

EUROPEAN COMMISSION SERVICES' POSITION PAPER ON THE TRADE SUSTAINABILITY IMPACT ASSESSMENT IN SUPPORT OF NEGOTIATIONS OF A DEEP AND COMPREHENSIVE FREE TRADE AREA BETWEEN THE EUROPEAN UNION AND JORDAN

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 Area (DCFTA) between the European Union (EU) and Jordan. 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 completed in December 2014.

The preparatory process for a DCFTA with Jordan has made good progress and is well advanced, but the EU and Jordan have not yet taken the decision to launch negotiations.

The 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 sectoral analysis; 11) Summary and conclusions; 12) Policy recommendations.

The final report is publicly available on DG Trade's website.

<http://ec.europa.eu/trade/policy/policy-making/analysis/sustainability-impact-assessments/assessments/>

In line with the methodology guidelines, the study involved public meetings with stakeholders in the EU and Jordan, bilateral contacts with experts and an on-line consultation exercise. This enabled the SIA to take into account views from a broad base of actors from different sectors and to raise awareness about the proposed 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 Jordan

2.1 Objectives of the Trade SIA

The 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 may arise from a proposed trade agreement.

The Trade SIA should assess how the trade and trade-related provisions of the agreement to be negotiated could affect economic, social, environmental issues in the EU and Jordan 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)*.

http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127974.pdf

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 and sectoral analysis (including partial equilibrium modelling) and stakeholder consultations. Data for the CGE analysis is drawn from the GTAP 8.0 database. It has to be noted that the CGE model considers the DCFTA in isolation: it does not take into account other factors that might be relevant, such as possible flanking or accompanying measures. This is in order to identify potential impacts of the DCFTA in isolation, enabling the EU and Jordan better to design any flanking or accompanying measures that would be considered appropriate. Implementation of flanking or accompanying measures in parallel to the negotiation and implementation of the DCFTA itself can of course be expected to affect the actual outcome.

The scenario used for the simulation of the potential outcome of liberalisation under the DCFTA was based on the following assumptions:

- The scenario developed for the DCFTA does not include any **tariff reductions** for industrial products since all tariffs on trade in industrial products have been eliminated under the existing Association Agreement. Considerable but not full liberalisation of trade in agricultural, processed agricultural and fisheries products has also already taken place under the Association Agreement. The DCFTA modelling scenario assumes that remaining tariffs on the latter products will be reduced by 95% for Jordanian products entering the EU market and by 80% for EU products entering the Jordanian market;
- In the **services** sectors, insufficient information was available to determine an appropriate reduction rate for modelling purposes, so no reductions in barriers were assumed and a purely qualitative analysis was carried out. Nonetheless, since services are part of the GTAP database, the modelling results indicate some shifts in the relative importance of individual services sectors. It should be kept in mind that this is a side effect of the detailed modelling undertaken on the goods side.
- The reduction or harmonisation of **Non-Tariff Measures (NTM)** in goods was modelled with different levels of regulatory approximation (ambitious, limited or none 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 Jordan 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% of the level of approximation of the EU level.

As regards the second function of the SIA (ie consultation and communication with stakeholders), a range of consultation methods were deployed at all stages of the report. These served to gather inputs from key stakeholders and to ensure better understanding of the

Trade SIA process by civil society both in Europe and in Jordan and better dissemination of research method, process and results. They comprised: electronic consultation and documentation (discussion forum, websites, feedback forms); meetings with civil society in the EU; an SIA workshop in Amman; participation in other relevant conferences / workshops by the consultants; and personal interviews with individual stakeholder representatives, and targeted surveys.

3. Overview of the Consultants' findings

3.1 Economic pillar

The SIA modelling indicates that an EU-Jordan DCFTA would have positive economic effects for both parties. The contractor's analysis suggests that since the EU is one of Jordan's most important trade partners, while this is not the case the other way around, DCFTA-induced impacts can be expected to be more important for the Jordanian economy, while very limited for the EU. Accordingly, the Trade SIA indicates 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 **2.1% GDP increase** in the long run for Jordan. This corresponds to an expected increase of the **national income by EUR 283 million in the short run and EUR 442 million** in the long run. According to the report, reducing barriers to trade associated with NTMs in goods is by far the most important contributor to the expected gains of the DCFTA, followed by agricultural tariff reductions.

The report suggests that the DCFTA would have a positive impact on **trade flows** of both parties. In the long run Jordanian exports to the EU are expected to increase by 9.53% and imports from the EU by 16.01%. Moreover, the overall impact on Jordan's global trade would also be positive (a long-term increase of 5.3% in total exports and of 4.8% in total imports), thus contributing to an overall slight reduction of its trade deficit and improvement in its terms of trade of 0.3%. According to the report, although the reductions in tariffs contribute to an increase in national income in Jordan and the EU, tariff revenue collected would fall somewhat in Jordan (by EUR120 million in the long term or 13.9% of the baseline) and increase very slightly in the EU (by EUR14 million or 0.03% of the baseline).

