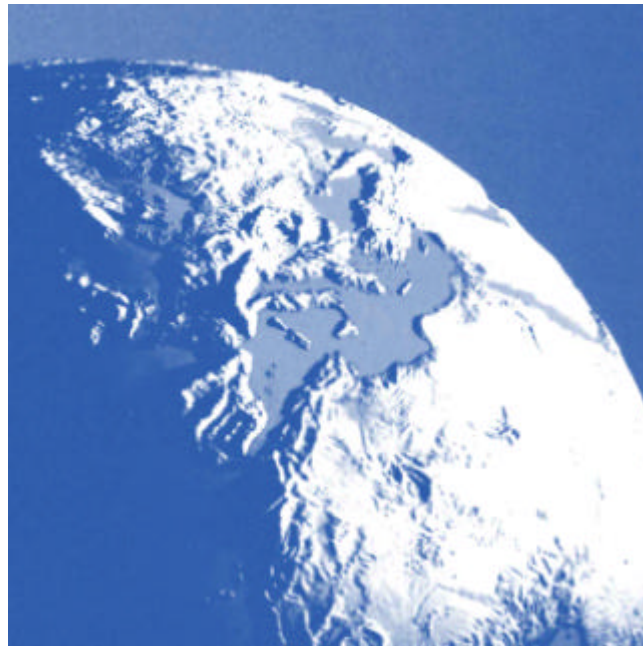




FREE TRADE AND THE ENVIRONMENT IN THE EURO-MEDITERRANEAN CONTEXT

First Synthesis Report for the Mediterranean Commission
on Sustainable Development (MCSD)



Draft



**Blue Plan
Regional Activity
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Executive Summary

A/ CONTEXT AND APPROACH

1/ European integration (4 Mediterranean riparian countries are members of the European Union and membership discussions have been initiated with 4 other countries) and the Euro-Mediterranean partnership that at this stage gathers the 15 countries of the European Union with 12 Southern and Eastern Mediterranean Countries (SEMCs) are the main structuring processes foreseeable for the relationship between free trade and the environment in the Mediterranean region¹.

A customs union agreement between Turkey and the European Union came into force at the start of 1996 and association agreements have already been signed between the Union and 5 Mediterranean non-member states. These agreements, in parallel with national and regional MEDA programs gradually lead to the creation of a Euro-Mediterranean free trade area (target date: 2010), but may also include several other measures, including the protection of the environment. The Barcelona declaration has in particular acknowledged that it is important to “reconcile economic development with the protection of the environment, integrate environmental concerns with the relevant aspects of economic policy and lessen the negative results which might arise from development at environmental level”.

2/ The will to integrate the economy and the environment seems all the more vital for the Mediterranean since:

- The quality of the environment is a major asset for current and future development, which has little competitive advantage for classical industrial and agricultural development. The development of tourism (the number one destination world-wide), high technology services and industry, and quality agriculture depend directly from it and largely determine the future of the region.
- Natural resources (water, land, coastline, ...) are precious and very fragile, but also restrictive for development and the Mediterranean area is a global “hot-spot” for bio-diversity.
- Environmental deterioration and the requirement to upgrade the environment already represent significant costs, which weigh heavily on societies and governments².

In this overall context, to favour a curative approach to correct negative effects could turn out to be very costly and lead to irreversible situations, which are already frequent in the region. On the contrary, the challenge consists of steering development upstream into a pathway with little social and environmental

¹ In the context of the Euro-Mediterranean Partnership, this process is mainly of the type North-North (European integration) and North-South (between the EU and each single SEMC). The dimension South-South should also be considered and developed. In other respects, other association and free trade agreements have been created in the region among SEMC, which could co-exist with EU-SEMC association agreements.

² For example, Morocco has estimated the cost of environmental degradation at about 8% of GDP and the World Bank has valued the health impact of air and water pollution in the MENA region at 9 billions US\$. It also points out that 40% of urban population in the region is affected.

degradation by avoiding approaches with very high costs observed today in several countries and transforming the environment as much as possible from a constraint to a valuable opportunity.

The Euro-Mediterranean partnership that is in the course of being built has therefore an essential guiding role in allowing the creation of a regional space for sustainable development.

3/ In this overall context, MCSD, during its 5th meeting (Rome, 1st-3rd July 1999) adopted a working programme whose goal, at this stage, was to draw useful lessons from certain regional and national experience and to deepen analysis in some key areas for the Mediterranean by focussing the investigation on the possible impacts of free trade on the environment and integrating environmental concerns in the association agreements.

This approach is complementary to the more classical one of studying the impact of environmental standards on trade. But, of its very nature, it is more complex and difficult to address because:

- The impact of free trade on the environment is of an indirect type; the effects of free trade are circulating through the economic system, especially by changing the macro-economic balance (balance of trade, government budgets) and the relative pricing of products and services. This change, very large for certain products, leads to a transformation in volumes and the composition of production and consumption, which then has repercussions on society and the environment.
- The field involved is extensive and requires a focus on some aspects that appear to have a higher priority.
- There is currently very little work, little data and even few methods for assessing changes brought about by free trade.
- For the most part of Southern and Eastern Mediterranean Countries, this has to do with changes that will occur in the future, as the first association agreements signed (Tunisia, Morocco) are currently coming into force.
- Future impacts also depend heavily on policies that are and will be applied, the stake being precisely one of enlightening public decisions on the desirable developments in those policies.
- The process of regional construction is intersecting with the overall process of globalisation.
- It is often difficult to dissociate the various possible causes of the evolutions observed from those pertaining directly to free trade.

Despite these difficulties, the approach adopted by the MCSD to favour the analysis of the impacts of free trade on the environment, rather than the impact of environmental regulations on free trade, seems inescapable for assisting with public decision-making. Furthermore, this approach is also applied in the context of the North American Free Trade Area (NAFTA) under the aegis of the Environmental Cooperation Commission (ECC) since an initial analysis of this kind has been carried out on three major production sectors (maize, electricity and cattle farming).

4/ In order to successfully complete this work, a number of experts from various disciplines from the North and South of the Mediterranean were mobilised. Their work and proposals have been presented and discussed during a regional workshop

which was held in Montpellier and Mèze from the 5th to the 8th October 2000, and which brought together 10 countries and several international and non-governmental organisations.

This expert working represents a considerable contribution to Euro-Mediterranean deliberations. The issues dealt with are the following:

- Changes in trade flows between Mediterranean countries and in the multilateral trade/environment framework;
- Lessons from other regional experience: NAFTA and Spain, Greece, Portugal and Poland joining the European Union. The experience in South East Asia was also approached in the study on industry;
- Regional perspective studies in the fields of industry and farming focussed on the Southern and Eastern Mediterranean Countries and on the possible impacts of free trade;
- Environmental aspects of association agreements (Tunisia, Morocco, Palestinian Authority, Turkey, Egypt and Israel) made with the European Union;
- Sectoral analyses on consumption patterns at the national level (Morocco, the Lebanon and Syria) and on industrial sub-sectors (Lebanon, Tunisia, Turkey, Syria and Bosnia-Herzegovina).

The analyses carried out form the basis of the “analytical framework” and the synthesis report prepared by the Blue Plan.

5/ The experts’ work focused on the changes observed or foreseen as well as on the possible integration of environmental aspects in the negotiations’ process. This work allowed initial shared findings on the possible environmental and social impacts of trade liberalisation and on the institutional set up of the partnership process.

The experts were also asked, in view of the analyses carried out, to make proposals that, in their view, were worth putting forward for debate. These proposals have been discussed in small working groups and in plenary sessions during the Montpellier-Mèze workshop and some areas of intervention have been outlined. It was agreed that overall, the areas identified and the measures to be proposed require further investigation. This is particularly true for agricultural and social issues, as well as for the mechanisms of actions to be put forward at regional level and bilateral level to ensure a more effective integration of the environment / sustainable development dimension.

In this respect, the European Commission expressed its desire to rapidly commence a second stage of assessment work. This new phase could thus benefit from the initial MCSD work and would provide a valuable contribution to the continuation of the essential investigations.

B/ MAIN FINDINGS OF THE STUDIES

1/ At present, virtually all Mediterranean non-member countries of the European Union have high levels of protection (the European Union share in customs duty income represents for example 28.80 % of tax income in Lebanon, 19.21 % in Algeria and 15.86 % in Tunisia as against 0.66 % in Israel) and have major trade deficits.

The main stakes in the project for Euro-Mediterranean free trade are to accelerate the liberalisation of countries, to incentivate the implementation of structural reforms, and to improve the competitiveness of production, which is currently too weak or too concentrated on non-dynamic sectors or ones with little value added (if the Mediterranean position is compared with other world regions).

But, in the short term, the risk for SEMCs is that this kind of liberalisation will lead to increasing trade deficits and to increasing imports to the detriment of local production. This is in contrast with the main stake for the European Union, which cannot be to gain short term market share in the Mediterranean basin, but rather to favour the development of its Southern neighbours in order to give the Euro-Mediterranean region greater global competitiveness, stability and shared prosperity.

In this context and in order to ensure the success of the Euro-Mediterranean partnership, free trade is a tool, which must necessarily be used and targeted in an appropriate manner and integrated by accompanying measures.

2/ Various regional experiences (NAFTA, EU, South-East Asia...) show the scale of the possible impacts of free trade at economic, social, environmental and territorial levels. In particular, one can observe in less developed countries that join regional free trade areas:

- A major growth in imports and in the trade balance deficit (e.g.: Greece, Spain, Portugal, Turkey...);
- An effect of scale with the growth of certain production, consumption, imports and exports. This growth effect has a very major impact on international³, national and urban transport, on growth in packaging and on the environment (emissions, pollution...);
- Changes in the composition of production (the proportion of manufactured products in Mexico's exports went from 25% to 90%) with positive and negative effects on the environment;
- Heavy impact on traditional farming and fragile rural areas. Thus in the maize sector in Mexico, one has observed concomitantly: increased poverty, rural depopulation and migration; replacement of traditional varieties with genetically manipulated varieties and the loss of genetic diversity; increased pressure on water and soil resources and increased inputs and pollution without there being any significant progress recorded in other farm production sectors.
- Deepened regional imbalances between urban and coastal or border areas on the one hand and rural areas on the other (Spain, Greece, Mexico...).

All these regional experiences show the need for preventive policies for the environment and for sustainable development.

3/ Overall, the less dynamic and more protected economies in Southern and Eastern Mediterranean Countries, in addition to the level of social development and the scarcer availability of resources in comparison with Mexico makes these countries

³ It is estimated that due to NAFTA transportation by van will increase 7-fold between 1995 and 2005 in Northern America. It has also been observed that transport of hazardous and other wastes is already beyond the capacity of governments to supervise their circulation and use.

find themselves in a trickier position than Mexico with regard to trade liberalisation and less able to handle a brutal adjustment in their economies.

The risks of negative social (increased poverty, rural depopulation...) and environmental (loss of biodiversity, deteriorating landscapes...) impacts, on **traditional farming sectors** (cereals and livestock) which make up most of the jobs in several countries, are certainly very high if the Euro-Mediterranean free trade area is to be widened to farm produce without any precautions nor suitable policies. In the other direction, it is not certain that trade liberalisation will be of much benefit to the export sector in these countries (fruit and vegetables) whose development would also have negative environmental impact (increased pressure on water resources and pollution) besides positive aspects (complying with environmental standards for certain products).

In the **industrial sector**, one positive effect of free trade will be easier access to clean technologies, at lower prices. Amongst the main risks, one can note the multiplication of critical sites (hot spots) along the coastline, a substantial increase in the overall volumes of energy consumption, transport and pollution and impacts on SMEs which are not able to internalise the environmental costs and face up to competition (whilst they make up the majority of companies). Accompanying policies to assist in this upgrading, to avoid the risk of polluting industry delocation, to create suitable transport systems and to improve energy efficiency should be promoted.

Another major impact of free trade will be the changes in **consumption patterns** with a powerful increase in packaging consumption and wastes and cars, which will increase at a higher speed than incomes⁴. This will be accompanied by major environmental costs if measures are not taken (waste treatment and recycling, development of public transport, taxation and regulations...).

The development of hypermarket retailing will contribute to increasing car use and consequently gas emissions and risks of urban congestion, whilst countries and towns have little space and resources available overall to handle this.

4/ NAFTA represents an initial experience of a free trade agreement, which was accompanied by parallel agreements on the environment and labour. The separation of the agreements led to a certain subordination of the social and environmental agreements to trade objectives, especially in the field of investments, which seems to contradict the statement that each party could set out its own environmental standards.

However, the multi-lateral environmental agreements (MEA) and the principle of precaution were taken into account in the trade agreement itself (NAFTA). In

⁴ In Morocco, the share of imported cars over the total stock of circulating cars has grown by 13.1% per year from 1990 through 1995, after the partial liberalisation occurred at the end of the 80s. With the association agreement with the EU, import taxes amounting presently at 32.5% will be dismantled progressively and are to be abolished in 2013. In Syria, the total number of circulating cars has increased 4.2-fold after the partial liberalisation of 1994. The number may increase further due to the envisaged reduction of import taxes and to the fact that the number of cars per 100 inhabitants is only 4 compared to more than ten times as much in Lebanon, where import taxes on second hand cars are low. The number of cars per inhabitants in Lebanon is comparable to the situation of France and Italy despite the ratio of GDP/capita expressed in PPP is 1 to 5. The lack of adequate infrastructure and public transport, together with the old age of cars and the quality of fuels, all contribute to urban congestion, air pollution, and associated health problems, which pose serious concerns in the country.

particular, an importing party may set up trade restrictions based on certain specific clauses of SPS type (sanitary and phyto-sanitary), the burden of proof of the lack of risk being incumbent upon the exporting party (contrary to the WTO rules). NAFTA was also accompanied by the creating of an "Environmental Co-operation Commission" (ECC), which applied assessment procedures for impacts and before which civil society has the option of initiating proceedings.

Most experts who have contributed to the analyses consider that at the present stage of the Barcelona process, the integration of environmental concerns into the association agreements and the various economic and sectoral policies is inadequate, when not altogether absent, despite the spirit and the wording of the Barcelona Declaration. The environmental issue in the first agreements signed has been referred to only as an appendix and has been separated from the adjustment targets of macro-economic balances and investments flows. Compliance with European environmental standards and norms as requested by the association agreements is particularly constraining in terms of time and financial costs and is not based on precise targets and time schedules as has been done for free trade goals.

At regional level, the operational arrangements for integrating the Rio principles (for example the principle of precaution) and for ensuring monitoring of impacts and responses remain for example, to be set up.

5/ Studies carried out in the Southern and Eastern Mediterranean countries show the extent to which it is necessary and useful to develop transverse initiatives between the authorities in charge of the environment, the authorities in charge of trade and economic development, local authorities and actors from the civil society (especially companies, Chambers of Commerce and Industry and NGOs). This type of initiative may assist for example in including environmental mechanisms and goals in efforts towards economic upgrading.

They also show the great diversity in positions, the value of exchanges on practises between the North and the South of the Mediterranean and the need to continue in the gradual implementation of an expert and assessment network.

Introduction

The Mediterranean Commission for Sustainable Development (MCSD), was set up in 1996, and is a consulting body intended as a forum for dialogue, discussion and proposal for defining regional sustainable development strategies.

