MARITIME AND AIR TRANSPORT IN MENA: THE POTENTIAL GAINS FROM LIBERALIZATION

Riad al Khouri*

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Abstract

The paper discusses markets and regulations in MENA air and maritime transport. After reviewing market trends and regulatory frameworks, the paper underlines the positive consequences of liberalization and concludes by mentioning important questions about the next WTO negotiations. The paper argues that, to increase efficiency and attract foreign capital and technology, MENA countries have an autonomous strong interest in opening their transport to competition. The main aim of the GATS is to provide a framework for liberalizing services trade. However, the relevance of GATS negotiations to transport is far greater, because of its importance as an input into other activities.

I. Introduction

This paper discusses market and regulatory structures that apply to international air and maritime transport in the Middle East and North Africa[1] region, including port and support services. The intention is to target policy advisors and decision-makers in both developing and industrialized economies, as well as the research community in developing countries, in order to identify policy options and undertake analysis to prepare for the next set of WTO negotiations

The paper draws on, among other sources, a number of recent studies and Word Trade Organization documents in order to offer an up-to-date comprehensive survey of the main issues concerning liberalization of air and maritime transport services in the MENA countries. After reviewing recent market trends and the evolution of regulatory frameworks in the transport sector, the paper underlines the positive consequences of its liberalization and concludes by mentioning some important questions about the next WTO negotiations.

The paper argues that MENA countries have an autonomous strong interest in opening their transport sector to external competition, in order to increase its efficiency and attract foreign capital and technology. However, the relevance of GATS negotiations to transport services goes far beyond their sectoral effects, because such services also have an important role as inputs into other productive activities. The competitiveness of a country's merchandise exports may be seriously hampered by deficiencies in transport services and this is another reason for recommending their liberalization.

An attempt is made to assess how existing structures affect the costs of shipping and the quality of service provided. The paper also discusses how liberalization could improve the efficiency and quality of maritime shipping and air transport services, and the likely impact on downstream industries in terms of their ability to compete on world markets.[2]

[1] The definition of MENA varies among international organizations and other bodies. The broadest classification generally includes the Arab states, as well as Israel, Turkey, and Iran.

[2] Estimates of the gains from liberalization are calculated using estimated data on the importance of international air and sea freight transport to the rest of the economy in selected MENA states.

Based on this analysis the paper asks whether negotiations in the WTO should begin from the proposals that were on the table in the aborted Maritime Services negotiations, or from a fresh start, and assesses whether and how air transport services in the region should be liberalized. Particular issues addressed include the role for embedding liberalization commitments in the GATS, constraints on open skies/open seas policies, and the extent to which anti-competitive market structures are the result of foreign actions (or inaction), and therefore require international co-operation.

II. Transport in the Context of Some Major Economic Issues in MENA

A. Regional Integration

MENA remains relatively unintegrated in terms of the extent of economic interactions within the region and in the absence of an effective framework for formulating and implementing rules and policies to influence, regulate, and supervise economic relations. During 1994-1996, intra-MENA trade amounted to $19.4 billion, which is about 10 percent of foreign trade by MENA countries with the world and less than 1 percent of world trade. The top five exporters in intra-MENA trade are Saudi Arabia, Turkey, the United Arab Emirates (UAE), Iran and Egypt. Together, they account for 62 percent of total intra-MENA trade. The top five importers are Turkey, UAE, Saudi Arabia, Oman and Kuwait, accounting for 54 percent of all such trade.[3] With the exception of mineral fuels, there is no category of commodities for which intra-MENA trade is very important. Tourism and other nonfactor service flow patterns with direct implications for transport have also been quite segmented. (Some countries - primarily Egypt, Jordan and Lebanon - have received substantial tourist flows from within MENA.)

There is thus potential for far greater intra-MENA region economic interaction. While MENA countries will continue to trade mostly with non-regional partners, the current levels of trade within the region are below those that would be attained if economic relations intra-regionally were freer. In addition, most other types of

[3] DeRosa, D and Saber, M, “Regional Integration Arrangements in the Middle East and North Africa,” background paper prepared for *Egypt: Strategy for Regional Economic Integration*, revised draft, 5 Nov. 1998, supplied by Mr. DeRosa.

economic interaction within MENA - with the exception of labor flows - remain limited.

The region therefore requires economic policy changes, most of which are also needed to benefit from the globalization and integration of the international economic system. Pursuit of MENA regional integration within the overall context of multilateral externally oriented policies would further growth. Political factors, however, may continue to constrain the pace of integration over the next few years, and most counties in the MENA region will continue to trade mainly with the EU, the US, and East and South Asia. However, the volume and the share of regional trade can rise significantly. Beyond its effects on merchandise trade, regional integration would boost service flows and intra-regional investments. Over time, and as more countries in the MENA region progress in deregulating and liberalizing their economies, linkages among them would strengthen regional economic ties. There are three main sub-regional integration arrangements in MENA: the Arab Maghreb Union, the Arab Common Market, and the Gulf Co-operation Council (GCC).[4] However, there has been little in the way of regional economic policy co-ordination in the region, except among the six GCC states.

Major developments such as the Arab-Israeli peace process, and adherence to the EU-Mediterranean agreements are part of the region's opening up economically. Meanwhile, the short-term outlook for the development of transport in MENA is still poor. A combination of low oil prices and regional tension will mean generally weak economies. This will have a negative impact on any large-scale attempts to develop transport infrastructure projects.

Most MENA states have enjoyed various trade preferences from their major industrial country trading partners (the exceptions are members of the GCC) but this has not resulted in faster and more sustained trade-led economic growth. Several MENA economies' potential in this regard is constrained by a key factor: the lack of dynamism of the external sector at the individual country level. Looking at the circumstances of the individual economies in the region, two aspects stand out: first the lack of product diversification at the individual economy level; and second, the nature of trade openness. The export performance of several countries in the region is dependent on one or two sectors. This is particularly the case for most of the oil exporting states. Indeed, diversification centered on the manufacturing sector is significant in only a few countries. The present narrow export sectors have less need of greater and more sophisticated transport facilities.

Even though domestic reforms and multilateral liberalization will be the main engines of greater MENA transport integration, there is also a clear need for measures aimed directly at regional interaction. These include improving the ability to move goods between countries.

Significant opportunities for regional projects with high payoffs exist in such fields as tourism. Such direct regional co-operation efforts would be enhanced by the creation of an appropriate transport framework. Improving the capacity and efficiency of the MENA region's transport system is also critical in order to facilitate economic interaction and lower the costs of trade in the region and with the outside world. The problems, however, are not solely those of upgrading the physical infrastructure. For example, the harmonization of regulations in the region and traffic difficulties at respective borders also represent major shortfalls in the efficiency of a regional transport system. Successful liberalization will promote regional interaction. Therefore, it is critical to continue structural reforms aimed at deregulating and liberalizing MENA member economies. To be sustainable and effective, the liberalization of external trade will need to be accompanied by concurrent progress on domestic structural reforms.

