THE EU'S NEIGHBOURHOOD TRADE ARRANGEMENTS

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Abstract: *The elusive outcome of the Doha Round has increased the importance of the preferential trade agreements worldwide. Currently, the EU`s trade policy is driven by preferential negotiations. European bilateralism is important and extremely challenging. This union aims to conclude a significant number of deep and comprehensive free trade agreements, particularly by eliminating tariffs, and also by facilitating the trade of services, investments, procurement and regulatory matters. The EU has granted unilateral preferences to developing countries through tariff free access to the EU market, thereby helping them to eradicate poverty and promote sustainable development. Based on the primary motives of Europe's preferential trade agreements, we have analysed the trade agreements negotiated with geographically close neighbours to which the EU is prepared to offer commercial accession or some slightly less ambitious type of relationship.*

Keywords: FTA; exports; imports; neighbourhood trade areas; SITC section
JEL Classification: F13; F15

Introduction

The World Trade Organisation (WTO) is an international institution designed to help global trade liberalisation. It offers an institutional forum under the framework of which governments can negotiate trade agreements and settle trade disputes through a system of trade ru les. As the most important actor in international trade, the EU supports the work of the WTO decision-making process regarding multilateral trade liberalisation and sustainable development. The active involvement of the EU in multilateral trade means more products for sale at competitive prices, more growth and more jobs. Unfortunately, the Doha negotiations have advanced slowly. Currently, the European Union has turned its attention to the negotiation and conclusion of bilateral trade agreements, outside the WTO. This does not weaken the EU's commitment to the WTO. European bilateralism is important and extremely challenging. These new trade agreements go beyond import tariffs as their importance has diminished. They deal with regulatory barriers for goods, services and investment, intellectual property rights, public procurement, protection of innovation, sustainable development and other important issues.

These preferential trade agreements are negotiated by taking into consideration all essential aspects (geographical, economical etc.) in order to conclude a fair trade liberalisation that will benefit all parties. The present paper deals mainly with the eastern and Mediterranean commercial

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cooperation of the European Union. The EU has negotiated trade agreements with seventeen countries and territories, and with most of them it has already concluded Association Agreements. The main purpose of these agreements is to take a step forward towards a closer integration of the EU`s geographical neighbours into the EU`s single market.

1. The Eastern Commercial Cooperation of the EU

In the following, we have chosen to present the EU’s achievement on neighbourhood trade cooperation. The analysed countries are part of the European Neighbourhood Instrument (which replaced European Neighbourhood and Partnership Instrument). It is one of EuropeAid’s geographical instruments and the financial arm of the European Neighbourhood Policy (ENP) (European Commission, 2006).

The map below gives a geographical view of the research on which this present paper is based. Thus, the legend of this map is:

- *light green colour:* the EU;
- *dark green colour:* Partners under the European Neighbourhood Policy, covering the European Neighbourhood and Partnership Instrument (ENPI) until 2013 and the European Neighbourhood Instrument (ENI) as of 2014 on (including the Russian Federation) and others.

Figure 1 – EU cooperation with its neighbours

Source: EU Neighbourhood Info Centre (2014) “ENP Map”, available at: http://enpi-info.eu/medportal/publications//682/ENP-Map

The ENI countries and territories represent the east and south customs area of the EU region, namely: Belarus, Ukraine, Moldova, Russian Federation, Georgia, Armenia, Azerbaijan, Syria, Tunisia, Israel, Occupied Palestinian Territory, Jordan, Egypt, Libya, Algeria, Morocco, and Lebanon. These are seen by the European Union as strategic and important partners for the economic and commercial development abroad.

The EU is the most important trading partner for countries from its eastern side. It accounts for more than a third of Ukrainian trade (it is also its main source of Foreign Direct Investment), and for around 50% of Moldova's trade (being the biggest trade partner for this country). The European Union is also the main trade partner for Georgia, Armenia, and Azerbaijan, and the second main trade partner for Belarus (with almost a one third share in the country's overall trade). The Russian Federation responds for almost half of Belarus' international trade and it is the third trading partner for the European Union. The 2008 economic crisis and unilateral measures adopted by Russia slowed down trade cooperation between these two regions. As the EU is the first trading partner for Russia, Russia has been more affected by the crisis (European Commission, 2015a).

The European Union has concluded or is negotiating different types of trade agreements with these seven countries that are based on economic and trade interests of both parties to each free trade agreement. In the section that follows, we'll present the main objectives of these trade agreements, and also the current situation of EU Trade with the countries at its eastern side. Generally, the purpose of a Free Trade Agreement (FTA) is to open markets for goods and services, to make trade faster and cheaper, and to increase investment opportunities.

