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**Consultation on EU support for large island maritime transport services  
Madeira 1 December 2009**

**“INTEGRATING THE EU ISLANDS IN THE MOTORWAYS OF THE SEA”**

**Discussion Paper  
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1. The dream and the reality
2. Why are islands cases apart?
3. Is the EU policy adequate?
4. Some ideas for discussion



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## 1. The dream and the reality

The concept of “motorways of the sea” conveys an idyllic image of future transport in the European Union, where not only would the congestion and bottlenecks which plague road traffic and damage the environment be overcome, but also where the Union would discard its traditional centre/periphery pattern, to adopt a truly polycentric structure. Thanks to the MOS, not only would coastal peripheries and islands territories be able to gain better, cheaper and cleaner accessibility to Europe’s “Pentagon”, but also they would be able to foster their development by trading directly between themselves, or with neighbouring countries.

Renewing acquaintance with the bygone age when the sea, much more than land, was the quickest means of transport in Europe, this vision cannot fail to be attractive for peripheral maritime and island areas, and all the more so since it is apparently enshrined in the EU Treaty and legislation.

Thus, Article 170 (ex154)§2 of the Treaty on Trans-European Networks stresses that: *“Within the framework of a system of open and competitive markets, action by the Community shall aim at promoting the interconnection and interoperability of national networks as well as access to such networks. It shall take account in particular of the need to link island, landlocked and peripheral regions with the central regions of the Community.”*

In a similar vein<sup>1</sup>, Article 5 of the Community Guidelines on TEN-T Article 5 outlines as a “priority” the *“...(b) establishment and development of infrastructure which promotes the interconnection of national networks in order to facilitate the linkage of islands, or areas similar to islands, and landlocked, peripheral and outermost regions on the one hand and the central regions of the Community on the other, in particular to reduce the high transport costs of these areas;”*.

Article 12a, of the same text, which deals specifically with the Motorways of the Sea, highlights: *“The trans-European network of motorways of the sea is intended to concentrate flows of freight on sea-based logistical routes in such a way as to improve existing maritime links or to establish new viable, regular and frequent maritime links for the transport of goods between Member States so as to reduce road congestion and/or improve access to peripheral and island regions and States. Motorways of the sea should not exclude the combined transport of persons and goods, provided that freight is predominant.”*

Regrettably, this lofty vision and this apparently firm juridical background do not seem to have materialized into effective policies.

Besides classical financial instruments (such as the Cohesion Fund, ERDEF, EIB...), the setting-up of Europe’s Motorways of the Sea rests on two instruments: Priority No 21 of the TEN-T projects, and the Marco-Polo programme.

However, a brief survey reveals that islands have hardly benefited from them.

- The funding under TEN-T projects, which is very modest anyhow in comparison with the scale of investment required, is massively spent in central EU areas at the expense of its peripheries, and even more so, of its islands (see map in Appendix I);
- The Marco Polo programme has hardly supported the setting-up of routes including islands (with the exception of one, covering Sicily) (see map in Appendix II).

In short, EU islands are largely absent from to key instruments supposed to spearhead MOS development.

Is this situation due to a lack of interest in entrepreneurship from shipping operators, or of interest from the islands themselves (be it from their national or regional authorities)?

Or is it due to difficulties arising from the existing legislation?

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<sup>1</sup> Decision No 884/2004/EC of 29 April 2004 amending Decision No 1692/96/EC on Community guidelines for the development of the trans-European transport network.

## 2. Why are islands cases apart?

Let's first recall that EU islands tend to be generally small in surface and in population. Altogether, there are some 21 million EU citizens living in an area surrounded permanently by water, and with no fixed link with the mainland. About 7 million live in island states such as in Ireland<sup>2</sup>, Malta or Cyprus. About 14 million live in one of the 24 EU island Regions or in the many thousands of small inshore islands.

