MEDITERRANEAN PORTS AND SHIPPING

A special report from Lloyd's List | lloydslist.com | Thursday 2nd August, 2012

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Region braced for recovery despite the economic uncertainty

Long road ahead: from Greece in the east to Spain in the west, austerity has become the watchword across the Mediterranean region. *Shutterstock*

Investment in port and intermodal infrastructure is continuing across the Mediterranean

Brian Reyes

WHEN Cyprus took over the presidency of the European Union at the beginning of July, it outlined a commitment to using its geographical position and socio-cultural background to build on mainland Europe's relationship with the countries on the southern shores of the Mediterranean.

Neoklis Sykliotis, the Cypriot Minister for Industry, Tourism and Trade, told the European Parliament's Committee on International Trade that Cyprus aimed to "expand and deepen" trade relations with Europe's north African neighbours.

In doing so, Cyprus will be building on foundations that were put in place in 1995 with the co-called Barcelona Declaration that formally established the Euro-Mediterranean partnership, and which has yielded good results since.

According to the European Parliament's trade committee, total trade between the southern Mediterranean countries and the European Union reached €277bn ($340bn) last year, accounting for some 8.6% of Europe's total external trade.

Of that figure, around €158m comprised imports to the EU, the balance made up by exports to the southern Mediterranean countries.

This is the first time that Cyprus holds the EU presidency, and it comes at an important time for the Mediterranean.

At the end of last year, the EU Foreign Affairs Council authorised the opening of trade negotiations with Egypt, Tunisia, Morocco and Jordan, with the aim of establishing "deep and comprehensive free trade agreements".

The key long-term objective is the creation of a deep Euro-Mediterranean Free Trade Area that will substantially liberalise trade between both the EU and southern Mediterranean countries, and between the southern Mediterranean countries themselves.

The agreements will not only seek to axe tariffs that limit trade but also to cover relevant regulatory issues such as investment protection and public procurement.

The initiative was approved following a year of unprecedented upheaval across north Africa, and comes at a time of significant opportunity as many countries in the region embark on a process of economic and social reform.

The Mediterranean region has been swept by change over the past 18 months.

The Arab Spring has brought dramatic changes on the southern shoreline, impacting on oil flows and opening opportunities as strife-hit countries begin the process of rebuilding. On the northern shores, the economic crisis has hit southern European countries hard.

€277bn
total trade between the southern Mediterranean countries and the European Union in 2011

From Greece in the east to Spain in the west, austerity has become the watchword across the Mediterranean region.

For the maritime sector this is a time of flux, but also a time to prepare for recovery.

Across the Mediterranean, investment in port and intermodal infrastructure continues despite the economic uncertainty.

Many ports in the region are seeking to build on their gateway roles, opening up new supply routes ahead of a predicted growth in trade with the Far East and Africa.

Likewise transhipment hubs are preparing to handle the next generation of behemoth container ships, investing in new equipment and seeking ways to boost productivity and efficiency.

The return of relative stability to north Africa means oil production is back on track, while new exploration initiatives in the eastern Mediterranean means scope for new business in the offshore sector. ■

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Bigger boxships point to need for better infrastructure at transhipment ports

Mediterranean facilities must be ready to receive ever-larger boxships

All go at Gioia Tauro: MCT recently received three boxships exceeding 12,000 teu on the same day.

IN THE first week of July this year, the Italian port of Gioia Tauro played host to three ultra large containerships and, in the process, made a little bit of Mediterranean history.

The three ships – the smallest of them, *MSC Katrina*, able to carry 12,967 teu – docked simultaneously at the Medcenter Container Terminal.

Although behemoth container ships are no strangers to Mediterranean ports, this was possibly the first time in the region that three had been serviced at the same time in a single terminal.

It underscored one of the big challenges for transhipment terminals in the Mediterranean: the need to sharpen productivity and ensure that the necessary infrastructure is in place to handle the ever-larger boxships calling at Mediterranean ports.

