

## **Trade Developments: Mediterranean<sup>1</sup>**

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Mr. Chairman, Ladies and Gentlemen,

I have been asked to share with you a few thoughts regarding developments in the port sector in the Mediterranean area. I want to clarify right at the outset that these thoughts are from the specific perspective of my own port, the port of Piraeus. In fact, I want to warn you that my presentation will be a very distorted view of the general port picture in the Mediterranean and I apologize in advance for that. But maybe some of what I will say is common to other Med ports and we can compare notes in that respect.

As you may know, Piraeus is the largest port in the Eastern Mediterranean, at least as far as container traffic goes. Throughput in year 2001 is estimated at about 1,200,000 TEU, slightly higher than the figure in year 2000 and slightly more than twice of what it was five years ago. About 48% of our traffic is transshipment, as we are a hub port for major lines such as the Mediterranean Shipping Company, China Shipping Container Line, and others. In addition to containers, Piraeus also has a substantial volume of car traffic (about 350,000 imports per year) and we are also a very large passenger port, being among the top in Europe and No. 1 in the Med.

I think it's fair to say that the Mediterranean promises to be an exciting area as far as port development is concerned. Economies in three continents, Europe, Africa and Asia, and countries in the Black Sea, the Middle East, the Balkans, and Northern Africa are using and will be using the Med as their main partner in trade, either directly, or indirectly. Developments in ship technology, cargo handling, and in the computer and telecommunications technologies will increase the cost effectiveness of maritime and intermodal transport in these areas. Mediterranean ports cannot be absent from such developments, and in fact these ports have the challenge to shape these very developments.

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The trend in the last few years may give a flavor of what one may expect in the future. Which ports establish themselves as hub ports worldwide is up for grabs, and the Mediterranean is no exception. Container lines such as Maersk-Sealand use their container terminal in Algeciras, Spain, as a hub port. Other lines use ports such as Valencia, Malta, Naples, Piraeus, or Damietta for the same purpose. The story of the Medcenter Container Terminal in Gioia Tauro is indicative, as this port was not even on the map in 1995, but via an aggressive expansion and pricing policy became the top Med container port two years later. Taranto and Cagliari are already on line and Port Said East is coming on line soon.

The extra capacity of these new ports is likely to put pressure on all ports to compete fiercely for cargoes that sometimes are difficult to attract, particularly during these times of serious slowdown in the global liner trades. Already many carriers are consolidating their services because of this slowdown and ports are feeling the pressure even more. The Med is no exception. In Piraeus, as I said before, container traffic in 2001 was slightly better than 2000 overall, but we saw a negative shift in the mix of the traffic, with transshipment growing but with local traffic dropping, particularly exports. As a result, our revenue from the container terminal dropped last year, even though our volume rose (transshipment rates are lower). A similar drop was registered in car imports. Clearly, this has been a source of concern to us and should be monitored very closely.

The surplus port capacity may have domino effects. Evergreen switched from Gioia Tauro to Taranto. Gioia Tauro is very anxious to attract a big customer. Cagliari bends over backwards to lure a big carrier too. Port Said East is opening soon, and suddenly everybody is getting very nervous. We in Piraeus are very fortunate to have signed a 10-year contract with MSC last summer, but I can say that we can feel the pressure very clearly and we know we have to be competitive to preserve the situation.

What are the essential elements of possible port development strategies in the Mediterranean in the years ahead? Let's examine some of them.

### **Technology**

Developments in ship technology have a spin-off effect on port infrastructure and superstructure. With larger and wider ships, it is necessary for channels and keys to be deeper, and for cranes to have a wider reach. Container terminals that boast depths above 16 m and the new generation of Super Post Panamax gantry cranes

will be better placed to attract new traffic. The danger is for ports to get caught in the vicious circle that prevails in much of the liner industry, in which there seems to be no end in sight with respect to the maximum size of ships. When the 15,000 TEU ships that are currently being designed become a reality, special ports will have to be designed for them. To the best of my knowledge, none such port is being planned in the Med.

Larger ships can cut freight rates dramatically because of economies of scale. These cuts are often rolled over to ports, which are usually told they will have to cut rates too to be served by such ships. At the same time, ports have to invest heavily to accommodate these ships (dredging, docks, cranes, etc). The net result of this, coupled with increased competition among ports, is an added pressure on ports to operate on increasingly thinner margins. There is obviously a limit to the extent this is feasible without jeopardizing the ports' financial position. For some Med ports that are struggling to get developed and are short of financial resources, this can be a serious problem.

In Piraeus, 2001 saw the implementation of a new computer system in our container terminal. In my opinion, this has been one of the most important things that happened in the last few decades. In spite of few initial problems, the system is going well, and it is clearly a high tech tool that will help us work better.

## **Money**

The obvious issue in the development of port infrastructure and superstructure is who would pay for it. There is no magic recipe here. Ports that can raise capital easily have a comparative advantage over those that cannot.

Private capital has become a more common method to finance port development recently, and in some cases it has become a necessity. The development of many private or partly private ports has been spurred to a large extent by the availability of such capital. It is speculated that such use will become more prevalent in the years ahead, as privatization becomes more common in Med ports.