As for the impact on **consumers**, the study shows that the overall purchasing power for Jordanian consumers will improve as wages for the Jordan labour forces are expected to increase by about 2.7% while consumer prices will decrease by 0.52%.

Regarding **Sector specific** changes, the modelling indicates a likely decline in output in the Jordanian agricultural-, food, beverages & tobacco sectors, while other sectors such as other manufacturing and chemicals, rubber and plastics would see a significant increase in output. The NTM reduction accounts for the large increase in output of other manufacturing, as greater approximation towards EU standards will lead to more opportunities for Jordanian exports. The decrease in output in beverages and tobacco is mostly due to the lowering of tariffs, which would permit cheaper, more competitive EU imports in these sectors to become available, putting less efficient domestic producers under pressure. The modelling indicates that the impact on services from DCFTA changes affecting the goods sector is expected to be a modest increase in output, although it should be recalled that no detailed modelling of the services sector was undertaken.

According to the report, Jordanian exports to the EU of chemicals, rubber and plastics are expected to have the largest positive change in volume. This is the most important goods sector in terms of current trade (11% of Jordan's current exports to the EU of goods and services) and exports to the EU are predicted to increase by 40% in the long run. As in other areas, this is largely due to the reduction of NTMs associated with regulatory approximation towards EU standards. The large expansion of Jordanian exports in the other manufacturing sector is forecast to be accompanied by a very significant increase in output of 50%; it should however be noted that the current significance of the sector in total Jordanian output and exports is relatively small. This sector would however see the largest increase of Jordanian exports to the EU in percentage terms. The consultants anticipate that this would lead to some substitution effects on the EU market. On the other hand and as already mentioned, imports are forecasted to increase because of the reduction in trade barriers. This increase would concern almost all sectors, with the largest expected to occur in the beverages and tobacco sector. This latter sector of beverages and tobacco has the highest current barriers to trade, including high levels of tariff protection: it is therefore unsurprising that the modelling exercise generates such results. This is one sector, however, where the actual outcome of negotiations might not necessarily reflect the across-the-board reduction of tariff levels assumed in the modelling exercise.

3.2. Social pillar

Based on the results of the CGE model and combining these with additional employment and social data, the consultants estimate that the increase in wages in the range of 2-3% in combination with an expected decrease in consumer prices will have a positive social effect in Jordan, which will be manifested in an increased average disposable income of two percent. Poverty will decrease in relative terms with the share of people living below the poverty line declining from 11.9% to 11.2%. With respect to inequality, the difference between income groups in terms of the total DCFTA social effect is slightly in favour of the lowest income groups.

Wages of high and medium skilled workers are expected to increase slightly more than those of low skilled workers (2.8% versus 2.4%, respectively). As to labour displacement, close to five percent of the less skilled and around three percent of the medium and high skilled workers are estimated to change sectors for employment. The coverage of social protection is expected to improve as a result of the higher living standards. The impacts of the DCFTA on the social dialogue will probably be small; this dialogue is also to a limited extent developed in Jordan. Regarding gender equality, the shifts will be positive but indirect in Jordan.

The influx of Syrian refugees has put pressure on the competition for jobs in the informal sector but by helping expand the Jordanian economy, the DCFTA may also create opportunities for them. The consultants consider that the DCFTA could have a formalizing effect on the informal labour market in Jordan and overall contribute to an improvement and increase in decent work. This is also because a trade agreement can lead to an increase in large firms and an up scaling of small firms.

3.3. Human rights aspects

The contractor's report presents a concise overview of the human rights situation in Jordan, identifies those human rights elements most likely affected by the DCFTA and considers what these potential impacts might be. The report also contains an analysis of the different channels through which human rights could be affected such as changes in food safety, right to health etc. In addition, the outcome of this analysis was taken into account when drafting the recommendations regarding the social pillar of the study. The DCFTA is expected to mainly affect economic and social rights and not cultural, civil or political rights. The consultants expect the DCFTA impact on the human rights situation in Jordan to be very broad and shallow. It will also be influenced by changes in the economic structure consequent to the DCFTA, with more positive human rights changes for people working in expanding sectors. It is expected that the DCFTA has a negative effect on resources for the Government of Jordan in the short run but potentially a positive effect in the long run. Reduced poverty rates may contribute for the large majority of the population to an improved human rights situation. Increasing budget (tax) revenues as a result of economic activity encouraged by the DCFTA may make more funds available to the Government of Jordan to be allocated for instance in health, education, justice etc.