In any case, regional integration must proceed in well-formulated stages within the globalization process and the work of the WTO. However, at present, integration among the countries of the region is limited. In fact, the conclusion of bilateral agreements between the EU and individual Mediterranean countries may constitute a challenge inasmuch as it may lead to the emergence of a "hub and spoke" system in the region, in which the EU would be the hub and the individual Mediterranean countries would represent spokes. Thus, the EU-Mediterranean agreements may be insufficient per se to bring about the desired revitalization of imports from MENA and may paradoxically draw investments towards the EU.

Presently segregated MENA transport networks cannot stand in a competitive market against giant international transport consortia. The plan for an efficient EU-MENA system envisages the creation of a link consisting of an interrelated

[4] Transit agreements among the GCC states are an example of their efforts to organize transport flows sub-regionally and between them and other countries.

and completely joined system made up of several cross-border networks. For the MENA region this is still far in the future, and proposals made for co-operation in this field have not materialized into a plan of action for implementation.

Improved transport between the countries of the region is a prerequisite to taking advantage of their geographic location. A coordinated transportation network will prove more efficient and will obviate such redundancies as several neighboring airports currently operational in the Gulf areas. Containerization is a main requirement in multimodal transport in particular. However, integrating container transport into the regional network does not involve easy choices: the establishment of an inland container depot is a costly investment and cannot be justified under conditions of present low density traffic. This and other developments in the region's transport infrastructure will have to await a new and more promising economic situation resulting from peace.

B. The EU Mediterranean Initiative

Guided by the fear that poor economic development in the Mediterranean region (including several countries in MENA) would cause instability on Europe's flank, the European Union has proposed a free trade area with the countries of the Mediterranean. The basic objective is to conclude agreements with the individual Mediterranean countries, with the ultimate goal of creating a free trade zone in the region by 2010. These objectives are to be achieved gradually, and the EU has committed to assist in financing the adjustment cost associated with free trade. About half the funds are earmarked to prepare for free trade through developing the private sector and the trading infrastructure, including transport. On the other hand, in the context of MENA countries the problem of investment diversion has been frequently cited in connection with the Euro-Med partnership agreements. Insofar as investment tends to be created in the EU and diverted in the MENA countries as a result of these accords, there may be that much less finance available for investment in transport infrastructure.[5]

The Mediterranean Initiative implies a major shift in the development paradigm and a commitment to realign policies, institutions and companies in the direction of Europe. However, the key to this initiative is that the agreements provide MENA countries the opportunity to lock-in policy commitments and begin to harmonize domestic laws and standards with international norms. The export payoff of such harmonization can be large. Using the next decade to improve productivity and move to higher value-added activities in the European market is a way to ensure that the Mediterranean MENA countries participate in the prosperity brought by the growth in world trade. Moreover, because the EU agreements will create strong incentives for Mediterranean economies to open up to each other, greater intra-regional trade among all MENA countries is a likely by-product of the process. This will have important implications for transport infrastructure within the region and extra-regionally. The EU's Mediterranean Initiative contains incentives not only for closer economic ties between EU countries and those in the southern and eastern Mediterranean, but also for closer ties among the latter group of countries. While the liberalization schedule under these agreements is spread over twelve years, and while full liberalization does not apply to agriculture, this encouragement of regional integration may be very important.

As a tangible example of the direction in which this process is heading, the Declaration of the Mediterranean Transport Conference of January 1997 was in effect part of the articulation of the EU's Euro-Med policy. The Conference welcomed the development of a Euro-Med Partnership, a first manifestation of which took place at the Euro-Med Conference in Barcelona (November 1995) as a way to promote regional integration between the Euro-Med partners, as well as its accompanying financial and technical measures for reform of economic structures. The Conference stressed the importance of an efficient transport system for the success of the Euro-Med Partnership as well as for the balanced economic development of the region, taking note of the Barcelona Declaration, which emphasizes the importance of developing and improving infrastructure. The conferees expressed a desire to take concrete steps for the implementation of the Work Program of the Barcelona Declaration, which stresses the need to co-operate in the development of multimodal transport networks for the region, integrated with the Trans-European Network, as well as the need to improve transport services. In conclusion, they agreed to begin co-operation on a number of transport themes, and in particular on the promotion of integrated, multimodal transport networks as well as of efficient transport services.

[5] DeRosa and Saber, op cit

The Conference felt that co-operation in the development of integrated, multimodal transport networks should aim to promote the interconnection of national networks of transport infrastructures of the region in order to create multimodal and interoperable networks. The participants should thus co-operate to plan a multimodal trans-Mediterranean transport network that reflects anticipated flows of goods and passengers. This planning exercise should involve all the countries in the region to promote connections between Mediterranean infrastructure networks and the Trans-European transport networks (including the trans-Maghreb transport corridors as defined by the Western Mediterranean Transport Group), as well as with the transport networks in the Black Sea region.

A network of multimodal port and airport platforms, and their connection to present or planned land transport networks being a key factor in inter-Mediterranean relations and for peripheral countries in future context of an enlarged EU, the participants agreed that they should give careful consideration to the balance between different transport modes in the Mediterranean Partner countries. In particular, projects connected with the improvement of short-sea shipping services should be given a priority, as well as those that promote Mediterranean east-west maritime traffic as an alternative to land traffic moving in the same directions further north. Priority should also be given to the rehabilitation and reconstruction of existing infrastructure, the removal of bottlenecks, or filling in missing links rather than the construction of new infrastructure. An emphasis should be given to the means to improve the efficiency and competitiveness of maritime transport in the region, in light of the high proportion of goods transported by sea. A weak link in multimodal transport chains is often the link between ports and their hinterland, thus the improvement of such links should be given a priority. The modernization of the air transport system, including aviation and airport infrastructures and ancillary systems (air traffic control), should be encouraged in order to increase its overall capacity.

The Conference recommended that cooperation to improve transport services should take place according to the legal obligations of most of the partners to WTO rules where appropriate.

C. The Peace Process

Arab-Israeli peace that is just, lasting and comprehensive could provide major economic benefits to much of the MENA region, particularly to Israel and her neighbors. Peace will increase the returns to investment by reducing country risk and by opening up regional projects in such areas as transport.

There is still very limited trade between Israel and the rest of MENA. (The only exception to this has been the extensive export of Israeli products to captive Palestinian markets, hardly an example of the benefits of trade.) Peace will act as a stimulus to foreign trade, which will especially increase with respect to GDP in the Levant (Egypt, Syria, Lebanon, Jordan, Israel, and Palestine). In other words, the medium-term rate of growth of imports and exports combined will outstrip the rate of growth of GDP as the regional economy opens up under the impact of peace.

Serious movement towards just, comprehensive, and lasting peace between Israel and the Arab countries will in turn push the implementation of transport infrastructure projects. If such a scenario is realized, the longer-run period could be one of major economic progress and concomitant expansion in the intra-and-interregional transport infrastructure. Under a situation of just, lasting and comprehensive regional peace, various new transport infrastructure projects should become feasible. This will lead to major changes including:

- *The redirection of the existing import, export and transit flows towards more economical routes that are at present barred*. The geographical location of the Levant region is central to three land masses: Africa, Asia and Europe. This location can provide an international traffic access point for the three areas to link with the MENA region economies and with each other. Potential transit route changes will be particularly important as new routes develop through the Middle East and North Africa. Major potential international trade route changes will occur from Egypt to all MENA countries to the east, as land transport replaces sea and/or air where appropriate. Jordan and the PNA will be in a similar position vis-a-vis Africa. In addition, Jordan will benefit from shorter sea and air transport routes to North Africa, Europe, and the western hemisphere. However, it should be noted that the new routes simply offer a potential. To make this a reality will involve much more. The other point to note is that some regional routes will suffer, including for example the ferry line from Egypt to Jordan. However, these losses will be minor compared to the major gains offered by more economical new routes.