Table 1 – EU Trade Flows with the Eastern Area by AMA/NAMA product Groups, annual data 2014 (Millions Euros)

Country	*Imports*	*Exports*	*Commercial Balance*
Belarus	3,429	7,464	4,035
Ukraine	13,761	17,143	3,382
Moldova	1,159	2,354	1,195
Russia	181,844	103,296	-78,548
Georgia	657	1,912	1,255
Armenia	276	714	438
Azerbaijan	13,159	3,482	-9,677

Source: Own processing based on the European Commission Statistical Database

In 2014, the EU signed **Association Agreements** with Moldova and Georgia. Both Agreements introduce a preferential trade regime (Deep and Comprehensive Free Trade Area – DCFTA). This type of trade cooperation is important for the EU as we can see in the above table (Table 1). In 2014, the imports with Moldova accounted for 1,159 million euros. According to the Standard International

Trade Classification (SITC) section, 28.8% of the EU imports from Moldova were represented by miscellaneous manufactured articles, 19.4% by food and live animals, 17.8% by manufactured goods classified chiefly by material, and 17.3% by machinery and transport equipment. The EU exports to Moldova accounted for 2,354 million euros with a balance surplus of 1,195 million euros. According to the SITC section, 29.8% of the EU exports to Moldova were represented by machinery and transport equipment, 19.7% by mineral fuels, lubricants and related materials, and 17.8% by manufactured goods classified chiefly by material.

The EU trade balance with Georgia accounted for 1,255 million euros. The imports from Georgia of 657 million euros were represented by mineral fuels, lubricants and related materials (32.6%), by crude materials, inedible, except fuels (20.2%), and by food and live animals (18%). The value of EU exports to Georgia was 1,912 million euros. These include 27.2% of machinery and transport equipment, 25.5% of mineral fuels, lubricants and related materials, and 15.6% of chemicals and related products (European Commission, 2015b).

Under DCFTA, between the EU and, separately, Moldova and Georgia, a new preferential trade regime was agreed upon based on the World Trade Organisation's principles. It was a step forward towards a closer integration for these countries. It removes import duties for most goods and provides for broad mutual access to trade in services. It allows EU companies and companies from Moldova and Georgia to benefit from the same treatment as domestic companies in the partner's market. One of the important aims of the DCFTA is to attract foreign investment into the economies of Moldova and Georgia.

The international trade of the EU with other three countries (namely, Azerbaijan – since 1999; Armenia – since 1999; and Russia – since 1997) is currently regulated by the **Partnership and Cooperation Agreements**. The EU is currently negotiating Association Agreements with Azerbaijan and Armenia in order to maximise bilateral cooperation. But with Armenia the implementation of the Association Agreement was suspended in September 2013 due to Armenia's commitments to negotiate its membership in the Customs Union of Russia, Belarus and Kazakhstan, as negotiations on both agreements are incompatible. The Partnership and Cooperation Agreement between parties envisages only quantitative restrictions in bilateral trade (European Commission, 2015a).

With Azerbaijan the trade and economic cooperation is wanted to be based on WTO rules. At the present time, only the EU is a member of the WTO, Azerbaijan applied for membership to the WTO in 1997 and the process is ongoing.

In 2014, the EU trade balance with Azerbaijan recorded a deficit of 9,677 million euros. EU imports from this country accounted for 13,159 million euros and covered 98.8% represented mineral fuels, lubricants and related materials. EU exports to Azerbaijan accounted for 3,482 million euros. According to the SITC section, 41.1% of these were represented by machinery and transport equipment, 15.9% by manufactured goods classified chiefly by material, 14.2% by miscellaneous manufactured articles. However, EU trade with Armenia recorded a surplus of 438 million euros in 2014. The imports worth of 276 million euros were represented by manufactured goods classified chiefly by material (48.1%), crude materials, inedible, except fuels (16.1%), and miscellaneous manufactured articles (14.7%). The EU exports to Armenia accounted for 714 million euros and were dominated by machinery and transport equipment (25.5%), manufactured goods classified chiefly by material (19.3%), and miscellaneous manufactured articles (17.6%) (European Commission, 2015b).