Overall, the report expects the DCFTA to exert a positive influence on the human rights situation in Jordan as a result for example of poverty reduction and the opportunity for closer monitoring of future developments under the Sustainable Development chapter. At the same time, it identifies a number of potential negative impacts – for example in the event that greater external competition leads to pressure on wage levels and working conditions – but considers that these can largely be mitigated or countered through appropriate flanking measures by Government.

3.4. Environmental pillar

An extensive three-step analysis of the environmental impacts of the DCFTA has been made. This analysis first describes the current environmental profile of the country before examining how the DCFTA could affect the state of environment in Jordan in general but also as regards the most relevant issues for the country. At the end the expected both positive and negative impacts of the DCFTA with regard to the main issues identified are analysed.

For Jordan the DCFTA-induced environmental effects will be a combination of the effects of different sectors' growth and technological, regulatory and other transformations influencing the environmental pressures.

Jordan's most pressing environmental issue is the overexploitation of scarce water resources. Jordan is among the ten countries in the world with the highest water scarcity. A long run decrease in water use is expected as a result of the DCFTA, driven by the expected contraction of the agricultural sector. However, the results have to be seen in a context of severe water scarcity problems and a number of other factors contributing to these problems (one of the highest population growth rate, refugee influx, dependence on water inflows from foreign countries, climate change). As a consequence, it is not possible to draw a definitive conclusion regarding water availability as important issues other than the impacts of the DCFTA affect water scarcity.

The DCFTA may lead to a higher output of hazardous waste because of the expected increase in petrochemical, chemical and rubber production. The effects on ecosystems and biodiversity

will be mixed. Air pollution is likely to increase and the DCFTA impacts on climate change through an increase in CO₂ emission are relatively small in the short run but more significant in the long run. By stimulating investments in resource efficient technology, the DCFTA can contribute to the process of greening Jordan's economy. The increased water pollution and the decreased use of water in the long run give for the time being a mixed picture.

3.5. In-depth sectoral and cross-cutting issues analysis

The contractor made a more detailed analysis of the DCFTA effects on three important sectors of Jordan's economy i.e. pharmaceutical products, financial services and telecommunication services and on the cross-cutting issue of water and energy scarcity since the latter may limit the exploitation of economic opportunities offered by the DCFTA.

As regards **Pharmaceuticals**, this sector is a knowledge intensive, human capital intensive and export oriented sector, second in size in the Jordanian export sector after phosphates. The Jordan pharmaceutical sector also covers a large part of domestic needs. The study points out the striking differences between the EU's knowledge intensive pharmaceutical sector and Jordan's pharmaceutical industry dominated by generic SME's with limited R&D focus. The effect of the DCFTA for the pharmaceutical sector will mainly lie in the changes in Intellectual Property (IP) protection, where standards of the Jordanian IP protection would be aligned with the IPR standards existing in the EU. Interviews undertaken within the Jordanian pharmaceuticals sector indicate concerns that higher IP protection would reduce the possibilities to manufacture and market generics and that as a result the sector would incur additional costs and lose markets. Another concern expressed is that IP protection would lead to higher prices for medicines, thereby reducing access to medicines. The Commission is of the view that the already existing high IPR standards under which the Jordanian pharmaceutical industry operates (reflecting i.a. acceptance of WTO TRIPS obligations and the US-Jordan FTA) would minimise the potential effect of aligning to the IPR protection standards of the EU. Also, with increased IP protection, the likelihood of further growth in FDI would be improved, as would be the access to new and innovative medicines. Overall the contractor considers that the DCFTA is expected to bring little change in the market attractiveness of the EU for the relatively small generic pharmaceutical companies in Jordan, although the sector should benefit from lower trade costs and cheaper inputs of raw materials and intermediates, contributing to lower production costs and an improved export position for the sector.

As regards **the financial services sector**, i.e. insurance, banking and other financial services, there is an already generally liberal regulatory environment in Jordan in particular as regards establishment of foreign banks and the SIA did not identify specific regulatory barriers. The contractor's analysis indicates that there will be little direct impact from the DCFTA. Overall trade restrictiveness in the financial services sector is considered to be moderately low with a few exceptions. Given the good quality GATS commitments of Jordan, the direct effects of the DCFTA are expected to be low, although positive indirect effects may materialise e.g. through regulatory approximation with the EU and the reduction of conflicting standards. The social impact can be small but positive on employment, wages, prices, education and skills and consumer choice provided the economic impact of the DCFTA for the sector materialises. The environmental effects of the DCFTA in the financial sector are marginal.

As regards **Telecommunications services** including postal, courier and audio-visual services, the contractor considers that Jordan has one of the most developed markets in the Middle East and North Africa (MENA) region. Jordan has fully liberalised its telecommunications sector

and made good quality GATS commitments. Several foreign service-providers have already entered the domestic market. Hence, the impact of the DCFTA on the sector will only be indirect through additional demand for its services from an expanding economy.

