Forum of the Chambers of Commerce of the Adriatic and Ionian Area

SEA TRAFFIC OBSERVATORY - 2012 REPORT

PORTS OF THE ADRIATIC AND IONIAN SEAS

THE FUTURE OF THE MOST IMPORTANT TRAFFIC SEGMENTS

Ida Simonella

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Objectives and methodology.

As traditional practice, the opening report of the works within the Workgroup on Transports showed the results of the analysis of sea traffic in the ports of the Macroregion[1] and focused on their medium-term prospects. The analysis of the various countries' development prospects took the impact of the current European economic downturn into account, which is of fundamental importance to outline the correct framework for the potential of the transport sector.

Ro-pax and ro-ro short sea shipping traffic

2012 was characterized by a substantial drop in passenger and goods traffic with regard to ferry-boats on international connections. The decrease registered was very strong for Patras (-32%), Ancona (-25%) and Igoumenitsa (- 23%) and more moderate for Durres (-6%) and Bari (-6%).

Along these trends, Bari has taken on a leading position in the basin with 1,235,000 passengers, thereby outperforming Ancona for the first time, with the latter registering 1,062,000 passengers. For years the overall traffic in the Macroregion involved about 7 million passenger movements, however in recent years traffic has decreased very rapidly and currently concerns about 5.6 million passengers. Years with similar data were registered only in the last century.

Similar considerations can be made with regard to HGV-trailer movements. A constant overall reduction has been registered since 2008, when several countries were hit by the financial crisis.

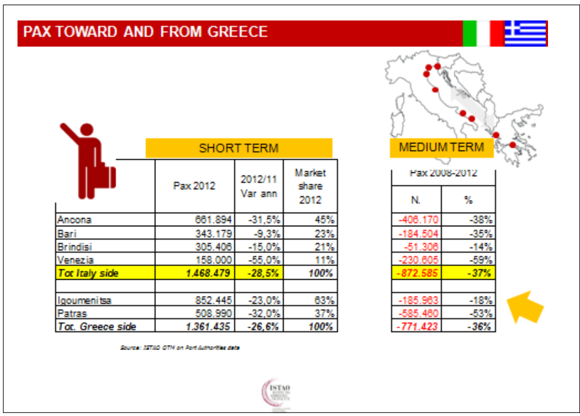
To best understand the phenomenon, an analysis of the traffic trends in each individual market (Greece, Croatia, Albania and Montenegro) starting from Italian ports was carried out. For each of them, data referring to the traffic flows registered in 2012 and the variations registered in comparison to the previous year were registered. A comparison with 2008 data was furthermore added in order to better understand medium-term trends and future prospects.

Connections between Italy and Greece – It is widespread knowledge that this is the largest market in the basin in terms of size with regard to ro-pax in international connections. This market alone currently accounts for about 49% of the movements registered in Italian Adriatic ports, yet only four years ago its overall weight was more than 60%.

The drop of the market got worse in 2012 (-28.5%). The reduction in the number of services from Venice more than halved the number of passengers from this port and Ancona lost 31% of movements in the same year, though maintaining its market leading position; the ports of Bari and Brindisi registered a slightly more limited reduction of 9% and 15% respectively.

Similar considerations can be made for the traffic of traffic of heavy goods vehicles, which decreased by about 10% in the last year.

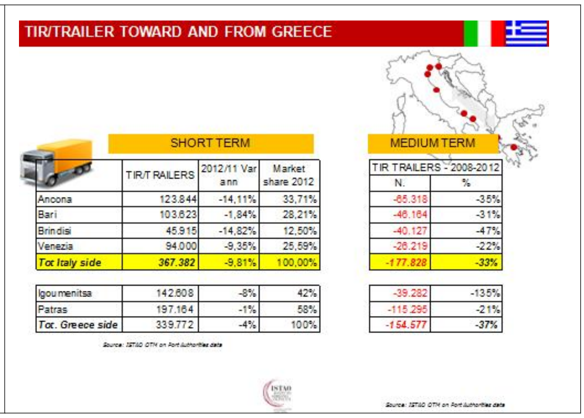
1 The following ports were monitored: Trieste, Venice, Ravenna, Ancona, Bari, Brindisi and Taranto for Italy; Koper for Slovenia; Rijeka, Split, Zadar, Ploce and Dubrovnik for Croatia; Durres for Albania; Bar for Serbia-Montenegro; Igoumenitsa and Patras for Greece.