In the first half of 2012, MCT handled some 80 ultra large container ships in the 13,000 teu-14,000 teu range, as well as associated feeder vessels.

On the day that the big vessels called together, a further four ships arrived at the terminal where, at one point, five ships were simultaneously docked alongside loading and discharging cargo.

"Largescale transhipment operations have many challenges to manage," says Domenico Bagalà, MCT managing director. "Customer choice and satisfaction determines the role of the hubs."

He adds: "We are not complacent, but there are positive signals, in spite of a generally uncertain global outlook."

Mediterranean ports have increased their slice of European transhipment traffic, up from 22% to 35% and no doubt helped by keen competition between them.

MCT's volumes, for example, fell by nearly a fifth last year after Maersk Line switched services to Malta Freeport.

In the western Mediterranean, Spanish ports benefited from the upheaval in north Africa that hit Tangier Mediterranean in particular.

A spokesman for Puertos del Estado, Spain's central government ports directorate, says the aim now is to retain "opportunistic" transhipment volumes by sharpening competitiveness.

There are some indications that, so far this year at least, Spanish ports have succeeded in their aim.

Algeciras, which picked up volumes last year after labour strife in nearby Tangier Mediterranean, reported a 28% rise in box traffic to nearly 1.6m teu in the first five months of the year.

The nearby port of Málaga, which also soaked up traffic from north Africa in 2011, reported a 67% surge to 221,491 teu in the same period this year.

For both Algeciras and Tangier Mediterranean, as for all key transhipment hubs in the region, the trend toward larger ships is a critical issue, both in terms of productivity and ensuring the necessary infrastructure is in place.

APM Terminals, which operates facilities in both the Spanish and Moroccan ports, is keenly aware of this, given the imminent entry of Maersk Line's Triple E-Class 18,000 teu vessels next year.

Anders Kjeldsen, APM Terminals director for west Mediterranean, says the terminals were able to accommodate the new ships with certain restrictions relating to height.

But he said that in the long term, "there is no doubt" that investment in new cranes would be needed. ■

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"Largescale transhipment operations have many challenges to manage. Customer choice and satisfaction determines the role of the hubs"

Domenico Bagalà, MCT managing director

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Asia-Europe trade growth paves way for gateway opportunities

New port facilities and intermodal infrastructure in the Eastern Mediterranean and the Adriatic Sea will create new transit points for freight moving to and from central and eastern Europe

GROWING trade between Asia and Europe will place pressure on existing supply chains and open up new gateway opportunities for ports at either end of the Mediterranean.

Despite the current economic crisis in the eurozone, long-term forecasts suggest a marked increase in east/west trade driven in large part by China and India, and by emerging economies in Eastern Europe.

A study by global real estate specialist Colliers International said new port facilities and intermodal infrastructure in the Eastern Mediterranean and the Adriatic Sea would create new transit points for freight moving to and from central and eastern Europe.

The report — entitled European Industrial & Logistics: A long-term view — says these new routes could potentially shave up to a week off transit times through north European ports.

Increased demand and production in markets such as Poland, the Czech Republic, Romania and Turkey would encourage investment in supply chains and associated infrastructure, the report found.

"The development of larger ports in the North Adriatic and on the Black Sea, and the improvement of their links with the rest of Europe, will be key in making the argument against ships sailing past Gibraltar towards the main northern ports," it says.

"Additionally, Turkey's rail links to the Middle East, Iran and Pakistan will allow goods to pass into Europe through both the Istanbul rail connection and the Black Sea ports."

Ongoing projects in the North Adriatic ports — including Ravenna, Trieste, Koper and Rijeka, among others — will increase container capacity to 6m teu by 2020, while improved rail links will help attract freight, Colliers estimates.

"The large increases in the scale of consumption and production in Eastern Europe that we expect to see in the next decade and beyond, will begin to exert increasing pressure on supply chains," Colliers says.

