

Brussels, 10.11.2021  
SWD(2021) 319 final

**COMMISSION STAFF WORKING DOCUMENT**

**EVALUATION**

**Impact of trade chapters of the Euro-Mediterranean Association Agreements with six  
partners: Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia**

{SWD(2021) 322 final}

## Contents

1.	INTRODUCTION .....	3
2.	BACKGROUND .....	4
3.	IMPLEMENTATION / STATE OF PLAY .....	8
4.	METHOD.....	10
5.	ANALYSIS AND ANSWERS TO THE EVALUATION QUESTIONS .....	14
6.	CONCLUSIONS.....	35
	ANNEXES.....	40

## Glossary

<i>Term or acronym</i>	<i>Meaning or definition</i>
AA	Association Agreements
CGE	Computable general equilibrium
Euro-Med FTAs	Euro-Mediterranean Free-Trade Areas
ENP	European Neighbourhood Policy
FTA	Free Trade Area
GSP	General System of Preferences
GVC	Global Value Chain
ILO	International Labour Organisation
LDCs	Least developed countries
NTM	Non-tariff measures
MFN	Most favoured nation
PEM	Pan-Euro-Mediterranean preferential rules of origin
RoO	Rules of Origin
SMCs	Southern Mediterranean countries
SPS	Sanitary and Phytosanitary
TBT	Technical barriers to trade
WTO	World Trade Organization

## **1. INTRODUCTION**

### **Purpose of the evaluation**

The current Association Agreements (AAs) between Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia (Southern Mediterranean Countries, SMCs) and the EU, were signed in the late 1990s. They were conceived to help achieve the objectives of the 1995 Barcelona Declaration signed by EU Member States and Southern Mediterranean countries, including the six SMCs covered in this evaluation. A key policy instrument to achieve the objectives of the Barcelona Declaration was an establishment of a free-trade area: on the one hand between the EU and the SMCs through bilateral Euro-Med free-trade areas (Euro-Med FTAs) as part of the Euro-Mediterranean Association Agreements and on the other through free trade areas to be concluded between the SMCs themselves.

The main objectives of the Euro-Med FTAs were:

- 1) to promote trade between the EU and SMCs by strengthening harmonious economic and social relations and establishing the conditions for gradual liberalization of trade in goods, services and capital;
- 2) to encourage intra-regional integration and cooperation and thus, enhancing Intra-Med trade.

The purpose of this evaluation is to assess the achievement of these main objectives of the FTAs of the Euro-Med AAs as well as of the supplementary trade-related protocols complementing these. The evaluation aims to identify best practices and lessons learned to better inform further implementation of the current Euro-Med FTAs as well as to enable cross-fertilization of the gained insights across the various countries in the region to further enhance the Euro-Mediterranean partnership.

The evaluation relies on a study available online<sup>1</sup>, carried out by an external consultant in close cooperation with the Commission, further complemented by DG Trade economic analysis. The Final Report of the study is a source of useful information and economic analysis but does not represent the Commission's views. The Commission services present in the below section their evaluation as regards the findings and conclusions presented in the Final report of the study.

### **Scope of the evaluation**

The evaluation of the implementation of the Euro-Med FTAs provides an in-depth analysis of the performance of the Euro-Med FTAs. Regarding the geographical scope, this evaluation includes the impacts of the FTAs on the EU and six SMCs: Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.<sup>2</sup> The evaluation also considers the effects of the FTAs on third countries, including relevant partner countries, developing countries and least developed countries (LDCs).

---

<sup>1</sup> <https://ec.europa.eu/trade/policy/policy-making/analysis/policy-evaluation/ex-post-evaluations/>

<sup>2</sup> Some Southern Mediterranean countries are excluded from certain elements of analysis due to data availability.

The evaluation generally covers a time period from three years prior to the date the FTAs came into force up to the latest data available, although longer or shorter periods were considered depending on the availability of data and methodology used. These dates however are different for each country as illustrated in Table 2.

**Table 2. Signing and entry into force of Association Agreements with the six Mediterranean partners**

Country	Association Agreement signed	Association Agreement coming into force
Algeria	2002	2005
Egypt	2001	2004
Jordan	1997	2002
Lebanon	2002	2006
Morocco	1996	2000
Tunisia	1995	1998 (but already implemented by Tunisia in 1996)

Source: Ecorys.

The evaluation also takes into account signing and entry into force of Agricultural Protocols for three of the six SMCs as shown in Table 2a.

This evaluation focuses on the extent to which the objectives of the Euro-Med FTAs have been reached in terms of the following four criteria listed in the EU's Better Regulation guidelines and toolbox:

- *Effectiveness*: the extent to which the objectives of the EU's FTAs with the six partner countries have been achieved, as well as the factors influencing the achievements of those objectives, including identification of any unintended consequences;
- *Efficiency*: the extent to which the EU's FTAs with the six partner countries have been efficient with respect to achieving their objectives (what costs have been associated with the achievement of these objectives and whether they have been proportionate to benefits, what factors influenced these costs and benefits and their distribution across different stakeholder groups as well as whether there are any remaining inefficiencies and regulatory costs related to the FTAs);
- *Coherence*: the extent to which the EU's FTAs with the six partner countries have been coherent with the Neighbourhood Policy and Association Agreements, Action Plans and Partnership Priorities and with current EU trade policy;
- *Relevance*: the extent to which the provisions of the EU's FTAs with the six partner countries are relevant for addressing current trade issues faced by the EU and its partners.

## 2. BACKGROUND

The Southern Mediterranean region has occupied an important place on the EU trade agenda for decades. Prior to the signing of the current EU Association Agreements and their trade chapters with Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia in the mid

to late 1990s, these countries already benefitted from a partial or full removal of customs duties on many tariff lines under the EU's General System of Preferences (GSP) and under the EU's Global Mediterranean Policy.

One of the main elements of the EU's Global Mediterranean Policy, which was launched in 1972, was to harmonise bilateral agreements with the countries in the region. This process of harmonisation resulted in a series of Cooperation and Association Agreements with Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia, and a Trade Agreement with Israel, all concluded between 1975 and 1978. The EU-Mediterranean Cooperation Agreements provided for duty-free market access for most of the industrial goods to the EU, preferential market access in terms of tariff elimination and/or reduction for agricultural and fishery products on a non-reciprocal basis and offered cooperation in various sectors.

As a next step, in the 1990s, the EU began to negotiate a series of new Euro-Med AAs with all of the Mediterranean countries. The establishment of the Association Agreements was part of the Barcelona Process, which was launched in November 1995 and aimed at establishing “*political stability and security*”, “*shared prosperity*” (through trade chapters), and “*understanding between cultures and exchanges between civil societies*”. The trade chapters of the Association Agreements largely concerned trade in goods, with a focus on liberalisation of import tariffs on industrial products and to a lesser extent liberalisation with regard to agricultural products.

The additional market access concessions negotiated in the Euro-Med FTAs added to the significant preferences granted under the EU's General Scheme of Tariff Preferences (GSP) and the EU-Mediterranean Cooperation Agreements. Under the GSP, out of approximately 10,300 tariff lines in the EU's Common Customs Tariff, the six SMCs already enjoyed duty-free market access on some 3,700 so-called *non-sensitive* products and a 3.5 percentage point reduction from the EU Most-Favoured Nation (MFN) duties on some 3,300 so-called *sensitive* products. This was already on top of the duty-free access for some 2,100 products on imports of which the EU was already imposing zero MFN duty rates for all trading partners.

Overall, this shows that on the eve of the signing of the Euro-Med FTAs (by the mid-1990s), the EU was already granting duty-free market on more than half of its tariff lines to the SMCs. However, tariff preferences granted under both the GSP and the EU-Mediterranean Cooperation Agreements on unprocessed and processed agricultural products, especially thus deemed sensitive, were in general more limited. The average remaining EU import tariffs are estimated to have ranged from 2% to 4% on industrial products and from 6% to 10% for agricultural products in the mid-1990s (see Table 3, Panel A). However, within the industrial goods category, there were groups of products where EU import duties remained more significant (e.g. textiles and clothing). This was also the case with respect to some agricultural products.<sup>3</sup> At the same time, while still

---

<sup>3</sup> It is estimated, for example, that in 1995, average EU preferential import duties on imports from the SMCs of products such as fruit and nuts (HS08) were at or higher than 6%, for sugars and sugar confectionery (HS17) at around 5%, on vehicle products (HS87) close to 3% and for articles of apparel and clothing accessories (HS62) above 10%.

moderately high in some cases, these preferential tariffs were already providing SMCs a considerable advantage with respect to MFN rates. For example, as far as industrial tariffs were concerned, the tariffs that SMCs were still facing were on average half, or less, than those applied by the EU on an MFN basis.

Therefore, despite the EU having already extended preferential or duty-free access to the SMCs in the mid-1990s, there was still scope for further liberalisation by the EU on the eve of signing of the Barcelona Declaration and establishment of the subsequent Euro-Med FTAs. The FTAs were expected to deliver further trade liberalisation from the EU; however, the main gains were expected to accrue from the reduction of SMCs' import duties, which until then were not disciplined by the existing Cooperation Agreements and were relatively high. When the Euro-Med FTAs entered into force, average duties on imports from the EU ranged from 12% in Lebanon to 30% in Tunisia on industrial products and from 15% in Lebanon to 35% in Jordan on agricultural products (Table 3, Panel B). In result of the Euro-Med FTAs average duties on imports from the EU ranged from 0,1% in Tunisia to 6% in Algeria on industrial products and from 6% in Lebanon to 21% in Egypt on agricultural products (Table 3, Panel B).

**Table 3. Overview of evolution of EU and SMCs import tariffs, 1995-2015**

**Panel A. EU tariffs charged on imports from the SMCs**

EU Tariffs	1995						2015					
	AGR			IND			AGR			IND		
Partner	AHS	MFN	PRF	AHS	MFN	PRF	AHS	MFN	PRF	AHS	MFN	PRF
Morocco	8.0	9.9	8.1	4.0	7.1	4.0	0.1	7.6	0.1	0.0	4.5	0.0
Algeria	4.3	5.4	6.4	1.9	5.3	1.8	3.8	9.8	1.9	0.0	3.4	0.0
Egypt	8.5	10.2	10.0	3.2	6.5	3.3	0.2	7.5	0.1	0.0	4.3	0.0
Jordan	9.1	11.1	9.6	2.6	6.1	2.7	0.0	7.9	0.0	0.0	4.2	0.0
Lebanon	6.9	8.7	7.7	3.7	7.1	3.9	0.3	7.3	0.2	0.0	4.2	0.0
Tunisia	6.8	8.6	8.5	3.8	7.1	3.8	3.9	7.3	2.7	0.0	4.5	0.0

**Panel B. SMCs tariffs charged on imports from the EU.**

MED Tariffs	1995-2000						2015					
	AGR			IND			AGR			IND		
Importer	AHS	MFN	PRF	AHS	MFN	PRF	AHS	MFN	PRF	AHS	MFN	PRF
Morocco (1997)	32.3	32.3	-	18.7	18.7	-	8.0	20.4	7.6	0.3	9.6	0.2
Algeria (1997)	23.2	23.2	-	21.9	21.9	-	19.8	22.3	7.1	6.1	16.8	6.1
Egypt (1995)	33.0	33.0	-	21.8	21.8	-	21.7	30.7	2.7	1.3	10.0	1.4
Jordan (2000)	34.9	34.9	-	21.9	21.9	-	10.7	21.9	1.7	2.1	10.0	3.3
Lebanon (1999)	14.4	14.4	-	11.8	11.8	-	6.0	10.0	7.4	2.1	5.0	2.8
Tunisia (1995)	31.9	31.9	-	29.3	29.3	-	16.6	23.3	3.6	0.1	12.2	0.0

Note: Figures in the table present simple average duties calculated across all tariff lines where non-zero trade flows were observed in the given years for agricultural (AGR) and industrial (IND) products according to the WTO definitions of these categories. MFN rates are the average WTO MFN rates, PRF are the average preferential rates accounting for all the existing preferential tariff rates within preference schemes such as the GSP or the already existing FTAs. AHS denote the effectively applied rates, i.e. a combination of preferential rates and MFN rates whenever imports entered under this treatment even though preferences were available, i.e. accounting in a way for preference utilisation. Note that the case of agricultural products in 1995 imported by the EU from Algeria, where the average MFN rate is lower than the preferential rate (PRF), does not mean that individual MFN rates at the tariff line level were lower than preferential rates but that averages calculated across a range of agricultural products were lower.

Source: Ecorys' calculations using UN TRAINS data accessed through the World Integrated Trade Solution (WITS).

## **Euro-Med FTAs**

In addition to political, security, cultural and human partnerships, the Euro-Med FTAs were signed with an aim to strengthen the economic and financial partnerships too. A strong emphasis was put on economic liberalisation, integration and reforms, where trade played a crucial role.

### *Objectives*

The first main objective of the Euro-Med FTAs was the promotion and liberalisation of trade between the EU and Mediterranean countries in products directly covered by the FTAs (i.e. goods). The FTAs also aimed at establishing conditions for the gradual liberalisation of trade in other areas not liberalised directly by these FTAs, but closely interlinked and complementary to the liberalised sectors. The latter included trade in services, as well as foreign direct investment (FDI), and capital movement more broadly. These FTAs also refer to some non-tariff measures (NTMs), such as technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS), but mainly expressed the need for transparency and cooperation as well as the need for liberalisation in these areas in the future

In addition, all Euro-Med FTAs already contain provisions on agricultural, processed agricultural and fisheries products. Further reciprocal liberalisation on trade of agricultural, processed agricultural and fisheries products was concluded for Egypt, Jordan and Morocco.

The second main objective of the FTAs was to promote intra-regional integration and cooperation in the Southern Mediterranean region. This objective is a follow-up on the Barcelona Declaration of 1995 that included a commitment to establish a free-trade area across the entire Euro-Med region by 2010. Regional agreements such as the Agadir Agreement<sup>4</sup> contain formal references to the Association Agreements and can be considered as building blocks of this intra-regional integration. The Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM), signed in 2011 and ratified by all SMCs, was another step in promoting greater harmonisation and simplification of rules of origin (RoO) in the region.

### *Differences*

The Euro-Med FTAs, which focus on further lowering import tariffs on industrial and agricultural goods, are considered ‘first-generation’ FTAs. Since approximately 2013, as the implementation of the Euro-Med FTAs with SMCs was getting close to completion, and as some provisions of these FTAs called for additional negotiations on deeper integration (e.g. in NTMs, services trade and FDI) the EU started the process of negotiating Deep and Comprehensive Free Trade Areas (DCFTAs) with some of these countries.

---

<sup>4</sup> The Agadir Agreement is an FTA between Egypt, Jordan, Morocco and Tunisia, which was signed in February 2004 and entered into force in March 2007.



While the existing FTAs are similar in terms of the overall structure, they are not homogeneous and their texts reflect country specificities related to different sizes, production structures, commercial interests and economic and political situations. The Euro-Med FTAs have been introduced at different points in time, had different baselines (in terms of initial tariff barriers with respect to which the agreed tariff reductions were defined; see Table 3) and differently phased implementation periods. The latter differed from one SMC to another but, in line with the principle of asymmetry, the implementation periods were in favour of SMCs. While the EU's market was immediately opened to SMCs' exports of all industrial and most agricultural goods, the SMCs had transition periods in place, on average of 12 years, to open up their markets only gradually to EU exports. However, as SMCs maintained higher tariffs than the EU prior to the entry into force of the Euro-Med FTAs (Table 3), they were also effectively undertaking more significant tariff reductions during the implementation periods. As a result, the changes in conditions of market access implied by these FTAs and the impacts thereof have been quite heterogeneous across the six SMCs and they have also varied in time.

### **3. IMPLEMENTATION / STATE OF PLAY**

The implementation of the Euro-Med FTAs and status of trade relations vary across SMCs. It reflects a multitude of issues including policy choices opted for by SMCs to create conditions conducive to implementation of the FTAs. In addition, the implementation of the FTAs vary according to the progress of additional negotiations, updates to each of the Euro-Med FTAs.

#### *Context*

Furthermore, the domestic political and economic situation in the six SMCs, as well as the political and security situation in neighbouring countries (notably Syria), have considerably affected trade capabilities and flows with the EU. SMCs have also pursued additional trade liberalisation between themselves (e.g. within the Pan-Arab Free Trade Area or the Agadir agreement) and with third countries (e.g. agreements of selected SMCs with the US, Turkey and other countries in Africa -e.g. the African Continental Free Trade Area and across other regions).