PAX TOWARD AND FROM GREECE

	SHORT TERM			MEDIUM TERM Pax 2008-2012	
	Pax 2012	2012/11 Var ann	Market share 2012	N.	%
Ancona	661.894	-31,5%	45%	-406.170	-38%
Bari	343.179	-9,3%	23%	-184.504	-35%
Brindisi	305.406	-15,0%	21%	-51.306	-14%
Venezia	158.000	-55,0%	11%	-230.605	-59%
Tot Italy side	*1.468.479*	*-28,5%*	*100%*	*-872.585*	*-37%*
Igoumenitsa	852.445	-23,0%	63%	-185.963	-18%
Patras	508.990	-32,0%	37%	-585.460	-53%
Tot. Greece side	*1.361.435*	*-26,6%*	*100%*	*-771.423*	*-36%*

Source: ISTAO OTM on Port Authorities data



TIR/TRAILER TOWARD AND FROM GREECE

	SHORT TERM			MEDIUM TERM TIR TRAILERS - 2008-2012	
	TIR/TRAILERS	2012/11 Var ann	Market share 2012	N.	%
Ancona	123.844	-14,11%	33,71%	-65.318	-35%
Bari	103.623	-1,84%	28,21%	-46.164	-31%
Brindisi	45.915	-14,82%	12,50%	-40.127	-47%
Venezia	94.000	-9,35%	25,59%	-26.219	-22%
Tot Italy side	*367.382*	*-9,81%*	*100,00%*	*-177.828*	*-33%*
Igoumenitsa	142.608	-8%	42%	-39.282	-13.5%
Patras	197.164	-1%	58%	-115.295	-21%
Tot. Greece side	339.772	-4%	100%	-154.577	-37%

Source: ISTAO OTM on Port Authorities data

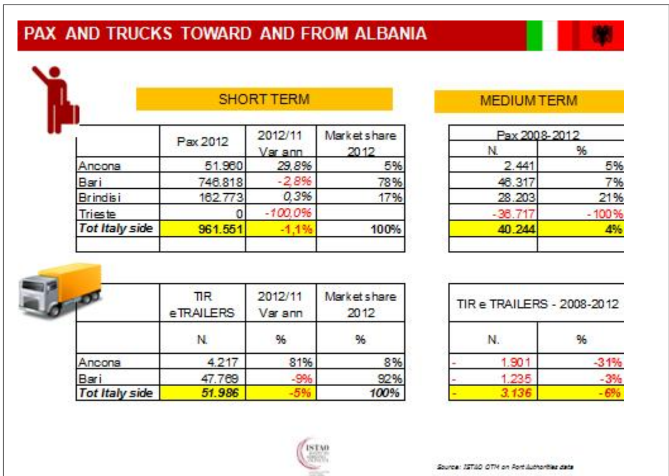
Source: ISTAO OTM on Port Authorities data

Source: Istao, Processing by the Sea Traffic Observatory of Port Authority data

Yet, the above figures provide reason for serious concern if current data is compared to 2008 figures.

In four years alone Adriatic ports lost about 872,000 passengers and 178,000 trucks on the route to Greece, which correspond to a market reduction of 37% for passengers and 33% for trucks.

Connections between Italy and Albania – This is the second largest market of the Adriatic-Ionian basin in terms of passenger and heavy vehicles. This market, which has slightly less than a million passengers, registered a decrease of 1% in passengers and 5% in HGV-trailer movements in 2012. In the four years considered it has grown, instead, by 4% (plus 40,000), while the heavy goods market has decreased by 6%.



PAX AND TRUCKS TOWARD AND FROM ALBANIA

	SHORT TERM			MEDIUM TERM Pax 2008-2012	
	Pax 2012	2012/11 Var ann	Market share 2012	N.	%
Ancona	51.960	29,8%	5%	2.441	5%
Bari	746.818	-2,8%	78%	46.317	7%
Brindisi	162.773	0,3%	17%	28.203	21%
Trieste	0	-100,0%		-36.717	-100%
Tot Italy side	961.551	-1,1%	100%	40.244	4%

	TIR eTRAILERS	2012/11 Var ann	Market share 2012	TIR e TRAILERS - 2008-2012	
	N.	%	%	N.	%
Ancona	4.217	81%	8%	- 1.901	-31%
Bari	47.769	-9%	92%	- 1.235	-3%
Tot Italy side	*51.986*	*-5%*	*100%*	*- 3.136*	*-6%*

Source: ISTAO OTM on Port Authorities data

The ports of Bari and Brindisi in Apulia have traditionally been market leaders, certainly thanks to their geographical position. Also Ancona has, however, performed well: although the movements registered have been more limited, over the last twelve months the port has increased its traffic in each individual segment.

