1. Introduction

This paper sets out the European Commission services' position on the Trade Sustainability Impact Assessment (SIA) of a Deep and Comprehensive Free Trade Agreement (DCFTA) between the European Union (EU) and Tunisia. The Trade SIA study was commissioned by the European Commission's Directorate General for Trade and was carried out by an independent consultancy company, Ecorys. It was finalised in January 2014.

The DCFTA negotiations have not been launched with Tunisia yet. The preparatory process for these negotiations is well advanced.

The final Trade SIA report consists of twelve sections: 1) Overview methodology and approach; 2) to 4) Assessment of the potential economic, social and environmental impacts of trade liberalisation under the DCFTA; 5) Consultations and Communication; 6) Screening and Scoping; 7) to 10) Specific sectorial analysis; 11) Summary and conclusions; 12) Policy recommendations.

The final report is publicly available on DG Trade's website and on the Tunisia Trade SIA website created by the consultants:


In line with the methodology guidelines, the study involved a series of public meetings with stakeholders in the EU and Tunisia, bilateral contacts with experts and on-line consultations. This allowed to take into account views from a broad base of actors from different sectors and to raise awareness about the on-going negotiations.

The present document constitutes the response from the Commission Services to the study's findings and recommendations on policy measures.

2. Framework for the Trade SIA relating to the negotiation of a DCFTA between the EU and Tunisia

2.1 Objectives of the Trade SIA

The European Commission services have been conducting Trade SIAs as part of the EU's trade policy-making process since 1999. The Trade SIA is designed to provide trade negotiators and policy-makers with an evidence-based ex-ante assessment of the potential
economic, social (including human rights) and environmental impacts that are likely to arise from a proposed trade agreement.

The Trade SIA should assess how the trade and trade-related provisions of the agreement under negotiation could affect economic, social, environmental issues in the EU and Tunisia in particular, but also in other relevant countries, and should propose measures (trade or non-trade) to maximise the benefits of the agreement and to prevent or minimise potential negative impacts. The Trade SIA is also an important tool for consultation and communication with stakeholders.

2.2 Methodology of the Trade SIA

The methodological framework for the Trade SIAs is described in the EC’s Handbook for Trade Sustainability Impact Assessment (EC, 2006).


The SIA methodology is designed to provide trade negotiators and policy-makers with an evidence-based ex-ante assessment of the potential economic, social (including human rights) and environmental impacts of the proposed trade agreements.

The methodology covers screening and scoping analysis, scenario analysis and quantitative modelling (Computable General Equilibrium model - CGE), additional quantitative and qualitative social, human rights and environmental impact analysis, causal chain analysis and sectorial analysis (incl. partial equilibrium modelling) and stakeholder consultations. Data for the CGE analysis is used from the GTAP 8.0 database.

A range of consultation methods were deployed at all stages of the report to gather inputs from key stakeholders: electronic consultation and documentation (discussion forum, websites, feedback forms); public meetings in the EU; an SIA workshop in Tunisia; visiting other relevant conferences / workshops; and personal interviews with individual stakeholder representatives, and targeted surveys.

The scenario used for the simulation was based on the following assumptions:

- The scenario developed for the DCFTA does not include any tariff reductions for industrial products since tariffs on industrial products had been fully eliminated on 1 January 2008 under the Association Agreement. The scenario assumes that tariffs reduction on agricultural, processed agricultural and fisheries products between the EU and Tunisia will be 95% liberalisation for Tunisian products entering the EU market and 80% liberalisation for EU products entering the Tunisian market;
- Non-Tariff Measures (NTMs) in services as expressed in Trade Costs Equivalents (TCEs) are assumed to be reduced by three per cent for Tunisian services entering the EU market, and eight per cent for EU services entering the Tunisian market;
- Non-Tariff Measures in goods are modelled either with a limited or ambitious level of regulatory approximation or no approximation at all, depending on the sector. In
addition, all agricultural and manufacturing sectors are assumed to benefit from trade facilitation;

• Spill-over effects are also taken into account, because if Tunisia complies with EU rules and regulations due to approximation (of its standards for example), it will also gain better access to third countries. This effect is expected to be 25 per cent of the level of approximation of the EU level (see previous bullet).