#### *Tariff dismantling*

In terms of tariff dismantling, the remaining EU tariffs on the majority of goods covered by the FTAs fell to zero immediately after the start of the entry into force of the FTAs but the implementation of tariff dismantling by SMCs varies. The implementation by SMCs reflects: phased liberalisation envisaged for them in the FTAs' original commitments; the additional liberalisation for agricultural, processed agricultural and fisheries products that are in force with Egypt, Jordan, and Morocco; as well as failures by some SMCs in applying the tariff dismantling schedule.

## **Examples:**

### *Tunisia*

It is the first SMC that signed an FTA with the EU (prior to its entry into force in 1998) and began implementing the Association Agreement in 1996. All tariffs on industrial products referred to in the Association Agreement were entirely dismantled by 2008, which meant the EU-Tunisia FTA was already entirely implemented two years ahead of the envisaged date. Nevertheless, market access for agricultural products remains more limited.

### *Morocco*

The transition period to reduce Morocco's tariffs on imports of industrial products to zero ended in March 2012. In 2010, the EU and Morocco signed an Agreement on Additional Liberalisation of Trade in Agricultural and Fisheries Products, which entered into force in 2012. As a result, trade for industrial products between Morocco and the EU is now fully liberalised, while market access for agricultural products also covers nearly all products, with only a few categories of products still subject to tariff rate quotas (TRQs) for imports from Morocco into the EU (e.g., tomatoes, cucumbers and courgettes). The tariff dismantling period for EU agricultural exports to Morocco runs until the end of September 2021 and a higher number of products will be subject to TRQs at the end of the dismantling phase.

### *Algeria*

For Algeria the original planned end date for the liberalisation of industrial products was 1 September 2017, but in 2012 both sides agreed to extend the transitional period for certain industrial products (i.e. steel, textiles, electronics and automobiles) from 12 to 15 years, moving the end date to 1 September 2020. This was due to the difficulties that Algeria experienced when applying the tariff dismantling schedule in 2018. However as of 2015 Algeria has started introducing a series of trade restrictive measures including prohibitively high import duties, import bans and licensing schemes as well as new procedural requirements erecting new barriers to trade. As these issues could not be resolved over an extended period via bilateral discussions, in June the EU side initiated a formal Dispute Settlement Procedure under the EU-Algeria Association Agreement to re-establish compliance with legal obligations in bilateral trade and investment relations. The technical consultations under the dispute settlement procedure are ongoing with engagement on both sides to resolve these long outstanding issues.

### *Non-tariff measures*

When it comes to dismantling non-tariff measures (NTMs), especially compared with more recent and comprehensive trade agreements concluded by the EU, the trade chapters of the Association Agreements with the six SMCs mainly express the need for liberalisation of NTMs such as SPS or TBT in the future rather than stipulating concrete liberalisation commitments on NTMs. Several other types of NTMs are referred to in the texts of the Euro-Med under the Title *Payments, Capital, Competition and Other Economic Provisions*. Similarly, to other NTMs, the Euro-Med FTAs only partially cover services

trade or FDI *per se* and the related provisions do not go significantly beyond what the SM World Trade Organization (WTO) members (Egypt, Morocco, Tunisia and Jordan) and the EU committed to under the GATS.<sup>5</sup> Overall, most of the NTM provisions of Euro-Med FTAs can be described as directional or best-endeavour types of provisions; the FTAs do not contain specific or enforceable commitments in these areas but rather express broad intentions of the trading parties regarding NTMs.

Likely, as a consequence of relatively weak provisions on NTMs contained in the Euro-Med FTAs, NTMs have been maintained or new measures have been introduced contrary to the spirit of fostering trade, which was enshrined in the respective FTAs. This is documented in the proceedings of respective Association Councils and their subsidiary bodies. The trend of increasing restrictions in the form of NTMs has also recently been documented in the European Commission's regular Reports on Trade and Investment Barriers. For example, the report covering the calendar year 2018, notes that, in 2017 and 2018, there had been a "*trend of growing protectionism*" in the Mediterranean region<sup>6</sup> and refers to 30 trade and investment barriers in Algeria, Egypt, Lebanon, Morocco and Tunisia. Of these, Algeria maintains the largest number of barriers (10), closely followed by Egypt (8).

#### *Additional negotiations and DCFTAs*

The Association Agreements did not contain sufficient provisions on topics whose importance for the EU, SMCs and for international trade has grown in the recent decade, only calling for additional negotiations in some of these areas in the future. These areas include, *inter alia*, services, investment, regulatory convergence, public procurement, sustainable development or intellectual property rights. All these interrelated areas are shown in the economic literature to be important, given the reliance of the modern economy on global value chains (GVCs), services trade and FDI. Regulatory co-operation is a key element of integration in many of these policy areas.

With the current DCFTA approach, deep and comprehensive trade relations are to be achieved by virtue of, *inter alia*, aligning a partner country's trade-related legislation with international standards and, when relevant, with the relevant EU rules and regulations, in exchange for positive effects in terms of market access and other economic benefits these may create. The EU started the process of negotiating DCFTAs with some of the SMCs. Negotiations with Tunisia and Morocco started in 2013 but are on hold, while negotiations with Egypt and Jordan have not been launched yet.

## **4. METHOD**

### **Overview of the approach to the evaluation**

The evaluation examined the extent to which the objectives of the Euro-Med FTAs of six SMCs were met. The objectives of the Euro-Med FTAs and their links to the objectives

---

<sup>5</sup> The FTAs with Lebanon and Algeria also refer to the GATS in similar ways to the four latter FTAs

<sup>6</sup> European Commission, Report on Trade and Investment Barriers (1 January 2018–31 December 2018), p. 19, available at [http://trade.ec.europa.eu/doclib/docs/2019/june/tradoc\\_157929.pdf](http://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157929.pdf).

pursued by trade policy more broadly are summarised in the overview of the *intervention logic*, provided in Figure 1 in Annex 3, which shows the links between the objectives of the six FTAs and their intended medium and long-term impacts, as well as channels through which the FTAs would be expected to help achieve these objectives.

## **Key challenges**

This evaluation assesses the effects of the so-called first-generation FTAs that principally entail reductions of import tariffs on goods and only limited provisions on non-tariff barriers. However, even when it comes to tariff reductions, these FTAs have been introduced at different points in time, had different starting points (in terms of initial barriers) and differently phased implementation periods. They have also influenced tariffs on different products in different SMCs to a different degree. A considerable effort was thus devoted to carefully define the scope and extent of the actual trade liberalisation that was associated with these FTAs.

An additional challenge of this evaluation was to assess to what extent the observed historical changes in trade flows and associated economic variables in the considered period can be attributed to the FTAs. The objective was to separate FTA-induced effects from the effects of other concurrent developments, such as the effects of the economic and financial crisis of 2008-09 or the Arab Spring, as well as the evolution of other economic factors not directly related to the FTAs. This disentangling became a particular challenge, especially when assessing the more indirect effects of the FTAs, for example in the area of sustainability.

For all the impacts observed, an understanding was developed as to how the FTA may have led to the obtained results. This is why the evaluation has adopted a framework that utilises a mix of methods. The results of the computable general equilibrium (CGE) and partial equilibrium (PE) modelling were used as means of assessing how much of the actual variation in trade can be attributed to the Euro-Med FTAs as opposed to other factors that could be driving these as posited by economic theory.<sup>7</sup> This analysis is complemented with a host of other quantitative and qualitative methods to cross-check the modelling results, to put them in the context of the actual historical developments in economic variables and to deepen the understanding of the mechanisms that may have been at work.

## **Elements of the evaluation**

The evaluation consisted of 17 different evaluation tasks, which were divided into four inter-related work packages, namely: (1) evaluation framework; (2) consultations; (3) economic analysis and (4) sustainability analysis.

---

<sup>7</sup> Due to data constraints CGE simulations were performed for Egypt, Jordan, Morocco and Tunisia, while PE simulations were performed for Algeria and Lebanon

### *Evaluation framework*

Development of this crosscutting work package in the inception phase of the evaluation consisted of the elaboration of: the *intervention logic* (see Figure 1 in Annex 3); the specific *evaluation questions* from the Terms of Reference (ToR); and the *evaluation matrix* (see Table 1 in Annex 3). Tasks performed within this work package helped to guide the evaluation in all its activities during the implementation phase.

### *Consultations*

Stakeholder consultations were an essential element of the evaluation.

The stakeholder consultation strategy for the evaluation relied on a variety of consultation tools and a mix of stakeholder categories at different levels. The consultations were focused on those stakeholders that were likely to have been significantly involved in or affected by the Euro-Med FTAs, namely public administrations, business associations, the private sector and civil society organisations. Within the scope of the evaluation, stakeholder consultations were carried out through both remote and local consultations and included experts from the EU, as well as experts from the six SMCs.

The Open Public Consultation was an online survey that has been open for 12 weeks. It was launched on 4 September 2019 and was open until the end of November 2019. A total of 50 respondents participated in this survey, although not all respondents answered all questions. Forty-six of them participated in the regional version, whereas the other four participated in the country-specific ones (i.e. Jordan [2] and Egypt [2]). Therefore, participation in the country-specific surveys was rather limited.

Seven stakeholder workshops were organised in total: in Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia and the EU. These workshops had a dual purpose of presenting and discussing the work conducted so far. They served to share preliminary results and to receive feedback on these, as well as to gather additional input for the evaluation. Table 4 provides an overview of the seven workshops and the number of workshop participants in each country.

To allow for a more detailed and personal feedback from stakeholders, personal interviews and roundtable sessions involving close to 140 stakeholders were held. An overview of the number of interviewees consulted in each country is provided in the last column of Table 4.

**Table 4. Overview of stakeholder workshops and number of additional interviews**

Country	Workshop date	Number of workshop participants	Number of additional interviewees in personal interviews and roundtables
EU	30 April 2020	34	20
Algeria	26 February 2020	50	15
Egypt	16-17 October 2019	54	19
Jordan	20 November 2019	60	17
Lebanon	9 March 2020	47	20
Morocco	2 October 2019	106	28
Tunisia	26 September 2019	57	20

The interviews were spread over the following categories: public sector (32%), business associations (24%), large enterprises (2%), SMEs (14%), social stakeholders (9%), human rights stakeholders (3%), environmental stakeholders (6%), and think tanks / academia (10%).

The Civil Society Dialogue on 30 April 2020 provided an additional opportunity to receive further inputs from civil society on the preliminary findings.

Different information dissemination tools were used for the distribution of information and for maximising outreach during the evaluation. These included an e-mail account, newsletters, a dedicated website as well as communications through Twitter and LinkedIn accounts. Through these channels, the evaluation team reached out to stakeholders, kept them up to date and invited them to participate in the consultation activities.

#### *Economic Analysis*

The economic analysis studied in detail the reductions in trade barriers stipulated by the FTAs and assessed their economic effects.

The organisation of the economic analysis of the evaluation followed a standard view of the different sources of gains from trade liberalisation and the conditions that must be met for them to materialise, accompanied by additional elements of analysis suggested by the economic literature:

- Review of existing studies and reports;
- Statistical description of characteristics of Euro-Med FTAs and of the associated trade developments;
- Description and interpretation of the CGE and PE modelling exercises used to discern the trade effects of the Euro-Med FTAs and to assess their broader economic effects;
- Analysis of factors that help explain and put in the context the results of descriptive statistical analysis and CGE/PE modelling, as well as of factors determining the

degree to which SMCs could use the opportunities stemming from the FTAs, in particular;

- Rules of origin
- Customs-related matters Trade-related assistance
- Non-tariff measures Role of FDI and services trade
- Business environment Exchange rate policies
- Industrial policies Competitiveness
- Diversification, technology and economic complexity
- SMEs

### *Case Studies*

The case studies focused on the following sectors: agriculture; chemicals; machinery and transport equipment; and textiles and clothing. The sectoral case studies combined different methods (e.g. literature review, data analysis, assessment of modelling results, stakeholder consultations) and allowed to gain a more detailed understanding of the different factors (enablers and bottlenecks) at play.

### *Sustainability Analysis*

The sustainability analysis informed and complemented the consultations and economic analysis to identify the most significant impacts on sustainable development, covering social, human rights, environmental and third-country effects.

There have been many developments in the four sustainability impact areas in each of the countries being analysed, which were not related directly to the Euro-Med FTAs, and the challenge was to link these developments to the relevant FTAs, establishing possible causal relations. In order to keep focus on the specific effects of the FTAs, the sustainability analysis has encompassed:

- Analysis of trade chapters of the Association Agreements as regards the specific parts of the texts linked to the four areas;
- Literature review on sustainability impacts;
- Consultations on sustainability impacts;
- Analysis of results of the CGE model relevant for sustainability;
- In total, four case studies have been conducted, on the following topics:
  - Employment in the *Chemicals* and *Textiles and Clothing* sectors;
  - Female employment in *Agriculture*;
  - Trade in environmental goods;
  - Air emissions.

## **5. ANALYSIS AND ANSWERS TO THE EVALUATION QUESTIONS**

The evaluation replies to five evaluation questions (EQs) related to the four evaluation criteria of effectiveness, efficiency, coherence and relevance:

- EQ1: To what extent have the objectives of the EU FTAs with the six SMCs been achieved? What are the factors influencing the achievement of those objectives? To what extent are those factors linked to the EU intervention?

- EQ2: Have the EU FTAs with the six SMCs given rise to other (including unintended) consequences? If so, which ones?
- EQ3: To what extent have the EU FTAs with the six SMCs been efficient in achieving their objectives?
- EQ4: To what extent have the EU FTAs with the six SMCs been coherent with the European Neighbourhood Policy (ENP), Association Agreements, action plans, Partnership Priorities, and current EU trade policy?
- EQ5: To what extent are the provisions of the Euro-Med FTAs with the six SMCs relevant for addressing current trade issues faced by the EU and these partners?

### **Effectiveness of the FTAs**

The effectiveness of the FTAs is assessed based on the following EQ:

**EQ1: To what extent have the objectives of the EU FTAs with the six partner countries (SMCs) been achieved? What are the factors influencing the achievement of those objectives? To what extent are those factors linked to the EU intervention?**

Answering this evaluation question involves answering three separate sub-questions:

- **Have the Euro-Med FTAs generated the intended market-access improvements for the EU and the SMCs? (EQ1.a)** Asking this question is important because the main objective of the Euro-Med FTAs was the liberalisation of bilateral trade between the EU and SMCs through liberalisation of the remaining bilateral import tariffs.
- **Have the market-access improvements associated with the Euro-Med FTAs resulted in increased trade exchanges and the associated wider economic effects? (EQ1.b)** Posing this question follows straightforwardly from EQ1.a as it asks whether there is evidence that the market-access improvements related to the Euro-Med FTAs resulted in increased trade flows, which were expected to be the main source of economic gains from these FTAs;
- **What are the factors influencing the achievement of those objectives? To what extent are those factors linked to the EU intervention? (EQ1.c)** In case the achievement of the trade liberalisation objective was impeded, answering these two questions helps to determine why the trading partners may have been unable to take full advantage of the market-access improvements stipulated by the texts of the Euro-Med FTAs, and to what extent this was related to the scope and nature of these FTAs? (EQ1.c)

**EQ1.a: Have the Euro-Med FTAs generated the intended market access improvements for the EU and the SMCs?**



The evolution of effective preferential market access conditions was determined not only by the implementation of tariff reductions negotiated in the Euro-Med FTAs, but the effects of tariff reductions due to other agreements signed in the meantime by both the EU and the SMCs with third countries. To that extent, the analysis looked at the evolution of effective preference margins<sup>8</sup> determined by the Euro-Med FTAs and other agreements of the EU and SMCs.

Since the conclusion of the Euro-Med FTAs various changes in preferences available to other countries have been made, such as in the EU GSP scheme, or conclusion of other FTAs. This implies that even if access to the EU market has improved for SMCs in absolute terms, it is not necessarily the case relative to other countries.