The topic of "Free Trade and the Environment in the Euro-Mediterranean Context" was selected out of the 8 initial priority topics by the Commission. The work group and its steering committee, chaired by France and Lebanon, have benefited of the scientific and logistical backing from Blue Plan and support from the co-ordination unit of the Mediterranean Action Plan.

The group started working in 1998 and chose to focus attention on the potential impact of free trade on the environment. There were several reasons for this choice, the main one being that the set-up of the Euro-Mediterranean Free Trade Area in the region (target date: 2010) would have an accelerating effect on the restructuring process for national economies that has already started and could generate considerable social and environmental impact. With a view of sustainable development, regional stability, and shared prosperity in the region, it is therefore a priority to assess the possible types of impacts and to identify the anticipating measures capable to avoid those effects that could undermine the achievement of the above mentioned goals. Indeed it is of crucial importance to reduce the pace of environmental deterioration, whose economic and social cost is already considerable in the Mediterranean. Another reason for that choice was that the inverse and more classical approach of studying the impact of environmental standards on trade, would bring less useful lessons for defining sustainable development strategies and was already the subject of other work besides.

Once this orientation was chosen, it soon became apparent the extent to which the assignment was complex and difficult. The data, analyses, and even the methods for assessing the impact of free trade are still largely missing. Impact on the environment passes through the economic system and is of an indirect type: changes in government budgets (i.e., the set-up of ecotaxes to offset the loss of customs revenues), and changes in the variety as well as in the relative prices of products with all their effects on production, consumption and trade, and thus on society and on the environment. In addition, for the most part, this impact is still "to come" in Southern and Eastern Mediterranean Countries (SEMCs), since the first partnership agreements signed with the European Union (by Tunisia and Morocco) are only starting to come into force.

In the meeting of the Steering Committee held in Geneva following the " Dialogue " organised by the ICTSD (International Centre for Trade and Sustainable Development) on experience in regional free trade areas (1st to 3rd February 1999), it was agreed that in the initial stage of the study, it was necessary to:

- Attempt to draw the lessons from other regional free trade areas experiences relevant to the Mediterranean, notably Greece, Portugal and Spain joining the European Union and NAFTA, (the free trade area that came into force in 1994 between the USA, Canada and Mexico);
- Focus prospective studies on the three priority sectors (agriculture, consumption patterns, and industry) and on the possible socio-economic and environmental implications of free trade area for Southern and Eastern Mediterranean Countries;
- Carry out analyses on the role of the environmental dimension in the association agreements signed so far.

This work programme was approved by the 5th MCSD (Rome, 1st - 3rd July 1999) and put to work at the end of 1999-2000 with the financial backing of the European Commission and France. In total, 17 studies were carried out. The work was later presented and discussed during the Mediterranean workshop organised in Montpellier-Mèze from the 5th to the 87th October 2000 with assistance from the Conseil Général de l'Hérault.

The present summary report is divided into 5 chapters. The first one offers a quick review of recent changes in Euro-Mediterranean relations and of the main trends that have marked economic and geo-political developments at world level. The second one examines the economic and environmental implications as well as the lessons to be drawn from the experience of free trade areas prior to the Euro-Mediterranean agreements, and especially Greece, Portugal and Spain and the case of Poland joining the European Union (EU) and the North American Free Trade Area (NAFTA). The third chapter sets out a conceptual framework for the analysis of the economic, environmental and social impacts of free trade. The fourth chapter explores the possible socio-economic and environmental impacts of the Euro-Mediterranean partnership and the project to set up a free trade area between the SEMCs and the EU, with a special focus on agriculture, industry and consumption. Lastly, the fifth chapter deals with the attention placed on environmental concerns in the Euro-Mediterranean partnership and suggests institutional, economic and regulatory measures that could be considered to reconciling free trade and environmental goals.

Of its very nature, this work is incomplete, but hopefully it contributes to shed some light and answer to the increasing concerns expressed by society. It draws attention to the main possible risks of the setting up of a free trade area in the Mediterranean, and demonstrates the need for improved integration of the environment-development dimension into trade negotiations and national and regional policies. In this way it makes a contribution to the work group and its task managers who will have to finalise proposals to put before the MCSD during the year 2001.

This work is only a first step towards the more general goal of setting up a permanent system able to assess environmental impacts of free trade once the effects of dismantling tariff and non tariff barriers will start to be felt. In addition to the assessment, the system should also be capable to identifying, strengthening and actually promoting the means for anticipation policies, without which there can be no sustainable development in the Mediterranean.

1 The Euro-Mediterranean Context

1980-1994: A period of transition towards liberalisation, both long...

The last two decades have featured two main basic trends: the rapid growth of multilateral liberalisation as fostered by Bretton Woods institutions, and especially by GATT-WTO; and equally rapid globalisation sustained by the growth of knowledge and information technologies and services.

... and painful ...

In order to cope with these new trends, the Southern and Eastern Mediterranean Countries (SEMCs) set, with the assistance of the IMF, the World Bank and the Club of Paris, programmes to stabilise and adjust the macro-economic imbalances (debt, inflation, over valued exchange rates, current account deficits). Initially, the economic reforms resulted in a widened gap with Europe and the emergence of a social and political crisis, which ran the risk of having repercussions on the already fairly strained Euro-Mediterranean relations.

...which deepened the prosperity gap with the North ...

Towards the end of the 80s, despite undeniable results in re-establishing macro-economic balance, the economic system in most countries in the region remained highly vulnerable and had great difficulty in withstanding shocks from outside (oil prices, WTO negotiations, industrialised country interest rates) and from within (drought, and social expenditure to counterbalance the effects of structural reforms). As a result, the positive performance shown in public expenditure reduction, debt servicing abatement, exchange rate policies, inflation control, and public finances adjustments, was not accompanied by equally remarkable economic growth. With significant differences between countries, the average growth in annual GNP per capita went from an average of 4% at the start of the 90s to 1.2% in 1999 (Handoussa H et J-L Reiffers, 2000). Since the start of the decade, the same rate had been close to 1.5% on average and the forecasts for the years 2000-2001, although they are more positive, remain far below the levels required to bring the economies in the South and the East closer to those of the North of the Mediterranean.

...whilst North-South relations weakened.

The economic problems and the social repercussions of the liberalising reforms put in place by SEMCs did not find adequate assistance and support in Euro-Mediterranean. Despite the re-orientation of Mediterranean policy in 1989 and the good intentions this contained (Pierros F. et al. 1999), the new drive that this new policy was to bring about was to founder before the upheavals taking place in the world at the gates of the EU at the start of the 90s. The Gulf war, the setting-up of the single market, the fall of the Berlin wall and the projects to widen EU membership to Eastern European countries weakened Euro-Mediterranean relations both on political and financial ground. The situation in SEMCs at the start of the 90s is fairly disappointing. After ten years of economic reforms, social inequalities, unemployment and poverty are not on the decrease and are even increasing with political (Algeria) and social (South-North emigration) consequences, which

represent a threat to the development of Euro-Mediterranean relations.

1994-2000: the EU reorients its Mediterranean policy...

But if on the one hand the events of the 90s put Euro-Mediterranean relations into the background, it is equally true that the new European political geography forced the EU to rethink all its relations with its neighbours. This was the framework in which the new EU Mediterranean policy directive took shape. If the stakes remain by and large the same (political and social stability, increasing the living standards of populations, combating drug illicit dealings, and environmental protection, etc.), the principles set out for strengthening relations between SEMCs and the EU present major innovations.

...based around partnership...

The Barcelona Euro-Mediterranean Conference (1995) which brought together 12 Southern and Eastern Mediterranean Countries and the 15 EU member countries), resulted in the signature of a joint Declaration which stressed the nature of Partnership in the new political, social, economic and cultural relations between the EU and the SEMCs, as well as amongst SEMCs, and the importance of creating room for common solidarity and prosperity in the region.

...and on a more regional approach...

The system of relations based above all on the bilateral relations between the EU and the SEMCs and on trade was substituted for by a more global system, aimed at building a common regional space. This major change depends on raising awareness in countries on both shores of the Mediterranean that economic interdependence (exchange of goods and services) and social (migration), environmental (deterioration of coastal areas and biodiversity in the region, pollution, and pressures on water resources, etc...) and cultural interdependence (common history) are so closely bound together that it is unthinkable for development in the North to take place to the detriment of the Southern and Eastern countries. As Regnault⁵ stresses, it would be futile for Europe to try and widen its position on the Mediterranean marketplaces to the detriment of local producers and at the risk of reduced activity. On the contrary, Europe should foster the growth of its neighbours, to later take advantage of the position it holds in their markets and make trade relations into an advantage in world-wide competition.

But it is also true that the geo-political upheavals and the process of multi-lateral liberalisation continue to weigh heavily on Euro-Mediterranean relations to the extent that integrating former CEECs into the EU will highlight EU mobilisation in favour of the latter and that bilateral relations based on the preference system granted unilaterally by the EU to SEMCs in the last decades will give way to a system of reciprocal opening up which, at least in the short term, runs the risk of having a negative effect on development in those countries.

In this context, it is advisable that alongside the partnership agreements between the EU and each SEMC, South-South partnership forms be developed and the means (MEDA and EIB) of the partnership be used as efficiently as possible.

⁵ Regnault H, 1995, L'intérêt économique de l'Europe au développement des PSEM, in Bistolfi R., 1995, Euro-Méditerranée, une région à construire, Paris, Publisud.

...around three main topics...

The schedule of initiatives to be set up in order to reach the goals of the Declaration involves three main issues: a) Political aspects; b) Social and cultural aspects; and c) Economic and financial aspects. The economic and financial portion especially puts forward innovations, which are not always advantageous to SMECs. Indeed, with regard to the past, it introduces the concept of reciprocity of trade, which means that whereas in the past only the industrial products from the South had free access to the EU, with the new agreements, also the industrial products from the EU will have free access to the SMECs markets. On the other hand, negotiations do not initially allow for the trade liberalisation in agricultural products and services, which nonetheless make up potential export markets for SMECs. From the financial point of view, the association agreements will benefit to the SMECs to the extent that the MEDA provisions for the period 1995-1999 have been set in the 1995 Council of Cannes to 4.7 billion ECU, which is an amount three times greater than that under previous agreements. Nonetheless, it is pointed out from many parts that this amount is not sufficient and negotiations are under way to raise the financial envelope for the next period.

... awakening hopes and raising questions.

The new framework for Euro-Mediterranean relations defined by the Barcelona Declarations has awakened hopes and raised questions. Hopes have been raised by the fact that this event clearly affirms the will to re-balance European expansion towards SEMCs and to create a strong economic region in the Mediterranean. They also stem from the especially favourable timing for regional free trade agreements due in part to the difficulties encountered by the multilateral negotiations and partly to the success of other free trade areas experiences such as the North American Free Trade Area (NAFTA).

The concerns are mainly linked to the risks involved in the economic, environmental and social impacts of the Euro-Mediterranean agreements in the short term. The new trading system calls for the end of an era denoted by substantial advantages for manufacturing exports from SEMCs and exposes their still vulnerable economies to increasing competition in the international context. Besides, the liberalisation process risks to increase environmental damage and social inequalities if the association agreements are not accompanied by clear social and environmental conditions.

Thought is therefore necessary on the means to be applied to enhancing the opportunities offered by partnership and to correct market failures in the social and environmental fields.

2 Experiences of Regional Free Trade Agreements: What Lessons for the Mediterranean Free Trade Zone (MFTZ)?

There are several examples of regional free trade

Alongside the process of globalisation of trade that found its most representative institutional expression at the World Trade Organisation (WTO) negotiations, recent history has been marked by a rapid expansion

agreements; two of them are particularly relevant to the EMFTA.

of free trade agreements at regional level. In addition to the older agreements such as ASEAN (Asia), MERCOSUR (Latin America), and the European Union (EU), NAFTA was added in the 90s. Euro-Mediterranean partnership negotiations are taking place for the set-up of a Euro-Mediterranean Free Trade Area (EMFTA) due for 2010 and a free trade project between the EU, US and Canada in the context of the transatlantic partnership is being discussed. Free trade agreements are also considered for the Americas (ASFTA), which would encompass the American continent from Alaska to Tierra del Fuego.

At the same time relations between free trade areas are becoming more intensive; the EU is developing relations with MERCOSUR and ACP (Africa, Caribbean and Pacific) as the United States is doing with APEC (Asia-Pacific Economic Co-operation).

The lessons from the older experiences are therefore numerous and may turn out to be very useful in creating the EMFTA. Two examples in particular will be examined: the case of Greece, Spain and Portugal joining the EU, in addition to Poland's preparation to join and the case of NAFTA. The first experience is especially relevant for EMFTA because of the features of the countries involved (all Mediterranean countries, Portugal being so *de facto* and Poland having a fairly similar farm structure to Mediterranean countries). The second experience is of interest to the extent that it constitutes the sole example of an FTA created between the Southern and Northern countries of the globe and which takes account of the environmental dimension.

The example of integrating Greece, Spain and Portugal into the European Union and ...

Before joining the EU, Greece, Spain and Portugal presented a number of socio-economic features in common with SEMCs; notably
The importance of the agricultural sector in terms of its share in the GDP and of the population relying on agricultural production;
An agricultural production structure based on highly fragmented smallholdings;
The dependence on traditional production methods, which were not very competitive nor productive and, in the case of the industrial sector, high energy- and labour-intensive;
And lastly the limited trade with the rest of the world due to highly protective customs barriers .
The impact of EU membership on these countries has been marked by major differences from the economic, social, and environmental point of view.

At **economic** level, the indicators analysed in the study carried out by Kuik (2000)⁶ suggest that trade in these countries increased following their membership, but whilst in the case of Spain and Portugal the increase in imports and exports did not create any trade balance problems, in Greece imports increased faster than exports, thus resulting in a serious trade balance deficit. In the three countries a major diversion effect of trade has been observed, which has been to the advantage of the

⁶ Kuik O.J., and F.H. Oosterhuis, 2000, Free Trade and Environment in the Euro-Mediterranean Context : Lessons Learned from Spain, Portugal, Greece, and Poland, a paper prepared on behalf of the Blue Plan – Regional Activity Centre of the MAP-UNEP.

EU and to the detriment of markets such as the United States and Japan (in the case of Portugal) and of Latin America (for Spain). Membership also brought about a considerable rise in the direct foreign investments (DFI) in the case of Portugal and Spain, whilst no discernible movement was recorded in Greece, where the largest part of investment arises from Community structural funds. Lastly in the three countries, and especially in Spain, the relative size of the primary sector was reduced significantly.

At the **social** level, Greece and Spain saw their unemployment levels increase dramatically. In Spain this rise took place despite significant growth in GDP. In Greece, the rural exodus due to agricultural contraction was not offset by industrial development able to absorb the excess labour. In Portugal, after an initial period when unemployment dropped, continual increase took place until 1997; since then it has tended to drop. Incomes have also had a downward trend above all in the farming sector following the opening of the market to other EU countries. The drop has been partly offset by community subsidies which in Greece accounted for 39% of agricultural income. Lastly, in all three countries, major growth in regional disparities took place.

At the **environmental** level, significant differences can be observed between the three countries.

Greece had advantages and disadvantages. The advantages were represented by a still fairly limited use of chemical fertilisers and the option of taking advantage of EU agro-environmental programmes. The disadvantages have been above all bound up with the increasing deterioration of the Athens region, where a marked intensification of economic activity and road infrastructure has taken place (which, in turn, have been followed by traffic growth and an increase in air pollution), and expanding tourist pressures on the most sensitive coastlines.