Leaving the case of Ireland aside, only one island has more than 5 million inhabitants (Sicily); four others have a population over one million (Cyprus, Sardinia, the Canary Islands and the Balearic Islands), and another two (Crete and Reunion) have a population between 500,000 and 1 million. All the others are below that threshold. In northern Europe, with the exception of the Isle of Wight, no island has a population above 100,000, and many are below 50,000. Moreover, these global figures must not hide the fact that many island regions are in fact archipelagos, whose population is extremely scattered (e.g.: the Balearic Islands, the Canary Islands, the Azores, the Aegean islands, etc.).

This size factor is of course a key element to understanding their maritime traffic, but one should also appreciate the nature of island shipping.

- First of all, let us recall the obvious: most goods imported to or exported from an island come by sea anyhow, which means that the bulk of island traffic is unlikely to contribute much to the goal of alleviating the EU's road traffic congestion or bottlenecks. In a similar way, because of their limited size, islands are unconcerned by issues related to hinterland access.
- There seems to be only two occasions when the inclusion of islands in the MOS would make sense in terms of alleviating the EU's traffic congestion or bottlenecks. The first would be if the fraction of goods exported or imported to or from an island to another EU Member State (or to a third country) was getting sufficiently important to justify the setting-up of direct maritime services, so as to avoid transit through the national mainland. The second would be if using an island for transshipment, or feeding purposes, helped to avoid the congestion of mainland harbours.
- Moreover, and though each island is a case on its own, island maritime traffic tends to be of a special nature for a number of reasons:

- It is generally very unbalanced, with imports vastly exceeding exports (in a proportion usually below 8 to 2, if not 9 to 1). This imbalance is one of the main causes of the over-costs of insularity, since island users have to pay most of the return trip on their own.

- In some islands, the main exports are goods which will not travel on normal shipping services (oil or gas, cattle, etc), and which require specialized vessels. This means that the traffic will be imbalanced in each direction.

- Island traffic is often seasonal, either because of the impact of tourism on consumption (with an increase in imports during the tourist season), or because the island exports agricultural products which are seasonal.

- Last but not least, for a whole range of reasons (historical, linguistic, commercial, etc.), islands tend to trade primarily with their national mainland<sup>3</sup>. With the exception of very specialised freight (e.g.: export of oil or gas from oil terminals or refineries), trade with other EU countries, or third countries, is seldom of a significant volume.

- All these factors put together means that the need for establishing regular shipping services between an island and another EU country or a third country is very limited, and that, with the exception of the largest islands, setting-up such services is unlikely to prove readily profitable.
- However, when the need for shipping to such destinations exists, it is usually catered for either through occasional cabotage, or by commuting through regular shipping services to the national mainland, which quite often operate under a Public Service Obligation (PSO) or a Public Service Contract (PSC). However, there are some cases where island shipping services with a neighbouring EU country are operating under a PSO or a PSC (the cases of Bornholm with Sweden, and Corsica with Italy).

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<sup>2</sup> The island of Ireland of course covers the Irish Republic and Northern Ireland.

<sup>3</sup> Malta, Cyprus, Ireland being specific cases.

- In such a context, one will appreciate that involving EU islands in the Motorways of the Sea is bound to be a long-term affair, requiring a coordinated approach between each local economic development strategy and the transport strategy. Whilst the absence of direct shipping services to other EU Member States or other EU countries may hamper an island's prospects of economic development, it is equally true that providing maritime services without any certainty about the potential volume of goods to be carried is an unrealistic proposition. Overcoming this "chicken-and-egg" situation is the crux of the matter, but it will require a sustained and concerted effort.
- Nevertheless, inclusion in the MOS could prove more readily beneficial to those islands which have natural assets such as a proper geographical location and deep water anchorage, as well as adequate harbour infrastructure and facilities, and which could exploit them to develop transshipment and feeding activities.
- Yet, the success of such a scheme rests heavily upon the state of the world's shipping economy. If any period of sustained traffic growth, leading to a risk of saturation for mainland ports, will make island transshipment an attractive proposition; any downturn in traffic will adversely affect such development. For example, in Orkney an ambitious plan to develop a major container hub in the bay of Scapa Flow has been under consideration for some years, but the banking crisis, the recent changes in the container shipping industry as well in port development plans in Europe, have led to the project being reviewed (see Appendix 3).