"Logistics activity around the major ports, such as Hamburg, will gradually become less optimal compared to options such as shipping straight to Tricity or using transhipment hubs in the Eastern Mediterranean to feed the ports in the North Adriatic," the Colliers report says.

"Capacity expansion plans of these 'emerging' ports alongside a concurrent improvement in road and rail links will further advance their deployment as growing logistics centres, provided that planned investments are seen through."

The development of the economic crisis will impact on the pace of market demand and production, and on private investment.

But much of the funding that is needed for the development of intermodal links comes from the European Union budget and is likely to remain sound for now.

Likewise the potential for long-term port development in the eastern Mediterranean continues to attract major players to invest in the region.

Earlier this year, APM Terminals announced an agreement with Turkey-based petrochemical company Petkim to develop one of Turkey's largest container and general cargo terminals near Izmir, on the country's Aegean coast.

The initial proposal is for an investment of approximately €400m ($491m) to build a deepwater container terminal with annual capacity of 1.5m teu, with the opportunity to double in size if needed.

When the deal was announced, Petkim board member Kanan Yavuz said the aim was to provide much-needed port capacity and establish the Izmir region as a leading logistics centre in the region.

> *"The development of larger ports in the North Adriatic and on the Black Sea, and the improvement of their links with the rest of Europe, will be key in making the argument against ships sailing past Gibraltar towards the main northern ports"*
> **Colliers International**

"The development of Petkim Port will provide the much-needed capacity to the Aegean Region and to Turkey, attracting more foreign trade," he says.

But it is not just ports in the Eastern Mediterranean that want to strengthen their gateway roles. Many ports in the west of the region have similar longstanding aspirations too.

In Spain, investment in intermodal connections crossing into France should strengthen the opportunities for ports such as Barcelona and Valencia to serve not just the centres of consumption and production in the Iberian peninsula, but also those in central Europe beyond the Pyrenees.

Investment in the so-called Mediterranean Corridor — a series of interconnected rail links stretching from southern Spain deep into northeast Europe — is ongoing and will provide an important boost for key west Mediterranean.

Valencia, which reported a 2.9% rise in box throughput to 4.3m teu in 2011, is the top Mediterranean container hub and handles an even mix of transhipment and import/export traffic.

Port authority chairman Rafael Aznar told a seminar in London earlier this year that the port was keen to exploit new rail links to the French border from 2015.

As with ports in the Eastern Mediterranean, a key element driving that goal is the forecast growth in trade with Asia.

Valencia could offer a shorter and cheaper alternative to congested north European ports, Mr Aznar said.

Some 34% of Valencia's current box traffic is with the Middle East and Far East, with a further 20% to the Mediterranean and Black Sea regions.

Attracted by these opportunities, Asian operators have invested in port facilities in the western Mediterranean. Just last month, Terminal Catalunya, a member of the Hutchison Port Holdings Group, began operations at its new terminal in Barcelona.

The semi-automated terminal was described by port chairman Sixte Cambra as "the most advanced container facility in the Mediterranean".

But although container exports through Barcelona rose in the first half of 2012, the impact of the economic crisis has led to imports dropping 14% and transhipment plummeting by 49%. Overall first-half box throughput fell 20% to 849,973 teu.

> *"The Eurozone's political and economic predicament suggests that 2012 will be a very challenging year. Many countries are struggling to achieve modest rates of growth whilst others have slid back into recession"*
> **Contship Italia**

Across southern Europe, terminal operators are clear that the immediate outlook remains bleak.

In a recent monthly briefing, Contship Italia Group — which operates terminals in Gioia Tauro, La Spezia, Ravenna and Cagliari — described a tough business climate.

"The eurozone's political and economic predicament suggests that 2012 will continue to be a very challenging year," Contship said.

"Many countries are struggling to achieve modest rates of growth whilst others have slid back into recession.

"Retail sales throughout the continent are weak as a consequence of suppressed spending driven by a loss in consumer confidence and increasing fiscal austerity."

