

Transport, Logistics and Economic Integration in the Euro-Mediterranean Region

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The European Investment Bank (EIB) convened the 1st FEMIP Conference (9th and 10th November 2006 in Monaco) to discuss economic integration in the transport sector in the Euro-Mediterranean region. FEMIP, or the Facility for Euro-Mediterranean Investment and Partnership, is the financial arm of the EIB for the 9 Mediterranean Partner Countries associated with the European Union through the Barcelona Process. Investing 1.4 billion euros annually in support of the private sector, socio-economic development infrastructures and regional cooperation projects, FEMIP is the leading multilateral source of financing in the region.

The creation of the FEMIP Conferences has allowed Euro-Mediterranean dialogue to advance. In fact, beyond its primary responsibility, which is to contribute to financing and development on behalf of the European Union, FEMIP seeks to foster the exchange of knowledge in the Euro-Mediterranean region and generate opinion in favour of a shared destiny. To this end, these conferences bring together the political, economic and scientific actors of the region, from both Mediterranean Partner Countries and the enlarged European Union to discuss subjects of use to development. Thus, the conference held in November of 2006 was attended by some 200 transport actors to engage in interactive dialogue with some twenty experts, among them three Transport Ministers from southern Mediterranean countries, the Governor of Tangiers, a dozen business executives, five bankers and financiers from both North and South, three transport economists, the Minister of State of Monaco, Philippe de Fontaine Vive, Vice-President of the EIB, and Jacques Barrot,

Vice-President of the European Commission (see the FEMIP Conference site: www.bei.org/femip/conference).

For this 1st FEMIP Conference, the topic of Euro-Mediterranean economic integration in the transport sector was an immediate choice, the aim being to create the conviction that it is now essential to think regionally, avoid redundancy and go beyond political borders and psychological boundaries. The conference fulfilled the wish expressed by the FEMIP Ministerial Council at its meeting in Tunis on 25th-26th June 2006 and was a follow-up to the Conference of Transport Ministers in Marrakech on 15th December 2005. Thus the Monaco Conference allowed reflection on the integrating effects of transportation networks, investment priorities and the means of raising both public and private funds for implementing a global transport strategy in the region.

The Integrating Effects of Transport Systems

Over the past 25 years, the partner countries on the southern and northern shores of the Mediterranean Basin have benefited little from globalisation. This situation can primarily be attributed to the absence of regional integration, both in political terms and

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in terms of available infrastructures, structural reform or upgrading of administrative capacities. It is therefore necessary to launch a process of 'in-depth' regional economic integration involving the liberalisation of trade and services, the integration of markets and the implementation of reforms to improve the business climate. The challenge is to provide the partner countries with a means of attaining a growth rate 2 or 3 times higher than in the European Union Member States, which they need in order to create 2.5 million new jobs every year for 15 years, modernise their economies and successfully enter the globalised world.

Since its creation in October of 2002, FEMIP has committed some €5.5 billion to financing infrastructures of regional scope in partner countries. Despite convincing results (such as the works underway to construct an electrical and natural gas transport network in the Mashreq, or the development of national railway and road networks in the Maghreb), partner countries are far from having constituted the regional cooperation infrastructure necessary for South-South integration.

Hence, the quality and capacity of North-South transport networks remain substandard, weighing heavily on transport and logistics costs, which represent over 20% of the final value of transported merchandise. Nonetheless, the launching of the Euro-Mediterranean Free Trade Area is expected to increase transport flows in the region far beyond the

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already elevated growth rate of international traffic. This is why the creation of an efficient transport network is essential for meeting the transport demand under acceptable economic and environmental conditions. In this perspective, a pragmatic approach focussing on the sectors that can most quickly be integrated should be given priority. Beyond ambitious cross-border land infrastructures (such as the "High-Speed Railway of the Sands" connecting Casablanca and Cairo, a project long in maturing and whose implementation is conditioned by slow political evolution), maritime and air transport would appear to be the priority sectors on the shorter term.

