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**Economic, social and environmental impacts of the Euro-
Mediterranean Free Trade Area**

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Free Trade Area¹**

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Abstract

The paper presents the initial results of work being undertaken for the European Commission on the Sustainability Impact Assessment of the Euro-Mediterranean Free Trade Area. Through a combination of consultative processes and technical studies, the assessment aims to provide a reliable and widely accepted analysis of the potential economic, social and environmental impacts of the trade measures covered by the current and potential future trade agreements between the European Union (EU) and the ten partner countries of the Euro-Mediterranean Partnership, and between the partner countries themselves. The paper considers appropriate policy measures to maximise beneficial impacts and avoid or minimise adverse ones.

Keywords: trade, economic growth, poverty, social development, environment, sustainable development

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1. Introduction

The establishment of a Euro-Mediterranean Free Trade Area (EMFTA) is one of the key components of the Euro-Mediterranean Partnership (EMP), formed in the Barcelona Declaration of 1995 between the EU and the Mediterranean Partner Countries (MPCs) of the southern and eastern Mediterranean. The main aim of the Partnership is to create a common area of peace, stability and shared prosperity between the European Union and the MPCs. This is to be achieved through cooperation in three principal areas: political and safety partnership, economic and financial partnership, and social, cultural and humanitarian partnership. The EMFTA is one component of the economic and financial partnership, which is itself intended to contribute to the overall aim, of peace, stability and shared prosperity.

The Barcelona Declaration set the year 2010 as the target date for the gradual establishment of a free trade area, achieved by means of Association Agreements between the EU and each of the MPCs, together with agreements between the MPCs themselves. The current Association Agreements cover primarily trade in manufactured products, to be extended through future negotiations to include agriculture and services.

In the context of the Barcelona Declaration, trade liberalisation is not perceived as an end in itself, but as an essential tool contributing to the sustainable development of the region. This perception is based largely on classical trade theory, through which the removal of trade barriers is expected to deliver an economic gain to all trading partners. This broad analysis does not however take full account of dynamic effects, associated with the economic development of individual partner countries at different stages of development, and the changes which occur during the period of adjustment. Further, although an overall economic gain should in principle allow any adverse social or environmental impacts to be avoided, these costs may not be fully internalised in economic decisions, such that additional policy measures may be needed in order to prevent significant adverse impacts.

In order to take account of such effects, the European Commission has increasingly used sustainability impact assessments (SIA) to measure the impacts of trade liberalisation, as a contribution to developing domestic policies and regional initiatives which would produce optimal outcomes. This work was initiated in 1999 for WTO negotiations (Kirkpatrick, Lee and Morrissey 1999). At the 1999 Euro-Mediterranean Ministerial Meeting held in Stuttgart, the Commission undertook to carry out a Sustainability Impact Assessment (SIA) of the EMFTA. The Commission subsequently agreed to launch a study by the end of 2002. This paper summarises the assessment methods adopted for the study and reviews its initial results.

The SIA is being carried out in parallel with work by the Mediterranean Commission for Sustainable Development (MCSD), to prepare a Mediterranean Strategy for Sustainable Development (MSSD) (UNEP/MAP 2005). The work of the MCSD has been used in the SIA to help to identify the major issues of concern, and in the development of indicators for ongoing monitoring of actual impacts. The results of the SIA will in turn be available to the MCSD, particularly in relation to trade-related aspects of the further development of the MSSD.

The EC intends to use the results of the SIA as an input to its work related to:

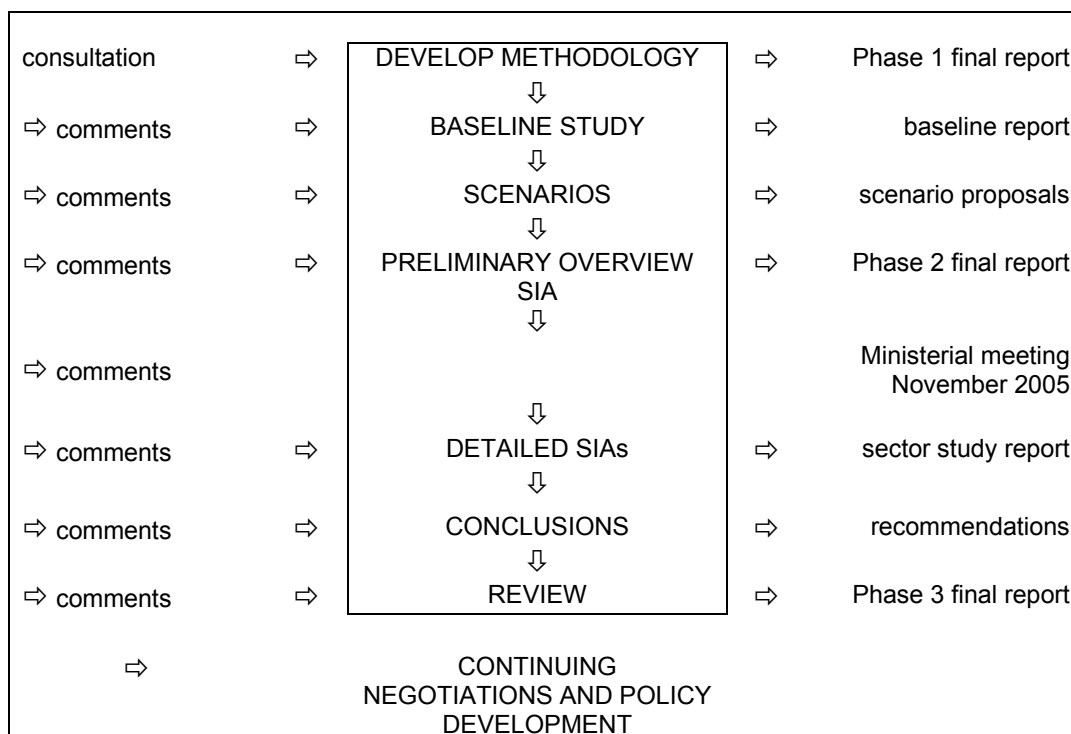
- Further integration of the principles and practices of sustainable development in ongoing and future trade negotiations with Mediterranean partners;
- Programming and planning of sector specific programmes in the various chapters of the Euro-Mediterranean Partnership;
- Input to the evaluations and future reviews of MEDA bilateral and regional programmes.

Additionally, it is also expected that MEDA partner countries and civil society will be able to make use of the results of the study, in the development of policies and action programmes related to trade liberalisation and the sustainable development of the region.

2. Assessment methodology

The aim of the SIA is to combine public debate with technical analysis, to provide information on the likely impacts of the EMFTA on the economic, social and environmental components of sustainable development, both in the EU and for MPCs. The process gathers different views and evaluates them in the light of available information, to provide objective information that is intended to inform the negotiations and contribute to the design of parallel policy measures to mitigate adverse effects and enhance beneficial ones. The process is summarised in Figure 1.

The technical analysis (shown in the central box of Figure 1) is informed by a consultation process which revolves around a series of published reports at various stages of the study. Following development of the methodology, a preliminary overview SIA has been conducted, which forms the basis of this paper. Following further consultation, more detailed SIA studies will be carried out, to investigate priority issues in more depth.

Figure 1. Overview of the SIA process

The study assesses the impacts of a postulated EMFTA scenario compared with a ‘without EMFTA’ baseline scenario. The EMFTA scenario has four components:

- a) *Industrial products.* The scenario is as described in the existing Association Agreements, which define the liberalisation of industrial products in detail.
- b) *Agriculture.* The scenario assumes full implementation of the Euro-Mediterranean Roadmap for Agriculture, as recommended for adoption at the Foreign Ministers’ meeting held in Luxembourg in May 2005. All tariff barriers are assumed to be removed, and all non-tariff barriers are assumed to be removed as far as practicable.
- c) *Services.* The scenario assumes the fullest practicable extent of liberalisation of all service sectors that are covered by GATS negotiations, including right of establishment and regulatory convergence. Barriers which are assumed to be removed are those defined in GATS Article XVI.
- d) *South-south liberalisation.* The scenario assumes full liberalisation between MPCs, comprising elimination of tariffs on goods amongst partner countries, and removal of barriers to trade in services amongst partner countries.

