



Thinking Ahead
for the Mediterranean



MEDPRO - Prospective Analysis for the Mediterranean Region

FP7 Project financed by the European Commission
244578-FP7-SSH-2009-A

Report of the Marseille scientific workshop

Marseille, September 20th and 21st 2012

The research work under the MEDPRO project is in the final phase of completion. To that extent, the scientific workshop in Marseille on September 20th and 21st, 2012 was the last gathering of the researchers to coordinate, reflect on and improve the results of their work and to produce the policy implications and recommendations. The participants presented the final results of their work, including most notably the quantitative macroeconomic scenarios and the policy implications of the research. The remaining technical reports and updated policy briefs will be published review and approval of the scientific board of MEDPRO. In addition to the publication of these results, the final phase of the project will include stakeholder meetings in the Southern Mediterranean (i.e. Tunisia and Egypt) to discuss the results from a South Med perspective. The final MEDPRO scenarios and policy implications and recommendations will be published in February 2013 and presented at the final conference in Brussels.

Introduction Opening up the workshop, the MEDPRO-coordinator Dr. Rym Ayadi (CEPS) highlighted that issues relating to the Southern Mediterranean has gathered substantial importance within the European politics over the past year as a result of the uprisings in the region. In particular, the renewed look into the region is producing various initiatives to review the cooperation between the European Union and the Southern Mediterranean countries. In particular, the Directorate General for Trade of the European Commission has lately issued tenders for trade sustainability impact assessments (trade SIAs) between the European Union and respectively Egypt, Jordan, Morocco and Tunisia. The trade SIAs will support the negotiations to upgrade the Euro-Mediterranean Association Agreements in what is called deep and comprehensive free trade areas (DCFTA). On the institutional front, the European Union is likely to increase its support to the region through the Union for the Mediterranean (UfM), which is a partnership between 43 Euro-Mediterranean countries established in 2008.



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As for MEDPRO research progress, while the major part of the research has been completed for WPs 2 and 3, final phases of the research are ongoing under the other WPs namely WP4a and b, WP5, WP6, WP7, WP8 and WP9.

Session 1: WP4b - Final Scenarios, Policy Implications & Recommendations on Energy

The first session presented the key results of the research and the policy recommendations for the energy demand/supply trends under WP4b.

The research under this work package found that energy supply and consumption have a strong impact on macro-economic indicators in the MED11. In particular, fiscal balances and poverty trends are affected by changes in the energy market. The MED11 have a high electrification rate but the lower income households have access problems materialized by regular blackouts, which undermine the realization of the social-economic returns to the fullest extent. To address these issues, the MED-11 countries have chosen to introduce universal subsidies on fuel and energy consumption. As has been repeatedly highlighted by the World Bank, IMF, and the European Commission, these subsidies are highly inefficient, since they end up benefiting the wealthy while contributing to a substantial worsening of the fiscal conditions of a number of SMCs. Hence, to increase the efficiency and reduce the shortages, the subsidies should be replaced with better targeted, possibly means-tested policies, e.g. the National Aid Fund in Jordan.* Moreover, consumers should be made more aware of possibilities to save energy (e.g. like the EE&RE programs and tools in Tunisia). Shortages could further be reduced by international cooperation (e.g. connecting power and gas networks, market reforms and sustainable energy, and integrated regional financing).

In response to the comments, Dr. Emrah Arbak (CEPS) remarked that implementing means-tested subsidies can be tricky in the region due the general unavailability (and unreliability) of detailed information on individuals' consumption patterns and income levels. As a consequence, if policies are implemented without adequate consideration of this fact, more and more people may try to trick the system to meet the selection criteria, eventually pushing the governments to make a decision to either abolish the programme or make it available to everyone, neither of which is socially desirable.

* National Aid Fund in Jordan provides means-tested aid to needy individuals and families in the form of cash assistance, emergency aid, health care, and vocational training.



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Dr. Luc de Wulf (CASE) suggested adding a text box on how Iran addressed its energy subsidies, including the possibly questionable willingness to shift to nuclear energy. Bergasse replied that Iran could be best practice, however, the available information is limited. Nevertheless he promised to consider including a text box on Iran.

Dr. George Groenewold (NIDI) further wondered whether personal energy generation (solar, bio, etc.) has been amply addressed in the discussion. Bergasse noted that individual solar projects are developing in several Mediterranean countries, e.g. Egypt and Morocco. Although these techniques could be efficient, they are unlikely to be of widespread use due to energy prices that are kept artificially low (due to subsidies) and the high investment costs for private energy generation.