- *The generation of additional local and international freight and passenger traffic due to new trade opportunities, reduced transport cost, and other positive effects on the economic development in the region*. The Levant area has well established trade links and relatively accessible intraregional trading routes. These will quickly begin to handle considerably larger volumes of goods and passengers after the consolidation of regional peace. Future movements of labor among the countries involved in the peace process are also estimated to be substantial, particularly in the context of PNA-Jordan-Israel relations. This will promote demand for more and better transport infrastructure and services.
- *The attraction of tourism to the region*. With the achievement of just, comprehensive and lasting peace and a new atmosphere of security, the tourism industry is posed for a future of strong growth. This could see tourist arrivals almost double within a year of peace being concluded, and could rise again by the same level after another few years as peace is consolidated. Such an inflow will, in particular, involve tourists coming from the EU states. The ensuing boom will improve the overall economy, creating opportunities for many other industries and lifting income levels. However, this will only be possible in the context of regional tourism. Among the MENA countries, an atmosphere of collaboration rather than competition will be required.. Intergovernmental co-operation is especially important for developing infrastructure such as ports of entry. Policies of open borders and deregulation are necessary for building an environment suitable for long-term investment. The question is how to achieve this among the MENA states themselves, particularly through the development of regional airlines and ancillary facilities.

A "normal" future situation will thus be one with border crossing restrictions eased. For passengers and freight, it will be possible to cross all borders by land, sea or air with relatively little delay and presumably at lower cost. As a partial cause and consequence of this and other factors, trade liberalization will follow. This will open new market opportunities within the Levant, and will foster economic growth through enhanced domestic and foreign investments. The perceived reductions in both border crossing restrictions and transport costs are projected in turn to lead to a redistribution of transport demand along "natural" lines.

Resolving the Arab-Israeli conflict by peaceful means is only one, albeit the most important, of the challenges facing MENA countries. However, for all scenarios barring the very worst, transport infrastructure will have to be upgraded in terms of quantity and quality to serve the economies of the MENA countries, whether or not a just, lasting, and comprehensive peace is achieved.

D. Conclusion

Peace will redraw the transport map of the Middle East; and the resulting opening up of trade, increased tourism and the generation of further local and international traffic will place additional strains on the transport system. However, the peace process is simply part of the overall trend of integration within the region and internationally. On a broader level, the EU's Euro-Med Partnership process has started operating to help regional integration as well as integration with Europe; and on a worldwide scale, adherence by more countries in MENA to the WTO will lead to further integration inter- and intra-regionally. A just, comprehensive and lasting Middle East peace will have a major impact on the MENA region. This will be especially true as such a peace is accompanied by adherence of more MENA members to the WTO and by the signing of EU-Mediterranean Partnership accords between the EU and individual MENA states. A particularly important development which could also go along with all of the above would be the liberalization of the individual economies and attendant intraregional integration. In any case, these major themes[6] should be kept in mind in the following sections.

III. MENA Air Transport and GATS

A. Recent Trends and Issues in MENA Air Transport

The world has witnessed important changes in civil aviation over the past few years. Among the more significant of these have been the increase in open skies agreements, burgeoning of transnational alliances and cross-ownership between companies, a single European aviation market and similar attempts in Latin America, liberalization of airport services in the EU, concentration of the industry, growing intervention of competition authorities, the bankruptcy of certain national

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[6] For a discussion of these and related issues, see ESCWA "Assessment of Intra-and Interregional Transport and Infrastructures," E/ESCWA/TRANS/1997/3, 8 September 1997, pp 62-4

carriers, development of the activities of air cargo integrators, and privatization of airlines and airport services.

However, most of MENA has tended to lag behind in this sector. In addition, familiarity with the WTO is weak, and, with some exceptions, bringing air transport completely into the GATS has been viewed by government and others with apprehension.

Along with these attitudes has come a certain lack of dynamism and innovation. Partly as a result, the region's airlines have tended to remain small. For example, just two airlines in MENA were included in 1996 among the top thirty scheduled air carriers in the world in terms of freight and mail ton-kilometers performed annually. These were El Al (ranked 25) and Saudia (27), and only the latter in the region ranked among the top 30 in terms of passenger-kilometers (placing last, down from 23 in 1987).[7] Like most of their counterparts in MENA, such national airlines are still government owned, though privatization aims have been made known for them as well as over ten other carriers in the region.

Belief in privatization, commercialization and deregulation is slowly making inroads in the region as a way out of economic stagnation and underdevelopment. In this context, an important phenomenon in several MENA economies is the move towards abolition of state-owned carriers' monopolies. Replacing them are mixed public-private control of existing airlines, the springing up of private carriers, or both. Though not all the new entities may succeed, they are already forcing established ones to take notice and improve service standards. Several privatization initiatives are thus in hand but the region's carriers remain cautious about making code-sharing agreements or alliances with companies outside MENA,[8] and there are no such agreements between airlines within the region.

The region still has a long way to go with respect to privatization and other liberalizing steps, however, and state control of the aviation industry remains the norm. Among other public sector Arab airlines operating today are Bahrain's national carrier Gulf Air, jointly owned by the governments of Bahrain, Oman, Qatar and the UAE; Royal Jordanian, Egypt Air, Iraqi Airways, Kuwait Airways, Saudi Arabian Airlines, and Syrian Arab Airlines, all 100 percent owned by their respective governments; the Yemeni national airline, 51 percent owned by the state of Yemen, and 49 percent by the government of Saudia Arabia; and Lebanon's national carrier, Middle East Airlines, which is almost completely state owned.

On the other hand some examples of private ownership in Arab aviation include the Tunisian national airline, which is now only 80 percent state-controlled after a recent 20 percent divestiture; Oman Air, 35 percent government-owned, with the rest held 40 percent by private Omani companies and 25 percent by individuals; and the Qatar national carrier Qatar Airways, 100 percent owned by private investors.

The trend towards private ownership in MENA should accelerate over the next few years, allowing it to catch up with much of the rest of the globe. Worldwide, trends towards privatization of airline companies have strengthened and become more general. Over seventy percent of airline companies now have a majority of private capital, with state-owned flag carriers becoming rarer. A few dozen operations involving partial or full transfer of ownership of government-owned airlines have been taking place annually around the globe since the mid-1990s, when moves towards air carrier privatization became popular, even in the Middle East. MENA carriers targeted for privatization up to 1996 included Air Algérie, El Al, Kuwait Airways, Royal Air Maroc, Sudan Airways, and Saudi Arabian Airlines, with a greater or lesser amount of progress having been made in each case. The last year or so has also seen moves towards selling parts of the airlines of Lebanon, Tunisia and Jordan to private business.