As regards **Water and Energy scarcity**, an increase in trade in equipment for water management, energy efficiency and renewable energy can help the country to capitalise on the economic opportunities from the DCFTA. The DCFTA causes a relative shift away from the agricultural sector to the secondary and tertiary sectors, which will likely result in a decrease of water demand. However in the long run industrial water demand is expected to increase. On the energy side it is expected that such shift will increase demand, given the increase in economic activity. This may be counterbalanced somewhat by lower energy inputs demanded by the shrinking agricultural sector, which needs less irrigation. In addition the DCFTA may indirectly contribute to the diversification of energy resources in Jordan through investments in power generation facilities.

3.6 Communication and consultation of stakeholders

In carrying out this study the contractor was asked to publicise the exercise widely and consult all relevant stakeholders.

Information was disseminated through electronic communication (web site, e-mail), social media, a newsletter and several public meetings. Ad hoc consultations with relevant stakeholders and the Jordanian government, two meetings with civil society and relevant stakeholders (at the beginning and at the end of the study) in Brussels as well as a local workshop organised in Amman completed the contractor's consultation plan. An online SMEs survey has also been conducted to obtain more knowledge on Jordan SMEs and their expectations from a DCFTA. The minutes, outcomes and material used during these consultations meetings can be found as annexes to the SIA report published in the Commission's website. They have also duly been taken into account throughout the contractor's conclusions.

The contractor considered the level of responsiveness and engagement of civil society and stakeholders in the SIA to have been satisfactory. In particular, the local workshop in Amman provided the possibility to engage the local civil society in Jordan and discuss specific aspects of the DCFTA. A good number of participants made interventions and presentations, some of them criticizing the existing trade agreement as well as the proposed one, some others anticipating its positive effects while advancing the need to help increasing competitiveness of Jordan companies as a condition for Jordanian exports to Europe. The contractor recommends the ongoing involvement of civil society and other stakeholders both during the negotiation phase of the DCFTA and its subsequent implementation.

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:

| Policy Measure | Potential to address | |
|---|----------------------|-------------------|
| | Within the DCFTA | Outside the DCFTA |
| Allow for phasing in of remaining tariff reductions at sector level, especially for those sectors where the economic impact will be high. | v | |
| Facilitation of technical assistance and capacity building in the regulatory approximation process, based on a needs assessment. | v | v |
| Raise awareness among SMEs in particular on the DCFTA and the opportunities it may provide; provide internationalization support to SMEs | v | v |
| Stimulate on-going improvements in the business climate. | v | v |

b) Commission services' reaction:

The Commission services have taken note of the above set of recommendations.

The Commission expects negotiators to consider a phasing in of tariff reductions and/or regulatory approximation, as appropriate, depending on the particular priorities and sensitivities presented by the Jordanian side. The Commission anticipates that additional technical assistance and capacity building will be made available to support Jordan in the negotiation and implementation of the DCFTA. The Commission recognizes that the main objective of the technical assistance should be to allow Jordan to reap the full benefits of the DCFTA. This would need to be agreed with the Jordanian side, and reflect Jordan's specific requests and priorities. The Commission also acknowledges that Civil Society Organisations should be an important part of this exercise. Jordan's active involvement will also be necessary to identify its needs for accompanying flanking 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 DCFTA will include a chapter on investment protection as well as chapters on other key areas for the overall business environment such as competition, intellectual property and public procurement. These chapters of the future DCFTA will help to stimulate on-going improvements in the business and investment climate in Jordan.

The Commission recognises that awareness-raising among SMEs in Jordan on the DCFTA and the opportunities it will create will be an important parallel activity to the negotiation and implementation of the DCFTA. The Commission will be ready to support the Government of Jordan in relevant outreach to the Jordanian private sector. It will also consider sympathetically Jordanian requests for technical assistance and capacity building to support the internationalisation of Jordanian SMEs.

In this regard, there are currently two ongoing programmes with a total budget of EUR55 million aiming at improving the competitiveness of Jordan private sector and improving their access to international markets. The internationalisation and competitiveness of Jordan

industrial companies, including SME, is currently supported by the EU-financed project "Support to Enterprise and Export Development" (JUMP II) which offers a range of support in areas such as internationalisation, export promotion, partnership and technology transfer, technology upgrading, productivity enhancement, quality management upgrading, human resources capacity building and improving the availability of financial tools to support quality. Services sector is supported through the EU-financed project "Reinforce and expand the modernisation of the services sector in Jordan" (JSMP II). It aims at reinforcing, upgrading and developing exports as well as enhancing competitiveness and supporting internationalization of existing services sector enterprises but also developing start-ups and innovative start-ups in the services sector.

The programmes follow up on previous projects to the benefit of the Jordan private sector which also aimed at strengthening companies –including SMEs- international competitiveness.

