

SIA
EMFTA

**Sustainability Impact Assessment
of the
Euro-Mediterranean Free Trade Area
Provisional Findings
Phase II**

*Circle of Mediterranean Parliamentarians for Sustainable Development
(COMPSUD)*

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United Nations

SIA/EMFTA: Purpose

- The Euro-Mediterranean Conference of Ministers of Foreign Affairs in November 1995 set the year 2010 as the target date for the establishment of the Euro-Mediterranean Free Trade Area (EMFTA).
- EMFTA to be achieved by means of Euro-Med Association Agreements negotiated between the EU and Mediterranean Partner Countries (MPCs), together with Free Trade Agreements between MPCs (bilateral to regional).
- EC thus commissioned an independent sustainability impact assessment (SIA) study of the EMFTA to:
 - **Examine the potential impacts of EMFTA trade measures on sustainable development in the region** – based on anticipation that there would be positive & negative impacts
 - **Identify flanking measures for mitigating and enhancing possible EMFTA impacts.**

SIA/EMFTA: Consortium

- Consortium awarded study: 2003. Study duration: 2004-2006
- **Consortium partners (7):**
 - University of Manchester, UK (lead agency)
 - United Nations Economic and Social Commission for Western Asia (ESCWA) - Lebanon
 - Bocconi University - Italy
 - The International Centre for Advanced Mediterranean Agronomic Studies (CIHEAM) -France
 - Centre International des Technologies de l'Environnement de Tunis (CITET) - Tunisia
 - Deloitte & Touche, Sustainable Emerging Markets
 - Overseas Development Institute (ODI) - UK
- * ESCWA responsible for ensuring regional consultation to inform & ensure multi-stakeholder input during the SIA preparation process.

Stakeholders & Beneficiaries

National Governments

- European Union Member State Governments:
 - 25 EU Member States, European Parliament, Council of Europe
- Mediterranean Partner Country Governments:
 - 10 MPCs: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory, Syria, Tunisia and Turkey

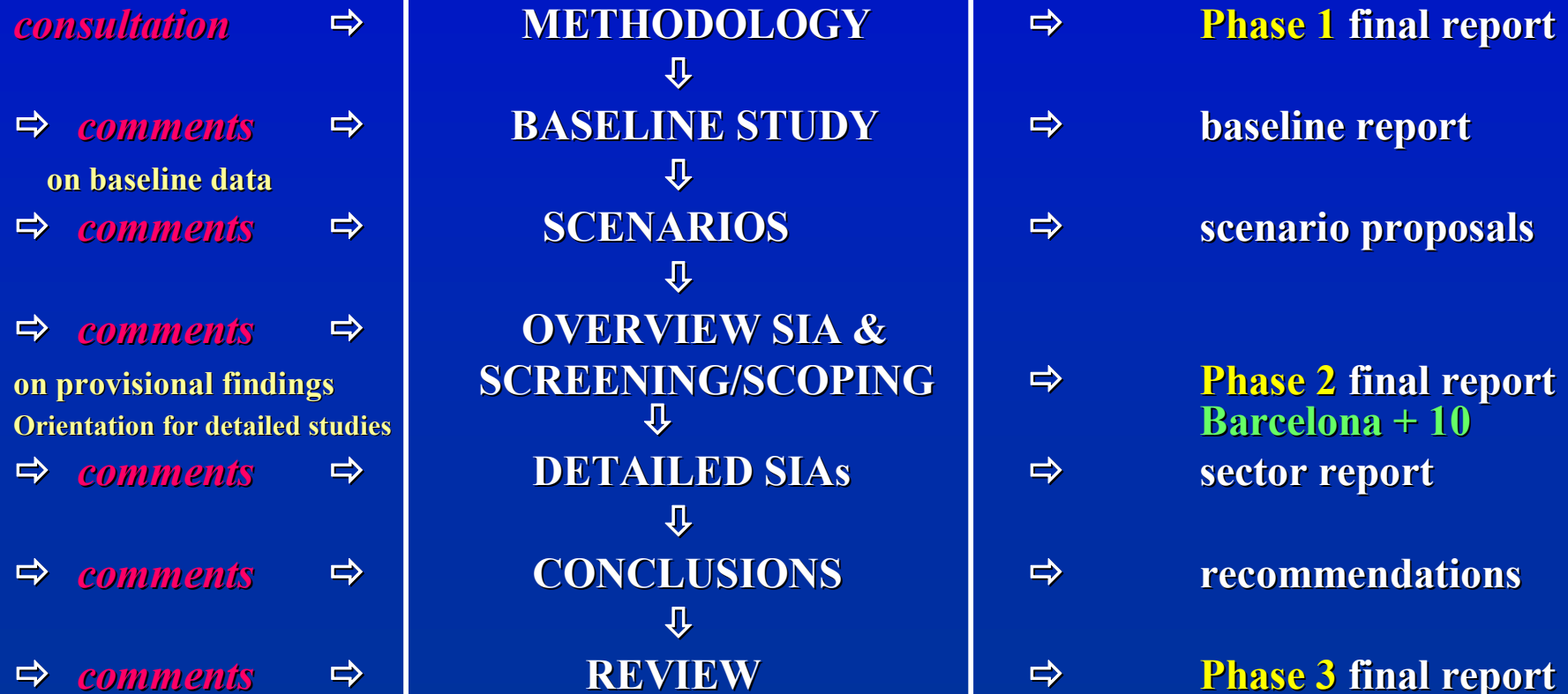
European Commission SIA/EMFTA Steering Committee