It is also significant that governments no longer invariably come to the rescue of distressed national airlines and that some bankruptcies and closures have been allowed to take place. This has been true in many developed economies, where there has been a clear tightening of competition policies in relation to various forms of state support to airlines (among other businesses). However, it is still not the norm in MENA.

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[7] WTO Council for Trade in Services," Air transport services: Background Note by the Secretariat," S/C/W/59 (98-4346), 5 November 1998, p. 29

[8] Royal Jordanian's code-sharing arrangement with TWA is a notable exception. That there are no such agreements between airlines within MENA speaks volumes about the issue of co-ordination among the economies and airlines of the region.

Groupings and concentration can also be observed on the national level: thus in the US a complex series of alliances, if approved, could reduce the number of operators to three. Also noteworthy is the emergence of increasing numbers of low-cost new entrants and the creation of budget-travel subsidiaries by major operators. In another strategy a major carrier may buy regional companies or franchise them to carry its customers to hub airports. (In this connection, Middle East Airlines is being wooed by Air France.)

However, air transport infrastructure is also crucial, particularly airports. In MENA these are ample, thanks to the oil boom of the 1970s, which resulted in more people wanting to travel or ship in the region, as well as in extensive financing to build big infrastructural facilities. Airports of the region could play a more active role in the chain of multimodal transport, as Dubai has been doing successfully from the Far East to Europe. Dubai has been an innovator in the regional transport industry, and utilizes air transport to ship cargo, which arrives by sea from the Far East, to its final destination in Europe.[9] It is thus not a co-incidence that the only MENA airport ranking among the world's top 50 in 1997 in terms of total cargo was Dubai – at 425,000 tons – with its 15 percent growth in that year impressively outstripping most others on the list

On the demand side, the following have had an impact on air transport during the past few years: growth of international and domestic tourism; globalization and the growing integration and inter-penetration of economies; the continuing trend towards lower air fares; the growth of the share of high-value/low-bulk products in the manufacturing and trade of industrialized countries; the rise in the share of services in total output; increases in the international movement of labor; the trend towards several shorter periods of travel in the course of a year; the increased consumption of fresh perishable foodstuffs originating in distant countries; and air traffic liberalization. All of these factors have operated in MENA to a greater or lesser extent in spurring demand for air transport services. Supply inelasticities have however resulted in only modest growth in the region's airlines, although the International Civil Aviation Organization (ICAO) forecasts some improvement in scheduled passenger traffic for 2000.[10]

Air transport problems that face MENA countries include having to find market-oriented ways to bypass traditional barriers to greater participation in international traffic or else risk being fully excluded from the market; looking for new routes, traffic rights, and capacity; devising cost-cutting strategies and alliances; dealing with new subsidy and competition policies, and ownership rules.

Franchising is of growing importance in air transport because it complements the development of regional companies and of "hub" strategies. It also reduces the risks of operating in areas where direct operations might not necessarily be profitable. A typical example are the franchised partners of British Airways, British Mediterranean Airways in the Levant and Central Asia and GB Airways in the Iberian Peninsula, Malta and the Middle East.

The shape and size of air transport systems are affected by governmental decisions, notably those determining the type and extent of economic regulation of airlines. The following regions have undergone open skies agreements: the EU, Mercosur, the Caribbean Community, the Andean Pact countries and the Yamoussoukro Declaration states. No regional agreements currently exist in MENA but the Arab Civil Aviation Organization has studied the effects of the Agreement on Arab transport services and has adopted a strategy to gradually liberalize traffic rights between Arab countries.[11]

B. WTO 2000 GATS Air Transport Negotiations

Further liberalization of the airline industry can be achieved within the existing parameters of the Annex on Air Transport Services. The WTO Secretariat has drawn attention to definitional problems that leave the coverage of services directly related to the exercise of traffic rights unclear. The Secretariat also points to a number of elements contained in the Annex and the GATS itself that could be

[9] WTO ,op cit, p 34

[10] ICAO, "The World of Civil Aviation, 1997-2000" (Circular 273-AT/113), p112

[11] See for example the statements by Arab Civil Aviation Organization Abdeljawad Dawudi in his note on "GATS and Air Transport: Elements of the Arab Position," (Arabic), E/ESCWA/TRANS/1999/WG1/11, 8 June 1999

revised. An example cited is the one concerning whether the aircraft leasing sector is covered under GATS.

The aspect of the GATS that has preoccupied air transport negotiators from the beginning has been the general obligation to grant MFN treatment. This would imply that the terms of an open skies agreement between two large countries would have to be extended unconditionally to all WTO members, including those that are not necessarily prepared to enter into such an agreement.

The weak position of MENA countries in the negotiation of bilateral air traffic agreements is seen as a major impediment to increasing their penetration of world markets for air transport services. Incorporation of air transport into the GATS-WTO framework may enable these countries to strengthen their negotiating position via tradeoffs between air transport and other sectors. MENA countries that attach priority to expanding their air transport exports (e.g. the UAE, Jordan and Lebanon) could offer concessions in other areas. On the other hand, MENA countries that do not attach priority to maintaining a strong national airline could offer access in the air transport sector in return for other concessions. It may be in the interest of the latter group of MENA countries to see that air transport is incorporated fully in the agreement so that they can take maximum advantage of using air transport services for bargaining purposes in other sectors. (Depending on the situation of the country, it could be argued that the Annex should for example cover all cargo operations to encourage exports as well as charter transport to boost tourism.)

Options available for what to do with the Air Transport Annex in the WTO 2000 negotiations could include the following:

- Maintain the status quo of the three topics covered by the Annex but ask for increased commitments and removal of existing exemptions
- Use the review to clarify the Annex and to expand coverage through greater specificity to include traffic rights and services directly related to their exercise. The Annex must also take account of emerging obstacles to trade in air transport in MENA such as airport and airspace congestion, safety oversight, environmental measures, taxation, competition law and consumer protection requirements.
- Add to the existing list of three services
- Consider full coverage of the air transport sector through a modified MFN system in order to accommodate the particular features of the sector (bilateral reciprocity) that currently governs market access.
- Use the GATS as a liberalization mechanism for unilateral or non-negotiated commitments.
- Maintain the GATS via the Annex as a multilateral framework of objectives and disciplines for international air transport with respect to the general disciplines on subsidies, consultation on restrictive business practices and other topics.

What is clear is that a lot remains to be done to educate the MENA aviation community about the GATS and MENA trade negotiators about air transport. It is necessary to clarify for them exactly what is covered by the GATS especially under marketing, selling and leasing. An attractive option for MENA airlines, particularly the Arab sub-set, would be to adopt coordinated negotiating positions on air transport.

There is a strong preference within the industry in MENA for air transport services to continue to be dealt with on a sectoral basis, as opposed to comprehensive inclusion with other services. The position of members of IATA is that the GATS is not the vehicle at present for overall liberalization, but that the WTO 2000 round does offer the opportunity to examine what obstacles exist and to see if GATS can help.[12]

On the other hand, the multilateral approach of the GATS is not the only way to liberalize air transport. The US deregulated its domestic market and since then considerable progress has been made in liberalizing international air transport through bilateral means.