In Portugal, the drop of producer prices brought about a reduction in farming activity, which was beneficial for the environment to the extent to which it allowed pressure on lands to decrease. However, increasing urbanisation took place accompanied by the growing problem of waste management and pollution. Industrial specialisation in the country based on an intensive use of natural resources poses serious pollution issues for watercourses and the risk of overutilization of resources (forests, non-metal minerals, paper and textiles).

In Spain environmental problems have been connected above all with the deforestation of coasts due to the great expansion of tourist business. Another major concern involving Spain is the over-exploitation of water resources due to modernising agriculture and the increased use of chemicals with their consequences in terms of aquifer pollution. Desertification has also increased following membership. It must not be forgotten that Spain has the richest biodiversity within the EU, which has severely been damaged due to increasing economic activity.

Membership certainly fostered the technological upgrading of the three countries and their compliance with EU standards. This progress has

been very clear in Portugal and Spain, but much slower in Greece. The same trend has been observed with regard to the harmonisation of environmental standards. Portugal often turns out to be the first country to adopt European environmental standards but it is not always able to enforce them. On the other hand convergence by Spain and Greece is behind schedule.

... the case of Poland

Even though Poland is not a Mediterranean country, the structure of its farming sector makes it very similar to SEMCs: a fairly high rural population, agriculture made up of smallholdings, limited availability of resources and a wide dispersion of farms over the territory.

The **economic** fallout of the membership agreement with the EU has been similar to that in the other countries examined: i) strong growth in trade which nevertheless produces trade balance problems; ii) diversion of trade towards the EU; iii) major increase in the DFI. The country still remains mainly agricultural but over the last years the economic structure has changed significantly. In the farming sector, specialisation towards breeding activity has taken place (pigs and chickens) and in the industrial sector, considerable growth in light industry has taken place to the detriment of heavy industry.

From a **social** viewpoint, Poland has been able to avoid the impact on employment encountered by other countries. The unemployment rate has actually dropped going from 17% in 1994 to 10.5% in 1997. However, regional disparities have increased considerably between the capital region and the remainder of the country, especially in rural areas.

From the **environmental** point of view, the positive aspects consist of the limited quantity of agro-chemical products used (chemical fertiliser use had gone from 2.4 kg/ha in 79-81 to 1.1 kg/ha in 95-97), but membership could have a negative impact on the typical rural landscape of Poland and on the wild fauna which is closely associated with the present agrosystems. In addition the sectors of specialisation in agriculture are amongst the activities with high pollution risks. The growth in services and light industry on the other hand have generally positive effects on the environment above all when they are accompanied, as is the case in Poland, by technological development. The change in production methods and techniques was noticeable, and technological innovation besides the introduction of unleaded petrol and "end of the pipe" pollution control systems have allowed the country to limit the effects of growth on pollution and waste production. Poland has shown good convergence with Union standards above all with regard to traditional pollutants, but showed some problems in the field of waste treatment. A few problems have also been observed in the Country's ability to enforce standards.

To sum up, the lessons that the Euro-Mediterranean association agreements could draw from the past experience of countries as examined are mainly that regional free trade agreements are almost always accompanied by: i) the creation of regional disparities that can have repercussions on the environment; ii) highly specific economic and

environmental impacts according to the countries; iii) trade flows imbalances. All issues that should be given particular attention in the current Euro-Mediterranean negotiations.

The NAFTA example:...

The Free Trade agreement between Mexico, the United States and Canada presents some similarities with the EMFTA but also many differences that demand caution in making comparisons.

...similarities but above all...

The similarities in the two examples lie in the fact that the gaps and disparities in development in the signatory countries are particularly significant in the case of NAFTA and EMFTA. For example, as Voituriez et al.⁷ note, gaps in per capita income, expressed in purchasing power parity, between the average for Southern Mediterranean Countries (SMCs) and the EU is of the same order as that which in 1994 (the date of NAFTA's coming into force) separated average income in Mexico from its two Northern partners (a factor of 1 to 3). Other similarities can be picked out in human development indicators and most especially in the school enrolment rate for young generations, which, with a few exceptions, align SMCs with Mexico (100% at primary and 60-70% at secondary level). The human development index (HDI) lastly suggests that the imbalance of development between the two groups of countries is fairly close. In fact, the EU is 15th in world rankings and SEMCs are 80th, whilst Canada and the US are 1st and 4th respectively and Mexico comes 50th.

... differences with EMFTA, both on economic and social levels,...

But apart from these similarities, the two examples bring to the fore the significant differences due mainly to the high number of SMCs which subscribed to the Barcelona Conference and the wide-ranging disparity in their levels of economic and social development. In this way, if it is true that the income ratio between the average levels in SMCs and the EU are of the same order as that between Mexico and its partners, the gap between Egypt and Denmark is 1 to 10. In the same way the HDI goes from 23rd place for Israel to the 120th for Egypt. The weakness of SMCs compared with Mexico can also be picked out from the economic structure of the countries involved. For example, it can be observed that at the time of signing the free trade agreement Mexico had a highly developed tertiary sector and which was fairly close to that of its partners and the EU (64-69% of GNP 1994-1997) whilst SMCs are still heavily dependant on the primary sector (from 15 to 18% of GNP in 1997 except for Jordan, which is fairly close to Mexico). The same imbalances between North- South in the Mediterranean can be observed in the proportion of agricultural workers (5% in the EU and over 40% in SMCs), and in trade flows and destinations (the EU represents 70% of foreign trade for SMCs, while the SMCs only make up 7% of EU foreign trade). Finally substantial imbalances also exist between countries in the south of the Mediterranean and between Southern and Eastern countries.

... and at the

Equally large differences exist in the availability of natural resources and

⁷ Voituriez T., T. Le Cotty, J-M Salles, 2000, Les questions d'environnement dans la future zone de libre échange méditerranéenne : qu'a-t-on appris de l'ALENA ?, Ministère de l'Environnement, Direction Générale de l'Administration et du Développement, France.

natural resources endowment. especially of water. An eloquent example is given by water consumption; it was about 21.7% of renewable resources in Mexico during the period from 87-95, whilst in the same period in SMCs it went from 16.1% in Turkey to 1967.9% in Egypt.

As a result, SEMCs are much weaker in relation to the EMFTA than Mexico is in relation to NAFTA. Overall, the less dynamic and more protected economies in SMCs, the lower level of social and economic development and the lesser availability of resources in relation to Mexico make the SMCs face a trickier position than Mexico in liberalising trade and they are less able to withstand a brutal adjustment in their economies during the period set out for dismantling customs barriers. This is all the more true since the partnership agreements for the EMFTA require, for the time being, only the unilateral dismantling of barriers for industrial products originating from the EU (restrictions on farm trade being kept in the short term).

Having stated which, EMFTA can take advantage of a few lessons from NAFTA involving ... NAFTA represents the first example of a regional free trade agreement, which incorporates parallel agreements on the environment and on labour. It therefore constitutes an unavoidable precedent for the creation of an EMFTA with the purpose of integrating trade objectives with social and environmental ones and with the overall goal of ensuring sustainable development in member countries. The lessons that can be drawn from the NAFTA experience include on the one hand the terms of the agreement, the institutions set up and the way they operate, and on the other hand the environmental achievements of the agreements following its entry into force.

... institutions, their functioning, and their relevance to the goals of EMFTA,;... Many studies carried out on NAFTA stress the complexity of the institutional system set up to ensure compliance with the economic, environmental and social goals set out in the agreement. As Voituriez et al. (op. cit.) remind us, no less than 50 institutions were created, going from Councils to Committees, on general or specific issues, and provided with more or less responsibility and power. This complexity reflects the ambition of the goals pursued in the three spheres referred to in addition to the setting up of complicated instruments such as, in the case of the environment, the principle of precaution or public consultations for monitoring the application of environmental legislation.

Bearing in mind the greater vulnerability, dispersion, and number of signatory countries to the Barcelona Declaration, the institutional issue deserves special attention for various reasons: i) the risk of multiplying the institutions; ii) the difficulty of managing a complex institutional system; iii) the ability of the latter to apply the recommendations or obligations they approve. In the case of NAFTA, for example, some state that the role of the Commission for Environmental Cooperation (CEC) is more that of an observer than that of a decision-maker. The CEC itself has noted the lack of communication and co-operation between the CEC and most of the NAFTA economic institutions.

It should be further noted that the separation of agreements on trade (North American Free Trade Agreement - NAFTA), on the environment (North American Agreement on Environmental Cooperation - NAAEC) and on labour (North American Agreement on Labour Cooperation -

NAALC) has resulted in the subordination of the social and environmental agreements to trade goals and that environmental policies have a role of correcting the possible impact of free trade rather than that of prevention. This is especially true in the case of the regulations governing investment (see chapter 11⁸ on the protection of NAFTA investors). According to observers, the system set up under chapter 11 is fairly inconsistent with the overall NAFTA system under which each party may set its own environmental standards, and inconsistent with the principle that stipulates that trading laws must support sustainable development. Lastly, the section on investment is in conflict with the polluter pays principle since some clauses allow for compensation of investors that come up against an environmental law.

Deeper consideration is made necessary with regard to the relevance of the approach taken in the case of NAFTA, not only with regard to sustainable development in the Mediterranean (greater vulnerability of environmental and socio-economic systems) but also with respect to the spirit in which the 1995 Barcelona Declaration was drafted and the statement of the declaration according to which environmental concerns should be accounted for in the various aspects of economic policy. It is worth noting, however, that at the present stage of the Barcelona process, the environment is mostly absent from the partnership wording and that the bilateral agreements seem to have opted for the path of separation rather than integration of environmental issues.

Another institutional aspect that is of special interest for the EMFTA is given by environmental harmonisation. The NAFTA example shows how difficult it is to set up real environmental harmonisation between partner countries. NAFTA therefore opted for allowing countries to establish their own levels of environmental protection in addition to their own policies and priorities and fostering the compatibility of national standards via an exchange of information on the criteria and methods used at national level. The difficult role of the ECC is to ensure that the environmental standards are compatible with the goals of free trade, and in the mean time that the level of protection of the environment is not reduced.

Difficulties in reaching environmental harmonisation in the North American agreement apply all the more in the Euro-Mediterranean context, where difficulties are added due to the fear often expressed in SEMCs that harmonisation is only a further tool for Northern countries for protecting their markets against products from the South and East.

**...and the results
obtained at
economic level, ...**

It cannot be denied that from a **macro-economic** viewpoint, the North American Free Trade Agreement has brought tangible results in scale effect terms. Exports increased by 165% between 1993 and 1999 and imports by 117% during the same period. The country also greatly diversified its export, adding to Canada and United States South East Asian countries such as South Korea, Taiwan, Singapore and Hong

⁸ This section gave rise to the settlement of a dispute in the favor of a foreign investor, leading to the withdrawal of an environmental law.

Kong. Lastly, the structure of exports underwent significant changes with oil products, which went from 67% of total exports in 1983 to 7% in 1998 in favour of manufactured products, which over the same period went from 25% to 90%. In addition, estimates reveal that about 50% of the growth in GNP from 1994 has been due to export growth and that thanks to this and to the strong growth in the DFI, about 3 million jobs were created since 1995. Moreover, some studies highlight that companies geared towards exports are the most dynamic ones that the wages paid by those companies are higher and that liberalisation has allowed the creation of new companies, usually SMCs.

The economic indicators for the **agricultural sector**, particularly the maize sector, seem to go in the opposite direction. Since NAFTA came into force, maize imports have increased more rapidly than exports for several reasons including: i) drought in 1997 ; ii) overvaluation of the Mexican Peso which makes the price of imported maize cheaper than Mexican maize; iii) difference in competitiveness between American and Mexican farmers. The price to the producer of Mexican maize has undergone a very significant reduction since NAFTA, dropping from about 1000 pesos/tonne in real terms at the start of the 90s to about 600 pesos towards the end of the decade.

Private **investment** in the sector has remained negligible and no information is available on DFI. Despite the drop in prices to which the removal of subsidies on the costs of input should be added, maize production underwent regular growth from 1991 to 1996 and increased its relative proportion in total farm production (66% in 1994 as against 57% in 1986-90). This growth however, is not the result of yields increase, which, on the contrary have remained stable or even dropped in some cases, but of the higher economic returns compared with other crops. Estimates show that in 13 out of 32 states, yields have decreased and in 8 states yields dropped whilst the cultivated area increased. The consequence is a higher pressure on marginal land. Maize production has increased above all in irrigated areas (45% of total production in 1994 as against 23% in 1990) and also on areas fed by rainwater. During the last few years, a deterioration in production methods can be observed together with increasing overexploitation of land and reduced use of other inputs than labour to face lower production prices and financial difficulties. According to some studies, the number of farmers living under these conditions has reached 64% of all maize producers.

In the **transport** sector, it is expected that by 2005 the economic dynamism that followed the creation of NAFTA's will generate a growth in road traffic by a factor of 7, with serious effects on pollution, particularly in border areas.

...social level...

Remaining in the farming sector, price as well as income decline of maize producers has had major repercussions at the level of farming employment and on migrations. These phenomena are especially significant amongst farmers who produce for subsistence. The lack of alternative activities able to absorb the excess workforce has led to an increasing quantity of the most deprived rural populations emigrating

towards towns and the most often towards the United States. In a single year, from 1995 to 1996, the number of farmers went from 3.1 million to 2.77 and the number of direct jobs in farming from 4.2 to 3.9 million. This phenomenon has undermined the complex social structure on which maize production rests and the sustainable management system for resources that these systems ensured. The departure of the most active layers of the population also generates a drain of knowledge and know-how built up over time and handed down from father to son, which can aggravate the decline of sustainable production methods.

... and in the environment.

At environmental level, NAFTA's effects on the farming sector and especially on maize have been ambivalent. On the one hand positive effects have been observed in large farms, where the reduction of prices to producers and the abatement of input price subsidies have forced producers to cut production costs by reducing the use of input, or to introduce new technologies; on the other hand negative impacts have been observed particularly on the traditional sector, which makes up the majority of farmers and of the farmed area. Amongst the environmental risks identified by the available studies, the most important are the following:

- i) deterioration of soil due to increased pressure on marginal lands generated by the drop in prices and incomes;
- ii) loss of genetic diversity attributable to the over-grazing of abandoned land and to the replacement of local maize varieties by hybrids, and increasingly, by genetically modified varieties,
- iii) increase of land salinity in irrigated areas;
- iv) overexploitation of water resources if technologies able to reduce consumption and losses are not introduced⁹
- v) air pollution observed in areas specialised in maize growing risks expanding to areas being modernised.

It has also been argued that the social problems such as the increase of poverty amongst smallholders and migration have had the effect of aggravating the risks of land deterioration and the loss of genetic diversity. In particular, the current destruction of traditional society is a threat to preserving bio-diversity.

Several observers have picked up that the maize sector in Mexico raises the same issues as that of cereals in SEMCs and that the Euro-Mediterranean partnership agreements should set up arrangements for preventing the risks referred to above. Amongst those arrangements, a greater integration of environmental and social concerns in the current negotiations seems to be indispensable.