Following the comprehensive presentation of Emmanuel Bergasse (CASE), Simone Tagliapietra (FEEM) elaborated more on the policy brief for the work package. Sustainable energy transition is essential to enable socio-economic development in the region. The transition would comprise, besides the reform of the subsidies, enhancing energy efficiency and investing in renewable energy production. The concrete steps to vitalize this transition have been summarized in a roadmap in which highly visible, cost savings, and a high return rate measures are prioritized. The roadmap can be used as an input to the EuroMed ministerial meeting in Brussels in June 2013.

The EU could contribute to the energy transition by providing technical assistance to transfer its best practices, notably standards and labeling. In addition, both the EU and MED11 could benefit from exploring a larger share of the MED11's renewable energy potential, respectively lower costs for reaching the decarbonisation targets and more benefits from energy exports. To unlock the renewable energy potential innovative methods to finance, these often expensive technologies, should be explored. In particular, the carbon markets and the development of a supply-funding-demand triangle including the MED11 (renewable energy supply), GCC (sovereign wealth funds), and EU (energy demand) has the best potential.



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Dr. Rym Ayadi (CEPS) praised the writers of the policy brief for their hands-on concrete approach. The usage of roadmap is a proven recipe to accomplish complex transitions. Other WPs that propose multiple policy measures are encouraged to consider proposing a similar roadmap for their subject areas.

With regards to the policy recommendations itself, Dr. Ayadi questioned the willingness of the GCC sovereign wealth funds to take a leading role in financing the renewable energy transition. Most of the sovereign wealth funds have a limited scope, prefer co-investment processes, and require high returns on investments. Furthermore, Prof. Alia El Mahdi (FEPS) argued that foreign investments are very sensitive subject at the moment in the region. Most of the MED11 countries are hesitant to accept investments of funds controlled by other jurisdictions that may be conceived as politically-oriented. Enhanced transparency of the investment policies and interests of the sovereign wealth funds might contribute to the acceptance. Dr. Samir Abdullah (MAS) stressed that there may also be conflict of interests. The economic performance of most of the jurisdictions owning sovereign wealth funds are largely depending on oil revenues, which will decline if alternative energy sources are tapped. Therefore, sovereign wealth funds may be more hesitant to invest in areas that may threaten their own revenue sources. In turn, Dr. Manfred Hafner (FEEM) noted that the sovereign wealth funds are trying to diversify their investments and shift to alternative energy sources to find substitutes to their scarce hydrocarbon resources for the future.

It was agreed that the policy brief of WP4b could be used as an example for all the policy briefs of MEDPRO WPs; that the authors should take on board the comments by the MEDPRO partners in particular the coordinator who explicitly asked to include the key results of the WP and make a reference to all the papers that have been published. A new draft will be discussed once again in the stakeholders meetings in Tunis and Cairo.

Session 2: WP4a - Final Outcomes, Policy Implications and Recommendations on Management of Environment and Natural Resources

WP4a-leader Dr. Francesco Bosello (FEEM) presented the economy-wide assessment of climate change in the MED11. The analysis focused specifically on the impact of climate changes on crop yields and the impact of biodiversity/ecosystem deterioration on tourism demand, complementing the full blown General Equilibrium exercise performed under WP8.



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The assessments contained in the work package found that, if left unchecked, climate change will impair economic growth in the long run. However, the conditions are highly diverse at the country-level. The tourism sectors in Tunisia, Morocco, and the aggregated Middle Eastern countries would suffer most, whereas in agriculture Tunisia and Morocco are the most sensitive. Preserving the ecosystem is a particularly cost-effective adaptation strategy. In Tunisia and the Middle East, increased tourism demand alone would be sufficient to justify a full preservation scenario. Preserving the ecosystem, however, requires substantially more investments than considered under the reference scenario. The reallocation of those resources might be problematic if the countries are left by themselves, which calls for an enhanced international cooperation and financial support.

Daniel Osberghaus and Claudio Baccianti (ZEW) updated their qualitative assessment of climate change adaptation and possible qualitative scenarios in the MED11. They performed an extensive literature review to select Egypt, Turkey, and Tunisia and assessed the adaptation needs as well as implemented and proposed adaptation strategies in place.