3. Overview of the Consultants' findings

3.1 Economic pillar

Given that the EU is one of Tunisia's most important trade partners, while this is not the case the other way around, the DCFTA-induced changes can be expected to be quite important for the Tunisian economy, while almost insignificant for the EU. The Trade SIA reports that, while the impact of the DCFTA on the EU's GDP, trade balance, wages and prices is expected to be negligible, it will translate into a significant 7 % GDP increase in the long run for Tunisia. This corresponds to an increase of the national income by EUR1.8 billion in the short run and EUR 2.5 billion in the long run. Reducing NTMs in goods is by far the most important contributor to the expected gains of the DCFTA, followed by agricultural tariff reductions. As for the trade flows, in the long run Tunisian exports to the EU are expected to increase by 20% and imports by 18%, thus leading to an improvement in Tunisia's trade balance. As for the impact on consumers, the study shows that the overall purchasing power for Tunisian citizens will improve significantly as wages for the Tunisian labour forces are expected to increase by about 7% while consumer prices only by 2%.

Sector specific changes for the EU are marginal with the exception of the vegetable oil sector, where a 2% decrease in output is expected. However, this sector accounts for only 0.1 per cent of total EU value added and thus this change will have an insignificant impact on the EU economy as a whole. For Tunisia, they concern in particular vegetables and fruits, which is one of the biggest sectors in terms of value added and employment in Tunisia. This sector is estimated to expand by 4 to 5 % in the long run. Also the vegetable oils sector is expected to experience a significant increase of 223% in value added. The major reason is the increased access to the EU market due to the lowering of tariffs. The industries which are expected to expand most rapidly within the manufacturing sectors are other machinery (+47%), other transport equipment (+20 %) and electrical machinery (+18%). The estimated growth in these sectors is primarily due to the reduction in goods NTMs – reduced trade costs are expected to boost these sectors' exports to the EU by 65%. Tunisia's textiles and wearing apparel sectors are estimated to be negatively affected - value added is estimated to decrease by 15.6% in the textiles sector and by 2.4% in the wearing apparel sector. Other sectors which are also expected to contract are non-mineral products, petrochemicals (both -15%) and leather goods (-11%). Nevertheless, these sectors are relatively small in terms of output, so the overall effect on the economy will be limited. As for services, the two biggest sectors within services, i.e. trade and public and other services, are both expected to expand as a result of the DCFTA.
The EU also supports Tunisia's participation in the regional Euro-Mediterranean industrial cooperation process which focuses on SME development based on the Small Business Act for Europe.

3.2. Social pillar

The estimated rate of labour displacement in Tunisia induced by the DCFTA is relatively high. About 8% of more skilled labour and 11% of less skilled labour is expected to shift among sectors. The increased dynamics in the labour market will possibly create both opportunities for the currently unemployed and a threat to those potentially vulnerable to lose their jobs. Also, the significant wage increase expected as a result of the DCFTA indicates that demand for labour in general will increase. In particular vegetables and fruit (+15%), trade and public and other services sectors (+17%) are expected to benefit from the DCFTA in terms of employment. With regard to the labour market in Tunisia, which is characterised by limited job creation and by jobs in predominantly low-skill sectors, the overall impact of the DCFTA in terms of unemployment among less skilled workers is likely to be beneficial. As regards rights at work, for sectors subjects to the negotiations, the DCFTA is expected to oblige Tunisian products to comply with, amongst others, EU standards directly affecting working conditions (e.g. restrictions on use of dangerous chemical substances). The inclusion of a sustainable development chapter in the DCFTA aims to help maintain a good standard of rights at work. This chapter is likely to create a monitoring mechanism that includes civil society, trade unions and business representatives. The DCFTA may also encourage improvements of labour standards thus complementing the cooperation in the social field as established in the Association Agreement and in the European Neighbourhood Policy Action Plan for the years 2013 – 2017.

