

**Annual Meeting Fonasba
Venezia – Palazzo Ducale
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Ladies and Gentlemen,

Containers are like computer chips. They hold lots of stuff in a well-organized fashion. Without containers, the global transportation network would be running much slowly and more costly than it does today. Like many simple, everyday things, the container shipping is more complicated than it looks. Think of just how the steel box has to be picked up without being touched by human hands and moved from ships capable to carry 10.000 plus teus to truck in less than a minute. Fact is, that in the last 30 years the logistic of the box has changed the world to an impressive extent. In 1980, the full teus carried by the shipping lines were just 11,4 million. In 2000 they rose to 60,5 million and today we are already closing the year 2012 with an extraordinary volume of more than 150 million teus.

In the last four years the ups and downs of the container shipping industry have been particularly strong. The 2008 financial crisis turned to a worldwide economic disaster: in 2009 the container trade collapsed nearly 10%. After the subsequent 2010 quick recovery of 11%, also 2011 has not been that bad, with an 8% growth, higher than the level that will be achieved this year. From 2001 to 2011, the compound annual growth rate of the industry has been 8%. During that period, the highest annual increase was 15,6% in 2003, the lowest minus 9,7% of 2009.

By the end of the year, cellular fleet global capacity will reach about 16.5 million teus from less than 10 million teus in late 2006. And there is no let-up, with almost 1.7 million teus of capacity due to be completed by shipyards in 2013, the year when the first of Maersk Triple E 18.000 teus giants will enter service. The pattern starts to look quite different a little further ahead, with just 210.000 teus of new slots due for delivery in 2015. The fleet renewal has a new leitmotif: a drastic reduction of costs, to create an industry able to deliver healthy returns to shareholders. And lower costs can be achieved mainly through a new generation of ships with different design features.

Economy of scale is the key word. Between 2007 and 2008 the Ultra Large Container Ships with a capacity of over 10.000 teus ordered to the shipyards were 190. In 2010 began the delivery of a first solid bloc of the new giants. In 2011 the ULCS in operation did stand at 112, while in the current year the new entrants will be 55. Overall, in 2015 the ULCS fleet will reach 274 units ranging between 10.000 and 18.000 teus, with a total capacity of 3.628.000 teus.

The actual ULCS carrier operators are fifteen, all operating on the Europe – Far East route.

In the second quarter of the current year, the route distribution of the ULCS already in service was as follows: 97 ships in the Asia - North Europe trade; 33 in the Asia - Med; 5 in Asia - Middle East; 3 in the transpacific trade.

In August, exactly 100 ultra-large container ships were deployed in 10 of the shipping services connecting Asia with Mediterranean ports.

Lloyd's List Intelligence data shows that deliveries of mega ships larger than 12,000 teus that can deliver much-needed economies of scale will consist of 42 units of half a million teus this year, 39 vessels of 560,000 teus in 2013, and 44 of 620,000 teus in 2014, but just 9 of 158,000 teus in 2015.

These ships will mostly be deployed in the Asia-Europe trade, with smaller units cascaded to other trades.

Our opinion is that nowadays our industry has taken a more prudent approach in the race to gigantism, with the growth of volumes starting to level off, confirming a picture of overcapacity. That's why Maersk Line decided to limit its 18,000 teus ships order from 30 to 20, while other newbuilding programs are still on hold.

Several owners recently upgraded the capacity of ships ordered earlier, through renegotiations. Such upgrades add extra capacity that has an impact on the supply forecast. Upgrades of ships in the order-book over the past 12 months include: CMA CGM upgrade of three 13,800 teus ships on order at Daewoo to 16,000 teus. The first ship of this class will be delivered in a few weeks, and she will be the biggest in service, for the time being. Furthermore, Hapag-Lloyd upgrades six 8,750 teus units from Hyundai Heavy to 13,100 teus, NOL ten 8,400 units on order at Daewoo to 9,200 teus and NYK two 6,350 units on order at Imabari to 8,000 teus. At the same time of this upgrade activity, some of the lines have reduced their order-book by some units, or postponed deliveries.

Nonetheless, there are suggestions that some lines are in the market for an order of Ultra Large Container Ships of 22,000 to 24,000 teus ships, with a new giant step in size. Who knows? Let's wait and see. A 22,000 teus design as indicated by STX would have a length of about 470 meters. This is an increase of 17% compared to the 16,000 teus size, and a serious challenge for the majority of the ports. For sure, the main size for the rest of the decade will be the 13,000 – 13,800 teus ships, that today represents some 45% of the market. With 18 container rows on deck and a draft lower than 14 meters, these ships are considered the new workhorse of the liner trades. Just as an example, this is the size of the ships presently employed by the

top shipping lines in their direct services from Asia to the leading Italian ports of final destination.