The most important trade partner for the EU with which cooperation is established through a Partnership and Cooperation Agreement is the Russian Federation. They have a strong trade relationship. The bilateral trade and investments continue to grow rapidly. The new EU-Russia Agreement (currently under negotiation) should provide a comprehensive framework for bilateral relations with stable, predictable and balanced rules for bilateral trade and investment relations. However, the EU trade balance recorded a deficit of 78,548 million euros in 2014. EU imports from Russia accounted for 181,544 million euros and were dominated by mineral fuels, lubricants and related materials with a percentage (74.9%). EU exports to Russia accounted for 103,296 million euro. According to the SITC section, 45.9% were represented by machinery and transport equipment, 18.5% by chemicals and related products, and 13% by miscellaneous manufactured articles (European Commission, 2015b).

Today, having in mind the Customs Union between Russia, Kazakhstan and Belarus and the difficulties for Russia to fulfil its WTO commitments, it is not clear how further progress can be achieved in the Trade and Investment field and with regards to the New Agreement in general. Unfortunately, Russia introduced new protectionist measures at a time when a liberalisation of the trade regime would have been expected in order to protect certain of its sectors. Thus, it is important for the European Union to be aware of the benefits of Russia's accession to the WTO.

The bilateral trade and economic relations between the EU and Belarus are established only through the **Trade and Cooperation Agreement** (which was concluded between the European Community and the Soviet Union in 1989 and subsequently endorsed by Belarus). In 2007, the EU withdrew its trade preferences to Belarus under the Generalized Scheme of Preferences and also introduced an Outward Processing Trade regime for Belarus. In 2014, the EU-Belarus trade accounted for 4,035 million euros. The EU imports from Belarus of 3,429 million euros have assumed 33.3% of mineral fuels, lubricants and related materials, 24.4% of manufactured goods classified chiefly by material, 16.5% of chemicals and related products, and 11.9% of crude materials, inedible, except fuels. The EU exports to Belarus accounted for 7,464 million euros. These were represented by sections of machinery and transport equipment (44.3%), chemicals and related products (18.5%), and manufactured goods classified chiefly by material (13.7%) (European Commission, 2015b).

In 2014, the EU negotiated with Ukraine a **Deep and Comprehensive Free Trade Agreement** as part of their broader Association Agreement. In Table 1 we can see that the trade between the EU and this country is productive for EU, accounting for a surplus of 3,382 million euros. EU imports from Ukraine amount to 13,761 million euros were representing manufactured goods classified chiefly by material (27.9%), crude materials, inedible, except fuels (18.9%), food and live animals (18.1%) and machinery and transport equipment (10.3%). EU exports to Ukraine amounting to 17,143 million euros represented sections such as machinery and transport equipment 28.8%, chemicals and related products 21.5%, manufactured goods classified chiefly by material 15.2%, mineral fuels, lubricants and related materials 11.7% (European Commission, 2015b).

In the framework of the DCFTA, Ukraine has committed itself to harmonizing a large number of rules, norms and standards in a number of trade-related areas with those of the EU. In September 2014, to avoid further destabilisation of the country, and in particular to guarantee Ukraine's access to the CIS market under the Ukraine-Russia bilateral preferential regime, the EU postponed implementing the DCFTA until January 2016.

2. The Mediterranean Commercial Cooperation of the EU

The EU is an important trading partner for countries from the South side. The trade with this region is based on strategic products and services.

The EU is Morocco's first trading partner with who it launched negotiations for a **Deep and Comprehensive Free Trade Area** (DCFTA) in 2013. This DCFTA is away in order to negotiate an Association Agreement that will bring Moroccan legislation closer to EU legislation in trade-related areas. In 2014, EU imports from Morocco accounted for 11,012 million euros (see Table 2 below). According to the SITC section, 34.8% of these were represented by machinery and transport equipment, 26.1% by miscellaneous manufactured articles, 20.4% by food and live animals. EU exports to this country accounted for 18,224 million euros and were dominated by sections as machinery and transport equipment (33.5%) and manufactured goods classified chiefly by material (21.7%) (European Commission, 2015b).

The European Union is Algeria's largest trading partner. They concluded an **Association Agreement** in 2005. This agreement sets out a framework for the EU-Algeria relationship in all areas including trade. Algeria is an important EU trading partner in the Mediterranean region and a member of the Euro-Mediterranean Partnership (Euromed). In 2012, Algeria signed the regional Convention on preferential rules of origin for the Pan-Euro-Mediterranean area, which will replace the current network of bilateral protocols by generating new opportunities for economic operators (European Commission, 2015a). In 2014, the EU-Algeria trade balance recorded a deficit of 6,014 million euros. EU imports of 29,392 million euros were covered 96.7% by mineral fuels, lubricants and related materials. EU exports to Algeria accounted for 23,378 million euros. These were represented by machinery and transport equipment of 37.2%, manufactured goods classified chiefly by material of 20.1%, and food and live animals of 13.2 % (European Commission, 2015b).