As if to illustrate the resilience, however, Contship earlier this year announced plans to continue its investment in gateway operations in La Spezia and Ravenna, despite the economic uncertainty.

The investment is in future growth and the hope is that expanding the hinterland to reach deeper into the EU will ultimately help to ride out the downturn. ■

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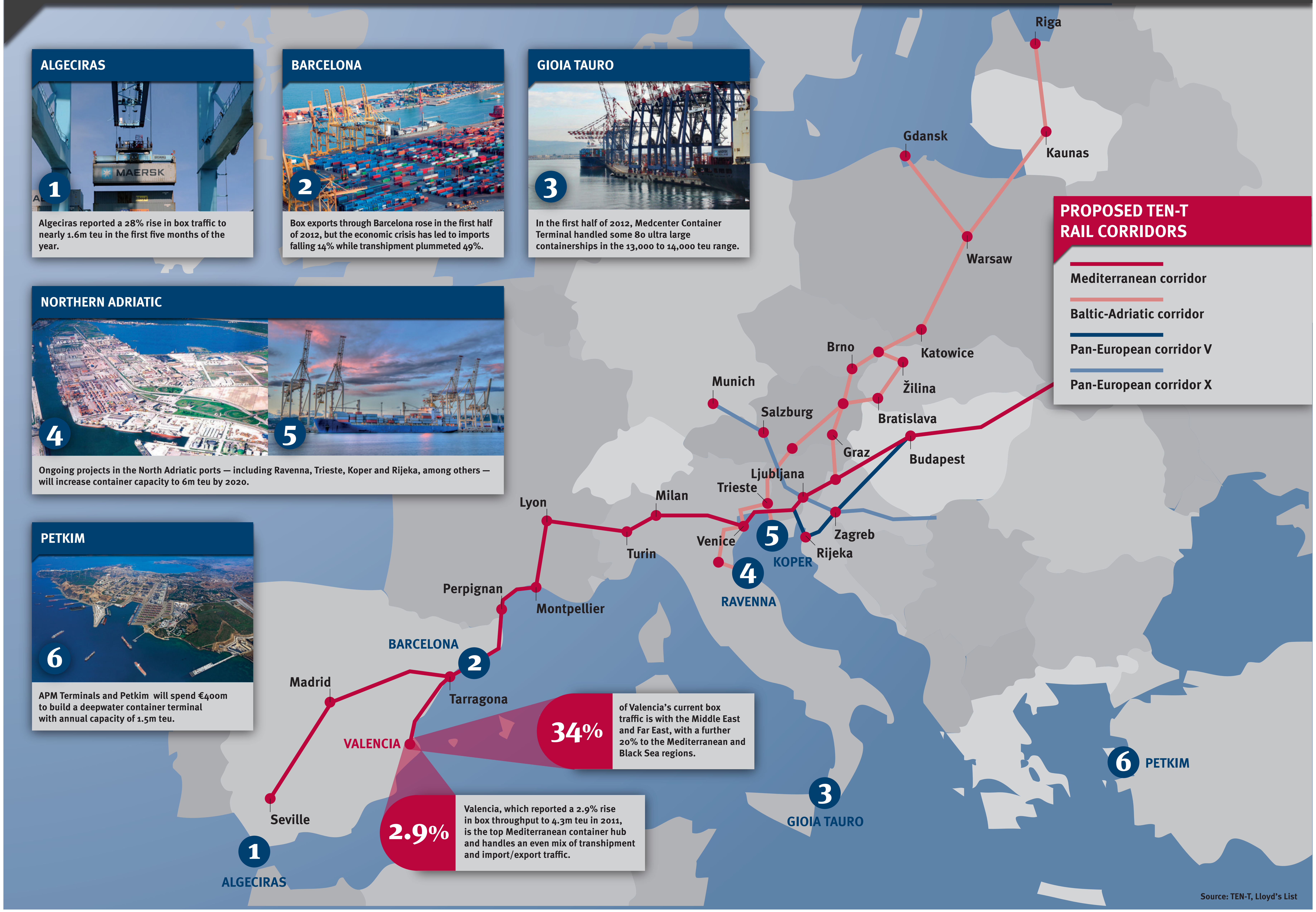
FOCUS ON THE MEDITERRANEAN



