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ENP Progress Report

Jordan

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Background and overall assessment

The EU-Jordan Action Plan was adopted for a period of five years on 11 January 2005. It determines key areas where specific measures could be taken to strengthen and develop our partnership. Intense institutional co-operation between Jordan and the EU enables experts from both sides to agree on such specific measures and deliverables and discuss possible obstacles. It is the first time that an effort was undertaken to translate the Association Agreement into detailed actions, and this process and its implementation are still at an early stage.

In addition to the Association Council and Association Committee, a series of sub-committees have been activated for that purpose. The sub-committees that have been established cover all key areas of the Action Plan. The first round of sub-committee meetings has taken place and several have been held for the second time. The sub-committee on Human Rights and Democracy deserves special mention as Jordan was the first ENP partner to hold a sub-committee meeting where these issues can be discussed in an open manner.

The sub-committees have proven to be an efficient tool. They are a means of dialogue that have allowed the EU to make sure that its priorities go hand in hand with Jordan's priorities and to better target EC assistance. Jordan's priorities have been laid down in its National Agenda, a **long term reform-oriented programme** published in November 2005. This reform agenda covers political, social and economic fields, such as administrative and judicial reform, labour market policies and vocational training, education and scientific research, social welfare, infrastructures, investment and financial sector.

The Action Plan aims to stimulate political dialogue and reform and facilitate Jordan's sustainable economic development and social cohesion, as well as progressively increase its economic integration with the EU. It is with those goals in mind that at the sub-committees' priorities have been set and specific deliverables agreed. The Action Plan covers five years and the process of selecting priorities makes it possible to realise and assess concrete progress in a shorter timeframe. This document reports on progress made, or lack thereof, on the implementation of the priorities addressed in the first year. It is not a general review of the political and economic situation in Jordan, which was last set out by the Commission in the ENP Country Report for Jordan published in May 2004.

Overall, Jordan has shown a real commitment to realising the measures of the Action Plan and has made a start with implementation. It is clear, however, that more needs to be done in the next four years. Jordan has shown, in this first year, that it remains strongly committed to a number of important political and economic reforms, but it is important that these commitments are indeed translated into concrete progress. The EU should continue to support Jordan's efforts.

Enhanced political dialogue and reform

The institutional framework of the ENP allows the EU and Jordan to have a regular **political dialogue**, not only on political developments within Jordan but also on CFSP issues and the political situation in the region. This political dialogue took place mostly in the Association Council and the Association Committee and covered issues such as the Middle East Peace Process and Jordan's role therein, Iraq, the Euro-Mediterranean Partnership and Jordan's own reform programme.

In November 2005, Jordan published its National Agenda, a long-term programme that commits Jordan's current and future governments to reform. The document gives high priority to **political and administrative reform**. A number of debates have taken place since the National Agenda was published, to reinforce public support for reforms and thus ensure their implementation and sustainability. This is why promotion of the national dialogue, transparency and public sector reform have been identified as priorities in the relevant sub-committees.

With its National Agenda committee, Jordan took an important step to strengthen national dialogue and consult all segments of the population. This committee is comprised of representatives of Government, Parliament, civil society, the private sector, the media and political parties. Jordan subsequently significantly stepped up its efforts with the *Kulluna al Urdun* or "We are all Jordan" initiative. The Royal court selected 700 invitees to discuss and prioritise reforms. Participants were selected among Government, Parliament, civil society organizations, private sector, municipalities and public figures in rural areas, journalists and academics. The "We are all Jordan" initiative provides a comprehensive policy framework for Jordan's future development.

Democracy and the rule of law

National dialogue is also reinforced through permanent mechanisms, such as the Prime Minister's website and the frequent use of public opinion polls. The Government is developing, with EC assistance, a platform for interaction with civil society and civil society organisations are involved in the drafting of a new civil society law.

The Government made progress on the priorities of improving good **governance** and transparency by ratifying the UN Convention against corruption, defining an anti-corruption strategy and a decentralization plan, strengthening its Audit Bureau, and submitting a draft financial disclosure law to Parliament.

A start was made with public sector reform within various Ministries but a strategy for overall reform of the sector is not yet in place and does not seem to be high on the authorities' agenda. Public sector reform is, however, essential as it is a precondition for other reforms.

Jordan devised and is now – with EC support – implementing a judicial upgrading strategy. The capacity and efficiency of the justice administration is being enhanced and training is being provided for judges, *inter alia* in human rights law.

Reform of the political parties and election laws has been a subject of discussion at the sub-committee, but no progress has yet been made on this.