- DG EuropeAid (Lead Agency), DG-Trade, DG-Environment, DG-RELEX, DG-Social Affairs, European Environment Agency

Civil Society

- Commercial/industrial organizations, SMEs, syndicates, consumer groups, women's groups, religious/cultural organizations, health & environment NGOs, academics, etc.

The SIA Process

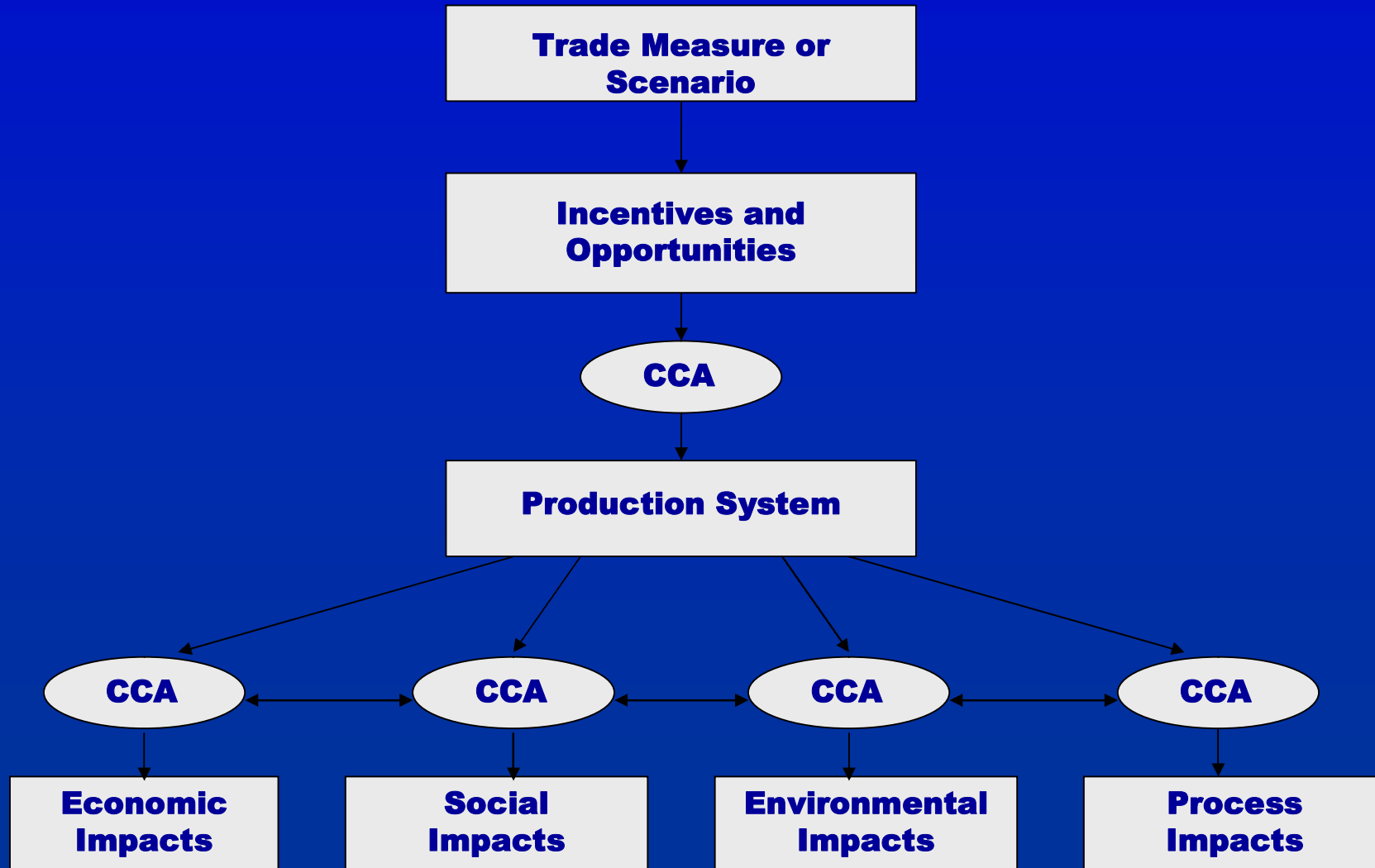


⇒ *SUPPORT FOR NEGOTIATIONS AND POLICY-MAKING*

Scenarios

- **Baseline Scenario** - reflects how future would look if there were no EMFTA, that is if no Association Agreements had been negotiated.
- **Scenario 1** - impacts on sustainability of trade measures *already* agreed to. Mostly involves reductions in industrial product tariffs and minor tariff reductions of agriculture and services.
- **Scenario 2** - impacts on sustainability of a comprehensive free trade agreement with trade measures *likely* to be agreed to, e.g., greater market access for agricultural goods.

Causal chain analysis (CCA)



Analysis & Recommendations

■ Mitigation and Enhancement Measures

Will depend upon:

- Extent and timing of liberalisation
- Alternative national policy responses
- Regulatory capacity & processes of institutional change
- Needs for technical assistance
- Parallel actions within the Euro-Med Partnership & NP

■ Indicators and Monitoring Tools

- Core indicators (same as for previous SIAs)
- Millennium Development Goals
- Mediterranean Strategy for Sustainable Development (MSSD) indicators
- Additional indicators for subsequent monitoring

Provisional findings

Industrial products – economic impacts

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
Economic					
<u>Real income</u>					
welfare	EU manufacturers	Increased exports		↑	↑
	Morocco, Tunisia, others less	lower consumer and input prices	pass through of tariff reduction to domestic prices	↑	↑