Key issues for adaptation are poverty development, interaction with mitigation, openness to trade and foreign investments, and institutional development. Hence, policy measures are needed to smooth the adaptation to remove private adaptation investment barriers, developing a comprehensive strategy on adaptation as well as mitigation, to support vulnerable individuals and communities, and to strengthen international cooperation.

In his comments, Dr. Nicola Lamaddalena (IAMB) argued that the link between food and water efficiency is often neglected. But substantial amounts of water could be saved if less food was wasted. In particular, the production of crops utilizes enormous amounts of water; therefore, reducing food waste could thus also reduce water usage.

Dr. Rym Ayadi (CEPS) remarked that the research performed on climate change adaptation should be more applied to the MED11. This will be achieved as a follow-up with the authors bilaterally to give more detailed instructions to improve the paper. Dr. Francesco Bosello (FEEM) echoed the comments by Dr. Ayadi, noting that the results of the case studies should be used to come-up with more concrete policy recommendation, which can be applied to the MED11.



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Dr. Consuelo Varela (UPM) presented the final outcomes of the water usage predictions for the MED11 up to 2030, and the policy implications and recommendations.

The majority of the countries show a stabilizing trend during the second half of the period in all four scenarios. In both sustainability scenarios (QII and QIII), water withdrawals grow due to a higher socio-economic development, GDP growth and trade. This trend is tempered by structural change and active policies geared towards protecting water resources. A combination of hard and soft measures is required to close the gap between demand and supply.

Scenarios QII and QIII rely on less costly demand-side soft measures, for instance, cropping changes. The decline in farm income is absorbed by technological improvements. In turn, scenarios QI and QIV rely on more costly supply-side hard measures.

Prof. Alia El Mahdi (FEPS) noted that the water efficiency in agriculture could be improved by increased cooperation in irrigation and provision of advice for farmers. As an example of how cooperation could contribute to these ends, Dr. Nicola Lamaddalena (IAMB) pointed at Egyptian farmers who have devised an effective initiative to share their water pumps.

It was agreed, that the policy brief of WP4a will be restructured to fit the standard format. All the writers of the technical reports under the work package are invited to summarize their work in two to three pages. Dr. Bosello will then make it a coherent piece of between 10 to 12 pages that highlight the most important policy measures and put forward a roadmap for the implementation. The title of the policy brief should firstly cover the content, and thus not necessarily the WP-title. All partners of the WP are requested to finalise their research work and to deliver the final drafts to the coordinator for final review, editing and publication.

Session 3: WP3&WP7 - Final Scenarios, Policy Implications & Recommendations on Demography, Human Capital, Inequality & Migration

With most of the analytical work under WP3 close to be finished, Dr. George Groenewold (NIDI) presented the revised population growth and structure projections as well as the policy implications and constraints. The population projections for the MED11 predict a strong population growth in the upcoming four decades under all scenarios. There is, however, some dispersion in growth rates between different countries and scenarios.



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As an input into the economic production, the developments in working age population and participation rates are highly important. The working-age population as a percentage of total population varies from country to country. In general, however, the percentages of elderly slowly increase due to higher life expectancy, whereas decreasing fertility rates and increased labor participation of women reduce the relative share of youth in the population.

To cope with the increasing working age population, more jobs are needed in the period up to 2030. Job creation would be served by political stability, religious tolerance, improvement of investment- and entrepreneurship climate, good and qualitatively matched education, gender equality, and facilities for (temporary) labor migration.

Following Dr. Groenewold's presentation, WP7 team leader Prof. Alia El Mahdi (FEPS) elaborated on the findings on education, female labor participation and equality. The enrollment rates in primary and secondary level have increased substantially in the past few decades and the gender gap has diminished at all educational levels. Nevertheless, sending more children to school does not necessarily imply a better educated population. Indeed, the low level of aggregate returns to education shows that most MED-11 countries suffer from low human capital stocks. Although increasing attainment can be beneficial in some countries, in others the factors undermining the returns to education, and thereby contributing to low human capital development, should be addressed first. In the region, the main bottlenecks appear to be low quality in schooling, limited job opportunities, skill mismatches, and excessive role of the public sector in the labor market.