3 Interdependence between Free Trade and the Environment: An Analytical Framework

A debate with few During the last few years, the debate which has grown up around the

⁹ It has been calculated that the volume of water currently used per hectare (12800 m³) could be reduced by half (6500 m³). Water wastage is estimated at 66% -76% in the North-West Mexico.

certainties and many conflicts ...	relationship between the environment and free trade both within international organisations and in the community of environmental experts and economists has been very lively, but for the lack of any clear terms for debate and any significant examples to back up one hypothesis or another, the debate has remained at a theoretical level and the positions of contenders are far distant from one another, except on one point: trade policies and trade flows can have opposing effects on the environment and on the use of natural resources. A conclusion which points out the need of deeper analysis of actual situations, which could help understanding the conditions that influence or determine the negative or positive nature of environmental impacts of free trade. Chapter 4 provides some evidence based on a number of case studies carried out on this topic in the context of the association agreements between the EU and the SEMCs.
... which could take advantage of a widely accepted reference conceptual framework ...	On the basis of the studies prepared and the existing literature on this topic, a conceptual framework is suggested (Figure 1) which: a) illustrates some variables, which can be taken into account for a good understanding of all the possible (direct and indirect) impacts of Free Trade on the environment; b) allows the set-up of a system of indicators ¹⁰ for monitoring variables during the liberalisation process. This model will be used in Chapter 4 to analyse the results of the studies.
... which is able to integrate economic, environmental and social dimensions.	The conceptual framework is made up of three dimensions: a) the economic dimension (coloured blue in the diagram); b) the environmental dimension (coloured green); c) the social dimension (coloured red). Each of these dimensions interact with the others in various ways: the blue arrows indicate the impacts which have repercussions on the economic system, the green arrows denote the impact on the environmental system and the red ones show impact on the social system. The basic idea of the model is that free trade impacts (either positive or negative) on the environment, the society, and finally on the welfare are channelled through the economic system.
The economic system: a simplified model for interpreting the effects of free trade on ...	The economic dimension is represented by a simplified model, which includes two main levels: production and consumption. It is assumed that the goods and services produced by the economic system are consumed and that the growth in consumption contributes to increasing the level of well-being (utility) for society. The impact of free trade on the economic system can therefore be analysed through its effects on macro-economic variables, on production and on consumption.
...macro-economic variables,...	At the macro-economic level, the variables that are most directly involved in the liberalisation process and that can be taken into account for analysing the environmental impact of Free Trade are trade balance (as a result of changes in imports and exports) and the government budget (as a result of the elimination of customs duties and environmental taxation). The composition of imports and exports can also have environmental repercussions to the extent that production processes and products

¹⁰ It is worth noting that the choice of indicators is very delicate to the extent that in the absence of an analytical framework and of widely accepted indicators, the conclusions of the studies can be heavily influenced by the preferences of the analysts.

incorporate a varying amount of environmental impact. Lastly, comparative advantages, by determining the level of specialisation in a country's production and trade, also affect the environment.

... production (scale, composition, technical, and location effects),...

At production level, the possible effects of free trade may be summarised in three categories:

Scale Effect

It is widely accepted that trade liberalisation generates increased economic activity in a country. This will result in an increase in production and consumption as well as in the total demand for input, transport services and energy, all of which will affect the environment.

Composition Effects

The trade liberalisation generates a change in the relative prices for imported and exported goods and services, which will influence the composition of inputs and outputs as well as the production specialisation of countries, and consequently the level and the type of environmental impacts.

Technical Effects

The effects of free trade on production techniques can take several forms: a) the removal of import barriers will allow companies to introduce improved and cleaner technologies at more competitive prices; b) the removal of export taxes will allow the country's companies to be more competitive in the international marketplace and to adapt to export market demand which can be more or less demanding in terms of clean production processes; c) lastly, the removal of barriers will change the relative prices of production inputs, which will bring companies to changing the composition of production factors.

Location Effects

In addition, free trade can also have effects on the relocation of production activities at national level as well as from one country to another in search of the areas with the highest comparative advantages. The topic of "polluter's heavens" is often used to indicate countries where polluting industries are moving to avoid the costs of more stringent environmental norms in their countries.

...and on consumption (direct and indirect effects).

The consumption of goods and services can be directly or indirectly influenced by trade liberalisation.

Direct Effects

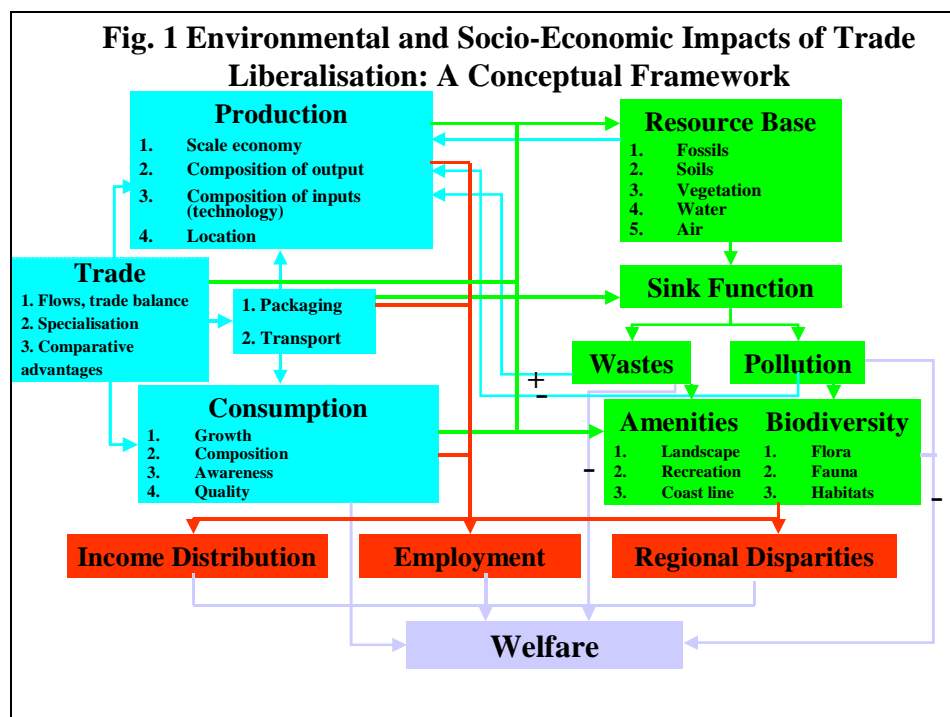
These involve the total *volume* of goods and services consumption, which in theory, should increase because of the greater availability of goods and services in circulation and of the increased price competition. These also involve the *composition* of the shopping basket, which will undergo the effects of price changes. For example, removing tariff barriers on imports will result in price reductions for consumers and probably in increased consumption.

Indirect Effects

Indirect effects go through production. Changes in the composition of goods produced will have repercussions on their relative prices, which

will then influence demand for the products. It should be stressed that if the demand for goods is influenced by supply, the converse is also true to the extent that consumer demands (tastes, environmental concerns, etc.) influence production at the level of methods of production and products. This is why there is a two-way arrow, which connects the production module to the consumption module in figure 1.

Consumer satisfaction in terms of quantity and quality of goods and services consumed will result in an increase or decrease of individual and society welfare.



The environmental system, as a supplier of goods and services to the economic and social system...

The effects of free trade on the environment are analysed in relation to the goods and services that the **environmental system** makes available to the economic system. Three functions of the environmental system are taken into account in the theoretical framework:

- supplying natural resources and raw materials for economic activities;
- absorbing and assimilating the waste and pollution produced by socio-economic activities at production, marketing and consumption levels. As shown in figure 1, part of the waste produced by the economic system can be recycled and enter again into the production process (with a positive effect for the environment, the economic system and the welfare of the society) but another part cannot be recycled and must be assimilated by the environment in whatever form (waste treatment, dumping at sea, etc.). Yet the environment has a limited assimilation capacity. It follows that the quantity of waste produced should not exceed the environment's capacity to assimilate, otherwise the environment is deteriorated and the society's well-being decreases. The same reasoning goes for pollution

or for the degradation generated by economic activity, with the difference that pollution and degradation always produce negative effects on well-being, and may represent a major constraint on production. This is the case for example for soil pollution caused by industrial effluents. When the same soil is used for farm production, yields for farm production are lower than in unpolluted soils. In the same way, the degradation of soil in the Mediterranean region is responsible for the reduction of agricultural yields and even for the abandonment of farming in certain areas.

- c) Providing direct amenities (landscape, aesthetic, etc.) or other values that do not have an immediate economic interest (biodiversity), and which do not pass through the economic system but which contribute to the prosperity and well-being of societies.

The interaction between the economic and the environmental system is illustrated in the conceptual framework of figure 1 and are analysed in detail in the following sections.

... undergoes the effects of liberalisation through macroeconomic variables, ...

The environmental implications of free trade at the macro-economic level are analysed through the following main variables: the balance of trade, the government budget (environmental spending, customs duty income, subsidies, etc.) and the balance of payments.

...production and scale effect, ...

At production level, the scale, composition and technical effects will all have repercussions on the environment, without however any possibility of anticipating whether those impacts will be positive or negative for the environment. Several scenarios may be considered, which show the difficulty to deciding in advance or to generalising the possible environmental impact of free trade. Let us take, for example, the scale effects. The increased volume of economic activity in a given country might result in an increased use of natural resources (energy, raw materials, etc.) and of waste produced, thus resulting in the deterioration of natural heritage and environment (increased pollution). But let us assume that with increased economic activity, free trade fosters the introduction of new and cleaner technologies. The country and its environment could then benefit from trade liberalisation.

... composition, ...

Furthermore, the environmental implications of composition effects depend to a large extent on the supply of production factors. In this way, three scenarios can be considered:

- The environment is the production factor in large surplus. This means that the relative price of the environment will be lower than that of other factors (labour and capital). As a result the country, in accordance with the law of comparative advantages, will specialise in highly environment-intensive activities. If the marginal costs of reducing environmental impact is much higher than the marginal cost for extracting natural resources, it is likely that in a country with weak or non-existent environmental regulation the economic will specialise in sectors consuming more natural resources, with obvious negative effects on the quality of the environment.

- Abundant workforce. In this case, economic activity should steer towards that which is most labour intensive. It is widely accepted that labour intensive activities are generally cleaner than capital intensive ones.
- Abundant capital and technologies. Even though there are not many studies available on this topic, it is likely that the possible effects on the environment of economic activity based on an intensive contribution of capital and technologies will depend on the type of specialisation. Development of heavy industry sectors could then have harmful effects, whilst the development of computing is more compatible with environmental preservation.

... technical,

The environmental impact of the technique effect could have opposing pulls according to circumstances. For example:

- If one accepts that free trade results in increased income, it is also possible that environmental demand will also increase. If this demand results in stricter environmental laws, the quantity of environmental resources per unit produced could drop.
- If the freeing of trade is also accompanied by increased DFI, the country in question could benefit from the contribution of cleaner technologies.
- Changes in relative prices (reducing tariffs) for intermediate products brought about by liberalisation could give opposing signals according to the new composition of production inputs.
- The country could engage in downwards competition by reducing environmental standards, but if demand is rather geared towards environmental products, competition will be upwards to the benefit of the environment.

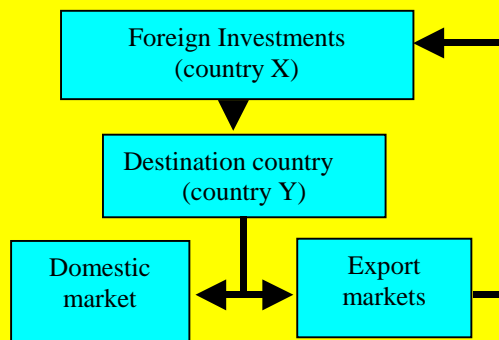
...and location effects; ...

It has already been mentioned that trade liberalisation can also influence the relocation of economic activities in the country, through, for example, concentrating production activities in regions with the greatest comparative advantages, and between countries through transferring production activities towards the countries with the highest comparative advantages. In the absence of the environment being taken into account in the assessment of the comparative advantages, the relocation effects have awakened the fear that market liberalisation could be accompanied by the relocation of the most polluting industries towards countries with less restrictive environmental regulations.

A diagram analysing the relocation effects is put forward in Box 1 below. It suggests that relocation of investments for pollution reasons takes place only in particular circumstances.

Box 1 The effects of relocation

Foreign investments in the destination countries can be addressed either to domestic or to export markets.



Let us assume that free trade results in an increase of foreign investment from country X in country Y. Let us also assume that country X has a very strict environmental legislation whilst in country Y the costs of taking account of the environment in the production process remain very low. The fear often referred to is that under these conditions, the opening up of markets will result in the relocation of the most polluting companies of country X towards country Y (in such a manner as to increase their comparative advantages and competitiveness), and that downward competitiveness will be unleashed between the countries in order to attract foreign investment. This fear, as we will try to demonstrate just below, is not always justified and the risks of relocation in search of the polluter's paradise can only exist under precise circumstances. If manufactured products are exported, companies must comply with international quality standards and norms, which are often more stringent as far as of environment is concerned;

The argument of comparative advantages and downwards competition between countries through weak environmental legislation is not a sound argument to the extent that the international market shows increasing preferences for products and production processes that respect the environment ;

The evidence shows that the share value of a company depends also on its capacity to ensure that environmental deterioration is taken into account in the production process,

Relocation can have a very large cost, which can often be difficult to offset by the differences in environmental costs between the country of origin (X) and the investment destination country (Y).

Its is possible that the production technologies transferred with the investments are cleaner than those used locally before the opening up of markets;

Investments generate income, which can result in increasing demand on the environment and stricter environmental regulation. In a dynamic perspective, foreign investments can therefore combine economic growth with the protection of the environment.

The risks of relocation of polluting companies are more likely when two main conditions are met: i) the manufactured products from country Y are addressed to domestic consumption that is not very concerned about the environment (usually the domestic market in developing countries is less concerned by environmental issues than foreign markets); ii) the benefits of relocation due to the cost differentials for integrating environmental impacts are high enough to offset the costs of relocation. As a result relocation is not a natural outcome of free trade. On the contrary, free trade may, if it is accompanied by measures that can integrate environmental costs, be favourable to the environment and growth.

... through effects on consumption and marketing activities,....

As for production, the environmental impact linked to the modes of consumption involve the production of waste and pollution. The trade liberalisation may have a direct or indirect effect upon consumption.

..which may be direct...

Direct effects are attributed to growth in total consumption, which should derive from greater availability of consumer goods at lower prices after the opening up of markets. The increase of consumption also involves an intensification of the marketing activities, and especially packaging and transport. As a result, overall an increase in consumption will result in a greater production of waste and pollution

... or indirect.

Indirect effects arise through the change in the composition of production generated by free trade. In other words, the change of the production composition will be reflected in the relative consumer prices, which in turn will affect the shopping basket. Whilst the environmental impacts of direct effects are harmful to the environment, impacts of indirect effects could go either way.

The environmental impacts of consumption and related activities vary in accordance with the nature of the goods and the way they are produced, transported, used and disposed of. The environmental impacts of changed modes of consumption can therefore be assessed by analysing changes in variables such as: a) the growth of goods consumed; b) the composition of goods consumed; c) consumer environmental awareness; d) the environmental quality of the goods consumed, which takes into account the use of renewable and non-renewable raw materials in transport, packaging, and production activities, as well as the disposal of waste products and the pollution generated.