With respect to human rights, the SIA provides a comprehensive survey of the existing situation and a general assessment of the potential impact of a DCFTA. The DCFTA is expected to mainly affect economic and social rights and not cultural, civil or political rights. The already existing, horizontal human rights provisions of the Association Agreement will remain untouched and valid also for the future DCFTA component. The overall effect of the DCFTA on the human rights situation in Tunisia is likely to be small but positive and largely indirect. No detailed analysis was conducted by the consultant on the potential implications and specific impacts on human rights at sectoral level or in connection with particular regulatory measures envisaged (such as improvement of business environment, right of establishment, intellectual property, etc.). Nonetheless, given the nature of the DCFTA, any such impact is expected to be very limited and in any case, indirect.
3.3. Environmental pillar

The DCFTA is going to be just one of several forces that will influence the environmental developments in Tunisia in the future and its conclusion is expected to have a combination of positive and negative environmental effects. The overall impact is difficult to predict, but it seems that the effects on environmental variables will be very small. Global CO2 emissions will likely remain unchanged and Tunisian land use will likely increase by around 1%.

As for waste, waste production of households is expected to increase due to the increase of economic activity as a result of the DCFTA. Tunisia currently has difficulties with waste collection and recycling, which together with the increase in economic activity may negatively affect the waste situation. As for water, Tunisia is a country with scarce water resources. This is a constraining factor to development of the Tunisian economy and further improvement of living standards. The DCFTA is likely to impact key sectors for Tunisia such as agriculture, phosphate mining and tourism, for instance. Production of vegetable and fruits as well as production of vegetable oil will increase, which are among the most intensely irrigated agricultural products.

4. The Commission services' views on the policy recommendations made by the consultants

The consultants list a set of trade-related and cooperation-related policy recommendations with the purpose of enhancing the positive impacts and preventing or mitigating the negative impacts that they have identified in their study. The main recommendations, as presented in the Trade SIA's executive summary and the Commission services' comments, are presented in this chapter.

4.1 Economic pillar

a) Consultants' policy recommendation:

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Potential to address</th>
<th>Within the DCFTA</th>
<th>Outside the DCFTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allow for phasing in of tariff reduction or regulatory approximation at sector level, especially for those sectors where the economic impact will be high.</td>
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<td>v</td>
<td></td>
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<tr>
<td>Facilitation of technical assistance and capacity building in the regulatory approximation process, based on a needs assessment.</td>
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<td>v</td>
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<tr>
<td>Develop a strategy to increase the value added of exports.</td>
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<tr>
<td>Increase awareness of the DCFTA and its implications.</td>
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<td>v</td>
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<tr>
<td>Provide internationalisation support to SMEs.</td>
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<td></td>
<td>v</td>
</tr>
</tbody>
</table>
b) Commission services’ reaction:

The Commission services have taken note of the above set of recommendations. Several recommendations to be addressed within the DCFTA have been taken on board during the preparations of the launch of the negotiations and will be taken into account during the future negotiations. The Commission is willing to consider phasing in of tariff reductions or/and regulatory approximation, as appropriate. As for technical assistance, discussions on how best to address the need for technical assistance related to the negotiations and implementation of the future DCFTA have been launched with the Tunisian side even if negotiations have not yet been launched. Tunisia's active involvement will be necessary though in order to identify in more detail its needs for accompanying measures, in particular regarding sectors such as agriculture or services. Similar measures were implemented to accompany the industrial tariffs dismantling under the Association Agreement.

The future negotiations will include a chapter on investment protection as well as chapters on key areas of the business environment such as competition or public procurement. These chapters of the future DCFTA will help to stimulate on-going improvements in business and investment climate in Tunisia.