On distributional issues, although the region does not exhibit high-income inequality, the inequality in human development, and in particular education, is substantial. Thus, achieving a more even distribution of opportunities should be the main focus of the social policies for the future. Well planned income redistribution policies, better-targeted social services, low cost housing and concentration of growth sectors that directly benefit the poor are therefore highly recommended. Income developments may also affect females' decision to enter the labour market which can also affect economic growth. The removal of the existing barriers to female labour participation may offset lower economic growth, although international evidence suggests that the increasing income levels do not always lead to increased participation.



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On migration issues, in the long term, legal and illegal migration as well as institutional quality plays an important role in achieving higher growth. Although the work on migration is rather descriptive, the available evidence can be used to recommend a smoothing of the current repressive policy towards MED11 migrants, which pushes people to work in the informal sector. To facilitate circular migration, the EU could, for instance, develop a temporary labour contract for the people from the MED11.

Recurrent comments from participants during various parts of the session have identified migration as an opportunity for both sides of the Mediterranean. Unlike the MED11, the EU will suffer in the upcoming years of a relative drop in working age population and decreasing population growth in the upcoming years. Temporary labor migration might contribute to a decline in vacancies in the EU while equivalently absorbing the excess employable adults in the MED11.

Dr. Sergio Carrera (CEPS) argued that the paper on migration by Boris Najman should think more ahead and clarify the definitions it uses for different concepts like 'rule of law' and 'institutions'. The migration is for instance not always from south to north, but there is currently also an increasing stream of people moving in the opposite direction. In his remarks he further highlighted that the policy recommendations should be especially relevant to the EU. During the meeting Dr. Carrera committed to assist Prof. El Mahdi to improve the policy paper and its results.

In her final remarks for the session, Dr. Rym Ayadi (CEPS) argued that the WP should come up with more coherent conclusions. In the policy brief these recommendations should be illustrated with best practices from both the EU and MED11 (e.g. Erasmus programme and mutual recognition of qualifications). To these best practices could be referred to in text boxes.

Session 4: WP5&WP6 - Final Scenarios, Policy Implications & Recommendations on Economic Integration, Trade, FDI and Finance

Opening up the fourth session, Dr. Luc de Wulf (CASE) presented a synthesis of the policy recommendations from various research papers contained in WP5, which aim to resolve the obstacles for exploiting the growth potential of the MED11.



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Five specific policy recommendations are highlighted. First, the resources for infrastructure should be increased to catch up with the rest of the world. Second, in agriculture a package of measures should be taken to increase the efficiency and security while limiting price distortions. This would not only have an impact on the economic growth but also on the water usage as defined in WP4a. Third, in information technology, the privatizations should be continued. Fourth, in tourism, the product offers should be diversified and public policies strengthened. Fifth, in all industrial sectors there is a need for a more competitive exchange rate, better business environment, improved governance, facilitation of vocational and technical education and training as well as improved access to finance.

Afterwards, Dr. Rym Ayadi (CEPS) elaborated further on the work performed on financial services and capital markets in WP6. The work on financial sector development showed that financial reforms alone are insufficient to foster economic growth. Stronger democratic and legal institutions are important to mitigate risks. Moreover, decreasing government debt growth can also be an important precondition to increase financial intermediation.

For the capital account liberalization, the WP provides a comprehensive three stage roadmap. The first phase aims to liberalize capital inflows for foreign direct investments (FDI) in non-financial sectors, long-term loans for listed companies and domestic currency state bonds. The second phase foresees more intense negotiations with EU and WTO on liberalization of trade in services, allowing FDI in the financial sector and authorization of foreign portfolio investment. In the third phase, the liberalization efforts should be completed by entirely rolling back the restrictions to capital flows, accompanied by monetary, financial, real as well as structural reforms.



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In response to the presentation, Dr. Emrah Arbak (CEPS) remarked that good regulation has an added value for financial development. The main obstacles in most of the MED11 are high barriers to enter (for foreign banks), lack of credible deposit insurance, and the limited credit history information. Prof. Alia El Mahdi (FEPS) expressed that access to finance is important, but the lack of the demand is equally important in the case of Egypt. Furthermore, the low quality of products is a key reason for a lack in demand, which underlines the need for capacity building for SMEs. In Palestine, Dr. Samir Abdullah (MAS) sees the political situation as most important obstacle.