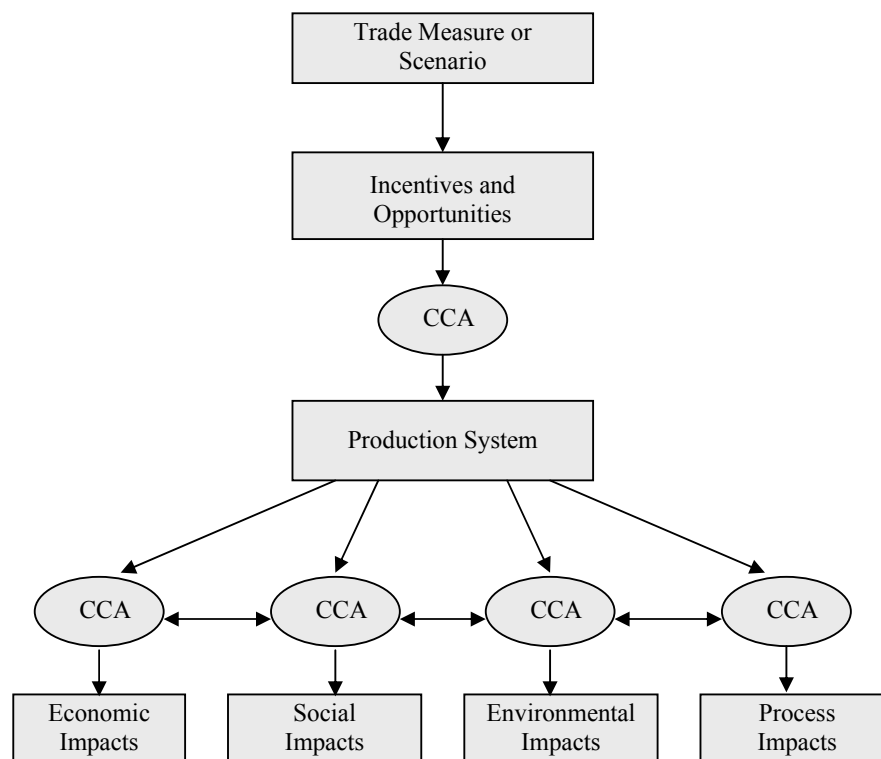
The preliminary overview SIA does not itself include detailed research on specific issues, but rather, draws together the results of published work, and evaluates it in the context of the EMFTA scenario assumed in the study.

Some progress has already been made with implementing the EMFTA, both for EU-MPC trade and south-south trade. The extent of this varies between MPCs, particularly for industrial products. For some countries, such as Tunisia, some of the predicted impacts will already have occurred. Available information on impacts experienced to date is used as a

cross-check of the theoretical analyses, and also to give a further indication of impacts which may arise in other countries.

The technical analysis is shown schematically in Figure 1.

Figure 1. Analysis of the impact of a trade measure on sustainable development



Causal chain analysis (CCA) is the fundamental assessment method used to assess the potential impacts, including, where appropriate, the causal analysis embedded in economic modelling studies, together with empirical evidence from the literature.

For each of the four components of the EMFTA scenario, the technical assessment begins with a critical analysis of relevant economic modelling studies of Mediterranean trade liberalisation. Some 80 such studies have been reviewed and interpreted, taking account of their various modelling assumptions and scenarios in relation to the scenario defined for the SIA study. The studies which have been examined are listed in Annex 1. The analysis leads to overall estimates of the likely magnitude and significance of economic impacts, which, when combined with other evidence, allows social and environmental impacts to be assessed.

In general, the assessment of economic, social and environmental impacts assumes that no constraints are placed on the extent or pace of liberalisation in implementing the EMFTA, and that no parallel policies are introduced to mitigate adverse effects. The assessment then proceeds to evaluate the types of measures that may be needed, to mitigate adverse impacts or enhance beneficial ones.

3. Preliminary findings

Details of the analysis and the sources used are presented in the final report of Phase 2 of the SIA-EMFTA study (IARC 2005). The findings are summarised below.

3.1. Impacts in the European Union

3.1.1. Assessed impacts

Economic impacts

The economic modelling studies examined vary in the details of the scenarios analysed, as well as in the modelling assumptions and data. Differences occur for example in details of tariff reductions, treatment of non-tariff barriers, harmonisation of standards, and how the models deal with loss of tariff revenue, exchange rates, investment decisions, long run productivity gains and technology transfer. The majority indicate that for the scenario used in the SIA, the change in economic welfare is generally positive but small. In the EU, an overall beneficial economic impact is expected for all four components of the scenario, but this is small in terms of direct economic efficiency. The results suggest a net gain in consumer welfare of the order of 0.2% of GDP for industrial products, with little difference between the short and long term. For the other three components of the scenario the additional impact on welfare for the EU is close to zero.

Larger economic gains may occur in the longer term for services, and to some extent for industrial products, associated with dynamic investment effects. These cannot be forecast with any certainty, as they will be strongly dependent on individual investment decisions and other aspects of economic and development policy in both the EU and MPCs.