Human rights and fundamental freedoms

This sub-committee has provided a forum – not only for the Commission but also for Member States - to discuss sensitive issues such as the death penalty and women's rights. The mere fact that a dialogue on such issues can now take place within an institutional framework is a progress brought about by the ENP. The EC is providing support to the National Centre for Human Rights, which has gained widespread credibility. The Centre has investigated complaints on harsh, inhuman and degrading punishments and has requested the adoption of legislative and procedural arrangements to combat these.

The promotion of equal treatment of women is a priority both in the National Agenda and the Action Plan, but has reportedly not been prioritised in *Kulluna al Urdun*. Specific proposals for enhancing women's participation in the labour market have been made, on the basis of a study by the National centre for human resources development and the European Training Foundation. The Commission continues to fund awareness projects. There is still a lot of room for progress in developing women's rights and tackling highly sensitive issues such as domestic violence and honour crimes.

Economic reform and social reform and development

Four EU-Jordan economic dialogues have taken place, two of them even before the ENP Action Plan was adopted. The budgetary vulnerability of the country has led to the definition of measures to ensure macroeconomic stability, in particular strategies for fiscal reform and public finance management. The EU has supported this process through several structural reform programmes focused on budgetary reforms and improvement of the business environment.

Monetary, exchange rate and fiscal policies

Jordan continues strong economic growth, averaging 7.5% in 2004-2005, and the Government is broadly on track in maintaining medium term macroeconomic stability. Strict monetary policy has so far ensured price stability and kept the Jordanian Dinar pegged to the US dollar, but inflationary pressures were evident during the first half of 2006 (at around 6%). Jordan is also making significant efforts to reduce the large budget deficit and address its dependency on external grants. This includes the gradual elimination of oil subsidies to ease the burden on the budget in a context of soaring international fuel prices. Subsidies were reduced in 2005 and 2006 and should be entirely removed in 2007.

Tax reform remains central to the Government's macroeconomic policy, to improve efficiency and transparency and to increase tax revenue collection. Public finance management is improved through the implementation of Jordan's financial management reform strategy. Although progress has been slow on the full operation of the Single

Treasury Account, the Government has taken steps toward the effective integration of planning and budgeting by prioritising and costing the National Agenda within a three-year resource envelope. This exercise has resulted in the establishment of indicative budget ceilings, for 2007-09, for line Ministries. These changes of budgeting procedures prepare the ground for the introduction of a medium-term expenditure framework.

Functioning of the market economy

Jordan continued to make progress on **structural reforms**, such as the privatisation programme and measures to improve the investment climate. This has been supported by a sector reform programme, aiming at facilitating private sector development.

The establishment of a one-stop shop has eased the registration process for businesses. A new institutional framework for investment and export promotion has been defined and includes the creation of a Jordan Agency for Enterprise Development (JAED). This body should ensure better coordination of private sector development policies and closer involvement of the private sector in the design and implementation of those policies. However, though an agreement was reached on the structure of this body, effective implementation of this scheme has been delayed considerably. A new investment bill has been presented to Parliament, with a view to simplifying the regulatory framework and streamlining investment incentives, but has not yet been discussed.

Social situation, employment and poverty reduction

Jordan is among the best performers in the region as regards several human development indicators. Unemployment and especially **youth unemployment** are, however, a major concern. Much emphasis has therefore been placed on the need to develop strategies to remedy the mismatch between the output of the education system and the demands of the labour market.

A new **employment and poverty reduction strategy** was presented in May 2006 but details are as yet unclear. The EC programme on poverty reduction through local development is supporting this process with a view to ensuring empowerment of local actors for poverty reduction. The Government has developed a comprehensive action plan with the ILO for improving workers' rights, more specifically in the Qualified Industrial Zones. In line with the commitments in the Action Plan, dialogue between Jordan and the EU has been intensified, particularly on social dialogue, vocational training and employment policy.

Jordan is pursuing **sustainable development** through its 1996 "Agenda 21, Towards Sustainable Development". The priorities identified in the National Agenda are fully in line with Agenda 21. The key priorities are: (i) integrated management of natural resources (ii) integrated management of environmental protection (iii) natural and cultural heritage (iv) legal and institutional aspects of sustainable development; (v) education and awareness (vi) socio-economic issues and (vii) information for decision

making. The Government of Jordan intends to include sustainable development as part of the planning cycle in different sectors, yet there is currently little sign of a strong coherent approach in this respect. The key challenge continues therefore to be the implementation of Agenda 21 and ensuring a true cross-sectoral approach to sustainable development.

Trade-related issues, market and regulatory reform

Jordan's exports to the EU grew by 30% in 2004 and more than 41% in 2005. These **growth figures** indicate an ever-closer trade relationship. Jordanian exports to the EU amounted to €375 million in 2005.

