

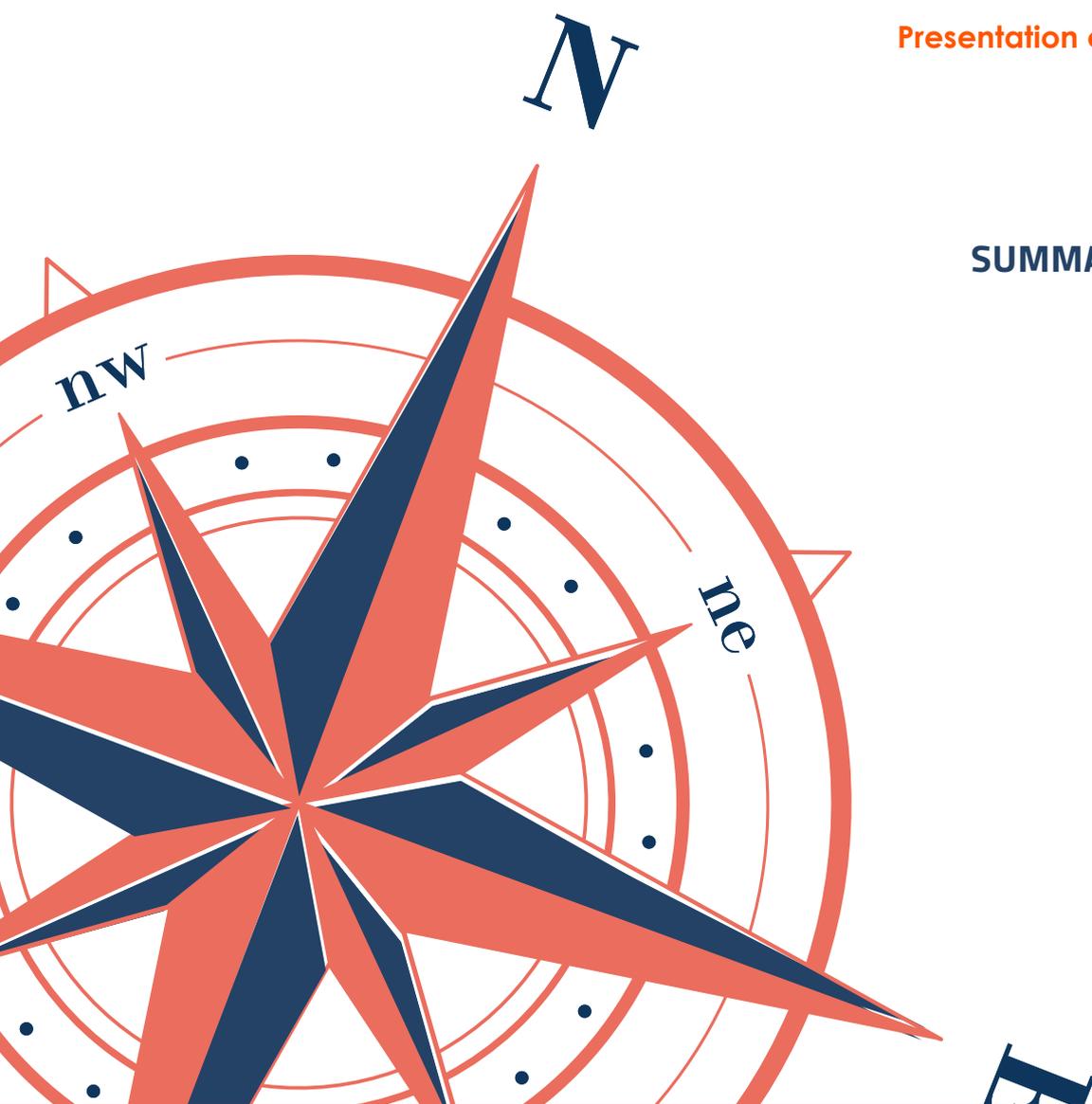


# ITALIAN MARITIME ECONOMY

**New scenarios in the Mediterranean: Suez and China, the strategies of big carriers, new technologies and energy routes**

