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Forum of Adriatic and Ionian Chambers of Commerce

SEA TRAFFIC OBSERVATORY - 2013 REPORT

ADRIATIC AND IONIAN PORTS:
Ports, traffic and the UE political strategy for Adriatic and Ionian Region

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Introduction

As usual, the report on the Workgroup on Transports of the Forum of Chambers of Commerce of the Adriatic and Ionian Area is based on the trend of passenger and freight traffic originating from or destined for the main ports of the basin.[5]

The interpretation of the results given in this edition intersect with the procedure for approval of the macro-regional strategy for the Adriatic-Ionian basin, which has advanced in significant stages over the last year and has seen a key role played by the policy of infrastructural connection - particularly by sea.

2014, indeed, is the year in which the stages will be completed for the approval of the European Union's new strategy and Action Plan for the Adriatic-Ionian region (EUSAIR) by the Commission, first, and then by the European Council. This strategy, as is known, involves 8 countries: 4 Member States (Italy, Slovenia, Croatia and Greece) and 4 non-EU countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia).

The overall aim is to give new impetus to cooperation and investment in all countries and communities affected by the area.

Since 2012, very significant consultations were held in Athens, Trieste, Portoroz and Zagreb, Rome and Athens. Three general aims and four main lines of action were defined during these consultations:

5) to drive the innovative growth of the maritime and marine system of the area, which comprises the complex system of actions aimed at creating new business opportunities and employment in the blue economy sector;
6) to connect the region, namely to improve connections between countries and reduce the distances between island and rural communities by improved regulation of maritime and inland corridors (including the interoperability of all modes of transport) and of energy networks, and by developing environmentally friendly transportation and supply methods;
7) to preserve, protect and improve the quality of the environment;
8) To increase the attractiveness of the region. This strategy includes all activities intended to promote tourism in the area, by improving the quality of services, promoting a single Mark and by the seasonal adjustment of demand.

In general, the Observatory's activities, the constant monitoring of maritime traffic in the Adriatic and Ionian Seas, can usefully contribute to improving the strategic lines and the action plan of EUSAIR, particularly in relation to certain aspects already articulated during the consultation phase in February of this year in Athens:

- The development of maritime motorways, port terminals, the specialisation of ports and the improvement of port infrastructure for the cruise sector;
- The development of intermodal systems, in particular rail-sea intermodal systems, which can increase the competitiveness of short sea shipping routes, the development of nodes and infrastructures to power the maritime traffic system.

[5] The ports monitored are: Trieste, Venice, Ravenna, Ancona, Bari, Brindisi and Taranto for Italy; Koper for Slovenia; Rieka, Split, Zadar, Ploce and Dubrovnik for Croatia; Durres for Albania; Bar for Montenegro; Igoumenitsa, Patrasso for Greece.

The aim of the analysis is therefore to interpret the traffic trends and the guidelines which may help in supplementing the action plan underway.