Social impacts

No significant adverse social impacts in the EU are identified for liberalisation of trade in industrial products, services or south-south liberalisation. There are however potentially significant adverse social impacts for agricultural liberalisation, arising from higher agricultural imports from MPCs, and correspondingly lower production and employment in the EU. The significant impacts are restricted to local rural areas of southern European countries, primarily in Spain, Greece, Italy, Portugal and southern France, where the types of crops grown are similar to those produced in MPCs. Cyprus and Malta are not specifically covered by the SIA, but effects there can be expected to be similar. In some areas, the affected workers will include temporary migrants from MPCs, which will have a knock-on effect on social issues in MPCs.

Some of the modelling studies estimate the magnitude of production changes for specific products, which are greatest for fruits and vegetables, olive oil, fish and seafood, and sugar products. Local impacts on employment in the EU are expected to be significant in some areas unless appropriate mitigating measures are taken.

Environmental impacts

The production changes will be associated with significant local environmental impacts in southern EU countries, both positive and negative. Impacts on water resources, agricultural pollution and biodiversity are generally beneficial. Those on the agricultural value and

amenity value of rural environments may be adverse, unless appropriate mitigation is undertaken.

The assessment also indicates an overall adverse impact on climate change and global biodiversity, arising primarily through increased transport and greenhouse gas emissions, and pressures for increased agricultural production in biologically sensitive areas in MPCs. Both of these global scale effects, which arise from increased trade and increased production, can in principle be countered by technology or regulatory effects. In itself, the EMFTA scenario that has been assessed does not include measures which will strengthen these positive effects sufficiently to counter the adverse ones. The findings therefore reinforce the importance of international initiatives for stronger global environmental governance.

3.1.2. Mitigation and enhancement of impacts in the EU

The principal impacts identified in the EU are an overall economic benefit, along with some beneficial social and environmental impacts, and potentially adverse ones in local areas of southern European countries.

The overall economic benefit to the EU could in principle be maximised by full and rapid liberalisation of EU-MPC trade. This would however exacerbate the local adverse effects in the EU from the agricultural component of the scenario, particularly in the short term.

The adverse impacts can be mitigated by:

- limiting the extent of agricultural liberalisation, e.g. for sensitive products
- reducing the pace of agricultural liberalisation, to allow time for other measures to take effect
- parallel policy measures such as providing local support for the multi-functional role of agriculture, associated with reforms of the Common Agricultural Policy (CAP).

In order to develop an optimal balance between economic and other factors in the design of appropriate policy measures, more detailed research is needed. This should include a fuller evaluation of the environmental issues, as well the social and economic costs and benefits of alternative policies.

3.2. Impacts in Mediterranean Partner Countries

3.2.1. Industrial products

Economic impacts

In terms of direct effects on consumer welfare, the economic impacts of industrial liberalisation in MPCs are generally positive but fairly small. Most of the results for individual countries lie in the range minus 1 to plus 2 percent of GDP, with an average rise of about 0.8 percent. Short term results are generally near the middle of the range, moving towards the upper end in the long run. The greatest benefits occur in countries with high initial tariffs and a high proportion of trade with the EU.

Most of the studies show that where an increase in economic welfare is projected, this is associated with large increases in imports and short term falls in domestic production. The

modelling parameters generally anticipate that the effects on productivity will increase a country's competitiveness in the long run, sufficiently to achieve compensating exports without a major adjustment of the exchange rate and an associated decline in real incomes. However, the expected increase in export competitiveness will depend on the effectiveness of the institutional framework in helping firms to raise their productivity, or to shift into other activities which make use of the available labour at existing wage rates. In the absence of mitigating policy measures, the short-run production effects may be major and adverse if the pace of liberalisation exceeds the rate at which the economy can adjust.

In most of the MPCs, major short term decreases in domestic production occur for some sectors. The products for which adverse effects are greatest include furniture, transportation equipment, food and beverages, and in some cases, textiles. Some studies show a rise in textile production in some countries, arising from cheaper inputs, but they do not reveal the extent to which this gain may be lost to rising competition from low cost Asian exports.

Many of the studies also identify a significant loss in tariff revenues in partner countries, ranging up to about 5% in countries with high initial tariffs and a high proportion of trade with the EU. Unless mitigated by other means of revenue generation, the reduction in government expenditure is likely to have significant social impacts.

These projected impacts relate to full implementation of the EMFTA, in comparison with a without EMFTA baseline. For industrial products, some MPCs have already made significant progress in implementing the EMFTA, and so some of the impacts should already have been experienced. Tunisia is the most advanced of the partner countries in this respect, having begun tariff reductions in 1996. Taking account of parallel measures that have been implemented, the actual effects that have been observed in Tunisia are compatible with the estimated impacts projected from the modelling and other studies.

