

A RENEWED PARTNERSHIP FOR DEVELOPING ENERGY AND TRANSPORT INFRASTRUCTURE ACROSS THE MEDITERRANEAN

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Recent disruptive events, such as the Covid-19 pandemic and the Russian war of aggression on Ukraine, are having negative impacts on energy, raw materials and food supplies, and more generally on supply chains. As a consequence, they are causing important changes in the organization of production and thus on trade flows. According to many experts, what is taking place is a phenomenon of “deglobalization”, which in turn causes effects on value chains and stimulates “re-shoring” trends. We are witnessing an acceleration of the path towards shorter and more sustainable supply chains. Manufacturing activities using global suppliers have been partially replaced by shorter regional value chains, closer to consumer markets. Although this might be considered as a negative phenomenon from the point of view of economic efficiency, it is also an opportunity for sustainable and inclusive economic development, especially in the Mediterranean region.

Consequently, the Mediterranean area has gained renewed geopolitical and geoeconomic centrality. Some companies (in particular, but not only, European ones) are decreasing their production in Asia and relocating it to factories in the Mediterranean region, especially in Turkey, Egypt and Tunisia, in order to minimize risk against future global shocks. This also reinforces the process of vertical integration of shipping with production, thus improving the potential of Mediterranean short-sea routes.

Near shoring can positively support a healthy development in economic relations in the Mediterranean region, provided that countries in the area take advantage of a diversified grid of economic, industrial and trade relations in a wide manner, rather than focusing on a hub-and-spot approach, which could increase reliance on a single supplier and, in turn, raise risk. If such conditions are met, new value chains could emerge in the region, allowing the comparative advantages among the countries and the persisting differences in labor costs to be exploited.

However, supply chains are difficult to set up and relocate, and they require a good infrastructure endowment to function properly. Commercial corridors emerge only where sizeable investments in ports and railways coexist with an industrial base. Towards this end, progress can be achieved with the establishment of “special economic zones”; as an example, in Morocco and in Egypt, where special regulations and tax credits, as well as an orientation to re-export, have improved economic perspectives. These special zones prove to be more resilient to financial shocks, they

support trade stability and show flexibility in adapting pricing policies in response to market demand. The Tanger Med zone, the Suez Canal economic zone and the Mersin Zone in Tunisia have also been able to attract foreign investments in high-tech sectors, such as automotive, hydrogen and mechanical productions.

However, economic flows in the region, especially North-South, remain below their potential as a consequence of limited connectivity and the lack of adequate investment in infrastructure. Countries in the Southern Mediterranean have recently started to invest heavily in connectivity projects, from railway to maritime infrastructure. Besides improving competitiveness, better rail connectivity is crucial to achieve carbon reduction targets set as national priorities by many governments in the region. In addition, railway investments will be crucial to support the development of regional value chains on the southern shore. In addition to the improvement of motorway networks, they will contribute to connecting the major ports (existing, such as Tanger Med, or under development), with the ultimate goal of establishing a common logistical platform in the Mediterranean Basin and thus boosting trade flows. It is well known that ports and maritime infrastructure play a pivotal role in fostering North-South connectivity and in supporting regional integration. In recent years, particularly with new transshipment hubs, major ports have shown a remarkable development, clearly earmarked by a booming increase in short-sea shipping.

Moreover, besides cooperation in manufacturing and in trade, energy also plays a crucial role. EU countries are striving to diversify their gas supplies. Agreements have been reached recently with Algeria, Israel and Egypt. Gas pipeline projects such as the “East Med” have regained centrality to connect recently discovered offshore gas fields in the Eastern Mediterranean to Greece and Italy. In the (near) future, renewables (especially solar, but also wind) and green hydrogen will be central in North-South energy relations in the region. Indeed, the EU Hydrogen Strategy and the REPowerEU Plan assume that half of the EU’s green hydrogen demand will be covered by the end of this decade by imports, with a crucial role played by North African suppliers.

Financial resources required to support sustainable infrastructure (transport, energy and obviously also digital) investments in the region are very relevant and much higher, as a share of GDP, compared to recent years (on average, from 3% to over 8%). The public sector alone will not be able to face this challenge and, consequently, apart from the fundamental role played by international financial institutions and development banks (and especially by the EIB) and by national promotional banks, there is a fundamental task (as well as an opportunity) for the private financial sector to support regional infrastructure investment. This also requires the development of well-prepared high-quality projects, according to the standards set by the market. It requires a suitable regulatory environment as well, investors’ protection schemes, and the development of public-private cooperative agreements, such as blending of different financial sources and risk-sharing arrangements (e.g., combinations of grants, loans and guarantees).

Not only do financial resources play a fundamental role, but “investing in human capital” is also essential. Skills must be enhanced, and to achieve this goal new partnerships between academic and training institutions in the North and South should be established in order to accelerate the

process. Moreover, more forward-looking circular migration policies should be put in place, in particular by the EU countries.

A level playing field also needs to be ensured, especially for domestic regulations concerning foreign investments. In addition, harmonization of technical standards should be pursued to facilitate interoperability and exchanges. Indeed, together with improved infrastructures, an adequate “business environment” is essential to increase the attractiveness of the countries in the Southern and Eastern Mediterranean, in comparison with the most important countries of destination (until recently, at least) of European investments, especially in the Far East.

It is self-evident that, in the current economic and geopolitical context, and in what can be expected for the coming years, the EU and the countries in the Mediterranean region share, even more than in the past, common problems which can be better tackled through increased cooperation. The EU has a special responsibility and a fundamental role to play. For more than half a century, its “Mediterranean policy” has, for a variety of reasons, never reached its declared targets, despite producing some positive effects for the countries of the region. Moreover, the achievements of the Euro-Mediterranean Partnership established at the Barcelona Conference in 1995, in the framework of the European Neighbourhood Policy, notwithstanding increased financial efforts, seem so far to be below what appears necessary. The energy crisis and the other negative developments, especially in the last year after the start of the war of aggression on Ukraine, now require more efforts on the part of the EU to move from an approach based on “neighbourhood” to one of “partnership” in finding solutions to problems that can be of interest to both parties.

This also applies more specifically to infrastructures. As regards transport, at present the EU institutions are busy with the revision of the TEN-T Regulation of 2013, which might be finally adopted before the end of this year. It will apply not only to land and air transport, but also to ports and maritime activities, especially to short-sea shipping (so far known as “Motorways of the Sea”). It will redefine common standards and identify priorities in giving financial support to projects through the well-known “corridor” approach. An effort is being carried out to include neighboring countries (like Ukraine and the Western Balkans), but so far very little progress can be acknowledged for the countries in the Southern and Eastern Mediterranean.

Contrary to the situation described, the Mediterranean, also for reasons of common interest, should be put at the centre of attention of European policy-makers. In the second half of this year, Spain will hold the Presidency of the EU. Perhaps that will provide the occasion for renewed efforts towards this end. The situation we examine provides a unique chance “to turn threats into opportunities,” not only for the problems faced by the EU countries, but also for those in the Southern and Eastern Mediterranean region, which could modernize their manufacturing and service industries, improve infrastructure and connectivity, and enhance their human resources, with all the economic, social and environmental benefits that will follow.