Table 2 – EU Trade Flows with Mediterranean Area by AMA/NAMA product Groups, annual data 2014 (Millions Euros)

Country	*Imports*	*Exports*	*Commercial Balance*
Syria	89	687	598
Tunisia	9,354	10,987	1,633
Occupied Palestinian Territory	14	140	126
Egypt	8,567	16,950	8,383
Libya	12,478	5,316	-7,162
Algeria	29,392	23,378	-6,014
Morocco	11,012	18,224	7,212
Israel	13,071	16,982	3,911
Jordan	330	3,687	3,357
Lebanon	328	6,551	6,223

Source: Own processing based on the European Commission Statistical Database

In 1995, Tunisia signed an **Association Agreement** with the EU. In 2011, the EU started negotiations for Deep and Comprehensive Free Trade Agreements with Tunisia. This DCFTA will extend beyond the aim of the existing Association Agreement and it could lead to a gradual integration of Tunisia's economy into the EU single market. In 2014, EU imports from Tunisia accounted for 9,354 million euros. According to the SITC section, 37.9% of these were represented by machinery and transport equipment, 33.4% by miscellaneous manufactured articles, 13.5% by mineral fuels, lubricants and related materials. EU exports to Tunisia of 10,987 million euros were covered by sections as machinery and transport equipment (34.9%), manufactured goods classified chiefly by material (22.7%), and mineral fuels, lubricants and related materials (14.1%) (European Commission, 2015b).

With Libya the EU started negotiations for a **Framework Agreement** in 2008. However, following the 2011 events in Libya, negotiations were suspended. Libya is the only Mediterranean country (with the exception of Syria) that has not yet concluded a Free Trade Agreement with the EU. Libya is not a WTO member. In 2014, the EU-Libya trade balance recorded a deficit of 7,162 million euros. EU imports from this country accounted for 12,478 million euros and were dominated by mineral fuels, lubricants and related materials with a percentage (98.4%). EU exports to Libya amounting to 5,316 million euros were represented by mineral fuels, lubricants and related materials (29.4%), machinery and transport equipment (24.3%), and food and live animals (19.6%).

The EU-Egypt **Association Agreement** establishes a free-trade area with the elimination of tariffs on industrial products and significant concessions on agricultural products. In 2013, the EU and Egypt began an exploratory dialogue on a Deep and Comprehensive Free Trade Agreement (DCFTA) in order to improve market access opportunities. In 2014, EU imports from this country amounting to 8,567 million euros covered sections such as mineral fuels, lubricants and related materials (48.9%), manufactured goods classified chiefly by material (13.7%), and chemicals and related products (13.5%). EU exports to Egypt accounted for 16,950 million euros. These were represented by machinery and transport equipment (33.1%), chemicals and related products (17.8%), and manufactured goods classified chiefly by material (11.4 %) (European Commission, 2015b).

In 2002, the EU-Jordan **Association Agreement** entered into force. It establishes a Free Trade Area between the EU and Jordan over 12 years. In 2011, the EU started negotiations for Deep and Comprehensive Free Trade Agreements with Jordan. The DCFTA would extend significantly beyond the scope of the existing Association Agreement and could lead to a gradual integration of Jordan's economy into the EU single market. In 2014, EU imports from Jordan accounted for 330 million euros. These were dominated by chemicals and related products (38.3%), machinery and transport equipment (19.9%). EU exports to Jordan amounting to 3,687 million euros covered sections such as machinery and transport equipment (32.4%), chemicals and related products (16%) and food and live animals (15%).

Bilateral EU-Syria relations are governed by the **Cooperation Agreement** signed in 1977. Syria and the EU have negotiated an Association Agreement. However, the signature of the Association Agreement between the EU and Syria has been put on hold by the EU due to the internal situation in Syria. The ongoing internal repression in Syria has also led to restrictive measures by the EU and has had a significant impact on bilateral trade. In 2014, EU imports from this country accounted for only 89 million euros (dominated by crude materials, inedible, except fuels sector – 51%), and EU exports to Syria accounted for 387 million euros. The exports were represented by machinery and transport equipment (27%), food and live animals (25.8%), chemicals and related products (20%) (European Commission, 2015b).