Some of the constraints of lack of qualified workforce is addressed through the EUR35 million EU budget support to the reforms of employment and technical and vocational education and training which ended in 2015.

Furthermore, the EU and Jordan have agreed a new EUR52 million programme entitled "Skills for Employment and Social Inclusion", which supports strong social partnership and involvement of the private sector in skills development at the policy and implementation levels.

In 2015, a new private sector development programme was adopted for an amount of EUR45 million and negotiations are currently ongoing to finalise the financing agreement, including a 10M€ increase in the budget. This programme will provide support both to the Government of Jordan to improve the business and investment climate and to individual companies to support improvements in technical and managerial skills, as well as value chains and business linkages. In addition, support to the internationalisation of SMEs - including enhanced access to finance - is under preparation in the Neighborhood Investment Facility (NIF) in partnership with Financial Institutions (DCFTA South support facility).

The EU and other major development players are also actively involved in supporting the Jordan authorities in the design and implementation of their "new development model" which *inter alia* aims to increase the value added of production and exports. In this context, the Government of Jordan has recently adopted and published "Jordan 2025", a long term vision of Jordan's economy aiming at achieving high growth rates over the next 10 years to bring greater prosperity and economic development to the country.

Finally, there is an on-going project of technical assistance and capacity building in the Ministry of Industry and Trade focussing *inter alia* on IPR, competition and consumer protection, improving policy and analytical tools for trade and industry directorates and training.

Future assistance, including supporting the DCFTA negotiation process, could be envisaged if deemed relevant by Jordan authorities. There is also an ongoing co-operation with other donors, e.g. Member States and especially international financial institutions, which finance projects and activities in support of SMEs internationalisation (most notably EBRD, EIB, WB and IFC)

In addition, during 2015, the EU disbursed fully a Macro-Financial Assistance (MFA) operation of EUR 180 million to support Jordan's balance of payments position. The release of the first tranche of EUR 100 million (February 2015) was conditional on an IMF programme being on track, as well as on the fulfilment of the general political pre-conditions. The disbursement of the second tranche of EUR 80 million (October 2015), was in addition subject to the fulfilment of a set of policy conditions specified in a Memorandum of Understanding (MoU) signed by the EU and Jordan in 2014. Several of the actions specified in the MoU addressed 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 Jordan and to the improvement of the investment framework. In June 2016, the Commission adopted a proposal for a second MFA to Jordan for an amount of EUR 200 million in loans. The programme, which was adopted in December 2016 by the European Parliament and the Council, is expected to be implemented in 2017. Some of the reform measures envisaged to be implemented in the new programme will aim at further improving the trade and investment framework in Jordan.

4.2. Social pillar

a) Consultants' policy recommendation:

| Policy measure | Potential to address | |
|---|----------------------|---------------|
| | Within DCFTA | Outside DCFTA |
| Support education and training programmes to allow easier updating and upgrading of human capital, with a clear link to labour market requirements, and promote life-long learning. | | √ |
| Support flexibility of the labour market - easing reallocation between sectors while ensuring that workers' rights are respected in law and practice. | | √ |
| Further promote formalisation of employment in all sectors and develop social protection system, with attention for reaching those most in need and those most likely to be negatively affected by the DCFTA. | | √ |
| Prevent risks of pressures to lower the labour standards due to rising international competition, e.g. through effective implementation of relevant ILO conventions, and by approximating domestic legislation to the EU <i>acquis</i> in the area of labour. | √ | √ |
| Effective implementation of HR treaties, with a focus on vulnerable groups (e.g. children, women, minorities, disabled, etc.). | √ | √ |
| Create monitoring mechanisms of the social (including human rights) impact of the DCFTA (and more broadly EU-Jordan relations in these areas). | √ | √ |
| Promotion of civil society involvement. | √ | √ |

b) Commission services' reaction:

The Commission services have taken note of the above set of recommendations.

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 International Labour Organization (ILO) conventions and to consider ratification of further international conventions on the matter, to enforce domestic legislation in the area of labour and human rights 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. Reliable labour market statistics will contribute to this monitoring process.

As regards preparation and negotiations of the DCFTA, the Commission anticipates that Jordan will involve domestic social partners, associations, NGOs, academics, individual economic operators, political parties, etc. as appropriate in its own civil society consultative process. The Commission services will also be ready to undertake appropriate outreach to civil society stakeholders in Jordan on EU goals and objectives in the negotiations.

The other recommendations cannot be addressed directly in the DCFTA and the prime responsibility for addressing many of the challenges identified (such as improvements in education and training, social security, the functioning of the labour market and formalisation of employment) falls to the Government of Jordan. The Commission however expects the EU to be ready to support Jordan in this process, for example through policy dialogue and exchange of best practice, as well as relevant technical assistance.