### 3. Is the EU policy adequate?

How can EU legislation on shipping services meet challenges such as those previously described?

It is clear that neither Priority 21 of TEN-T nor the Marco Polo programme are well-suited for that purpose.

- Priority 21 of TEN-T offers start-up investment aid for services, "*which reduce road congestion and/or improve access to peripheral and island regions*"<sup>4</sup>, but this aid is limited to a 2-year period only, and with a 30% ceiling. One may doubt that such limitations would be befitting the creation of new international routes to islands, considering the difficulty of this exercise, not to mention the fact that the level of EU funding remains relatively modest for such a purpose (310 million for the 2007- 2013 period, this also covers harbour infrastructures, etc.).
- The Marco Polo II Programme provides support for "*Motorways of the Sea actions achieving a door-to-door service, which shift freight from long road distances to a combination of short sea shipping and other modes of transport. Actions of this kind are innovative at a European level in terms of logistics, equipment, products and services rendered, imply high quality and frequent transport services, move frequently very large volumes of freight and include, preferably, the use of the most environmentally friendly transport modes, such as inland waterways and rail for hinterland freight transport and integrated door-to-door services.*"<sup>5</sup> Marco Polo is consequently not an instrument with an island priority, though it may benefit routes befitting such criteria, and which would service one or a number of islands.

Marco Polo provides support for operational costs for up to 5 years, at a rate of €2 per 500 tonnes-kilometre per shift, with an aid ceiling of 35%, and its budget is somewhat more substantial than Priority 21 (€69 million in 2009, but for all types of actions). However, there are limitations which imply that only fairly sizeable projects will be eligible: only category A ports (i.e. ports with a total annual traffic volume of not less than 1.5 million tonnes of freight or 200,000 passengers) are eligible, and the minimum indicative grant threshold is of 25 million vehicle-Km or 500 million tonnes-Km. Even though this threshold has been recently reduced, one will appreciate that only fairly large islands are likely to be concerned by Marco Polo.

- Furthermore, one must stress that both TEN-T Priority 21 and Marco Polo are partly, or wholly, unsuitable for the Outermost Regions. Not only are those regions not being included in the network planning and maps of the TEN-T, but their situation is treated with some incoherencies by the various instruments. Priority project no 21 thus defines a number of maritime routes near Europe's

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<sup>4</sup> Though both objectives are mentioned in REGULATION (EC) No 680/2007 of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks seems to suggest a certain slant towards the elimination of bottlenecks. Islands and peripheries are considered as "priority projects", but *Article 5.2(b)* put the emphasis on "*projects to eliminate bottlenecks, in particular in the framework of priority projects*".

<sup>5</sup> Marco Polo II Work Programme 2009

shores, but doesn't include many of the Outermost Regions. With regard to establishing connections with the neighbouring countries of the Outermost Regions, the countries situated at the external borders of the EU that are part of the European Neighbourhood Policy, are not the countries that are neighbours to these regions. In short *"The objectives of the guidelines for TEN-T are clearly focused on the continental European network, regardless of the objective to facilitate access and establish connections with the outermost regions to reduce the high costs of transport in these regions."*<sup>6</sup>

- However, the main instrument used to deal with shipping services in most islands is neither the TEN-T Regulation nor the Marco-Polo Programme, but EU Regulation N°3577/92 on maritime cabotage<sup>7</sup>, which contains specific provisions regarding Island Cabotage (Article 4).

Through the provisions on Island Cabotage, a Member State can impose a PSO or conclude a PSC on an island route. Whenever necessary, and through the proper procedure, he can pay a financial compensation to an operator performing a public service obligation, that is *"obligations which the Community ship-owner in question, if he were considering his own commercial interest, would not assume or would not assume to the same extent or under the same conditions"*.

One will observe that the provisions laid out by Regulation N°3577/92 have two major advantages over those of TEN-T and Marco Polo:

- they are not limited in time, since a public service contract can be renewed indefinitely, subject to proper tendering procedure;
- the amount of subsidy paid is not limited by a set percentage (such as 30 or 35%), but by what is deemed as necessary and justified to perform the public service obligation.