Maritime and Air Transport, Priority Sectors

The region annually produces some 720 million tons of international maritime freight (of which 270 million are hydrocarbons), handled by 45 ports with traffic of more than 1 million tons per year distributed thus: 40% in intra-Mediterranean trade and 60% in trade with the rest of the world. Hence, in tonnage, the maritime sector represents nearly 90% of international freight trade in the region. Estimates indicate that these flows should double over the next 20 years, whereas containerised freight should increase eight-fold. Policy in this sector should therefore be global and cover a variety of aspects: technical and administrative interoperability, control of the entire logistic chain, organisation of supply routes around pivot-ports or hubs, and the intermodal connection of ports with their hinterlands.

The air transport sector represents 90% of the 100 million international passenger trips of the southern and eastern Mediterranean Partnership Countries: concentrated at 24 airports, half of these trips involve European Union Member States. These flows are also estimated to more than double over the next 20 years.

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The air transport sector would thus seem to be one of the means for regional integration to be prioritised insofar as human mobility: it is in keeping with the geographic dimensions of the region, requires proportionally less infrastructure than other forms of transport and has significant development potential (generated by tourism, business travel and, potentially, travel by expatriate populations). Examples of "single airspace" agreements (in both Europe and other regional blocs, as, for instance, the Andean Community of Nations or Southeast Asia) demonstrate that the diversification of traffic and the consequent lower costs quickly produce positive economic results.

By way of example, consider the "Open Sky" agreement recently concluded between the European Union and Morocco which will soon allow airline companies from both the EU and Morocco

to freely use the routes connecting the 26 countries involved, transit flights included. In anticipation of this agreement, Morocco has just granted two licences to 'low-cost' European airlines, leading to a significant drop in prices for connections between the UK or Germany and major Moroccan cities, going from some € 250 to € 50 for one-way tickets – a very concrete illustration of the benefits of Mediterranean economic integration for the public opinion concerned.

On the Threshold of an Ambitious Process

The Conference has thus revealed that we are on the threshold of an ambitious process that cannot succeed unless all parties involved – that is, States, their public opinion and their economic actors – become engaged in meeting a double challenge: for Europe, the challenge of resolutely committing to the free circulation of people, goods and services; and for the Partner Countries, the challenge of explaining to public opinion that South-South regional integration could generate advantages that they can no longer ignore. Debate has demonstrated that the intelligence is there and that the political will demonstrated at the Conference of Transport Ministers in Marrakech can be mobilised. In other words, we have a pre-eminent need to rely on one another in the Euro-Mediterranean region: South-South integration will be achieved with the help of Europe and North-South integration cannot be achieved without the Partner Countries.

The Conference likewise underlined that the point is not only to constitute a regional transport network, but also to create a transport system in the Euro-Mediterranean region. To this end, it is not enough to simply have a series of adjacent national infrastructure plans; an overall perspective is needed, embracing a variety of aspects: the concept of network in defining priorities; the integration of the notions of interoperability and logistics into the project conception stage; and the association of private investors with their accomplishments in order to accelerate the modernisation of the sector. This modernisation is certainly necessary, but above all, it represents a tremendous economic opportunity: the Euro-Mediterranean region not only represents 20% of the world's GDP, it is also one of the regions most densely endowed with historical and cultural

heritage in the world, where – due to the absence of regional integration – great economic potential is waiting to be exploited.

Perfecting Financing Methods

Creating a regionally-integrated transport and logistics system will require substantial investment. By way of example, the infrastructure projects being defined by Partner Countries would call for an investment of over € 20 billion if they were to be put into motion in the next five years.