For example, the EU is already engaged in education and training programmes to help improve workers skills; this may help facilitate reallocation of workers across sectors. The EU supports programmes on the reforms of employment and technical and vocational education and training to facilitate partnership between the government, private business, trade unions and civil society.

Under thematic programmes, the EU Delegation is currently responsible for a total of 21 projects worth EUR 6.7 million. 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 2016.

Under the framework of the Union for the Mediterranean, Jordan 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.

As regards Human Rights issues, the EU and Jordan already have a regular dialogue in the framework of the existing Association Agreement. This will continue to provide the

opportunity to exchange views on evolutions in relevant international treaties and in respective domestic legal frameworks, as well as on any questions relating to their implementation. The Commission anticipates in addition that the Sustainable Development chapter of the DCFTA will contribute to this broader dialogue, in particular as a result of the establishment of an ongoing monitoring process and opportunity for dialogue with all interested stakeholders, including civil society in Jordan, on issues relating to the implementation of the DCFTA.

Finally, and as regards the potential implications of the DCFTA for the labour rights of Syrian refugees and the informal economy more generally, the Commission agrees with the contractor's analysis that it could have a formalizing effect and contribute to improvement of decent work.

4.3. Environmental pillar

a) Consultants' policy recommendation:

| Policy measure | Potential to address | |
|---|----------------------|---------------|
| | Within DCFTA | Outside DCFTA |
| Maintain/ further improve incentives to improve efficient use of energy and water | | √ |
| Create incentives for environmentally friendly production, including with respect to air pollution | √ | √ |
| Improve waste collection and waste management systems. | | √ |
| Consider creating mechanisms for monitoring of environmental (and social) impact of the DCFTA (and more broadly EU-Jordan relations). | √ | |

b) Commission services' reaction:

The Commission services have taken note of the above set of recommendations.

The DCFTA should include a number of elements that aim to ensure that environmental policy-making objectives are not undermined and effective policy implementation 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 a prohibition of derogation from the existing domestic environmental laws, or other efforts aiming at lowering the level of protection 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 Jordan are already parties and encourage 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 recommendation to maintain/ further improve incentives to improve efficient use of energy and water cannot be addressed directly in the DCFTA. Nevertheless, the Commission notes that it is supporting Jordan through ongoing technical assistance projects in improving use of energy and water and in exploring alternative energy production schemes. In particular, the EU is supporting "Renewable Energy and Energy Efficiency Programme in Jordan - REEE I" since 2012 and "Renewable Energy and Energy Efficiency Programme in Jordan - REEE II" as of July 2016 and provide a comprehensive framework for enhancing a more sustainable production and consumption of energy, including in the water sector, management of resources within the water sector, adoption of best technologies and promotion of investments in the green economy. Moreover, under the NIF the EU Commission has already approved the NEPCO green Corridor project, which will ensure that new RE production can be connected to the main power grid.

The EU support to Jordan on energy has been tailored to low carbon energy sources, building on the potential of renewable energy in Jordan and the energy efficiency opportunities that offer a wide range of investments, services and job creation for the short, medium and long term in Jordan. Such potential is not only focussed on energy security for a country that lacks conventional sources, but is also related to the development of more sustainable models for the energy and water sectors. This means sea water desalination by renewable energy, pumping and treating water with renewable sources, as well as enhancing the shift of different big consumers of water such as Agriculture and Industry to new energy sources which will reduce cost and enhance the development/export potential. Under the "Renewable Energy and Energy Efficiency Programme in Jordan - REEE II" that started in July 2016, the EU will support the introduction of renewable energy to 3-5 main water pumping stations in Jordan jointly with EBRD.

The EU regional programmes "Cleaner Energy Saving Mediterranean Cities" (CES-MED) and "Sustainable Urban Demonstration Energy projects" (SUDEP) have also covered Jordan, with capacity building activities for Municipalities to establish sustainable energy plans and to reduce CO2 emissions.

More precisely on improving the efficient use of water and water management, the European Neighbourhood Instrument (ENI)-funded regional project Sustainable Water integrated management (SWIM)-II/Horizon 2020 support mechanism will support i.a. more efficient water governance. The programme will include an expert facility that will provide specific assistance to Jordan on the basis of the needs identified by the relevant ministries. In addition, the programme will help Jordan to uptake Best Available Technologies which include elements related to more sustainable consumption of energy and water by industry. Finally, the programme will also pilot models for water-energy-food-ecosystems nexus.

On another hand, the potential to develop the recycling/reuse and proper waste management industry as one strategic sector in a green economy development model is clear, and will have positive environmental, social and economic impacts on the country with the synergies to touch on the DCFTA and enhance export potential. The REEE theme is one of the three focal sectors of EU funding.

