

Italian Maritime Economy

The Mediterranean as new key crossroads:
outlooks, geomaps and Italy's role on the Silk Road

4th Annual Report

2017





ITALIAN MARITIME ECONOMY

**The Mediterranean as new key crossroads:
outlooks, geomaps and Italy's role on the Silk Road**

Annual Report 2017

GIANNINI EDITORE

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“Joins the sea that separates the countries”

Alexander Pope

Published by



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The 2017 Annual Report on *Italian Maritime Economy* is part of a broader research project launched by SRM and called “Permanent Observatory on the Economy of Maritime Transport and Logistics”, from which the specialised website www.srm-maritimeconomy.com was born. This has the primary aim of monitoring and analysing the dynamics and economic impact of the sector in the economy of the country with a European and Mediterranean scope.

We wish to thank all the supporting partners of the project: Assoporti, Autorità Portuale di Sistema del Mar Ionio, Autorità Portuale di Sistema del Mar Tirreno Centrale, Contship Italia, Federagenti, Federpesca, Grimaldi Group, Lotras, Unione Industriali di Napoli.

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The Monographic section of this volume was possible thanks to four important scientific missions SRM carried out and which made it possible to sign agreements with prestigious centres of studies and to gather data, information and documents which resulted in considerable value added to this publication.

During the different missions and through direct visits of the ports it was possible to comprehend the most interesting port models and maritime phenomena currently affecting Chinese, Northern European and Israeli ports.

The first mission took place in Shanghai (China) in December 2016 and a special thanks is hereby due to the Shanghai International Shipping Institute (SISI) for the support it provided SRM’s researchers.

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- Ch. VI by Alessandro PANARO;
- Ch. V by Liu WEIRONG and Zhao NAN;
- Ch. VII by Bart KUIPERS and Onno DE JONG.

See page 219 for further detail.

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The Annual Report Italian Maritime Economy has reached its fourth issue. This publication is becoming increasingly noteworthy in demonstrating the weight and importance of maritime transport and logistics to Italy and to Europe as a whole.

International maritime trade, naval connectivity, logistics efficiency and the presence of big players of the sector are now considered by all international think tanks as key benchmarks when measuring the economic performance of a certain area of the world.

Therefore, SRM's Observatory continues to attentively monitor the dynamics and phenomena that characterise the Mediterranean, also in relation with the global scenario. The year 2016 witnessed many crucial events such as the expansion of naval gigantism, the inauguration of the new Panama Canal, the port reform in Italy, China's numerous and significant investments in ports and maritime terminals in the MENA area and many more.

As far as investments are concerned, it is important to highlight that the Mediterranean is ripe with opportunities. A sea where all kinds of ship transport a wide range of goods such as containers, bulk and vehicles on a daily basis, the Mediterranean is one of the main nodes of global maritime trade, thus the interest of China in the so called Mare Nostrum is fully understandable, and reveals a long-term vision for investments.

Last year SRM informed its readers that the Dragon was launching strategic projects in our area, i.e. Cosco's €350 million investment in Piraeus port and the other significant investments carried out in The Netherlands (Rotterdam) and Italy (Vado Ligure). All of these represent clear signals of a strong interest.

Therefore, the One Belt One Road Initiative begins to present its challenge, with China intending to build an important pathway, allowing it to increase international relations with Eurasia. This impressive action plan comprises resources to be utilised in ports, airports, railways and logistics and Italy must ensure it plays a key role for itself in this scene.

As is common with its style of research, SRM checked the field for what underlies the statistics and data we can gather on such a big topic. Researchers travelled to China, The Netherlands, Greece and Israel to obtain information and analyse the most interesting aspects of portuality in these countries, thus enriching this volume with first hand accounts from the sector of shipping. Indeed, it is only through direct observation that we can fully understand the extension of the Chinese phenomenon currently contributing to increasing the centrality of the Mediterranean. This area in fact, continues to gain importance despite the political instability that some of its countries are experiencing.