[12] An official IATA view is set out in the note by the organization's Regional Director for the Middle East Khalid Mahdi on “Preliminary Thoughts on The Liberalization of Air Transport and the GATS,” E/ESCWA/TRANS/1999/WG.1/21 10 June 1999

IV. MENA Maritime Transport and GATS

A. Recent Trends and Issues in MENA Maritime Transport

1. Ports

When the oil boom began in MENA in 1973, many states in the region found themselves under continuous pressure to build new ports or expand existing ones. This involved huge sums from the public budget of those states in the form of grants or interest-free loans with no specific reimbursement discipline. Thus, from the early 1980s, most countries in the region have had modern ports with high capacity and appropriate equipment that can more than meet the volume of maritime transport needs. Meanwhile, a decrease in traffic in most ports has occurred.

To a great extent, the ports of the region[13] need to be more responsive to trends in international maritime industry and trade. Some facilities do not operate at full capacity while others require major investments. Ports in MENA should become more integrated in the overall transport chain, and not act as separate entities.

MENA region commercial ports are run by semi-autonomous public enterprises; they have separate budgets, and most of them are subject to supervision by various ministries. Net annual surplus goes to the public treasury. However, this approach is changing as numerous ports began to be more self-financing. Nevertheless ports in the region generally suffer from state control, though some, such as in the UAE, have managed to reduce government intervention, while at the same time taking into consideration the need to comply with national policies. Most MENA ports are intended to, and actually serve, as a source of government revenue and employment.[14] Few port enterprises in the region pay much attention to trade facilitation through flexibility of tariffs and fees and diversification of services, ports in the UAE being notable exceptions.

[13] MENA has a large number of ports and every country is served by one or more. Only the Palestinian National Authority currently has no major port, though one is planned in Gaza.

[14] In many cases state employment policies make MENA ports bear the burden of keeping large and unnecessary numbers of low-productivity, high-cost public-sector staff.

Port development and expansion projects need increasing attention from most states in the region as numerous benefits could come from greater efficiency in handling goods and ship turnaround, among other factors. Monopoly by some domestic stevedoring companies also leads to inefficiency and higher costs.

Port dues and charges applicable in most ports for which information is available show:

- Multiplicity of tariff items, details, and tables
- Vagueness of tariff items, with some charges lacking corresponding services, and with certain titles, such as loading/unloading, not covering labor, equipment, or any service charges
- The presence of a few charge categories the collection of which entails efforts and expenses that exceed their value, which requires either their consolidation into other similar categories or else cancellation
- Multiplicity of cargo-handling categories inside the port area, including various operations, transport, labor and equipment fees, equipment wait-time charges, labor wait-time charges, and other unnecessary details, rather than combining such charges into a universal one for handling per ton by category of cargo, beginning from receipt of cargo from the port cranes or the hooks and delivery to cargo owners, warehouses, temporary storage spaces, or vice versa
- The setting of one universal fee for loading/unloading, pilotage, towage, wharfage, mooring and unmooring of ships, which makes it difficult to determine the cost of a given service using the system of cost centers and revenue centers, as well as to make comparisons with other ports
- Multiplicity of container fees, dividing them into numerous sections, rather than applying one full cycle cargo-handling fee to be charged to ship owners and another fee to cargo owners.

The basis for calculating tariff items varies among the ports of the region. However, for most ports:

- Port dues charges are calculated per ton of the gross registered tonnage of a ship
- Container handling charges are calculated per container (full cycle) including labor and equipment fees

- Container cargo charges are calculated per weight ton and charged to the owner of the cargo
- Transit and trans-shipment cargo, including containers, are granted different deductions on charges and fees

Interference by governments in administration, operation, investment and pricing, combined with public sector control over port activities, causes confusion in port planning and function, thus raising the cost of services and rendering them uncompetitive with other ports in neighboring regions. Differences exist among charge and fee structures, in terms of item numbers, types and calculation basis, which makes it difficult to make meaningful comparisons among ports of the region in terms of ship/cargo traffic. Tariff items are vague and difficult to understand, with numerous categories, causing confusion to port users and complicating cost evaluations.

In particular, ports must respond more positively to changes such as the use of highly automated container vessels. Development of container terminals has witnessed acceptable progress in a few ports of the region. However, most others are still in need of upgrading their container terminal equipment, and the development of inland container depots must also be considered.[15]

To serve international trade more efficiently and reduce the total cost of transport, MENA states must consider the development of hub port trans-shipping to other ports. In order for ports to operate trans-shipment activities, more free-trade zones may be required. There is also potential for some of the region's ports to operate in tandem with export processing zones. (A successful example of this is the large facility at Jabal Ali in the UAE.) Instead of using special procedures for containers, most administrative and financial procedures regarding general cargo are simply applied to containers as well, adding to the obstacles encountered by this system of transport at ports in the region.

Container terminals are available in almost all MENA ports. Although there have been enormous computer advances and there are capabilities currently available along with the advances in electronic data interchange, information technology is not yet utilized by most transport networks and electronic data processing use is limited in the region. Border-crossing formalities such as customs and administrative arrangements are not meeting the requirements of regional and international trade.

In trying to compete with neighboring ports, and in order to attain hub or trans-shipment status, some MENA ports have initiated plans to develop and upgrade their container terminals. Ports such as Dubai (UAE) have a good container record,[16] as do Jeddah (Saudi Arabia) and Damietta (Egypt)[17] to a lesser extent. These and a few others in MENA have attained a good performance level in containers and are capable of generating a high volume of traffic.

Nevertheless, the participation of MENA member states in international multi-modal transport (MMT) remains limited. For the efficient operation of MMT, the following elements are needed: the development of international standards for containers and the provision of interface facilities for their operation, the conclusion of conventions and agreements to regulate traffic across international borders, and the development in telecommunication and computerization and their link into integrated systems of information and the standardization of codes and messages among transport partners.

All of these are more or less lacking in MENA. Instead, the segmented nature of MENA transport networks necessitates the duplication of several handling operations and leads to higher costs.

Transport infrastructure differs widely among MENA countries. However, irrespective of the range of development, these countries have isolated modal networks. A coordinated transport chain requires investments in infrastructure for

[15] There is currently only one such depot in the region, in the Saudi capital Riyadh; it receives cargo from Dammam, the country's major port on the Gulf.

[16] UAE ports as a whole ranked sixth in the developing world in 1996 in terms of container traffic, at 3.8 million TEU. Saudi Arabia was somewhat behind at 1.1 million, Egypt at 0.8 million, Kuwait and Morocco (0.2 million each), and Jordan, Syria, Lebanon, Tunisia, Bahrain, and Oman (0.1 million each).

[17] Damietta in particular has seen its cargo volumes rise sharply as ocean carriers have selected to use it as a regional gateway. Relay cargo to/from the eastern Mediterranean, Turkey and the Black Sea will continue to account for the lion's share of Damietta's business. The port, also pursuing an expansion program that would add to the existing berthing line and raise Damietta's storage capacity, projected a total throughput of 650,000 TEU in 2000.

two reasons. The first is the requirement to extend the networks to cover the areas to be served by the transport chain; the second is the requirement to attain compatibility with the adjoining systems and provide technical interchange conditions.