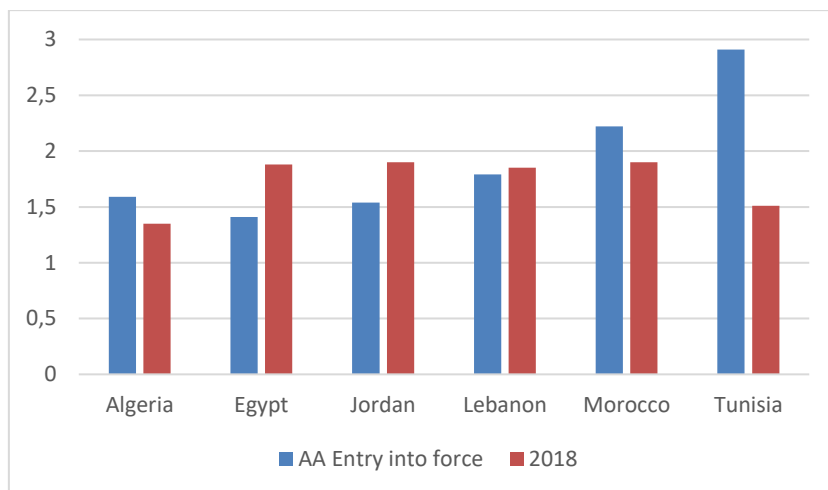
Together with the Euro-Med FTAs, these FTAs determined the effective preferential tariff margins faced in the EU and SMC markets and thus influenced the balance of their economic and social effects stemming from the Euro-Med FTAs. Moreover, since the entry into force of the Euro-Med FTAs, 13 countries, which often had similar comparative advantages to those of SMCs (e.g. in labor-intensive activities), acceded to the EU and became part of the EU Single Market. At the same time, enlargements of the EU also expanded the size of the EU market covered by Euro-Med FTAs as, after these enlargements, SMCs could access approximately 140 million consumers more than when the Euro-Med FTAs were signed. In terms of effective preferential tariff margins and other factors influencing access to the EU goods market, both the entry into force of FTAs with third countries as well as the EU enlargements can be seen as contributing to an effective erosion of the value of tariff preferences the EU and SMCs gave to each other through the Euro-Med FTAs.

As a result, the analysis showed that while effective preference margins associated with the Euro-Med FTAs remain positive and generate economic benefits, they have decreased on average for Algeria, Morocco and Tunisia and improved only marginally for Egypt, Jordan and Lebanon since the entry into force of the FTAs (Figure 2). This is because while most favoured nation (MFN) and preferential tariffs mandated by the Euro-Med FTAs have remained constant, the EU has since entered into FTAs with many other countries. EU exporters saw increasing effective preferential tariff margins in all six SMCs (Figure 3). It should be noted, though, that the erosion of preferential margins is not a feature of the FTAs, but of the baseline. EU enlargement and conclusion of other FTAs have materialised independently of the Euro-Med FTAs and they would have increased competitive pressure in the same way as in case of no Euro-Med FTAs. In other words, if a competitor country is granted better terms, this is always a disadvantage, regardless of the conditions under which a country can access the market.

**Figure 2. Change in effective preference margins for SMC exporters accessing the EU market, comparing the initial year and 2018**

---

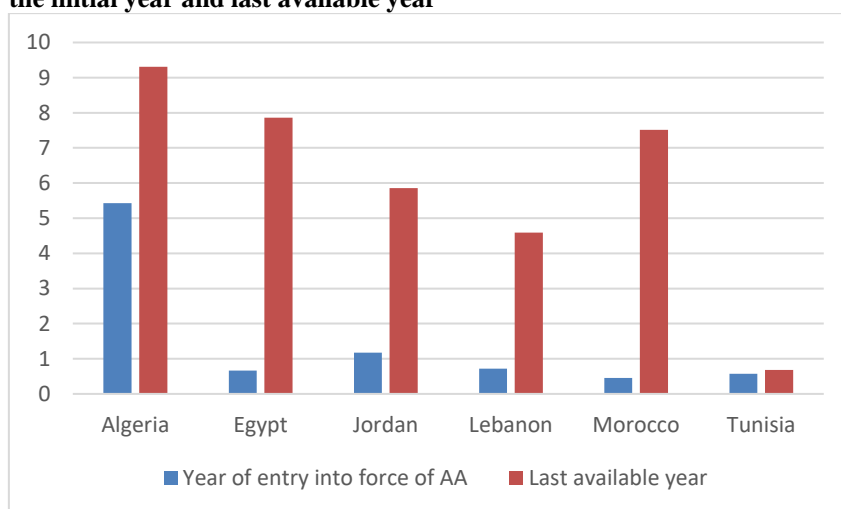
<sup>8</sup> Effective preference margins are defined in this evaluation as differences between average tariffs charged on imports from third countries and average preferential tariffs charged on imports from a given Euro-Med FTA partner.



Note: The figure depicts the difference between the EU simple average tariffs applied on imports from the rest of the world and simple average tariffs applied on imports from SMCs (percentage points). These simple average tariffs are calculated based on Harmonised System 6-digit tariff data and concern only tariff lines that have positive import values. Hence, the observed differences are a combination of different tariff rates and the composition of trade that actually occurs.

Source: Authors' calculations based on tariff data extracted from the World Integrated Trade Solution (WITS) portal.

**Figure 3. Change in effective preference margins for EU exporters accessing SMC markets, comparing the initial year and last available year**



Note: The picture depicts the difference between tariffs applied by SMCs on imports from the rest of the world and simple average tariffs applied on imports from the EU (percentage points). These simple average tariffs are calculated based on Harmonised System 6-digit tariff data and concern only tariff lines, which have positive import values. Hence, the observed differences are a combination of different tariff rates and the composition of trade that actually occurs.

Source: authors' calculations based on tariff data extracted from the World Integrated Trade Solution (WITS) portal.

### **EQ1.b: Have the market access improvements associated with the Euro-Med FTAs resulted in increased trade flows and the associated wider economic effects?**

The analysis showed that the main objective of the FTAs in terms of increased trade exchange between the EU and each of the SMCs have been largely achieved (Figure 7). In addition, the effects on GDP and welfare, as quantified by the CGE and PE model simulations, have been positive and benefitted SMCs proportionally more than they did the EU (Figure 8).

The tariff reductions associated with the bilateral Euro-Med FTAs were not as effective in advancing the objective of promotion of intra-Med trade as they were in advancing the Euro-Med trade. However, the impacts on intra-Med trade could not have been expected to

be major as the Euro-Med FTAs did not contain provisions to lower trade barriers among SMCs and the most tangible liberalisation brought about by the Euro-Med FTAs was the reduction of bilateral tariffs between the EU and each SMC. Nevertheless, the regional agreements such as the Agadir Agreement and the Regional Convention on pan-Euro-Mediterranean preferential rules of origin, which was a step in promoting greater harmonisation and simplification of rules of origin in the region, were inspired by the Euro-Med FTAs and supported by the EU, and were building blocks in the process of promoting intra-Med trade.

There is also evidence that the impacts on trade and other economic indicators could have been more significant if bilateral trade was not impeded by other factors. As the answers to the next evaluation question show, some of these other factors were related to the policy intervention at hand and some were not. These factors are discussed in the answers to the next evaluation sub-question.

In addition to the impact of the FTAs on trade, the evaluation assessed the possible impact of the Euro-Med FTAs on diversification and economic complexity<sup>9</sup>. This was relevant to analyze, as access to *technology* and *know-how* and innovative methods of value creation in today's complex GVCs have become some of the key drivers of economic development.

Analysis of indicators of diversification and economic complexity of exports of SMCs to the EU and other countries show improvements since the entry into force of the Euro-Med FTAs for all SMCs except Algeria (Figure 9). Tunisia, for example, which signed its FTA with the EU the earliest, has also seen the most pronounced gains in diversification and complexity and its exports, which have evolved significantly from being concentrated in articles of apparel in the mid-1990s to being concentrated in electrical and electronic equipment. The analysis showed also that the EU market remains challenging for SMC producers when it comes to diversifying their export structures and competing in markets for more complex products (Figure 10).

#### *Non-trade objectives*

While fostering bilateral trade and trade within the SM region were the primary objectives of the FTAs, the Barcelona Declaration and the FTAs also referred to other objectives:

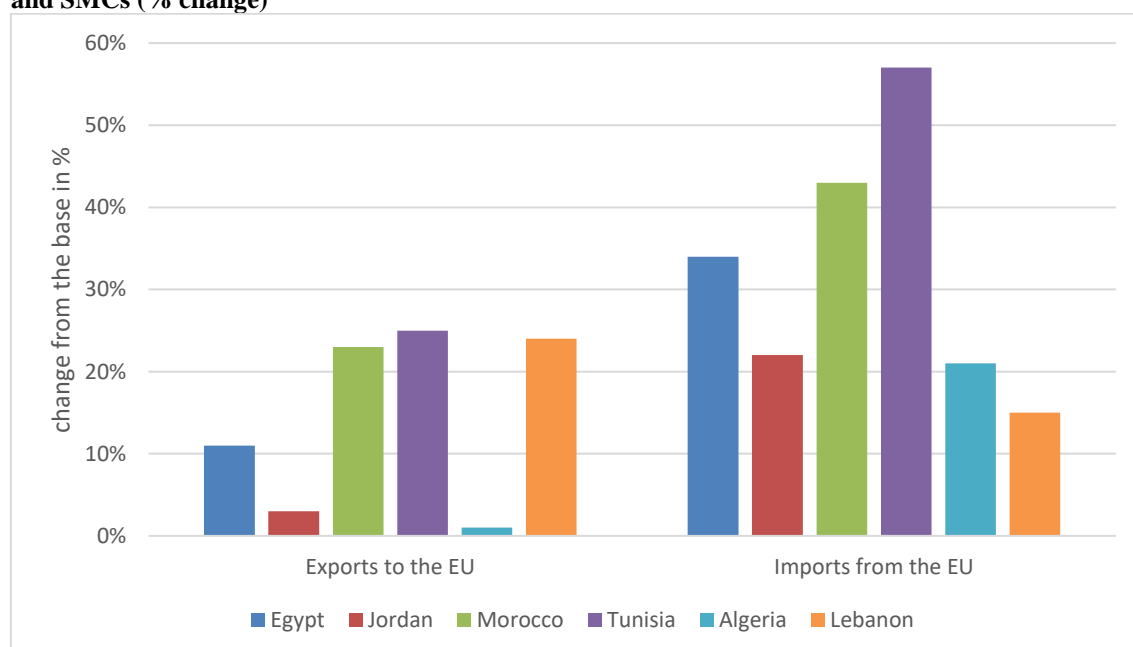
- **Fostering harmonious economic and social relations** was one of the objectives of the FTAs but these concepts are not further defined therein and their realisation is therefore difficult to assess. It can be argued, however, that on the one hand, the increases in commercial exchanges between the partners help to strengthen economic relations. On the other hand, disappointment and discussions over remaining trade and investment barriers affect harmony in relations;

---

<sup>9</sup> Complexity in the meaning of theory of economic complexity used in this evaluation captures the amount of tacit skills and other knowledge embodied products countries produce. The theory of economic complexity posits that the knowledge and productive capabilities of countries are revealed by what they trade and that they are capable predictors of future economic growth where economies with higher ECIs have better growth prospects. (See the on-line Atlas of Economic Complexity: Available at: <https://atlas.cid.harvard.edu/explore>). For more see Section 3.5.10 of the full report.

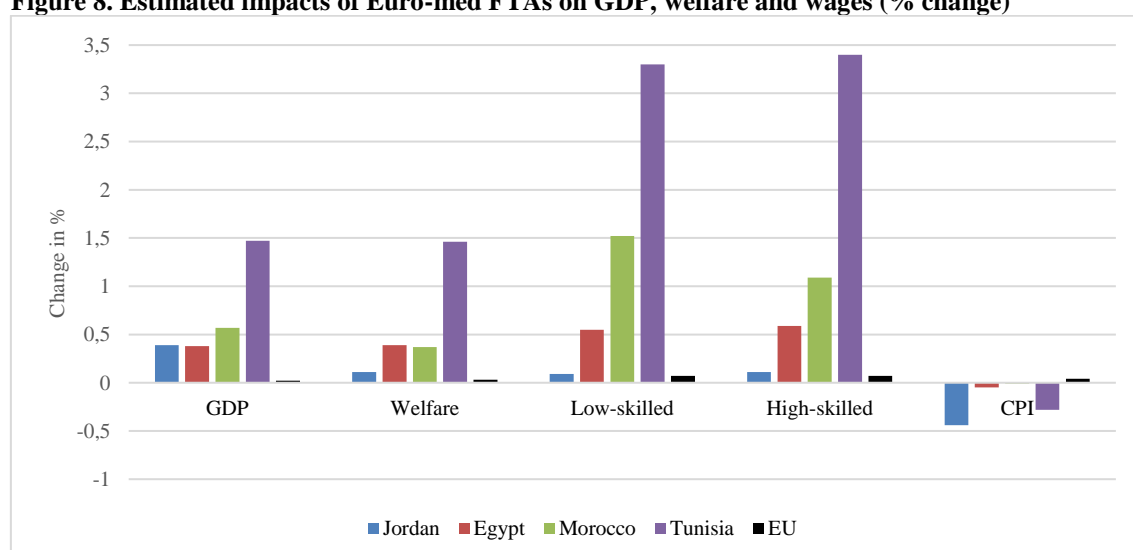
- Another objective was **establishing the conditions for the gradual liberalisation of trade in goods, services, and capital** between the EU and the SMCs and the FTAs contain broad provisions for further liberalisation in certain areas. Overall, the analysis concludes that only limited further liberalisation has been achieved. While Egypt, Jordan and Morocco have concluded additional protocols on agriculture no further tangible liberalisation has been achieved on other goods, services and capital. As already mentioned, Tunisia and Morocco started negotiations in 2013 for so-called Deep and Comprehensive Free Trade Areas, although these negotiations are currently on hold. Negotiations with Egypt and Jordan have not yet been launched. For Algeria and Lebanon, there are currently no plans to change the existing FTAs with the EU.

**Figure 7. The simulated long-run effects of Euro-med preferences on bilateral trade between the EU and SMCs (% change)**



Sources: DG Trade, European Commission using the MIRAGE and the Commission's PE model.

**Figure 8. Estimated impacts of Euro-med FTAs on GDP, welfare and wages (% change)**



Note: Algeria and Lebanon were not included in the CGE modelling because of data constraints.

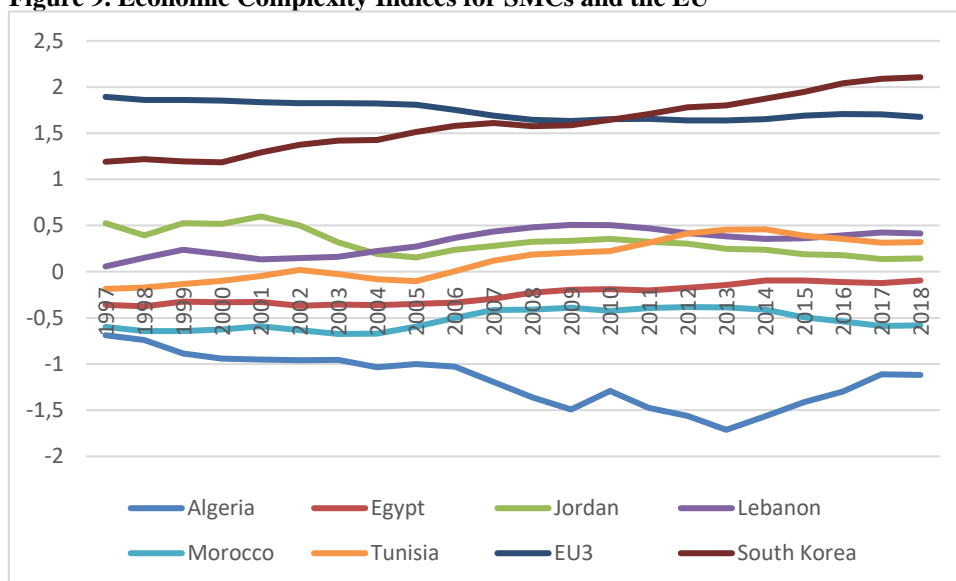
Source: DG Trade, European Commission using the MIRAGE model.

**Table 6. Summary of main results from the CGE and PE models**

Variable		EU28	Jordan	Egypt	Morocco	Tunisia	Algeria	Lebanon	Turkey	LDs
<b>GDP</b>	(%)	0.02%	0.4%	0.4%	0.6%	1.5%			-0.02%	-0.01%
<b>GDP gain</b>	(€ billion)	2.6	0.1	0.9	0.5	0.6			-0.14	-0.06
<b>Welfare</b>	(%)	0.03%	0.1%	0.4%	0.4%	1.5%			-0.03%	-0.01%
<b>Welfare</b>	(€ billion)	3.7	0.04	0.8	0.3	0.5			-0.22	-0.08
<b>Wages</b>	low	0.07%	0.09%	0.55%	1.52%	3.30%			-0.09%	-0.03%
	high	0.07%	0.11%	0.59%	1.09%	3.40%			-0.09%	-0.03%
<b>Consumer</b>	%	0.04%	-0.44%	-0.05%	-0.01%	-0.28%			-0.07%	-0.02%
<b>EU</b>	(%)		3%	11%	23%	25%	21%	15%	0.2%	-0.3%
<b>EU</b>	(€ billion)		0.05	1.5	3.1	2.6	3.1	0.9	0.15	-0.14
<b>EU</b>	(%)		22%	34%	43%	57%	1%	24%	-0.4%	-0.3%
<b>EU</b>	(€ billion)		0.9	4.5	5.6	4.2	0.3	0.1	-0.34	-0.14
<b>CO2</b>	% change	0.05%	-0.90%	-0.50%	-2.20%	-3.40%				
<b>CO2</b>	million t	2.0	-0.2	-1.0	-1.5	-0.9				
<b>bilateral</b>	(%)								-11.1%	-3.1%
	(€ billion)								-0.79	-0.04
<b>bilateral</b>	(%)								2.9%	2.2%
	(€ billion)								0.06	0.07

Source: DG Trade, European Commission using the MIRAGE model.

