



CIVIL SOCIETY DIALOGUE

MEETING ON THE EVALUATION OF THE IMPACT OF TRADE CHAPTERS OF THE EURO-MEDITERRANEAN ASSOCIATION AGREEMENTS WITH SIX PARTNERS: ALGERIA, EGYPT, JORDAN, LEBANON, MOROCCO AND TUNISIA

WEBEX ONLINE, 30 APRIL 2020

The Commission (COM) thanked the participants for joining the online Civil Society Dialogue (CSD) and provided the context for this meeting. The procedures for the Webex online CSD were explained. It was noted that the meeting is audio recorded. None of the participants rejected to be recorded.

Context of the evaluation

The Association Agreements (AAs) between the EU and respectively Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia (Southern Mediterranean Countries, SMCs) were signed between 1995 and 2002 and entered into force between 2000 and 2006. The AAs emphasized economic liberalisation and reforms, and trade was one of the main forces to be driving these economic reforms. The trade chapters of these agreements (amounting to an FTA) were therefore the most important operational and binding commitments that were made.

The COM mentioned that the research consortium consisting of CASE, Ecorys and Femise is currently carrying out an ex-post evaluation of the trade chapters of the abovementioned agreements. The aim of the evaluation is to understand if the agreement has worked out as expected. As such, to increase effectiveness and efficiency, results can feed into future implementation of the agreements and, more broadly, contribute to evidence-based trade policy. On the basis of the finalised study, the COM will draw conclusions in autumn this year in the form of a Commission's Staff Working Document on this topic.

It was noted that the agreement provided reciprocal but asymmetrical liberalization in favour of the South Mediterranean (SM) partners and that the liberalisation mainly covers agriculture and industrialised products. Sectors such as services and investment were only covered by limited provisions. It was noted that the EU fully abolished import tariffs on industrial goods and that only limited tariffs on agricultural goods are remaining. After the transition periods have now finished, it was important to understand the effects, best practices and lessons learned.

In general, the objective of the ongoing evaluation was to evaluate how well the FTAs delivered on their two main objectives, increasing trade between the EU and the SM and increasing intra-SM trade, according to EU's criteria for policy evaluation (effectiveness, efficiency, coherence and relevance). While the first two criteria consider whether the desired effects materialised and, if so, at what cost, the criterion of coherence refers to the larger context of Euro-Med Neighbourhood policy (including environmental, social, and human rights objectives) and the

criterion of relevance considers whether the agreements and their effects are pertinent in the context of current business practices and trade policy issues.

To conclude, the COM mentioned that the interim report published presents the interim findings and that the final report is scheduled for the summer this year.

Interim results of the evaluation

After the COM's introduction, CASE and Ecorys presented the results of the ex-post evaluation to date. It was stated that the consortium is already preparing for the final stage of the project. The objectives of the Euro-Med FTAs as well as the criteria for the evaluation were explained once more by the contractor.

CASE presented the preliminary results on the **economic impact** of the FTAs. The conceptual framework used for this economic analysis was described, after which the contractor continued to explain that the principal impact of the FTAs arises from the reduction of tariffs. An analysis on tariffs applied on the EU side and Mediterranean side was provided in the presentation slides. This also included an analysis of preference margins, i.e. to what extent market access for the EU and SMCs differed to that from third countries in the EU and SMC markets. A CGE modelling had been conducted by DG Trade to isolate some of the economy-wide and sectoral effects attributable to tariff reduction. Principal results of this modelling exercise are:

- 1) while tariff concessions granted by SMCs were larger than those granted by the EU (which was due to the fact that the EU had already extended tariff preferences to SMCs prior to the entry into force of the FTAs) economic benefits are larger for SMCs than for the EU in relative terms;
- 2) the FTAs fosters trade between the EU and SMCs;
- 3) the FTAs have some negative effects on the SMCs' imports from partners other than EU including on intra-SMC trade, notably for China and Turkey; and
- 4) liberalisation of trade exchange takes place along the existing comparative advantage patterns with economic welfare, GDP and other gains occurring as a result of liberalisation.

It was explained that it mattered for the impact of the FTAs whether SMC countries had concluded additional agricultural protocols with the EU or not. (Three countries have signed such protocols while another three countries had not).

Secondly, Ecorys elaborated on the **sectoral impacts** of the FTAs and introduced four sector case studies. The presentation covered the impacts of the FTAs on the sectors 'Textile and Clothing' and 'Machinery and transport equipment' which had been analysed in detail in the Interim Report. Preliminary results were provided for the other two sectors 'Agriculture' and 'Chemicals' which will be included in the final report. Major findings across all four sectors pointed to remaining non-tariff barriers. Additionally, logistics, political climate issues and supporting government policies had been discussed within selected case studies, as these turned out to be major influencing factors for the opportunities and challenges which enterprises encounter in using the FTAs.