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The debate at the Conference, above all in the 3rd Session, demonstrated that there is an intermediate option between the fully public and the fully private, but that the implementation of mixed economy or delegated management formulas implies the adaptation of a legislative and macro-economic framework by Mediterranean Partner Countries to facilitate risk-taking by private investors. Morocco and Turkey are well down the road towards such adaptation. FEMIP is prepared to support such evolution in all countries of the Barcelona Partnership: it can not only mobilise significant financial means, but above all, considerably improves the efficiency of investment decisions through an appropriate selection of viable projects and the contribution of technical assistance, with the support of three local offices in Cairo, Tunis and Rabat. Nonetheless, keeping in mind the broad spectrum of needs to be met, FEMIP has set itself the objective of increasing the involvement of the private sector in the creation of infrastructures and services of public utility. To this end, it has established a "special FEMIP envelope" (ESF), whose parameters allow FEMIP to react to the constraints burdening the capacity of the private sector and keeping it from undertaking major commercial risks. To this end, it intends to reserve its public aid resources for

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In late 2006, the Heads of State and Government at the European Council Meeting, considering the broad scope of Euro-Mediterranean financial cooperation, granted FEMIP the means to assist development of MPCs from 2007 to 2013 via two important decisions:

- Whereas the 9 Mediterranean Partner Countries were granted approximately 4.5 billion euros in loans from 2000 to 2006, FEMIP will be entitled to grant at least 8.7 billion euros from 2007 to 2013, in other words, nearly double the resources. This sum is comparable to that allotted to countries preparing to accede to the European Union and represents nearly double the amount of loans to eastern EU neighbours.
- As a result of a major agreement with partnership countries concluded at the last FEMIP Ministerial Council in Tunis last June, the European Council has likewise ratified the strengthening of FEMIP in order to eventually attain a genuine "Euro-Mediterranean Economic Community."

On this basis, FEMIP will be able to:

- Strengthen institutional dialogue, which will hereafter be done on three levels: on the ministerial level through the FEMIP Council; on the senior official level through a new FEMIP Committee in charge of discussing investment strategies; and on the economic actor level through FEMIP Conferences.
- Develop new financial products for risk management and support to

investment made by businesses; primary among these new products is the development of loans in local currency, contingent on the success of the discussions underway with certain Partner Countries in opening capital markets to EIB loans.

- Make knowledge sharing a focal point of the Partnership: Through its external offices and the regular organisation of its Conferences, FEMIP will be attentive to input from its operators in order to be more efficient and strengthen the sense of a common future for the Mediterranean region.

It is in this spirit that FEMIP would like to demonstrate, in conjunction with its partners, that the Mediterranean is just as important for Europe as its eastern neighbours. Thus, our action is specifically orientated towards the improvement of development conditions in the Mediterranean Basin. For instance, we will dedicate the next FEMIP Conference, to be organised in conjunction with the European Banking Federation (EBF) and slated to be held on 22nd-23rd March 2007 in Paris, to improving the conditions for migrant financial transfers and use of financial flows in the Euro-Mediterranean area. Thereafter another FEMIP Conference in 2007 will examine the development of micro-finance, a sector whose expansion in Morocco and Tunisia we have aided. Finally, we will propose that the Ministers to attend the FEMIP Council choose from among the following two topics: using environmental protection in the Mediterranean region as an opportunity to add value to project financing; or fostering investment in the sustainable tourism sector.

development for the methods that offer the best springboard, whether in promoting sectoral reforms or in providing a catalyst for sources of private financing.

Specific Conclusions

In this spirit, the FEMIP Conference 2006 recommended:

1. Enhancing the knowledge partnership in the Euro-Mediterranean region in order to gain a better control of regional economic development

- imperatives and foster institutional reform;
2. Promoting the concept of network in the definition of new infrastructures and granting priority to lacking interconnections ("Motorways of the Sea" and access to hinterlands);
3. Integrating international norms of technical and administrative interoperability into projects;
4. Strengthening the capacity of international financial institutions to take risks in financing infrastructures or even setting up guarantee structures covering the 'legislation risk'; and
5. Facilitating access to financing in local currency for financial institutions and operators (whether private or mixed-economy).