

# **A new opportunity for the Mediterranean Sea.**

## **Measures for improving intra-Mediterranean trade**

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### **Introduction**

The Mediterranean Sea has currently become one of the main centres of international transport through which large quantities of goods are moved every year.

Its position as a strategic transit area for a large amount of goods, especially transported by sea, makes it a logistical node of capital importance. According to the report of the Spanish Short Sea Shipping Statistical Observatory (SSS) for the year 2021, overall SSS traffic on the Mediterranean coast increased by 26.9%, exceeding the pre-pandemic figures.

The Mediterranean geographical area is characterised, among other things, by the great heterogeneity of countries and actors that are present in the institutional, political, economic and even social spheres, as it is the meeting point of three continents. This means that, although the movement of goods is a very active sector, there is still much room for improvement in the development of trade among actors of such area (the area has more strength as a logistic node than as a commerce centre itself).

The strengthening of trade relations between all countries of the Mediterranean area should have a positive impact on a global level, facilitating the joint development of all those countries. However, the aforementioned existing heterogeneity at the political and economic level sometimes acts as a brake or blocking factor in the development and commercial collaboration among the parties.

The first, or simplest, analysis about the applicable regimes or the nature of transactions would be the one derived from a North-South division. This makes sense due to the fact that the majority of the northern front countries are members of the European Union (EU) and, consequently, of the Customs Territory of the Union (CTU), while the remaining are sovereign and independent countries with a very heterogeneous profile, including political or cultural issues. This makes difficult the establishment of stable and long-lasting relations among the parties.

We are therefore far from being able to consider that there is a trade regime specific to the Mediterranean Sea, or to companies in such area, apt for the facilitation of international transactions.

The current situation represents a historic opportunity for this commercial development: the pandemic has led to a change in production patterns, bringing them closer to the areas of consumption and, therefore, to the Mediterranean Sea itself. Certain supply chains will shift from global to regional, so the improvement of the area's supply chain is key.

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## **1. North-South comparison. The key factor of EU membership and the application of customs regulations.**

The fact that many of the countries on the northern shore of the Mediterranean Sea are part of the EU and the CTU has an important impact on trade transactions, particularly as a result of their customs and taxation regimes, as well as the EU's own trading power. These countries belong to a common market and to the Customs Union, having ceded their sovereignty over external trade and the protection of their borders at the trade level.

All EU countries are subject to the free-market regime and internal transactions carried out among private operators in these countries are not considered as exports and/or imports, but as intra-community transactions. For example, beyond internal operational issues, as far as the legal regime is concerned, there is almost no difference between a German company that manages the import of a product through the port of Hamburg or through a Mediterranean port such as Valencia.

Moreover, the European Union consists of a market of approximately 447 million of natural persons / potential consumers, according to the Spanish National Statistical Institute, which acts as a lever for the development of trade with third parties as well. In essence, an internal market has been created with strong internal demand capacity, and with the capacity to negotiate externally with major strength. In addition, this market creates institutional, commercial and regulatory stability, which is key for the economic development of its member countries.

In accordance with the Union Customs Code (Art. 3), EU customs authorities shall take measures aimed at:

- a) protecting the financial interests of the Union and its Member States;
- b) protecting the Union from unfair and illegal trade while supporting legitimate business activity;
- c) ensuring the security and safety of the Union and its residents, and the protection of the environment, where appropriate in close cooperation with other authorities; and
- d) maintaining a proper balance between customs controls and facilitation of legitimate trade.

The protection of financial interests is implemented mainly through the collection of import and, to a lesser extent, export duties.

The remaining measures are implemented through customs controls on the import and export of goods to and from the CTU. As part of these controls, customs authorities have to carry out the relevant security checks, which are currently carried out through the Entry Summary Declaration (ENS) and checks on issues such as the origin of the goods and the nature of the goods, to see whether such goods are allowed to be imported and whether they meet all the requirements to be distributed among consumers.