The other recommendations will likely not be addressed directly in the DCFTA. Nevertheless the Commission is undertaking actions in certain areas in order to see whether it can help put into practice some of the recommendations. This is for example the case for the technical assistance and capacity building to support the internationalisation of SMEs.

In this regard, there are currently two ongoing programmes aiming at improving the competitiveness of Tunisian private sector and improving their access to international markets. The internationalisation and competitiveness of Tunisian industrial companies, including SME, is currently supported by the EU-financed project PCAM ("Programme d’appui à la facilitation de l’accès au marché") which offers a range of services in areas such as quality and meeting regulatory requirements on the EU market. The PCAM follows up on previous projects to the benefit of the Tunisian private sector (notably the "Programme de Mise à Niveau") which also aimed at strengthening companies –including SMEs- international competitiveness.

The PCAM has so far reinforced the capacities of Technical Centers’ laboratories and is currently accompanying them towards accreditation of their activities. Once accredited, Tunisian companies could benefit from product accreditation in line with EU legislation and thus gain better access to EU market. Furthermore, the programme has supported so far more than 400 industrial companies in all regions of Tunisia, in order to improve their competitiveness and assist towards certification of their systems and products.

In addition to PCAM, the Programme to Support the Competitiveness of Services (PACS) aiming at reinforcing the service sector in Tunisia has recently been restructured to add a
major component that will provide direct technical assistance to Tunisian service companies through a delegation agreement with the EBRD. The overall objective of the Action is to enhance the competitiveness and productivity of the SMEs operating in the services sector with a special emphasis on ICT, transport and logistics, professional services, tourism and handicrafts subsectors in order to raise their contribution to the country’s economic growth and increase job creation. This action is expected to improve SME performance by providing business advice from international advisers and local consultants; transfer industry know-how to SMEs through the dissemination of best practices and success model; strengthen the quality and supply of local business advisory services; and reinforce institutional capacities of professional associations and intermediary organisations.

Furthermore, the EU Delegation in Tunis is currently preparing for the Annual Action a new programme targeting the private sector/vocational training system that will aim, among others, at supporting private sector initiatives and promoting at local level the role of the private sector in the decision making process. In addition, support to the internationalisation of SMEs - including enhanced access to finance - is under preparation in the NIF in partnership with Financial Institutions (DCFTA South support facility).

The EU and other major development players are also actively involved in assisting the Tunisian authorities in the development of their “new development model” which inter alia aims to increase the value added of production and exports.

Finally, there are a number of on-going twinning projects aiming at facilitating technical assistance and capacity building in the regulatory approximation process in areas such as market surveillance, consumers’ protection and quality control, the standardisation, certification and commercial register, phytosanitary control, chemicals control or metrology. Future twinnings, including to support the DCFTA negotiation process, could be envisaged if deemed relevant by Tunisian authorities. There is also ongoing cooperation discussion with other donors, e.g. Member States and especially international financial institutions, which finance projects and activities in support of SMEs internationalisation (most notably the World Bank “Programme de Développement des Exportations” currently in its third phase).

In addition, the EU approved a Macrofinancial Assistance (MFA) operation in May 2014 of EUR 300 million for Tunisia. The disbursements are subject to the completion of a number of policy reforms agreed to in a Memorandum of Understanding. Several of these actions address some of the above recommendations, notably in relation to the preparatory regulatory approximation and capacity building work related to the launch of negotiations of an Agreement on Conformity Assessment and Acceptance (ACAA) of industrial products between the EU and Tunisia.

