

SUSTAINABILITY IMPACT ASSESSMENT STUDY OF THE EURO-MEDITERRANEAN FREE TRADE AREA

SCENARIOS FOR TRADE INTEGRATION BETWEEN THE EU AND MEDITERRANEAN PARTNER COUNTRIES

Interim Report on Phase 2 of the SIA-EMFTA Project

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Abbreviations

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| EC | European Commission |
| EMFTA | Euro-Mediterranean Free Trade Area |
| EMP | Euro-Mediterranean Partnership |
| EU | European Union |
| EU-MED | EU-Mediterranean |
| FDI | Foreign Direct Investment |
| GATS | General Agreement on Trade in Services |
| IARC | Impact Assessment Research Centre |
| MAP | Mediterranean Action Plan |
| MPC | Mediterranean Partner Countries |
| MCSD | Mediterranean Commission for Sustainable Development |
| MSSD | Mediterranean Strategy for Sustainable Development |
| SIA | Sustainability Impact Assessment |
| UNEP | United Nations Environment Programme |
| WTO | World Trade Organisation |

1. Introduction

Phase 2 of the Sustainability Impact Assessment (SIA) of the Euro-Mediterranean Free Trade Area (EMFTA) involves undertaking a broad qualitative and, where possible and applicable, quantitative assessment of the economic, social and environmental impacts at regional level of on-going trade and market liberalisation and structural adjustment induced by the EMFTA, including initiatives for South-South regional trade integration. The outputs of this phase of the SIA study are:

- a Baseline Scenario Report.
- an Interim Progress Report (this report), which provides details of the different scenarios to be assessed, any interim findings thereunder, consistency with the approved work plan, and information on the structure of the final report of this Phase.
- a Final Report of the 2nd Phase, which will provide: a critical overview of the work; conclusions on the different scenarios chosen and an assessment of their impacts; justification for the key economic sectors proposed for further study under the 3rd Phase; recommendations on mutually supportive trade, environment and social policies and measures for capacity strengthening; and more focussed orientations for the 3rd Phase of the SIA.

The first two reports on Phase 2 are being circulated as consultation documents for comment, to be used in the remainder of the assessment. The first of these reports described the baseline economic, social and environmental situation in the Mediterranean Partner Countries (MPCs)¹. This second Phase 2 report describes the trade liberalisation scenarios whose potential impacts will be assessed using the methodology that was developed in Phase 1 of the project².

The report makes use of the criteria for developing scenarios which were agreed in Phase 1, in identifying the most probable 20-year scenarios for trade integration and related structural adjustment in the MEDA region. The scenario development takes into account the scoping studies undertaken during Phases 1 and 2, the adopted methodology, consultation with the European Commission and other stakeholders on the negotiation agendas, and existing work on prospective scenarios.

As well as describing the scenarios to be assessed, the report represents an Interim Progress Report for Phase 2 of the study, giving an overview of work to date, and its consistency with the approved work plan. The report also provides information on the proposed structure of the final report of Phase 2.

Comments and suggestions on the scenarios described in this report, and on all other aspects of the SIA, are invited through the project e-mail address:

sia-emfta@man.ac.uk

¹ IARC (2005)

² IARC (2004)

2. Negotiation Issues and Prospective Scenarios

The Phase 1 report defined two basic criteria for deciding the number, scope and content of potential scenarios, in addition to the baseline scenario against which they will be compared.

1. Closeness of scenarios to the specific trade measures contained in EU-MED Association Agreements (in applying criterion 1, separate account is taken of those trade measures for which details have yet to be agreed, as specified in the Association Agreements).
2. Relevance of the scenarios to the key issues and impacts identified in the overview study of Phase Two.

In applying criterion 1, separate account is taken of those trade measures for which details have yet to be agreed, as specified in the Association Agreements.

Criterion 1

All Association Agreements have been negotiated and most are in force. Once the signature with Syria is confirmed, all will be in place. The liberalisation of trade in industrial products between the EU and MPCs is defined in detail in the agreements. Liberalisation of services is described in outline only.

The conclusions of the Euro-Mediterranean Conference of Ministers of Foreign Affairs held in Luxembourg in May 2005 summarised the main areas subject to ongoing negotiation³. These are:

- continuing trade liberalisation in agricultural, processed agricultural products and fisheries, providing for a selected number of exceptions and timetables for gradual implementation, and taking into account the differences and individual characteristics of the agricultural sector in different countries
- liberalisation of trade in services and discussion on the right of establishment, taking into account the non-binding Framework Protocol on Services (Istanbul July 2004)
- expansion of South-South trade links in the region
- implementation of pan-Euromed cumulation of origin.
- increasing FDI
- simplification of bureaucratic procedures
- approximation of technical legislation in the area of standards and conformity assessment
- accompanying measures providing for the structural, institutional, legal and administrative support necessary in order to ease access to export markets
- measures of co-operation and technical assistance in the sanitary and phyto-sanitary sectors
- regional cooperation programme on rural development
- support measures to balance out the effects of structural changes in the affected sectors.

