








SUSTAINABILITY IMPACT ASSESSMENT OF THE EURO-MEDITERRANEAN FREE TRADE AREA

Update on Phase 3 of the EC's SIA-EMFTA Project

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Phase 2 assessment

Assessment of sustainability impacts at regional level


- baseline scenario – without EMFTA
- EMFTA scenario
 - industrial products
 - agriculture
 - services
 - south-south integration



Phase 3 assessment

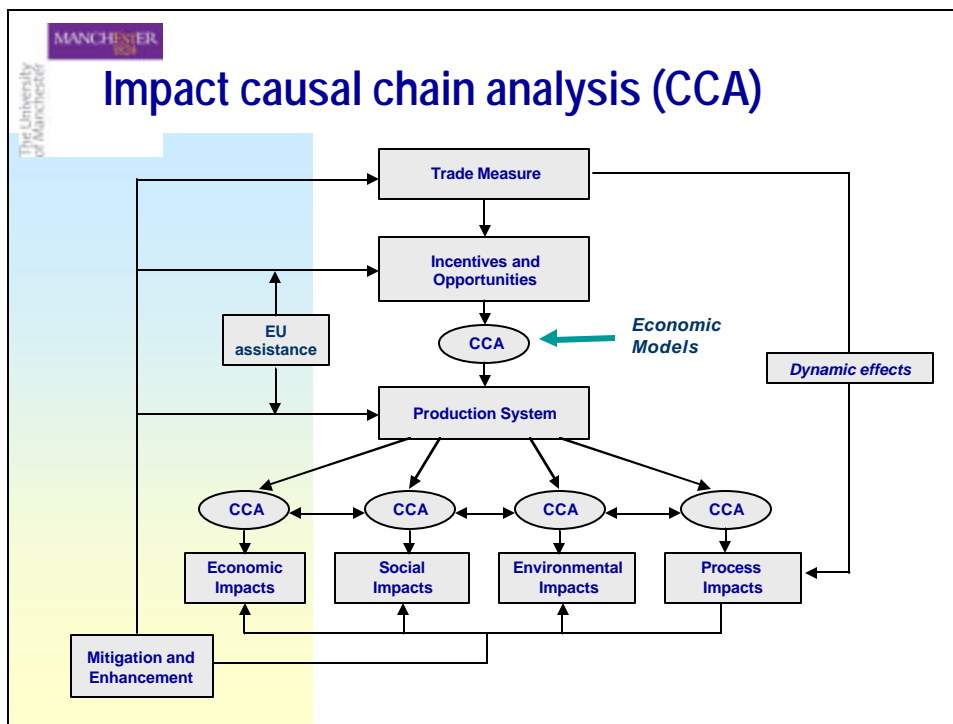
Focus on:

- four key issues identified in Phase 2
- means of avoiding significant adverse impacts and enhancing beneficial ones in Mediterranean Partner Countries
- potential for EU assistance through MEDA and other support



Method of analysis

- review of impacts identified in Phase 2
- review of stakeholder consultation on Phase 2 report
- literature review for key issues
- case study in progress focused on Morocco (impacts larger than in other MPCs)
- further analysis of causal chains for potential mitigation and enhancement measures
- analysis of potential contributions from EC assistance programmes



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Phase 2 findings – economic and social impacts in southern and eastern Mediterranean countries

- overall static economic welfare gain (small)
- potential large long term economic gain, strongly dependent on parallel domestic and regional policy measures
- 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 and environmental expenditure) *
- 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 *


* selected for study in Phase 3

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Phase 2 findings – environmental impacts in southern and eastern Mediterranean countries

- 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
- potential for improved water resource management through environmental services liberalisation *

* *selected for study in Phase 3*

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Phase 2 findings – impacts in EU

- overall economic benefit (small static welfare gain, potentially large dynamic effects)
- 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

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Phase 2 findings – impacts on Millennium Development Goals

In the absence of appropriate mitigation and enhancement measures:

- small but significant adverse effect on Goals 1 (poverty), 2 (education) and 4 and 5 (health).
- both positive and negative effects for Goal 7 (environment)
- positive impact on Goal 8 (global partnership)

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Phase 2 recommendations – trade-related measures

- **adjust phasing of industrial liberalisation**
 - take account of actual level of unemployment and implementation of tax reforms
- **flexibility in phasing for agriculture, services and south-south liberalisation**
 - link to monitoring of actual conditions for key economic, social and environmental indicators
- **special arrangements for sensitive agricultural products in EU or MPCs**
 - optimise by evaluation of alternative options, e.g. collaborative research into the interacting impacts in both the EU and MPCs
- **special arrangements for services needing strong regulation and/or government subsidies to avoid adverse impacts**
 - e.g. distribution services, environmental services, financial services.
 - link timing of liberalisation to monitoring implementation of the necessary reforms
- **incorporate similar arrangements into south-south agreements**

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Phase 2 recommendations – EU development assistance

- **promote collaborative research on industrial competitiveness among all MPCs**
 - cost-effectiveness of past measures and potential future ones to enhance the competitiveness of MPC industrial companies
- **detailed EU-MPC research into impacts of agricultural liberalisation**
 - social and environmental
 - MPCs and southern EU countries.
- **assistance with schemes to disseminate market information**
 - EU product standards and other market access constraints and opportunities.
- **targeted support for stronger environmental management**
 - institutional capacity for integrated economic, social and environmental planning
 - integrated urban-rural and industrial-agricultural planning
- **assistance with strengthening institutional capacity for the use of environmental economics techniques in development planning.**
- **coordination of EU support within the Barcelona process**
 - inter-agency screening of programme proposals against MSSD priority actions
- **further development of the MSSD**
 - take account of continuing research into the economic, social and environmental impacts of greater regional integration.