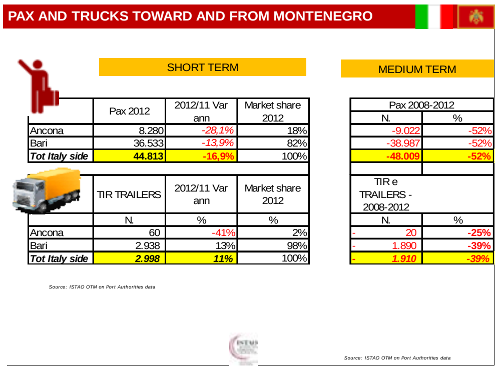
Source: Istao, Processing by the Sea Traffic Observatory of Port Authority data

Connections between Italy and Croatia. The traffic with Croatia has instead registered a strong reduction. This traffic consists of movements linked

to tourist flows, which mainly take place during the summer.

In 2012 traffic flows went down by 12.1%, specifically traffic from the market leader Ancona and from Bari.

In spite of this, the overall number of passengers registered in the four years considered has increased by 55,000 people and 11% in value.



PAX AND TRUCKS TOWARD AND FROM MONTENEGRO

	SHORT TERM			MEDIUM TERM	
	Pax 2012	2012/11 Var ann	Market share 2012	Pax 2008-2012	
				N.	%
Ancona	8.280	-28,1%	18%	-9.022	-52%
Bari	36.533	-13,9%	82%	-38.987	-52%
Tot Italy side	**44.813**	**-16,9%**	100%	**-48.009**	**-52%**

	TIR TRAILERS	2012/11 Var ann	Market share 2012	TIR e TRAILERS - 2008-2012	
	N.	%	%	N.	%
Ancona	60	-41%	2%	- 20	-25%
Bari	2.938	13%	98%	- 1.890	-39%
Tot Italy side	***2.998***	***11%***	100%	***- 1.910***	***-39%***

Source: ISTAO OTM on Port Authorities data

Source: ISTAO OTM on Port Authorities data

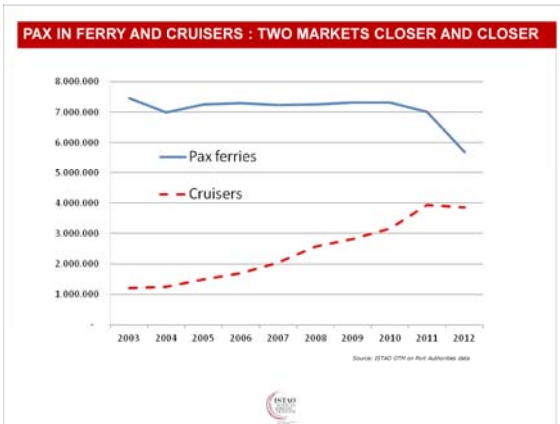
Connections between Italy and Montenegro – Also passenger movements to and from the port of Bar, especially from and to Ancona, have registered a significant reduction. Over the last twelve months connections from the port of Bari have held their position well with regard to HGV-trailer movements. In general, however, this route has halved its volumes of activity in the four-year period concerned.

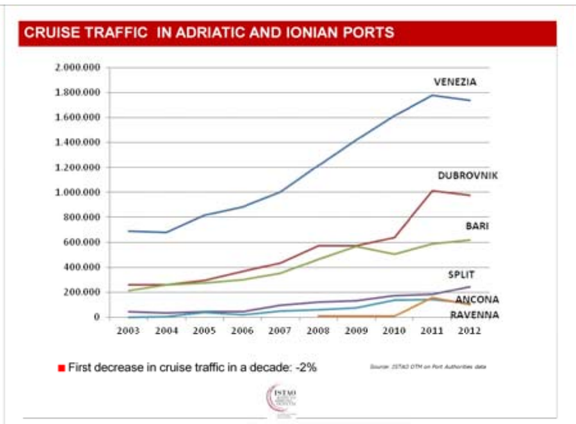
Cruise traffic

Cruise passenger movements have continued to grow very positively. In the ports analyzed, overall traffic has decreased by about 2% in 2012, partly due to the temporary effect caused by the accident of the Concordia cruise ship. Cruise navigation companies are counting on a good recovery as early as in 2013.