Social impacts

Most of the MPCs suffer from high unemployment, which is likely to be exacerbated unless appropriate policy measures are taken. In the long term, unemployment is expected to settle at a level determined by growth rates and various aspects of economic and other policy, with no further direct effect from the removal of industrial trade barriers. In the short-run, employment effects may be major and adverse without appropriate mitigation. Those manufacturing sectors which are subject to a decline in production will experience a decrease in employment of similar magnitude, only partially countered by increases in other sectors. The total effect on aggregate employment has been estimated from the modelling results. While fairly small in some MPCs, the estimates range up to a maximum of 8% of the total workforce in others.

The net effect on wage rates is also expected to be negative in the short run. In the long run, the influence of industrial trade liberalisation on wages and salaries can be expected to follow the level of skill in industrial production.

Without appropriate mitigation, adverse social effects can also be expected from the loss of tariff revenues, through reduced expenditure on health, education and social support programmes. Depending on the types of alternative tax that are chosen, residual social impacts may occur if their distributional effects differ from those of the import tax which they replace.

Other social impacts include a variety of cultural opportunities and challenges for MPCs, and gender impacts which are relatively neutral overall, varying between countries and dependent on domestic policy.

Environmental impacts

Short term environmental impacts are expected in MPCs associated with the production changes. Some of these are adverse but relatively small, and they are generally beneficial overall. Of greater importance are potential long term benefits from changes in production methods, associated with improvements in productivity and national regulatory environments.

3.2.2. Agriculture

Economic impacts

The modelling studies are broadly consistent in indicating additional welfare changes for agricultural liberalisation, on top of those from industrial liberalisation, ranging from zero to 0.5% of GDP, both short term and long term.

The welfare changes are associated with production changes, which are less severe than those for industrial products. Production of fruits and vegetables is expected to rise in most MPCs, and also olive oil in Tunisia, and sugar in countries such as Morocco and Egypt. MPC production in agro-food industries is also expected to rise. Production of cereals, other field crops, livestock and dairy produce is expected to decline.

The production increases in MPCs will be partly dependent on producers' ability to respond to the new market opportunities in the EU. Incentives to increase productivity and comply with EU standards are likely to be greatest for large scale commercial farms, and less for small farmers. This would tend to counter the expected net increase in employment, while increasing the incomes of those employed on larger farms. Those MPCs that have already modernised their production and marketing capabilities are expected to benefit most.

Loss of tariff revenues is expected to be significant in most MPCs, but only between a third and a half of that expected from liberalisation of industrial products.

Social impacts

All MPCs are expected to experience short term employment gains for producers of fruits and vegetables and some other products, with the largest effects occurring in Tunisia, Egypt and Morocco. Losses occur for producers of sugar, meat and dairy products, particularly in Egypt and Morocco. The overall short term effect is expected to be small but negative, as employment moves between sectors.

In the longer term, the changes in economic incentives may have significant effects on production patterns. The overall result is likely to be a fall in rural employment, with increased migration to the cities in search of alternative livelihoods. This may be exacerbated by fewer opportunities for migration to the EU, resulting from reduced EU production and a decline in the use of temporary migrant labour.

Wage rate effects are mixed in the short term. In the longer term, large scale producers in MPCs are expected to be better placed to take advantage of export opportunities and increase

their productivity, with a beneficial effect on wage rates. Smaller farms and household production incomes would correspondingly decline.

In both the short term and the long term, food prices are expected to fall as a result of EMFTA liberalisation, although the scenario does not include reductions in EU export subsidies associated with CAP reforms.

By increasing trade in food products and the incentives for commercial food production, the EMFTA may increase the vulnerability of both rural and urban households to fluctuations in EU and world market prices. The effects will be insignificant for households whose expenditure on basic foods is a small proportion of their incomes, but may be important for poorer households.

The changes in production patterns may have significant gender impacts. The commercial farms which are most likely to benefit from the export opportunities tend to employ a smaller proportion of women, as waged labour. Depending on local cultural factors, some export products such as fruit and flowers may employ a larger female workforce, but in conditions that may be less healthy and provide a poorer standard of living than traditional agriculture.

Environmental impacts

The environmental impacts associated with production changes are expected to be somewhat greater in MPCs than in the EU, since environmental regulation is generally weaker. They are expected to be relatively small overall, with beneficial effects where production falls and adverse ones where production rises. There is however potential for significant adverse local impacts in areas of high environmental stress, particularly in relation to water resources, soil fertility, and consequential effects on biodiversity.

The expected increase in rural-urban migration may also lead to longer term adverse effects on urban environments, unless appropriate mitigating action is taken.