Session 5: Final MEDPRO Alternative Scenarios, Policy Implications and Recommendations

After the last MEDPRO meeting in Athens, the data, general equilibrium model and methodology have been fully revised. The latest estimates use the most recent GTAP v.8 data for 2007. In conjunction with these, the input-output matrices, bilateral duty rates, WPs inputs were updated. Also, the assumptions on alternative quantitative scenarios and sectorial/country aggregation were revised.

Dr. Leonidas Paroussos (ICCS/NTUA) presented the results after these revisions. Under the four scenarios, the QII is still considered the most attractive from the perspective of both the MED11 and EU. The impact on the EU under the enhanced EU-MED11 cooperation scenario is positive, but small in magnitude. The impacts on the EU are slightly negative under MED11 global opening. Improving the governance and infrastructure were identified as most effective policies to increase the economy of the MED11. The remaining works for the E3M-Lab consist of assessing the full impact of trade liberalization in QII and QIII as well as the feedback effects of setting the current account as percentage of GDP at the same rate as in QI.

In his remarks on the reference report Marek Dabrowski (CASE) noted that it would be good to clearly state that Q1 is going concern (base year 2007). The reference scenario should stay as it has been defined in 2009. The horizon of the project requires looking at the next two decades and not only at the current developments, including the Arab Spring developments. However, as was noted by Dr. Rym Ayadi (CEPS), the policy measures developed under different scenarios can provide a way out of the current situation in the region.



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Dr. Luc de Wulf (CASE) questioned the negative returns to investment in transport in Algeria and Tunisia under QIII and the limited impact of investments in ICT. Dr. Paroussos committed to look into these points deeper after the workshop and to respond to him directly. In line with these comments, Dr. Emrah Arbak (CEPS) stressed the importance of also looking at not just the quantity of education (i.e. attainment levels) but also other factors that may hamper human capital formation. This could also form one of the explanations why the human capital multiplier in the model is relatively low. Dr. Leonidas Paroussos (ICCS/NTUA) and Dr. Arbak (CEPS) decided to follow-up this point bilaterally after the workshop.

It was agreed that a new version of the scenarios will be circulated for review in the aftermath of Marseille Meeting.

Session 6: Finalisation of MEDPRO: Stakeholders Con- ferences (SC), Policy papers, and Final Publication

In the last session of the workshop, Dr. Carlo Sessa (ISIS) elaborated on the presentation of MEDPRO-work under WP9.1. A so called Wiki-page will be used to present the different reference scenarios, policy briefs and working papers in a synthetic way. The page has already been designed; only the content has to be added. At the moment, the two optimistic scenarios are foreseen to be presented beneath one heading because of their connectedness. The content will be added by Dr. Sessa and Dr. Rym Ayadi (CEPS). Afterwards, the WP-leaders will have to check the accuracy of the scenario descriptions. The index of the website is foreseen to form a basis for a more coherent final work.

This final work should have a realistic approach on how the cooperation between both the EU and MED11 as well as between the MED11 countries can be improved. Dr. Ayadi argued that the policy solutions should fit within the current international treaties. Dr. Frederic Blanc (FEMISE) highlighted once again the importance to look beyond the current developments and political situation with the policy recommendations.

On top of four distinct scenarios Dr. Luc de Wulf (CASE) argued in favor of adding an extra scenario. The 'Nervana-scenario' would look for the optimum combination of the two positive scenarios (QII and QIII). Dr. Leonidas Paroussos (ICCS/NTUA) responded that they could relatively easy run this extra alternative scenario.



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At the end of the scientific meeting, Dr. Ayadi (CEPS) expressed her gratitude to the researchers, thanked the participants and other researchers for their cooperation and their commitment so far. In its final phase, the project will focus on consultations with stakeholders in the MED11 and EU. As Three stakeholder meetings will be held in Tunisia (Tunis, 5 and 6 November 2012), Egypt (Cairo, 8 and 9 December 2012) and Spain (Barcelona, January 2013, exact date to be decided). The meetings will have a roundtable format and gather at maximum of 60 persons each, including 20 MED-PRO-representatives. For the first meeting in Tunisia, representatives from ministries, academia, private sector, and non-governmental organizations will be invited via the Tunisian embassy. The press will be exempted from the stakeholder meeting to allow a more open discussion. But there might be a press release and a press conference to reach the required exposure. The organization of the meetings will be discussed further bilaterally between Dr. Ayadi and Dr. Frederic Blanc (FEMISE). Sally Scott (CEPS) will provide the details on the budget for the stakeholder meetings to FEMISE.