The social system.

The **social dimension** makes up the third component of the principle of sustainable development and is both the cause and effect of economic development and of the level of environmental deterioration.

Based on studies already carried out, it is possible to identify three social variables that are especially affected by free trade through either the economic or the environmental systems: i) income distribution; ii) employment levels; and iii) regional disparities. The relationships between these variables and economic and environmental systems are illustrated in figure 1.

It must be stressed that the analysis of this dimension was not the main goal of the studies carried out, and thus the social effects of free trade analysed do not claim to be conclusive. However, the results obtained are sufficient to point out the magnitude of the possible social impacts of free trade and to underline the need of specific and more in-depth studies on this topic.

4 Environmental, Social, and Territorial Impacts of Trade Liberalisation in Southern and Eastern Mediterranean Countries (SEMC): Findings and Perspectives

- The (MCSD) work group has brought the attention on ...** In the context of the activities and the reflection carried out by the Commission on Sustainable Development of the Mediterranean MCSD work group on the relation between free trade, economic growth and the environment in the Mediterranean context, partial conclusions have been drawn that have allowed the efforts of Blue Plan to be better targeted towards the analysis of issues, which have not been taken into consideration enough until now or for which empirical evidence is still limited. The most important of these conclusions are described below:
- ... the impact of free trade on the environment,...** The impact of free trade on the environment is usually less examined than the impact of environmental regulations on trade, whereby the decision to focus attention on the former aspect;
- ... verifying the axiom of free trade, economic growth, well being, ...** The argument according to which free trade generates economic growth has been challenged by several recent works and by historical analysis. Free trade can have a positive impact on economic growth only if it does not constitute an end in itself but is a tool amongst others for ensuring the economic and social growth of a country. Moreover, other studies estimate that free trade benefits the more advanced countries to the detriment of the less advanced ones. On the other hand in an economy that is becoming global, free trade can lead to implementation of useful structural reforms, which constitute the real condition for achieving the expected outcomes of liberalisation.
- ...social and territorial impacts of free trade, ...** By transforming the variety of goods and services and by changing their relative prices, free trade has far-reaching effects on the economy, on society, on the environment and on the territory. The question of trade/environment relationship cannot be reduced therefore to that of the desirable level of environmental standards. What is at stake, are the possible impacts, which free trade can generate at the economic, social and territorial levels, with their direct and indirect effects on the environment.
- ... the most appropriate analytical approach for taking account of the systemic nature of these relations,...** Free trade's multiple effects on the environment analysed in the preceding sections show that a systemic approach to sustainable development seems to be inescapable for helping decision-takers to seek out the conditions for a positive synergy between trade, development and the environment. However this process, complex of its very nature, is more difficult to apply than the approach whereby impacts on the various an economic activities are analysed separately.

... preventive measures able to guide the development of SEMCs upstream.

According to the principle of the inverse U curve, after a stage of deterioration, environmental problems should be settled thanks to economic growth. This is true for some pollutants (SO₂ emissions, in particular) but not for other types of environmental deterioration such as, for example, waste, and the loss of biodiversity. It should be added that the Mediterranean environment is especially at risk and that several almost irreversible cases of deterioration have been observed (soil erosion, loss of wetlands, coastal landscapes, water ...). The challenge for the Mediterranean is therefore to set up preventive measures able to guide development upstream into a pathway with little social and environmental harm, which would also allow to avoid approaches involving very high costs. This could be achieved by taking advantage of the experience of the more "advanced" regions.

Case studies and...

In the light of the challenges and the issues raised above, a series of case studies have been carried out under the direction of Blue Plan with the aim of shedding light, through retrospective, comparative and prospective research, on economic, environmental, social and territorial impacts of trade liberalisation policies. Bearing in mind the difficulty in using a systemic approach (the lack of information and resources, the limits of scientific knowledge, etc.) studies have focussed on the possible environmental and social effects of free trade in the following spheres: agriculture, agri-food industry, textile industry, consumption patterns and consideration of environmental concerns in association or customs union agreements between the European Union and South and Eastern Mediterranean Countries. These sectoral studies have been carried out at national and regional levels and have been completed with studies on environmental impacts of trade liberalisation in other regional free trade experiences across the world (namely Greece, Spain and Portugal's joining the EU and NAFTA). In total, 17 studies have been carried out, 5 of which were at regional and international level and 12 at national level. The countries involved are: Morocco, Tunisia, Egypt, Israel, Palestinian Authority, Lebanon, Syria, Turkey, Bosnia-Herzegovina, Greece, Spain, Portugal, Poland, and Mexico.

... indicators

Despite the differences in the analytical methods used and the diversity in the quality and quantity of the information and data produced, the results of these enquiries have allowed a series of relevant variables and indicators to be produced, which provide useful contribution to the wider debate on the relationship between free trade and the environment. The variables and indicators identified are summarised in the following table:

Table 1 : Variables and indicators considered in the studies

Economic

Trade balance: changes in imports and exports, balance of payments

Government Budget: income from custom duties, production and input consumption subsidies .

Trade: flows, specialisation, competitive advantages.

Production : GDP, scale effects, composition effects (input, output), relocation, Direct Foreign Investment (DFI).

Consumption: food, vehicles, packaging

Social

Income Distribution: income levels and changes.

Regional Disparities: qualitative comments only.

Employment: unemployment rate

Environmental

Pollutant Emissions: in the atmosphere and in water

Energy Consumption:

Water Consumption: volume

Biodiversity: qualitative comments only

Findings: few hints for the reader

The analysis of the variables and indicators in the previous table is not uniform in the various studies produced. In particular, social and environmental variables and indicators are not systematically taken into account in all studies.

All the studies have been carried out with the intent of supplying an initial retrospective and prospective analysis of the relationship between free trade and the environment in the Euro-Mediterranean context. But bearing in mind the differing analytical methods used, the recent entry into force of the first signed agreements, and the limited availability of environmental data in most of the countries studied, the analyses carried out are often based on expert opinion. This is all the more true for environmental impacts in the farming sector to the extent that agricultural products are not yet included in the association agreements negotiations. The lack of statistical back-up is therefore replaced by the qualitative opinions of the experts who prepared the studies.

The results of the studies carried out are examined in the following paragraphs using the conceptual framework provided in Fig. 1. Later, the SEMC viewpoint will be highlighted on the integration of environmental concerns in the association agreements.

Trade: liberalisation has been started long since, except for a few industrial products and agricultural products ...

In several SEMCs, the process of liberalising trade and of economic agreements both with the EU and the rest of the world have started long before the Euro-Mediterranean association agreements. With regard to Israel, for example, the first free trade agreements with the EU were signed in the mid 70s. Morocco set up a policy of gradual liberalisation of trade, both for imports of industrial products and for farm produce (with a few exceptions) from 1984. Turkey, Cyprus and Malta were already in a customs union system with the EU well before the Barcelona Conference.

... which will be completed by the EU-SEMC partnership ...

The association agreements signed by the 12 SEMCs with the EU will complete this trend and extend it to other signatory countries. Detailed timetables for the concerned products have been drawn up with all signatory countries for the removal of the remaining protection on industrial products in order to arrive at a complete reciprocal dismantling in 2010. Even though trade liberalisation of agricultural products has been referred to in the agreements, at this stage it is not yet included in the negotiations.

... but which also awakens major concerns about...

The condition of reciprocal opening of markets raises several ranges of issues for SEMCs, connected with the concerns of: a) losing competitiveness in export products (especially those which used to the benefit of preferential access to the European market) and of imports growth, which could result in significant trading balance deficits; b) the increase of South-South competition¹¹ in order to seize the EU market. To these concerns the risks of possible trade diversion effects (Chatelus, 2000¹²) are added, according to which a concentration of trade flows to and from the EU would develop instead of South-South trade.

One possibility also put forward by Chevallier (2000)¹³ who however reminds us that the effects of diversion will depend on the level of initial protection in SEMCs as well as on the geographical structure of trade between countries. In this way Tunisia, for example, has a relatively high average level of protection, but the European orientation of its imports is already significant, which means that the liberalisation of trade with the EU will not bring about major disturbance effects. This position is different for Egypt, which presents a more diversified trading structure than Tunisia. In this case it is expected that liberalisation with the EU could have major diversion effects.

The same study recalls that generally speaking the portion of the European market covered by SEMC exports showed a slowing down trend in the 90s, but that changes are at work towards the diversification and the improvement of the quality of goods exported. According to the author, the positive process due to trade liberalisation could also be extended to imports to the extent that it may facilitate the access to higher quality imported goods. This opportunity could have a better chance of enhancement, notes the author, if free trade were to be placed in a process of deeper integration than the simple dismantling of customs barriers. Integration, as suggested by Deessus and Suwa (2000)¹⁴, could aim at harmonising regulations in domains as different as consumer safety, certification systems, customs procedures, laws on competition, technical regulations or environmental standards.

... the macro-economic balance in SEMCs...

According to Voituriez et al.(op. cit.), in the short term, customs dismantling in SEMCs will have a significant effect on the macro-economic balance. The removal of customs barriers will act at two levels: on the one hand it will diminish budget income (on average customs barriers account for 17.2% of public income in SMCs); on the other hand it will result in an increase of imports which will give rise to increase pressure on the trade balance, which is already in deficit in these

¹¹ It should be noted that the risk of increased South-South competition is justified by a fairly similar specialization in SEMC exports. With the exception of Israel, Turkey and Tunisia in a few fields, these countries are highly specialized in products with sluggish demand, with low value added and low technological intensity, such as textiles-clothing, intermediate chemicals, metals, steel and metal works products and primary products.

¹² Chatelus M., 2000, Libre échange et environnement dans le contexte euro-méditerranéen : volet industrie, étude préparée pour le compte de Plan Bleu, Centre d'Activité Régionale du PAM.

¹³ Chevallier A., 2000, Libre échange et environnement dans le contexte euro-méditerranéen : les échanges commerciaux des pays méditerranéens, étude préparée pour le compte de Plan Bleu, Centre d'Activité Régionale du PAM.

¹⁴ Dessus S., et A. Suwa, 2000, Intégration régionale et réformes intérieures en Méditerranée, Etudes du Centre de Développement, OCDE.

countries. The current account balance, which is already under pressure because of substantial external debts in a large number of SMCs, would deteriorate further and the only possibility for correction available to those countries would be devaluating the exchange rate.

This is an option that does not represent a solution to the extent that these economies are structurally dependent on imports. Moreover, the burden of interest on foreign debt repayment does not leave much room for manoeuvre on the exchange rate. The only possibility to restore macro-economic equilibrium therefore remains to a large extent subject to direct foreign investment and economic growth.

... in certain countries above all, ...

The Lebanon, Algeria and Tunisia seem to be the most exposed to the risks referred to if one considers that the EU proportion in customs duty income represents 28.80%, 19.21% et 15.86 of total custom income respectively. For these countries therefore, but also for other SEMCs except for Israel (only 0.66% of tax revenues are due to customs duties on European imports) the whole tax system has to be re-thought.

... for the trade diversion effects ...

The Tunisian study estimates that the effects of trade diversion to the benefit of the EU represent around 2 points both for export and for imports. The study on Morocco raised the concern of the increase of imports of agri-industrial products, and textiles and leather goods, which are highly protected and satisfy a low share of domestic demand. Turkey, from being a net exporter of farm products at the start of the 90s, has almost become a net importer by the end of the decade. On the other hand the country has become a net exporter of agri-food products.

These trends have been confirmed by the retrospective study on the enlargement of the EU to Greece, Spain and Portugal. With the exception of Portugal, which has seen strong growth in exports and imports without any balance of payment problems, the two other countries have both seen a strong rise in imports in relation to exports. In addition, some estimates (Chevallier, 2000, op. cit.) reveal that the share of EU market covered by SEMCs has remained unchanged to around 7.4% since 1988.

...and for the environmental impact.

Even though no precise data nor information is available, the majority of experts who have analysed the relationship between macro-economic variables and the environment and especially the reduction of government revenues warn against the potential negative repercussions on environmental spending in SEMCs (waste water treatment, enforcing compliance with standards, etc.).

They also stress that within the logic of returns on investment, environmental investments are often losers. One study (Hung and Richelle 1995¹⁵) has shown that in an open economy model, if there is a gain in trade, the relative returns on environmental investments drops in the favour of sectors benefiting from the increased trade and investment is addressed preferentially towards those sectors. Obviously this is true if

¹⁵ Hung N.M., and Y. Richelle, 1996, Trade gains, paretian transfers and the tragedy of the commons, paper presented at the Kobe Conference on « The Welfare Economics of International Trade and Investment, January 9-11.

free trade is not accompanied by specific environmental policies.

Intervention options to prevent and/or reduce the harmful impact of free trade in this context can be summarised by two measures: a) offsetting the reduction in public income by the set-up of a new tax system which could, for example, include environmental taxes. This solution would have a greater chance of success if free trade results in economic growth; b) accompanying free trade with environmental policy measures able to correct market failures and especially to incorporate the environmental costs and benefits in investment projects.

Production: weak scale effects and,

...

Economic growth or the **size effect** resulting from the association agreements is generally attributed to Direct Foreign Investment (DFI) increase. In the case of SEMCs, DFI remains fairly weak and very unevenly spread. In Tunisia, European DFI has even decreased going from 79.6% of total DFI in the period from 92-95 to 65% in the 96-99 period. On average, the 12 partner countries only attract 2% of European DFI. In addition DFI only represents a very small proportion of GNP in SEMCs. This is the case for example in Algeria where it only makes up 0.01% of GNP or in Jordan (0.21%) and even in Turkey where it does not reach 0.5%. The situation is less serious in Morocco (0.84%), Egypt (0.94%) and Tunisia (1.64%). Only Israel reaches 2% of GNP. By way of example, Mexico on its own attracts as much investment as the whole of the SEMCs. In general, the level of DFI remains inadequate to stimulate economic growth and the upgrading of the SEMCs.

...relocation effects to be avoided.

The low level of DFI in SEMCs has allowed Chatelus (op. cit.) to state that the risk of **relocation** of polluting industries towards less developed countries is fairly small. The author goes further by noting that the fear of relocation was well grounded in the 60s, but has not been confirmed in the latest examples of regional agreements¹⁶. He also adds that when DFI has increased, it has been accompanied by the rapid introduction of clean technologies. The explanation given by the author is that late industrialisation has the advantage of being able to benefit from: Production and de-pollution techniques which are ever more efficient and less costly; More precise scientific knowledge, which allows tolerance thresholds to be better understood and therefore to set less strict and costly environmental restrictions than in the past; and International pressure in favour of the environment.

All of these factors have made the economic development threshold (expressed in per capita GNP) beyond which economies introduce a more sustainable development path is constantly decreasing. In the case of the Far East, for example, it was \$ 6685 (in 1995 PPP) for Japan in the 60s , \$ 3030 for Korea in 1980, and \$ 1714 for Indonesia in 1988.

¹⁶ This hypothesis appears to be confirmed by the enquiries carried out by multi-national companies (Wheeler et Mody, 1992), which reveal that factors such as labor costs, market access, and the existence of a solid industrial system in the destination country are far more important than environmental regulations in the decision making process.