government revenues	Algeria, Lebanon, Palest., others less	reduction in tariffs	compensation through other revenue generating activities	↓	↓
<u>Fixed capital formation</u>	Algeria, Egypt, Tunisia, Morocco, others less	production changes, firm closures, new investment	investment climate, firm dynamics	↓	-
<u>Employment</u>	Algeria, Egypt, Tunisia, Morocco, others less. Food and beverages, textiles, automotive, others	production changes, labour productivity	wages policy, labour market flexibility, training, long term growth	↓	-

Industrial products – social impacts

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
<u>Poverty</u>					
unemployment	Algeria, Egypt, Tunisia, Morocco, others less. Food and beverages, textiles, automotive, others	production changes, labour productivity	existing unemployment and vulnerability, wages policy, training, workforce mobility, transferability of skills, long term growth	↓	-
wage rates	Algeria, Egypt, Tunisia, Morocco, others less. Food and beverages, textiles, automotive, others	production changes, labour productivity	wages policy, workforce mobility, transferability of skills, long term growth	↓	-
social support	Algeria, Lebanon, Palest., others less	government revenue decrease	compensation through other revenue generating activities	↓	↓
<u>Health and education</u>	Algeria, Lebanon, Palest., others less	government revenue decrease	compensation through other revenue generating activities	↓	↓
<u>Equity</u>					
income distribution	Algeria, Lebanon, Palest., others less	consumer gains, government revenue decrease	compensation through other revenue generating activities	↓	-
culture	all	access to European products	advertising standards	↑↓	↑↓
gender equity	varied	changes employment levels by number of women, skill level, geographic location	employment patterns, cultural influences	↑↓	↑↓