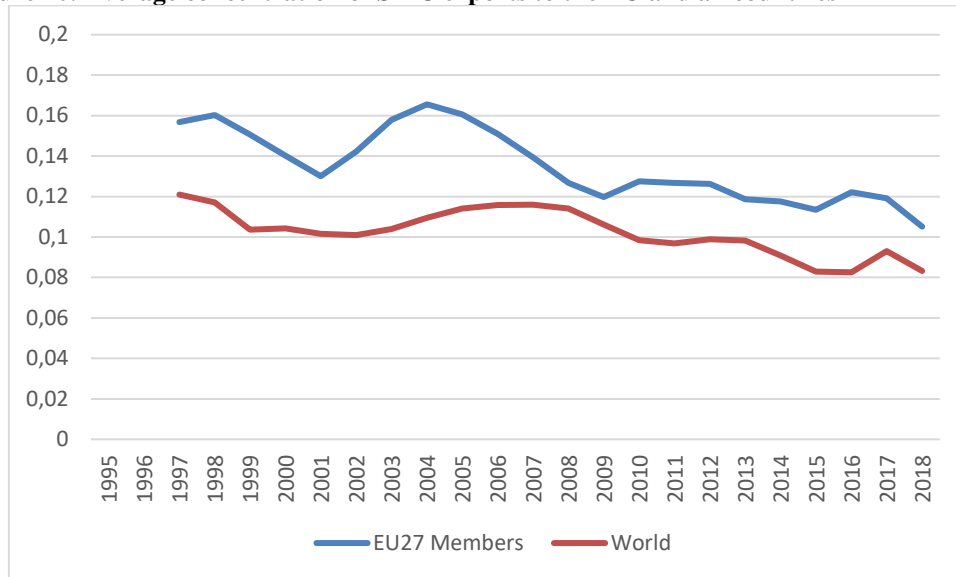
**Figure 9. Economic Complexity Indices for SMCs and the EU**



Note: lines show economic complexity indices (ECIs), which range from -2.8 to 2.8 with higher values indicating higher levels of economic complexity. For greater clarity of the graphic, these are 3-year moving averages, the EU3 denotes an average for Germany, France and Italy.

Source: Ecorys' calculations based on the data from The Atlas of Economic Complexity, 2020

**Figure 10. Average concentration of SMC exports to the EU and all countries**



Note: average Herfindahl-Hirschmann index of export diversification for exports of all six SMCs the EU27 and all countries calculated across products at the 3-digit level of SITC Rev 3 product classification, 1 denotes a complete concentration while 0 a complete diversification. Source: Ecorys' calculations based on the data from The Atlas of Economic Complexity, 2020.

### **EQ1.c: What are the factors influencing the achievement of those objectives? To what extent are those factors linked to the EU intervention (the scope of Euro-Med FTAs)?**

The extent to which the trading partners could take advantage of the market access improvements varies by country and sector. The comparison of the CGE and PE results, suggests that taking advantage of the newly created market access opportunities was impeded by other, non-tariff factors. There have been various factors at play that have made it difficult to seize these opportunities. As per the evaluation questions, the evaluation divided them into aspects of the EU intervention (the scope of the Euro-Med FTAs) and other factors.

#### *Role of the Euro-Med FTA in seizing the opportunities of improved market access*

The results of this evaluation suggest that that the FTAs have affected the extent to which parties could take advantage of the market access opportunities, in three ways:

- **Remaining barriers.** As the Euro-Med FTAs focused on tariff reductions, many non-tariff measures were not addressed in these FTAs, while these NTMs can be more important for market access than tariffs. Additionally, other factors related closely to trade in goods such as services and FDI have only been covered to a limited extent;
- **Limited effectiveness with which the institutional structures of the FTAs were able to address the remaining or arising concerns.** While the EU and the SMCs' governments meet on a bilateral basis to discuss barriers, both barriers that violate the Euro-Med FTAs (e.g. the import tariff increase in Algeria) or are outside of the strict provisions of the Euro-Med FTAs (e.g. a registration of EU exporters in Egypt), the problems are often not easily solved;

- *The rules of origin.* Rules of origin (RoO) are an integral part of FTAs, to determine under which conditions a product can be considered as being produced in the FTA partner country. The evaluation found limited evidence for this element being a major barrier for SMC exports. The double-transformation rule applicable in the textiles and clothing sector was flagged by several regional industry representatives during the consultations. They claimed it undermined their competitiveness in the EU market *vis-à-vis* third-country producers, notably from Asia, which can use cheaper inputs. It should be noted that it is difficult to assess how much this affects their competitiveness, as a single transformation method could have other implications (e.g. it could potentially lead to a decrease of EU investment in the SMCs).

*Other factors limiting the opportunities of increased market access*

While aspects of the FTAs play a role in seizing the opportunities stemming from the increased market access, many other factors are at play outside of the FTAs , including:

- *Increased access of third countries to the EU market.* Some third countries have competitive advantages over the SMCs, reflected in lower production costs, which are a result of, for example, lower wages and economies of scale and making it difficult for SMCs to maintain or increase their market shares;
- *Constraints in the business environment as barrier to structural adjustment and trade.* Institutional development and the functioning of product and factor (labour and capital) markets in SMCs remains a challenge. The literature suggests that this has a significant impact on the ability to take advantage of changes implied by trade liberalisation, to attract FDI and the ability to integrate with international supply chains;
- *Entrepreneurship and competitiveness.* A lack of entrepreneurship could be a factor affecting the extent to which opportunities are seized. Nevertheless, selected measures of competitiveness considered in the evaluation suggest that it has stagnated or even worsened over time in some SMCs, which is also related to the business environment. Competitiveness and business environment performance tend to be more directly influenced by the individual policy choices made by national governments to reform their economies; these developmental and institutional challenges determine SMCs' structural adjustment abilities. These challenges may also explain why the gains from trade may not materialise or take much time;
- *Opportunities in other markets.* The consultations and sector case studies also showed that exporters look for the best opportunities. Entering a new market comes with costs, and these costs are weighed against the expected benefits. Several business representatives considered the costs of entering the EU market as relatively high given the high standards and technical requirements.

Overall, the relatively narrow scope of the Euro-Med FTAs has to some extent affected the degree to which parties could take advantage of the new market access opportunities.

There were, however, other factors at play outside of the Euro-Med FTAs that influenced the achievement of their objectives.

#### *Non-tariff measures (NTMs)*

Overall, NTM provisions in Euro-Med FTAs are much more limited than commitments on NTMs seen in the EU's more advanced trade agreements. The latter contain more specific provisions on technical barriers to trade concerning technical cooperation and approximation of technical regulations and standards and conformity assessment or marking and labelling as well as definitions, and provisions on regulatory approximation recognition and determination of equivalence in the area of sanitary and phytosanitary measures. The Euro-Med FTAs only encourage cooperation in this area and provide only a broad guidance.

The evaluation found that NTMs have likely been a significant factor in impeding trading partners from taking advantage of tariff liberalisation due to the Euro-Med FTAs:

- The analysis suggests that NTMs which apply to EU-SMC trade may have larger effects on trade flows than tariffs (which, after the implementation of the Euro-Med FTAs, are low);
- The public consultations revealed that NTMs, because of their lesser transparency and higher trade restrictiveness, are indeed still a major factor constraining the realisation of gains from tariff liberalization as a result of the Euro-Med FTAs;
- The NTMs tend to be a relatively frequent element of the trade picture and they tend to concentrate in the category of technical measures (SPS and TBT).

Overall, the assessed impact of NTMs on Euro-Med trade suggests that an implementation of a trade-friendly NTM policy could be conducive to more Euro-Med trade.

#### *Barriers to FDI and trade in services*

While the Euro-Med FTAs only partially cover services trade or FDI and the impact of these direct provisions seems limited, both of these activities are related in important ways to trade in goods, which is subject to significant liberalisation in these Euro-Med FTAs. To the extent the FTAs influence trade in goods through tariff reductions, they influence the level of FDI and services trade in the Euro-Med region. In addition, developments in FDI and services trade, which may be not directly caused by tariffs or trade in goods, may shape the effects of Euro-Med FTA tariff reductions.

The analysis of restrictiveness of FDI and trade in services as well as FDI and services trade flows in SMCs suggests that while some regulations in these areas have been liberalised<sup>10</sup>, the remaining restrictions and the overall economic and political situation in the region have impeded the realisation of gains from liberalisation of trade in goods.

---

<sup>10</sup> The OECD FDI Regulatory Restrictiveness Index: <https://www.oecd.org/investment/fdiindex.htm>, and WTO-World Bank Services Trade Restrictions Index (STRI): <https://www.worldbank.org/en/research/brief/services-trade-restrictions-database>



For both FDI and trade in services, the collected evidence thus suggests that the FTAs were likely one of the important factors that helped SMCs in expanding their FDI and services trade, although they were likely not the only factor. However, important barriers to FDI and services trade persist in the SMCs and impede the gains from the Euro-Med FTAs

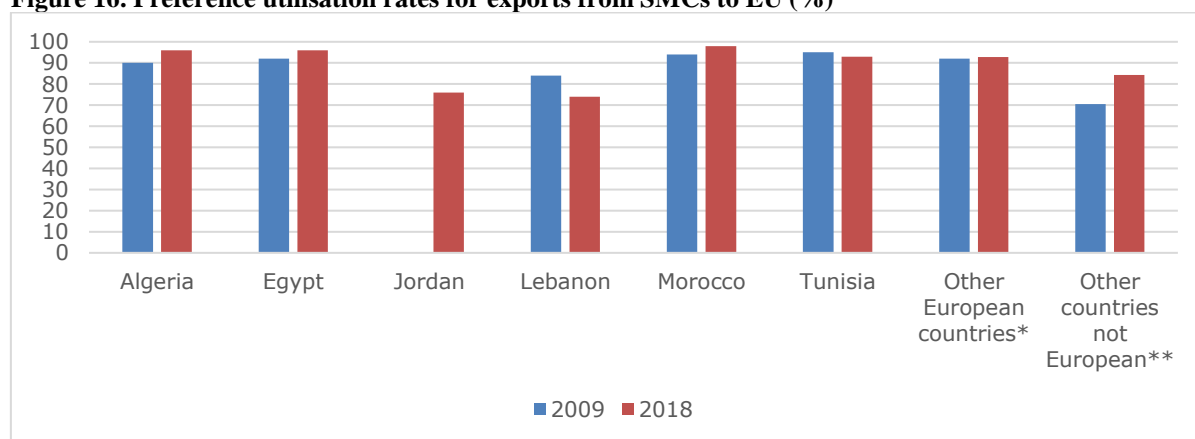
### *Rules of origin*

Rules of origin are integral elements of FTAs. They can nevertheless differ from one product to another and from one trade agreement to another, and some RoO are more restrictive than others. Particularly when production occurs in international supply chains, where products from countries outside of the FTA serve as inputs to products of partner countries, more restrictive RoO can have an impact on both extra- and intra-FTA trade.

RoO were one of the main factors raised in public consultations as factors lowering the degree to which the six SMCs could use the opportunities stemming from the FTAs. Nevertheless, this claim finds limited support in the economic analysis in this area conducted as part of this evaluation.

Observed preference utilisation rates<sup>11</sup> are already high and increasing for SMCs' exports to the EU market (rates ranging from 76% in the case of Jordan to 98% in the case of Morocco, Figure 16), meaning that most economic operators are able to meet the RoO requirements to qualify for preferential tariff treatment offered by the Euro-Med FTAs. Utilisation rates for EU exports to SMCs are lower (ranging from 24% in Tunisia to 77% in Morocco, Figure 17) but they have been increasing. The more modern RoO proposed in the negotiations for a modernized Pan-Euro-Mediterranean (PEM) Convention could further boost trade and preference utilisation.

**Figure 16. Preference utilisation rates for exports from SMCs to EU (%)**



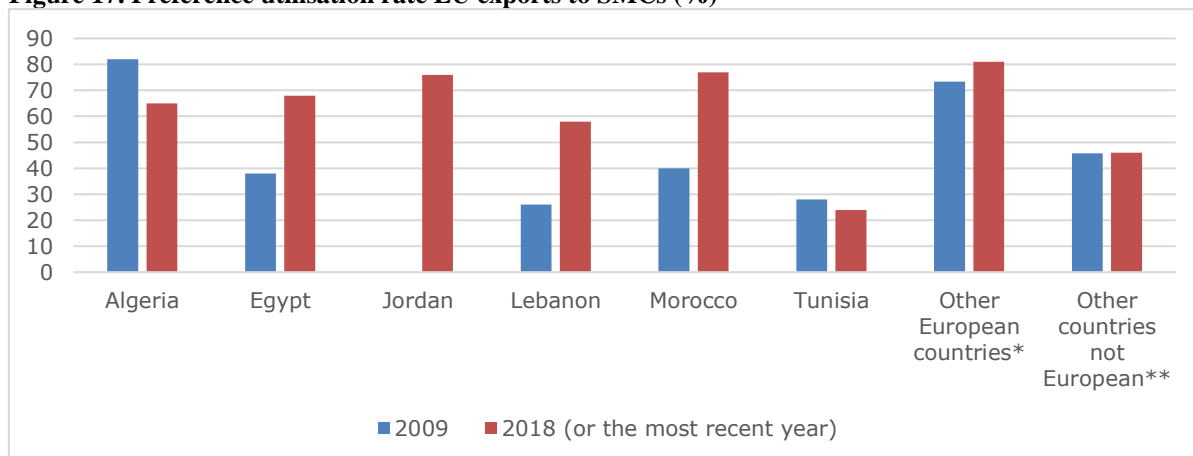
\* Other European countries: Iceland, Switzerland, Turkey, Macedonia, Albania, Bosnia Herzegovina, Montenegro, Serbia.

\*\* Other countries not European: Mexico, Chile, South Korea, Nicaragua.

<sup>11</sup> Preference utilisation rate is typically calculated as the share of the value of trade that enters the market under the preferential treatment in the overall value of trade that enters the market and is in principle eligible for preferential treatment. In order to benefit from a preference under a given FTA, entities engaged in trade must prove the origin of traded goods, which may be difficult or costly. For example, information on preferential tariffs may be not easily accessible, but difficulties may be faced in preparing and submitting the necessary documentation, also due to overly complex and long administrative procedures. All these factors add to costs of complying with RoO. If the difference between the non-preferential and preferential tariff rates is not large enough to compensate for these costs, traders may decide not to claim the preferential market access under the FTA but rather ship their products under the non-preferential treatment. Therefore, preference utilisation rates are indicators of both the size of the preferential margin associated with the FTA and the costs associated with proving origin, i.e. they are indicators of the overall 'value' of preferences. However, they are not a straightforward indication of restrictiveness of RoO.

Source: *The Use of the EU's Free Trade Areas*, UNCTAD (2018), except the data for SMCs in 2018 for which data was sourced from the *Individual reports and info sheets on implementation of EU Free Trade Areas*, published by the European Commission on 31 October 2018.<sup>12</sup>

**Figure 17. Preference utilisation rate EU exports to SMCs (%)**



\* Other European countries: Iceland, Switzerland, Turkey, Macedonia, Albania, Bosnia Herzegovina, Montenegro, Serbia.

\*\* Other countries not European: Mexico, Chile, South Korea, Nicaragua.

The last recent year: 2013 for Algeria, Tunisia and all other countries; 2018 for Egypt, Jordan and Lebanon, 2017 for Morocco.

Source: *The Use of the EU's Free Trade Areas*, UNCTAD (2018), except the data for Egypt, Jordan, Lebanon and Morocco in the most recent for which data was sourced from the *Individual reports and info sheets on implementation of EU Free Trade Areas*, published by the European Commission on 31 October 2018.

### *Business environment*

Institutional development and the functioning of product and factor (labour and capital) markets in SMCs lag behind the EU, as well as other countries with comparable income per capita levels. The evaluation and analysed literature suggests that these have a significant impact on the ability to adjust and take advantage of trade liberalisation, particularly when it comes to integration with international supply chains.