The Commission is also promoting the creation of incentives for environmentally friendly production including air pollution. The ENI funded regional programme "Switching towards more sustainable consumption and production (SCP) patterns in the Mediterranean" (SWITCH-Med) is supporting Jordan to develop a Sustainable Consumption and Production Action Plan to be embedded in the national green growth strategy. The project includes the testing of more resource efficient and sustainable production models in strategic sectors for Jordan as well as the creation of economic incentives for more environmentally friendly production and consumption.

Under the bilateral Action Plan, the EU is notably supporting Jordan to enhance environmental governance including waste management and integrated water resource management. EU is supporting Jordanian efforts to improve waste collection and waste management through a project of the Ministry of Municipal Affairs with a EUR 10 million operation to improving solid waste collection and disposal in the two northern governorates, which have been mostly affected by the influx of Syrian refugees. This programme is to pave the way for the 100M€ programme for Solid Waste management expected to be approved in 2016, that will support the implementation of the national strategy by means of Budget Support and projects. It will improve the disposal and transfer of solid waste in the Northern and Central regions, while reducing the number of illegal dumpsites and increasing security and safety of the existing ones.

Under the Horizon 2020 Initiative supporting environmental governance for a Cleaner Mediterranean, Jordan will receive technical assistance through an expert facility (under the SWIM II/H2020 support mechanism adopted in 2014). This mechanism complements several initiatives, aiming at reducing pollution within the Euro-Med Zone, and enhancing technical exchange to combat climate change in the region and covers waste, wastewater and industrial pollution. The Initiative also includes investment projects on pollution hotspots, Jordan having identified important waste sites. The EIB is supporting Jordan in the three abovementioned sectors and water/resource management through the second phase of the Mediterranean Hotspots Investment Programme (MeHSIP II).

Moreover, within the framework of the "Renewable Energy and Energy Efficiency Programme in Jordan - REEE II" that started in July 2016, the EU is piloting with EBRD an energy generation model from municipal waste with a capacity of 2.0 MW; the pilot builds on an operation financed already by EBRD.

The EU support 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 Jordan's efforts to reduce its Greenhouse Gas emissions, in particular by support to the Nationally Appropriate Mitigation Actions in various sectors, including agriculture and waste.

Jordan actively participates in the activities of the EU's regional climate change initiatives, including in particular projects on low carbon and climate resilient development (CLIMA-South) and co-chairs the Union for the Mediterranean (UfM) Climate Change Expert Group supported by the regional climate change expert group.

4.4 Sector-specific: Pharmaceuticals

a) Consultants' policy recommendation:

| Policy measure | Potential to address within DCFTA | Potential to address outside DCFTA |
|--|-----------------------------------|------------------------------------|
| Active (regulatory) policy measures in order to attract and facilitate originator FDI, specifically R&D activities within the context of high IP protection. | √ | |
| Facilitate in knowledge-intensifying activities to push for more innovation in the pharmaceutical sector. | | √ |
| Active monitoring of drug prices in Jordan and potential effect of IP protection on these prices. | | √ |

b) Commission services' reaction:

The Commission services have taken note of the above set of recommendations.

The DCFTA should support realisation of the recommendation regarding active policy measures in order to attract and facilitate originator foreign direct investments (FDI), including R&D activities, in particular through the DCFTA provisions dealing with Investment, Intellectual Property and Technical Barriers to Trade. This goal would also be supported through negotiation of an Agreement on Conformity Assessment and Approval of industrial products (ACAA) for this sector.

Jordan's IPR level of protection is already high and alignment to the EU acquis should not need huge adaptation efforts. Such an alignment is expected to reinforce FDI flows in the sector, attract new technologies and innovation and offer additional opportunities to the existing skilled labour force. The Commission believes that changes in the IPR level of protection would not create obstacles to local industry to continue serving their traditional markets; on the other hand they may have a motivating effect encouraging local companies to become more competitive by looking for strategic alliances and cooperation agreements with the European innovative companies.

The DCFTA should also contribute to a more general process of regulatory reform and convergence that would encourage further foreign investment in Jordan, including in the sector in question. This could contribute to improved conditions for more innovation in the pharmaceutical sector thus reinforcing the already existing export potential of the Jordan pharmaceutical industry towards markets of higher added value.

As noted by the consultant, the other recommendations cannot be addressed directly in the DCFTA. Nevertheless the Commission is ready to explore whether it can assist the Jordanian side in putting into practice some of these recommendations.