Whilst acknowledging the importance of an increase in DFI in SEMCs, Voituriez et al. (op. cit.) nevertheless stress that the risks of relocation exist and that a downward competition based on weak environmental legislation may take place in SMECs to attract DFI. In order to avoid this possibility, they suggest that DFI should be backed up by a legal framework able to channel DFI on the basis of other criteria than “pollution heaven”, such as, for example, the proximity of any emerging markets in SEMCs, which are saturated in Europe.

Relocation risks are also highlighted by Mahjoub (2000¹⁷) who states that if the cost of complying with environmental standards turns out to be noticeable (which could be the case for SMEs in Tunisia), the theory of the polluter's heaven could be justified in some sectors. The same author nevertheless reminds that an OECD study estimated that the cost of compliance with environmental standards in industrialised countries only represents 1-2% of the total cost for industry, in all categories. It follows that the risk of North-South relocation are less likely than in the past. An issue that deserves more investigation is whether free trade can result in relocation effects between SEMCs, or South-South relocation.

Repercussions on the industrial sector: economic and...

It is foreseeable that the unilateral opening of SEMC markets and the dismantling of the preferential conditions made between the EU and certain SEMCs (for example, multifibre agreements) will have repercussions on the suppression or weakening in due course of several activities that are unable to withstand the competition. This will result in changes in the **composition of production** which will adapt to the new market conditions. The increase of competition will force SEMCs to apply drastic measures to increase productivity gains, to improve production techniques and to differentiate products in relation to those from competing countries.

In the case of Tunisia, a study of comparative advantages in some industrial sub-sectors (Mahjoub, op. cit.) has allowed to identify the activities with the greatest potential for development. These are ready to wear products, leather goods and shoes, electrical appliances, and to a lesser extent, vegetable oils and fats. Good opportunities also exist for electronic components, computer equipment and telecommunications, electrical and electronics equipment. However the author stresses that these opportunities can be taken advantage of if the market liberalisation is accompanied by an active policy for supporting sectoral restructuring. A simulation based on a general computable equilibrium model has highlighted that in the absence of accompanying policies and especially direct foreign investment, there would be no observable scale effects (GNP would increase by 0.70%) and sectoral restructuring would take place towards low capital sectors (textiles, agri-food industry, agriculture and fisheries). In the case of supporting policies and DFI contributions, the expanding sectors would become the businesses with higher capital intensity (especially electrical appliances). In addition, the scenario with supporting policies would have a greater scale effect (GNP would

¹⁷ Mahjoub A., 2000, Libre échange et environnement dans le contexte euro-méditerranéen : l'accord d'association UE-Tunisie et l'environnement, étude préparée pour le compte de Plan Bleu.

increase by 13.81%) and a larger impact on employment (+11.98% as against +2.79%). Sectoral restructuring appears all the more necessary as the unilateral dismantling of customs barriers set out in the agreements will bring about increased competition from the EU in those sectors, not to mention increased competition from other countries in the region.

In Lebanon (Atallah et al., 2000¹⁸), trade liberalisation is also considered as a good opportunity for **export** growth in certain sectors like canned fruit (notably, jams) and chemical fertilisers. However, as in the case of Tunisia, dismantling import duties to the Lebanon will imply a greater competition of imported goods. This is particularly true in the case of jams.

In Turkey (Yöntem, 2000¹⁹), the effects of market liberalisation on the textile sector seem to have produced positive economic effects. The GDP of the sector has increased by 10% per year between 1990 and 1998 (20% for the clothing sector). Trade has greatly increased even though imports have increased more rapidly than exports so much so that in 1998, the rate of coverage of imports by exports had dropped to 50%. The growth of the sector took place without foreign capital, which have only started to pick up in the last few years.

... environmental. The most likely repercussions of free trade and increased exports according to the studies carried out are pressures on the coastline, pressures on water resources, pollution, and energy consumption. To these one must add the risks of internal relocation towards areas with the greatest comparative advantages and the disparities between small and large companies in the compliance with environmental standards.

If, as is desirable, the expansion of exports results in economic growth, one should also consider the environmental impact of increasing production of goods and services aimed at the internal market, such as cement, oil, steel, cardboard and paper, which have a very high environmental effect. Some sectors like these are very intensive energy users and will result in a strong rise in demand for energy. One estimate by the WEO reveals that between 1990 and 2010, overall energy consumption in SEMCs will rise from 144 millions toe to 337 and that the proportion of consumption for the South will go from 20% to 35%.

The opening of SEMC markets can also have positive effects, especially as regards the possibility of importing intermediate goods as well as cleaner and cheaper technologies. This is the case, for example with Turkey whose imports of machines and chemical products for exported textile are ever more selective in order to ensure that production process is compatible with EU standards.

¹⁸ Atallah F., E. Chehab, J. Atallah, and C. Sayegh, 2000, Free trade and environment in Lebanon : Case studies on Chemicals and agro-food industries, UNDO-Capacity 21, Minsitry of Environment.

¹⁹ Yöntem Z., 2000, Free Trade and the Environment in the Euro-Mediterranean Context : The textile industry in Turkey, study prepared on behalf of the Blue Plan for the Mediterranean, Regional Activity Centre of the MAP.

The study of Tunisia (Mahjoub, op. cit.) stresses the risks of increased pressure on the coastline, which already very high (almost 90% of the industries is concentrated in these areas), the pressure on water resources, and on the intensity pollution. It is worth noting that the index of industrial concentration on the coastline is particularly high for production with the highest expansion potential. The concentration of industrial activities is accompanied by a similar concentration of employment. In this way it is estimated that 93.6% of all jobs in the industrial sector are concentrated in coastal regions, which poses urbanisation problems and exacerbates the abandonment of the hinterland. Water consumption, even though it only represents 4% of total consumption, will increase with industrial expansion and will amplify competition with other sectors for use. Water consumption is especially large in those sectors in which Tunisia presents comparative advantages, especially agri-food industries and textiles (together, these sectors consume 64% of industrial consumption), but the potential exists for a significant reduction in the consumption. This is about 30% for the agri-food sector and 50% for the textile industry. Regarding the intensity of pollution it is interesting to note that the sectors with the highest comparative advantages have the least impact on water and air pollution.

The study on Lebanon estimates that if the export potential for jams were reached, water consumption would increase from 62773 m³/year. to 104887. Waste water would go from 44797m³/year to 74837. BOD would rise from 44 tonnes to 73, COD from 44 to 73, and SS from 12 to 20.3. These pollution levels, it is pointed out, are well above the limits set by law. In addition the application of the environmental code is not complied with in the Lebanon because of inadequate responsibility and resources made available to the Environment Ministry. It should also be recalled that natural resources are not efficiently used because of the under-estimation of their prices.

The Turkish (op. cit.) study stresses that the textile industries geared to export will very rapidly introduce production processes that are more compatible with the environment because they must comply with standards in the destination countries, but industries turned towards the internal market are less motivated partly because the domestic market is less concerned with environmental issues but also because of the high costs involved in compliance. The risk of pollution (particularly water pollution due to the discharge of detergents and chemical waste) is therefore still high. According to estimates, only 2% of Turkish industries have introduced less harmful technologies to date and only 3% have invested in environmental projects.

Repercussions on the agricultural sector :...

Farm products are not yet included in the Euro-Mediterranean association agreements, but it is expected that the discussions on this sector will start in 2000. The studies carried out on this topic are therefore limited to some considerations on the possible environmental and social impacts of dismantling agricultural trade barriers. The studies all agree in stressing that the agricultural sector is the one that is most sensitive to the effects of free trade and its possible consequences not only on economic growth but also on social, environmental and territorial

dimensions.

...economic,...

From the economic point of view, free trade will impact on the **specialisation** of agricultural production. In Tunisia, it has been estimated that the opening of markets will benefit seafood, vegetable oils, fruit and vegetables. Cereals, sugar, milk products, meat and animal feed will on the contrary undergo a downturn and there will be greater competition from imported products. Other countries will experience a similar situation.

Two broad sectors can thus be distinguished: the food crops sector (mainly cereals and meat) and the export sector (fruit and vegetables, vegetable oils).

Food crops are mainly made up of cereals. Producers' prices of cereals in the SEMCs are much higher than world prices. If these prices were to be brought to world levels, SEMC farmers would be doubly penalised in comparison with farmers in Northern countries. Alignment, as stressed by Roux (2000²⁰), will take place in a similar way for two extremely different types of farming: 100 ha for 100q/ha per year or 1000 tonnes per year in the North as against 5 ha per 10q/ha or 5 tonnes per year in the South. It is obvious that the impact of reducing producers' prices subsidies, which in SEMCs can reach 50 to 100% of the international price, will be different. In addition, the Northern countries have replaced price subsidies with direct income assistance, whilst the Southern countries have resources that are too weak to ensure direct aid and inadequate administrative capabilities to manage this kind of policy.

The export sector is less protected and a trade liberalisation would allow some SEMCs, which are more developed in marketing systems (Tunisia, Morocco, Israel), to strengthen their position in production and trade. Other SEMCs will remain highly penalised and will have great difficulty in positioning themselves on the European market which is already saturated anyway. It should not be forgotten that the comparative advantages of these products undergo fierce competition from producers in Southern Europe. This is the case for Almeria tomatoes, which, according to one study, show higher competitive advantages than those produced in Morocco. The prospects for this sector do not therefore seem favourable for SEMCs, save for the emergence of new outlets, especially in the United States and in CEECs.

...social, and environmental.

This scenario involves considerable social and environmental risks: greater competition from imported products, reduced income for farmers involved in producing basic crops, increased pressure on marginal land to offset the lack of income (in the absence of alternatives), and resorting to less sustainable production techniques because of the impoverishment of farmers. What took place in Mexico in the case of maize following the NAFTA agreements can be taken as an example. Similar impact have been observed in the Philippines as a result of applying the GATT

²⁰ Roux B., 2000, Libre échange et environnement dans le contexte euro-méditerranéen : volet agriculture, document préparé pour le compte de Plan Bleu, Centre d'Activité Régional du PAM.

agreements. According to estimates, in Tunisia the loss of income following the reduction of the price of cereals could reach 30% for the most vulnerable categories. Lastly, regional disparities would increase to the extent to which persons and capital will gravitate towards more "profitable" regions. Mediterranean Europe, with its disparities between fertile and productive plains and hills and mountains is a vivid example. The abandonment of rural areas lastly poses a threat to loss of biodiversity, which counts as one of the richest and unique in the world.

In Morocco (Akesbi, 2000)²¹, for example, it has been noted that the lack of competitiveness in the production of basic commodities in comparison with the EU will exacerbate both migrations towards towns and pressure on marginal land. The Moroccan study also warns against a possible alteration in habitats caused by clearance, over-grazing and unsuitable farm practises (including mechanisation and intensification). According to the study, in Morocco less than 1% of the area of the country is protected, whilst 30% of identified vertebrates and 41% of plants listed are rare or endangered species. The author stresses that liberalising markets could push SEMCs towards an "all export" drive to increase competitiveness, which would take place to the detriment of environmental considerations.

The Palestinian study (Al Hmaid, 2000²²) stresses that the partnership agreement sets out that the farm produce that may enter the EU without restriction is out of season production, or in other words the agricultural products that involve the greatest environmental impact.

The expansion of the export sector also raises social and environmental concerns, which it is advisable to address in order to better prevent or mitigate them.

The social effects of liberalisation on this sector could be significant to the extent that major producers would have the largest advantages. This would increase the dual nature of farming which is a feature of SEMCs. Alongside modern agriculture there is a traditional sector ever more under threat of disappearing, amongst other things due the inefficiencies in land ownership, extension and credit systems. The environmental impact will also be sizeable if one considers that the use of chemical fertiliser will increase with the risk, already identified in Gaza, of water pollution and soil salinity. The introduction of production systems that are more compatible with the environment, such as integrated pest management and organic farming are still marginal. The increase of exports and production will also generate an increased consumption of water. In this case the effects on the territory also involve the

²¹ Akesbi N., 2000, *Environnement et libre échange dans le contexte euro-méditerranéen : aspects environnementaux des accords d'association signés entre l'UE et les pays méditerranéens*, étude préparée pour le compte de Plan Bleu, Centre d'Activité Régional du PAM.

²² Al Hmaid S., 2000, *Environment and Free Trade in the Euro-Mediterranean Context : Environmental aspects of the co-operation agreements between the EU and the Palestinian Authority*, a study prepared on behalf of Blue Plan, Regional Activity Centre of the MAP.

²³ Sherif Y., N. El Hakim, and N. El Megharbel, 2000, *Environment and Free Trade in the Euro-Mediterranean Context : Egypt/EU free trade negotiations, scope of environmental effects*, a study prepared on behalf of Blue Plan, Regional Activity Centre of the MAP.

concentration of production factors, including foreign investment, in areas which benefit from competitive advantages. The imbalance between irrigated areas and the rainfed areas will be even more accentuated.

Nevertheless, the studies carried out suggest that the degree of risk referred to may vary widely from country to country and that a case by case approach in analysing the socio-economic and environmental impact of free trade would be more desirable. In this way, in the case of Egypt (Sherif et al., 2000²³), it has been noted that free trade could turn out to be a double dividend solution for the environment to the extent that vegetables (mainly potatoes) and fruit have lesser impact on water resources than the crops to be replaced. In addition, export products are forced to comply with environmental standards set out by the EU (for example, the EU is in the process of defining the thresholds for the cadmium content in imported fruit and vegetables). As a result any increase in production that may come about following market liberalisation would not necessarily be accompanied by the increased use of chemicals.

Consumption pattern: expected growth in overall demand ...

All studies carried out to date stress that the overall demand in SEMCs will increase in the future partly due to the increase in population and partly following economic growth. Even though the direct effects of liberalisation on overall demand have not been analysed in detail, studies note nevertheless that by acting on import price reduction and on the overall growth of the economy, free trade will generate increased consumption.

A study carried out in Morocco (Jorio, 2000²⁴) shows that the consumption of private vehicles has increased between 1975 and 1998 by 5.5% per year and that there is an enormous potential still in existence if the low level of car ownership (48 vehicles per 1000 inhabitants as against 64 in Tunisia, 52 in Algeria and 81 in Turkey, whilst in the EU it ranges from 347 in Portugal to 591 in Italy) is considered. The study maintains that the most important growth in the car fleet (8.2%) corresponds to the period (1990-1995) in which customs duties were considerably reduced (50% in 1990 against 35% in 1993).

The study carried out on Lebanon and Syria (El Kareh, 2000²⁵) shows that in the latter country a very high potential also exists, bearing in mind the low level of motor car ownership (about 40/1000 inh.). The decision to partly liberalise by passing decree N°10 has multiplied the car fleet by 4.2 in the space of six years, the number of vehicles going from 140000 in 1994 to 600000 today. Demand will grow in proportion with the opening up and liberalisation of the Syrian economy. With regard to Lebanon where no real obstacle has existed the car fleet is reaching saturation levels with 500 cars per 1000 inhabitants spread over 10400

²⁴ Jorio A., 2000, Environnement et libre échange dans le contexte euro-méditerranéen : Modes de consommation, environnement et libre échange au Maroc, étude préparée pour le compte de Plan Bleu, Centre d'Activité Régional du PAM.

²⁵ El-Kareh R., 2000, Libre échange et environnement dans le contexte euro-méditerranéen : modes de consommation au Liban et la Syrie, document préparé pour le compte de Plan Bleu, Centre d'Activité Régional du PAM.

km², which places this country on a par with Italy (thirty times larger and with 15 times more people) in terms of car ownership. The study shows that in the absence of an alternative policy on transport and land use planning, this situation looks to become even worse.

