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STRENGTHENING TRANSATLANTIC COOPERATION

Policy Brief

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Maritime Transport and Regional Cooperation in the Mediterranean Basin

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Summary: Globalization has strengthened the role of the Mediterranean in international maritime transport of goods. However, traffic growth has mainly involved transit flows, while intra-Mediterranean flows now make up less than a quarter of the total. Forecasts for the coming 15 years suggest that this trend is likely to continue, thus limiting Euro-Mediterranean cooperation. Moreover, some activities (especially transshipment) are expected to witness increasing competition between northern and southern ports in the Mediterranean. In light of this reality and the growing presence of Gulf and Asian players in southern port infrastructures, the EU maritime policy towards the Mediterranean will have to be redesigned.

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In the decade preceding the international economic crisis, the volume of goods transported within the Mediterranean region expanded by 5 percent a year. The growth of goods loaded on container ships was particularly high (+10 percent a year) as well as that of liquid bulk (+7 percent a year).[1] Yearly increase in other transport components has been more limited: +5 percent for goods embarked on roll-on, roll-off transport (Ro-Ro) and +3 percent for dry bulk.[2]

Adopting the familiar distinction between bulk (both liquid and solid) and non-bulk (containers, Ro-Ro), the highest growth appears to have occurred for non-bulk. Within this category, container transport has developed in a manner far superior to Ro-Ro transport. This has strong implications for the direction of flows: Ro-Ro routes are in fact intra-Mediterranean, north-south as much as east-west, while large container ships mainly transit in the Mediterranean, moving east-west, from Asia towards northern European ports.

Therefore, the growth of shipping volumes in the Mediterranean has been dominated by transit flows rather than by traffic flows between countries bordering the Mediterranean, reflecting slow progress of economic regionalism in the face of the rapid progress of globalization. In 2007 — prior to the international economic crisis — intra-Mediterranean traffic represented only 24 percent of total non-bulk traffic.[3] Of this figure, 16 percent of non-bulk traffic was made up by EU-Mediterranean (EUM)-EUM flows, 7 percent by southeast Mediterranean (SEM)-EUM flows (mainly north to south), and only 1 percent by SEM-SEM flows. Among extra-Mediterranean traffic, Asia dominates at 29 percent of total: 26 percent is made up of EU-Asia flows and the remaining 3 percent is made up of SEM-Asia flows and of the still limited Asia-sub-Saharan Africa flows. As paradoxical as it may seem, the development of traffic in the Mediterranean has contributed to the economic integration between Asia and Europe more than it has contributed to integration among economies bordering the Mediterranean.

[1] Liquid bulk mainly includes oil, gas, and chemicals.
[2] Dry bulk mainly includes cereals, coal, and other minerals.
[3] The analysis of this brief focuses on non-bulk traffic given that bulk traffic, both liquid and solid, is strongly linked to sectorial factors such as development in oil market, cereals market, and steel production.

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This evolution has also had a significant impact on the size of ships and of port facilities in the Mediterranean. On one hand, the growth of container flows stimulated an increase in the tonnage of container ships. On the other hand, the structure of port facilities in the Mediterranean has adapted to this growth through the expansion of existing ports and the creation of new ports targeted to container ships traffic, in particular to transhipment. The Italian port of Gioia Tauro and the Moroccan Tanger-Med can be seen as two examples of this trend.

Despite the expansion of port facilities in the Mediterranean, northern European ports continue to play a dominant role in container shipping between the EU and Asia. Furthermore (and perhaps counter intuitively), Antwerp, Hamburg, and Rotterdam also play a major role in EU-SEM container flows. The reasons are well known and relate to the efficiency of port operations in terms of equipment, services, and custom and bureaucratic procedures.

By hitting international trade heavily, the economic crisis has also significantly reduced transport flows in the Mediterranean, with a double digit decline from which it has only partially recovered: 2007-2008 levels will probably not be achieved again sooner than 2012, or even 2013. Nevertheless, the crisis has not triggered the adoption of severe protectionist measures, which could have induced structural changes in the global network of businesses. Consequently, the crisis looks like a slowing down, rather than a reversal, of the established transport trend in the Mediterranean, dominated by globalization instead of economic regionalism. This trend, as we shall see, is further strengthened by the current weakness of Euro-Mediterranean cooperation.