The port reform in Italy represented an important step forward but it is necessary to look further afield. A restructuring process has been started, however, it is necessary to finalise it quickly as our maritime-logistics competitiveness needs to be pushed to high excellence levels.

As traditionally stated by SRM, we need to bear in mind that Italy has always been a maritime country, benefiting from an enviable geographical position at the centre of the Mediterranean and with ports and ship owners which still today represent one of the symbols of the country.

Maritime import-export in Italy amounts to over €220 billion and 500 million tonnes of goods per year. Additionally, the country is first in the Short Sea Shipping sector in the Mediterranean and the Black Sea. Furthermore, what is true for Italy as a national economy is even more relevant for its southern regions, the so called Mezzogiorno, which significantly contribute to the aforementioned figures.

Investments in infrastructure, intermodality and development of the workforce are three aspects of maritime economy where Italy needs to make significant progress in order to take advantage of its geographical position and intellectual potential.

Our observatory has continued to grow thanks to important agreements and collaborations launched this year with the Erasmus University of Rotterdam and the Shanghai International Shipping Institut, two important centres of studies which have contributed two specific chapters to this 2017 Report. In particular, in December 2016 the SISI invited SRM to join the Global Shipping Think Tank Alliance, an agreement between the fourteen most important research centres in the world. SRM is proud and honoured to participate in this collaboration and considers this an important acknowledgement of the fact that its research is striving towards reaching the highest possible standards.

Our ambition is to continue to be a reliable reference for operators, institutions, shipping associations and evidently the banking sector; of which SRM is a direct expression. We aim to provide analysis and reflection which may contribute to raising awareness of the importance and weight of the shipping sector for Italy and above all for the south, as we continue to consider the Mezzogiorno as a key player.

Paolo SCUDIERI

Objectives and organisation of the Annual Report

The 2017 report on the maritime economy, one of the core pieces of research of SRM's Observatory on Transport and Logistics, has now reached its fourth edition and this year's volume is based on two mainstays. Firstly, there is a general and consolidated section aimed at providing an outline of the main data of the sector both on a national and global scale. Secondly, the Report moves on to approach a topic that SRM has been analysing systematically over time, namely the evolution of China's investment in ports and maritime terminals in the Mediterranean and Northern Europe.

This phenomenon is still today having an influence on the *Mare nostrum* and on the North Sea and this is likely to continue for a long time due to the fact that the Dragon has planned significant infrastructural investment with the aim of achieving the goals set by the *One Belt One Road*. This project provides for the creation of seaborne and land routes which will allow China to expand its trade relationship with Europe and Asia mainly through the implementation and/or improvement of all sorts of transport infrastructure.

This year SRM's researchers have travelled to countries where some of the aforementioned investment has been planned or implemented, so as to comprehend in more detail the significance of the figures underlying these operations. Missions have been carried out in Shanghai (China), Rotterdam (The Netherlands), Tel Aviv, Haifa, Ashdod (Israel) and Athens (Greece) with the aim of analysing the different port and logistic models in each country, the strategies employed by ports in response to current maritime and economic phenomena, and, last but not least, the initiatives that China has launched. Clear examples of this are: the investment of state-owned Cosco in the ports of Piraeus and Rotterdam, the terminal that Shanghai International Port Group intends to run in Israel, and the terminal in Vado Ligure in Italy. Many more examples could be hereby cited. All of these initiatives confirm the strong interest of Chinese players in the Mediterranean, currently considered as a gateway to explore new frontiers of development in import and export.

Therefore, the maritime economy appears to be an important topic not only for its weight in terms of companies, infrastructure and investment, but also because it has started to shape the global geo-economic scene.

Nonetheless, the present research also addresses other important phenomena characterising the global economy and which will affect the Mediterranean and, consequently, Italian portuality. One of these is the unstoppable growth of ship size. A closer look at the orderbook, in fact, reveals that by 2020 there will be 1,043 vessels bigger than 7,500 TEU (105 of which bigger than 18,000) and they will account for 52% of total available capacity (in 2016 this figure was 46%). As an example of this, at the end of April 2017 Maersk Line announced that *Madrid* Maersk had gone on its maiden voyage on the Asia-Europe route. This is the first unit to start service of eleven second-generation containerships of class "Triple-E" with a load capacity of over twenty thousand TEU.