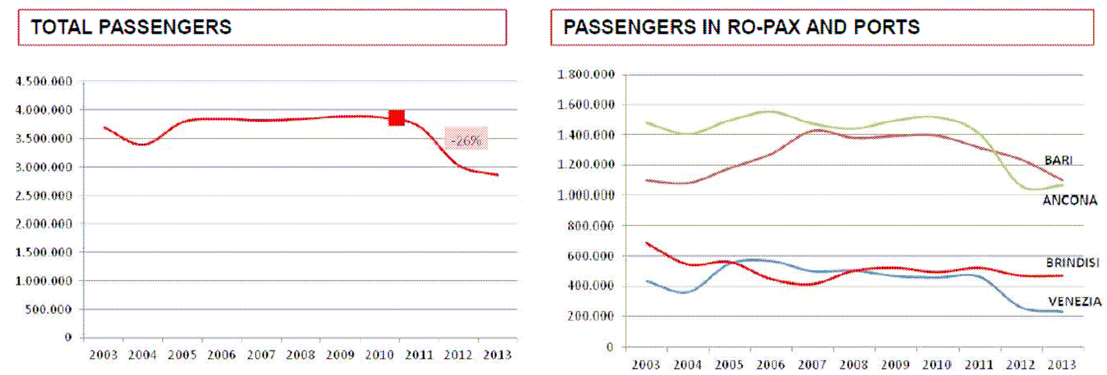
1. Ferry traffic

The Adriatic-Ionian area is most characterised by traffic linked to the movement of passengers and trucks and trailers in ferries of the ro-pax type.

General volumes and the Italy-Greece market. This mode of transport rapidly evolved during the 1990s, especially in connections between Italy and Greece. The wars in the former Yugoslavia made a land corridor linking the Hellenic peninsula and the central and northern Europe impracticable, but with the arrival of superfast ferries the sea route was beginning to be particularly competitive in terms of journey times.

Traffic continued to grow until 2000 and then it stabilised. During the first eight years, the overall movement of passengers to and from Italian ports, on regular international connections, had reached nearly four million units. From 2009 onwards, however, a constant contraction occurred. Over four years almost a million passengers disappeared, representing a decrease of more than a quarter of the total market.

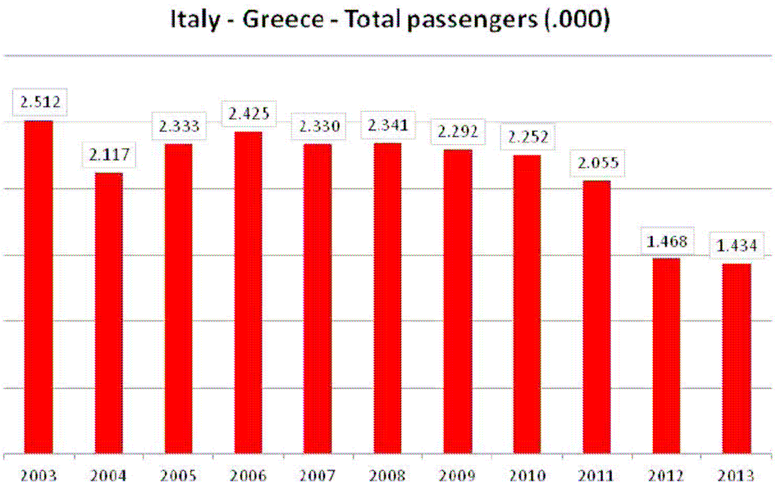
FIG. 1 – AI AREA – INTERNATIONAL PAX IN RO-PAX FROM/TO ITALIAN PORTS



Source: Istao OTM, based on AP data

This is primarily attributed to the connections between the ports of Italy and Ionian Greece, which always represented the basin's most significant market. Top traffic numbers were achieved in 2003, with 2.5 million passengers - currently down to 1.4 million units. The most substantial collapse occurred between 2011 and 2012, but the effects of the financial and economic crisis in Greece since 2008 had produced this net inverse trend. Many shipping companies were in critical difficulties, and many services were consequently eliminated with the progressive loss of market share.

FIG. 2 – RO-PAX PASSENGERS TO GREECE FROM/TO ITALIAN PORTS



Source: Istao OTM, based on AP data

The same dynamics affected articulated truck/trailer numbers i.e. rolling stock on ferry crossings. Even in this case, the market significantly reduced as regards traffic with Greece. The highpoint of 525,000 vehicles embarked or disembarked in Italian ports in 2008 is in stark contrast with the current situation, and in 2013 not even 350,000 units were achieved.

The most recent indicators suggest that we are seeing a halt to this negative trend or, at least, an apparent stabilisation of the situation. Obviously the movements of most recent months must be assessed in order to understand if a genuine market recovery will occur.

The figures for the other markets are more moderate: although the trends are negative, they are less extreme.

