 2017 till 2020, and as a consequence, a gain in terms of tariff protection with regard to products considered sensitive.

The economic operators, in particular, those activating in the agricultural and industrial sectors, will have more time to prepare for the complete lifting of tariffs through upgrade programs drawn up simultaneously by Algeria and the European Union.

From another point of view and following the dramatic fall of oil prices, Algeria decided, in early 2016, to suspend its agreements with the European Union, to strengthen its tax revenue shaken by a significant decline in hydrocarbons revenue. Indeed, the Algerian government has suspended free trade agreements with the European Union (EU) and the Arab Zone (Zale). It is a statement of the Prime Minister of Algeria, Abdelmalek Sellal, which on February 14, 2016, ended the exemption of imported goods from the European Union, the customs duties, and that may be the beginning of a new episode of negotiations between Algeria and the European Union.

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