Madrid is the first operative ship of twenty-seven container vessels ordered by the shipping liner in 2015 amongst which there are ten Triple-E class, nine 15,000 TEU units and seven 3,596 TEU ships that will be ready in 2018. Twenty of these new vessels will be used on routes between Asia and Europe. The eleven 20,000 TEU ships will sail to Northern European ports while the nine 15,000 TEU will be used on Asia-Mediterranean routes.

As a consequence, competition in the container sector is likely to revolve around the availability in ports and terminals of equipment and quays that will allow it to receive ships of the aforementioned sizes.

Together with the growth of ship size, we are witnessing an increasingly extreme policy of collaborations and mergers, which has resulted in three big alliances, *2M*, *Ocean Alliance* and *THE Alliance*, cornering the market and that are working to cover global routes of transport with frequent services. On the main routes such as Asia-Med and Asia-Northern Europe these liners have acquired almost the whole of the market only leaving small shares to other operators. Furthermore, SRM continues to monitor the dynamics of Suez and Panama, the two canals that have affected traffic routes just as expected not only in terms of quantity of transited goods – the North-South route of Suez registered a 17.6% increase in the first trimester 2017 – but also on ship types. For example, Panama can currently allow access to 14,000 TEU vessels and to ships loaded with natural and liquid gas, a significant fact also in terms of future prospects of traffic for ports in Central America.

This report also focuses on Short-sea traffic, which represents a point of excellence for our country: Italy, which in fact has a 36% market share in this sector in the Mediterranean. Ro-Ro traffic in Italy (50% of which is carried out in the Mezzogiorno) is a major strength for the country which boasts of excellent ship owners with terminals all over the world. It is therefore important to support this sector so as not to lose market share in sectors where our know-how is consolidated and recognised. The same can be stated for the traffic of bulk, both solid and liquid, which represents a major sector for our ports (50% of total traffic).

After a period of difficulty caused by the long elaboration process of the latest reform, Italian ports are trying to recover their competitive drive, as newly appointed presidents work to design new strategies to follow and the new Port System Authorities clarify the role they will play on this stage. Our ports need new life, new characters looking in the direction of logistics and intermodality, and with an awareness of their role as tools at the disposal of industry and tourism which maritime operators can completely rely on.

Other ports continue to invest and to innovate, and this is a clear signal of a constantly renewing competitiveness that now depends on efficiency and effectiveness of infrastructure. The modern port should not merely be a place where ships dock but also needs to present itself as: a) a pivot for the internationalisation of the industrial system, b) a centre of excellence for tourists reaching their destinations or disembarking in our cities, c) an instrument to encourage relationships with other countries and d) a creator of economic, logistics and human capital.

It is necessary to take into account the Mezzogiorno, source of approximately 50% of total Italian port traffic and where two thirds of its international trade is carried out by sea – as a key area deserving appropriate investment and strategies.

Southern Italy, in fact, has a strategic position, close to the Suez Canal and right in the epicentre of the main international routes, namely the markets of Northern Europe and Middle and Far East. These considerations clearly highlight the importance of the role this territory could play in terms of economic growth of the country.

This is the aim SRM intends to pursue with its work, by promoting awareness of these complex and constantly changing phenomena. The world of the sea travels fast and therefore maritime-economic factors, together with the changes they bring about, need attentive and constant monitoring.

This Report in fact, only represents a small part of numerous in-depth analyses, articles and interviews that our Observatory carries out and that will continue to produce in order to pay close attention to our maritime sector.

Our country is at the centre of the Mediterranean and should, both now and in the future, implement the right policies required to rise to the challenges of competitiveness posed by this position. This is the diktat which influenced our research project. Monitoring and analysing the dynamics, routes, projects and players which are more often than not looking at *mare nostrum* as an area of strategic interest.