In regular connections to and from Croatia in 2013, 510,000 passengers were recorded, or -8% over the previous year. The movements related primarily to the ports of Ancona, Bari and Venice. However, the predominant presence of exclusively summer services, with hydrofoils, catamarans etc. means that the real figure could be much higher.

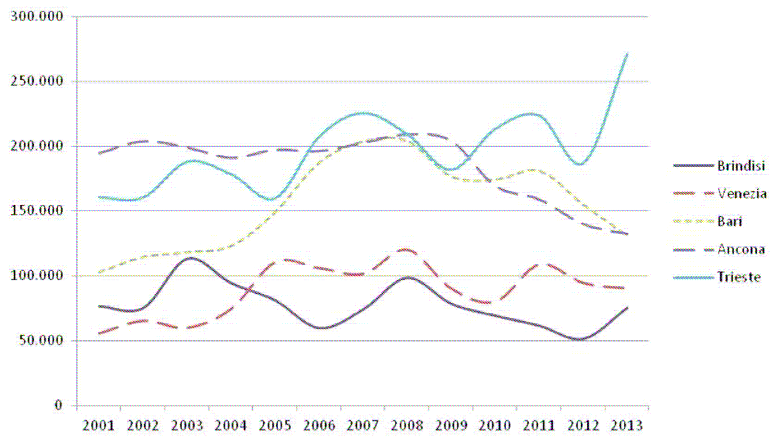
It is the Albanian market, by contrast, which registers the most significant contraction in 2013 (-9.3%). After achieving over 1 million passengers in 2009, traffic decreased steadily over the years up to the current figure of approximately 890,000 units. By contrast, the movement of trucks and trailers registered an increase of 1.2% over the previous year.

An analysis of the competitive positioning of the individual ports reveals a number of interesting phenomena.

On the western front of the basin the only port to register a slight increase in passenger traffic is Ancona (+ 0.2%), while on the eastern front only Igoumenitsa registers a positive result (+ 4.9%). The clear loss of Bari which was the market leader in 2011 - due to a further shrinkage of the market with Greece and to a decline in traffic with Albania (in which it holds a leading position) - leads to a situation of substantial pairing of overall traffic volumes for the ports of Ancona and Puglia.

Ancona, moreover, strengthens its leadership position over Greece, thanks to a 4.5% increase and a market share of 48% with Croatia, while the Apulian ports of Bari and Brindisi retain most of the connections and traffic with Albania.