Industrial products – environmental impacts & process impacts

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
Environmental					
<u>Biodiversity</u>	localised	non-significant benefit from reduced water use	water stress, intensity of industrial use	-	
<u>Environmental quality</u> air, water, land	Egypt and to a lesser extent Morocco and Tunisia.	efficiency improvements in industry, consolidation, increased investment	producers' willingness modernise, access to expertise, regulators' response	↑	↑
climate change	all	international transport	transport modes	↓	↓
<u>Natural resources</u> water, energy	Egypt and to a lesser extent Morocco and Tunisia.	reduced water and energy use by industry	producers' willingness modernise, access to expertise, regulators' response	↑	↑
Process					
<u>SD principles and strategies</u>	all	efficient technology and economic growth	environmental regulation	-	↑↓

Agriculture – economic impacts

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
<u>Real income</u>					
welfare	EU	Small effects from allocative efficiency		-	-
	Countries with high initial tariffs (e.g. Tunisia, Turkey, Morocco)	Lower consumer and input prices; higher incomes	Pass through of tariff reduction to domestic prices	↑	↑
government revenues	Algeria, Lebanon, Palest., others less	Reduction in tariffs	Compensation through other revenue generating activities	↓	↓
<u>Fixed capital formation</u>	Small effects in MPCs	Farm abandonment	Ability to change products	-	-
<u>Employment</u>	Fruits and vegetables (Egypt), citrus (Morocco) and olive oil, and fruit and vegetables (Tunisia)	Production increase	Ability to respond to market opportunities	↑	-
	Livestock (Egypt) and sugar, meat and dairy (Morocco).	Competition from EU		↓	-
	Southern EU countries (fruits, vegetables, olives)	Competition from MPCs	Rural development programmes	↓	-

Agriculture – social impacts

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
<u>Poverty</u>					
consumer prices	MPCs	Increased competition		↑	↑
unemployment	Rural areas of southern EU countries.	Unemployment through MPC competition	Rural development programmes	↓	-
	Egypt, Morocco, Tunisia, others less. Workers in fruits, vegetables, olives	Production changes Commercialisation	Policies encouraging response to market opportunities	↑↓	-
	Egypt, Morocco, others less. Sugar, meat, dairy and traditional agriculture.	Production changes	Support for changes to other products	↓	↓
wage rates	Agriculture, MPCs	Higher productivity	Skills and technology development, long term growth	-	↑
food security	Egypt and others dependent on food imports.	Increased vulnerability to price fluctuations	Social policy.	↓	↓
<u>Health and education</u>	Egypt, Algeria, Palestine	Lower tax revenues	Compensation through other revenue generating activities	↓	↓
<u>Equity</u>					
income distribution	Egypt, Morocco	Imbalance of consumer gains, government revenue decrease	compensation through other revenue generating activities	↓	-
gender	All MPCs	Decline in traditional farming	Domestic policies	↓	↓

Agriculture – environmental impacts

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
<u>Biodiversity</u>	Positive and negative effects in locations where production falls and rises.	Production changes and pressures on resources	Existing levels of stress. Implementation of programmes to protect sensitive areas and promote sustainable use	↑↓	↑↓
<u>Environmental quality</u>					
water quality	Positive and negative effects in locations where production falls and rises.	Production changes, greater intensification, greater resource efficiency	Stronger regulation, support for efficiency improvements	↑↓	↑↓
climate change	all	International transport	transport modes	↓	↓
urban environment	all	Loss of rural jobs exacerbates trends for internal migration	Town planning systems and infrastructural investment	↓	↓
<u>Natural resources</u>	all	Positive and negative effects on water abstraction and land conversion. Economic growth.	Existing levels of stress. Water management and land use policies and regulations	↑↓	↓

Key findings:

Economic & social impacts in MPCs

- Overall economic benefit
- Potential larger economic benefits strongly dependent on domestic and regional policy
- Significant adverse impact on unemployment, with associated pressures on wage rates (industrial short term, agricultural long term)
- Significant adverse impact on government revenues (and hence on social, educational & health expenditures)
- Greater vulnerability of poor households to fluctuations in world market prices for basic foods
- Adverse effects on the status, living standards and health of rural women

Key findings:

Environmental impacts in MPCs

- Significant local impacts on water resources, soil fertility and biodiversity in areas of high existing stress
- Higher environmental stress in cities, resulting from declining rural employment and accelerated rural-urban migration
- Higher air pollution and coastal water pollution from greater international transport
- Higher waste generation from greater use of packaging materials.

Key findings: Impacts in the EU

- Overall economic benefit – but marginal
- No significant adverse impacts from industrial, services and south-south liberalisation
- Agricultural liberalisation has significant local adverse social impacts in southern EU countries
- Associated environmental impacts both positive and negative
- Further research is needed to evaluate optimal mitigation

Impacts on MSSD indicators: Mediterranean Strategy for SD

Priority action	Indicators		Impact significance			
			I	A	S	SS
Improving integrated water resource and demand management	1	Water efficiency index (total and per sector with reference to efficiency objectives)	↑	↑↓	-	↑
	2	Water intensity index ratio compared to GDP and research of evaluation of Water intensity irrigated agriculture production added value compared with water demand for irrigation	-	↑↓	-	↑↓
	3	Exploitation index of renewable water resources	↑	↑↓	-	↑
	4	Proportion of the population with access to safe drinking-water (total, urban, rural) with reference to MDGs	↑	-	↑	↑↓
	5	Proportion of the population with access to sanitation (total, urban, rural) with reference to MDGs	-	-	↑	-
Managing energy demand and mitigating the effects of climate change	6	Energy intensity, total and per sector, with reference to efficiency objectives	↑	-	↑	↑
	7	Proportion of renewable energies in the energy balance sheet	-	-	-	-
	8	Green house gas emission	↓	↓	↓	↓
	9	Number of carbon emission reductions and amount financed in the framework of the Kyoto Protocol flexibility mechanisms by the annex 1 countries to the benefit of other Mediterranean countries	-	-	-	-
Ensuring sustainable mobility through appropriate transport management	10	Motorized transport intensity in relation to the GDP	-	-	-	-
	11	The proportion of road transport in terms of freight transport	-	-	-	-
	12	Proportion of public surface transport (urban and interurban)	-	-	-	-

Key Findings: Impacts on MDGs

- Small but significant adverse effect on
 - ◆ Goals 1 (poverty),
 - ◆ Goal 2 (education) and
 - ◆ Goals 4 and 5 (health).

- Both positive and negative effects for Goal 7 (environment)

- Positive impact on Goal 8 (global partnership)

Provisional recommendations for policy measures to avoid adverse impacts & enhance beneficial ones

- **Trade-related measures**
- **Domestic policy in EU (and EU international policy)**
- **Domestic policy in MPCs**
- **EU development assistance**

**Priority areas to be considered for
more detailed study in
Phase 3 of SIA**

Criteria for selection of case study countries

1.	The part of the region to which the country belongs	Consideration should be given to selecting at least one case study from each of the following areas: the Maghreb; the Mashreq; southern EU countries.
2.	Trade structure of the country	For example, a high level of export or import dependence in the sector could be considered a relevant consideration.
3.	Vulnerability to changes in trade impacts	A high incidence of poverty, low per capita income, small size of country, and high level exposure to environmental risk could be relevant selection criteria.
4.	Data availability	Relevant trade impact studies, already completed, ready access to relevant data, expert and stakeholder opinion, could be relevant criteria.
5.	Overall feasibility	The total number of country studies required should be commensurate with the time, resources etc. available and the other demands of the Phase Three studies.

Sectors to be considered for more detailed study in Phase 3

- **Textiles**
- **Transportation Sector**
- **Agriculture**
- **Services**
- **South-South Cooperation**

Please give us your ideas and priorities!

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THANK YOU!