Cruise hints at an economic boost

Italy, Spain and Greece are Europe's top three cruise destinations, but there are challenges ahead for the sector

A RESILIENT cruise sector could play an important role in boosting income for blighted Mediterranean economies faced with deep austerity cuts.

Italy, Spain and Greece remain Europe's top three cruise destinations, but there are challenges ahead for the sector.

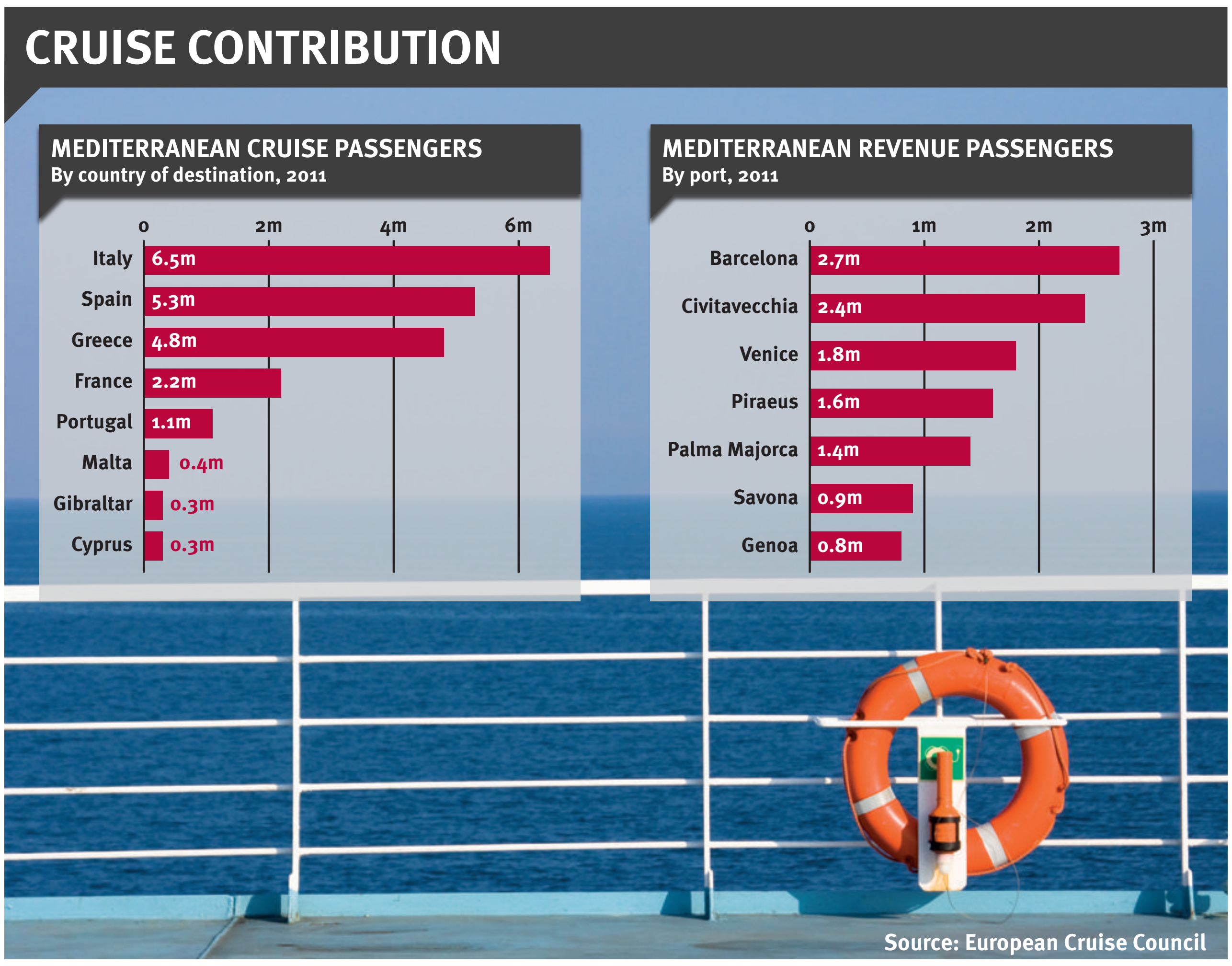
Factors placing downward pressure on passenger numbers include the impact of the *Costa Concordia* casualty on the industry's reputation and the political upheaval across much of North Africa and the Middle East.