A Euro-Mediterranean Roadmap for Agriculture was recommended for adoption by other Ministers at the Luxembourg meeting. This outlines the main areas of the agricultural negotiations.

For liberalisation of trade in services, Ministers agreed on establishing a Framework Protocol at the Euro-Mediterranean Trade Ministerial Conference in Palermo in July 2003. The EC has presented a Working Paper for the Framework Protocol, which sets out requirements similar to those in the General Agreement on Trade in Services (GATS).

³ European Commission (2005)

Existing South-South trade agreements between Mediterranean Partner Countries (MPCs) have been summarised in the Phase 1 report. These are subject to ongoing bilateral and sub-regional negotiations between the MPCs.

Potential scenarios for deeper integration of trade within the region, with particular emphasis on services, have been discussed in a joint paper by the European Commission and the World Bank⁴. This analyses the adjustment needs and policy options associated with deeper integration, with emphasis on dynamics at the company level for individual sectors. Areas covered include rules of origin, the textile industry, and several key areas of services trade.

The need for deeper south-south integration is also stressed in the 2005 Femise report reviewing the first 10 years of the Barcelona process⁵. The report envisions a scenario which entails dismantling tariff barriers between MPCs as well as with the EU, removing non-tariff barriers, improving the environment for investment and financial flows, harmonisation of regulations, rules, procedures and legal frameworks, liberalising labour mobility, and improvements in infrastructure. Harmonisation of rules and standards with the EU and total cumulation of rules of origin are considered to be of particular importance.

In parallel, the Mediterranean Commission for Sustainable Development (MCSD) has prepared a Mediterranean Strategy for Sustainable Development (MSSD)⁶ for adoption at the 14th meeting of the Contracting Parties to the Barcelona Convention due to take place in November 2005. In relation to the EMFTA, the strategy calls for closer relationships between MPCs as well as with the EU. The strategy's envisioned scenario includes stronger relationships with other Middle Eastern countries, bilateral investment partnerships between northern and southern countries, new activities in services and cleaner production, appropriate transport management, promotion of sustainable tourism as a leading economic sector, sustainable agriculture and rural development, sustainable urban development, and sustainable management of coastal and marine resources.

Criterion 2

A range of key issues and impacts were identified in the overview study carried out in Phase 1 of the SIA and in the Baseline Scenario Report prepared in Phase 2. The proposed scenarios have been chosen in such a way as to capture all of these, along with any further issues and impacts which may be identified during the remainder of the study.

⁴ Müller-Jentsch (2005)

⁵ Femise (2005)

⁶ UNEP/MAP (2005) Mediterranean Strategy For Sustainable Development, UNEP(DEC)/MED WG. 277/4, United Nations Environment Programme Mediterranean Action Plan, Athens

3. Proposed Scenarios

The EMFTA scenarios

The baseline scenario is defined as the continuation of foreseeable trends, including traditional trade and foreign direct investment flows, as described in the first report on Phase 2 of the SIA study⁷. This provides a ‘without EMFTA’ scenario, as a comparison against which to assess other scenarios.

The current state of implementation of the EMFTA varies between partner countries, according to the dates of their Association Agreements and the degree of action taken to date. As a result, in some countries, some impacts may already have been experienced, depending on the time lags between causes and effects. Where possible, these impacts will be allowed for in the impact assessment, so that the SIA will assess the impacts of a postulated ‘with EMFTA’ future, as compared with the ‘without EMFTA’ baseline.

The scenarios for the EMFTA are defined in four parts, which can be taken together to comprise a single overall scenario for full implementation of the EMFTA. These cover the following four areas:

- industrial products
- agriculture
- services and investment
- south-south liberalisation

Scenario for industrial products

The liberalisation of industrial products is defined in detail in the Association Agreements. The scenario is taken to be as defined in the Agreements.

Scenario for agriculture

The Association Agreements do not specify the extent of agricultural liberalisation expected in the full EMFTA, but pave the way for negotiations. To steer the negotiation process, the EU has prepared a Euro-Mediterranean Roadmap for Agriculture, which was recommended for adoption by other Ministers at the Foreign Ministers’ meeting held in Luxembourg in May 2005.

The roadmap includes:

- a high degree of trade liberalisation for agricultural, processed agricultural and fishery products;
- gradual liberalisation towards this, with asymmetrical dismantling calendars, to give partners time to adapt;
- possible exclusion of a limited number of sensitive products, considering potentially negative economic and social consequences in some regions or in certain sectors;
- non-tariff aspects are to be addressed
- co-operation in areas complementary to agricultural trade, in particular as regards rural development, agricultural productivity, and production quality.

The SIA aims to provide information that will be of assistance to negotiators in all these areas. Rather than postulate what agreements might be reached, it will examine the fullest extent of liberalisation of agricultural trade that is considered practicable, in order to identify problem areas that may need to be addressed in the negotiations.

⁷ IARC (2005)

The scenario for agriculture therefore assumes full implementation of the roadmap.