Arrangements for ship to shore cargo handling are inadequate in almost all MENA ports. Trans-shipment between the port and land transport is not carried out with efficiency. The handling equipment away from the ports is not up to the level established at the ports because the infrastructure is not available. . Except for Saudi Arabia, inland container terminal facilities are not part of the regional transport system. In all other MENA countries , the cargo arriving in high capacity ships at the port is offloaded and then loaded onto trucks.

Most of the ports in the MENA region are characterized by many of the problems of the poorer ports of the Third World. These problems include delays in loading, offloading and ship turnaround, exacerbated by lack of trained national workers. The most serious drawback in port performance and organization is the weakness in freight transfer to points inland, with all of the associated problems. The immediate consequences of the poor interface facilities are increasing transport cost, delays in deliver of goods, poor security of consignments and above all additional requirements for large storage facilities at the ports, which add to investment requirements and cost of transport.

No serious consideration has been given by the private sector to involvement in MENA transport infrastructure, as it is not a traditional area of investment for the private sector in MENA. Development of subregional co-operation projects in infrastructure and transport services is an area that deserves serious consideration by MENA countries. For instance long term-leases, joint ventures and BOT options have been agreed in Aden (Yemen) and Salala (Oman), the latter planned as the region's first privately owned port.

2. Fleets

Since the 1970s, MENA country merchant fleets have grown more than those in other regions, but the share of the MENA region in carrying its own seagoing traffic is still small. Fleets from other regions still control the MENA maritime transport market. Investment requirements in fleet development are large, and the resources of most MENA countries cannot now provide the financial backing needed on a commercial basis to meet the tough competition in ocean transport.

In terms of deadweight tonnage only the following MENA states were included among the 35 most important maritime countries and territories as at end-1997: Saudi Arabia (1.6 percent of world tonnage), Turkey (1.3 percent), Iran (0.9 percent), and Kuwait (0.4 percent). Except for Turkey, most of this capacity is for transporting oil and its products.[18]

Container traffic through MENA ports has been increasing over the last decade. Better utilization of containers in the region requires appropriate co-ordination of the various modes involved in the exchange of cargo. The types of containers usually in operation in the MENA region are ISO standard containers of 20 and 40 feet known as series standard containers. Very few larger containers are arriving at MENA ports, as they are not normally allowed on roads in the MENA region because of length and height limitations. An increase in container traffic can be achieved through appropriate infrastructural co-ordination and interface facilities. In developed countries the infrastructure and facilities for container handling between modes are available at the required standards. In the MENA region this is only true in the well-established ports and for ship to shore operations, for which some ports operate high quality handling equipment.

Private sector participation in the transport sector continues to be limited to some fleet ownership and a few services in maritime transport. Arrangements for developing joint ventures would be one way of providing the fleets of MENA countries with a larger share of business and a stronger position in the international competitive market.

B. WTO 2000 Maritime Transport Negotiations

Aside from a general spur to liberalizing shipping, the resumed maritime negotiations of year 2000 are not seen as significant for MENA. Countries that are not members of the WTO and have not so far requested to become so will remain unaffected; their ship owners will not enjoy the benefits of liberalization and will not be required to liberalize except through local, World Bank or similar pressure. Those that are in the process of acceding to the WTO will be requested to make

[18] Lloyds Maritime Information Services (London)

offers on services. For countries already in the WTO the question is also to evaluate their national interest in the negotiations to come. These latter two groups of countries are by far the most important maritime players in the region.

The inadequacies of classical divisions have led to the elaboration by WTO staff of a model schedule based on four "pillars"[19]

1. International maritime transport
2. Maritime auxiliary services
3. Access to/use of port services
4. MMT

For Pillar 1 it was suggested to be defined without cabotage (including or not multimodal), distinguishing liner from bulk in mode 1, distinguishing the establishment of a registered company operating the national flag from other forms of commercial presence (mode 3), and distinguishing the situation of the ship's crew from the one of onshore key personnel (mode 4).

Pillar 2 includes six services with proper definitions: cargo handling (excluding dockers), storage and warehousing, customs clearance services, container station and depot services, maritime agency, and freight forwarding services.

For Pillar 3, the aim is not necessarily to liberalize the port services concerned, but to ensure that they are available on reasonable and non-discriminatory terms and conditions. Nine services are covered: pilotage, towing and tug assistance, provisioning fuelling and watering, garbage collecting and ballast waste disposal, port captain services, navigation aids, shore based operational services essential to ship operations including communications water and electrical supplies, emergency repair facilities, and anchorage berth and berthing services.

For Pillar 4 there are two options: maximal - liberalizing the activity through specific definitions of maritime international freight transport, MMT services and MMT operator or supplier of international maritime transport services - and minimal - liberalizing the access to and use of MMT.

[19] This terminology is based on the work of Pierre Latrille, legal officer in charge of transport at the WTO. I am also indebted to M Latrille for supplying me with other information and statistics.

MENA countries may find that negotiations of specific commitments on Maritime Services will be particularly tough as far as the port industry is concerned. Different MENA countries nevertheless mostly espouse a "public-sector" approach to this issue.

Pressure exists from various parties in MENA for no agreement or commitments to be made in the context of ports. Among MENA states, specific commitments in maritime transport services have only been made by Egypt[20] and Turkey.[21]

In any case, work has to continue within each country in educating the concerned personnel about the agreement and explaining its consequences in order to produce a national consensus on the issue of maritime services. This would ideally be done at a subregional level, taking into particular account of the interests of the Arab countries.

V. Conclusions

A. The Need for Change in the MENA Transport Sector

After the expansion of the oil boom days of the 1970s and 80s, the MENA region became and has remained a laggard in international transport. Whether in terms of traffic, equipment, infrastructure, institutions, or the legal framework, MENA transport services are mostly not up to the standards of those in countries with similar levels of GNP per capita or other measures of economic standing.

Efficiency in transport services management worldwide has been considerably facilitated where these services are provided by means of organizational structures assuring financial and operational autonomy. The trend towards such a model has been a principal factor in the improvement over recent years in the financial situation of transport services in developed countries as well as in a growing number of developing ones. MENA economies have no choice but to catch up in this respect.

[20] WTO Council for Trade in Services " Maritime Transport Services: Background Note by the Secretariat" S/C/W/62 (98-4578)16 November 1998, p 13

[21] ibid, p 18

The trend of partial or full privatization of government-owned transport firms and facilities, applied by many states in the broader context of their privatization strategies, has also strengthened internationally. However, the privatization of some MENA carriers had to be deferred or postponed because of the complexities encountered in the process, the economic condition of the firms concerned, or local circumstances. Among the many other concerns currently voiced in the debate on airline privatization in the region are the following points:

- How can foreign investors be prevented from taking control?
- Once an airline has been privatized, what can be done to see that it continues to fill a public service role?
- What share of the capital can or must the government keep?
- How does the privatization affect the bilateral agreements concluded by the government or the airlines themselves?
- Does the privatization of an airline necessarily involve the sale of its shares on the national financial market? Indeed, in those countries where stock exchanges and related elements of financial infrastructure are weak or non-existent, the question arises as to whether privatization is possible in the absence of a financial market.

Whether these concerns are real or imaginary, they nevertheless need to be allayed. Otherwise, we are left to ponder whether regulatory reform aimed at granting financial and operational autonomy to public sector carriers, without substantially changing their ownership, would be enough to solve the efficiency problems of the transport sector in MENA countries. Or is privatization, although difficult to accomplish, the right solution?