It should also be noted that the Adriatic and Ionian eastern shore has smaller ports, with no Port Authority, which represent major important entry gates for cruise trips. These ports currently register movements, which are largely more significant than the ones of ports, sometimes located in nearby areas, where a Port Authority is present.

This is the case of Katakolon, entry gate to the ruins of Olympia in Greece, which is located near Patras. While passenger traffic in Patras has significantly decreased over the last few years, Katakolon has by far registered higher movements. Similar considerations can be made for Corfu compared to Igoumenitsa or Kotor compared to Bar.





Container traffic

Container traffic in 2012 has on the whole remained basically stable with 2.1 million TEUs. This type of traffic underwent a marked decline in the Ionian basin, instead, specifically in the port of Taranto. Container traffic movements went from 604,000 TEUs to only 263,000 TEUs.

As is known, Taranto is a *transshipment* port and the only one in the Adriatic-Ionian basin. Due to the recent changes in the transport system, Taranto is facing the fierce competition of the ports on the southern shore of the Mediterranean. The loss of some important international connection services is the main reason for the decrease registered last year.

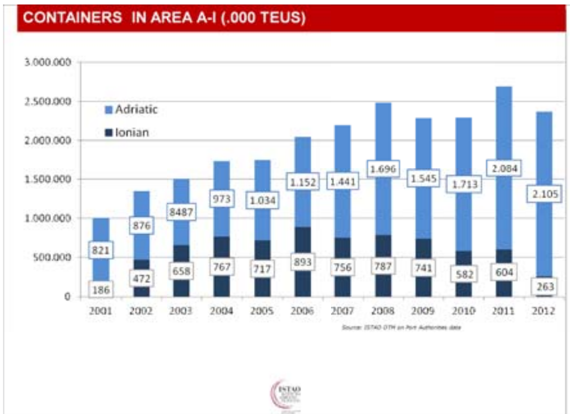
On the Adriatic front, container traffics from Koper and Venice, i.e. the two most important ports of the basin, have been decreasing for the first time since 2009, while Trieste and Rijeka in the north have been registering increasing trends. In the central part of the basin, Ancona turned out to be the most dynamic port of the area (+18%), while Ravenna suffered a major halt (-3%). It should be pointed out that the port of Ravenna has never reached the traffic volumes registered before the crisis, while Ancona has grown by 40% since 2008.

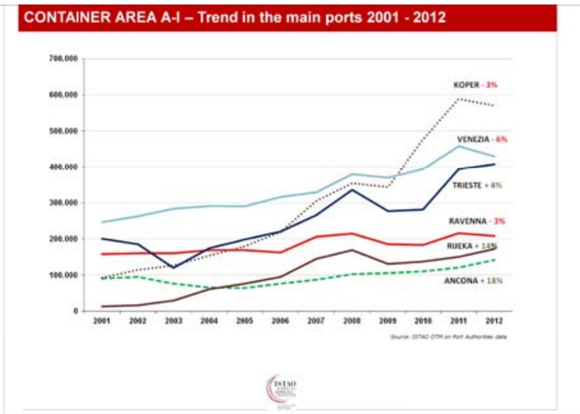
Considered as a whole, the Adriatic area has been characterized by a relatively good overall dynamism since the beginning of the century, though suffering a minor halt in the first year of the international economic crisis (2009).

From this viewpoint it has performed better than some areas of the Mediterranean that Adriatic ports are faced and competing with as entry gates to the inland markets of central Europe.

Adriatic ports have registered about half of the movements compared to the ports of Liguria (including the Tuscan port of Livorno) and yet the system has never reached the 4 million TEUs of 2008.