However, from a Member State's viewpoint, the use of Regulation N°3577/92 has the obvious disadvantage of relying entirely on national resources, whereas Priority 21 and Marco Polo get Community support.

#### **Can the provisions of EU legislation on Island Cabotage be considered as a possible tool to promote international shipping routes with islands?**

Initially, the scope of island cabotage was strictly restricted to shipping services between an island and its national mainland, or to services between islands in the same Member State, but this rule was eventually relaxed to enable certain islands to have a PSO or a PSC on a route with a destination located in a neighbouring Member State. Community guidelines on state aid for maritime transport (2004/C 13/03) point 9, thus agreed that:

*"...if an international transport service is necessary to meet **imperative public transport needs**, PSOs may be imposed or PSCs may be concluded, provided that any compensation is subject to the abovementioned Treaty rules and procedures"*

What exactly is such an *"imperative"* need has never been clearly defined, but it may be assumed that this means a fairly short route, such as one which will service a destination closer to the island than the national mainland, and by no means a fairly long crossing such as those expected to develop under the MOS.

#### **IV - Some ideas for discussion**

What can be done to enable islands to be integrated into the MOS, and to benefit from them?

- **One should, for a start, review the situation of the Outermost Regions as a specific case.** This requires that due consideration be paid to their extreme remoteness, to their strategic location across the globe and in the vicinity of major sea lanes, to the very different nature of their neighbourhood, and to their potential to act as feeding ports to third countries in the Caribbean, in South America, or in Africa. The integration of the Outermost Regions in the MOS should then be conceived from

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<sup>6</sup> For further information on this matter, see *"Trans-European transport networks: towards a new policy for meeting future challenges (TEN-T) COM (2009) 44 final, February 4, 2009 - Summary of the Outermost Regions' contribution."*

<sup>7</sup> COUNCIL REGULATION (EEC) No 3577/92 of 7 December 1992 applying the principle of freedom to provide services to maritime transport within Member States (maritime cabotage).

that perspective, instead of them being regarded (or rather disregarded) as some bizarre appendix to Europe's coastal shipping routes.

- As for islands in general, the issue is whether instruments such as start-up aid under TEN-T Priority 21 or operational aid under Marco Polo should be modified to accommodate island situations (be it by lengthening the duration of support and increasing its ceiling, in the first case; or by lowering furthermore the minimum threshold, in the second); or whether another, better adapted mechanism should be implemented.

An argument may be raised in favour of the second option, resting upon the experience acquired in the field of Island Cabotage.

Islands now have nearly 18 years of experience with Regulation N°3577/92, and though its provisions, or the way they have been implemented, are not above criticism<sup>8</sup>, the system is at least well-tested, and has generally been accepted. Moreover, the Regulation itself is fairly succinct, which leaves room for a fair amount of flexibility through its interpretative Communications without undertaking drastic legislative changes.

**In that framework, a possibility would be to allow the inclusion of islands in MOS to be supported through Public Service Contracts Regulation N°3577/92.**

Within the limits set by Regulation N°3577/92, PSCs can be fairly flexible with regards to their duration or to the obligations they impose (ports to be served, regularity, continuity, frequency, capacity to provide the service, rates to be charged etc.), and since such contracts are normally awarded after competitive tendering at EU level, they do not carry the risk of distorting competition. "MOS PSCs" – if this double acronym may be used – could thus be tailored to fit every situation, with no fixed aid ceiling or time limit, and according to the characteristics of the route or of the island serviced.

One will recall that the imposition of a PSO or the conclusion of a PSC on a transport route between two Member States is common place in the field of air transport, and has become a possibility in recent years in the case of island shipping.

However three hurdles would have to be overcome:

- a) Community guidelines on state aid for maritime transport (2004/C 13/03) would have to be slightly modified to lift any obstacle to the conclusion of PSC on medium or long distance international routes servicing islands.

