CAN ITALY BE CHINESE INVESTORS' PORT OF CALL?

Courtesy of Marco Spinedi, Asia Observatory, Scientific Committee

Italian Prime Minister Mario Monti's recent official visit to China has brought the prospect of Asian direct investment in European transportation and logistics hubs to the forefront of conversation in the Italian port community. The possibility of an Italian-Chinese cooperation, with the participation of the prestigious China Investment Corporation, has generated great interest, but also scepticism due to the disappointing results of past projects. Italy has already been the object of serious consideration by Chinese investors in the late 1990s and early 2000's, as a possible target for investments in maritime transport and logistics, mainly due to its enviable geographical position in the middle of the Mediterranean Sea. Investments by COSCO in the port of Naples and Hutchison Port Holdings in Taranto confirm that Chinese interest in Italy is still strong, but the results have been lukewarm. Moreover, Italy might not be the only country of interest for Chinese investors in the Mediterranean, a critical region for growing trade between Europe, Asia, the Balkans, and North Africa.

In 2009 there was talk of great things when Greek public authorities gave COSCO Pacific a 35 year concession to operate two of the three container berths in the state-owned port of Piraeus under a contract worth $4.2 billion (US). Labour unions protested the "selling out" of a national port to foreigners, but for the Greek government it was a breath of fresh air in the midst of a stifling budget crisis. Strategically positioned near routes through the Straits of Bosporus, Turkey, the Black Sea, central Asia, and Russia, COSCO's official statements spoke of Athens growing to rival Rotterdam, Europe's largest port. Investments of up to €550 million were expected, and traffic levels were to increase threefold, to 4 million TEUs in a matter of a few years. Statements like these have been heard in Italy, too, in similar circumstances, but the world economic recession and a 39% drop in container traffic between 2008 and 2010 have drastically downsized expectations in Piraeus, and the port has, nowadays, very little to do with Rotterdam.

Reacting to the crisis, the top global players in the container shipping industry, hit hard by the significant risk of persisting overcapacity, have defined a new strategy for the coming years: concentrating intercontinental traffic on a small number of large ports that are equipped to handle extra-large vessels (from 8.000 to 18.000 TEUs), are able to exploit large economies of scale to benefit from low port service costs per container (on both "land" and "maritime" side), and can guarantee quality services on time. Only a select few ports will be able to satisfy these conditions, but those that can will become the elite of Europe's harbours, and it stands to reason that big foreign investors will prefer to put their money where these conditions are fully guaranteed and enforced.

Several years ago, the UK was in a situation to some extent similar to that of Italy, but has taken the right steps to put itself back in the primetime of global shipping traffic. Both Italy and the UK are located on the periphery of the economic and productive heart of Europe, while also being positioned along the main transoceanic routes used by large container vessels; Italy on the southern end near the Suez Canal and the UK to the north along the routes between Northern Europe, Asia, and North America. The UK has 12 major ports moving 8.2 million TEU, while Italy's main 13 ports move 9.2 million. Both countries suffer from traffic being scattered among too many ports, especially when compared to Germany or Holland, with no single port being large enough to guarantee the level of infrastructure or economies of scale required to attract the larger shipping companies. Unlike Italy, however, the UK government saw the advantages of making well-defined improvements to the infrastructure of a single port, and took steps to regain a top spot in the rankings of the European port system. Taking decisive action and betting it all on one port, the southern hub of Felixstowe, the UK invested in improving infrastructure and services and revitalizing its international role in the world shipping arena.

Located in the fast-growing Haven Gateway sub-region on the UK's southeastern coast, the port of Felixstowe is one of the preferred ports of call for shipping companies in the UK, including Hutchison Ports Holdings (HPH), one China's most important Chinese port investors. HPH, who also have an operation in Italy's Taranto Container Terminal, have been involved in port operations and services at Felixstowe for years, and since 2008 they have also financed investments aimed at improving the infrastructure facilities of the port to allow access to container ships larger than 14,000 TEU. The construction and reconfiguration of the new Felixstowe South container terminal, to be completed in 2014, includes increasing the clearance depth to 16-18 metres, and construction of quays and gantries large enough to accommodate and unload the largest container carriers. Rail lines along the major corridors linking Felixstowe to Nuneaton and Birmingham are being upgraded to allow for more freight trains carrying high-cube shipping containers. The port's total container capacity is set to increase by 50% in 2012, and by even more in the years to come, to a total of 8 million TEU. As part of the Felixstowe South Reconfiguration scheme, HPH will also provide financial support for the upgrading of the Copdock interchange (J55) between the A14 and the A12. These interventions are all part of a comprehensive, integrated, and long-term project supported by public and private partnerships aimed at making Felixstowe the UK's busiest container port and one of the most attractive ports for cargo shipping in Northern Europe. Confirming the validity of the strategic investments made at the port, Maersk, the world's largest container shipping company, has recently declared that Felixstowe, along with Rotterdam and Bremerhaven, will be one of only three European ports where the next generation of 18.000 TEU container vessels will call on their routes between Europe and China.

Similar strategies are being implemented by other European countries such as France, in Marseille, and Spain, in the ports of Valencia and Algeciras. In both cases, public authorities and private operators are dredging seafloors, installing larger gantry cranes, constructing new quays and berth facilities, and improving rail capacity both inside the port and out. In Marseille, for instance, Naviland Cargo, a subsidiary of SNCF Geodis, is already operating daily cargo trains up to 750 metres long, specifically for handling the sea freight of forwarders, logistics operators, and maritime shipping companies, with wagons that can accommodate the heaviest containers and tanks.

The examples of Felixstowe, Marseille, Valencia, and Algeciras should be followed by the Italian authorities as well. Selecting no more than one or two ports, concentrating the scarce financial resources on them, and mobilizing private entities on a public-private-partnership basis is the best strategy to regain the confidence of Asian investors in such a competitive market. These projects should be given priority clearance through the bureaucratic approval process, helping them to be completed on time and on budget. The Italian port system can offer a wide range of locations, from the ports of Taranto or Gioia Tauro in the South, to the Ligurian ports of Genoa, La Spezia and Savona in the North-West, or the ports of NAPA (North Adriatic Ports Association) in the Adriatic. Each port brings advantages and disadvantages, and a foreign partner would be hard pressed to determine the best solution for its investment without assistance from regional and national authorities.

The stakes in this game are high, because there are no guarantees that the Mediterranean shipping routes will remain strategically important forever. Transnet Port Terminals, South Africa's largest port operator, recently announced a $4.3 billion (US) investment project aimed at boosting traffic capacity and operational efficiency in Durban's new container terminals and related road and rail infrastructures. The project is founded on the strong belief that maritime traffic between Asia, sub-Saharan Africa, and Latin America will increase over the next years at a fast pace, following new shipping routes through the Cape of Good Hope.