... towards unsustainable consumption patterns.

Consumption patterns in SEMCs are rapidly growing towards the model of Northern countries. The observed trend to increased meat and milk product consumption and reducing consumption of vegetables and cereals is one proof of this. These products generally imply greater environmental impact than traditional food products produced in situ. They are packaged and sold more and more in supermarkets or hypermarkets that can be reached only with cars; they are produced with intensive techniques and are often frozen; lastly they are transported over greater distances.

Free trade may intensify these consumption patterns in so far as it results in the growth of trade between countries and in changes of consumer preferences due to its effects on relative prices.

This trend is confirmed in Morocco for example, where the proportion of cereals in food consumed has greatly diminished in favour of meat. The rate of consumption of home-grown foods has also considerably dropped and the population, even in rural areas, is consuming more and more converted goods. The abolition of customs duties on agri-food products may accelerate this trend.

The analysis carried out on Syria shows that there is a correlation between liberalisation and changes in certain food habits. In this way, an increase in consumption of imported frozen beef has been observed over the last ten years arising from the lower price for this type of food product, almost 30% cheaper than Awassi mutton, which is more in accordance with local food habits. In Lebanon, apart from fresh agricultural products and semi-converted products connected with local cooking culture, almost all cereals and frozen animal produce have followed the growth of hypermarkets. The growth of this type of retailing sector also weakens the local production and commercial network based primarily on smallholders and SMEs-SMIs.

... which will have repercussions on packaging...

New consumer habits will give rise to increased consumption of packaging. Packaging wastes in Morocco make up on average 20% to 25% of the total volume of waste, which in 1998 would yield a daily production of packaging waste per inhabitant of 0.12 to 0.15 kgs and total daily production of between 3332 and 6943 tonnes. The increasing demand of durables, the spread of modern retailing networks following liberalisation policies introduced in the 80s with structural adjustment programmes, will probably result in an increase in the proportion of non organic waste and packaging in household waste. The trend towards strong growth in packaging waste has been made evident by the rapid rise in the packaging production sector (paper or cardboard packaging, the glass industry, and plastic items and accessories, etc.). It is likely that the creation of the FTA will have the same impact and emphasise this trend.

This trend will be much stronger in urban areas (where twice as much packaging waste per inhabitant is generated as in rural areas) but it will also affect rural areas. Estimates show that the consumption elasticity of production of waste in urban Morocco is 0.19 and the GDP elasticity of production of waste is 0.93. Based on these estimates it has been forecasted that in 2020 total packaging waste production per inhabitant will reach 0.22 kg/inhabitant/day as against 0.15 kg today.

Environmental impact can be considerable if measures are not taken to improve collection and recycling of packaging and to reduce the health problems caused by inadequate and inefficient collection (currently recycling in Morocco only makes up for some 2% of domestic waste and this is carried out in unhealthy conditions). The causes of this inefficiency are the lack of financial and organisational resources.

... and transport.

New consumer habits, trade intensification, increased mobility of people and new forms of marketing (supermarkets, hypermarkets, etc.), which are rapidly developing in SEMCs contribute to growth in transport. This trend seems destined to increase at a higher speed than production and incomes (Chetelus, op. cit.) and is especially alarming if it is considered that all countries in the region seem to have opted for the most polluting forms of transport (cars and planes) and that none of them seem to have implemented preventive or protective environmental measures.

In Morocco (Jorio, op. cit.), for example, it has been forecast that the gradual dismantling of customs barriers on private car import required by the partnership agreement will result in strong growth in the consumption of cars. In fact, customs duties should be gradually abolished starting three years after the association agreements' entry into force, that is in 2003. Customs duties will drop progressively by 3% per annum until 2008 and by 15% per annum from 2009 to 2013. In 2013 duties will have been completely removed. In theory, the package of measures set up by the government for reducing the rate of abatement on imported used cars, the abolition of customs barriers on new cars, international competition, the scale economies realised by Morocco in local car production and the positive impact expected from the FTA on economic growth in the country should allow strong increases in the car fleet in addition to the substitution of used cars with new ones.

From an environmental viewpoint this dynamic has positive effects at two levels:

Firstly new cars are less polluting than old ones;

Secondly, the growth of the car sector in Morocco will take place with cleaner less "energy intensive" technologies.

Nevertheless the car fleet will increase significantly whilst the country has little natural resources to upgrade infrastructures. This will raise other environmental issues, especially the quantity of pollutant emissions into the air and traffic congestion in urban areas. Estimates by the author and by the Ministry of Environment show that the total quantity of emissions in 2020 will be three times higher if the market structure remains unchanged and the rate of growth of the fleet is the

same as that observed in the period from 1975-1998.

In Lebanon and Syria, it is estimated that the development of road infrastructures and the lack of an alternative policy for rail development allowing for a balanced and consistent development of an integrated transport system, will increase the number of pollutant emission sources. Gas emissions are likely to increase with the growth of container haulage road transport and considerable changes will occur in the areas crossed (notably the Lebanon Mountains and the Syrian plain). Congestion of towns is also expected to worsen, especially in the two capitals of Beirut and Damascus if the rate of car consumption keeps up at the rate started during the last ten years.

5 Institutions and Policy Measures for Improved Integration of Environmental and Development Concerns in the Euro-Mediterranean Partnership and the Free Trade Area Project

Audacious decisions and targets, which require statements of political will to be translated into concrete actions, and a supportive institutional context to be set up.

The difficult context that marks the region and which serves as the framework for the free trade agreements (gaps in income, demographic growth, institutional and market growth, environmental pressures, etc.) makes the environmental and social goals of the Barcelona Declaration appear bolder than those of other similar examples. The ambition is not only of reaching a cleaner Mediterranean but a sustainable Mediterranean that is original and diverse, and able to respect the variety of its cultures and territories.

Faced with these targets and the specific difficulties of the Mediterranean, the political will, which seems to emerge from the principles of the Barcelona Declaration must find actual expression in the negotiation of the bilateral association agreements and in the common economic and financial, regulatory and institutional measures aimed at steering the modes of SEMC development along the desired course.

But the institutional arrangements set up seem not to reflect principles and ...

The institutional measures set up to date to ensure to account for the environment do not however appear to be adequate and consistent with these principles, especially the statement of " *... reconciling economic development with the protection of the environment, integrating environmental concerns with the relevant aspects of economic policy, and mitigating the negative environmental consequences which could arise from development*".

The sectoral jurisdiction of the Ministerial Conference and SMAP - Short and Medium Term Action Programme - (the two main environmental institutions created by conference) on the environment does not allow them to undertake horizontal activities such as monitoring the environmental effects of free trade, which constitutes an impediment to effectively integrating environmental concerns into the liberalisation process. Thus, even though these institutions are in charge of the

implementation of environmental initiatives in the framework of the Euro-Med partnership, they do not include specific institutional arrangements to observe, examine, and inform on the environmental impacts of trade liberalisation. It is therefore appropriate to ask how the institutional system set up could better meet the principle of an integrated approach implicit in the Barcelona Declaration.

Some experts state that the Euro-Mediterranean association agreements should be supplied with an organisation at regional level like the CCE in the NAFTA context. They stress that an institution of this type is all the more necessary in the Mediterranean as the transition of these countries towards free trade will have much more serious environmental effects than in Mexico with NAFTA. However, those persons stress that this institution should have more decision-making powers and not be subordinated to economic institutions as is the case for the CCE. It is also pointed out that the co-ordination between the institutions involved in the Barcelona Conference, including the MAP and MCSD, should be strengthened.

The lack of adequate environmental undertakings in the EMFTA creation process can also be picked up from the wording of the agreements signed to date. The agreement signed with Tunisia makes it clear that several sections refer to taking the environment into account or relate to the environment (section 28, 40, 43, 45, 48, 51, 52, 55, 57), but that these:

- i) Mainly focus on aspects of legislation, standardisation, certification and intellectual property which will allow compliance with EU standards;
- ii) Do not include precise environmental goals nor the criteria for reaching them, as has been done for liberalisation goals;
- iii) Are separated from the goals of macro-economic adjustments and investments' circulation;

In summary, no clear will to build in environmental concerns in the development goals is apparent. It is interesting to note that Section 1 omits any reference to the environment whilst setting out the main aims of the agreement.

The study carried out on the association agreements with Morocco (Akesbi, op. cit.) states that as concerns quality standards, the EU appeared to be especially concerned to bring Morocco to adopting its standard and norms. It also adds that environmental concerns' integration in the recent association agreement is less explicit than in the Marrakech agreements made twenty months earlier. The author points out that the issue of the environment is only touched upon in the agreement in a partial and secondary or even casual manner and that when it is referred to, this is often in fairly general terms so as to hardly involve any precise and meaningful undertakings.

The study carried out in the territory of the Palestinian Authority (Al Hmaid, op. cit.) states that the economic and development stakes of the agreement are so much of a priority for the PA that the environment, as acknowledged by the Minister of Trade and Economy, did not have the

position it deserved in negotiations.

... financial resources are inadequate.

The financial resources available for the partnership, even though they are substantial (MEDA has a total budget of more than 5 billion Euros) remain largely inadequate in their amount and in the long procedures that reduce their efficiency.

By way of example, it has been estimated (Akesbi, op. cit.) that the cost of environmental deterioration in Morocco alone is about 26 billion MD (around 2 billion Euros at the current exchange rate). In Tunisia, the cost of upgrading companies to meet the requirements of free trade is US \$ 1.8 billion (around 2 billion Euros at the current exchange rate) over four years (1996-2000), whilst the total financial resources of MEDA come to about 357 million Euros for the period 1996-1998, of which only 5% directly involve the environment and 16.8% involve intervention in favour of the environment and the social development (notably for integrated rural development projects and management of natural resources).

With regard to the bureaucratic procedures, it is enough to mention that an EU Commission study²⁶ stated that the delays for honouring the European Union financial undertakings are more than eight years for Mediterranean countries. During a debate at the European Parliament on the setting-up of MEDA²⁷, it was pointed out that despite financial commitments attained 100% in the 1996-1999 period, only 26% had been disbursed and this with great difficulty and after an average period of 4 years. The intervention also stressed that the selection of MEDA projects was still not taking place with enough participation from the civil society and from NGOs.

Policies for a double dividend development strategy.

In order to face the imbalance that exists between the principles of the Barcelona Declaration and the arrangements set up, proposals have been drafted, which could contribute to creating a more favourable context for a double dividend strategy. These have been formulated on the basis of the studies carried out by the Blue Plan and the results of the workshop on "Free Trade and the Environment in the Euro-Mediterranean Context" held in Montpellier and Mèze on 4-8 October, 2000. They are first organised in four main domains: i) proposals referring to the association agreements and ongoing negotiations, ii) economic policy instruments; iii) institutional and command and control instruments; iv) horizontal programmes. These measures are then classified according to the regional, national, and sectoral level. They are reviewed in the following paragraphs and summarised in table 2.

Developing a vision of sustainable development in the Mediterranean ...

On several sides, it has been noted that the Euro-Mediterranean partnership lacks an **overall vision of sustainable development** in the Mediterranean. A vision which contains the principles and goals of industrial, agricultural, rural, transport and infrastructure policies able to ensure a development path more respectful of the environment and the

²⁶ Le Monde, supplément Economie, 12th September 2000.

²⁷ Intervention by M.r Y. Pietrasanta on the setting up of MEDA, Final Report A5-0205/2000, 4th September 2000.

socio-economic specificities of the region. A vision that acknowledges that environment in the Mediterranean is not just a "sector" to be protected but also an opportunity for development. The environment and the quality of the territory are in fact a prerequisite for development in the Mediterranean (the Mediterranean has neither the resources nor the space for development of the classical industrial type: the challenge is to grow towards an economy based on high value added, together with services, tourism, and information , etc.).

This implies that sustainable development must be put at the heart of the Euro-Med partnership and that appropriate measures must be taken to ensure the integration of environment and development concerns at all levels (association agreements, trade, economic and sectoral policies...).

...based on strong principles.

This vision could be based on a few principles such as:

- i) Favouring a **preventive approach** to a *à postériori* interventions taking advantage of a late start in development of SMECs;
- ii) Respecting the **specificities of each country** when defining measures, such as for example in setting timetables for compliance with standards or the dismantling of customs duties;
- iii) Introducing the **precaution principle** within the association agreements. This principle has already been incorporated in the NAFTA agreements, albeit implicitly and could be considered in the Euro-Mediterranean association agreements. For example, as the study by Voituriez et al.(op. cit.) stresses, NAFTA allows for a party to impose certain environmental, health and safety measures without having to bring formal scientific proof of a risk associated with a product. This is the case, for example, when the importing party sets up restrictive measures under highly specific terms, like SPS clauses. If a trading conflict emerges, under the NAFTA rules, the burden of proof of the absence of risk is incumbent on the plaintiff (exporter). For other exceptions in the name of the environment, the burden of proof of the risk is incumbent upon the importer. According to some, the principle of precaution should overturn the burden of proof in its definition: "If in doubt, a party may set up an import restriction, and it is up to the exporting party to remove the doubt and bring the proof of the lack of risk" .
- iv) Affirming the principle of integrating environmental costs and the **polluter or user pays** principle within the partnership agreement.
- v) Granting greater **participation** for civil society, local authorities and professional organisations in the process of decision-taking within the bilateral agreements because of the fundamental role they carry out in conveying information, raising awareness and in monitoring the environmental and social outcome of projects and programs set up in the context of the partnership.

Negotiations and association agreements: envisage appropriate

The bilateral agreement should intensify efforts in the field of the environment by defining **environmental performance goals** (for example, water quality targets, goals for eliminating chemical products from manufacturing processes, for developing public transport...) and

measures at the regional level, ...

timetables for achieving them.

The funds made available in the context of the Euro-Mediterranean partnership (MEDA and EIB funds), especially those involved in industrial and infrastructure development projects and programs, should be subject to **consistency assessments** with the goal of sustainable development. In addition, the share of the MEDA funds allocated to environmental projects does not reflect the actual costs of environmental risks. An increase in environmental funding in the framework of both regional and bilateral agreements and actions should be considered.

Strengthening resources for and the scope of assessment and proposal work through: i) a better integration of MCSD activities and national efforts; ii) foster the role of MCSD to ensure a more effective use of the various EU funds available (Life Third Countries, METAP, SMAP-MEDA) in accordance with the Partnership and MAP objectives as set out by the Contracting Parties at the Barcelona Convention.

Supplying the Barcelona process with an **observatory** in charge of monitoring the environmental, social and territorial impact of free trade in addition to environmental policies starting from a "zero status" and analysing, based on indicators, the current situation, trends observed and their likely changes in the Mediterranean. The observatory would be organised after considering the best system for working with national and regional systems already in place or being built up around the Mediterranean.

...at national level, ...

Partnership agreements should include arrangements for developing and/or **strengthening environmental institutions** in partner countries (environmental strategies, centres for sensitising companies on the introduction of cleaner production techniques, ...) and setting up financial and technical assistance measures for the more deprived countries.

Each partner country should set up a **committee in charge of monitoring environmental impact** and the socio-economic impact of free trade. The reports and recommendations of those national committees should be discussed with the partner (EU) for the formulation of recommendations in compliance with the principles and goals of the Barcelona Declaration.