In the container business fuel represents 60% - 80% of total operating expenses. Fuel efficiency and emissions will be key drivers for the years ahead. A series of new 13.800 teus ships that will be delivered next year by several shipyards will be some 20 per cent more fuel efficient per teu compared with existing ships, with a design optimized for an operating profile involving different speed and draft combinations. The installed propulsive power could be reduced by about 16 per cent. The resulting fuel savings will be worth about 3 million dollars per ship per year. The characteristic of this class of ships is a great versatility, with an operating speed ranging from 15 to 19.5 knots, as slow steaming and variable load factor are expected to be part of the future, top speed between 23 – 25 knots, operating drafts in the range of 11 to 14.5 meters, 18 rows of containers on deck. The upper class, i.e. 16.000 teus ships, has a draft of 16 meters and 21 rows of containers on deck.

That is from a technical point of view. But a recent survey edited by Clarkson Capital Markets has raised new alarm bells. Their outlook calls for a continuation of a forked mainlane trade, where Asia to Europe routes remain weak while Asia - US trade may improve. A weak European trade will persistently face higher newbuilding deliveries of 10.000-plus teus ships in 2013, says Clarksons. In all, they still see challenging supply-demand conditions in the container trade, with liner capacity alignment strategies continuing to be tested in 2013. In the medium term, based on fleet development analysis, the forecast is for a tightening fleet within the small-to-mid size classes by 2014.

The challenge that these container ships place on the terminal infrastructure is well known: channel and berth depth, bridge height, shore crane height and boom length, logistic network. And with the Panama Canal's 5.2 billion dollars expansion project expected to wrap in late 2014, more and more terminals will need to accommodate massive ships and differentiate themselves to capitalize on market opportunity. Ports and terminals invest millions of dollars into infrastructure, expensive dredging efforts and equipment updates to attract or keep these large vessels. Terminal operation also faces challenges. If the current productivity levels do not improve, the net result will be longer berth calls, that will reduce the economic benefit of placing so many containers onto the same ship. As a result, terminals are being asked to deliver better productivity to keep pace with the increase in call volume.

Dear fellows,

The world is changing fast. Slow steaming is just for ships, not for owners, agents or brokers. The achievements of the last few years have been remarkable, to full

advantage of the consumers. The pace of the innovation boosted by the introduction of the mega ships is not any more balanced by traditional bodies such as the Conference system, unfortunately abolished by the European Union.

If we look at the history of other segments, we may learn that “Big is beautiful” is not a new concept for the shipping industry. I’m referring to the development of the Ultra Large Crude Carriers in the 1960s and 1970s. The ship size increased, driven by economies of scale and increasing global demand for crude oil. But, despite the glut of tanker orders, the time for the ULCC’s is over. The world largest ship, the ‘Jahre Viking’, built in 1979 with a capacity of 500.000 tons, was converted to floating storage in 2004 and sold to breakers in 2009. Then, the size of the biggest crude carrier has been scaled down to 300.000 tons dwt. Are there any similarities with what is happening to container ships today? Experts maintain that there is some way to go before the potential of scale economies have been exhausted, compared to the ability of container terminals to berth and load and discharge such ships within an acceptable period of time.

The largest container vessels at sea today are almost 400 meters long and 56 meters wide and the height from the summer waterline to the top of the upper tier of containers can be as much as 36 meters. Laid end-to-end, the containers carried by an ULCS would form a line more than 100 kilometers long.

In the last few years, heavy losses occurred to all of our principals. We all know that box liners could be seriously oversupplied again in 2013, as ultra-large ships ordered in 2011 will begin to be delivered. The critical period will be second half next year, with the first delivery of the 18.000 teus Maersk Line class. Overall next year some 52 ultra-large container ships will enter in service. The vast majority of the carriers are redelivering chartered-in ships or stepping up slow-steaming to absorb the new capacity. Year to date, 42 ULCSs of more than half a million teus have been delivered. Another 10 ULCSs of 127,384 teus will be delivered during the last quarter of this year. However, the additional capacity might be overwhelming next year, with more carriers receiving ULCS, especially those who are not in any alliance.

In 2012, only nine carriers have taken deliveries of ULCSs, and the majority of these are within an alliance. In 2013, 12 carriers will be taking delivery of ULCSs, including Evergreen, CSCL, and Hamburg Süd, which are not part of any alliance. How these vessels will be deployed would have a meaningful impact on the sustainability of freight rates in the Asia – Europe trade.

