

EU-Libya Sustainability Impact Assessment Final Report: BRIEFING DOCUMENT

The EU-Libya Sustainability Impact Assessment (SIA) is an independent assessment of the likely economic, social and environmental impacts of a Free Trade Agreement (FTA) between the European Union, its member states, and the Great Socialist People's Libyan Arab Jamahiriya. The SIA assesses the potential impacts, through both qualitative and quantitative approaches, of proposed liberalisation on all pillars of sustainable development in order to optimise policy making.

The report assesses the three dimensions of sustainable trade according to nine core sustainability indicators: real income, fixed capital formation, employment, biodiversity, environmental quality, natural resource stocks, poverty, equity and health and education.

The core of the sustainability impact assessment is an analysis of the potential economic impacts of trade liberalisation between Libya and the EU, measured using a computable general equilibrium (CGE) model developed specifically for this study. The modelling scenarios include:

'Modest liberalisation'	90% reduction of tariffs
	50% liberalisation of services
	1% reduction of producer costs through trade facilitation measures
'Ambitious liberalisation'	97% reduction of tariffs
	75% liberalisation of services
	3% reduction of producer costs through trade facilitation measures

Limited social and environmental impacts are expected in the EU from an FTA with Libya given the EU's advanced state of social and environmental institutions and its comparative economic size. Nonetheless, positive economic impacts are expected on a sectoral basis. Key positive impacts include:

- ↑ Increased commercial opportunities for EU SMEs through reduced barriers to key service sectors, particularly in the energy, finance, tourism, construction and retail sectors.
- ↑ Greater energy security for EU consumers through enhanced integration with Libyan supplies.

Impacts in Libya are more distinct and occur across economic, social and environmental dimensions of sustainable development. Notable positive impacts identified include:

- ↑ Increased foreign direct investment will raise national real income by up to 6.1 per cent, with an associated net increase in household incomes over the longer term, leading to an enhancement of overall social welfare
- ↑ Expansion of the oil and gas industry in Libya, leading to technological upgrading and increased productivity and wages
- ↑ Services liberalisation, especially in the increasingly important telecommunication and financial services sectors will accelerate development in other areas of the Libyan economy.
- ↑ The liberalisation of environmental services and accelerated trade in agricultural and non-agricultural goods will have potentially beneficial environmental effects though a competitive shift towards more efficient production methods.
- ↑ Increased employment of skilled women in the expanding tertiary sector due to high participation

levels in formal education, as well as unskilled women entering the expanding tourism sector.

Notable negative impacts identified include:

- ↓ Increased pressure on Libya's environment resulting from an expansion of oil and gas extractive industries, construction sector and tourism industry, particularly the overuse of water.
- ↓ An increased risk of social tension resulting from the expanded use of migrant labour in the construction sector and small scale local retailers adversely affected by competition from foreign firms.
- ↓ Greater imports of food from the EU may lead to a contraction of the agriculture sector, resulting in a decrease in employment of women and household incomes in rural areas.
- ↓ Accelerated rate of depletion of oil and gas reserves, increasing the need for diversification.

The most important complementary policy measures recommended to enhance the positive sustainability impacts of the proposed trade agreement and to prevent or mitigate negative ones are as follows:

- Cooperative assistance in strengthening environmental regulations in Libya, with particular emphasis on the negative impacts arising from an expansion of the oil and gas industry
- Cooperative assistance in the development and implementation of a *mise a niveau* (industrial upgrading) programme in Libya to raise competitiveness of Libyan SME's and other industrial enterprises
- Technical assistance to promote modern urban and agricultural irrigation and water use practices in Libya
- Introduction of a sustainable tourism strategy in Libya to avert negative impacts of the rapid expansion of the sector on environmental and cultural assets.
- Phased liberalisation of the financial services sector to ensure the development of effective domestic regulation.
- Strengthening of social programmes targeting gender, migrant labour and other issues

Impacts of the Trade SIA were assessed using quantitative and qualitative analysis tools, namely economic modelling, causal chain analysis and consultation with stakeholders and the public. An extensive literature review was conducted, and a number of government and non-government databases were used to provide data for the economic modelling. Two civil society meetings were held in Brussels and a workshop was held in Tripoli. Additionally, ongoing communication was maintained with stakeholders throughout the SIA process via the project website, electronic newsletter, email correspondence, interviews and questionnaires.

The biggest difficulty in terms of meeting project aims and objectives was due to the limited amount of statistical data from Libya and unreliability of sources for unpublished data. The extent of consultations might be improved with more TOR-designated on-the-ground consultation workshops in Libya.

Ex post analysis of the impacts of a trade agreement would be beneficial. The Libyan government could oversee this role, along with support from an established network of stakeholders; however, the government will likely need technical assistance to build its administrative capacity to perform this role. Technical assistance will also be necessary in generally implementing a trade agreement. Attention should be given to groups that have a higher potential of being marginalised in the initial phases of inception, and ensure that their concerns are being adequately addressed.