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The economic picture of Maritime Economy

The trend of maritime trade follows and accentuates the overall dynamics of the world economy which over 2015 was affected by the economic recovery in the industrialized countries. However, the OECD has recently lowered the forecasts of world economic growth, setting the GDP growth in 2015 at +3.1% and at 3.8% for 2016. The worsening of the forecasts is due to the braking of the United States in the first quarter of 2015 (fall in public spending, stable investment spending, lower export), uncertainties related to the European economy (Greek crisis and new migration trends), and the slowdown of the countries which export raw materials, particularly in the BRIC (Brazil, Russia, India and China) countries, considered, until a few years ago, the new powers of the global economy.

Amongst these latter China is the country which causes the greatest uncertainties. The decline of the Asian giant as driver of global export has been momentarily band aid by the competitive governmental devaluations in the summer of 2015, but there remain skepticism in relation to the path of growth of the country in the coming years. China finds itself managing the conversion of its production structure with a strong export orientation, moving in the direction of growth driven by an increased domestic demand. In particular, the transition from a growth based on competitive factors of cost, that is of low salaries, towards a model driven also by higher consumption is proving complex. The weakening of the Chinese economy affects the organization of the network of global trade.

These factors are combined with the decline in oil prices and of other raw materials as well as the risk of a new wave of commercial instability that could be produced by the Fed's decisions on monetary policy expected by the end of 2015 (an increase in interest rates and strengthening of the dollar).

In the long term, another item of particular interest is the "Transatlantic Trade and Investment Partnership", which sees the US and the European Union engaged in the negotiation of measures for the elimination of trade and tariff barriers between the two sides of the Ocean. This Treaty, currently still under negotiation, coming into force could produce a further boost to international trade, strengthening relations between Europe and North America, and balancing traffic on the Asia-Europe route which is currently the main axis of international trade.

In 2014 overall demand in the global maritime sector amounted to 9.84 billion tonnes, representing a 3.4% over the previous year. 32% of these trades refer to the five major categories of products, namely; iron ore, steel, grain, aluminum or bauxite and phosphatic rocks. The "Oil and Gas" sector follows representing 29% of the total handled, with 2.8 billion tonnes. The container sector is behind in terms of volume; its handling reached 1.6 billion tonnes in 2014 but it is up compared to 2013 (+6%). According to Confitarma data (2015) it is estimated that 65% of the annual increase in the global maritime traffic in 2014 and in 2015 can be attributed to the growth of trade in iron ore and containerized goods.

The overall offer of the shipping industry saw a growth in the world fleet by 3.5%; the lowest rate in the last decade: a clear signal of reaction to oversupply.

The detailed analysis of the various segments of maritime transport confirms, in the container sector, the long-term dynamics that characterized the last decade, with a gradual increase of the "scale of competition" between the companies, the well-known phenomenon of naval gigantism, alliances and M&A. This is confirmed by looking at the 2015 UNCTAD data, according to which the top 10 companies control 61% of the fleet, while the first 20 control 83%.

It should be noted that only half of the liner's fleet currently operating belongs to the large carriers, the remaining is owned by Greek, German and Japanese companies. This phenomenon is also linked the issue of financialization of contemporary shipping, so the tonnage increasingly becomes a financial product, with the resulting web of interests between the real economy and international finance.

In this context, the top three companies in the sector, namely Maersk, MSC and CMA CGM control about 35% of the supply, thus demonstrating the concentration of tonnage on some major players resulting in the ability to influence the main market dynamics. Therefore the recent mergers between the liner companies Compañía Sudamericana de Vapores (CSAV) and Hapag-Lloyd, and between Compañía Chilena de Navegación Interoceánica (CCNI) and Hamburg Süd are worth mentioning.

The creation of two large global alliances 2M, between MSC and Maersk, and Three Ocean Alliance between CMA CGM, CSCL and UASC, is framed in this context of progressive concentration. The alliances are realized in the “vessel-sharing agreements”, which allow carriers to optimize the tonnage supply selling slots on board ships of other carriers, thus coordinating the operational network and avoiding overlapping.

The tendency to concentration is heightened by naval gigantism with a progressive gap between the tonnage supply of the container ships’ world fleet, which tripled between 2004 and 2015, and the average number of shipping companies, which decreased by 29%. In 2015 new ships by 1.6 million TEUs came into operations, representing an increase of 7.7% on an annual basis. Another 1.3 million TEUs are expected to be delivered by 2016. The additional capacity is mainly used on the Far East-North Europe route, where the average size of the units employed grew by 139% between 2005 and 2015, up to almost 14,000 TEUs.

The search for economies of scale affects the orders which amounted to 1.04 million TEUs in 2015, about +60% compared to 2014. The new wave of orders was mainly characterized by the demand for units with a capacity exceeding 18,000 TEUs, with 39 contracts signed in the first 6 months of 2015 which led to a total number of orders, for ships between 18,000 and 21,000, of 88 ships.

