

Sustainability Impact Assessment of the Euro-Mediterranean Free Trade Area

Phase II Findings; Preliminary Phase III Report

Carol Chouchani Cherfane
Acting Team Leader / First Economic Affairs Officer
Private Sector and Enterprise Development Team
Sustainable Development and Productivity Division
Economic and Social Commission for Western Asia
 United Nations

SIA/EMFTA: Purpose

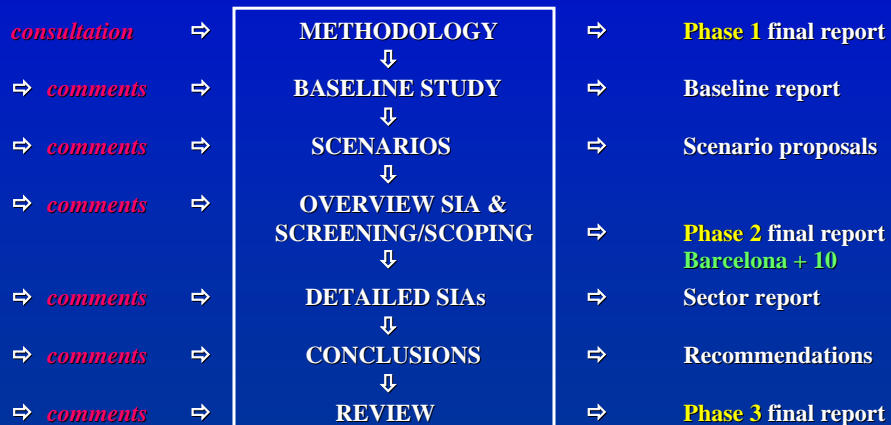
- The Euro-Mediterranean Conference of Ministers of Foreign Affairs in November 1995 set the year 2010 as the target date for the establishment of the Euro-Mediterranean Free Trade Area (EMFTA).
- EMFTA to be achieved by means of Euro-Med Association Agreements negotiated between the EU and Mediterranean 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 of the EMFTA
 - **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

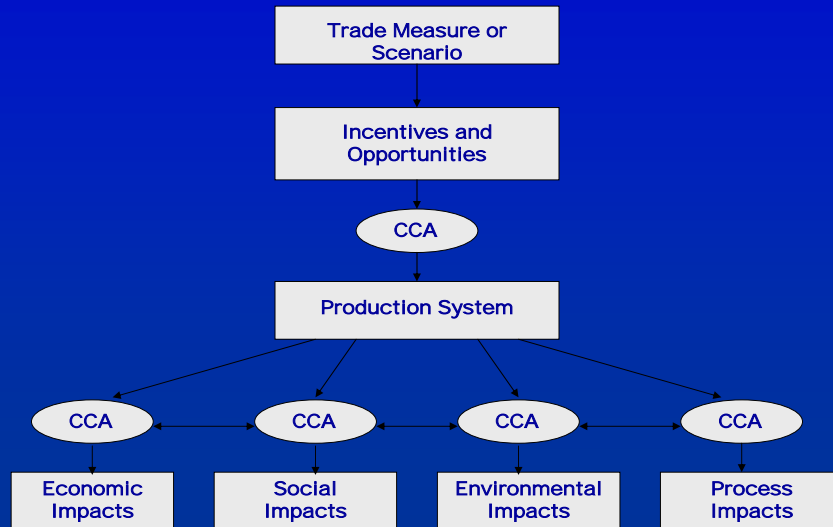
* ESCWA responsible for ensuring regional consultation to inform & ensure multi-stakeholder input during the SIA preparation process.

The SIA Process



⇒ SUPPORT FOR NEGOTIATIONS AND POLICY-MAKING

Causal chain analysis (CCA)



SIA Indicators

- 9 core indicators of sustainability outcomes
- 2 indicators of sustainable development processes

These aggregate indicators are:

- ◆ **Economic**
 - ◆ real income; fixed capital formation; employment
 - ◆ **Social**
 - ◆ poverty; health and education; equity
 - ◆ **Environmental**
 - ◆ biodiversity; environmental quality; natural resource stocks
 - ◆ **Process indicators**
 - ◆ adherence to sustainable development principles
 - ◆ effectiveness of sustainable development strategies
- Millennium Development Goals (MDGs)
 - Mediterranean Strategy for Sustainable Development (MSSD) indicators

Phase II Findings

Key findings: Aggregate affects

- Overall economic benefit – but small
- Consumer welfare in the region expected to benefit by 0.8% of GDP
 - *which corresponds to about 3-4 months of economic growth at typical growth rates*

Key findings: Economic impacts in MPCs

- Industrial trade liberalization may impact consumer welfare by an average of 0.8%, or -0.5% to +2% of GDP for specific Southern Mediterranean countries
- Larger economic benefits strongly dependent on technological development & the implementation of effective domestic & regional policies
- Significant adverse impact on government revenues (and hence on social, educational & health expenditures)
 - ◆ Revenue loss from industrial liberalization estimated for Lebanon (-5% GDP); Tunisia (-2% GDP); Morocco (-2% GDP)

Industrial products – Economic impacts of EMFTA liberalization

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
<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, Palestine, 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	↓	-

Agriculture – Economic impacts of EMFTA Liberalization

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				ST	LT
<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 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	↓	-

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Key findings: Social impacts in MPCs

- Significant adverse impact on unemployment
- Downward pressures on wage rates (industrial wages in the short term, and agricultural wages in the long term)
- 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

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, etc	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, etc	production changes, labour productivity	wages policy, workforce mobility, transferability of skills, long term growth	↓	-
social support	Algeria, Lebanon, Palestine, others less	government revenue decrease	compensation through other revenue generating activities	↓	↓
<u>Health and education</u>	Algeria, Lebanon, Palestine, others less	government revenue decrease	compensation through other activities	↓	↓
<u>Equity</u>					
income distribution	Algeria, Lebanon, Palestine, others less	consumer gains, govt revenue decrease	compensation through other 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	↑↓	↑↓

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	↓	↓

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.

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 – 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	↑↓	↓

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Key findings: Impacts in the EU

- Overall economic benefit – but marginal
 - ◆ Industrial trade liberalization may improve consumer welfare by 0.2% of GDP for EC countries
- 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 Sustainable Development

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)	-	-	-	-

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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)

Phase 3 – Preliminary Report

Study areas

1. **Environment-related aspects of liberalization**
 - ◆ 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**

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

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

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

- institutional infrastructure needed to accelerate rural diversification is weak, particularly for women & youth
- 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

Findings: agriculture (environmental and product standards & 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, except those in strengthening standard-setting institutions.

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 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 post-SIA

- proposals to be developed in next stage of Phase 3
- the proposals will cover:
 - ◆ indicators
 - ◆ existing monitoring mechanisms
 - ◆ capacity to support the mechanism & 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

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Please send us your comments!

SIA/EMFTA Project Contact Information

E-mail: sia-emfta@man.ac.uk

Website: <http://www.sia-trade.org/emfta>

website available Arabic, English & French

Thank you!