Measures to improve trade and investment have been a priority at the sub-committee meetings.

The EU and Jordan have committed to further liberalising trade and also agreed measures to improve Jordanian competitiveness and attractiveness for European investors and create an enabling regulatory framework for businesses. Customs co-operation and regulatory convergence with the EU (e.g. SPS requirements, ACAA, company law) are equally important to facilitate trade.

Trade relations

Tariff dismantlement is proceeding in accordance with Association Agreement and negotiations on a **dismantlement schedule** for a final list of industrial goods now need to be concluded. "). Jordan and the EU successfully concluded negotiations on the liberalisation of trade in **agricultural and processed agricultural products**. The agreement entered into force in January 2006.

On the regional front, the amended bilateral trade agreement between Jordan and Israel was completed and diagonal cumulation has applied since July 2006. Jordan is in the final phase of negotiating a Free Trade Area (FTA) with Turkey. The Agadir agreement for the establishment of a free trade zone among four Mediterranean nations entered into force in July 2006.

Both parties have also agreed to work towards the adoption of an efficient and proportionate "**dispute settlement mechanism**" establishing a more effective and streamlined mechanism specifically applicable to trade.

Customs

Jordan adopted the Pan Euro-Mediterranean Protocol on Cumulation of Origin which is in force since July 2006. Since that date, diagonal cumulation is also applicable with Israel. After proper notification the Agadir partners will be able to benefit from Pan Euro-Mediterranean cumulation of origin.

Jordan continues the computerisation of its customs department. A Border management task force was set up to increase co-operation between agencies working at the border. As regards co-operation on risk-based customs control and the definition of standards for certifying of operators, Jordan has introduced trade facilitation measures for reliable economic operators (the so-called "Golden List") to implement the WCO Framework of Standards to Secure and Facilitate Global Trade. The latest amendments to customs legislation, to bring this legislation in line with Community and international legislation, have not yet been approved.

Technical regulations, standards and conformity assessment procedures

Jordan has made good progress and has confirmed its commitment to negotiating an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) and selected the priority sectors to be included in it.

Technical competence in Jordan is high but the standardisation body (JISM) and market surveillance mechanisms need to be brought in line with European practice. This means that different functions need to be clearly separated to avoid any conflict of interest. An EC-funded twinning operation is currently helping JISM to achieve this objective. Jordan's standards and metrology law is currently under revision and will be replaced by a law which will encompass the requirements of EU legislation. JISM has started to adopt relevant European harmonised standards in the selected priority sectors.

Jordan has taken the strategic decision to harmonise its **sanitary and phytosanitary** legislation with the EU *acquis*. The preparation of a priority list for gradual approximation, the development of a national food control policy and the strengthening of institutions are ongoing, with two EC-funded twinning operations with the Jordan Food and drug administration and the Ministry of agriculture. Jordan is also examining the possibility of bringing its food control system under a single food safety authority. Jordan acted swiftly after the first ever avian influenza outbreak (2006), *inter alia* by implementing a national preparedness plan. In addition, several bilateral contacts were taken during 2005 and 2006 to exchange views at subcommittees on technical matters with the main objective to resolve trade irritants for agricultural products in the SPS field.

Right of establishment, company law and services

Current **company** law legislation is being reviewed to achieve convergence with key principles of international and EU rules, including as regards a code of corporate governance.

Jordan has started negotiating a free trade agreement with the EC and its Member States on Liberalisation of **services** and establishment. The Ministry of industry and trade is currently receiving EC-funded technical assistance to study the services sectors in Jordan and to assist Jordan in its negotiations. As regards financial services, progress has been made with the setting up of working groups with the aim of becoming compliant with the Basle core principles for effective banking supervision in 2008. Training of independent

authorities to ensure effective supervision is ongoing. Building up the administrative, legal and technical capacity to manage and enforce this legislation remains a challenge.

Current legislation on capital movements still needs to be reviewed to assess the need for further liberalisation.

Other key areas

Working towards the overall aim of developing trade, other measures of the Action Plan that are related to the further opening of the Jordanian market and improving the business environment in Jordan have been prioritised.

Draft legislation to simplify personal and corporate income **tax** and to streamline and rationalise the fiscal incentives framework for businesses has been submitted to Parliament. The reform of the tax administration has been taken forward by merging the direct tax and general sales tax departments and setting up a large Taxpayer Office.

A **Competition Law** was adopted in 2004 and a Competition directorate has been set up at the Ministry of industry and trade, but this directorate needs to be further strengthened. No real progress has yet been made as concerns increased transparency in the field of state aid.