The constraints in the business environment were confirmed in the stakeholder consultations and sector case studies. Business representatives from SMCs pointed for example to the high level of bureaucracy, lack of access to finance or lack of internal government support policies. The case studies showed that government support policies can be an important explanatory factor for the success (or lack thereof) of exporting industries. For example, the government policies in Morocco that have promoted inward FDI and innovation have played a role in the development of exports of machinery and equipment. In contrast, Lebanon has had almost no specific supportive policies.

### *Challenges to taking advantage of market access improvements: evidence from sector case studies*

The sector cases studies of the *Textiles and clothing*, *Machinery and transport equipment*, *Agriculture* as well as *Chemicals* were conducted to better understand the impact of the FTAs. While large differences were found among the studied countries and sectors, some global trends help explain the extent to which the countries could benefit from the FTAs.

<sup>12</sup> Commission Staff Working Document, Individual reports and info sheets on implementation of EU Free Trade Areas, Accompanying the document, Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Implementation of Free Trade Areas, 1 January 2017 - 31 December 2017, COM(2018) 728 final, available at <https://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-728-F1-EN-MAIN-PART-1.PDF> (accessed 19 August 2019).

All *Textiles and Clothing* industries in the selected countries were affected by exogenous factors such as the ending of the Multi Fibre Agreement<sup>13</sup> and rising competition from labour-abundant countries in Asia, whereas some of them also had to deal with the economic consequences of the Arab Spring (e.g. labour unrest, limited FDI inflow).

The impact of the FTAs on the *Machinery and transport equipment* sector in Algeria, Egypt, Morocco and Tunisia is mixed. Intra-industry trade with the EU in this largely differentiated sector is important, but most of SMCs have not been able to diversify their exports.

The analysis of the *Chemicals industry* shows that while trade flows increased, most exports from the SMCs are concentrated in basic chemicals and little diversification has taken place.

In *Agriculture*, SMCs have been able to increase their exports to the EU, especially in the fruits and vegetable subsector.

**EQ2: Have the EU FTAs with the Euro-Med countries (the six SMCs) given rise to other (including unintended) consequences? If so, which ones?**

The evaluation investigated the social, human rights and environmental impacts of the FTAs, as well as their effects on LDCs and developing countries. Sustainable growth was one of the main objectives of the Barcelona Declaration. The Euro-Med FTAs themselves do not have specific objectives for social issues, human rights, environmental matters or third countries. Social and environmental issues are dealt with in the other chapters of the Association Agreements, especially in terms of cooperation on these topics. The way the evaluation approached sustainability effects was therefore as ‘accompanying’ effects of the FTAs, where special focus was placed on detecting any unintended negative effects of the FTAs.

The results of the analysis generally find that the impacts in these areas have been limited. The detailed case studies conducted as part of the sustainability analysis showed that the role of the FTAs in developments in these areas was small compared with other factors.

*Social and human rights impact*

Impact areas that were identified as particularly relevant in relation to the FTAs in terms of social and human rights were *employment, income, labour conditions, gender and the right to food*.<sup>14</sup>

---

<sup>13</sup> Under the Multi Fibre Agreement, industrial countries imposed quota restrictions on textile and clothing exports from developing countries. With the phasing out of this agreement, opportunities emerged for exporting countries, and as a result, a worldwide reallocation of production took place.

<sup>14</sup> While other areas (e.g. social protection, social dialogue, poverty reduction, vulnerable groups, as well as other economic, social and cultural rights)<sup>14</sup> have also been investigated through literature review and consultations, no evidence on a link with the FTA was identified.

The impact of the FTAs have been found positive with respect to social indicators, both in the EU and the SMCs, with higher welfare, higher wages for both low-skilled and high-skilled labour, and lower consumer prices.<sup>15</sup>

A case study of *employment* effects of the FTAs focusing on *Textiles and clothing* and *Chemicals, plastics and rubber* in the SMCs has estimated that the Euro-Med FTAs had only a small effect on employment.

Gender-related impacts were examined via an analysis of female employment in the agricultural sector. The case study on female employment in the agricultural sector showed that women face particular challenges (e.g. due to lack of education or access to specific networks). Moreover, access to finance tends to be identified as a key issue linked to lower wages or employment. With respect to female employment in the sector, the case study observed that it went down in all SMCs except in Morocco and Egypt. The trends in SMCs are difficult to link to changes in agricultural trade with the EU, but appear to be more associated with structural changes in the SMC economies. It is therefore difficult to draw strong conclusions on FTA-related effects on gender.

Impact of the Euro-Med FTAs on working conditions has been either neutral (e.g. because EU investors only complied with local regulations) or positive (conditions improved in response to demand of EU buyers).

The FTAs have also helped improve access to food, as staple foods such as cereals can now be imported from the EU at lower prices.

#### *Environmental impact*

The CGE modelling results show that despite the economic growth predicted by the model, CO<sub>2</sub> emissions in the SMCs are estimated to be lower with the Euro-Med FTAs in place than without them. This is largely due to a change in sector structures, where more polluting sectors in SMCs (notably other manufacturing) contracted as a result of the FTA.

A case study on air emissions looked at air pollutants Carbon monoxide (CO), nitrogen oxides (NO<sub>x</sub>), fine particulates and dust (PM), sulphur dioxide (SO<sub>2</sub>), and volatile organic compounds (VOCs) as well as CO<sub>2</sub> effects in Egypt, Jordan, Morocco and Tunisia. Emissions have clearly increased over the evaluation period, but the impact of the FTA on air pollutants and greenhouse gas (GHG) emissions is estimated to be overall small (Table 7 and 8). The analysis shows the FTA contributed to a reduction in some air pollutants (e.g. a reduction of SO<sub>2</sub> emissions in the four countries analysed) and to an increase in others (e.g. an increase in NO<sub>x</sub> emissions in Egypt and Jordan), depending on the country and the pollutant.

The same case study also showed increased production of energy from renewable sources (solar, wind) and energy efficiency in the SMCs over the evaluation period.

---

<sup>15</sup> With the exception of consumer prices in the EU, which have very marginally increased based on CGE results.

**Table 7. Relative importance of FTA induced reduction/increase of emissions**

	Emission (EORA data 2013)				FTA effect as % of total emissions			
	MA	TN	EG	JO	MA	TN	EG	JO
NOx emissions (Gg)	313	218	752	215	-4.6	-0.3	0.4	0.1
PM10 emissions (Gg)	185	157	273	139	-4.7	1.6	-0.6	0.0
SO2 emissions (Gg)	473	254	750	230	-11.5	-2.4	-0.6	-0.8

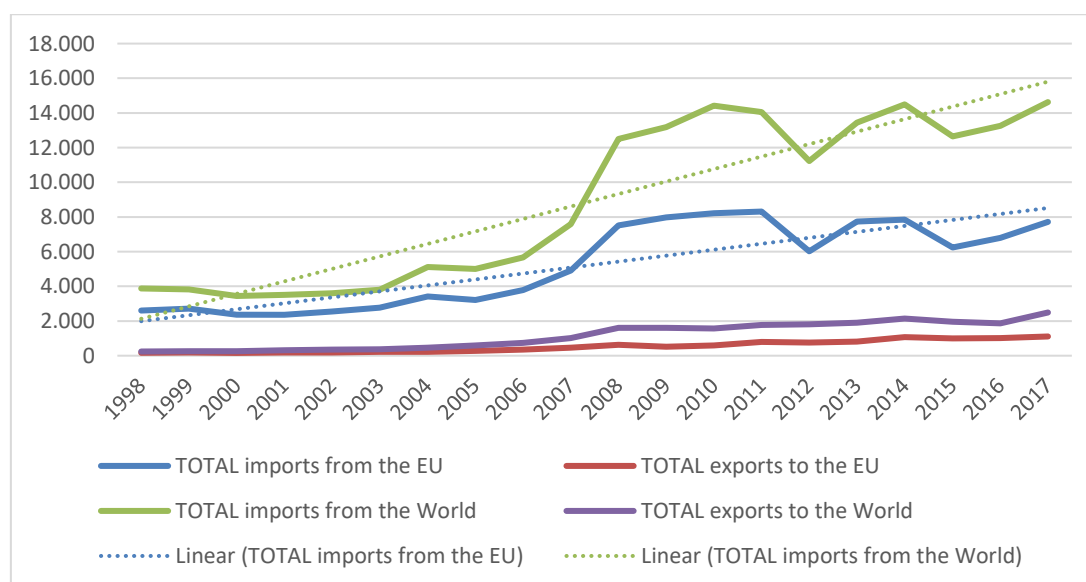
Source: authors' own calculations based on CGE results provided by DG Trade, European Commission using the MIRAGE model and EORA database.

**Table 8. Relative importance of FTA induced reduction/increase of GHG (CH<sub>4</sub>, N<sub>2</sub>O, CO<sub>2</sub>) emissions**

	Total GHG emissions 2015 (CO <sub>2</sub> eq) GG	FTA effect as % of total emissions
Morocco	84,102	-5.4
Tunisia	41,236	-1.8
Egypt	322,743	-1.5
Jordan	33,027	-0.4

Source: Ecorys calculations based on CGE results provided DG Trade, European Commission using the MIRAGE model and EORA database.

An analysis of trade in environmental goods<sup>16</sup> revealed that the FTAs facilitated trade in these goods, and thereby indirectly contributed to the greening of the economy in the SMCs. Imports to SMCs of environmental goods from the EU have expanded significantly over the period examined in this evaluation (Figure 18);

**Figure 18. SMCs trade in environmental goods (EG), global and with the EU, 1998-2017 (US\$m)**

Source: Ecorys analysis using UN Comtrade data and the WTO definition of environmental goods.

With respect to water and waste, the SMCs clearly face challenges, but based on stakeholder consultations, the effect of the FTAs is mixed. While the increase in

<sup>16</sup> Please note there is no consensus on what environmental goods are. The definition of environmental goods used in this evaluation is the WTO "Friends list" (see WTO document "JOB(07)/54") which has been elaborated with countries participating to the WTO negotiations on the Environmental Goods Agreement (EGA).

production as a result of the FTA is likely to have had a negative impact, changes in production structures could have positive impacts. Stakeholders pointed to the positive effects of interaction with the EU, e.g. through technology improvements as well as through regulations and requirements in this area.

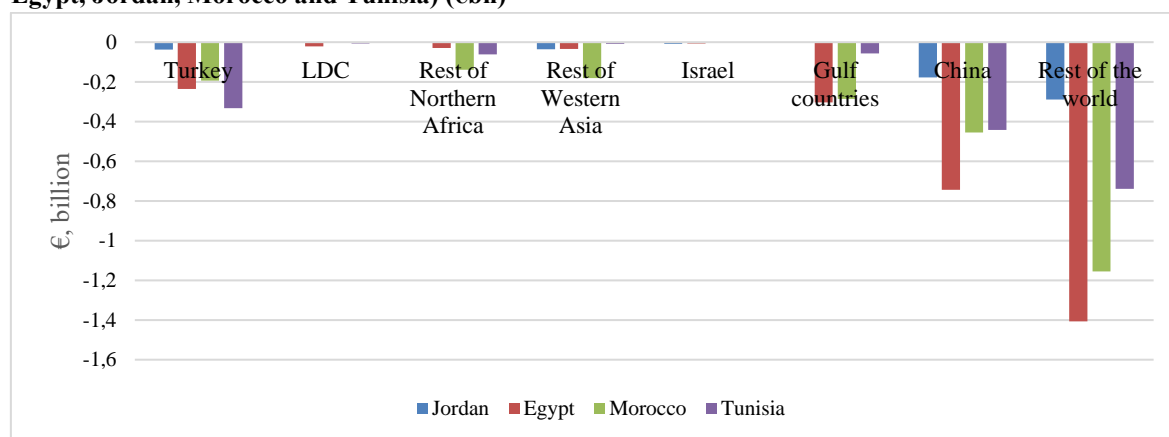
Some stakeholders have also pointed to negative impacts on animal welfare of the FTAs, as the FTAs have contributed to increased EU exports of live animals, which face poor conditions in SMCs both during their lifetimes, as well as transport and slaughtering.

#### *Effects on developing countries and LDCs*

As far as effects on developing countries and LDCs are concerned, imports of SMCs from China and Turkey were found to have decreased the most as a result of the FTAs, while other countries in the North African and the Gulf regions also saw decreases. The sector case studies did not identify a major negative impact on trade with LDCs.

Overall, according to the modelling results, imports from LDCs into SMCs and the EU show a decrease, but, for most FTAs, this decrease is small (reduction of €35m of exports to SMCs (-3.1%), and a reduction of €139m of export to the EU (-0.3%), for all four FTAs combined) compared to the effects on other trade partners (Figure 20). The sector case studies did not identify a major impact on direct trade with LDCs either. In terms of value-chain effects, an increase in imports of SMCs from LDCs (notably Bangladesh) has been observed in the textile and clothing sector, as these imports provide low-cost inputs and therefore help the sector to remain competitive.

**Figure 20. Absolute simulated effects of Euro-med FTAs on the SMC's imports (other than between Egypt, Jordan, Morocco and Tunisia) (€bn)**



Source: Ecorys

## **Efficiency**

**EQ3: To what extent have the EU FTAs with the six partner countries been efficient in achieving their objectives?**

**EQ3.a: To what extent are the costs associated with the FTAs proportionate to the benefits they have generated? What factors influence those costs and benefits? How proportionate were those costs borne by different stakeholder groups, taking into account the distribution of benefits?**

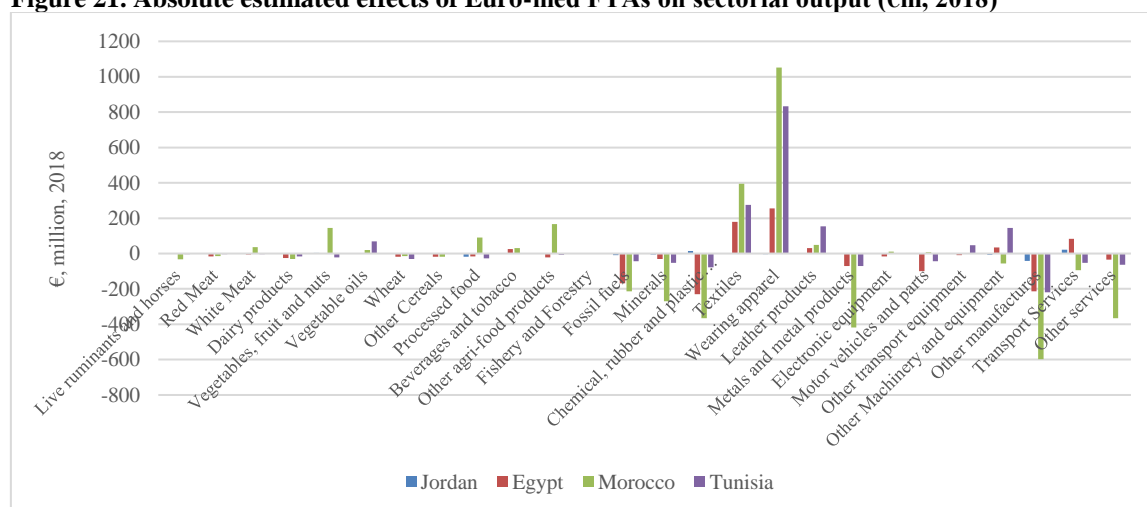
#### *Direct costs of compliance*

Costs of compliance of these first-generation FTAs (e.g. adjusting the collected import duty rates) have not been large and are not a major issue currently. The preference utilisation rates, for example, are usually taken as an indication of costs of compliance (including complying with RoO) and these show that the take up of preferences by SMCs exporters is widespread and has generally grown over the last decade. Utilisation rates of Euro-Med FTA tariff preferences used by EU exporters when accessing SMC markets are lower but have also grown (see Figures 16 and 17).

#### *Structural adjustment costs: reallocations of labour and capital across sectors*

The qualitative analysis and consultations have not identified specific (vulnerable) groups that have been clearly negatively affected. Nevertheless, the CGE and PE simulations show that some sectors, such as textiles and wearing apparel, expanded their output while others (Figure 21), including chemical, rubber and plastics, and other manufactures, contracted in SMCs.

**Figure 21. Absolute estimated effects of Euro-med FTAs on sectorial output (€m, 2018)**



Source: DG Trade, European Commission using the MIRAGE model.