A high degree of dynamism has been shown by the system of ports of the Black Sea (Costanta, Novorossisk and Odessa), which in 2008 had already reached a total number of 2 million TEUs, thereby registering an impressive growth in the previous years. Following the economic crisis volumes immediately halved and after four years of economic downturn about 1.77 million TEUs are still currently handled.

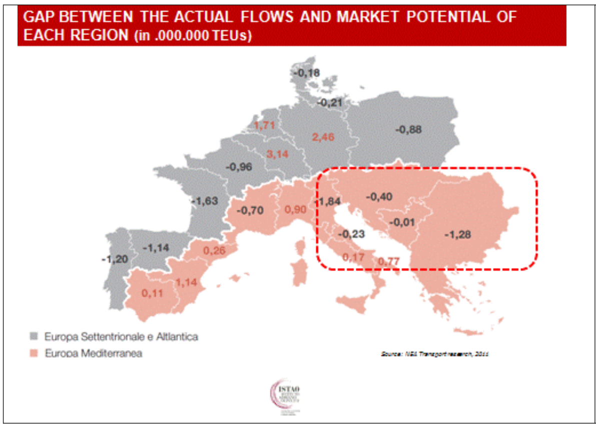


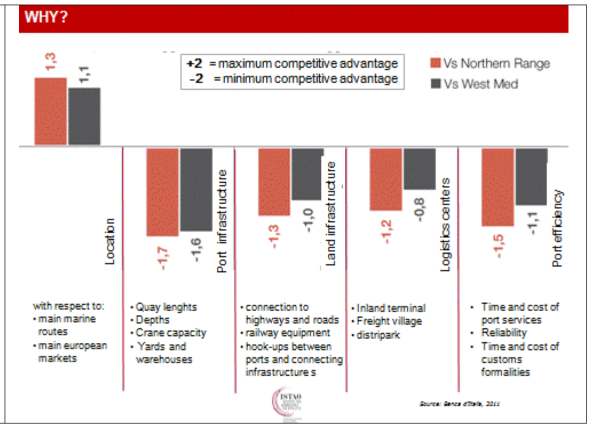


Adriatic container ports are facing problems, too: factors like excessive fragmentation and fierce competition do not help reinforce the area as a whole and furthermore problems still persist on the other hand, which maintain the competitiveness of Northern Range ports unchanged.

A very interesting study carried out by Nea Transport Research in 2011 on behalf of a number of major port authorities from Northern Europe, amongst others, like Rotterdam, Antwerp and Hamburg, compares the potential in terms of goods to be transported, of the European market basins of each port with the quantities handled by the same ports.

It emerged from the study that in all the market areas of the Adriatic and Ionian ports analyzed these ports handle less goods than the quantities potentially expressed by each market basin. Conversely, the Northern European range of ports from Belgium to Germany handles at least 7 million TEUs more compared to its potential, with this quantities often coming from markets that are closer to the Mediterranean.





The problem is that our ports still need to bridge a series of impressive gaps on several fronts in comparison to Northern European ports. As perfectly illustrated by the most recent studies by the Bank of Italy, Italian ports still have a strong competitive edge in terms of geographical position, both due to their proximity to the main Asia-Suez-Europe trade route and their closeness to the inland basins to serve.

This competitive edge is however completed eroded by an impressive list of delays compared to Western Mediterranean and Northern European ports, with said delays referring to port infrastructures (piers, areas, depth of the waters), road and railway connection infrastructures, the lack of efficient logistics, as well as the administrative and procedural organization of ports.

Forecasts

The measures to adopt in the handling of containers in Adriatic and Ionian ports have been clear for years: they include the elimination of the inefficiencies reported in the previous paragraph.

The container market as a whole has registered a rising trend, mainly driven by Asian countries and newly industrialized countries, by a process of "goods containerization" that has been going on for a number of years and above all by the economic recovery, which is expected to take place next year.