The administrative capacity to enforce **intellectual property rights** has been improved, notably through two EC-funded twinning operations with the Ministry of Industry and Trade and for Customs. A national awareness-raising campaign was launched but the level of enforcement remains often problematic, notably because of poor coordination of the relevant institutions and a lack of training for specialist personnel.

There has been progress in the field of **public procurement**. Procurement conditions have been made more transparent, notably through the development of e-procurement, the drafting of new legislation and an intense process of national consultation leading to an updated offer for accession to the WTO Agreement on Government Procurement.

Jordan has undertaken to elaborate a development strategy for harmonisation with European standards in relevant **statistical** areas, but with the exception of a first workshop on raising awareness of the need for a national statistical strategy, there has been little progress in implementing the Action Plan.

In the field of **external audit**, the administrative capacity of the Audit Bureau is being strengthened through an EC-funded twinning programme. However, there has been no progress in developing public internal financial control and functionally-independent internal audit units in spending ministries.

As regards **enterprise policy**, Jordan is already largely implementing the principles of the Euro-Mediterranean Charter for Enterprise but progress on developing a Jordanian strategy for industrial modernization and competitiveness has been slower than expected.

Enterprise development continues to be hampered by the absence of a well defined enterprise policy and a streamlined institutional framework.

Co-operation on justice and home affairs

The EU attaches great importance to international efforts to eliminate financial system abuses in connection with terrorism and money laundering. These issues have therefore been high on the agenda of the relevant sub-committees.

All levels of the Government and the security services in Jordan continue to show a strong commitment to and high capability in the **fight against terrorism**. The country dedicates a substantial part of its scarce resources to this. The anti-money laundering law is due to be examined by Parliament and Jordan is a member of the MENAFATF¹ and an observer at the Egmont Group². Banks are currently monitored by a suspicious transactions Division of the Central Bank. Jordan has done preparatory work on setting up an efficient financial intelligence unit at the Central Bank, which will benefit from EC assistance.

A number of other issues were to be discussed by a separate working party but this has so far not been convened. These issues were: delivery of visas to participants in EU-Jordan meetings, the fight against “cyber crime”, development of effective law enforcement agencies for the fight against organised crime, international co-operation in the fight against drugs, the fight against the financing of terrorism and co-operation between Jordan and the European Police Office (Europol).

The development of a national strategy for penitentiary reform has been defined as a priority and EC technical assistance has been provided to support the design and implementation of such a programme.

Transport, energy, the environment, the information society, research, development and innovation

Since Jordan is a country with few natural resources, the upgrading of its infrastructure and the management of its resources are indispensable to furthering its development and enhancing its competitiveness. It is also in the EU’s interest to make sure that trade can be facilitated and that ongoing reforms in the management of infrastructure and resources are in line with the principles of the EU internal market.

Jordan has continued to develop its **transport** policy and the National transport strategy for the next 5 to 7 years is to be adopted by the end of 2006. A task force has been set up to prioritise and budget various infrastructure projects. A transport and trade facilitation committee has been established to improve the flow of goods with international trade

¹ Middle East and North Africa Financial Action Task Force against Money Laundering and Terrorism.

² A group of 101 Financial Intelligence Units.

partners and is functioning well. Adoption of a Civil aviation law is pending, the draft of which also provides for the setting up of a civil aviation authority. Ground handling services have been opened up. Maritime security and safety are being improved, although port reform, a medium-term Action Plan measure, is currently delayed. Steps have been taken to complete the railways master plan. The adoption of the law on multimodal transport is pending and the regulatory body for the land freight sector has yet to be set up.

Progress was made on the implementation of the 2004 **Energy** master plan. Jordan, dependent on external resources, intensified studies concerning oil import options (Iraq, Saudi-Arabia, Aqaba port) and enhanced the exploration of indigenous resources. Jordan is pursuing the construction of the Arab Natural Gas Pipeline, bringing Egyptian gas to the region. This pipeline underpins Jordan's policy of switching its economy progressively from oil to gas and, once fully constructed, could play a role in enhancing the EU's energy security. Jordan participates in the recently opened Euro-Mashrek gas centre in Damascus, set up with EC financial support. Sector reform towards market principles, including the phasing out of oil subsidies, is ongoing. Jordan is finalising the adoption of an Electricity law. It pursued the privatisation process of electricity generation and distribution, continued to remove price distortions and developed plans for a new energy regulator. The regulator will cover electricity, gas and oil and subsume the current electricity regulator as well as taking over some of the tasks of the National resources authority. Jordan completed a submarine electricity cable with Egypt and continues the construction of an electricity connection with Syria. These interconnections will contribute to the long-term aim of a Euro-Med electricity ring. A programme to reduce electricity network losses is underway. On the demand side, Jordan further implemented its national energy efficiency strategy and is finalising a study on renewable energy. Jordan's updated target is to cover 3% of the primary energy needs and 5-8 % of electricity production from renewable energy sources by 2015.