Despite this industry leaders remain positive about the outlook ahead for the cruise sector, which continues to make a significant contribution to the European economy by sustaining jobs in shipyards, creating employment in ports and acting as a catalyst for tourism.

Speaking at Posidonia earlier this summer, Manfredi Lefebvre D'Ovidio, chairman of the European Cruise Council, highlighted the contribution of the cruise sector to the Greek economy.

Some 4.7m cruise passengers arrive at Greek ports every year and spend around €470m ($578.6m).

"These impressive figures clearly show the social and economic importance of the cruise sector both to Europe generally and to Greece in particular," he said. "However, there are significant potential obstacles to our future growth, and we face some challenging years that could seriously threaten the steady growth the sector has experienced over the last decade."



A report by the European Cruise Council on the economic impact of the sector on European economies estimated that there were 171 cruise ships active in the Mediterranean last year, each vessel offering an average of 1,295 berths.

Collectively the ships carried a potential 4.08m passengers on 2,958 cruises, offering a total capacity of 33.4m passenger nights.

According to the ECC, that capacity was expected to contract this year to around 30.7m passenger nights, mainly because of the aftermath of the *Costa Concordia* tragedy and because some North American operators have withdrawn tonnage.

Although there may be a drop in passenger numbers this year as a result, the market remains strong after a decade of sustained growth. The European market has grown by 24% over the past three years and by over 180% over the last 10, with 60% of European passengers cruising in the Mediterranean and Atlantic Isles in 2011.

Italy, Spain, Greece and France accounted for 66% of the European cruise market last year, collectively handling nearly 18.7m passengers during 2011. Italy remained Europe's top cruise destination, handling 6.5m passengers, representing a 23% slice of the total market.

It was closely followed by Spain, which held a 19% share of the total European cruise market and handled just under 5.3m passengers last year.

The forecast drop, however, is already being felt.

The Port of Barcelona, Spain's principal cruise hub, said passenger numbers during the first half of 2012 had dropped 10% to 905,145 passengers compared to the same period last year.

There was nonetheless a caveat.

"It is important to point out that the June results show an improvement, practically reaching the same passenger volume as last year," a port spokesman says.

"Per passenger type, transit passengers have fallen the most — by 20% — while turnaround passengers, who have a greater repercussion on the city's economy, have practically remained stable in relation to 2011."■

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Maritime Training Lloyd's List August 16

Gibraltar sets sights on superyachts with import duty changes

THE Government of Gibraltar has abolished import duty on large pleasure vessels in a bid to stimulate growth in the superyacht sector.

The Rock wants to capitalise on its strategic location at the gateway to the Mediterranean and capture a larger slice of the regional superyacht market, both in terms of vessel registrations and longer-term berthing.

Last year, the Gibraltar Yacht Register was transferred to the Gibraltar Maritime Administration, the first step aimed at attracting larger vessels to the Category One Red Ensign flag.

In its budget announcement last month, the government of Gibraltar moved to further strengthen Gibraltar's appeal by abolishing import duty on vessels over 18 m in length and slashing duty on smaller yachts from 12% to 6%.