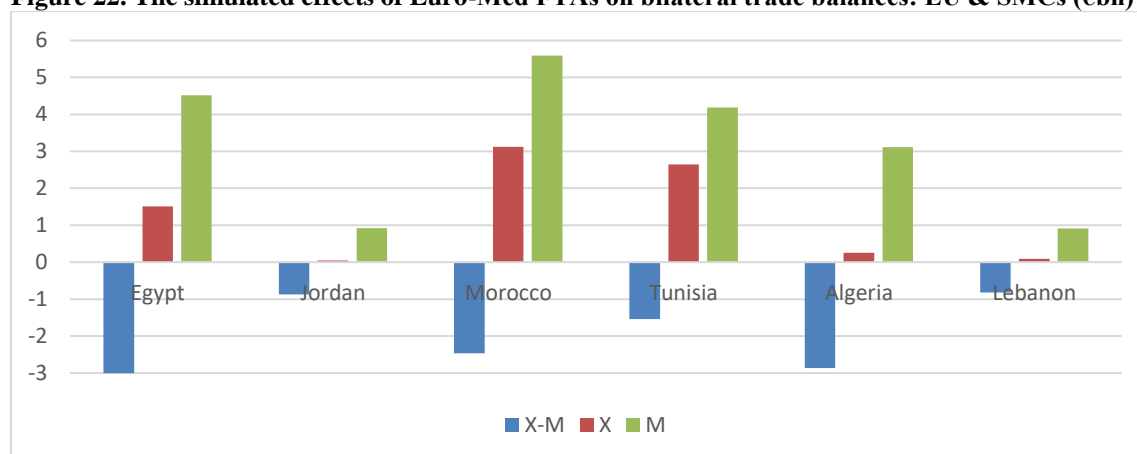
#### *Indirect economic costs: trade balance*

The analysis showed deteriorating bilateral trade balances for SMCs (see Figures 22 and 23). The question is, however, whether these deteriorating trade balances can be considered as economic costs. It is widely agreed that bilateral trade balances are not meaningful and that it is the intertemporal consumption and investment preferences and imbalances between savings and investment or, alternatively, production (income) and consumption, which are the primary drivers of trade balances. Consequently, fiscal, monetary and structural policies are considered their primary policy levers as they shape national saving-investment relations.

Overall trade balances and more generally current account balances (including other cross border transactions than just goods trade) are widely agreed to be determined by macroeconomic factors such as savings and investment decisions rather than by trade policy. In the case of countries with large ex-patriate communities working in jobs abroad, remittances sent to their families at home are an additional important factor contributing to a negative current account balance. Bilateral trade policies such as the Euro-Med FTAs can have an influence on how the overall current account balance is distributed over a country's trading partners, but do not meaningfully change its total value.

Trade data show also that in the cases of Egypt, Jordan, Lebanon, Morocco and Tunisia, while the overall trade balances have deteriorated, bilateral balances with the EU either improved or deteriorated less rapidly since the entry into force of the Euro-Med FTAs, suggesting that trade with the EU might have been a mitigating factor.

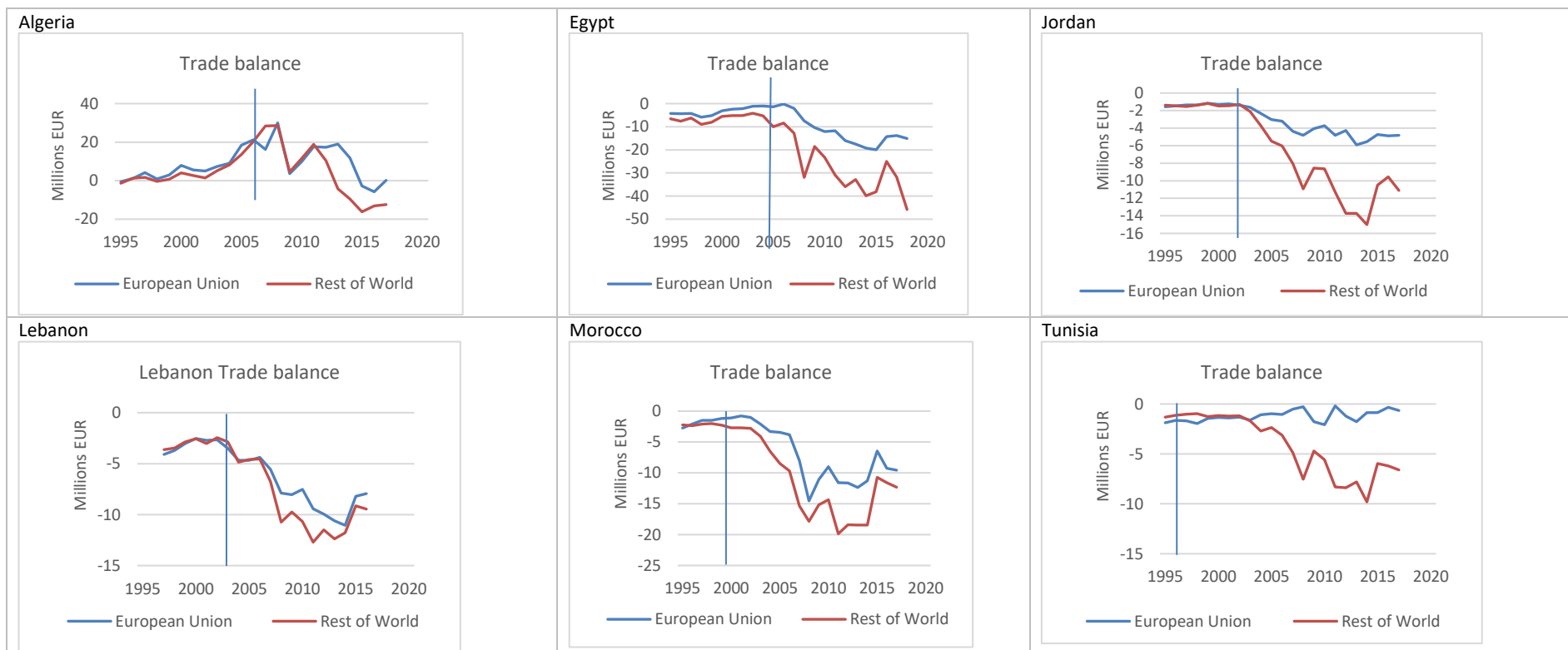
**Figure 22. The simulated effects of Euro-Med FTAs on bilateral trade balances: EU & SMCs (€bn)**



Note: X - exports to EU M - imports from EU and X-M - trade balance.  
Source: DG Trade, European Commission using the MIRAGE model.



**Figure 23. Trade balance with the EU and the Rest of World (€m)**



Source: Ecorys calculation based on data from UN-Comtrade Database, extracted from WITS.

#### *Indirect economic costs: tariff revenues*

The loss of tariff revenues could be considered as another type of economic cost. Overall, the impacts on tariff revenue both in SMCs and in the EU have to be seen in the context of the discussed impacts on GDP and welfare, which already ‘net out’ the effect of tariff revenue reductions, and are positive on balance.

#### *Sustainability costs*

The preceding discussion of effects in the areas of social and human rights and environment suggests that overall, these effects are small.

### **EQ3.b What are the main inefficiencies and unnecessary regulatory costs (including administrative burden)? What is the potential for simplification?**

The evaluation found that inefficiencies and outstanding regulatory costs mainly stem from remaining barriers and some estimates in the economic literature suggest these costs may be larger in terms of their negative impact on trade than the effects of tariff liberalisation brought about by the FTAs.

#### **Coherence**

### **EQ4: To what extent have the EU FTAs with the six SMCs been coherent with the European Neighbourhood Policy (ENP), Association Agreements, action plans and Partnership Priorities and with the current EU trade policy?**

#### *Coherence with other parts of the Association Agreements*

The Euro-Med FTAs have been most coherent with the following wider objectives of the Association Agreements:

- *Political dialogue* (to the extent that stronger commercial relations facilitate political co-operation);
- *Regional cooperation*, especially on issues related to fostering intra-Med trade and on *customs matters* (e.g. in the area of RoO);
- *Development of economic infrastructure* (e.g. through the FTAs’ effects on trade and FDI);
- *Research in science and technology, education and training and scientific and technological co-operation* (to the extent that this is fostered through trade and FDI-related knowledge technology transfer and supported by trade-related technical assistance);
- *Environment* (e.g. through trade in environmental goods, reductions in emissions and co-operation on environmental matters);
- *Cooperation in standardisation and conformity assessment, development of regional institutions and the establishment of common or harmonised programmes and policies; and approximation of legislation* (to the extent that

trade fosters the incentives to do so, for example in the area of co-operation on NTMs and other regulations,);

- Cooperation in the areas of *Agriculture and fisheries; Transport; Telecommunications and information technology; Energy and Tourism* (also to the extent that commercial exchanges in these areas are fostered through trade and FDI and trade-related knowledge technology transfer).

#### *Coherence with the ENP and Action Plans*

In addition to the Euro-Med FTAs, as part of the European Neighbourhood Policy, the EU had developed *Action Plans* for the cooperation with its partners in the Mediterranean region. The Action Plans are political documents providing the strategic objectives of the cooperation between the Mediterranean countries and the EU. The specific Partnership Priorities are different for each SMC, but they are concentrated around a number of common broad themes such as:

- Political dialogue, governance, the rule of law and the promotion of fundamental rights;
- Cooperation, socio-economic development, including employment, as well as trade and investment;
- The green transition, energy, the environment and sustainable development;
- Enhancing stability and strategic and security dialogue, as co-operation in the area of foreign policy, co-operation on counter-terrorism;
- Human development, including education, and migration and mobility.

As was the case with the wider provisions of the Association Agreements, the Euro-Med FTAs are coherent with these priorities because trade relations foster economic co-operation and boost productivity, inclusion, and income. The latter generally facilitates the achievement of the wider objectives such as those specified in the European Neighbourhood Policy and the associated Partnership Priorities agreed with the SMCs.

#### **Relevance**

**EQ5: To what extent are the provisions of the EU FTAs with the six SMCs relevant for addressing current trade issues faced by the EU and these partners?**

The Euro-Med FTAs removed the costs of trade associated with tariffs and in this regard, they have played a significant role in fostering Euro-Med trade. However, given the nature of trade relations in modern GVCs, which rely on the ability to minimise also other costs incurred along the whole value chain, the Euro-Med FTAs have become less relevant for addressing current trade barriers. The limited coverage of barriers that are relevant for current trade, namely those related to NTMs, services and FDI, and the limited provisions on sustainability, imply that these FTAs are no longer fully coherent with the current trade issues faced by the EU and the SM partners. The evaluation shows also that participation in European supply chains is of growing importance in the SMCs and that it brings about significant gains from trade.

## 6. CONCLUSIONS

The evaluation found that the Euro-Med FTAs have largely delivered the objectives set for them. They created new opportunities for Euro-Med trade, enhanced the economic performance in both the EU and SMCs and were also an important factor supporting intra-Med trade initiatives (i.e. the Agadir Agreement and the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin). They contributed to achieving the broader goals of the European Neighbourhood Policy, the Association Agreements, Action Plans and Partnership Priorities. They also had a positive impact on social indicators, with no major unintended consequences in this area. Likewise, environmental impacts appear to have been small and mixed, while the FTAs are found to have facilitated trade in environmental goods.

As far as the overall context is concerned, the impact of COVID-19 on value chains has shed new light on Euro-Med FTAs and on the need to address current trade barriers and trade challenges faced by the EU and the SMCs. The current framework of Euro-Med FTAs is no longer fully coherent with the Communication on EU Trade Policy Review from 18 February 2021<sup>17</sup> and the revised objectives stated in the Communication on Renewed EU Partnership with the countries of the Southern Neighbourhood<sup>18</sup>. In line with these Communications the EU is ready to modernise the trade and investment relations with the interested SMCs, to better adapt them to today's challenges.

### *Effectiveness*

The analysis of the impact on trade and selected other economic indicators shows that the overall effects of the Euro-Med FTAs on trade, GDP, welfare, consumers and workers in the EU and in the SMCs have been positive. All SMCs have been estimated to have gained in terms of welfare and income. However, due to differences in initial tariff levels and because of the gradual erosion of the effective Euro-Med tariff preferences due to external factors, the Euro-Med FTAs have generated fewer new market access opportunities than may have been intended at their conception. Nevertheless, the goals of the Euro-Med FTAs to expand the trade relationship and to safeguard existing market access for the SMCs to the EU, which would have been lost without these FTAs, have been achieved.

Diversification and economic complexity of exports of SMCs have recorded improvements since the entry into force of the Euro-Med FTAs although the EU market is still challenging for SMC producers when it comes to diversifying their export structures and competing in markets for more complex products.

---

<sup>17</sup> [https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc\\_159438.pdf](https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159438.pdf)

<sup>18</sup> [https://eeas.europa.eu/sites/default/files/joint\\_communication\\_renewed\\_partnership\\_southern\\_neighbourhood.pdf](https://eeas.europa.eu/sites/default/files/joint_communication_renewed_partnership_southern_neighbourhood.pdf)

The tariff reductions associated with the Euro-Med FTAs were not as effective in advancing the objective of promotion of intra-Med trade as they were in advancing the Euro-Med trade. However, the regional agreements, such as the Agadir Agreement and the Regional Convention on pan-Euro-Mediterranean preferential rules of origin, which was a step in promoting greater harmonisation and simplification of rules of origin in the region, were inspired by the Euro-Med FTAs and were building blocks in the process of promoting intra-Med trade.

The relatively narrow scope of the Euro-Med FTAs has affected the degree to which partners could take advantage of the new market access opportunities. The analysis has shown that while tariffs have largely been eliminated on trade between the EU and the SMCs, many barriers related to non-tariff measures still remain. To take full advantage of the opportunities offered by the FTAs, reduction of barriers stemming from non-tariff measures, with a focus on the most pressing ones (such as non-automatic import licences; unnotified technical regulations, which cause unpredictability and seriously distort local business operations) would be important. This involves considering simpler procedures, agreeing on internationally recognised standards and avoiding unnecessary duplication of conformity assessments or other administrative procedures.

Other factors related closely to trade in goods such as services and FDI have only been covered to a limited extent in the current Euro-Med FTAs. Moreover, full and correct implementation of the Euro-Med FTAs remains key for the expected benefits of the FTAs to come into effect for both sides. However, the implementation status varies from one Euro-Med FTA to another. While the EU and the SMCs' governments meet on a bilateral basis to discuss the removal of existing barriers that violate the Euro-Med FTAs or are outside of the provisions of these FTAs, the problems are often not easily solved. Underperforming business environments as well as insufficient competitiveness in SMCs also were found to have impeded the benefits of trade liberalisation and lowered the gains from the Euro-Med FTAs.

The overall impact of the FTAs on social indicators was found to be rather positive, in both the EU and the SMCs, with higher welfare, higher wages for both low skilled and high skilled labour, and lower consumer prices. Some small negative effects on employment were found in certain sensitive sectors such as Textiles and Clothing, but macro-level effects on employment were found to be small. The FTAs appear to have had no impact on the challenges faced by women in SMCs' labour markets. The impact of FTAs on working conditions has been neutral or positive, as conditions generally improved in response to demand of EU buyers. The FTAs have also helped improve access to food, as staple foods, like cereals can be imported from the EU at lower prices. No major unintended consequences of the FTAs were found in the areas of social and human rights or environment.

In the area of environment, despite the economic growth due to the FTAs, CO<sub>2</sub> emissions in the SMCs were estimated to be lower with the Euro-Med FTAs in place than without them. Likewise, the impact of the FTA on other air pollutants and GHG

emissions was estimated to be overall small. Production of energy from renewable sources has been growing and energy efficiency has improved in the SMCs since the entry into force of the FTAs, although fossil fuel has increased faster than renewable energy in the energy mix. The FTAs were also found to have facilitated trade in environmental goods and, thereby, to have indirectly contributed to the greening of the economy in the SMCs.

### *Efficiency*

The evaluations suggests that the Euro-Med FTAs had an impact on bilateral trade balances. However, bilateral balances are not a meaningful indicator of balance of payment adjustment issues. Fiscal, monetary and structural policies are considered primary determinants of the overall balances as they shape national saving-investment relations. Moreover, historical trade data showed that while the overall trade balances have deteriorated for five SMCs, their bilateral balances with the EU either improved or deteriorated less rapidly than the overall balances, suggesting that trade with the EU might have in fact been a mitigating factor.

The impacts on tariff revenue both in SMCs and in the EU have to be seen in the context of the positive impacts on GDP and welfare, which ‘net out’ the effect of tariff revenue reductions and which are positive on balance.

The analysis of effects in the areas of social and human rights and environment showed that the costs of the FTAs related to sustainability born by different stakeholder groups, where they occurred, were either proportionate to benefits or smaller.