3.2.3. Services

Economic impacts

The modelling studies indicate additional welfare gains for services liberalisation of between zero to 0.5% of GDP, on top of the welfare changes from industrial and agricultural liberalisation, with most of the effect occurring in the short term. When longer term investment effects are allowed for, the welfare gain increases to about 1%.

Several of the studies project much larger long term gains from increased openness to international trade in services, arising from greater competitiveness, technological changes and faster growth. Most of the benefits are likely to accrue through domestic reforms, with further potential benefits from multilateral liberalisation under WTO membership. The gain attributable to the EMFTA services scenario cannot be quantified reliably from the data available, but is likely to be small, and strongly dependent on country-specific aspects of the relationships between particular services and other sectors of the economy.

No significant direct impact on government revenues is expected. However, some aspects of services trade liberalisation require sophisticated regulation in order to achieve the intended

benefit and to avoid adverse impacts. Appropriate regulation would entail significant costs, which will have to be weighed against the emerging benefits.

Social impacts

Long term employment effects in MPCs are expected to be neutral, with unemployment levels determined primarily by growth rates, economic stability and other influences of domestic policy. Short term employment losses are expected to be minor overall, with potentially significant effects in those sub-sectors experiencing rapid productivity increases. The biggest losses attributable directly to the services component of the EMFTA are likely to occur in small retail outlets, while smaller gains may occur in the provision of electronic services to the EU. Some losses may occur in financial services, business services, transport services, water and wastewater industries, and energy and construction industries. In these sub-sectors however, much bigger effects would arise from domestic reforms designed to increase efficiency and competitiveness.

Most of the anticipated employment changes arise through increases in productivity, which are likely to be associated with a beneficial effect on wage levels. Gender impacts are expected to be relatively neutral. Expenditure on health and social services will not be directly affected, but downward pressure on costs is expected to have a beneficial effect on the quality of health services.

Social and health impacts from liberalisation of environmental services may be positive or negative, depending on the effectiveness of regulation and government support.

Environmental impacts

The services component of the EMFTA is expected to help increase the use of environmentally efficient management techniques and technologies in MPCs, and add to pressures for stronger environmental regulation and enforcement. This will be beneficial for air and water quality, and will also tend to reduce pressures on consumption of water and other resources.

Liberalisation of distribution services is expected to lead to goods being sourced from a wider area, with consequent adverse impacts on local pollution associated with increased transport. Changes in packaging techniques may have adverse impacts on waste generation.

3.2.4. South-south liberalisation

Economic impacts

Greater integration of MPC economies offers potentially large long term economic benefits for the region. Liberalisation of trade in goods and services between MPCs would be an essential part of such integration, but only one component. The modelling studies indicate that welfare changes directly attributable to south-south trade liberalisation will be small, and that most of the potential gains would come from fuller integration of MPC economies and associated domestic reforms. On its own, the economic impacts of south-south trade liberalisation are expected to be positive but small.

Total trade between MPCs is only a tenth of their trade with the EU, and so the effect on tax revenues is likely to be smaller by a similar proportion. The effect will be greater in countries

such as Lebanon whose trade with other MPCs is higher, and smaller in those such as Tunisia and Morocco where EU trade is higher. It is not expected to be a major effect in any of the MPCs.

Production changes will also be smaller than for liberalising trade with the EU, but significant impacts may nonetheless occur for particular types of product in those countries whose trade with other MPCs is relatively high. The effects may be in either direction, such as a 3% increase in mining and utilities that has been projected for Tunisia, and a corresponding decrease in Egypt.

Social impacts

Without effective parallel policy measures, short term losses of employment are likely in some sectors during the period of adjustment. The effects will be smaller than for liberalisation with the EU, and experienced mainly in those countries with high tariffs and relatively high volumes of trade with other MPCs. The longer term effect on unemployment is expected to be neutral.

South-south trade liberalisation is expected to increase incentives for higher productivity in both agriculture and manufacturing in all MPCs. Unless significant manufacturing growth is achieved, a small acceleration of rural-urban migration can be expected, with consequent adverse effects on urban living conditions. There may be some downward pressure on wage rates in some areas in the short term, but this is not expected to be large, and the long term effect of increasing productivity is likely to have a beneficial effect on wage rates in all areas.

In countries with high tariffs and relatively high volumes of trade with other MPCs, there will be a small loss of government revenues, with adverse effects on social and health expenditure, unless revenue is raised from alternative sources.

Small changes in the gender distribution of employment may occur in some areas, with an overall effect that is fairly neutral.