Before introducing the topics of this research it is necessary to highlight that for this issue of the Annual Report SRM acted in synergy with national and international centres of study which have contributed their specific know-how to enrich and further specialise the content of the papers hereby presented.

This is the case of the new partnership with *SISI-Shanghai International Shipping Institute*, with which an agreement was signed – involving twelve other centres of research from Europe, the U.S. and the Far East – with the aim of developing analyses of the maritime sector. Another example of collaboration is the agreement with the Erasmus University Rotterdam that has elaborated a specific in-depth analysis of the One Belt One Road Initiative and its impact on Northern European ports. Last but not least, the collaboration with *Centro Einaudi* in Turin which has significant experience of analysing aspects linked to the geo-economic changes we are currently experiencing and forecasting as a consequence of globalisation.

The three aforementioned scientific collaborations add to those established with the *Universities of Hamburg* and *Antwerp*, with *Certet-Bocconi* and *Prometeia*, with which SRM has long-standing relationships. Thus, it appears crucial for our policy of research to be firmly and systematically linked to centres of research in Italy and abroad that may complement the Report with experience and evidence so as to make this publication increasingly more important as a reference point for the port and shipping sectors.

As far as the organisation of the research is concerned, we can state that it reflects the objectives set out as the first part is about the economic situation whereas the second follows a monographic approach.

Chapter one, titled “The global scenario. Strengths, weaknesses and progress of globalisation at the beginning of 21st Century” is important to gain an understanding of

the general context in which we are operating. Globalisation, as the author claims, has surely benefited many countries since in the years of its success there was an increase in the average income, which grew from \$8,900 per capita in 1990 to \$14,700 in 2015. In the same period, globalisation also contributed to the reduction of general poverty as the percentage of world population that can spend less than \$1.90 per day fell from 35% in 1990 to 10.7% in 2014. Forecasts show that despite protectionism, globalisation will not stop and in fact it has now moved to an advanced stage where emerging economies such as China generate new flows of FDIs and new economies (i.e. African countries) attract capital from all over the world. Although in 2016 international trade grew less than the world GDP for the first time since 2001, the first trimester of 2017 marked a change, and trade and GDP have been following parallel trends since then. The trends of world trade in pure volumes show different but positive percentages of growth depending on the origin and destination of goods. A closer look at trade volumes 2000-2015 of pure goods exported or imported per continent reveals the following increases: a) +2.2% annual imports in Europe, b) +3.2% average annual imports in America, c) +6.9% average annual exports in Asia and d) +9.5% average annual imports in Africa. Therefore, the global economy is not slowing down and neither are the exchanges it produces

All of this is in line with the contents of chapter two that provides an up-to-date analysis of the features of ports and shipping in a global and European context analysing in detail the dynamics of the different categories of traffic. Furthermore, the essay analyses the special features and the value of the sector in the Italian territorial and economic context with reference to distinctive aspects such as fleet, volumes moved, routes and port traffic. A detailed look is also given to the state of implementation of the Italian port reform with interesting aspects that were considered important to highlight. The chapter then goes on to analyse the trends of containerisation and the most significant statistics such as those of the Ro-Ro sector – a benchmark for gauging the tendencies of the automotive sector, one of the most important in the world – as well as those of bulk which tell us that world trade continues to grow albeit at a slower pace. Thus, it is necessary to pay attention to other phenomena in terms of strategy planning. For instance, is there a real issue with overcapacity or have carriers carefully scheduled orders as a consequence of planned ship-breakings and possible economic scenarios? Will goods volumes from China increase? Or will the changes in routes produced by American protectionism affect market trends? Last but not least, will the automotive sector continue to grow? These are some of the questions this report attempts to answer.