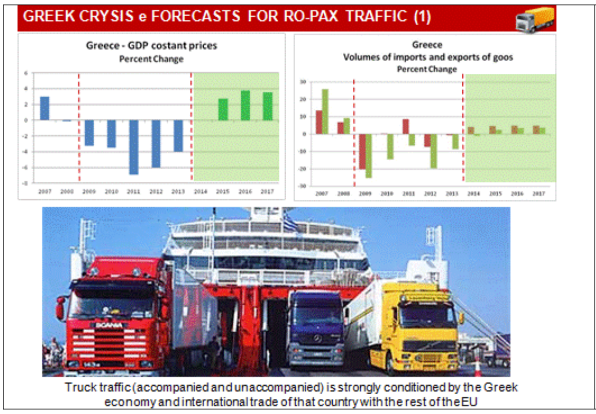
The cruise segment is experiencing a very good situation: cruise navigation companies have continued to focus on the Mediterranean and Adriatic Sea and to invest in their productive capacity (number of beds). Over the years new opportunities have emerged for already existing ports. Above all, however, there are ports, which tend to be considered minor ports, which today need specific facilities, installations and services necessary to welcome cruise tourists, including tourists in transit. This is the real emerging phenomenon in the area.

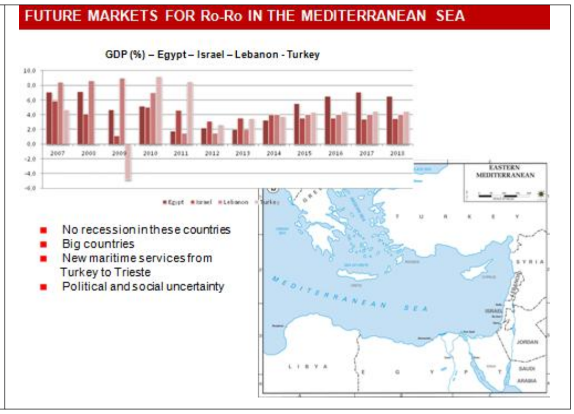
The most serious reasons for concern relate to the ro-pax sector, which has traditionally been one of the strengths of Adriatic-Ionian ports.

In 2012 the collapse of the market, which was already evident in previous years, registered a sharp acceleration. In four years the market decreased by about one third, with regard to both passenger and truck movements. Along the Greek route, about 900,000 passengers and 180,000 heavy goods vehicles have been lost in four years. Other markets (Albania and Croatia) have endured the situation well in the four years; however they are too small to replace the traffic volumes of Greece.

Short-term prospects are not bright: since 2009 Greece has lost about 25% of its GDP and international trade has suffered a major drop, too. According to the International Monetary Fund, recovery will not take place before 2015; it will be clearly very slow and unable to generate the volumes of transport demand of the pre-crisis periods.

After all, the same shipping segment related to ferry-boats will be radically changed. The situation is particularly serious for major navigation companies. The losses registered since 2009 lead to the assumption that the four most important navigation companies have lost at least 1 billion Euros in four years. Economic recovery is still a long way off and risks jeopardizing the very same survival of some of these companies.





Furthermore, several other countries of the Adriatic-Ionian basin are going through a recession, in particular Italy and Slovenia. The economies, which have been less hit by the crisis, are small (Albania, Montenegro, B&H) and certainly do not make up for the sharp drop in the transport demand by other countries.

As for passenger traffic, the 2013 forecasts of an increase in tourist demand for Greece, especially from countries like Germany and the United Kingdom, are a good reason for hope. However, most of this demand will be met by low-cost airlines. We are witnessing a structural change in demand, which will have a decisive impact on the ferry transport supply.

The very near future will be characterized by the search for new markets. The Eastern Mediterranean shows good potential, especially with Turkey, Israel and Lebanon, i.e. countries that have started growing again after the 2009 recession. Egypt's political and social instability still represents, instead, a strong limitation to the development of that market, in spite of its good macroeconomic indicators.

Turkey is the market with the most immediate potential. It went through a deep recession in 2009, however unlike most European countries it immediately got out of it. It is currently growing at a 4% annual pace and the International Monetary Fund is expecting more significant increases in the next few years.

Turkey is a huge market of about 80 million people and higher political and social stability than other Eastern Mediterranean areas, with obvious positive effects on the entire economy.

Tangible evidence of Turkey's potential lies in the Adriatic, in the port of Trieste, where ro-ro traffic flows along this route have always been significant. The port has been for years offering a regular service three times a week and since January 2013, i.e. in the midst of the European economic crisis. A new biweekly service has been provided. These services generally involve trailers and semi-trailers from Istanbul and Mersin, which are then loaded on a train and mainly transported to Germany. This is the most striking example of what the Adriatic should offer to regain competitiveness: presence on new major markets, intermodal transport services and environmental sustainability.