Prospective Scenarios for Transport of Goods in the Mediterranean

A recent prospective study by Plan Bleu provides forecasts on non-bulk transport growth in the Mediterranean until 2025, on the basis of three diversified scenarios in terms of economic growth and oil price.[4] The first scenario, based on a very slow recovery from the international economic crisis, assumes an average economic growth of 1.5 percent in EUM and 3 percent in SEM.[5] In this context oil price would be moderate and would, on average, be equal to US$50 per barrel at 2005 value. Consequently, there are no economic incentives for improving the environmental impact of the transport system. In such a scenario, Plan Bleu foresees an increase in non-bulk flows of 3.4 percent a year (a rate much lower than the one recorded in the decade preceding the international economic crisis), which is driven by transit flows. On one hand, flows between the EU and Asian countries would increase 5 percent a year, and would reach 35 percent of total flows (gaining 9 percentage points with respect to 2005). On the other hand, intra-Mediterranean flows would fall to 20 percent of the total (thus losing 5 percentage points) due to the very modest growth of EUM-EUM flows, which are expected to grow only by 1.4 percent per year. EUM-SEM flows would lose one percentage point, while SEM-SEM flows would increase from 1 to 2 percent of total flows.

This scenario would have important implications for the Mediterranean port structure. New ports for containers would be created in SEM, increasing competition with EUM ports, and especially with transhipment hubs, in an over-capacity context. Given the limited availability of financial resources in the Mediterranean region, Gulf and Asian countries would be the main investors in new port

[4] Philippe Vallouis, *Maritime Transport of Goods in the Mediterranean: Outlook 2025*, Plan Bleu, Valbonne, May 2010 (Blue Plan Papers 7).

[5] 2005 is the reference year for these scenarios; consequently, the average growth rates refer to the 2006-2025 period.

infrastructures in SEM. Ro-Ro transport would be affected by the limited growth in intra-Mediterranean flows, and the Motorways of the Sea project would be abandoned.

The second scenario is based on a quicker recovery from the international economic crisis that would bring economic growth in the Mediterranean region to its pre-crisis levels: +1.8 percent in EUM, and 4 percent in SEM. Oil price would reach on average $100 per barrel at 2005 value, thus encouraging greater efficiency and lower environmental impact in the transport sector. This scenario foresees a higher growth rate in traffic between the EU and Asia (+6.3 percent), which would represent 38 percent of the total non-bulk traffic, gaining 12 percentage points compared to 2005. Intra-Mediterranean flows would moderately increase and their share would fall to 19 percent of the total, with a loss of 6 percentage points. Only SEM-SEM flows, which start, however, from a very low level, would increase at a high rate (+8 percent) while EUM-EUM flows would only increase 2 percent a year and would drop from 17 to 11 percent of total flows.

The international economic crisis is already accentuating competition between EUM and SEM.

Over-capacity of container ports would be rapidly absorbed and to some extent the saturation of EUM ports would promote the development of port structures in SEM. Notwithstanding the modest growth of traffic, there would be room for operating some Motorways of the Sea, especially on busiest routes, which are mainly EUM-EUM.

The third scenario assumes higher growth rates (2.1 percent for EUM and 5 percent for SEM); oil price, stimulated by the acceleration of growth, would reach on average $150 per barrel at 2005 value, thus encouraging significant adaptation of the transport sector to the more stringent environmental criteria.

The major Gulf countries, which would benefit massively from higher oil prices, would be the main investors in infrastructure development in the SEM. The impact of higher oil price on transport costs would result in a reorganization of logistics, the construction of container ships, and Ro-Ro consuming less energy and with lower environmental impact. In particular, more efficient and less expensive Ro-Ro would spread in the Mediterranean, encouraging the development of the Motorways of the Sea on EUM-EUM routes as well as EUM-SEM ones.

On the basis of this scenario, transport of goods between the EU and Asian countries would grow further reaching 39 percent of total flows (13 percentage points more than in 2005) while the share of intra-Mediterranean flows would be the same as in second scenario (19 percent). However, this latter result would be obtained with a different flow composition: EUM-EUM flows would drop to 10 percent of the total (losing 7 percentage points), while SEM-SEM flows would further increase (from 1 to 3 percent of total flows). Albeit still quite limited, SEM-SEM flows will therefore grow significantly, promoted by a larger, and more efficient, web of trade agreements. Turkey may play a key role in this development, as a main partner in various free trade agreements and, possibly, as an investor in some SEM countries.

North – South Competition and Cooperation in Mediterranean Transport Flows

From the standpoint of the geographical composition of flows, these scenarios diverge in terms of their size rather than in their trends. In all three, in fact, the prevalence of flows between EU and Asian countries would increase while intra-Mediterranean flows would lose even more relevance. Freight traffic in the Mediterranean would therefore continue to be primarily of a transit nature, and its implications for Euro-Mediterranean cooperation do not seem encouraging.