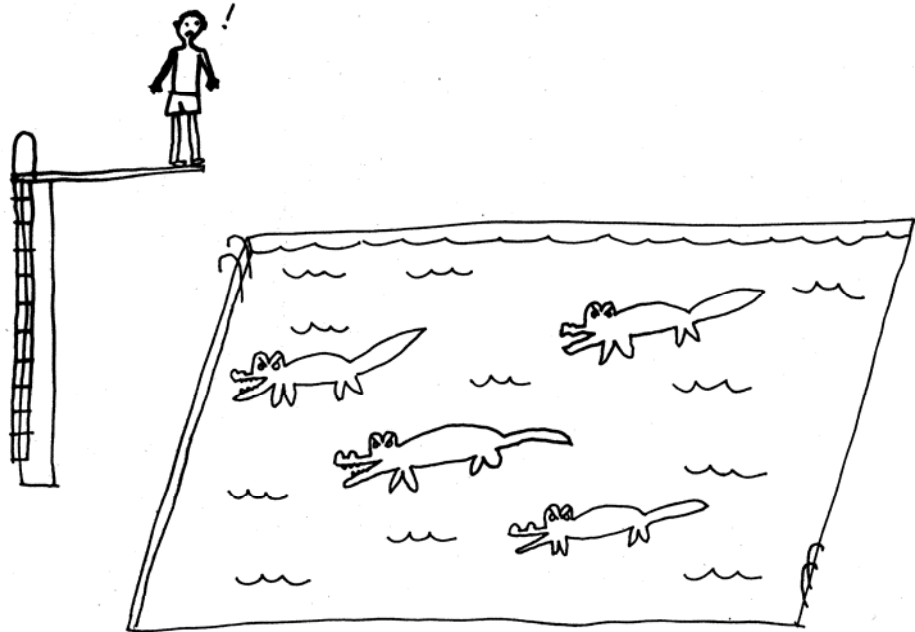
In Piraeus, which is a public port, we are at the final stage of preparing to float a portion of the port company's stock, something like 25.5%, to the Athens Stock Exchange. The Greek State is currently the only shareholder. However, there is an important detail: The proceedings of this particular stock sale will go to the State

coffers, and not ours, therefore we will have to wait for the next flotation to have the use of private capital raised in the stock market.

My opinion is that port development in remote and peripheral regions (and there are several such areas in the Med, including the Greek island regions) is unlikely to attract much private capital, as it is unlikely that such development will be able to achieve acceptable returns to the private investor. However, the need for money for such ports is very significant. As an example, Greek islands will gradually lose their population if people cannot be properly linked to the mainland. It is a very worrying sign that the number of inhabited Greek islands has dropped from about 160 before WWII to something like 140 now, even though vessel and port infrastructure are much better. Clearly, one has to do even better in the future. The question is, who will have to pay for it, the islanders or the general population.

In the port of Piraeus, which finances itself, investment in the passenger port (which is the largest in the Med in terms of traffic) has never produced a reasonable return, at least by private criteria. Our tariffs for passenger traffic have been under tight scrutiny and control from the State, mainly on quasi-societal grounds, the net result being that passenger shipping companies, some of which are in the Athens Stock Exchange, are being indirectly subsidized via the port, at the expense of the profitability of the port itself. Hopefully this will change soon, although it is a very difficult subject.

Competition among Med ports is expected to continue, partly as a result of external pressure from the shipping lines, and partly as a result of the internal pressure to stay in the race in which some ports are engaged. I have often said that pressure from shipping lines is like being thrown into a swimming pool full of alligators. As the Piraeus CEO, sometimes I feel the same. It is up to the port community to decide how far it can tolerate pressures of this kind, and what cooperative measures it can take to defend itself against the negative effects of such a situation. Maybe we can think of something today or tomorrow.



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### **Port package**

Without a doubt, the forthcoming new Directive on market access to port services (the so-called 'port package') will monopolize discussion and debate in the foreseeable future regarding port business. I really cannot predict the final form of the Directive, but I feel that it will have an effect on every port, including here in Piraeus.

Actually, Piraeus is one of the few examples of a public port in Europe that is not a landlord port, so the implementation of the Directive is likely to have a big impact.

The principles of the proposed Directive seem very much laudable, at least theoretically. The question is, how will they work in practice. The proposal is very much in line with shipowners requests for more competition in the port sector, particularly competition within, rather than among ports, so that costs are brought down. I don't see why one should be so obsessed with internal competition and leave issues of external competition untouched. For instance, we compete fiercely with Gioia Tauro, which is a private port that received a lot of EU funding but operates mainly as a transshipment port. That does not seem right.

My opinion is that the technical implementation of the Directive may be difficult and may have serious consequences for ports. For example, in Piraeus, which is a port that in terms of size qualifies under the Directive, we have one container terminal. Will we be forced to split in in two so as to comply? Should we split our passenger port? Are these things feasible? Only time will tell.

## **2004**

2004 has a double meaning for Piraeus. It is the year of the Olympics and it is also the year of coastal shipping deregulation. The government has decided to liberalize the cabotage market about one year earlier, specifically in November of 2002, so as to avoid complications of two difficult things at once. For our passenger port, the challenges of both events are very big. For the three weeks in the Olympics, in August of 2004, about half of our passenger port will host cruise ships that will be used as floating hotels, and the challenge will be how to manage the rest of the traffic, which is expected to be way above normal during that period.

## **September 11**

I have left last a few words about the picture after September 11. Obviously, the world will never be the same again after that date, and the Med is no exception. It is unclear what the impact will be on the cruise business, in which practically every port in the Med is involved. However, there will be a clear need for increased security, and every port is taking appropriate measures for that. I think the long term impact on business will not be negative, but in the short run the cruise sector will experience difficulties.

To sum up, I have given you a rather incomplete and biased view of Med developments, and I have also tried to give you a picture of the situation in my own port of Piraeus. Maybe we can examine these issues more in the discussion.

Thank you very much.