**Presentation of the 6<sup>th</sup> Annual Report  
Naples, July 4<sup>th</sup> 2019**

**SUMMARY OF THE REPORT**



### Maritime transport continues to be a key factor in global trade with a growth which, although slowing down, exceeds 3% and shows positive forecasts until 2023

Container traffic is on the rise on all routes; this mode of transport now accounts for 60% of total value of seaborne trade.

The US-China Trade War is showing its first effects.

- In 2018 **maritime trade** showed a slowdown, with +3.1% on the previous year; in 2017 growth was more marked with +4.2%. Trade volumes have reached 10.7 billion tons.
- In general, **forecasts for maritime trade are positive** and indicate an average annual growth rate of 3.8% between 2019 and 2023 (in the period 2005-2017 this figure was 3.5%).
- As for **goods transported**, slightly less than 30% is accounted for by liquid bulk such as gas, crude and petroleum products (in 1995 this share was 44%). Then, 53.5% is made up of dry bulk and 17% is covered by transport on containerhips (this share has more than doubled compared to 1995).
- **Emerging economies** continue to represent the most significant portion of maritime transport. In particular, **Asia accounts for 42% of export and 61% of import**.
- The share of containerized transport measured in tons grew from 8% in 1995 to 17% in 2017. In terms of value, this sector is even more important as it accounts for **60% of global maritime trade** (approximately \$12 trillion in 2017).
- In line with trends in overall maritime transport, **Asia** leads the way in container handling since it accounts for almost two thirds of global throughput. About **240 million TEUs** (out of 752.2 million handled globally) were recorded in China, Hong Kong and Taiwan.
- *Unctad* forecasts indicate that the container sector will be the one showing the greatest increase, with **6.4%**, compared to the average 3% growth of the overall maritime transport sector. Other analysts of this sector estimate that in 2019 containerized transport will grow less markedly and hover at 4%. Nonetheless, this will be a significant growth corresponding to approximately **30 million TEUs added globally**.
- The growth of containerized trade has strengthened on all the main East-West trade routes such as the Asia-Europe, the Transpacific and the Transatlantic. Overall, the **transpacific** has remained the busiest route with total volumes reaching 27.6 million TEUs, while the **Asia-Europe** holds the second place with 24.7 million TEUs, followed by the **transatlantic** with 8.1 million TEUs.
- Volumes on the **transpacific** grew by 3.8%, while those on the **transatlantic** (both directions) showed an increase of 6.6%. Finally, flows on the **Asia-Europe** (both directions) went up by 2.9%.

- As a consequence of the US-China trade war, total containerized Chinese exports to the US showed an **8.2% decrease** in the 1st trimester 2019. Volumes significantly slowed down after reaching a peak at the end of 2018, when goods were loaded on ships earlier than necessary in order to avoid the expected increase of tariffs, which finally resulted in the 4th trimester 2018 showing a +19.1% figure.
- Estimates indicate that a further escalation of the US-China trade war, probably entailing new tariffs on \$ 300 billion worth of Chinese exports to the US at the end of 2019, **could see eastbound transpacific volumes drop by a further 8%.**

## The Mediterranean is gaining importance and the Suez Canal breaks a new record and celebrates 150 years of activity

Suez continues to grow with percentage increases of goods and ships in the double figure.

Ports of the East Med show significant increases also thanks to the effects of the Belt & Road Initiative.

Ports in the South Med are increasingly gaining traffic and have almost completely filled the gap with those of the Northern Med.