This could be done either by deleting the reference to "imperative" in its point 9, insofar as this word conveys a sense of proximity and urgency, which is not necessarily befitting the setting-up of new routes under the MOS.

I.e.:

*"...if an international transport service is necessary to meet ~~imperative~~ public transport needs, PSOs may be imposed or PSCs may be concluded, provided that any compensation is subject to the abovementioned Treaty rules and procedures".*

Another option would be to retain the actual wording but add an explicit reference to the MOS, such as:

*"...if an international transport service is necessary to meet imperative public transport needs, or contribute to an island's integration in the Motorways of the Sea, PSOs may be imposed or PSCs may be concluded, provided that any compensation is subject to the abovementioned Treaty rules and procedures".*

- b) The issue of manning will have to be accepted

Presently, the Regulation states (Article 3) that for mainland cabotage, all matters relating to manning shall be the responsibility of the state in which the vessel is registered (flag state), while for vessels carrying out island cabotage, all matters relating to manning shall be the responsibility of the state in which the vessel is performing a maritime transport service (host State). However, for cargo vessels over 650 gt carrying out island cabotage, when the voyage concerned follows or precedes a voyage to or from another state, all

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<sup>8</sup> See: "Consultation on the 5th Maritime Cabotage Report. Comments from the CPMR Islands Commission." June 2009

matters relating to manning shall be the responsibility of the state in which the vessel is registered (flag state).

This means that a Member State will have to accept that flag state rules will prevail over host state rules if a PSC is concluded to develop an international route to or from one of its islands.

b) Member States will have to get some sort of support from the EU when they conclude a PSC in the framework of the MOS

In that respect, one could suggest that **Decision No 884/2004/EC of 29 April 2004 amending Decision No 1692/96/EC on Community guidelines for the development of trans-European transport** should be amended so as to include a degree of financial support for Member States setting up public service obligations on island routes, when such support contributes to TEN-T Priority 21. Thus:

“8) The following Article shall be inserted:

Article 12a

Motorways of the Sea

(...)

5. The projects of common interest of the trans-European network of motorways of the sea:

– shall focus on the facilities and infrastructure which make up the network of motorways of the sea,  
– may include, without prejudice to Articles 87 and 88 of the Treaty, start-up aid if, as a result of the tendering process referred to in paragraph 4, public support is deemed necessary for the financial viability of the project. Start-up aid shall be limited to two years and shall be granted only in support of duly justified capital costs. The aid may not exceed the minimum estimated amount required to start up the links concerned. The aid may not lead to distortions of competition in the relevant markets contrary to the common interest;

**- may also provide financial support to a Member State which, under the terms of Council Regulation (EEC) No 3577/92 on Maritime Cabotage, has concluded Public Service Contracts or imposed Public Service Obligations on an international route servicing one or a number of its islands, provided the purpose of such public service obligations is to make such island routes become constituent elements of the broader Motorways of the Sea network. This support will be granted for a maximum of (X) years, and with a ceiling of (X) %.”**

In a similar way, and for the same purpose, **Regulation (EC) No 1692/2006 of 24 October 2006** should be amended to make Member States eligible for the assistance provided under the **Marco Polo** programme when, by developing an international cabotage route to an island through PSO or PSC, they contribute to the alleviation of traffic congestion on the EU mainland. This should, in particular, aim to encourage the use of islands for transshipment or feeding purposes.

- **Last but not least, the integration of islands in the MOS requires that due care be paid to the provision of adequate harbour infrastructures.** This is presently recognised by Project 21 of TEN-T, but the budget effectively available remains small.

Island ports require constant improving, upgrading, and sometime repairs for the most exposed ones, and should remain eligible for significant EU financial support, whether through TEN-T, through Structural Funds, or through any other instrument.

This matter should be addressed in the framework of the future EU budget negotiations, and of the future post-2013 cohesion policy in particular.

In that framework, attention should be paid to the possible synergies between undertaking harbour works necessary to develop the exploitation of offshore renewable energy, and harbour works necessary to integrate islands better in the motorways of the sea (for example by providing transshipment or feeding facilities).