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SIA-EMFTA project phases

- **Phase 1: methodology**
- **Phase 2:**
 - **assessment of sustainability impacts at regional level;**
 - **review of options for mitigation and enhancement;**
 - **recommendations for more detailed studies in Phase 3.**
- **Phase 3 (current phase):**
 - **Report 1: assessment of key impacts (draft submitted);**
 - **Report 2: initial conclusions and proposals for monitoring (early 2007);**
 - **Report 3: final conclusions and recommendations for negotiations, implementation of Association Agreements, MEDA Programmes and other policies within the Euro-Mediterranean Partnership (March 2007).**

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Study areas

- 1. Environment-related aspects**
 - Impact on water resources.
 - Environmental services.
- 2. Agriculture**
 - Small scale agriculture and rural livelihoods
 - Environmental and product standards and opportunities in EU markets
- 3. Tax reform**
- 4. Urban employment and industrial diversification**

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Findings: environment-related aspects (water resources)

- extensive support on water resource issues is already being provided in EC initiatives
- support may be tailored and extended to ensure that it addresses the problems in those specific locations where agricultural production is expected to rise through the EMFTA, and where the resource is already under stress
- detailed research is needed in each country, undertaken by the country's own institutions, with assistance where appropriate from relevant EC programmes

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Findings: environment-related aspects (environmental services)

- minimal impact (positive or negative) when private sector involvement is low
- private sector involvement in the region is increasing and may be accelerated by the EMFTA
- liberalisation may add significant further efficiencies to service delivery
- liberalisation will not reduce the need for imaginative and effective public sector initiatives and administrative frameworks, nor the level of public finance needed for delivering services to poorer sections of the community
- sophisticated regulatory frameworks will be needed for schemes which go beyond subcontracting to private sector management of the service
- EMFTA will give low benefits and low risks if private sector is restricted to subcontracting
- EMFTA gives potential for high benefits with high risks for higher degrees of privatisation
- assistance with developing appropriate regulatory frameworks may be a valuable component of EU support

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Findings: agriculture (small-scale farming and rural livelihoods)

- institutional infrastructure needed to accelerate rural diversification is weak, particularly for women and young people
- greater research is needed into the social and economic capabilities of individual local communities
- national development strategies need to capitalise on those capabilities, to make rural development a central component of national development
- EU experience of integrating rural development into national development is of limited relevance to MPCs
- closer parallels are to be found in SE Asia experience, which minimised rural problems while maximising overall economic development
- EU support for either urban or rural development may be targeted to promote similar measures to those used in SE Asia, within a strategically coherent framework for integrated urban and rural development

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Findings: agriculture (environmental and product standards and market opportunities)

- for both conventional agricultural produce and new initiatives such as organic and hydroponic products, viable market opportunities are highly dependent on iterative ongoing programmes of market research and agricultural research
- need for government initiatives is restricted mainly to in-depth iterative research of this nature, to identify areas where coordinated support might contribute to demonstrably profitable private sector initiatives
- there is little scope for additional interventions or EU support related specifically to the EMFTA that would enhance its potential benefits beyond those that are expected to emerge through market incentives


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Findings: tax reform

- most MPCs have introduced VAT systems which would in principle be appropriate for replacing lost tariff revenues without adverse effects on income distribution
- all countries' tax systems have scope for significant improvements in efficiency, as well as the need for higher rates in response to EMFTA
- tax reform is not currently covered in the Barcelona+10 work programme, and may be considered an important area for inclusion in order to avoid significant adverse EMFTA impacts
- assistance may be targeted in particular at tapping the experience of EU countries in developing efficient tax systems
- in the light of the recommendations of the UK government Stern report on climate change, provision of some of the finance needed to incorporate carbon taxes into the tax reforms is a second potential area for EU support

 **Findings: urban employment and industrial diversification**

- since the mid-1990s the EC has supported Mise à Niveau programmes to help enable MPC industries respond to increased EU competition and avoid rising unemployment
- Mise à Niveau has been relatively successful in some countries, particularly Tunisia, and less so in others
- the main success factor has been strong direction and ongoing funding by national government
- detailed success factors may be identified through comparison with similar SE Asian programmes
- each MPC needs to tailor its own programme to address specific local issues
- when used to support local initiatives, EU assistance can make an important contribution to mitigating the potentially adverse employment impacts of the EMFTA and enhancing the potential economic gains

 **Monitoring mechanism**

- proposals are due to be developed in next stage of Phase 3
- the proposals will cover:
 - indicators
 - existing monitoring mechanisms
 - capacity to support the mechanism and participate in it
 - corrective action
 - links to EMFTA negotiations and associated planning
 - consultation
- stakeholders are expected to play a significant role in the proposed mechanism
- stakeholder contributions to developing the proposals will be particularly welcome



Phase 3 stage 1 report

Will be posted to website shortly.

Those on mailing list will be alerted (email to join list)

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