Thirdly, Ecorys portrayed its preliminary findings on the sustainability impacts of the FTAs. As such, an explanation of the first case study on employment effects in the 'Textile and clothing' and 'Chemicals' sector was presented. It was noted that the final report will include a second case study on gender and agriculture. Lastly, the sustainability impacts in the area of environment were presented on the basis of the first case study on trade of environmental goods. Preliminary findings showed that imports of environmental goods by SMCs have increased while export remained limited. A second case study on environmental impact will analyse the FTA impact on air emissions.

The presentation on the preliminary findings was concluded by asking the CSD participants for written feedback and comments to be provided before 8 May. The COM continued the dialogue by opening the floor for questions.

Stiftung Wissenschaft und Politik thanked the consortium for the presentation and indicated that the issue of food security is a relevant issue to consider in the light of the sustainability impacts of the FTAs. Several governments in the region impose high tariffs to stimulate domestic food production. Another interesting sustainability-related issue is investment protection in relation to higher environmental standards. **Ecorys** responded that food security is indeed relevant and has been brought up by several stakeholders in the SMCs. The FTAs could also be considered as positive in this regard, as they facilitate the imports of important food products. With respect to investment protection, it was indicated that, while interesting, this is not part of the agreement and therefore outside the scope of this study.

A member of the **Confederation of the German Textile and Fashion Industry** stated that the confederation welcomes the concluded FTAs. Currently, companies are still looking for partnerships with companies in the Euro-Med zone, however it was noted that problems with rules of origin as well as non-trade barriers and bureaucracy remained.

A member of the **Eurogroup for animals** stated that the welfare of animals was not covered by the agreement. However, it was argued that the EU export of live animals has increased since the introduction of the FTAs. This was problematic as animal welfare rules are generally much lower in the SMCs, and these animals therefore suffer significantly. Also, the comment was made that animal welfare was closely linked to environmental impact of agriculture, particularly in regards to air pollution. The questions was asked whether the case study will look into this.

Ecorys replied that this is interesting and will be further looked at in the sustainability analysis. Additionally, it was explained that the case study on air emissions will specifically look at emissions per sector and analyse how the FTAs have changed the output per sector. Thereby, scale-effect and composition-effect are taken into account.

Both Ends thanked for the Interim Report, including its section on least developed countries (LDCs), and mentioned that his colleagues are indeed reading such evaluation reports, even if they are long. Regarding the substance of the report, he then referred to a discrepancy between changes in output and changes in GDP as indicated in the study. It was also mentioned that the results of decreasing CO₂ emissions with an increase in GDP are surprising and it was not clear how this can be explained in the study. The **COM** replied that the discrepancy between the output by sector and GDP had to be explained from a mathematical point of view; it is a very technical issue. **Both Ends** recommended to add a footnote to the study explaining this shortly. With respect to CO₂ emissions, **Ecorys** explained that the change in output by sector (composition effect) causes the decrease in CO₂ emissions, notably the contraction of the 'Other manufactures' sector.

Fairwatch contemplated that the report was missing insights into the impacts on vulnerable groups. Reference was made to the example of Tunisia where the economy is mainly informal and where the impact on vulnerable groups is highly relevant. **Ecorys** agreed that Fairwatch has made an important point by referring to vulnerable groups. However, the difficulty to make causal relations between the FTAs and informal sector was noted. There is limited relevant data and evidence available. Fairwatch was invited to share any further insights, information or data on this topic, if available.

Centre National de Coopération au Développement noted that the sustainability part was highly relevant, also regarding public policy space and regarding human rights. However an in-depth evaluation on gender impacts is missing. More details in this regard should be included. **Ecorys** noted that the final report will cover this topic more extensively through a case study on gender impacts in agriculture.

The **Lithuanian Investors Association** would like to know if there could be more information given on the expected impact of Covid-19 on trade. The **COM** took note of the relevance of the Covid-19 question and stated that certain export restrictions have been introduced by

some of the SMCs but these were mainly on personal protection equipment. What needs to be avoided as a result of the Covid-19 crisis is the introduction by other SMCs of the type of import restrictions Algeria had taken well before the Covid-19 crisis started. Such measures are against the provisions of the AAs s and therefore should not be copied by other SMCs.

Both Ends would like to know if the study has covered the decrease of government revenues caused by tariff reduction and whether the model assumed that any tax decrease would increase welfare. **CASE** explained that the reduction of tariff revenues was covered in the study and explained that impacts vary per country, ranging from small revenue losses in Lebanon to bigger ones in Morocco. CASE also explained that tariffs are not the most important efficient form of revenue collection, and more and more governments focus nowadays on other channels for revenue collection (e.g. VAT).

As a final comment the **Lithuanian Investors Association** stated that it was appreciated if the topic of Covid-19 and its impact on trade was explained more thoroughly, in a separate event.

The COM thanked the participants for the valuable input, which will serve as guidance for the further stages of the study, and reminded participants that written comments can be shared with the evaluation team until 8 May 2020.