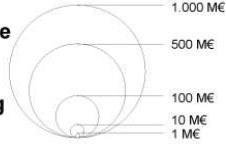
# Trans-European transport network Projects\* monitored by the TEN-T Executive Agency



### Status of the projects

- Study/Work
- Study
- Work

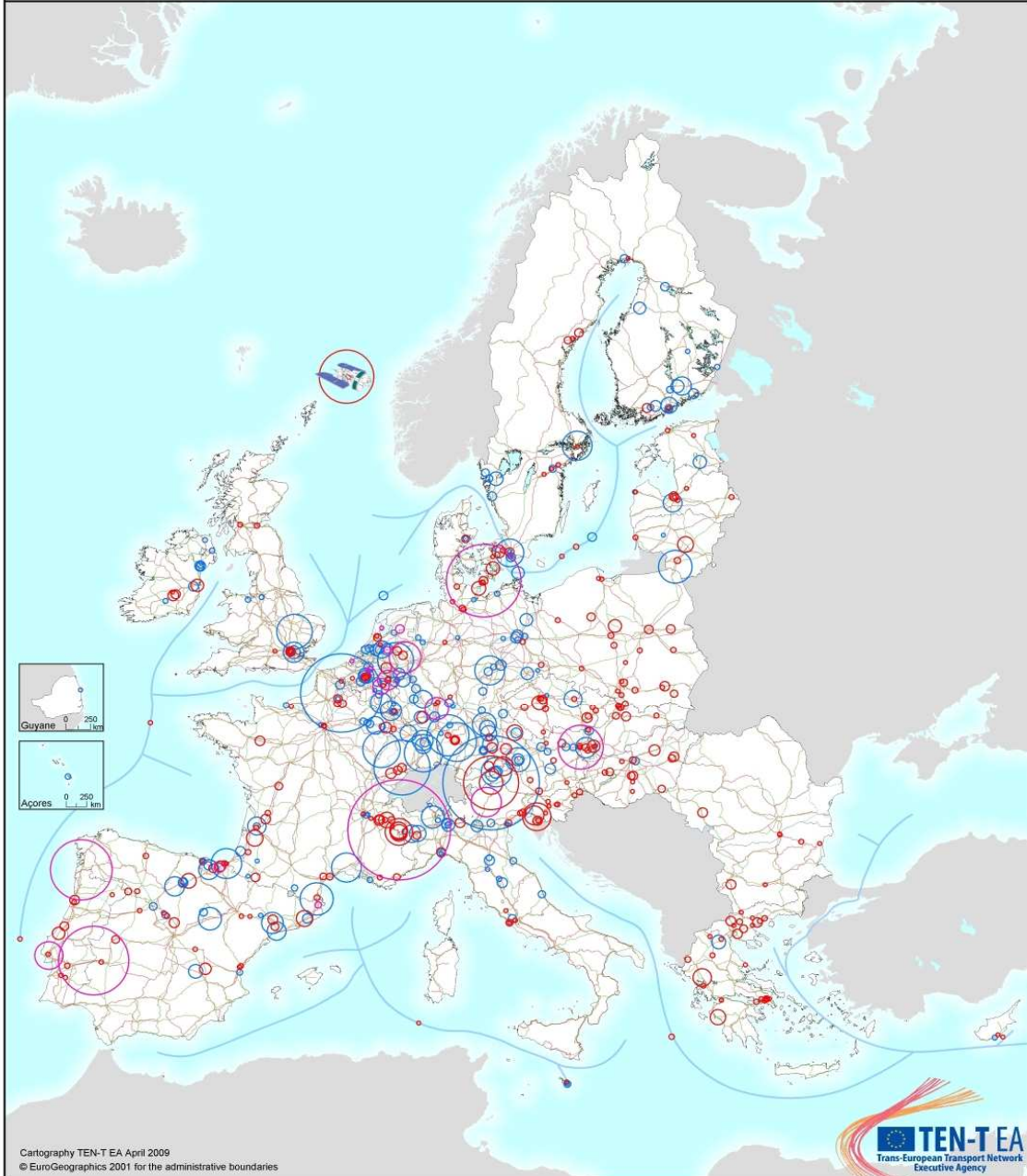
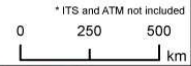
### Location of the projects and level of TEN-T funding