However, in relation to the development of port infrastructures in the Mediterranean, the implications of the three scenarios are very different: the first is characterized by fierce competition between EUM and SEM in a context of over-capacity, while the other scenarios foresee progressively more room for cooperation between EUM and SEM. Moreover, the international economic crisis is already accentuating competition between EUM and SEM, especially in transhipment. Two trends are already in place: on one hand, the creation of new deep water ports in SEM tends to reduce the need for transhipment. On the other hand, transhipment activities, which are very sensitive to price competition, tend to increasingly take place in SEM.

Facing these trends, Euro-Mediterranean cooperation, which should identify a regional framework for the development of maritime transport, is going through a phase of marked weakness.[6] While transport development, and especially Motorways of the Sea, is among the six priority projects of the Union for the Mediterranean (UfM), it has not progressed yet. Major obstacles need to be overcome before a Euro-Mediterranean framework could define cooperation in maritime transport in the Basin.

In order to better illustrate the situation, it is necessary to briefly review the history of the Motorways of the Sea. The project was outlined for the first time in Italy more than 20 years ago and became a European initiative about a decade ago. The project was designed to meet the needs of goods transport between EU countries, and aimed to reduce road congestion and environmental impact. Its implementation, however, proceeds very slowly, needing strong public support, both direct and indirect (for example, through eco-bonuses like the ones adopted by the Italian government). The UfM's Motorways of the Sea project seeks to extend to SEM the approach adopted in the EU. However, countries of the SEM have different priorities: in particular, before developing any Motorways of the Sea, they are interested in the development of their road transport networks, which are still very limited, including those that serve port facilities.

The Final Declaration of the Paris summit that launched the UfM in July 2008 has included the "Maritime and Land Highways" among its six key projects, stating that "the development of motorways of the sea, including the connection of ports, throughout the entire Mediterranean basin as well as the creation of coastal motorways and the modernization of the trans-Maghreb train, will increase the flow and freedom of the movement of people and goods." This statement, which refers to both sea and land motorways as well as to rail networks, reflects the different interests of members in the north and the south. However, in the UfM ministerial conference held in Marseilles a few months later (November 2008), the key project in the transport sector was named "Motorways of the Sea" only, thus adopting a European set-up that weakens its feasibility.

If the modernization and creation of port structures in the SEM will be financially supported by Asian and Gulf countries, it will not be surprising that the maritime trade of the SEM will move towards non-European areas.

Conclusion: Freight and Euro-Mediterranean Cooperation

The weakness of the current proposal for the Euro-Mediterranean Motorways of the Sea, which is further accentuated by the more general weakness of the UfM, contrasts with the increasing presence in the Mediterranean maritime transport of actors from outside the region. Last June's visit to the Greek port of Piraeus by the Chinese Vice Premier Zhang Dejiang — after China Ocean Shipping Co. (COSCO) had obtained the management of the container port[7] — is symbolic of a trend that seems bound to intensify, especially in the SEM. Equally important are the investments in SEM by Gulf countries, where there are already significant examples (like the investment by DP World, a UAE company, in the container port of Sokhna,

[6] The Summit of the Union for the Mediterranean planned for 2010 has been postponed twice and its new schedule is still undecided. The Secretariat, which constitutes the operational arm of the Union, has just settled in Barcelona but has not started yet its activities promoting UfM projects.

[7] Under the agreement, which entered into force in October 2009, the container terminal at the port of Piraeus will be managed by COSCO for 35 years. COSCO announced its intention to invest EUR 550 million to renovate the structure and make it more efficient, with the aim of increasing its capacity from 1.6 million TEUs (20-foot equivalent units) to 3.7 million TEUs by 2015. Piraeus is the largest port in Greece and a relevant port in the eastern Mediterranean, and could become an important hub for Chinese goods destined for European markets.

40 km south of Suez) and which are expected to grow also according to the scenarios described above.

If the modernization and creation of port structures in the SEM will be financially supported by Asian and Gulf countries, it would not be surprising if the maritime trade of the SEM moves towards non-European areas. This is all the more so given that the strong differential in economic growth between emerging countries in Asia and the Gulf, on one hand, and European countries, on the other, already tends to change the geographic orientation of trade of the SEM away from the EU and towards the Gulf and emerging Asia.

Once the institutional impasse of the UfM is overcome, it will be necessary to rethink EU maritime policy towards the Mediterranean. Without abandoning the project of the Motorways of the Sea, the EU needs to pay more attention to the interests of SEM and encourage its port authorities and operators to strengthen cooperation with port authorities of SEM (e.g. partnership agreements and customs facilities). A new division of labor between northern and southern ports of the Mediterranean should become an opportunity for increased Euro-Mediterranean cooperation.

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