4.2. Social pillar

a) Consultants’ policy recommendation:

<table>
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<tr>
<th>Policy Measure</th>
<th>Potential to address</th>
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<tbody>
<tr>
<td></td>
<td>Within the DCFTA</td>
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</table>

7
b) Commission services’ reaction:

The Commission services have taken note of the above set of recommendations. Several recommendations to be addressed within the DCFTA will be taken on board in future negotiations. The Commission is willing to consider phasing in of regulatory approximation at sector level, as appropriate. It will be for the Tunisian side to identify the sectors that are most relevant in this respect. The future DCFTA should include a comprehensive Trade and Sustainable Development chapter aiming to promote high levels of labour protection. This chapter would reiterate both Parties' commitments to effectively implement ratified ILO conventions and to consider ratification of further international conventions on the matter, to enforce domestic legislation in the area of labour and not to lower labour standards in order to attract trade or investment. A mechanism to effectively monitor and follow such provisions should also be incorporated into the agreement and would include regular government-to-
government dialogue as well as dialogue with civil society representatives, including social partners, and the possibility of recourse to an independent panel of experts.

As regards preparation and negotiations of the DCFTA, Tunisia plans to closely involve social partners, associations, NGOs, academics, individual economic operators, political parties, etc. into this process. The first consultation of the civil society organized by the Tunisian government took place on 18 June 2014. It was only the first out of several upcoming events planned. A Tunisian website dedicated to the DCFTA has been created at www.Tunisie-ue-aleca.tn.

The EU supported project "Mobilisation de la société civile tunisienne sur le suivi des relations entre l’Union européenne et la Tunisie" implemented by the Euro-Mediterranean human rights network is also actively following the preparations of DCFTA negotiations.

The other recommendations cannot be addressed directly in the DCFTA. Nevertheless, the Commission is undertaking actions in certain areas in order to explore whether it can help to put into practice some of the recommendations. These measures can be covered to a certain degree by technical assistance.

The EU approved a Macrofinancial Assistance (MFA) operation in May 2014 of EUR 300 million for Tunisia. The disbursements are subject to the completion of a number of policy reforms agreed to in a Memorandum of Understanding. Several of these actions address some of the above recommendations, notably in relation to protection of vulnerable social groups in the context of the reform of energy subsidies through an improved targeting of the social safety nets and the reinforcement of a cash transfer support programme to compensate vulnerable households affected by the reform of the energy price subsidies.

Under thematic programmes, the EU Delegation is currently responsible for a total of 54 projects worth EUR16 million, funded by the European Instrument for Democracy and Human Rights (EIDHR), the Instrument for Stability (IfS), the Non State Actors programme (NSA), the Civil Society Facility and the European Neighbourhood Policy Instrument/European Neighbourhood Instrument instruments. The projects, implemented by local and international NGOs, range from support to women's rights, freedom of expression and promotion of democratic values, fight against torture, domestic observation of elections, support to the development of an independent civil society and the involvement of citizens' associations in the definition of the country's reform programme, to support to local development. Calls for proposals are launched regularly on a variety of topics and new NGO projects are expected to be signed in 2015.

Furthermore, as mentioned in the previous section, the EU Delegation is currently preparing a new programme for the AAP 2015 focusing on private sector development and vocational training system reform that aims at improving the employability of those entering the labour market. It will focus on developing more comprehensive and integrated policies and support the reform of the vocational training system to better respond to the needs of local labour markets.
The EU Delegation is also engaged in a political dialogue with the Tunisian authorities on issues of employment, vocational training and social dialogue. A Budget Support operation for the period 2015-2016 (PAR-4) provides an axis that will be dedicated to these issues.

In addition, the EU is supporting through the Neighbourhood Instrument Facility a programme implemented by the Agence Française de Développement (PAFIP) aiming at making more effective the Tunisian vocational training system as outgoing vector insertion in the labor market through improving the quality of training by a rise in overall range of the device and thus support its actors, strengthening the link training - workplace by encouraging the opening of the device on its economic environment in order to promote sustainable socio-professional integration of young graduates. The programme is expected to start in 2015.

Moreover, under the Budget Support operation "Programme d'appui à la relance – phase 2” a total of seven grants have been awarded in 2014 in the area of employment policies aiming at the creation of employment opportunities particularly for categories of persons and in the regions most affected by the problem of unemployment and strengthen the employability of job seekers to lead to concrete job opportunities, the support and assistance to those working in the informal economy to organise, structure and develop their businesses, and strengthening the capacity of social partners at national and local level to enable them to play a more active role on employment-related issues.