- The **Mediterranean** is widely recognized as a privileged transit route for containerized traffic as it accounts for 27% of the 487 global liner services. Furthermore, this is an important area also for short sea shipping, northbound and southbound, **in particular for Ro-Ro.**
- **The Suez Canal continues to play the role of strategic hub for global merchant shipping traffic.** 9-10% of international trade uses this passageway. The growth of transiting goods shows remarkable figures confirmed also in 2018, when a **double record** was broken, in terms of number of ships (over 18,000; +3.6%) and cargo transported (983.4 million tonnes; +8.2%).
- The new record was set mainly thanks to **Southbound** vessels which amounted to 524.6 million tonnes (+9.8%), while **Northbound** volumes hovered at 458.6 million tonnes (+6.6%).
- As a consequence of the enlargement, **in 2018 average ship size in transit through the New Canal grew by 12% (containerships by 24%)** compared to the year prior to the enlargement (2014). This demonstrates that the Canal is trying to fulfil the needs of gigantism, a phenomenon now common to all types of vessel.

- **2019** is confirming these trends. In the first 5 months of the year the canal was crossed by a total of more than 7,600 ships, with an increase of **+5.2% on the same period in 2018**. They transported about 420 million tonnes of goods: **+7.4%** on 2018.
- The Suez Canal is still the third route in the world for oil transport and natural gas leaving the Gulf to reach Europe and North America. These two routes account for **about 9% of global seaborne oil trade**. In 2018, crude (including refined products) and LNG accounted for 24% and 3% of transiting goods respectively.
- Furthermore, **traffic trends show that the enlargement of the Canal is gradually changing the world order of maritime transport** above all along the East-West route. Over the last 11 years traffic from South East Asia towards the Med has increased by 37%, a figure that needs to be considered alongside the growth of traffic to and from the Gulf (77%).
- According to UNCTAD *Liner Shipping Connectivity Index*, ports of the Southern Mediterranean (North Africa and Turkey) have **considerably reduced the competitive gap** with those of the North Med. As a matter of fact, the Index now records a gap of 8 points, down by 18 points on 2004 (when it was 26 points).

## Digitalization and technologies: new frontiers for the growth of ports and shipping

- Digitalization is a key factor potentially able to transform the business of maritime transport and involving both ships and port handling and management operations. Generally speaking, digitalization is considered as a combination of technologies which the maritime transport industry is increasingly using to improve systems and processes.
- Carriers and forwarders are adopting measures to digitalize internal procedures, develop new IT integrated infrastructures and offer real-time transparency on shipments. As UNCTAD reports, in the medium-long term technology could lead to a **\$300 saving on customs clearance costs for each shipment** and therefore generate a saving of \$ 5.4 million on the load of an 18,000 TEU vessel (provided that the whole load needs to be cleared).
- Other relevant technologies for maritime trade include robotics, AI and additive manufacturing or 3D printing which can simplify regional production and replace low cost workforce.
- In particular, 3D printing is not expected (in the short-term) to generate a massive delocalization model but could have an incremental impact and affect specific niche markets. With time, this technology could result in reduced use of raw materials in production processes but for the time being **its impact is marginal** as current estimates indicate **a reduction of less than 1% by 2035 in terms of TEU volumes**.

## The BRI continues its development but shows some slowdown

Chinese FDIs continue but at a slower pace.

After Trieste in 2019, there have not been any other Chinese investments in the Mediterranean.  
Is the project completed?