The world transport market is turning global through the integration of transport networks. This process has already been initiated in the OECD states and in many parts of the developing world. For the MENA region, this seems to be still far in the future, and most of the proposals made for co-operation in this field have not materialized into a plan of action for implementation.

In this context, liberalization commitments and the discipline that the GATS imposes will provide transport industries with new opportunities for trade, both as importers and as exporters. Commitments will give the transport sector in MENA countries a chance to collaborate with foreign service industries and to benefit from their technology. In negotiating collaborative arrangements, the MENA transport industry can use as bargaining leverage the limitations imposed by their governments in their schedules of commitments. These, *inter alia*, specify that approval will be granted only if foreign service suppliers agree to bring in up-to-date technologies and to train local employees in their use.

On the other hand, ownership issues within the framework of contractual public/private partnerships for development of transport facilities (BOT etc.) will need to be carefully addressed to provide potential investors with the security they need, without jeopardizing long-term public interests such as maintaining ultimate public ownership of strategic shore and airport land. In this and other cases, the proper management of privatization and foreign direct investment will have important implications for competition policy.

As emphasized in a paper by Hoekman and Holmes,[22] active domestic competition policy can and should be pursued independently of the WTO, since it will be less likely to be a powerful instrument to encourage adoption of welfare-enhancing competition rules than a forum for the abolition of border measures. The WTO would have to therefore concentrate on its traditional role of facilitating market access negotiations and thus the agenda will focus less on international antitrust. The interest of major producers in export markets will dominate that of those advocating the adoption of competition law that is in the interests of the whole economy.

Liberal trade regimes are cheap and effective competition policy instruments available to a government. However, given the ability of freer trade to reduce the scope for anti-competitive practices does not imply the disappearance of the need of competition laws. Virtually all MENA countries do not even have competition rules and those that do often have limited implementation ability. MENA countries should thus pursue a broad based competition policy - defined to encompass all actions governments may take to promote competition, including trade liberalization, measures to facilitate domestic entry into services, de-monopolization of sectors, and imposition of tough budget constraints on public enterprises.

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[22] Hoekman B and Holmes P “Competition Policy, Developing Countries and the WTO,” April 1999

The WTO process is driven by export interests concerned with market access not national welfare considerations, and there is no assurance that any new GATS rules will be welfare-enhancing. Therefore, doubts can be expressed regarding the ability of a WTO-based process to play as constructive a role in the area of competition law as it does in trade policy, particularly in view of disparity in the competitive situations between the carriers of many MENA states and those of most developed countries. Thus, transport policy reform programs of MENA countries have to be complemented by supporting measures ensuring a minimum degree of competition to assure the functioning of market mechanisms. However the ability of MENA countries to devise and implement autonomous competition policies must be called into question, given the strength of interest groups resisting liberalization. Competition policies would face the same problems that have so far hampered privatization of the transport sector. Moreover, without an international agreement, these policies could not address the restrictive business practices enacted by the main owners of transport fleets, who reside in the industrial countries. On the contrary, an international agreement could increase the credibility of MENA countries' competition policies with the domestic private sector and with foreign investors. Insofar as market contestability is important for attracting foreign capital, commitments embedded in an international agreement may be more trustworthy than discretionary competition policies administered by national entities.

Another factor underlining the importance of competition policy will be that as market access restrictions are lifted in MENA states, the incentive for foreign operators to co-operate with MENA country service suppliers will tend to diminish, causing the transport companies in such countries to be relegated to mere marginal participants in the markets.

Some of the above points show the mercantilist bias that survives in the WTO system: unconditional liberalization is implicitly considered, in certain quarters, to be potentially harmful, at least for developing countries, and market access liberalization is treated as a "compensation" to be offered to trading partners, instead of being recognized as a structural reform increasing economic welfare in the importing countries. In fact, an advantage of GATS liberalization will be more investment in the transport sector, secured through guaranteed conditions of access for investors. One of the problems with transport sector investment in the past in MENA, was state ownership, which promoted inefficiencies of various kinds.[23]

The GATS could also help in acquiring state of the art technologies and management, promoting more competition hence better services, and leading to lower prices for the consumer. Almost all MENA economies are in urgent need of such techniques, particularly for air and maritime transport.

Finally, the GATS will promote transparency. An important area that deals with services liberalization is the liberalization of domestic regulations. The GATS dictates that the disciplines that deal with domestic regulation must be based on objective and transparent criteria. This could be a major spur to the promotion of transparency in MENA economies, an issue that is becoming increasingly pressing.

B. The GATS Transport Negotiations

The impact of the GATS depends very much on the specific commitments made by member countries. One study shows that "the MENA region made greater commitments than Africa or Southeast Asia, but relative to Eastern Europe and Central Asia, MENA commitments were almost three times lower. The offers of Algeria, Bahrain and Tunisia were more limited than the average offer of developing countries as a group. Egypt, Kuwait and Morocco made commitments that can be characterized as somewhat more comprehensive than the average developing country."[24]

A point of great importance of GATS for international transport is that it is promoted by a powerful new multilateral institution, the WTO, and thus offers a multilateral alternative to unilateral or bilateral regulation. Transport services have successfully developed within a particular regulatory system, with their own approaches, mindsets, objectives and procedures. GATS represents a different

[23] For an example of the lack of productivity of public sector transport infrastructure investment, see Feltenstein A and Jiming H "The Role of Infrastructure in Mexican Economic Reform," *The World Bank Economic Review*, Vol 9 No 2, May 1995, p 301. In the Mexican case, it was shown that such investment spending served to promote the position of the state as an employer of last resort and thus increases the cost of transport sector production.

[24] ERF, *Economic Trends in the MENA Region*, 1998, p 69

philosophical foundation, principles, rules and mechanism for liberalization. While bilateral agreements and their impact on issues of concern to the contracting parties are important, the multilateral agreements are of even greater significance owing to their wider geographical coverage and the larger number of contracting states. Among others, UNCTAD notes that GATS could strengthen the weak bilateral negotiating position of developing countries in air transport, previously a bastion of bilateralism.[25] It remains to be seen how well MENA countries in general and government negotiators in particular can function within such a framework.

GATS negotiations on all forms of transport may make more progress if they are reorganized in terms of the different user communities. The current approach, which is to conduct negotiations on the basis of sea, air and land transport respectively strengthens the hand of suppliers and regulators who would like to leave these sectors protected by restrictive national regulations.[26]

On the other hand, a user-oriented approach to negotiations on trade in transport services would focus the negotiations around each of the following four user communities:

- global corporations who need to ship parts, components and assembled goods among their various facilities
- tour operators who provide organized leisure travel
- business users of express parcel and courier services, and
- users of scheduled public transport services.

An organization of the negotiations along these four categories would make it easier to identify the needs of users and to come up with provisions that will meet user requirements. Such organization also would force transport companies to face up to the needs of their customers. It would change the politics of the negotiations by making it easier for the different user communities to identify their common interests and to organize themselves politically with the objective of breaking down national regulatory barriers to international competition.