Key **environment** issues for Jordan relate to water resource management, water quality waste management, nature protection, desertification and industrial pollution. Jordan has recently reviewed its existing policy documents and is planning to prepare a new national action plan, to be finalised in 2006. The 2003 framework legislation and relevant bylaws (e.g. on environmental police and environmental impact assessment) have recently been adopted or revised. Sectoral legislation is therefore in place in many areas, but needs nevertheless to be further reviewed. A national water management plan, (with the support of the EC *Al Meyyah* programme), a land-use plan and a state-of-the-environment report are under preparation. Priority actions on environmental education, awareness and a communication strategy have been defined and partly implemented. Jordan has made progress on climate change, with national structures established and clean development mechanism projects prepared.

The Ministry of environment is undergoing comprehensive reform, with EC support focused on capacity-building and enforcement of environmental legislation. The implementation of certain environment activities has been delegated to NGOs. An environment fund was recently established. Some steps have been taken to integrate

environment considerations into agriculture and industrial policies. A major challenge is, however, to strengthen administrative capacity for implementation at national, regional and local levels, including coordination between authorities.

Jordan has ratified relevant international and regional conventions and protocols, and participates in the Mediterranean Council of Arab Ministers for the Environment and the Regional Convention for the Protection of the Red Sea. Jordan benefits from activities undertaken under the EU Water Initiative.

The European Commission and Jordan have enhanced their co-operation on environmental governance, environmental integration, water management and environmental aspects of tourism.

The development of the **information society** in Jordan is progressing in accordance with the national strategic plan 2004-2007 for the ICT sector. The fixed telephony market has been opened by granting a second licence and also a fourth mobile telephony licence has been issued. An e-government strategy has recently been adopted and a programme for the use of ICT in education is being implemented. The telecommunications regulatory commission is engaged in improving its organisation and developing the regulatory framework, where there is room for more progress. In the **audiovisual** sector, the Government is still the sole Jordanian broadcaster of radio and television, but international (satellite) television is available.

Jordan's Higher Council for Science and Technology has developed a national **research and innovation policy** for 2005-2010. S&T priority areas are information and communication technology, biotechnology and advanced materials and nanotechnology. There are plans to set up a seed capital fund to support SMEs and start-ups with risk and venture capital. Participation in the Community R&D Framework Programme has increased. Negotiations on a science and technology agreement between Jordan and the EU have not started yet.

People-to-people contacts

As with all other countries in the region, Jordan struggles with high and rising unemployment, especially among young people. Reform of the **education** system should help close the gap between curricula and the actual demands of the labour market.

The implementation of reforms started in 2003 through the Jordanian Education Reform for Knowledge Economy Project (ERfKE). This project will run until 2012, with EC support. The Government of Jordan, through the Ministry of Education, sets education policy but aims also to strengthen its partnership with the private sector and the academic community. An accreditation law for quality control of both vocational and higher education is under consultation. Expansion of pre-school education and improvement of basic and secondary education are also prioritised. Through the Tempus programme, the EC supports reform in the higher education sector, focusing, *inter alia* on the setting up of master programmes and improving curricula relevance and teaching methodologies.

Moreover, the Euro-Med Youth programme supports projects for youth and youth organizations from Jordan.

Assistance

The EU has dedicated considerable financial resources to help Jordan achieve its reform objectives. Since 1995, more than €500 million has been allocated to Jordan under the MEDA programme. Its performance in absorbing funds and implementing programmes has been very satisfactory.

Co-operation with Jordan has allowed the reform process to be supported in many areas (e.g. promotion of human rights and democracy, economic reform, social development, and management of natural resources). The dialogue on the implementation of the Action Plan has helped to better target our assistance on the key policy objectives outlined in the EU-Jordan Action Plan and in Jordan's reform agenda. The successful introduction of new cooperation instruments such as Twinning and TAIEX has facilitated regulatory approximation (e.g. on standardisation and conformity assessment, customs and trade facilitation) and institution building (e.g. environment, and combating corruption). Several sector reform programmes also contribute to achieving Action Plan objectives in a number of areas (private sector development, education).

Under the new European Neighbourhood and Partnership Instrument (ENPI) future EC assistance to Jordan will focus on priorities identified during the ENP dialogue, including good governance and political reform, trade and investment development, sustainable development, improved public administration and financial stability.