The third chapter, edited by the University of Hamburg, deals with an innovative topic, “sustainable ports”. In this contribution it is argued that development strategies for a sustainable future of ports need to be exclusively elaborated by thoroughly evaluating the economic activities carried out in ports, their potential on the market and external costs linked to them. Ports need to adjust their strategy within a sustainable framework and distribute their resources with the aim of maximising the generation of value in the long term. It is also important to find smart ways of reducing the impact on the environment, especially if the port is nestled in a city. This is the only way for port communities and urban centres to coexist and develop simultaneously.

Interesting points of view are analysed in chapter four, elaborated by SRM and revolving around a self-produced analysis of the balance sheets of sample worldwide container-carrier companies holding approximately 80% of TEUs transported. The analysis is based on three factors: i) the growth of companies in terms of turnover and investment, ii) profitability and iii) financial viability. Therefore, this chapter unveils evidence of the health of big carriers: according to our estimates turnover is expected to decrease slightly but in the long term it should stand at acceptable levels providing no big shocks take place. Companies are managing to maintain margins of profitability that can guarantee return on investment and ensure economic and financial stability, at least in the short-medium term. Additionally, there seems to be a good balance between financial sources and uses.

The monographic section of this research mainly revolves around China and is composed of case studies and essays representing different points of view on the strategic moves that the Dragon is making as well as on the *One Belt One Road Initiative* (henceforth OBOR) with special attention to its maritime part known as *Maritime Silk Road*. This monographic study is made up of tiles that have been carefully chosen and which analyse five main aspects of the OBOR:

- the way it is developing, from the point of view of China, thanks to the analysis provided by Shanghai International Shipping Institute. For instance, in 2016 investment in the huge ports of this country amounted to approximately \$18.6 billion.
- The consequences on the Med Area (SRM's analysis in chapter six) and therefore what the most interesting projects involving the *Mare nostrum* are, such as Piraeus, Vado Ligure, Port Said, Haifa, Istanbul.
- The role of Northern Europe with a special focus on the port of Rotterdam (chapter seven, edited by the Erasmus University Rotterdam). Particular attention is paid to the way technologically advanced ports are preparing to receive the *Silk Ships*, a term SRM coined to indicate the vessels transporting the goods flows generated by the initiative.
- The case study of Israel and of the East Mediterranean ports of Haifa and Ashdod (chapter eight of SRM) that analyses how a country initially wary of Chinese maritime investment finally changed its policy and welcomed it to the major terminals currently under construction.
- In chapter nine, a focus by SRM on the *Asian Infrastructure Investment Bank* (AIIB). This is a multilateral financial institution led by China and created for promoting economic integration and interdependence in the Asian region as well as for liaising closely with other multilateral development banks such as the World Bank and the Asian Development Bank. The main objective of the bank is to finance the development of infrastructure in Asia and nearby regions. At first, in fact, it was designed as an instrument mainly aimed at supporting the projects of the OBOR however, its mission was then expanded. The essay provides a detailed analysis of this process.

We wish to conclude this introduction to the volume by thanking SRM's researchers and the partners of this project who believe in our work and in this adventure we have embarked upon. A special thanks goes to all the authors who have contributed to increasing the value of this research.

Hoping we have been able to provide factual support to those convinced that the development of the economy of maritime transport and logistics is a priority for our country. The challenge has been set.

Massimo DEANDREIS

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The 2017 Report on the Maritime Economy has now reached its fourth issue and is based on two mainstays. Firstly, there is an analysis of the principal economic data of the sector on a national and global scale, with updates on the features of ports and shipping in the global, European and Italian scene as well as in-depth analyses of routes and dynamics of traffic. Secondly, this volume deals with the evolution of Chinese investment in ports and maritime terminals in the Mediterranean and in Northern Europe, a topic SRM has been following regularly over the last few years. This phenomenon has already had an influence on the *Mare nostrum* and will probably continue for a long time, as evidenced by the huge plan of infrastructural investment that the Dragon is implementing in order to complete the *One Belt One Road Initiative*. This project provides for the creation of seaborne and land routes which will allow China to expand its trade relationship with Europe and Asia through the implementation and improvement of transport infrastructure. Analyses are supported by fascinating and thought-provoking case studies.

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