... and at the sector level.

Bearing in mind the effects of liberalisation in the agricultural sector in the NAFTA framework, the Euro-Mediterranean process should set up arrangements able to anticipate the negative impacts observed in Mexico and expected in SEMCs, and to enhance the **multiple services offered by the agricultural sector**. This implies efforts at two levels : i) in-depth study of the multiple functions attributed to agriculture in Mediterranean countries. This activity could be financed in the context of MEDA; ii) starting discussion without timetable restrictions or any undertakings whatsoever on these principles in the context of the agreement negotiations. The purpose being to define the most appropriate instruments for agricultural policy, which could on the one

hand represent a valid and constructive alternative to agricultural market without any safety nets - as proposed by the WTO - and on the other hand to strengthen the position of Mediterranean countries during the future agricultural negotiations within the WTO.

A significant challenge for the partnership is to base **sustainable agricultural and rural development** of SEMCs on local resources, on family farms, on internal markets, and with a territorial approach, in opposition to the current dominant proposals, which favour only an export oriented development. This view would place greater attention on the development of internal markets, on supporting family farming, on training and diffusion of knowledge, on land policies and water policies that favour small works, on developing non farming economic activities in rural areas, on solidarity mechanisms complementing price support policies and on public investment (education, health, infrastructures, ...).

... Financial and economic incentives, at the regional level,...

Ensure **technical assistance** in the framework of structural adjustment programmes of MEDA, with the purpose of implementing policies based on the polluter pays principle.

A **regional investment agreement** incorporating the environmental dimension or a code of good practise has also been suggested with the aim of : i) facilitating capital flows to SEMCs; ii) strengthening environmental and social conditions; iii) avoiding the risks of relocation of polluting industries. The agreement should be discussed with all the contracting parties and be completed with guarantees to investors aimed at securing their activities with regard to changing legislation. On their part, the investors would comply with good practise rules based on certain principles such as:

- investor's liability for the social and environmental impact of the activity they generate;
- transparency in publishing the expected and observed impacts;
- collectively identifying and reducing risks.

One possible reference that goes in this same direction is the proposal from the International Institute for Sustainable Development (IISD) and a few NGOs in the NAFTA framework. These suggest that DFI should be subject to the following criteria:

- the establishing of investor's undertakings and liabilities ensuring that investments are sustainable, especially by including impact studies and environmental management systems;
- measures against the relaxing of environmental standards aimed at encouraging investment;
- arrangements to foster forecasting of the economic environment;
- preventing discrimination amongst investors by drawing up rules for expropriation and for the application of national rules;
- setting up unbiased conflict settlement and legally binding procedures.

... and at sector level.

Industrial de-pollution funds of the Tunisian FODEP type or the funds set up in Morocco could become a powerful lever for environmental protection by inciting companies to: i) invest in de-pollution facilities; ii)

to comply with standards; iii) to introduce management methods incorporating environmental concerns. FODEP, for example, contributes to investment projects aimed at reducing pollution and waste treatment and recycling with 20% of the total investment cost.

Economic incentives and technical assistance for SMEs that have difficulty in internalising the costs of harmonisation with standards as set out in the association agreements.

An **agricultural pricing policy** that takes more consideration of environmentally friendly products and production methods (i.e. organic production) .

The environmental impact of **intensive production** methods, **packaging, transport**, etc. are not reflected in consumer prices. For example, hauliers do not pay for the marginal cost of road building and the producers and consumers of packaging do not pay for the environmental cost of materials and disposal. Economic measures based on the polluter pays principle may turn out to be especially effective in both sectors. Amongst possible measures put forward are **green taxes** on packaging and leaded petrol, and **charges** varying with the age of vehicles. Economic incentives aimed at reducing energy consumption may include **tax abatement** for the purchase of vehicles fitted with a catalyser. Green taxes would also have the advantage of creating a source of income for the government budget that could offset losses from the dismantling of customs barriers.

Institutional and command and control measures, at the regional level and...

The weakness and the unsuitability of the environmental **legal system** and regulations in SEMCs is often raised as one of the priority problems to be coped with. Many SEMCs are not yet equipped with a body of environmental laws and regulations, and other do not have the resources to ensure compliance. A greater commitment on the part of the partnership to **technical and financial assistance** in drawing up environmental regulations and setting up an institutional system able to apply the law in SEMCs is essential, and all the more so since these countries are to be required to comply with European standards in a fairly short timescale.

The timetable for negotiations should include setting out the constraints and opportunities of **environmental harmonisation** before even being able to observe the environmental effects of trade liberalisation.

There should be improved **co-ordination** between existing funds and institutions both at regional and national levels, in order to assess the possibility of upgrading the resources applied and making them work better. This is especially true for improving funding procedures and enhancing capabilities in beneficiary countries when applying for technical and financial assistance.

...at the national level.

Ecological labelling of products or the ecolabel, which is more and more widespread in the EU represents an major stake for SEMC exports. National ecological labelling programmes have already been initiated in several SEMCs and initial results indicate that the ecological label is a

major marketing argument in European markets.

Compliance with **packaging standards** in SEMCs where those have been introduced shows that the costs of compliance have been recovered in the sales prices (e.g., dates in Tunisia).

A national policy of **land use management** to reduce or anticipate the risks of congestion of industrial activity in certain areas, especially in coastal areas.

A **national transport policy** that places more attention on corridors and inter-modality as possible means to reducing the spread of pollution, as well as the development of coastal navigation and coastal and short distance marine traffic.

Horizontal programmes at the regional level,...

A programme for strengthening capabilities in SEMCs in the field of analysing socio-economic and environmental impacts of free trade and of analysing and formulating environmental policies.

...at national level and...

Awareness raising projects for the protection of the environment are often weak in SEMCs. For example, national projects for **consumer awareness** set up by the government jointly with the contracting parties and aimed at steering the consumer towards more sustainable products and with less environmentally harmful production processes.

...at sector level.

Programs of information and assistance on new technologies (for example, on ISO 14000 standards) aimed amongst other things at:

- Setting up information centres on the standards to be met for raw materials, products and technologies;
- Improving the efficiency of the setting up, control and monitoring of standards;
- Carrying out product, raw material and pollution inventories;
- Creating laboratories for checking product compliance with standards;

Developing the infrastructure required for the treatment, recycling and disposal of production process waste;

6. Summary of the possible impacts and measures discussed during the workshop of Montpellier and Mèze

The Euro-Mediterranean partnership: an audacious and innovating challenge.

The long and often difficult Euro-Mediterranean relations resulted in 1995 in a major change of perspective with the Barcelona Declaration. The mainly commercial and bilateral approach that has characterised the relations over the last two decades has been replaced by an approach based on a regional integration and partnership, which presupposes the partners subscribing to common rules and common goals on political, cultural, economic, and financial levels, and more generally on the sustainable development of the region.

In doing so, the Euro-Mediterranean partnership presents substantial differences with other regional integration experiences, and particularly with NAFTA, to the extent to which in the case of Euro-Med partnership free trade is only a means to achieve sustainable development and not a goal in itself, whilst in the other example, free trade was the main goal of integration.

For example, as concerns the environment, the partnership did not content itself with creating a "clean" free trade area in the region, as is the case for NAFTA, for example. The target was to achieve a sustainable Mediterranean that was original and diverse, and respected its cultures and its territories.

The position of the environment within the partnership.

The North American partnership agreement had already demonstrated that environmental concerns could be integrated with trading goals. The Barcelona Declaration stated very clearly as one of its main principles that environmental concerns must be integrated into the relevant aspects of the political economy. The issue raised today is no longer *whether* environment should be integrated in free trade policies but rather *how* integration can be achieved.

In the context of the Euro-Mediterranean partnership, the institutional and financial arrangements put in place to ensure the creation of a free trade area that is concerned with protecting and enhancing the development potential of the environment seem to be inadequate in relation to the scope of the environmental and social risks associated with liberalising markets in SEMCs.

Free trade and socio-economic and environmental impact: ...

The results of studies carried out to date do not allow final conclusions to be drawn as regards the environmental effects of the liberalisation process in the Euro-Mediterranean context. This is for two main reasons: i) The recent coming into force of the association agreements; ii) The difficulty to define precisely the interrelations between free trade and the environment.

Nevertheless, thanks also to comparisons with integration experiences in other regions of the world, especially the North American Free Trade Agreement (NAFTA) and the entry of Greece, Spain and Portugal into the European Community (today European Union), it has been possible to identify the major development trends in SEMCs, which allow to state that free trade presents itself as a "double edged sword". On the one hand it can have a certain encouraging effect in SEMCs environmental upgrading (this is the case especially in the set-up of environmental institutions and regulations, the spread of cleaner technologies, compliance with environmental standards in more advanced countries, etc.), on the other hand it risks to exacerbate negative trends that justify the set-up of anticipatory measures able to ensure progress towards sustainable development in SEMCs.

The studies carried out have highlighted the possible environmental and territorial risks associated with the creation of a free trade area in the Mediterranean. These can be summarised as follows:

**... connected with
the agricultural
sector, ...**

Positive Effects

- Positive outcome on government budgets from reduced farm subsidies
- Introducing international environmental standards for export products (e.g.: quantity of cadmium in fruit)
- Reduced pressure on land
- Easier access to more efficient technologies and facilities (e.g.: irrigation equipment)
- Easier access to new markets.

Negative Effects

- Increased food and agricultural trade deficit,
- Lower income, particularly in the food crops production, which involves the majority of smallholders.
- Greater pressure on marginal lands to offset lower incomes, resorting to less sustainable production techniques to minimise production costs, or abandonment of the sector;
- Production activity concentrating in more profitable areas, resulting in increased pressure on water resources due to specialisation in irrigated production and increased pollution risks due to the intensification of chemicals use, particularly in the production of export crops;
- Acceleration of biodiversity loss and desertification;
- Exacerbation of regional duality between irrigated and rainfed areas, between plains (especially coastal plains) and the hinterland, and inequalities between smallholders and large farms;
- Destruction of social cohesion in the rural areas and a rural migration, which would worsen the environmental and social problems in towns and along the coast.

**... the industrial
sector, ...**

Positive Effects

- Easier access to cleaner technologies at lower prices;
- Increased efforts to comply with standards that are more respectful of the environment;
- Introduction of cleaner production processes to meet the increasing demand of environmental friendly products;
- Increased Direct Foreign Investment; and
- Efficiency gains for SMEs/SMIs.

Negative Effects

- Multiplication of hot spots, especially in coastal areas;
- Possibility of South-South relocation;
- Pressure on water resources increasingly competing with agriculture;
- Strong growth in the overall volume of pollution and energy consumption;
- Increased disparities between small and large companies due to compliance costs with environmental standards;
- Deleterious effects on SMEs which cannot absorb extra costs, whilst they make up the majority of companies; and

- Effects on employment above all in the most protected sectors.

...and the consumption sector.

Positive Effects

The possible positive effects identified involve the renewal of the motorcar fleet and lower pollution per unit.

Negative Effects

- Substitution of locally produced food products with imported and more polluting products (waste, energy intensive, etc.)
- Increased consumption of packaging and production of household waste
- Increased development of transport infrastructures
- Growth in private vehicle traffic and increases in the motorcar fleet
- Rapid development on retailing modes based on hypermarkets, which will in turn accelerate the effects referred to above.
- The destruction of traditional retailing networks.

Possible and necessary integration

The size of the impact and the stakes represented for sustainable development require the taking into account of environmental and social concerns in the association agreements.

This is all the more true since the partnership agreements between the EU and SEMCs are being made between countries with a sizeable development gap and which feature an especially fragile environment.

The case of NAFTA represents the first experience of creating a free trade area that included environmental and social considerations in the partnership agreement. Even though one cannot yet talk of the integration of environmental goals with trading goals, this example supplies a great many lessons which can be useful in the creation of the EMFTA. Thus it shows, for example, that it is possible to include the principle of precaution without this hindering the expansion of trade; it also shows that trade can be subjected to certain Multilateral Environmental Agreements (MEAs).

The Euro-Mediterranean partnership sets itself more ambitious goals than NAFTA. The interest of the Euro-Mediterranean free trade area lies in the fact that it forms part of an approach to sustainable co-development and stability and to shared prosperity in which free trade remains a means and not an end.

Pathways towards proposals for improved integration of environmental and social aspects into the partnership agreements.

In order to prevent and /or mitigate the possible harmful effects of free trade on the environment and on sustainable development in SEMCs, a number of measures have been identified at regional, national and sectoral levels, which could ensure on the one hand that the opportunities offered by free trade are taken up and on the other hand that environmental and social concerns are better accounted for. These are regulatory, institutional and economic measures aimed at integrating the arrangements set up in the partnership framework and at improve their working. They are classified by level of intervention (regional, national, sectoral) and type of measure (negotiations, economic, institutional,

horizontal programmes) in table 2.

Table 2 Policy Measures for Integrating the Environment and Development into the Euro-Mediterranean Context

Global vision	<ul style="list-style-type: none"> • Overall vision of sustainable development in the Mediterranean • Defining principles for industrial, agricultural and rural, transport, infrastructure and consumer policies that ensure a pathway towards sustainable development. • Mobilisation and participation of civil society in the decision making process 		
Type of Measure	Regional Level	National or Sub-national Level	Sector Level
Negotiations	<ul style="list-style-type: none"> • Strengthening the mandate of SMAP committee to ensure that environmental concerns are integrated in the liberalisation process. • Creating an observatory of the social and environmental impacts of free trade and environmental policy 	<ul style="list-style-type: none"> • Creating national committees in charge of monitoring the social and environmental impacts of free trade in association with the regional observatory. • Mobilisation and participation of civil society in the decision making process 	<ul style="list-style-type: none"> • In-depth study of multi-functional nature of Mediterranean agriculture and concertation on the most appropriate policy measures to enhance the multiple functions of agriculture • Including agricultural trade liberalisation in the co-operation agreements dealing with the means for sustainable rural development.
Economy	<ul style="list-style-type: none"> • Agreements on investments and clean technology transfers • Technical assistance in the framework of MEDA (structural adjustment component) for the implementation of policy measures based on the polluter pays principle. 	<ul style="list-style-type: none"> • Fiscal policies: internalisation of environmental costs • Environmental funds • Training and technical assistance to SME/SMI 	<ul style="list-style-type: none"> • Economic incentives for SME/SMI having difficulties with absorbing environmental costs; • Agricultural pricing policy more geared towards clean products and production methods. • Industrial de-pollution funds • Green taxes and duties in the packaging and transport sectors. Tax abatement for the purchase of vehicles fitted with catalysers.
Institutional and command and control	<ul style="list-style-type: none"> • Technical and financial assistance for devising environmental regulations in SEMCs. • Considering the restrictions and opportunities of harmonisation and adjust the timetables for compliance with standards to the specificities of the countries. • Improving co-ordination between existing funds and assessing the possibility of raising financial resources. 	<ul style="list-style-type: none"> • Ecological labelling • Packaging standards compliance • Land use management 	
Horizontal	<ul style="list-style-type: none"> • Regional programme to 	<ul style="list-style-type: none"> • Raising consumer 	<ul style="list-style-type: none"> • Information and assistance

Programmes	strengthen institutional capabilities on the environment	awareness • Information circulation	programmes on cleaner technologies
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