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**The new Suez Canal:
economic impact on
Mediterranean maritime trade**

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TABLE OF CONTENTS

Executive Summary 4

Introduction 6

The role of Egypt in the world supply chain 7

Canal's traffic trends and a synthesis of the planning framework
of the new infrastructure 11

The new Suez Canal 18

The expected impact on maritime trade 21

The economic effects 26

The expected impacts on the Italian port 34

Conclusions 37

EXECUTIVE SUMMARY

- ▶ Egypt ranks **19th** (out of 157 countries) in the Unctad's "Liner Shipping Connectivity Index" which measures competitiveness in the maritime system based on the network and the quality of the container liner service offered by the ports. Within the Middle East, it is amongst the countries with the highest improvement rate: **compared to 2004 the index value increased by 20 points.**

- ▶ In addition, between 2007 and 2014 Egypt rose **35 positions** in the Logistic Performance Index ranking reaching the **62nd position** (World Bank indicator measuring logistics competitiveness of 160 countries in the world).

- ▶ These indicators are expected to grow further after the new Suez Canal.

- ▶ With the same per capita income, countries with better logistics performance grow more, by 1% of GDP and 2% of foreign trade. The expectations of Egypt's economy are based on this positive data.

- ▶ **In 2014 822 million tonnes of goods passed through the Canal**; 416 million of which were southbound while 406 million were northbound, (about 8% of the total amount of goods handled globally).

- ▶ **Between 2000 and 2014 the Canal's traffic trends** recorded a 120% increase in the transit of goods. The revenue generated by the Suez Canal between July 2014 and March 2015 amounted to \$4.1 billion, up by 2.5% compared to the same period of the previous year.

- ▶ Over the same period, north-south **container trade volumes** (which account for 50% of all the volume's trade) grew by 187% while the south-north ones grew by 219%, and in 2014 reached a substantial balance (212 million tonnes north-south and 222 million tonnes south-north). **Petroleum products** also grew significantly; from 50 million tonnes in 2000 to 178 million tonnes in 2014 (+251%)

- ▶ If we pay attention to the northbound maritime traffic via Suez, **the increasingly crucial role of the Gulf** as origin of the shipments appears clear. As a matter of fact, in 2014, 34% of the shipments (137 million tonnes) originated in this area which was second to Southeast Asia, where the shipments amounted to 161 million tonnes.

- ▶ The types of vessels which will take greater advantage from the new Canal will be **container ships**; thus **the role of Port Said**, where considerable infrastructural projects are currently ongoing, is fundamental.
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- ▶ **The area of the new Suez Canal will be able to compete with the major logistics regions in the world** and in particular with Northern European cities such as Rotterdam and Hamburg.
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- ▶ **The 2015 orderbook** provides for an increase, by 2018, of the fleet of container ships amounting to about 7%, with the figure rising to 72% if we consider the megaship ranging from 18.000 to 21.000 TEUs, and 20.7% for the fleet from 13.000 to 18.000 TEUs.
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- ▶ The estimates for 2018 predict a number of 83 megaships, mainly concentrated in the far North-East of Europe and far East-Mediterranean routes where the Great Alliances also operate - amongst others - the 2M and the Ocean Three which, on the Asia-Med route, holds a market share of respectively 39% and 27%.
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- ▶ The potential impact on the choice of the routes by shipping companies is evident when considering that the opening of the new Canal led to **a decrease in the transit time from 18 to 11 hours**. In particular, it is estimated that using the Suez route, **any shipping company may have an average saving of 5-10% of total operating costs** (depending on routes and distances). For example, on the Honk Kong-New York route, the new Canal, with its reduction in transit time, might be a valid alternative to Panama.
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- ▶ The reduction of transport costs, combined with the increased capacity of the Canal, might have important implications both on the hierarchy of the Mediterranean ports and on the volume of traffic bound for the Mediterranean which, in 2015, remained at 19% (up, if compared to 15% in 2005).
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- ▶ As for **Italian ports**, which currently handle 460 tonnes of goods, the new Suez Canal represents a favorable opportunity: more and larger ships in transit require an adequate and urgent infrastructural upgrade which also includes the dredging of the seabed and investment in logistics and innovation.
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- ▶ The strengthening of the Mediterranean-Suez-Gulf route is a strategic opportunity both for Egypt and Italy, especially for its Southern regions, which could develop its natural role as a logistics platform in the heart of the Mediterranean, thus supporting as well the Italian economy.
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Introduction

The paper intends to call attention to the major economic repercussions expected in the sectors of transport, logistics, tourism, and in the businesses directly or indirectly associated with the intercontinental maritime transport deriving from the enlargement of the Suez Canal and in the synergic logistics activities planned by the Egyptian Government and expected to be completed in the next few years.

Over the last decade, trades passing through the Canal recorded significant annual increases, with the exception of the three years between 2009 and 2011, and increasing by over 300 million tonnes between 2004 and 2014 when it changed from 520 to 822 million tonnes. The upward trend and the pressure for a greater predictability of the transit time – an element increasingly important for container traffic that represents more than 50% of the volume of the market served by the Canal – pushed the Egyptian Government to realize, in a very short time, an investment of considerable economic and geopolitical importance.

The focus of the analysis is the impact which the expansion of the Suez Canal may determine on the traffic in the Mediterranean and it takes into account the specific geographical background in the area of the Canal and in the Sinai Peninsula and the expansion as part of a specific path of economic growth driven by public long term strategies. In particular, special attention is directed at the possible increase in the exchange between Mediterranean countries and those of the Gulf, in light of the recent evolution of international policies which will lead to the full inclusion of Iran amongst the countries involved in the commercial exchanges with leading companies in the Western world.

The strategic importance of the project will imply important consequences also in the relationship between Italy and Egypt, both because exchange between the two countries in 2014 reached €5.2 billion (+10.2% compared to 2013), and because Egypt is the only country in the world of a significant size for which Italy is the main export market.

The study is structured so as to address the role of Egypt within the world supply chain and the effects of its most recent strategic investments in maritime and port economy. The study, in particular, analyzes the traffic trends and the new infrastructure built along the Suez Canal. The analysis offers an exhaustive overview of the expanding work in the Suez Canal as well as the enlargement of the ports on the Egyptian Mediterranean and Red Sea coasts which can be the principal beneficiaries of the work along with those overlooking the Gulf. The last part contains a summary of the evaluation of the direct and indirect economic effects, with an insight on maritime and port economy.

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