FIG. 3 – AI AREA – TRUCKS TRAILERS IN RO-PAX FROM/TO ITALIAN PORTS



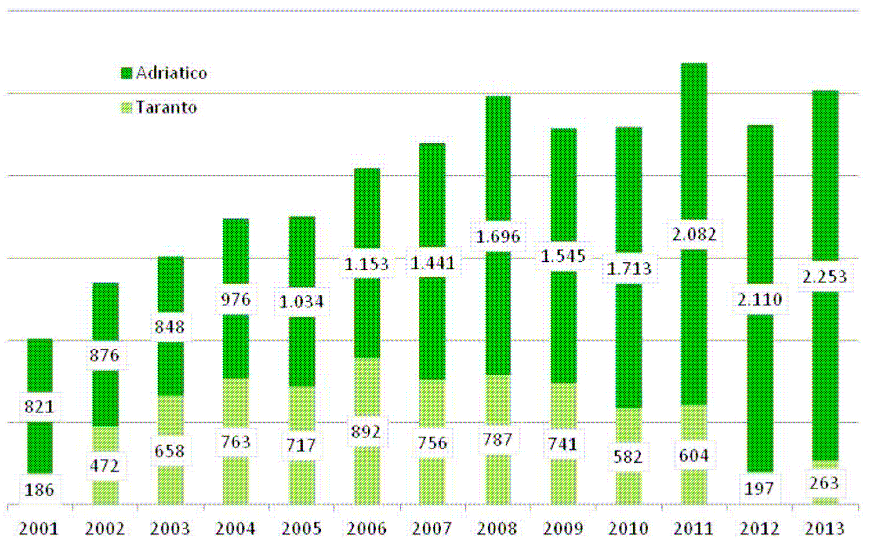
Source: Istao OTM, based on AP data

The port of Trieste (over 271,000 passengers) reveals a particular phenomenon in relation to the movement of trucks and trailers. While many other ports suffer from reduced traffic numbers, Trieste has inverted this trend. A number of factors account for this. First, almost all of the movements may be attributed to traffic with Turkey, one of the few countries in the Mediterranean to be in a period of booming economic development and thus benefiting from increased international trade. Secondly, the system of local governance (in particular the Port Authority and the Region of Friuli Venezia Giulia) - with annual support for the development of rail services - ensures for the port adequate train connections with key Central and Northern European countries. Finally, the same multimodal operators that implement the services have invested in the Italian port, thus consolidating their relations with it. This is a good example of successful public and private synergies and of the ability to manage the entire logistics chain.

2. Merchandise traffic

The Adriatic-Ionian basin is an important reference area for bulk oil traffic. Trieste in particular, one of the major Mediterranean ports for movement of bulk liquids (oil and mineral oils), registered a growth of 15% and, with 56 million tonnes of merchandise, confirms its leadership position in the area. A sharp decline is shown by Taranto (-18%), Ancona (-12%) and Durres (-18%), although the latter two show significantly lower movement values. Among the leading ports, a slight decline for Venice (-4%) and a good performance for Ravenna (+ 5%).

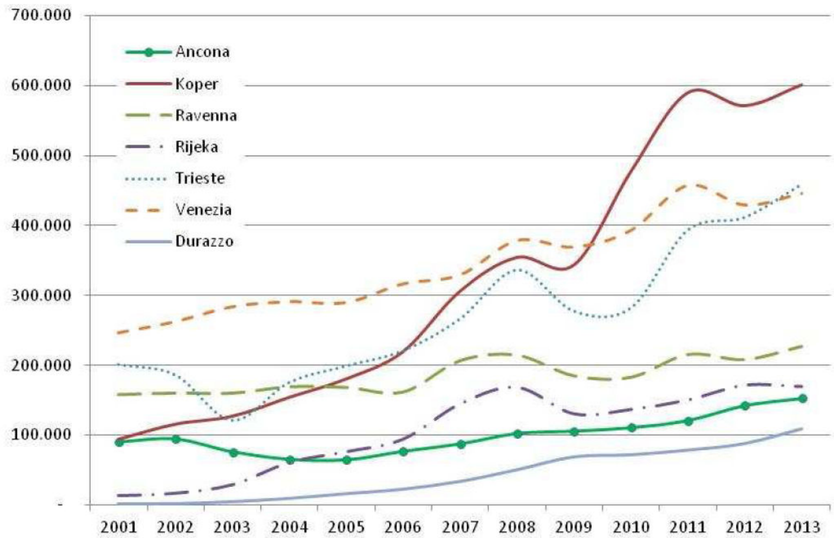
FIG. 4 – AI AREA – CONTAINERS IN .000 TEUS



Source: Istao OTM, based on AP data

There is continued growth in the container segment in the Adriatic. All the ports in the area have registered positive growth and Koper (+ 5.2%) with 600,000 teus remains the market leader. Venice and Trieste are confirmed as the two leading Italian Adriatic ports for container movement. Much of the traffic is concentrated in the area north of the Adriatic. The reasons are well known: the ports are in close proximity to particularly well-developed areas of the market such as the Triveneto, or well-connected to more distant markets of origin/destination thanks to good links, including train connections. This is the case, for example, with Trieste and Koper which, in different ways, have developed policies to economically support the supply of rail services and these, without doubt, produce good results.