Considering that the time between order and delivery of such huge ships is more than two years, the pattern of the rest of the decade is clear: a consolidation of the 13.800 teus ships quota that will soon represent some 50% of the Asia – Med trade and the implementation of the 16.000 teus size on the North European routes.

For the global container terminal operators, uncertainty remains a key challenge especially in Europe, but the forecasts is for annual worldwide demand growth of 6% through to 2017, albeit with significant regional variations. European container demand will remain quite flat for the next few years, with North America showing a little growth, and emerging economies showing the strongest increase.

Today almost one of three teus handled worldwide is of Chinese origin or destination. Their share has reached 30%, up from 19% ten years ago. Their infrastructures have been the first to be upgraded to the mega ships needs.

In China, key areas for development remain the Pearl River Delta, centred on Guangzhou, and the Yangtze River Delta centred on Shanghai. Another is in the north China, where a \$ 7 billion investment is planned over the next five years.

Of course Asia it's not just China. A lot is happening in ports in Korea and Taiwan, both in Malaysia and Vietnam and finally in Indonesia, the fourth most populated country in the world, by many considered the final hot spot of our decade.

The market is changing fast: until recently, it was rare to see ships bigger than 8,000 teus on the Pacific. Now the port of Long Beach has just welcomed the first of a series of 13,800 teus ships. The arrival of the largest containership ever to call in the US, marks a new stage for the transpacific trades as lines transfer vessels from struggling Asia to Europe routes. The capacity of the US west coast ports is increasing, as global carriers sought alternative routes for new generation ULCS. On the east coast, no port has actually the capability to handle mega ships. At present, the capacity of the largest mooring at the New York – New Jersey port is just for 9.500 teus ships.

In North Europe, a few weeks ago there has been the opening of the largest infrastructure project along the German coast, the 2,7 million teus terminal in Wilhelmshaven, marketed under the name Jade-Weser-Port. The new facility has a water depth of 18 meters, which makes it accessible for fully laden ULCS. This is a clear advantage over Hamburg, Germany's leading box port in terms of handling volume, where the river Elbe restricts the possible draft of ships.

London Gateway, with a first phase 1.6 million teus capacity, is due to open in the last quarter of 2013, followed in 2014 by the first terminal on Rotterdam's Maasvlakte 2 container city, which will eventually add 8 million teus to Europe's box-handling capability.

The traditional six northern-range ports — Le Havre, Antwerp, Zeebrugge, Rotterdam, Bremen/Bremerhaven and Hamburg — are due to increase incoming volumes by 1.5% in 2012 to 16.8 million teus.

In the Mediterranean, container terminal capacity will most probably face tighter demand over the next decade. By the way, there are several projects under way, as trade between Asia and Europe place pressure on existing supply chains and open up new gateway opportunities for ports.

In Spain, there has recently been the opening of a new deepwater semi-automated container terminal in Barcelona, that has a quay with a 16.5 meters depth.

Mediterranean port operations involve 18 international and global terminal operators in 55 terminals at 38 different ports. But average capacity of all box vessels sailing between the Mediterranean and Asia now stands at 8.400 teus, to and from North America at 4.100 teus. The recent deployment of ULCS is changing the pattern of the trade, with the concentration of the main services to fewer ports.

In Italy only a couple of ports of final destination, Genoa and La Spezia, are already able to moor 13.000 – 14.000 teus ships. For the 16.000 teus size, with 16 meters draft, work is in progress for the construction of the new Calata Bettolo terminal in Genoa, which will start operations in a couple of years with 17 meters depth, while an APM Terminals project with water depth of 18 meters is due to start at Savona.

For the time being, the biggest ULCS entering the Mediterranean Sea will still be compelled to call transshipment hubs such as Gioia Tauro, Taranto and Cagliari in Italy, and the various deep sea terminals in Egypt, Malta, Spain or Morocco. On the table are also new port facilities and intermodal infrastructure in the Eastern Mediterranean and in the North Adriatic Sea, that would create new transit points for freight moving to and from central and eastern Europe. Investments in the Mediterranean Corridor, a series of interconnected rail links stretching from southern Spain deep into northeast Europe are ongoing at different speed.

The immediate outlook remains bleak, and 2013 will most probably be another very challenging year. But the point is that Ultra Large Container Vessels are already in service, and even larger vessels will follow soon. That's why we stress the need to build new infrastructures, draft and berths able to accomodate this new generation ships.

The challenge is there. Will we be able to win it?

Thanks for your attention,

Filippo Gallo