A twinning project providing institutional capacity building to the Ministry of Employment and Vocational Training has recently come to an end.

Furthermore, a Budget Support operation called PEFESE ("Programme d’appui à l’Éducation, à la Formation Professionnelle, à l’Enseignement Supérieur et à l’Employabilité des diplômés") focusing on vocational training, the education system and employability was recently concluded and served as a useful framework to promote coordination among the concerned institutions in order to define more effective policies. Lessons learnt throughout the implementation of this project will be a useful starting point for future actions.

Under the framework of the Union for the Mediterranean, Tunisia is a member of the High Level Working Group on Employment and Labour. In this context, the EU supports recent ad hoc work groups to identify innovative initiatives for job creation in the formal sector, and framework conditions for the good functioning of bipartite and tripartite social dialogue.

4.3. Environmental pillar

a) Consultants' policy recommendation:

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Potential to address</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Within the DCFTA</td>
</tr>
<tr>
<td>Create incentives for environmentally friendly production.</td>
<td>✓</td>
</tr>
<tr>
<td>Maintain/further improve incentives to improve efficient use of water in agricultural and industrial production.</td>
<td></td>
</tr>
<tr>
<td>Improve waste collection and waste management systems.</td>
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</table>
Consider creating mechanisms for monitoring of environmental (and social) impact of the DCFTA (and more broadly EU-Tunisia relations).

b) Commission services’ reaction:

The Commission services have taken note of the above set of recommendations. Several recommendations that could be addressed within the DCFTA have been taken in consideration during the preparation of the negotiations and will also be taken into account in future negotiations. The DCFTA should include a number of elements that aim to ensure that environmental policy-making objectives are not undermined and effective policy is encouraged. In this regard, the chapter on trade and sustainable development in particular would contain the commitment to uphold the existing levels of protection, and prohibition of derogation from the existing domestic environmental laws, or other efforts aiming at lowering the level of protections in order to attract trade or investment. The chapter would also reaffirm the obligation to effectively implement the multilateral agreements to which the EU and Tunisia are already parties and encourage taking further measures that do not constitute an unjustified discrimination in trade. Furthermore, the Commission will propose to include a monitoring mechanism, both via regular government-to-government dialogue as well as with civil society, including social partners, to oversee the implementation of the DCFTA and its environmental and social impacts.

The other recommendations cannot be addressed directly in the DCFTA. Nevertheless, the Commission is undertaking actions in certain areas in order to explore whether it can help to put into practice some of the recommendations. There are ongoing or future technical assistance projects in some of the areas mentioned.

Under the bilateral Action plan, the EU is notably supporting Tunisia to enhance environmental governance including waste management and integrated water resource management. Sustainability issues will be mainstreamed in future EU assistance to Tunisia and regional development including waste management was identified as a specific sector for support.

A project to support environmental governance in the region of Gabes was adopted at the end of 2013 and was recently launched. Even though its area of intervention is limited to a specific region, it is expected that the methodological set up that will be used could be applied to other areas of Tunisia.

The Programme for Environment and Energy aims at consolidating a sustainable strategy in the fields of environment and energy management.

As concerns climate change, the EU further support's Tunisia's efforts to reduce their GHG emissions, namely by support of Nationally Appropriate Mitigation Actions in various sectors, including cement, agriculture and waste.
Tunisia actively participates in the activities of the EU’s regional environment and climate change initiatives, including in particular projects on depollution of the Mediterranean and integrated water governance, and on low carbon and climate resilient development supported by the regional climate change expert group. A regional project on Sustainable Consumption and Production was launched in 2014 for an amount of EUR23 million.