The global order book shows that the minimum size of the ships ordered by the first ten shipping companies is 10,120 TEUs.

If these are the main factors that affected sector of the containers on the supply side, the demand side of 2015 showed a general slowdown. Drewry has revised downwards its growth forecast in the segment of container taking them to 2.2% from 4.3% and 2016 estimates as well were revised downwards from 4.9% to 3.3%.

The imbalance between demand – subject to rapid changes and still in slowdown – and the offer – characterized by faster growth and large or very large sizes and

therefore more difficult to adapt – in the recent past has produced a supply overcapacity. Over the 2009-2014 period, this overcapacity was mainly absorbed by the slow steaming phenomenon. The fall in the oil price (up to -50% on an annual basis between the end of 2014 and early 2015) limited the use of the slow steaming and produced an increase in the profits of the companies whose operating margins increased from an average of 0.1% in 2013 to 2.7% in 2014. Alphaliner observes that for 13 of the leading ocean carriers their operating results for the first quarter of 2015 were determined primarily by the drop in fuel prices and by the gains related to foreign trade caused by the appreciation of the US dollar.

All this resulted in a competitive downward drive on the freight rate. The past year was in fact characterized by an intense “war of rates” on the most profitable route, that is, between Asia and North Europe, when the historic low value of freight rates on a spot basis was touched, they decreased to \$243 / TEU in June, more than 70% less than the \$1,003 / TEU in February, compared with an estimate of service break even of \$800 / TEU (Alphaliner). According to Drewry’s estimates overcapacity and the consequent competitive pressures on rates are expected to continue at least for the next three years. In order to stem this phenomenon, companies reduced the frequency and offering of the lines. In this regard we note that the Three Ocean alliance has recently removed about 4% of its capacity on the route between Asia and Europe.

In this context places the recent announcement by the Danish company Maersk – the first shipping company in the world in the field of container – to reduce its workforce, to remodel the network of services and to postpone the orders for new ships and tracing this choice back to the following factors: significant reduction in the dynamic growth of the economies, primarily of China, gradual reduction of freight costs, and overcapacity of the global fleet of container. The routes that will be cut mainly concern Europe (Western Mediterranean - Middle East - Indian subcon-

continent, Far East - Mediterranean - Northern Europe, Far East - Black Sea, and Northern Europe - North America).

The dry bulk sector is closely related to the economic trends of developing countries, interested in capital-intensive productions, such as power generation, shipbuilding and construction. The slowing down of China, which was the main global importer of raw materials during the last decade, has heavily compromised this type of traffic. It is estimated that 2015 will be the first year marked by a cooling in trade in iron ore, due to a gradual slowdown in the Chinese construction sector. In fact, if between 2004 and 2014 the sea trade of iron ore grew at an average of 9% annually, for 2015 it is expected an increase of 2.5%.

Furthermore, the economic transition of China into an industrial economy with lower environmental impact is reflected in the world trade of coal: just the +2.8% between 2014 and 2013 in the sea trade of coal, very modest figures compared with the +12% in 2012.

According to Drewry’s estimates, the market of the cargo is destined to live a downturn that will last at least until 2017. Overcapacity (the fleet of dry bulk vessels, except container port, which was 35% of total tonnage in 2010 in 2015 amounted to 43%) together with the low demand will impact on the price of goods on the international markets. In this regard it is worth noting that in 2015 the Baltic Dry Index performance was very poor: it closes the first 11 months with an average of 730, a significant decrease compared to the average of 1,119 in the same period of 2014. In particular, in November 2015 for the first time in history it exceeded the threshold of 500. On the one hand the decline of this indicator considered a “leading indicator” about the state of health of international trade may represent a signal of concern about the future growth prospects of global maritime trade. On the other hand, the forecasts of some economists who believe that, having this index reached such a poor performance and given the cyclical nature of the sector, the shipping industry is ready

to reverse course.

As for liquid bulk cargo, the tanker market is dominated by 630 Very Large Crude Carriers that provide a capacity of 195 million dwt, in addition to 870 Aframax (94 million dwt) and 445 Suezmax (70 million dwt). As pointed out by Banchero Costa, unlike the container segment, the new deliveries in the sector oil bulk took place in 2009 (+34.1 million dwt) and in 2011 (+32.8 million dwt), allowing today a better balance in the dynamics that drive supply and demand.