- According to some estimates, by 2040 **the BRI will increase World GDP** by \$ 7.1 trillion per year, equal to a growth of 4.2% (in 2019 this contribution to GDP was 8.3%).
- **Import-Export between countries of the BRI accounts for 13.4% of global trade volumes** and 65% of EU trade.
- Within the BRI strategy, **there are approximately 1,000 projects implemented or currently under development** although some reconsiderations have occurred in a number of receiving countries.
- After Chinese FDIs in EU28 reached the record-breaking figure of € 35 billion in 2016, in the two following years they went down to 30 billion in 2017 and 18 billion in 2018.
- **Thanks to its geographical position and to its port and logistic infrastructures, Italy can play a key role in the BRI. The MoU signed last March is a clear sign of mutual interest in establishing collaborations.** Several Italian ports serve routes to and from the Middle and Far East. In particular, Italy boasts the presence of ports that are within the network of big shipping alliances with a total of 22 liner services, 7 of which from the Ocean Alliance, including the Chinese State company Cosco as a member.
- Italy signed 29 agreements including: a) access to Chinese markets for Italian energy and engineering firms and b) greater cooperation between financial and tourism companies. These are estimated to have a value of € 2.5 billion while China has forecast to invest up to € 7 billion in the Italian ports of Genoa and Trieste.

### Tendency to naval gigantism and carrier alliances continue. The logistics chain is expected to become increasingly concentrated in the hands of giant operators

New orders of megaships have been placed by big carriers who already hold more than half of the great routes.

The phenomenon of strategic shipping alliances is well established.

- **Gigantism is expected to continue in the future.** In the next three years, 133 new vessels will be launched in the category 10,000-23,000 TEU and 45 of these will belong to the 18,000-23,000 TEU category. The phenomenon does not only involve containerships but also Ro-Ro. Over the last 10 years average ship size of Car-Carriers (new cars) has grown by 20%.
- There is also a tendency to **concentrate routes**: in 1998 the top 4 operators held almost 20% of the global market while in 2018 this percentage had grown to 57-58%. If we consider the top 10 operators this datum passes from 40% in 1998 to over 80% in 2018.
- On the **Asia-Northern Europe and Asia-Med routes**, the three shipping alliances (2M, Ocean and THE) have almost 100% of hold capacity.
- The share of **terminals controlled by maritime carriers** passed from 18% in 2001 to 38% in 2016. 2M and Ocean Alliance both have a portfolio of approximately 90 terminals with an overall capacity of 50 million TEU.

### Italian ports show stable trends while maritime import-export grows

The international component of maritime transport shows significant growth.

Ports continue to show steady traffic trends in all sectors.

- **The international component of our maritime transport is growing in Italy.** In 2018 the value of Italian seaborne trade amounted to **€ 253.7 billion**, (+6.3% on the previous year) with € 132.5 billion in imports (+8.6%) and 121.2 in exports (+3.8%).
- **The sea accounts for 37% of Italian trade while road transport accounts for 49% of goods traffic. Twelve Italian regions depend on the “system sea”** since more than 30% of their import export is carried out by ships. Seven of these regions are located in the **Mezzogiorno**.
- **China is our main supplier country:** with € 22.4 billion it accounts for 17% of Italian seaborne import.
- **The first client country by maritime transport is the US**, which accounts for 23% of our **export** with € 27.7 billion.
- Overall, the top 10 suppliers account for 53% of Italian maritime imports while the top 10 clients cover 51% of exports. It seems noteworthy that **Turkey** is amongst both groups of top three countries.
- **Italian ports** as a whole have handled 491 million tonnes of goods, showing a slight decrease on the previous year: -1.2%.
- **Ro-Ro is an excellence of our national traffic.** In 2018 this modality recorded 109.1 million tonnes (+3% on 2017). Also, 36% of rolling materials handled in Italian ports comes from abroad. Such percentage gets closer to 100% in the Adriatic where cabotage traffic is marginal and limited to few regular lines.
- **Liquid bulk in Italy**, as an important proxy of the **energy component of ports**, represents the most significant goods category in terms of volumes and is therefore strategic (high revenues for port activities). In 2018, with clear prevalence of imports, approximately 184 million tonnes were handled, most of which was mainly correlated with demand from refinery needs of petroleum products and energy demand to be fulfilled.
- **The top 5 Italian Energy ports** (Trieste, Cagliari, Augusta, Milazzo and Genoa) account for 70% of the whole national liquid bulk traffic and Trieste, with 43.2 million tonnes, confirms its position as the Italian port handling the greatest volumes. Cagliari and Augusta (Sicily) follow.
- Other types of traffic show substantially stable trends. As for containers, for example, Italy has been unsuccessfully trying to exceed 10 million TEUs for years.
- **Italy remains leader in Short Sea Shipping in the Mediterranean.** Italy is the first country in EU28 in terms of Short Sea Shipping of goods in the Mediterranean with 230 million tonnes of goods transported (37.4% market share).