### TEN-T network

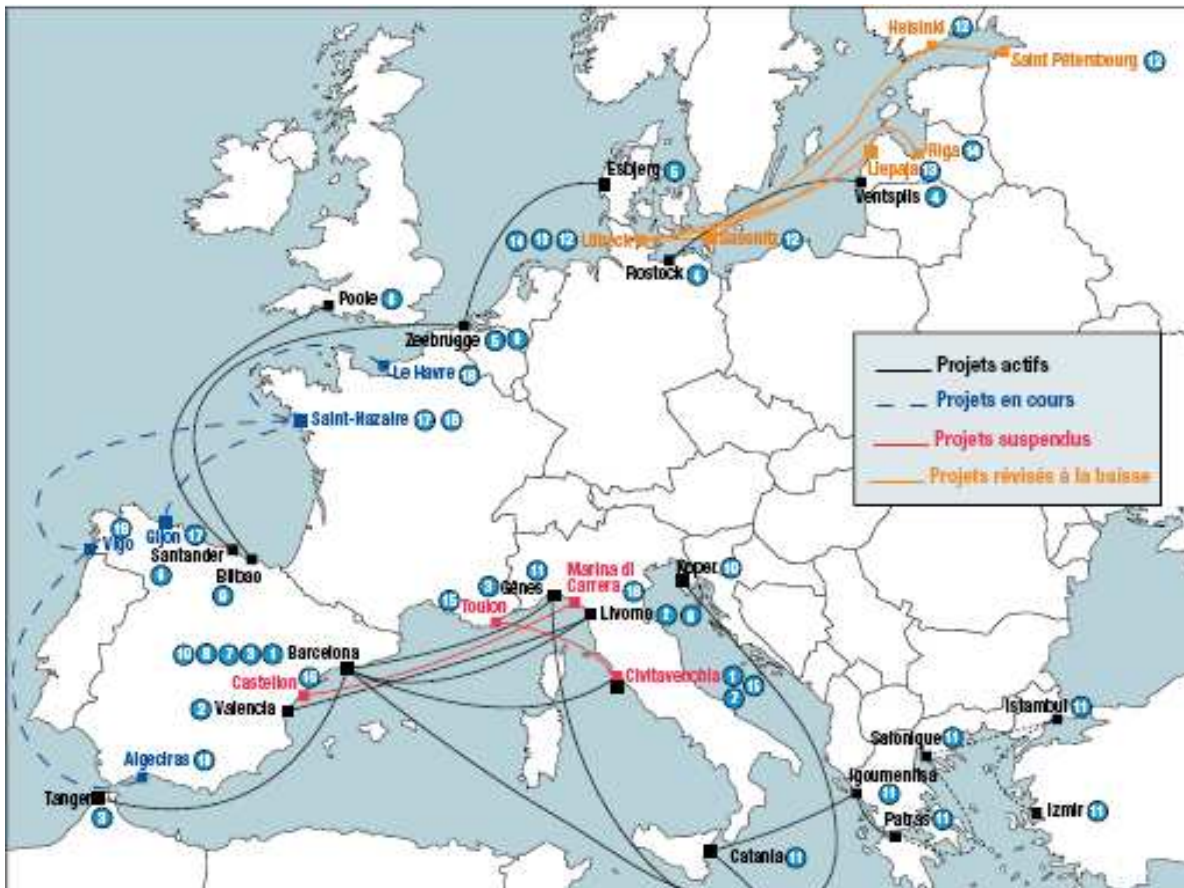
- Roads
- Railways
- Inland waterways
- Motorways of the seas

April 2009



Cartography TEN-T EA April 2009  
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Lines benefitting from the Marco Polo programme since 2003 (Le Marin 16 October 2009)

An example of island transshipment/feeder hub: the Orkney Islands