With regards to the security declaration, some changes in the system are taking place seeking to provide greater guarantees to prevent the entry of prohibited goods and the execution of possible terrorist attacks. The new system is the ICS2, under which carriers or freight forwarders have to make two types of declarations to the customs authorities: the PLACI, prior to loading the goods onto the arriving means of transport, and the full ENS, prior to the arrival of the goods at the first Customs office of arrival at the CTU.

As for controls on the goods themselves, and avoiding being excessively specific in this respect, the following controls are currently carried out in every country of the EU by the different competent authorities:

- Health Inspection: on products of animal or plant origin intended for human consumption, medicines, cosmetic products, medical devices and insecticides.
- Veterinary Inspection: on live animals, products of animal or plant origin not intended for human use or consumption, and veterinary medicinal products.
- Phytosanitary Inspection: on organisms harmful to plants, on certain plants that may contain them and fertilisers of plant origin.
- Commercial Quality Inspection: on certain agricultural products including poultry meat, fishery products, eggs, cut flowers, fruit and vegetables and canned fish, and on certain electronic products.
- CITES inspection: on the import and export of certain endangered species of flora and fauna, in order to obtain a CITES Certificate.
- Product safety: new control measures on the import of certain goods regarding the applicable product safety standards. Goods subject to conformity checks include textiles, footwear, electrical equipment and toys.
- Pharmaceutical controls: controls on the import of medicines for human use, medical devices, personal hygiene products, cosmetics and biocides for personal use.
- Controls on imports of timber and timber products from countries with a Voluntary Partnership Agreement in force (currently Indonesia): The FLEGT competent authority will verify the validity of the FLEGT licence in accordance with the applicable legal requirements.

Carrying out these controls entails administrative tasks and costs. This is also a very important differentiating factor, since the countries of the northern front are subject to the same regime.

On the other hand, initiatives are being taken within the EU that will make EU Customs more competitive, such as the creation of a Customs Single Window, which will enable the exchange of information in real time between the different Customs offices, and will serve to make processes more efficient. It should be borne in mind that carrying out customs controls involves a cost, not only derived

from the payment of the corresponding fees, but also from the payment of fees to the service provider: the stay of the goods in the customs facilities -which, in the case of blockade of the goods due to discrepancies in the valuation of the documentation, raises the cost to thousands of euros-, payment of fees to the port terminal, port taxes... not to mention the possible destruction of the goods in the case of perishable goods.

Moreover, EU membership generates a regulatory stability that allows investments in subjects like training, both from the Administration and the economic operators' side.

In consequence, the main conclusion that can easily be drawn is that trade transactions among actors on the northern Mediterranean coast (more specifically, among CTU actors) are free and agile, as opposed to operations where one of the participants (or none of them) is not part of the EU, in which, although many facilities are approved in free trade treaties, are subject to controls and red tape.

Clearly, each territory has the obligation to defend its sovereignty and protect its citizens, so a Mediterranean customs union seems almost impossible to envisage, but there are alternatives that would improve the current situation. One of these possibilities would be the setting up of a forum aimed at harmonising existing regulations and procedures, since regulatory convergence would generate legal certainty throughout the area and would allow the reinforcement of internal logistical processes.

Another of the existing barriers to the fluid movement of goods is the requirement for economic operators, or their customs representatives, to work with transport and customs printed documentation, which triggers costs, risks of loss and consequent blockades of goods at border control posts, and problems in the analysis of documentation by the official at the border post, due to the multitude of formats and regulations for filling in the existing documents.

It also seems clear that it is necessary to work on the promotion of digitalisation in two areas: firstly, to put an end to the need to hand over printed documentation to counterparts and authorities and, secondly, to implement computer tools that permit the possibility to work with authentic documentation at any time and, to permanently control the stats of the goods. A successful example would be the use of blockchain technology, for example, by the Egyptian authorities. In a market with different counterparts, tools that provide security and immediacy are necessary.

The customs regulations already offer a solution to problems such as the blockade of goods -although it is necessary to develop it from a practical point of view-, with the figure of the Authorised Economic Operator (AEO), which is an operator trusted by the Customs Administration. As it has been designed, this figure allows for favourable treatment by the customs authorities to AEO operators, such as fewer controls and priority in queues. For the time being, only the EU has recognised this figure in the

Mediterranean area, but it could represent a milestone for the streamlining of customs procedures among operators in the countries of the area.