### Italy needs to improve efficiency and value of its logistic chain.

Ex Works still widely used within the manufacturing system.

Very low use of intermodality: more effective strategies needed.

SEZ and SLZ may contribute to increasing synergy between industry and logistics but their implementation is still slow.

- Estimates elaborated by SRM-Contship on a panel of 400 manufacturing companies highlight how most of these businesses tend to externalize logistics; in the case of exports, this is true for 85% of companies while for imports this percentage is 71%. This demonstrates that our industrial system offers great opportunities to those specialized in this sector.
- The aforementioned data alongside the opportunities offered are mitigated by an analysis of contracts used by companies: there is a prevalence of Ex-Works (costs and risks of transport charged to addressee) with **64% of cases**. This tendency indicates the increasingly marked intention of a company to avoid taking responsibility for whatever happens outside of its perimeter and to pass on to the client (foreign in the case of export) all aspects of the logistic chain, which might represent a risk for our port-logistic companies.
- In order to travel to and from the port, companies continue to use **intermodal connections** marginally (also due to lack of infrastructure). For **81% of companies** the main connection mode is the road while the remaining **19% uses a combination of road and railway**
- **SEZs and SLZs may represent effective tools to encourage manufacturing and logistic-port investments**, although the process needed to make these operative is showing a clear slowdown. Two years after the Decree Law that established them, SEZs seem to have been halted right where administrative and bureaucratic incentives had to be outlined.
- SRM has estimated that if our country carried out port investments able to increase our port capacity and attractiveness by 10%, this would generate an impact on the value added of our maritime chain amounting to an additional € 3.2 billion. This confirms the active role of the port-maritime chain within the national productive context and the role that SEZs could play by attracting investments.
- SRM's elaborations based on World Bank data and performed on a panel of SEZs have shown that once up and running (between 7 and 10 years) these zones could **lead to an average national increase in exports up to 40%**. If we transfer this growth performance to export volumes of our Mezzogiorno (SEZs can only be established in the South while the North will benefit from SLZs), within a decade we could activate **€ 18 billion** worth of further export volumes.

- Another important indicator affected by SEZs is **container traffic**. An analysis from SRM has shown that in a panel of Mediterranean ports fitted with Special Economic Zones this kind of traffic recorded average annual increase rates of 8.4% in the last 10 years (in Italy container traffic's growth amounted to slightly more than 1%). Again, if we apply this percentage growth to Southern Italy's ports (which handle 40% of container traffic, 4 million TEUs) in ten years' time we could reach 7.4 million TEUs. This increase of traffic would be accompanied by **consequent positive impacts regarding value-added logistic handling**.

### The Mezzogiorno is potentially the country's logistic-port platform serving the territory's industry

The SEZs need to be activated and implemented promptly and at the same time significant investment needs to be carried out in ports, intermodality and logistics integrated to industrial processes.

- **All traffic data** show a significant presence of Southern Italy in our maritime transport with great percentages on the national total hovering at 45%, the presence of hub ports, multipurpose ports and relevant organizations operating in the passenger and cruise sectors.
- **Companies in the Mezzogiorno** carry out 65% of their import/export by sea, for a total of € 58 billion.
- Southern ports can play a key role for the international reach of Southern Italy's chains, in particular those linked to "4A" (Agrifood, Apparel, Aerospace, Automotive) and Bio-Pharma. Such chains **export € 21.2 billion worth of products** all over the world.

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