Another argument for the shift away from the classical division of land/sea/air is that the concept of MMT in general and sea-air cargo in particular have resulted in considerable savings, shorter delivery periods, and greater efficiency in the distribution system. The MMT issue remained unresolved in GATS; it therefore will certainly be the subject of future negotiations and should be included in the liberalization process. Countries that did make conditional commitments on MMT in their draft schedules chose to schedule it as an additional commitment since it is doubtful that the option of liberalization in MMT as an auxiliary service could find supporters, from a political point of view, because of the widespread concern that this may open up the land transport sector to GATS coverage.

The co-ordination of MENA transport networks badly needs interface facilities at points of traffic transshipment. Developed counties are providing such facilities and services at airports, harbors and inland transfer points between various modes. In MENA countries there is a pressing need to establish arrangements for cargo transfer between modes, and in most of the region the transfer of cargo between two networks of the same mode is time-consuming and costly. In such situations the cargo has to be offloaded from one network and then loaded onto the other network; the cost can be reduced if containers and container facilities are used. The availability of interface facilities varies among different MENA countries, but arrangements for interface cargo handling are inadequate in almost all of the MENA harbors and airports. The transshipment among airports, harbor and land transport is not carried out with efficiency. The handling equipment away from the airports and harbors is not up to the established standards because the infrastructure is not available. This problem does not involve easy choices since the establishment of an inland container depot is a costly investment. Therefore, inland container terminals are practically not part of the transport system in the MENA region.[27]

However, this need could be an immense attraction for international investors. On the other hand, the special situation of some MENA countries in political

[25] UNCTAD, Air Transport Services: The Positive Agenda for Developing Countries," 15 April 1999 TD/B/COM.1/EM.9/2

[26] Feketekuty G "Setting The Agenda For Services 2000 The Next Round Of Negotiations On Trade In Services" (no date or other details; copy kindly supplied by Bernard Hoekman)

[27] Except that, as mentioned above, Saudi Arabia is the only country in the MENA region that has a developed inland container terminal

transition may dictate the extent and pace of foreign ownership of transport infrastructure and of liberalization in general. The issue of foreign ownership restrictions for airports, harbors and transport lines in the scope of the GATS may be a political problem due to national considerations about which many MENA states seem to be strongly concerned.

C. Regionalism and MENA

It is possible that MENA will attain a higher level of intraregional economic interaction simply by implementing policies needed to benefit from the changes in the world economy, such as adherence to the WTO regime. A majority of MENA states are currently WTO members or at various stages of negotiating accession. Article V of the GATS, entitled "Economic Integration," allows members to claim over for existing or new regional integration agreements for trade in services depending on the level of integration or liberalization in services among partner countries.[28] There is a set of conditions that have to be fulfilled by regional agreements. Such agreements, together with those that provide for the full integration of labor markets, will be exempt from the MFN obligations under this article. Transparency of such agreements is a must. This is in addition to the list of exemptions appended to GATS or indicated at the moment of accession. It is noteworthy that Article V provides flexibility regarding agreements that involve developing countries. However, the practice of agreements and arrangements stipulated under Article V of GATS is still limited, especially regarding those among developing states.

MENA states are still small fry in the world transport and trade systems. No MENA economy ranks among the World's top fifteen in terms of imports or exports of transport services, while only two MENA countries could be found among the top thirty major trading states in the world at end-1997: Saudi Arabia, and Turkey, each with 0.8 percent of world trade in terms of value.[29] Regional integration thus imposes itself, and with it co-ordination of negotiating positions.

Particularly for the Arab countries, such an approach would be advantageous in the coming talks. The Arab subset of MENA countries has its own concerns and development agenda;[30] it is also able under certain circumstances to promote regional co-operation more easily. Efforts have also been made by regional and subregional Arab organizations to develop regional transport regimes. The League of Arab states, the Council of Arab Economic Unity and the GCC are among the most active organizations in this regard and have developed a number of agreements for application within their respective regions. Regional transport service agreements have as their underlying purpose a transition to a more efficient, competitive transport regime within a regional or subregional group of states. The GATS should also open up new opportunities for the expansion of intra-regional transport services in general through the establishment of joint ventures and other collaborative arrangements.

The liberalization of trade in transport services is in many ways fundamental to the smooth functioning of a regional integration agreement. Thus, instead of postponing the integration of the transport services sectors to the late phases of regional integration in MENA, it may be more advisable to give this issue a higher priority from the beginning of negotiations on an agreement. The GATS transport arrangements could be a major incentive in this direction.

[28] See WTO Regionalism and the World Trading System, Geneva, 1995, for an exposition of this issue.

[29] WTO Press Release PRESS/98, 19 March 1998, Table 16

[30] For a balanced assessment of this issue see for example Helal, M "Arab Country Concerns in Services Trade in the Context of the WTO," 14 January 1999, E/ESCWA/TCD/1999/3 (Arabic)

Appendix

Estimated Import Freight Costs for Selected MENA Economies

Efficiency of logistics operations, and in particular of the transport interface, is critical to any economy. This is especially true of MENA states, most of which depend on a wide range and large volume of imports. The fees and charges for air and seaport services ultimately affect the cost of these imports. Most MENA ports being controlled by, or attached to, the public sector leads to a complicated routine that sometimes results in delay, high cost of services, and exposure of goods to damage. Inefficiencies are also associated with government-owned national carriers. Appendix Table A1 and the following calculations are a simple exercise which attempts to make a rough calculation showing the importance of improvements in international transport for the national economies of selected MENA states.

Imports as a proportion of GDP averaged 42 percent for the entire group, reaching 60 percent for Jordan, 82 percent for Bahrain and 103 percent for Lebanon.

Freight costs as a proportion of GDP averaged 4.4 percent for the eight countries, and were 10.5 percent as a proportion of the CIF value of imports.

Lowering the figure for air and sea freight costs by only 10 percent would result in a substantial saving of $1075 million, with individual countries reducing their shipping costs by up to $352 million for Saudi Arabia, $240 million for the UAE, and $140 million for Syria. In the longer term, savings of up to 40 percent can be expected.

The above figures show in a crude way how important air and sea freight costs are for some MENA economies. What is also important is the implicit added cost of bureaucracy and lack of transparency, which do not even appear in the above calculation.

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Table A1: GDP, CIF Value of Imports and Estimated Import Freight Costs for Selected MENA Economies, 1997 (in millions of dollars)

	GDP	Imports CIF	Import Freight Costs	Air & Sea Freight
Bahrain	5,948	4,893	978	948
Jordan	6,431	3,866	465	451
Kuwait	31,141	6,919	620	601
Lebanon	7,238	7,457	1,000	969
Oman	15,612	4,947	467	452
Saudi Arabia	127,737	40,626	3,632	3,532
Syria	16,081	6,028	1,446	1,402
UAE	42,748	30,935	2,479	2,404
Total	**252,936**	**105,671**	**11,087**	**10,750**

Sources: "GDP" from ESCWA National Accounts Studies of the ESCWA Region 1998; "Imports CIF" from IMF Direction of Trade Statistics Yearbook 1998; "Import freight costs" were calculated from IMF DOTSY by subtracting FOB value of imports from CIF value, and making a deduction of slightly over 1 percent for insurance; "Air and sea freight costs" were calculated by subtracting slightly over 3 percent for land transport from "import freight costs."