Last but not least, there is one figure that would allow the establishment of alliances at the customs level, and that would also allow for an increase in trade exchanges, such as the promotion of the transit regime between all the countries of the Mediterranean area, so that goods could transit freely within them.

## **2. Promotion of intra-Mediterranean trade: the free trade agreements.**

The EU (and its member States) have entered into several free trade agreements with a lot of the countries on the southern shores of the Mediterranean, whereby free trade areas are gradually being established. Progress is also being achieved in this regard between non-EU countries.

The great benefit derived from the signing and entry into force of these free trade agreements is usually the elimination of duties on trade (or the establishment of zero tariffs) among operators in the relevant countries.

As it is well known, duties are one of the most important elements of a country's fiscal and taxation policy, as well as an important element of protection for the national productive sector.

Another important milestone is the entering into force of the Pan-Euro-Mediterranean Regional Convention on Preferential Origin Rules (Pan-Euro-Mediterranean Convention), which establishes uniform rules of origin and cumulation and is currently under review. The establishment of common rules of origin is key, as it is the basis for the application of all kinds of trade measures.

The conclusion of the aforementioned could be that trade facilitation through the setting up of a free trade area is the right track, although there is still much room for action. There are many opportunities for developing collaboration between countries and economic operators in the region, that would also have the effect of strengthening the area itself as a global economic hub and generating exponential growth.

## **3. Particular issues in maritime transport. Shortsea Shipping.**

In order to achieve the consolidation of the Mediterranean Sea as a leading global trade area (apart from its strategic position as a transit and connection area for global routes), it is essential to promote shortsea shipping between countries on the Mediterranean coast.

This is defined by the Spanish Association of Short Sea Shipping as "the movement of goods and passengers by sea between ports located in the territory of the European Union or between those ports and ports located in non-European countries with a coastline on the seas surrounding Europe". It seems clear that this is an ideal means of transport for trade among Mediterranean countries.

That said, although the price factor is always very important, the key element when choosing a ship as a means of transport is the time. In addition to the necessary availability of routes with enough departures and arrivals, it is essential to ensure that goods do not remain blocked at border posts for longer than strictly necessary. This requires the promotion of "24/7" ports fully operational and provided with enough staff both from private companies and officials from the various administrations in charge of customs and special controls.

In addition, an improvement in customs facilities should be implemented in terms of the construction of unique Border Control Posts that allow all controls to be carried out at the same time, in order to comply with the Customs Single Window regulated in the Union Customs Code (UCC).

Another measure to put in place would be the construction of adequate terminals and multimodal facilities for goods to follow their route, whether by train or truck, to their destinations.

#### **4. Conclusions**

The following conclusions can be drawn from the thoughts and ideas foreseen in the previous sections:

- Although progress has been achieved in trade integration in the area, more multilateral agreements should still be encouraged. This would ensure (i) the stability and continuity of trade operations among companies in the geographical area of reference, regardless of geopolitical issues, and (ii) the consolidation of common multimodal policies.
- It is necessary to work on the harmonisation of customs regulations and customs procedures to provide legal and operational security for economic operators, as well as to invest in the training of civil servants and operators' staff, in order to increase operations in the area.
- Shortsea shipping is essential for the development of the area. In order to boost it, it is necessary to execute the setting up of new routes and corridors, to streamline the actions to be carried out at border control posts and to reinforce multimodal actions.
- Digitalisation is key to the commercial integration of the area. To this end, the promotion of compatible and open platforms and programmes should be achieved.

#### **5. Recommendations**

The success regarding the development of intra-Mediterranean commerce, could be achieved implementing the following recommendations:

- A firm commitment to digitalisation in the area, with technologies that provide legal certainty in customs and trade procedures with third parties.
- Possible enlargement of the countries party to the Convention on a common transit regime, to allow the entry of countries on the shores of the Mediterranean Sea.

- Harmonisation of customs legislation and promotion of multilateral conventions.
- Strengthening of the AEO figure.

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