FIG. 5 – AI AREA – CONTAINERS – TRENDS IN THE MAINS PORTS (2001- 2013)



Source: Istao OTM, based on AP data

3. The cruise segment

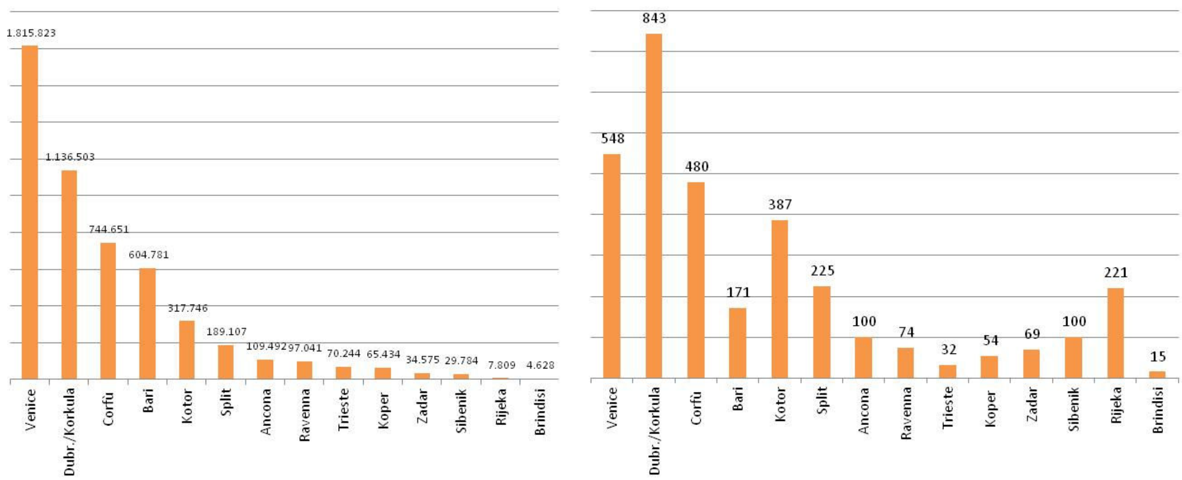
Analysis of cruise traffic trends carried out in this context has a twofold aim: on the one hand to monitor the dynamics of a segment which in the last decade has not experienced significant contraction but, on the contrary, has grown even during periods of economic crisis, and on the other hand to verify whether and how the sector's growth and dynamics can impact on the ports' infrastructural facilities.

The main source for this work are the statistics provided by the Report[6] of the Med Cruisers Association which represents more than 100 ports in the Mediterranean. The Adriatic-Ionian basin includes - in addition to the ports normally monitored through the findings of this observatory[7] - the ports of Corfu, Kotor, Sibenik and Korkula. In fact, as we emphasised in other reports of the observatory - the cruise market has to an extent modified the hierarchy of ports in the Adriatic: poorly structured ports, often without dedicated governance, are the tourist destination points of entry for hundreds of thousands of passengers annually.

In the last five years, according to the CLIA yearbook[8], the Mediterranean has increased its market share by moving from 17.6% in 2008 to 21.7% in 2013. Although the Caribbean continues to be the main destination for cruise passengers (34.4% in 2013), the Mediterranean represents the most significant rise among the main market areas.

The western Mediterranean area has the greatest number of total passenger movements (18.8 million passengers), followed by the Adriatic, with 5.1 million passengers last year, representing an increase for the last survey year of 6.2%. The number of actual disembarkations are shown to be down by 0.5% over the previous year.