Pre-budget laws were based on gross tonnage, not length, and imposed hefty duty on large pleasure vessels imported into Gibraltar.

"By reducing the duty and exempting it above 18 m, the government is sending a clear message that there is no longer an incentive for resident vessel owners to keep their yachts outside Gibraltar"

Ros Astengo, Ocean Village

That meant local residents — including high net worth individuals — often avoided the fees by simply keeping their yachts away.

"The very nature of our importation laws dissuaded resident vessels owners, including high net worth individuals, from importing and berthing their vessels in Gibraltar," says Albert Mena, a tax partner at Gibraltar law firm Hassans.

"The new budget measures should attract these vessels to Gibraltar."

The move was welcomed by local marina operators who have invested in recent years to increase the number of berths available in Gibraltar, including for large superyachts.

The Rock handles a steady stream of these vessels, which call there for fuel and other services as they move to and from the Mediterranean. But the visits are mostly short.

"By reducing the duty and exempting it above 18 m, the government is sending a clear message that there is no longer an incentive for resident vessel owners to keep their yachts outside Gibraltar," says Ros Astengo, business development manager at Ocean Village, a Gibraltar marina.

"If Gibraltar attracts even just a small percentage of the long-term berthing required by the superyacht sector, we will receive economic stimulus in a sector that, despite competitively priced berths, tax-free fuel and Category One Red Ensign status, remains relatively untapped."■

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Nicola Good looks at training at private maritime security companies

Maritime services return to Libya

Commercial activity on the rise at ports and refineries as oil output nears pre-war levels

LIBYAN oil production has picked up to almost pre-war levels, bringing with it the return of commercial maritime activity to the country's ports and refineries.

Deputy Oil Minister Omar Shakmak told Reuters last week that a return to full production had been hampered by protests and setbacks at Libyan refineries.

"If everything goes as planned and there are no more interruptions, I think within three months time from now... we hope we will achieve the 1.6m bpd," he said.

The resumption of oil production in Libya and other parts of North Africa is of critical importance to austerity-hit countries in southern Europe.

Spain was one of Libya's principal customers and the return to normal operations has already boosted the activity of some of its leading energy players.

"Oil production in Libya tripled [in the first half of 2012] compared to the first half of last year, reaching levels prior to the conflict in 2011," Spanish energy company Repsol said last week.

The return of Libyan production was a significant contributor to a 42% rise in the company's upstream revenues to €1.2bn ($1.5bn) in the first half of 2012.

"The Arab Spring, which directly impacted Libya and Tunisia and to a lesser extent Algeria and Morocco, did have an impact during the upheaval period on all cargo flows, due to the security situation and the general blockages at the ports and terminals," says Gavin Griffin, general manager for Gibraltar, Iberia and North Africa at Inchcape Shipping Services.

"What we see now is a general upturn especially in Libya and Tunisia, with oil and gas flowing again, though at reduced levels, and a clearer picture of the infrastructure developments to enable increased capacity in these sectors.

"We are seeing an increase of inquiries about these countries and we clearly see there are opportunities for ISS to tap into in these emerging markets." ■

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A gas compression plant at Mellitah, Libya: oil and gas is starting to flow again from Libya albeit at at reduced levels, says Inchcape Shipping Services. AP

Eastern Mediterranean eyes offshore opportunities

OFFSHORE oil exploration in the Eastern Mediterranean will open up new opportunities in this sector as southern European Union countries seek to attract investment, encourage new economic activity and slash their energy bills.

Greece is in the process of selling exploration rights for three blocks in the west of the country, two of them offshore.

"It is important that Greece returns to the energy map again," said Energy Minister Evangelos Livieratos in a statement in July.

"Our country can attract new investment, create new jobs and boost its geo-strategic position and competitiveness to exit the crisis."

Separately, Cyprus and Turkey are both pushing ahead with exploration projects, though these are unfolding against a background of a row over jurisdiction in territorial seas.