4.4 Sector-specific: vegetables and fruits

a) Consultants' policy recommendation:

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Potential to address</th>
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</thead>
<tbody>
<tr>
<td>Education of farmers about new technologies</td>
<td>✓</td>
</tr>
<tr>
<td>Financial support for investments in irrigation systems</td>
<td>✓</td>
</tr>
<tr>
<td>Environmental policies to prevent from further desertification, land erosion and depletion of water resources</td>
<td>✓</td>
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</tbody>
</table>

b) Commission services’ reaction:

The consultants’ recommendations on this sector cannot be addressed directly in the DCFTA. Nevertheless the Commission is undertaking actions in certain areas in order to explore whether it can help to put into practice some of the recommendations by other means.

The ENPARD programme (EUR 10 million) was recently signed to support the definition of strategies and the implementation of practices in the agricultural sector, promoting the active involvement of local population and civil society organisation.

4.5 Sector-specific: Textiles, clothing and leather

a) Consultants' policy recommendation:

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Potential to address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitor social and environmental effects in the sector.</td>
<td>✓</td>
</tr>
<tr>
<td>Promote corporate social responsibility.</td>
<td>✓</td>
</tr>
<tr>
<td>Promote investments in the sector to upgrade processes and products, potentially allowing for the move away from (dependent) subcontracting and consequently perform more activities along the value chain.</td>
<td>✓</td>
</tr>
<tr>
<td>Establish streamlined support structures for Tunisian firms, particularly SMEs, to enhance their understanding of EU market access requirements.</td>
<td>✓</td>
</tr>
</tbody>
</table>
b) Commission services’ reaction:

The Commission services have taken note of the above set of recommendations. The two above mentioned recommendations to be addressed within the DCFTA, i.e. monitoring of social and environmental effects, and promoting social responsibility in the sector should be partially taken on board in the Trade and Sustainable Development chapter via provisions on labour and social issues. The starting point for discussion on these matters can be the Parties' existing commitments in relevant areas, including the ILO 1998 Declaration on Fundamental rights and Principles at Work, as well as its follow up, and the more recent 2008 ILO Declaration on Social Justice for a Fair Globalisation, supported and approved by all ILO members.

As part of the European Neighbourhood Policy and the Working Group on Euro-Mediterranean Industrial Cooperation, since 2004, Tunisia has been an active member of the Euro-Mediterranean dialogue on textile and clothing industry – the only sector-based dialogue the European Union carries out with Mediterranean partner countries. The Dialogue provides a platform for an exchange of experiences, good practice and information on available instruments and initiatives to improve the competitiveness of the textile and clothing industry and other relevant stakeholders across the Euro-Mediterranean Area. The participants represent national administrations, industrial associations, chambers of commerce, enterprises, trade unions, and research/educational centres involved with textile and clothing sector from EU Member States, Mediterranean partner countries, and, recently Western Balkans. In practice, the Dialogue consists of annual conferences dedicated to a theme important for the competitiveness of textile industry across the Pan Euro-Mediterranean Area, notably innovation, creativity, IPR, funding, skills development and social dialogue.

The internationalisation and competitiveness of Tunisian industrial companies, including in the textile and clothing sector, is currently supported by the above mentioned EU financed project PCAM (“Programme d’appui à la facilitation de l’accès au marché”), which offers a range of services in areas such as quality and meeting regulatory requirements on the EU market. The PCAM follows up on previous projects to the benefit of the Tunisian private sector (notably the "Programme de Mise à Niveau") which also aimed at strengthening companies international competitiveness and access to markets. Furthermore, Tunisia is eligible for other technical assistance actions that could target this specific sector, in particular through the TAIEX initiative.

The other recommendations cannot be addressed directly in the DCFTA. Nevertheless the Commission is undertaking actions in certain areas in order to see whether it can help to put into practice some of the recommendations.