FIG. 6 – CRUISERS AND CALLS IN AI-PORTS (2013)

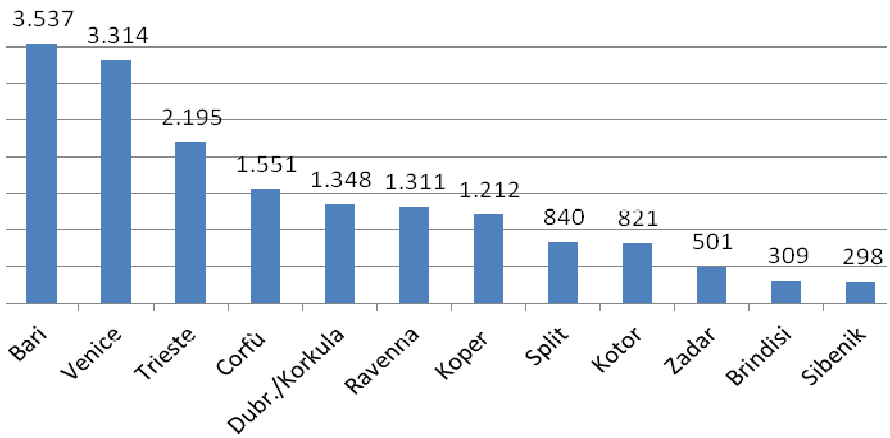


Source: Istao, based on data from Medcruise 2014

[6] MedCruise, Cruise Activities in Medcruise ports, Statistics 2013 – Pireus 2014
[7] With the exception of the port of Ancona, which is not a member of the association. However, in a number of analyses which are duly indicated, data for the port of Ancona are given below for purposes of comparison with other ports in the basin.
[8] Cruise Lines International Association (CLIA), 2014 Annual State of the Cruise Industry Report.

Venice is the market leader with 1.8 million passengers, followed by Dubrovnik and Corfu. After Bari, Kotor is another port which, while not significant in terms of data on goods and traffic on ferries, is an important cruise traffic destination in the Adriatic. The classification in terms of the number of actual embarkation is different, however: Dubrovnik with 843 disembarkations is the most significant port by far, followed by Venice, Corfu and Kotor. And in the ports of Bari and Venice, indeed, the average number of cruise passengers per landing is significantly higher, which indicates the presence of larger vessels than those landing at ports such as Corfu and Dubrovnik, however relevant in terms of the number total cruise passengers annually.

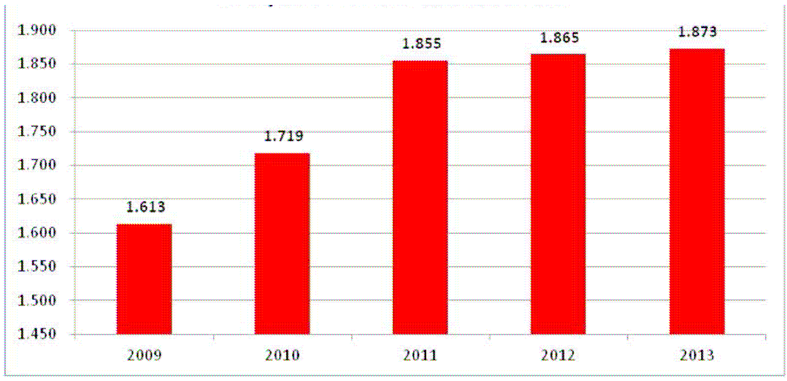
FIG. 7 – PAX/CALLS IN AI - PORTS



Source: Istao, based on data from Medcruise 2014

The most significant data however, from this point of view, is the development occurring - in the Adriatic and in the whole Mediterranean area - in the dynamic of this indicator, which represents a good proxy of the average sise of vessels arriving at the ports.

FIG. 7 – PAX/CALLS IN MED AREA



	2009	2010	2011	2012	2013	Var 2013/2009
West Med	1.921	2.051	2.242	2.177	2.138	+11%
Adriatic	1.263	1.337	1.464	1.490	1.590	+26%
East Med	1.101	1.147	1.242	1.326	1.440	31%
Black Sea	555	487	428	584	510	-8%

Source: Istao, based on data from Medcruise 2014

Over a five-year time period, the average size has significantly increased. In the Adriatic, in particular, the increase + was 26%. This is an important sign, and it means that all ports seeking to develop cruise traffic must equip themselves with terminals, wharfs and draughts suitable for large ships.