4.5 Sector-specific: Financial services

a) Consultants' policy recommendation:

| Policy measure | Potential to address within DCFTA | Potential to address outside DCFTA |
|--|-----------------------------------|------------------------------------|
| Removal of restrictions on active solicitation and marketing by EU companies in Jordan and vice-versa (where applicable) | √ | |
| Gradual regulatory approximation and support for reform of Jordan's Regulatory Framework, in keeping with reform process in EU | √ | √ |
| Increase transparency of licensing procedures in banking sector | | √ |
| Promote consolidation of the insurance market and develop market further | | √ |
| Continue and deepen financial market reforms | √ | √ |
| Develop competitiveness and export capacity of both sub-sectors | | √ |
| | | |

b) Commission services' reaction:

The consultants' recommendations on this sector will be partly addressed through the negotiations on Services that will take place in the DCFTA. The DCFTA will aim at reducing or eliminating existing restrictions on market access and creating new opportunities for the service suppliers of both Jordan and the EU. The Commission supports Jordan in developing its regulatory framework and practice in the sector in a manner coherent with international best practice and with the regulatory framework in the EU.

The Commission agrees with the contractor that these recommendations can be best addressed outside the DCFTA. The EU and Jordan already have a bilateral dialogue in the framework of the existing Association Committee which will continue under the DCFTA. The EU is also supporting the Central Bank of Jordan on improving regulation and licencing in the microfinance sector.

4.6 Sector-specific: Water and Energy

a) Consultants' policy recommendation:

| Policy measure | Potential to address within DCFTA | Potential to address outside DCFTA |
|--|-----------------------------------|------------------------------------|
| Increase water-efficiency of the transportation of water. | | √ |
| Increase efficiency of the wastewater treatment sector. | | √ |
| Facilitate the employment transition from primary to secondary and tertiary sectors. | | √ |
| Monitor the environmental impact of the growth of the chemical sector. | | √ |

| Policy measure | Potential to address within DCFTA | Potential to address outside DCFTA |
|--|-----------------------------------|------------------------------------|
| Reduce NTBs in renewables equipment. | √ | |
| Stimulate small-scale renewable energy demand. | | √ |
| Remove NTMs in related services trade. | √ | |
| Stimulate use, production and exports of solar water heating technology. | √ | √ |
| Stimulate trade in efficient vehicles and alternative transport technology by addressing e.g. TBT. | √ | √ |
| Provision of technical assistance and capacity building in efficient transport design. | | √ |
| Stimulate on-going improvements in investment climate. | √ | √ |

b) Commission services' reaction:

The reduction/removal of trade barriers (whether tariff or non-tariff) including in the water and energy sector will be considered in the DCFTA. Furthermore, the Investment chapter will have as a main aim that of stimulating on-going improvements in the investment climate in Jordan, therefore encouraging technology transfer and innovation spill-overs.

Other recommendations regarding environmental sustainability and sustainable exploitation of water and energy sources can partially be addressed by the environmental provisions which would be included in the Trade and Sustainable Development chapter, and in particular through the monitoring mechanism which would be established.

The EU is currently supporting Jordan on integrated water management practices in agriculture and rural development. For instance, specific activities have been carried out in the framework of the regional EU-funded SWIM programme (see section 4.3 for more details) and actions within the bilateral cooperation.

Wastewater is one of the sectors specifically addressed under the Horizon 2020 Initiative in particular its support mechanism and the investment programme (Mediterranean Hot Spots Investment Programme) MeHSIP II, including upgrading and building waste water treatment facility to progressively meet EU standards. Moreover, the NIF has approved the Wadi Al Arab water project, that increases water availability and is about to finance, jointly with the EU Trust Fund for the Syrian crisis (Madad), a project in Irbid to improve the water network conditions and to connect households to the water main.

When it comes to solar water heating, the EU is providing support by installing 20000 new solar water heating systems (SWH), under REEE II, in rural areas which cover different parts of Jordan. This will help Jordan to meet its national target of 30000 SWH towards 2020. This is also complemented under REEE II with the possibility to install 1000 photovoltaics (PV) rooftop in rural areas and public buildings. Such actions will support green economy development, job creation and reduce negative impact on environment and climate change.

As mentioned earlier the private sector development programme expected in 2016 will address various investment climate related issues.

Conclusions

A key objective for the EU in all trade negotiations, whether bilateral, regional, plurilateral or multilateral, is to fully exploit the important contribution that trade can make to sustainable development. In this context, DCFTA negotiations with Jordan will present not only opportunities but also challenges.

The Commission services have noted the findings and recommendations of the trade SIA report and will take them into account in the future DCFTA negotiations, as well as in other relevant activities with Jordan. The Trade SIA has highlighted the interconnected nature of the potential economic, social and environmental impacts of a future agreement. 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. EU accompanying financial assistance will provide support in some areas identified.

Moreover, in order to reflect the economic, social and environmental considerations, a specific Trade and Sustainable Development chapter would be included in the agreement. In addition, a specific mechanism would be established to monitor implementation of the provisions of this particular chapter. Sustainable development is an overarching objective of the EU, 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 Jordan.

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 Jordan.