4.6 Sector-specific: retail trade
a) Consultants' policy recommendation:

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Potential to address</th>
<th>Within the DCFTA</th>
<th>Outside the DCFTA</th>
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<tbody>
<tr>
<td>Remove (or reduce) foreign ownership limitations in the retail sector (and other service sectors).</td>
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<tr>
<td>Reduce administrative barriers hindering the commercial development of retail property.</td>
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<tr>
<td>Support efforts to enhance competitiveness of small retail businesses and reduce fragmentation of the ‘traditional’ retail sector.</td>
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<td></td>
<td>v</td>
</tr>
</tbody>
</table>

b) Commission services’ reaction:

The removal or reduction of foreign ownership limitations in the retail sector (and other service sectors) in Tunisia can be realised through the provisions set out in the Chapter on Services. The provisions of the DCFTA should help remove the barriers and facilitate the establishment of foreigners in Tunisia overall, including the sector in question. The final outcome will largely depend on respective decisions by both partners as to how far they want to commit at this stage.

The other recommendations cannot be addressed directly in the DCFTA. Nevertheless the Commission is undertaking actions in certain areas in order to explore whether it can help to put into practice some of the recommendations. In particular, some actions could be put in place in the framework of the implementation of the above mentioned "Programme d’Appui à la Competitivité des Services" (PASC).

4.7 Sector-specific: Water scarcity and water quality

a) Consultants' policy recommendation:

<table>
<thead>
<tr>
<th>Policy Measure</th>
<th>Potential to address</th>
<th>Within the DCFTA</th>
<th>Outside the DCFTA</th>
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</thead>
<tbody>
<tr>
<td>Law enforcement for industry compliance to standards.</td>
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<td></td>
<td>v</td>
</tr>
<tr>
<td>Improved water treatment and recycling.</td>
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<td></td>
<td>v</td>
</tr>
<tr>
<td>Development of less water resources consuming strategies in agriculture.</td>
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<td></td>
<td>v</td>
</tr>
<tr>
<td>Promote sustainable water resources management in the tourism sector.</td>
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<td>v</td>
</tr>
</tbody>
</table>

b) Commission services’ reaction:
First of all, it is important that the correct balance be found between economic growth and sustainable exploitation of water resources. The consultants’ recommendations can partially be addressed by the environmental provisions which would be included in the Trade and Sustainable Development chapter, such as those regarding recognition of the importance of global environmental governance and on Multilateral Environmental Agreements (MEAs). However, they can mostly be realised outside of the DCFTAs.

The EU is currently supporting Tunisia on integrated water management practices in agriculture and rural development (PAPS Eau 2011-2015) and also through SWIM, an EU-financed regional project on Sustainable Water Integrated Management.

A specific focus on Maghreb cooperation in the area of water management and shared aquifers is planned in the future, based on the 5+5 forum intentions to increase cooperation in this area.

Conclusions

A key objective that the EU systematically pursues both multilaterally and in all its bilateral and regional trade negotiations is to fully exploit the important contribution that trade can make to sustainable development. In this context, the DCFTA negotiations between the EU and Tunisia, aiming at enhancing EU-Tunisia integration and co-operation and promoting economic growth and good neighbourly relations, present not only opportunities but also challenges in respect of sustainable development.

The Commission services have noted the findings and recommendations of the trade SIA report and are taking them into consideration during the process of preparation of the negotiations with Tunisia and will also take them into account in future negotiations. As the DCFTA includes a broad range of sectors within its scope, the Trade SIA has highlighted the interconnected nature of the economic, social and environmental impacts the agreement might have. However, a number of issues depend on the results of the negotiations as well as on other external (economic) factors that an ex-ante assessment cannot fully predict.

Moreover, in order to reflect the economic, social and environmental considerations, a specific Trade and Sustainable Development chapter would be included in the agreement. Sustainable development is an overarching objective of the European Union, as stated by the European Council in 2006, and the Commission services remain committed to promoting progress on the implementation of internationally accepted levels of social standards and environmental protection when negotiating with Tunisia.

The DCFTA could be successfully implemented and the economic benefits described in the SIA study achieved only if carried out as part of a comprehensive development strategy of Tunisia.

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