While austerity and political sensitivities may delay the progress of individual projects, there view is that in the medium to long term there will be ample opportunities for offshore operators in this region.

"Across the Mediterranean there are emerging markets that are likely to prove very profitable, and none more notable than the region's recently discovered natural gas resources," says Bill Hill, executive vice-president commercial at the GAC Group.

"The discoveries of gas reserves off the south coast of Cyprus, drilling off southern Corfu and exploration north of Patras in Greece, have not only started a new race towards exploration and development, but also have the potential to significantly change market dynamics in the Mediterranean in coming years.

"There will be considerable demand for specialised skills, offshore support services and the supporting infrastructure required to service the offshore industry in the Mediterranean."

GAC specialists with North Sea experience will work closely with colleagues in southern Europe to serve customers in the Eastern Mediterranean.

And it is not just in Greece and Cyprus that opportunities lie.

Still in the east of the Mediterranean, Italy has also relaxed a ban on offshore oil and gas exploration in a bid to attract multi-billion dollar investment into its austerity-hit economy.

The ban was imposed after the Deepwater Horizon spill in the Gulf of Mexico and effectively shut down offshore exploration and development in waters around the Italian coastline.

The decision last month means companies can resume work on shallow-water projects that were under way when the ban was implemented in 2010, though new exploration projects are still blocked.

Italy's Minister for Economic Development, Corrado Passera, estimated that offshore output could double in the next few years and attract up to €15bn ($18.4bn) in investment.

In the long term, the return of stability following the Arab Spring could also open up new offshore opportunities off north Africa. ■

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Shortsea projects still winning TEN-T support

THE European Union continues to fund the development of Motorways of the Sea in the Mediterranean, underscoring the importance of shortsea maritime links to the region.

The latest round of TEN-T funding announced earlier this year includes several maritime projects, one of them in the Eastern Mediterranean.

The EU will provide €12m ($14.7m) toward a project that will enhance a viable, regular and reliable maritime link between the Italian port of Venice and the Greek port of Igoumenitsa.

The grant will be used to part fund the building of a ro-ro terminal in Venice and conduct preliminary studies in the the Greek port to establish a freight zone.

Despite the economic downturn, shortsea shipping continues to grow across the Mediterranean, highlighting the need to ensure that the sector remains high on the political agenda at a time of austerity and cutbacks.

The issue is of importance not just for intra-EU links but also for services to the southern shores of the Mediterranean, where economic and democratic reform is opening up new opportunities for trade.

The EU is funding a project known as the Mediterranean Motorways of the Sea that will run to 2012 and aims to ensure that maritime and intermodal projects gain traction among regulators in the region and are well integrated into wider transport networks. Private operators meanwhile continue to launch new services.

One example is Italian shortsea specialist Grimaldi, which this summer launched a ro-pax service linking Brindisi in Italy with Igoumenitsa and Patras in Greece. The route was operated three times a week but high demand saw the frequency boosted to daily within a fortnight of launching.

Another example involves Italian operator Grande Navi Veloci. It stepped in with a twice-weekly service from Sète in France to Tangier Mediterranean and Nador in Morocco, covering the shortfall prompted by the financial woes of Moroccan ferry operator Comarit-Comanav.

A study by Spain's Shortsea Promotion Centre illustrates the scope for growth in the shortsea market, even in the face of the economic downturn.

The study found that the bulk of shortsea ro-ro trade from Spain's Mediterranean ports was with Italy and Morocco, and that volumes to both countries had increased notably since 2009.

Shortsea ro-ro volumes between Spain and Italy — excluding new vehicles — reached nearly 5.3m tonnes last year, up 5.4% from 2009. Freight flows to Morocco, meanwhile, rose 9.3% over 2009 levels to reach 4.1m tonnes in 2011. ■

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Global Bunkering Lloyd's List August 9

Eric van den Berg assesses bunker prospects