Direct costs of compliance of the Euro-Med FTAs have not been found to be a major issue either. This is best exemplified by preference utilisation rates, which show that the take up of preferences by SMCs exporters is widespread and has generally grown over the last decade. Utilisation rates of Euro-Med FTA tariff preferences used by EU exporters when accessing SMC markets are lower but have also grown.

However, other inefficiencies and remaining regulatory costs in areas covered only partially by the FTAs remain high and some estimates suggest they may have larger impacts than the tariff liberalisation brought about by the Euro-Med FTAs. This concerns mainly regulatory NTMs as well as barriers to FDI, services trade restrictions and inefficient business and institutional environments. This suggest that the remaining NTMs and other regulations are relevant as they create inefficiencies and costs, which affect the functioning of the Euro-Med FTAs. The Commission is taking effective steps to unlock the benefits of the EU’s trade agreements for individuals and companies by tackling these shortcomings, including existing trade barriers and by preventing new ones from emerging. Regulatory co-operation is a key element of integration in many of these policy areas. Deep and comprehensive trade relations can be achieved by virtue of aligning a partner country’s trade-related legislation with international standards and, when relevant, with the relevant EU rules and regulations, in exchange for positive effects in terms of market access and other economic benefits these may create.

### *Coherence*

The achievement of the objectives of the Euro-Med FTAs has supported the wider objectives of the Association Agreements and Partnership Priorities agreed with SMCs in the context of the revised European Neighbourhood Policy and the EU Global Strategy for Foreign and Security Policy. This was particularly the case in areas where stronger commercial relations provided strong incentives to cooperate (e.g. political dialogue, regional co-operation, economic infrastructure, research in science and technology, education and training and scientific and technological co-operation).

At the same time, co-operation in the other areas identified in the Association Agreements and Partnership Priorities, where it occurred, has helped to achieve the objectives of the FTAs (e.g. technical assistance projects on industrial modernisation) or helped to ensure they benefit the society at large (e.g. technical assistance projects on consumer protection). In addition, social and environmental co-operation have helped to strengthen these areas and helped to avoid potential negative effects of the FTAs (e.g. in area of water, waste). This underlines the importance of relevant wider policies that should accompany tariff liberalisation.

### *Relevance*

Given the nature of trade relations in modern GVCs, which rely on the ability to minimise also other costs incurred along the whole value chain, the Euro-Med FTAs have nevertheless become less relevant for addressing current trade barriers.

The EU has built a strong position in GVCs. Through FDI, services trade (including the movement of personnel) and technology transfer, it established and co-ordinated the more labour and natural-intensive activities in the neighbouring developing regions, including the SM. Like many other countries, SMCs have been increasingly involved in GVCs, notably with EU partners, and this has generated for them economic benefits in terms of enhanced productivity, sophistication and diversification of economic activity. Nevertheless, they still show lower degrees of GVC participation than developing and emerging economies in South-East Asia and wider Europe and Central Asia. The evaluation collected several pieces of evidence, which indicate that the ability of SM firms to beneficially participate in European supply chains is of growing importance. Supporting initiatives to assist partners in attracting and retaining value chains diversification opportunities in selected sectors, aligned with good governance, is one of the key objectives of the renewed partnership with the SMCs<sup>19</sup>.

Import tariffs are estimated to be responsible for a small portion (10%) of trade costs relevant to GVCs participation. The bulk of such costs (60-80%) is estimated to be related to indirect costs of trade (e.g. NTMs, procedures, maritime connectivity and services, business environment and other regulatory barriers, availability and use of ICT services, etc.). The EU's newer FTAs are increasingly ambitious when it comes to the deep provisions that aim to reducing costs associated with participation in GVCs. These

---

<sup>19</sup> [https://eeas.europa.eu/sites/default/files/joint\\_communication\\_renewed\\_partnership\\_southern\\_neighbourhood.pdf](https://eeas.europa.eu/sites/default/files/joint_communication_renewed_partnership_southern_neighbourhood.pdf)

agreements also pay more attention to the regulatory approximation or alignment as well as to sustainability.

The overall findings of the evaluation, grouped under the four evaluation criteria that guided the analysis (*effectiveness, efficiency, coherence* and *relevance*) demonstrated therefore that the Euro-Med FTAs worked quite well in terms of achieving their specific objectives. They seem also on track to achieve their overarching objectives. The FTAs have played a significant role in fostering Euro-Med trade and they remain relevant for trade in goods between the EU and SMCs. However, there are also issues, which have been identified as affecting the performance of these FTAs and where additional efforts are needed to enhance the FTAs relevance for current trade challenges faced by the EU and SMC partners (e.g. addressing non-tariff measures, reinforcing Euro-Med FTAs implementation, improving the business environment in SMCs, reviewing the coverage of the FTAs and enhancing sustainable development and regulatory cooperation).

These issues continue to be of key importance in order to bring the expected benefits of the Euro-Med FTAs to both sides. They have been included as key subjects of the EU-SMC dialogue.



# ANNEXES

## Annex 1: Procedural information

### 1. Lead DG, Decide Planning/CWP references

**Lead DG:** European Commission Directorate-General for Trade, DG Trade

### 2. ORGANISATION AND TIMING

The Inter-Service Steering Group (ISSG) was set up in February 2019 and gathered representatives from the Commission's Secretariat General and European External Action Service, 13 Directorates-General: AGRI, TAXUD, JUST, MARE, ECFIN, GROW, NEAR, EMPL, SANTE, CLIMA, CNECT, ENER and ENV and the EU Delegations in the region. The ISSG was consulted on the Roadmap and the Consultation Strategy, the summary report of the open public consultation, the inception, interim and final report, as well as on organisational aspects in relation to the workshops.

The Terms of Reference presented 17 tasks that had to be performed as part of this evaluation.

Table 1 provides an overview of the tasks were performed and where the results of the different tasks were incorporated.

Tasks 1-6 were carried out in the inception phase. The results are available in the inception report. In the interim phase, important progress has been made on tasks 7-15. In the final phase, tasks 7-15 were completed and the final two tasks 16 and 17 were added.

**Table 1 Overview of tasks of this evaluation**

<b>Task</b>	<b>Description</b>	<b>Section of the main report</b>
1	Refine intervention hypothesis	1.5 + Annex B
2	Literature review	2, 3, 4, 5, Annex D, Annex E (+Inception Report)
3	Description of the Euro-Med FTAs	2
4	Develop methodological approach	1.5, Annex B (+Inception Report)
5	Create a website	Annex G
6	Develop the consultation strategy	Annex G (+Inception Report)
7	Implement the consultation strategy	1.5
8	Economic and legal analysis, including: <ul style="list-style-type: none"> <li>• The implementation of FTAs;</li> <li>• Evolution of trade;</li> <li>• Sector case studies.</li> </ul>	2 (legal analysis) 3 (economic analysis) 4 (sectoral analysis)
9	Impact analysis on competitiveness and SMEs	3.5.5, 3.5.7
10	Impact analysis on consumers	3.4.4.3, 3.5.2, 3.5.6
11	Impact analysis on EU budget	3.4.4.6
12	Impact analysis on informal economy	5.3.4
13	Impact analysis on outermost regions	Annex D
14	Impact analysis on social aspects, environmental aspects, human rights and third countries	5
15	Organising local workshops	1.5, Annex G
16	Answering evaluation questions	6
17	Providing conclusions and recommendations	6

## **Annex 2: Stakeholder consultation**

### **1. Introduction**

Stakeholder consultations have been an essential element of this evaluation of the impact of trade chapters of the Euro-Mediterranean Association Agreements with six partners: Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia. The consultations did not apply to one single area of analysis but fed into all parts of the evaluation (economic, social, environmental, human rights, and sectoral analyses, as well as horizontal issues). The consultation process served to engage with all interested parties, contribute to the transparency of the evaluation, and identify priority areas and key issues.

In order to have a balanced view from across society, stakeholders that participated in the consultations were selected taking into account:

1. Different roles and functions they perform, including government representatives and related government agencies, businesses and business associations (exporters, trade-related services, etc.), trade unions, NGOs, academia, civil society, and think tanks;
2. Different thematic areas in which they have expertise: labour and social issues, human rights, environmental issues, sectoral (agriculture, textiles, machinery, chemicals, etc.).

### **2. Overview of overall stakeholder involvement**

This section describes the different consultation tools applied in the evaluation, as well as the number of stakeholders/participants per consultations tool and per country and potential challenges experienced during implementation of the consultation strategy.

#### **Open Public Consultation**

The Open Public Consultation was an online survey that has been open for 12 weeks. It was launched on 4 September 2019 and was open until the end of November 2019. The questionnaire was available in English, French, German, and Arabic. It not only included a general survey of the targeted region (the regional survey), but also six country-specific surveys. Further, the public consultation had stakeholder-specific and topic-specific questions, which allowed stakeholders to only answer those questions that were relevant to them. A total of 50 respondents participated in this survey, though not all respondents answered all questions. Forty-six of these respondents participated in the regional version, whereas the other four participated in the country-specific ones (i.e. Jordan (2) and Egypt (2)). The countries of origin of the respondents included Algeria, Egypt, Jordan, and Morocco, as well as Austria, Belgium, Cyprus, Denmark, Germany, France, The Netherlands, Poland, Romania Spain, and Ukraine.

#### **Workshops**

The consortium has organised seven stakeholder workshops in total: in Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia, and the EU. These workshops had a dual purpose of

presenting and discussing the work conducted so far. They served to share preliminary results and to receive feedback on these, as well as to gather additional input for the evaluation. Most of these workshops lasted for a full day and were hosted at easily accessible locations for attendees. The workshop for EU stakeholders was scheduled to take place in Brussels, but the COVID-19 pandemic prevented the consortium from organising a physical meeting. Instead, an online Webex meeting was organised with the stakeholders, which lasted for three hours.

In each of the workshops, a balanced number and type of participants was targeted to ensure a good representation of the different types of stakeholders. Typically, the local workshops included representatives from the government, the private sector, civil society, labour unions, exporters associations, SMEs and academia.

Furthermore, locally recognised speakers provided more information of the local context (economy, competitiveness, environment, human rights, and other issues) to both attract attendees and to start the discussion during the workshop itself. Sufficient time was made available for an interactive discussion with participants, and a discussion leader ensured that the discussion was balanced, and different views were heard. The table below provides an overview of the seven workshops and the number of workshop participants in each country.

**Table 1 Overview of stakeholder workshops**

Country	Workshop data	Number of workshop participants
EU	30 April 2020	34
Algeria	26 February 2020	50
Egypt	16-17 October 2019	46 + 8
Jordan	20 November 2019	60
Lebanon	9 March 2020	47
Morocco	2 October 2019	106
Tunisia	26 September 2019	57

The local workshop in Egypt was split into two events following discussions with local stakeholders. A workshop discussing the economic, environmental and sectoral impact was held on 16 October 2019 and a workshop focusing on the social and human rights impact was held on 17 October 2019. In order to avoid confusion, this second workshop was renamed as a roundtable session with invitations extended only to civil society stakeholders.

While the number of participants in Lebanon was lower than initially anticipated, it was still a good result given the outbreak of COVID-19 and the severe economic and financial situation in Lebanon at the moment of the workshop. While many events in the country, including the ones organised by the EU Delegation, had been cancelled already, the stakeholder workshop could fortunately still take place a few days before the country went in lockdown.

## Interviews

For more detailed discussions with stakeholders, the consortium has also conducted personal interviews with stakeholders. These interviews helped to obtain more detailed information on the impact of the trade chapters of the AAs. While the majority of interviews were conducted one-to-one, on some occasions, these took place in the form of group interviews (group meeting, focus group discussion or small roundtables). The interviews complemented the economic, sectoral and sustainability analyses. The interviews were conducted with a balanced representation of the different types of stakeholders, including representatives of trade and industry associations, companies including SMEs, civil society and environmental organisations, government academics and other (sector and/or local) experts. The table below provides an overview of the number of interviews conducted in each country.

**Table 2 Overview of interviews in each country**

Country	Number of interviewees
EU	23 <sup>20</sup>
Algeria	15
Egypt	19
Jordan	17
Lebanon	20
Morocco	28
Tunisia	20

The interviews were spread over the following categories: public sector (32%), business associations (24%), large enterprises (2%), SMEs (14%), social stakeholders (9%), human rights stakeholders (3%), environmental stakeholders (6%), and think tanks / academia (10%).

Several challenges were experienced when organising the stakeholder interviews. In general, in all countries there was a lack of knowledge and awareness of the AAs and FTAs, including among EU stakeholders. This made stakeholders targeted hesitant to participate. While actively reaching out to stakeholders with anticipated knowledge on social, human rights and environmental impacts of the Euro-Med FTAs, the awareness and interest of these stakeholders turned out to be particularly limited. Furthermore, the political instability in Algeria, the economic and financial situation in Lebanon, political sensitivity of the topic in Morocco and Tunisia, and the COVID-19 pandemic in 2020 did hamper a smooth interview process.

## Civil Society Dialogue

The Civil Society Dialogue provided an additional opportunity to receive further inputs from civil society on the preliminary findings. The Civil Society Dialogue was organised on 30 April 2020 and lasted for two hours. Unfortunately, a physical meeting in Brussels was not feasible due to COVID-19 restrictions, so it was organised virtually through WebEx.

---

<sup>20</sup> This number includes roundtable sessions with trade counsellors of EU Member State embassies.

### **Website, email and social media**

Different consultation tools were used for the dissemination of information and for maximizing our outreach. These include an e-mail account, newsletters, a dedicated website as well as a Twitter account. Through these multiple channels, we reached out to stakeholders, kept them up to date and invited them to participate in the consultation activities.

## **Annex 3: Methods and analytical models**

### **1. Approach and methodology**

The evaluation focuses on the so-called first-generation FTAs that principally entail reductions of import tariff on goods. However, these FTAs have been introduced at different points in time, had different starting points (in terms of initial barriers) and differently phased implementation periods. They have also influenced tariffs on different products in different SMCs to a different degree.

In addition to establishing the actual parameters of trade liberalisation, the main challenge for this evaluation was to assess to what extent the observed changes over each given time period can be attributed to the FTA. The objective was to separate FTA-induced effects from the effects of other concurrent processes, such as for example trade propelled by the economic growth (inspired by changes in other non-trade sources) of respective trading partners. This disentangling becomes a challenge, especially when we attempt to assess more indirect effects of the FTA (e.g. sustainability impacts).

For all the impacts we observed, there needed to be an understanding on how the FTA may have led to the obtained results, e.g. was it related to specific provisions or to the way it has been implemented (or not). This is why this evaluation has adopted an evaluation framework, which utilises a mix of methods. For example, computable general equilibrium (CGE) and partial equilibrium (PE) techniques were used in this evaluation to attribute the observed variation in trade to a host of driving factors posited by economic theory. This analysis was complemented with quantitative and qualitative methods to verify the modelling results and to deepen the understanding of the mechanisms at work.

Our overall approach to this evaluation consisted of 17 different tasks which were divided into four inter-related work packages. These are the following:

- Work package 1 – Evaluation framework
- Work package 2 – Consultations
- Work package 3 – Economic Analysis
- Work Package 4 – Sustainability Analysis

In the next section, these work packages are described in more detail.

### **2. Work package 1 – Evaluation Framework**

The cross-cutting *Work Package 1 – Evaluation Framework* is based on the specific evaluation questions from the Terms of Reference (ToR). This framework has been developed in the inception phase of this evaluation and was an important guidepost in all evaluation activities during implementation.

The evaluation framework for this evaluation was defined by four elements:

- the scope of the evaluation;

- the definition of the baseline scenario;
- the intervention logic; and
- the evaluation matrix.

The scope of the evaluation identifies what is evaluated, over what period and for which geographical area. This is based on the ToR.