4. Summary considerations

The observatory's analysis reveals a number of considerations which may be brought to the attention of the EUSAIR Action Plan.

Development of motorways of the sea - This is one of the guidelines already suggested in the discussion tables with stakeholders. One should begin by acknowledging that traffic on many of the current routes has reached or is facing a point of decline. The connections between Italian and Greek ports have suffered a sharp decline due to the financial and economic crisis that impacted on that country first and subsequently on the whole of Europe. The fact remains that this route continues to be the principal sea connection linking the economies of South Eastern and North Central Europe. A recent survey by Isfort, on behalf of the Port Authority of Ancona, highlighted the very diverse origin (and final destination) of merchandise entering the ports of Greece and Ancona - from the Middle East, Bulgaria, Turkey, Germany, but also the countries of Northern Europe, France and Spain.

This means that the Adriatic-Ionian basin represents an important connection node between the Eastern Mediterranean and the rest of Europe. Broadening the focus to new economies - to countries such as Turkey, which is experiencing a strong period of growth, or to Egypt, when political and social troubles there have stabilised - could represent an decisive opportunity for the ports of the Macroregion.

Intermodality and public private partnership - However, there must also clearly be a change in the way we conceive of services on ships ro-ro or ro-pax, twenty years after the explosion of the phenomenon.

In relation to passengers, one cannot ignore the fact that the advent of low cost airlines has radically changed the landscape of how tourists travel and this, structurally, impacts negatively on demand for ferry transport.

In relation to goods, on the other hand, transport by sea is all the more effective the more integrated it is with the entire sea-land logistics chain. This presupposes rapid road connections from the ports to the main motorway networks and, in particular, a greater development of rail services to enable distribution and production destinations in the heart of Central and Eastern Europe to be reached from the ports rapidly and on timetable. Furthermore, much of the competitiveness of North European ports compared to those of the Mediterranean is based on the widespread distribution of these services. In addition, the EU's Ten Corridor strategy was devised primarily in response to this mode of transport.

What needs to be done? Southern Europe has a significant infrastructural gap, especially inside ports, a retrograde organisation of logistics, greater fragmentation of the market which certainly does not facilitate the success of rail transport. But investments in this area, where they have been made, have yielded good results: support for services to and from the port of Trieste, strategic investments in railway companies by the port of Koper, the investments made by multimodal operators in the port infrastructure in Trieste, again - all of this sends a clear signal that the conditions exist to enable our ports to be made more competitive, as long as they do not operate as independent nodes disconnected from the entire logistical chain. To accomplish this, it is of indispensable to create synergies with multimodal operators who control this chain.

Ports and cruises - Some final thoughts relate to the cruise segment which, as has been shown in recent years, represents a significant and widespread opportunity to develop the ports and economies of the Macroregion. These thoughts are closely connected with tourism issues, yet the profound transformations in the model of offer of cruise companies impacts significantly also on the area's port facilities. Operators, indeed, tend to increasingly use larger cruise vessels, discarding the smaller vessels or using them for niche offerings. This strategy has required port authorities to significantly upgrade terminals, whose dimensions (docks, draughts) must be appropriate to accommodating large ships or which must, at least, be able to rapidly adapt to them, given the speed with which cruise companies are applying themselves to this strategy.

However, this conflicts with the slow pace of adaptation of infrastructure, especially in Italy, the lengthening of a quay or the dredging of a harbour - and this also naturally impacts on the movement of goods.

The key issue is not so much dependent upon economic resources as upon the complexity of regulations and administrative procedures that cause delays, uncertainties, inability to promptly respond to market needs, hampered ability to attract private investment. And certain specific actions of the Macroregional strategy should be addressed to this area, and to the absolute need to standardise and streamline regulations and procedures.

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