Environmental impacts

Environmental effects will generally be smaller than for liberalisation with the EU, but will nonetheless add to the need for stronger environmental management in order to avoid potentially adverse impacts. Positive and negative impacts will result from the changes in production, with an adverse effect from the pollution impacts of increased transport, partially countered by efficiency improvements from the liberalisation of transport services.

3.2.5. Mitigation and enhancement of impacts in MPCs

Because EU-MPC trade is a greater proportion of total MPC trade than it is of total EU trade, the potential impacts of the EMFTA tend to be greater in MPCs than in the EU. A range of parallel policy measures may be undertaken by MPCs, in order to mitigate adverse impacts and enhance beneficial ones. Additional action may be taken within the Euro-Mediterranean Partnership, to provide assistance and support to MPCs in implementing the necessary policies.

Mitigation of potentially adverse impacts

Many of the potential impacts would occur primarily in the short or medium term, which may be as long as ten to fifteen years over the full period of adjustment. Unless effective action is taken in the short term, some impacts may continue into the long term.

As with impacts in the EU, many of the adverse impacts can be mitigated by restricting the pace of liberalisation to allow other measures to take effect, or by limiting the extent of liberalisation, e.g. for sensitive products. Other necessary policy measures may include action by MPCs themselves, and supporting action by the EU through the partnership programmes of the Barcelona process.

Economic measures

- To counter urban unemployment and associated impacts resulting from industrial liberalisation, MPCs may take direct measures to help industrial companies increase their competitiveness *vis a vis* European companies. Such measures may be broadly similar to those taken by Tunisia in its *mise à niveau* programme, adapted to local needs and to the lessons learned from experience with the Tunisian programme. Measures may for example include assistance to both large scale producers and SMEs to access appropriate information and funding for modernisation, schemes to facilitate the development of MPCs' internal supply chains, and initiatives to strengthen the responsiveness of education and training systems to changing private sector needs.
- Some of this assistance may be targeted specifically at those manufacturing sectors which offer the greatest potential for expanding employment opportunities, in order to counter the loss of employment in rural areas due to accelerated commercialisation of agriculture. Any such targeting should take account of the threats to textile industries arising from the ending of the Multi-Fibre Agreement, and of individual MPCs' potential comparative advantages and disadvantages in other manufacturing sectors.
- Measures to facilitate the transition to less labour-intensive but more economically competitive commercial agriculture need to be fully integrated with parallel measures to support the livelihoods of subsistence farmers during the period of transition. Both types of measure need to be sufficiently flexible to take account of expanding or contracting employment opportunities in other sectors of MPC economies. Facilitation measures such as land reforms, skills training and micro-credit schemes for small-scale farmers may be combined with initiatives to promote the development of rural industries and accelerate the creation of alternative sources of income in rural areas.
- Tax reforms may be implemented in parallel with trade liberalisation, sufficiently early to avoid any loss of government revenue. New tax systems need to be such that lower income groups are not disadvantaged compared with previous mechanisms, based on the experience of MPCs that have already introduced reforms.

Social measures

- Many of the potentially adverse social impacts of the EMFTA can be avoided through economic measures such as those discussed above. The effectiveness of such measures in avoiding adverse social impacts should be carefully monitored, such that they may be revised as necessary.

- Other measures which form part of a more general process of social development in MPCs would contribute to avoiding adverse impacts from the EMFTA. These may for example include stronger minimum wage policies in parallel with regulatory reforms to increase the flexibility labour markets, and specific measures such as stronger labour standards for gender issues, for both agricultural and industrial employment.
- Provisions for food subsidies would need to be reviewed and if necessary revised, in such a way as to buffer the greater vulnerability to world price fluctuations that is expected to result from agricultural liberalisation.

Environmental measures

- In some MPCs such as Israel and Tunisia, existing environmental regulation is sufficiently strong to counter most of the expected adverse impacts without extensive further development. In other MPCs many aspects of environmental regulation will need to be strengthened, particularly in relation to water resources, land use planning and controls, and protection of biological diversity.
- Knowledge is limited in most MPCs on the state of the environment, current trends and areas of stress. In order to be able to identify and respond to actual impacts, better information is needed on environmental baseline data, and monitoring systems need to be strengthened.
- In order to better integrate environmental factors into all policy measures designed to optimise the impacts of the EMFTA, greater use may be made of environmental economics techniques. Institutional capacity to use these techniques would benefit from further strengthening in most MPCs.
- Measures to reduce or avoid adverse impacts associated with production changes may include assistance to large and small companies in environmental management and cleaner production systems, and promotion of environmentally sound farming practices.
- Measures to counter the adverse impacts of increased transport may include the strengthening of environmental standards for marine transport and commercial vehicles.
- The expected increase in the use of packaging may be partially countered by recycling schemes, in order to minimise the necessary infrastructural investment in solid waste management.