Bilateral trade between the EU and Lebanon has been increasing steadily over the past years. The EU-Lebanon **Association Agreement** entered into force in 2006. It has progressively liberalised trade in goods between the EU and Lebanon. Lebanon already has a Free Trade Agreement with the EU. In 2014, EU imports from Lebanon accounted for 328 million euros and covered sections such as crude materials, inedible, except fuels (22.8%), miscellaneous manufactured articles (16.2%), manufactured goods classified chiefly by material (15.4%) and chemicals and related products (14.1%). EU exports to Lebanon accounted for 6,551 million euros. These were represented by mineral fuels, lubricants and related materials (31.1%), machinery and transport equipment (18.4%) and chemicals and related products (13%).

Israel is an important trading partner for the EU in the Mediterranean area, and the EU is the first trading partner for Israel. In 2000, the EU-Israel **Association Agreement** entered into force by providing a framework for political and economic cooperation between the parties. Israel is part of the Euro-Mediterranean Partnership (Euromed). In 2014, EU imports from Israel accounted for 13,071 million euros and were dominated by sections such as chemicals and related products (27.1%), machinery and transport equipment (18.2%) and manufactured goods classified chiefly by material (16.3%). EU exports to Israel accounted for 16,982 million euros. These were represented by machinery and transport equipment (37.2%), manufactured goods classified chiefly by material (18.3%) and chemicals and related products (18%).

Due to the difficult economic situation and restrictions on movement and access, trade between Palestine and the EU is very limited. In 1997, an **Interim Association Agreement on Trade and Cooperation** was concluded between the EU and the Palestine Liberation Organization. In 2012, an Agreement for further liberalisation of agricultural products, processed agricultural products and fish and fishery products entered into force. There are a number of constraints and limitations resulting from the on-going Israeli-Palestinian conflict and the continuing occupation, including settlement activity, restrictions to movement as a result of the closure policy and the separation barrier (European Commission, 2015a). In 2014, EU imports from Palestine accounted for 14 million euros (32.8% of food and live animals, 27.7% of animal and vegetable oils, fats and waxes) and EU exports to Palestine accounted for 140 million euros (dominated by sections such as machinery and transport equipment of 48.9%, and food and live animals of 20.4%) (European Commission, 2015b).

Conclusions

The present paper is based on research of statistical data published by the European Commission on trade flows of the European Union with seventeen countries and territories which are partners under the European Neighbourhood Instrument. The main purpose of the EU`s trade cooperation with its geographical neighbours is to assure economic and commercial development abroad that will be to the advantage of all parties. The analysis was divided into two parts, one part was focused on countries from the EU's eastern border and the other part on countries and territories from the EU's southern border (the Mediterranean area).

We observed that the free trade agreements concluded and negotiated by the EU with the countries from east side are the strategic instrument towards a closer integration. The EU is the most important trading partner for these countries. It's the main source of Foreign Direct Investment for Ukraine, the biggest trade partner for Moldova, the main trade partner for Georgia, Armenia, and Azerbaijan, the second main trade partner for Belarus (after Russia), and the first trading partner for Russia. As regards to trade arrangements, the EU signed Association Agreements with Moldova and Georgia (introducing a preferential trade regime), Partnership and Cooperation Agreements with Azerbaijan, Armenia, and Russia, Trade and Cooperation Agreement with Belarus, and DCFTA with Ukraine. Unfortunately, the 2008 economic crisis and unilateral measures adopted by Russia, Belarus and Armenia have slowed down trade cooperation between the EU and these three countries. According to the SITC section, EU imports with these countries were dominated by mineral fuels, lubricants and related materials, manufactured goods classified chiefly by material, and miscellaneous manufactured articles. EU exports were dominated by machinery and transport equipment.

With the territories from the south side the EU negotiated and concluded (in some cases) free trade agreements which represented a good step towards an economic and commercial partnership with the Mediterranean Area. Unfortunately, the integration process is slow due to political conflicts in this area. The EU launched negotiations for a DCFTA with Morocco, signed the Association Agreements with Algeria, Egypt, Jordan, Israel, Lebanon and Tunisia, started negotiations for a Framework Agreement with Libya (and in 2011 these negotiations were suspended), concluded a Cooperation Agreement with Syria, and concluded an Interim Association Agreement on Trade and Cooperation with the Occupied Palestine Territory. According to the SITC section, EU imports with these countries were dominated by the following sectors: machinery and transport equipment, crude materials, inedible, except fuels, mineral fuels, lubricants and related materials, chemicals and related products, and food and live animals. EU exports were dominated by the machinery and transport equipment sector.

It is worth noting that the European Union is committed to bilateral trade agreements being signed or negotiated in order to prepare the ground for the next level of multilateral liberalisation and decision making at the multilateral level. The EU has used the negotiation of such agreements in order to solve problems that are not ready for multilateral discussion and to prepare the ground for the next level of multilateral liberalisation.

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