The main drivers of the sector refer to the shale gas revolution, which is progressively changing the geography of global energy trade, with lower demand for oil products from the United States, the main consumer country, with about 20% of demand. In 2014 the import of crude oil in this country fell by about 12% up to 4.5 million barrels per day, bringing the demand back to the levels of 2005 (Clarkson Research, 2015). At the same time flows to China and India – whose refining capacity is gradually increasing leading to a shift in the traffic of crude oil from the West Africa - North America route to the West Africa - Far East route are growing, as confirmed by the longer distances, with an increase of 4.1% of the distances in terms of ton-miles (UNCTAD 2015). In addition to this phenomenon, the decline in oil prices that occurred between 2014 and 2015 helped to support demand, pushing freight rates higher. In 2014 on the above mentioned route, from the Persian Gulf to the Far East, it was recorded a charge for the VLCC 50% higher than the previous year, representing an average daily freight rate of about \$25,500 (Confitarma 2015).

As for the other petroleum products and commodities derived from petroleum, Banchero Costa points out that the dynamics of the market have gradually improved over the past two years, mainly thanks to the growth in transport demand, supported by US export (with the placing on the market of shale oil) and the opening of new refining centers in the Middle East and the Far East.

In this regards, it is particularly si-

gnificant that the stimulus comes from the opening of the new Suez Canal, which occurred in August 2015, and which allows a reduction in the transit time from 18 to 11 hours of navigation, due to lower waiting times, and allowing a reduction of operating costs on the routes between Asia and Europe and creating pressure on the Panama Canal, since part of the traffic between the Far East and the East Coast of the United States has now moved along the route via Suez. In fact, 2016 should be characterized by the opening of the new Panama Canal. The project of expansion of this Channel is intended to double the capacity of the ships flow, allowing the passage of larger units (Post-Panamax). As a matter of fact, over a third of the ships circulating today exceeds the scope of the old locks: 294.1 meters in length, 32.3 in width, 12 of draft and 57.91 from the water level to the highest point, for a medium displacement of 65 thousand tonnes. However, it should be stressed that the new Panama Canal will retain some of its structural limits to the passage of large container ships with a capacity exceeding the 13,200 TEUs that, therefore, will not be able to pass through it.

As regards Italy, according to data presented by Confitarma the merchant fleet owned by Italian consisted, at the end of 2014, of 1,503 ships for a total of 17,154,904 gross tonnes, 8% down from the previous year. In the ranking of the fleets by shipowner, Greece tops with 158 million GT followed by Japan, China Germany, and the United States. Italy ranks 14th, but keeps the fifth position among the countries of the European Union for ship owning control.

In this regard, the V Report on the Economy of the Sea, carried out by Federazione del Mare together with Censis notes that the Italian maritime cluster contributes to the national GDP with €32.6 billion (2.03%), with employment amounting to nearly 2% of the country's workforce (471,000 people directly employed and workers from allied activities alike). Interestingly, the income multiplier calculated in the report is equal to 2.63, with the addition of the

multiplier for employment of 2.77. Basically, according to Censis and Federazione del Mare, each 100 Euro of income growth within the maritime cluster about €263 Euro of national income are activated. Each new 100 units employed in the maritime sector correspond to 277 units employed at national level.

The performance of Italian ports shows not particularly positive signs especially from transshipment ports which, in addition to the crisis of Taranto, in the first semester of 2015, the port of Gioia Tauro recorded a -13.2% while the CICT transshipment terminal of Cagliari recorded +1%.


On the other hand, gateway ports are growing by 9.7% every six months. In particular, Genoa records its historic best performance reaching 1.13 million TEUs (+6.9% annually), La Spezia is up by 4.1% (from 639,000 to 665,000 TEUs) as well as Livorno by 39.5% (from 276,000 to 385,000 TEUs). It is also noteworthy that Naples, despite the crisis it is facing and the shift of some traffic to the port of Salerno, totaled 10.9% (from 209,000 to 232,000 TEUs). On the shores of Adriatic, Ravenna records +12% (with 116,000 TEUs). Trieste loses 9.6% declining from 237,000 TEUs in 2014 to 215,000, while Venice is up by 21.2% with 272,000 TEUs.

The expected measures to be taken in the regulatory field for Italian ports are considerable too. In October 2015 a communiqué of the Presidency of the Council of Ministers published on the Gazzetta Ufficiale (Official Journal) officially approved the National Strategic Plan of Ports and Logistics (Piano strategico nazionale della portualità e della logistica).

The plan designs a strategy for revitalizing the port and logistics sector to be pursued through the value added that the "Sea Industry" can provide in terms of quantity as regards the increase in traffic, and also identifying policy actions – both sectoral and transversal to the various production areas involved, logistics, administration and infrastructure – at national level that will contribute to recover competitiveness in the economy of the sea in terms of productivi-

ty and efficiency. The measures set also include the new governance of the world of ports, with the strengthening of the role of national coordination of the Ministry of Infrastructure and Transport the new (Directorate General of Ports

and Logistics) combined with the transition from the Port Authority to Authorities of port systems. Looking ahead, the Plan will be one of the sector plans that will flow together in a wider multi-sectoral and multi-modal policy paper: the

Multi-annual Planning Document that the Ministry of Infrastructure and Transport intends to draft and approve as soon as possible. 

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