Potential EU support

- National initiatives to enhance the competitiveness of MPC industrial companies would benefit from collaborative research among all MPCs into the cost-effectiveness of past measures and potential future ones. EU financial support for such research would be advantageous.
- Detailed research into the social and environmental impacts of agricultural liberalisation in MPCs and southern EU countries may be combined, to take consistent account of the interactions. EU support for collaborative research involving both EU and MPC institutions may lead to coordination of policy responses to achieve optimal outcomes for both the EU and partner countries.
- Assistance may be provided for schemes providing wider dissemination of information on EU product standards and other market access constraints and opportunities.

- Continued support for stronger environmental management in MPCs may be targeted towards measures that are particularly relevant to EMFTA impacts. This may include strengthening institutional capacity for integrated economic, social and environmental planning, and integrated urban-rural and industrial-agricultural planning.
- Coordination of all EU support within the Barcelona process towards common sustainable development objectives may be strengthened by inter-agency screening of programme proposals against the priority actions defined in the Mediterranean Strategy for Sustainable Development (MSSD).
- The MSSD should itself be further developed to take account of continuing research into the economic, social and environmental impacts of greater regional integration.

Enhancement of potential benefits

Several of the policy measures discussed above for mitigation of adverse impacts would in parallel enhance beneficial ones, such as, for example, measures to enhance the competitiveness of MPC industrial companies, and to facilitate the transition from traditional to commercial agriculture.

One of the main findings of the SIA study is that the potential economic benefits of the EMFTA on its own are relatively small, and that much larger benefits may be realised through fuller integration of MPC economies in conjunction with the EMFTA. The most effective enhancement measures would therefore relate to the broader aspects of regional integration.

In this context, consideration should be given to integration not only between MPCs, but with other countries in North Africa and East Asia that are not part of the EMFTA. The SIA study has not attempted to evaluate the complexities of achieving wider integration of this nature, but it indicates that continued efforts in this direction would offer large potential rewards. Further, linking wider integration to the EMFTA and to the other aspects of the Barcelona process would help to secure the peace, stability and shared prosperity which the Euro-Mediterranean Partnership aims to achieve. Appropriate policy measures may for example include:

- Cooperative investment in regional transport and other infrastructure.
- The development of integrated regional industrial and agricultural policies, in order to take greater advantage of economies of scale within the region, achieve greater synergy of development strategies, and enable a concerted approach to accelerating the economic and social development of the region.
- The potentially significant adverse employment effects of both EU-MPC trade liberalisation and south-south liberalisation may be considerably eased by regional cooperation to achieve a smooth transition to greater complementarity in agricultural and industrial production.
- In support of such policies, regional institutions may be created to undertake research into common issues of economic, social and environmental development, and contribute to the development of regional and national policy initiatives, such as developing a common system of rules of origin, and regional approaches to dismantling non-tariff barriers.

4. Summary and conclusions

A combination of consultative processes and technical analysis has been used to assess the potential economic, social and environmental impacts of current and future trade agreements between the European Union and the partner countries of the Euro-Mediterranean Partnership, and of south-south liberalisation between the partner countries themselves.

The preliminary findings suggest that the economic impacts in both the EU and MPCs are generally beneficial but relatively small, and that they may be associated with potentially significant adverse effects in both the EU and most partner countries. The main issue of concern for the EU is an adverse effect on employment in local areas of southern European countries. The main concerns in MPCs are a potentially significant rise in overall unemployment, a significant loss of government revenues, and a number of potentially adverse social and environmental impacts related to the economic effects. Although many of these impacts would occur primarily in the short or medium term, some may continue into the long term unless effective action is taken.

A range of parallel policy measures have been identified for reducing or avoiding the potentially adverse impacts, and enhancing the beneficial ones. These include actions which may be taken separately by the EU and MPCs, and actions which may be taken under EU supported initiatives within the Barcelona process.

One of the main conclusions of the study is that larger economic benefits may be realised through fuller integration of MPC economies in conjunction with the EMFTA, than can be achieved through the EMFTA alone. A number of possible policy measures have been described.

Other recommendations for optimising the impacts of the EMFTA include a close alignment of Barcelona initiatives to the priority actions of the Mediterranean Strategy for Sustainable Development, and the further development of that strategy to take account of continuing research on the development of the region.

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