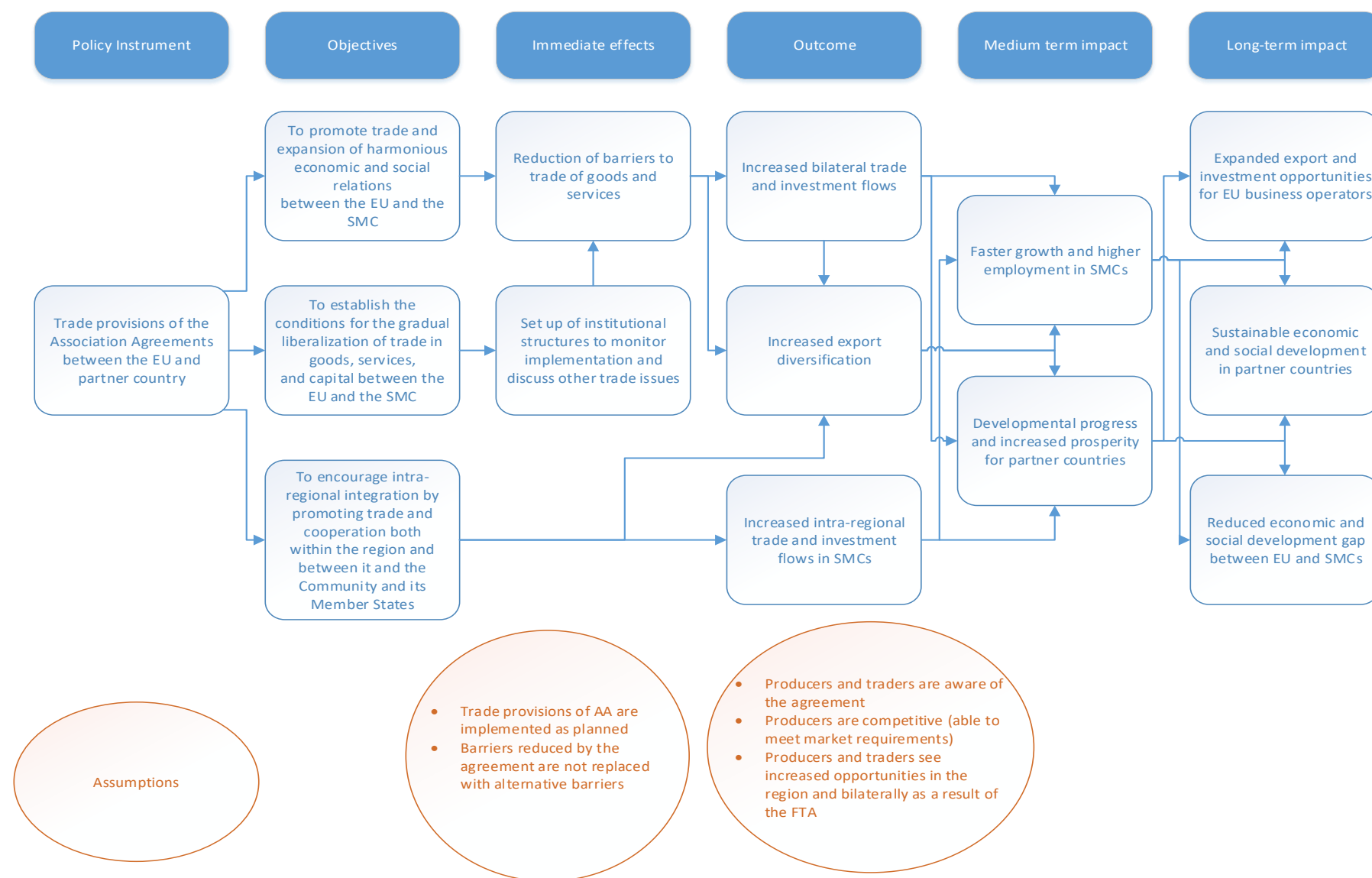
The baseline or counterfactual scenario is the situation if the FTA under examination was not actually in place. This scenario thus defines the baseline against which all results, which have been actually observed, may be assessed, in order to tease out the impact of the FTA. The ToR clearly specify that the baseline scenario would be that bilateral trade would fall under the following regimes: 1) EU exporters would export to SMCs under MFN tariffs and in line with WTO rules; 2) SMCs' exports to the EU would face a similar regime, although where relevant (depending on location, time and product) these exports could also fall under the GSP regime.

In addition to creation of the baseline, an important element of the evaluation framework is the intervention logic: what were the objectives of the six FTAs, and through which channels would the FTAs help to achieve these objectives? Framing the question in this manner allowed us to see an FTA would lead to certain intermediate results, which could then lead to subsequent outcomes and ultimately to the achievement of objectives. Furthermore, the intervention logic included important implicit assumptions, which were assessed during the evaluation as well. For example, a part of the stakeholder consultations focused on the extent to which barriers to trade have been removed and whether other barriers have persisted. This information helped to understand why the effects of the FTAs materialised or not.

The evaluation matrix, in turn, includes the evaluation questions, grouped under four evaluation criteria: effectiveness, efficiency, coherence and relevance. These evaluation questions guide the analysis in the evaluation, as these are the questions that ultimately needed to be answered. For each of the evaluation questions, we defined information needs that helped to answer these questions.



**Figure 1 Intervention logic**



**Table 1 Evaluation matrix**

Evaluation questions	Judgement criteria	Example of information needs	Sources/methods
<b>Effectiveness</b>			
<ul style="list-style-type: none"> <li>EQ1: To what extent have the objectives of the EU FTAs with the six partner countries (SMCs) been achieved? What are the factors influencing the achievement of those objectives? To what extent are those factors linked to the EU intervention?</li> </ul>	<p>The extent to which trade has expanded between the EU and each of the six FTA partner countries;</p> <p>The extent to which harmonious economic relations have expanded as a result of the FTAs;</p> <p>The extent to which harmonious social relations have expanded as a result of the FTAs;</p> <p>The extent to which the FTAs have established the conditions for the gradual liberalisation of trade in goods, services and capital;</p> <p>The extent to which the FTAs have increased trade and co-operation in the Euro-Med region;</p> <p>The extent to which the FTAs have increased trade and co-operation between the Euro-Med region, on the one hand, and the EU and its member states, on the other hand?</p>	<p>Change in bilateral trade flows, in total, and by sector between the EU and each partner country;</p> <p>Change in bilateral investment, in total, and by sector between the EU and each partner country;</p> <p>Trends in introduction/removal of barriers;</p> <p>Implementation of the FTAs;</p> <p>Number of trade disputes/ conflicts over the time period examined;</p> <p>Number of types of additional trade-related agreements (e.g. on agriculture-related products);</p> <p>Extent to which institutional structures like sub-committees and working groups have been able to address remaining barriers to trade;</p> <p>Change in bilateral trade and investment flows between each of the six Euro-med partner countries and other Euro-Med partner countries.</p>	<p>Trade flow analysis;</p> <p>CGE modelling;</p> <p>Gravity analysis;</p> <p>Desk study (e.g. MADB, WTO notifications, implementation reports);</p> <p>Sectoral analysis;</p> <p>Interviews;</p> <p>Survey;</p> <p>Workshop/CSD/ roundtables;</p> <p>Case studies.</p>
<ul style="list-style-type: none"> <li>EQ2: Have the EU FTAs with the Euro-Med countries (the six SMCs) given rise to unintended consequences? If so, which ones?</li> </ul>	No judgement criteria (descriptive).	<p>Impact of the FTAs on overall welfare;</p> <p>Changes in domestic policies as a result of the FTAs;</p> <p>Identification of unintended economic impacts in the EU and/or partner countries;</p> <p>Identification of unintended social impacts in the EU and/or partner countries;</p> <p>Identification of unintended environmental impacts in the EU and/or partner countries;</p> <p>Identification of unintended human rights impacts in the EU and/or partner countries;</p> <p>Identification of unintended consequences by stakeholder group (e.g. vulnerable groups, etc.);</p> <p>Identification of unintended economic, social,</p>	<p>CGE modelling;</p> <p>Case studies under sustainability analysis;</p> <p>Stakeholder consultations;</p> <p>Sectoral analysis.</p>

Evaluation questions	Judgement criteria	Example of information needs	Sources/methods
		environmental and human rights impacts in third countries, with focus on developing countries and LDCs.	
<b>Efficiency</b>			
<ul style="list-style-type: none"> <li>EQ3: To what extent have the EU FTAs with the six partner countries been efficient in achieving their objectives?</li> <li>To what extent are the costs associated with the FTAs proportionate to the benefits they have generated? What factors influence those costs and benefits? How proportionate were those costs borne by different stakeholder groups, taking into account the distribution of benefits?</li> <li>What are the main inefficiencies and unnecessary regulatory costs (including administrative burden)? What is the potential for simplification?</li> </ul>	<p>Extent to which benefits outweigh the costs, overall and for specific groups;</p> <p>Extent to which remaining barriers could be reduced.</p>	<p>Costs related to the implementation of the agreement like required investments and foregone tariff revenue (impacting authorities);</p> <p>Costs related to the use of the FTAs (tariff preferences, quota) by companies;</p> <p>Identification of other (types of) costs and benefits;</p> <p>Positive impacts and negative impacts compared (cost-benefit analysis)</p> <p>Distribution of benefits and costs for different stakeholder groups;</p> <p>The time needed to realise the objectives compared to the original plan;</p> <p>Remaining inefficiencies and regulatory costs;</p> <p>The costs of trade promotion and cooperation in relation to the progress made in intra-regional integration both within the Euro-Med region and between it and the EU Community and its MS.</p>	<p>Desk study (e.g. ministerial budgets; implementation reports);</p> <p>Survey;</p> <p>Sectoral studies;</p> <p>Interviews (e.g. local MAP, business, NGOs);</p> <p>CGE modelling;</p> <p>Gravity analysis.</p>
<b>Coherence</b>			
<ul style="list-style-type: none"> <li>EQ4: To what extent have the EU FTAs with the six SMCs been coherent with the European Neighbourhood Policy (ENP), Association Agreements, action plans and Partnership Priorities and current EU trade policy?</li> </ul>	<p>Extent to which objectives of EU FTAs align with those of the ENP, Association Agreements, Action plans and Partnership Priorities and current EU trade policy?</p> <p>Extent to which there are contradictions between the six FTAs and the ENP, Association Agreements, Action plans and Partnership Priorities and with current EU trade policy?</p> <p>Extent to which there are synergies between the six FTAs and ENP, Association Agreements, Action plans and Partnership Priorities and current EU trade policy?</p>	<p>Number and type of contradictions;</p> <p>Number and type of synergies.</p>	<p>Desk study of relevant documents;</p> <p>Survey;</p> <p>Interviews;</p> <p>Other stakeholder consultations.</p>

Evaluation questions	Judgement criteria	Example of information needs	Sources/methods
<ul style="list-style-type: none"> <li><b>Relevance</b></li> </ul>			
<ul style="list-style-type: none"> <li>EQ5: To what extent are the provisions of the EU FTAs with the six SMCs relevant for addressing current trade issues faced by the EU and these partners?</li> </ul>	<p>Extent to which current trade issues can be addressed on the basis of the EU FTAs with the six SMCs;</p> <p>Extent to which new or more ambitious provisions are needed to address current trade issues.</p>	<p>Identification of current trade barriers (not arising from non-implementation), by sector and type of barrier;</p> <p>Extent to which tariff preferences or quota are used and what are the problems encountered in their use;</p> <p>Extent to which current trade barriers could be solved with current and/or more ambitious EU FTA with the six SMCs.</p>	<p>Desk study (e.g. MADB, MAP, implementation reports);</p> <p>Gravity analysis;</p> <p>Sectoral analysis;</p> <p>Stakeholder consultations.</p>

### 3. Work package 2 – Consultations

Stakeholder consultations were an essential element of this evaluation and the specific activities and their outcomes are summarised in Annex 2.

### 4. Work package 3 – Economic Analysis

The third work package studied in detail the reductions in trade barriers stipulated by the FTAs. It assessed their implementation by first examining the legal aspects and the degree of implementation of the FTAs. It reviewed the existing literature and employed qualitative and quantitative descriptive analyses of historical data. In addition, a number of quantitative methods such as the CGE, partial equilibrium (PE) and descriptive statistics - along with sectoral case studies concerning agriculture, textiles, motor vehicles and chemicals - were used to reconcile changes in trade and other relevant economic aggregates with the FTA-related reductions in tariff barriers.

From an economic perspective, similarly to other preferential trade agreements, the Euro-Med FTAs are overall expected to bring about economic and social gains for the following reasons:

- Freer trade results in a better alignment of economic incentives with international price signals. In the context of this report, this allows realisation of SMC economies' and EU's comparative advantage where productive resources are allocated more efficiently across trading economies (also referred to in the literature as 'allocative efficiency'). This results in higher productivity and higher per capita incomes;
- Trade openness also results in greater competition which also translates into higher productivity and higher per capita incomes;
- With access to larger market greater economies of scale can be realised, lowering average costs of production, boosting productivity and per capita incomes;
- Higher productivity stemming from the above effects helps in attracting more domestic investment and FDI as well as labour (i.e., through migration) boosting further productivity and per capita incomes;
- All of the above effects are expected to combine and reinforce each other and create a more creative and innovation-driven economy, which also boosts productivity and per capita incomes in a more sustainable manner.

However, as is the case with other FTAs, a key reality is that the above-mentioned effects may not materialise if the structural change does not take place or is impeded. Instead, negative effects, including, for example, output or employment reductions, may appear and persist in time. For the positive effects of trade liberalisation to materialise, the economic agents must be able to act and adjust production, employment and investment levels across the economy in response to the new market access conditions. This involves upscaling economic activity in competitive, and downscaling it in uncompetitive, sectors. A host of factors related to the functioning of product and factor markets and institutions, such as the

ability to start or close a business, get credit, register and protect property, hire skilled staff, enforce contracts, etc., determine countries' structural adjustment abilities. Other reasons for why trade-related structural adjustment and the gains from trade may fail to materialise include emergence of other barriers, which are either not covered or insufficiently so in the agreements. This is sometimes the case with NTMs, which are erected under pressure from interest groups to counterbalance the effects of tariff liberalisation.

The fact that the gains from trade are predicated on relative price changes and structural change means that FTAs may also be associated with certain adjustment costs and distributional effects such as:

- Unequal sectoral effects on output, employment and capital stocks which refers to more pronounced reallocations with potentially negative social implications;
- FTAs may have negative or positive distributional effects as well as environmental effects, which may require accompanying policies, often from beyond the traditional 'trade policy toolkit'.

Generally, to maximise the chance that trade liberalisation has positive social and environmental effects, relevant labour and environmental standards need to be in place and be effectively enforced. In the context of trade agreements which do not have advanced provisions in these areas, as is the case with the Euro-Med FTAs, these standards are necessarily the relevant national standards as well as any international standards the trading partners may have committed to in other contexts (e.g. the international labour standards of the International Labour Organisation (ILO) and related domestic legislation.

The economic impact analysis builds on this overview of expected effects of the Euro-Med FTAs and combines the following elements:

- Description of the Euro-Med FTAs and assessment of their implementation;
- Review of existing studies and reports;
- Review of characteristics of Euro-Med FTAs and of subsequent trade developments;
- Description and interpretation of the computable general equilibrium (CGE) and partial equilibrium (PE) modelling exercises used to discern the trade effects of the Euro-Med FTAs and to assess their broader economic effects;
- Analysis of factors that can help explain and put in the context the CGE/PE modelling results and as well as factors determining the degree to which SMEs could use the opportunities stemming from the FTAs in particular:
  - Rules of origin
  - Non-tariff measures
  - Role of FDI and services trade
  - Business environment
  - Competitiveness
  - Diversification, technology and economic complexity
  - SMEs.

- Sectoral case studies of enablers and bottlenecks in achieving FTA objectives in specific sectors

## **5. Work package 4 – Sustainability Analysis**

This work package informs and complements the consultations and economic analysis to identify the most significant impacts on sustainable development, covering social, human rights, environmental and third country effects.

As with other parts of the analysis, there have been many developments in the four impact areas in each of the countries being analysed, and the challenge is to link these developments to the relevant FTA, establishing causal relations. In order to keep focus on the specific effects of the FTAs, the sustainability analysis encompasses:

- Analysis of trade chapters of the association agreements as regards texts linked to the four areas. This allows us to assess the extent to which the trade chapters contain provisions that could directly affect the situation in the four areas (next to indirect effects that stems from the economic changes brought about by the FTAs);
- Literature review on sustainability impacts. This started with a literature review in the inception phase to identify FTA-related literature that is linked to the different topics within the four impact areas. Subsequently, in the case studies additional literature was used to gain a better understanding of the specific topics and how trade can be linked to it. This also includes analysis of relevant data sets;
- Consultations on sustainability impacts. In all consultations activities, attention was paid to sustainability impacts. It should be noted that relatively few stakeholders were aware of the agreement and/or interested to participate. Inputs were often not very specific
- Analysis of results of the CGE model. This includes an identification and assessment of indicators relevant to the sustainability indicators (e.g. wages, CO2 emissions, trade with third countries);
- Sustainability case studies. To get some more in-depth insights of the link between a certain topic within the sustainability areas, we selected four case studies for more in-depth research. The methodology used for these case studies consist of a mix of the above. Where relevant, Annex F contains more background on the methodology for specific (parts of the) case studies. The four case studies are:
  - Employment in the chemicals and textiles and clothing sectors;
  - Female employment the agriculture;
  - Trade in environmental goods;
  - Air emissions other than CO2 emissions.