- Potentially sensitive products are not excluded from liberalisation, except for any that may be defined as non-negotiable.
- All tariff barriers are assumed to be removed.
- All non-tariff barriers are assumed to be removed as far as practicable.
- No specific assumption is made about the pace of liberalisation, but the assessment will consider the impacts of liberalising rapidly or slowly.
- Co-operation in complementary areas is not included in the scenario, but will be considered by the impact assessment in relation to potential mitigation and enhancement measures.

Scenario for services and investment

The Association Agreements between the EU and Mediterranean Partner Countries mention the services sector, but little detail is defined in most areas. Commitments which WTO members have made under the General Agreement on Trade in Services (GATS) are confirmed, but no new trade measures are defined. The Association Agreements also establish convergence of regulatory standards, and are linked to other correlated measures such as the protection of intellectual property rights, workers' rights, and the environment.

The proposed Framework Protocol on Services sets out requirements on market access, national treatment, regional most-favoured nation treatment, domestic regulation and mutual recognition. These are similar to GATS requirements. It is anticipated that as the EMFTA is developed further, services agreements will include national schedules similar to GATS, but with areas in which commitments are or are not made defined by either positive lists or negative lists.

The scenario for services for the EMFTA will not postulate what agreements might be reached. It will instead examine the fullest practicable extent of liberalisation of those services under negotiation, in order to identify problem areas. Service sectors subject to negotiation are taken to cover the range included in GATS, namely:

- business (including professional and computer) services
- communication services
- construction and related engineering services
- distribution services
- educational services
- electronic services (call centres)
- environmental services
- financial (insurance and banking) services
- health-related and social services
- recreational, audio-visual, cultural and sporting services
- tourism and travel-related services
- transport services

The negotiations additionally cover:

- investment (right of establishment)
- regulatory convergence (e.g. for telecoms)

The scenario does not include intellectual property rights, government procurement or capital movements, which are understood not to be a priority for the negotiations.

Full liberalisation is assumed for GATS Modes 1, 2 and 3 (cross-border trade, consumption abroad and commercial presence), except for any cross-border trade restrictions that may be required for consumer protection. Commitments for Mode 4 (presence of natural persons) are assumed to cover temporary movement of intra-corporate transferees and contractual service suppliers, for all trade sectors. Barriers to trade in services which are assumed to be removed are those defined in GATS Article XVI.

Scenario for south-south liberalisation

Existing south-south trade agreements are summarised in the Phase 1 report. Most of these involve slow and gradual liberalisation of industrial and agricultural goods, with various exemptions and exclusions. Few south-south agreements have yet been made for services.

The EMFTA scenario for south-south liberalisation will not postulate what future agreements partner MPCs might make between themselves, but will instead examine a full liberalisation scenario in order to identify problem areas. This comprises:

- elimination of tariffs on goods amongst partner countries;
- removal of barriers to trade in services amongst partner countries.

4. Project Progress and Future Actions

The workplan for the remainder of the SIA-EMFTA project remains as presented in the Phase 1 report. During consultation on the Phase 1 final report, the timing of the Phase 2 report was linked to the forthcoming Ministerial meeting of the Euro-Mediterranean Partnership, to take place in November 2005. The Phase 2 final report will be released for consultation and review to be available from September 2005 in the preparations for the November Ministerial meeting.

The Phase 2 overview impact assessment for the EMFTA is being carried out according to the methodology described in the Phase 1 report, including:

- consideration of submissions from stakeholders, experts and other interested parties;
- analysis of results of econometric studies;
- review of empirical evidence of potential economic, social and environmental impacts;
- causal chain analysis;
- evaluation of significance of potential impacts.

The analysis being undertaken incorporates the results of some 80 econometric simulations under different liberalisation scenarios, over 100 submissions through the consultation process, and more than 500 published documents relevant to the potential sustainability impacts of the EMFTA.

These inputs are being analysed to provide a broad qualitative, and where practicable quantitative, assessment of the economic, social and environmental impacts at regional level, to assess opportunities for enhancing sustainability through available EU financial support and Partnership Agreements, and to provide regional, and where necessary country specific, recommendations for institutional strengthening and capacity building. The assessment will also identify priority issues and economic sectors, and make recommendations for the more detailed studies to be carried out at regional or national level during Phase 3 of the SIA.

The results of this analysis will be presented in the final report for Phase 2 of the study. It is anticipated that the final report for Phase 2 will be structured broadly as follows:

- Executive summary
- Introduction
- Impacts of liberalising trade in industrial products
- Impacts of liberalising agricultural trade
- Impacts of liberalising services and investment
- Impacts of south-south trade liberalisation
- Summary of sustainability impacts
- Implications for the Millennium Development Goals and MSSD indicators
- Opportunities for mitigation and enhancement
- Recommendations for institutional strengthening and capacity building
- Priority issues and economic sectors for Phase 3 studies
- Annexes – supporting documentation

Comments and suggestions on the scenarios described in this report, and on all other aspects of the SIA, are invited through the project e-mail address:

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