

# The shipping sector in Italy: from the 2008 financial crisis to the impact of Covid-19

*El sector marítimo en Italia: desde la crisis financiera de 2008 al impacto del Covid-19*

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## Abstract

The article describes the current situation of *shipping* in Italy and its prospects after the pandemic. As the market has already faced several recessionary phases recently, a comparison is made between previous financial crises and the ones caused by Covid. It is examined how the main market *players* reacted to an exogenous crisis such as the one caused by the pandemic compared to the endogenous ones of 2008 and 2016. It describes the policies and commercial formulas adopted by operators to contain costs and losses and their adaptation to the new scenario caused by the pandemic. The cognitive and informative research was carried out by consulting bibliographic material selected from the most accredited citation databases (Scopus, ISI/WOS, etc.) and data and information of an experiential nature derived from the author's professional activity. The results stem from two working hypotheses. The first one analyses the characteristics of the shipping market in Italy after the financial crises and the pandemic. The second examines the investments made by the main players in the market during the pandemic period. The study thus ascertains whether the actions taken during the pandemic period by the main Italian shipping companies and the support given to the sector by the Public Authorities have improved company performance.

**Keywords:** Shipping industry, Bulk e Dry shipping, Covid 19, Baltic Dry Index/BDI, PNRR.

## Resumen

El artículo describe la situación actual del transporte marítimo en Italia y sus perspectivas tras la pandemia. Dado que el mercado ya se ha enfrentado a varias fases de recesión en los últimos años, se hace una comparación entre las crisis financieras anteriores y la provocada por Covid. Se examina cómo reaccionaron los principales actores del mercado ante una crisis exógena como la provocada por la pandemia en comparación con las endógenas de 2008 y 2016. Describe las políticas y fórmulas comerciales adoptadas por los operadores para contener los costes y las pérdidas y su adaptación al nuevo escenario provocado por la pandemia. La investigación cognitiva e informativa se ha llevado a cabo mediante la consulta de material bibliográfico seleccionado de las bases de datos de citas más acreditadas (Scopus, ISI/WOS, etc.) y de datos e información de carácter experiencial derivados de la actividad profesional del autor. Los resultados se derivan de dos hipótesis de trabajo. El primero analiza las características del mercado marítimo en Italia tras las crisis financieras y la pandemia. La segunda examina las inversiones realizadas por los principales actores del mercado en el periodo de la pandemia. Así, el estudio pretende comprobar si las medidas adoptadas durante el periodo de la pandemia por las principales compañías navieras italianas y el apoyo prestado al sector por las autoridades públicas han mejorado los resultados de las empresas.

**Palabras clave:** Industria naval, Transporte a granel y en seco, Covid 19, Índice Baltic Dry/BDI, PNRR.

## Introduction

The *shipping* industry has faced several crises in the last 15 years. Two main endogenous events had caused the first: (i) the financial crisis that started in the United States and affected the entire world economy and, (ii) the market and world trade trends that were also affected by the slowdown of the Chinese economy (in particular, the first one starting from 2008 and the second one from 2016: Ranocchia, 2018).

The sudden and devastating outbreak of Covid 19, an exogenous event, had caused the second crisis, which forced all the main *players* in the sector (shipowning companies, shippers and shipping agents, and brokerage firms) to adopt new policies and commercial formulas to reduce costs and contain losses.

Furthermore, the values assumed by the *Baltic Dry Index* (BDI), the maritime freight index, influence the trend and performance of the *shipping* market. The BDI is an index quoted on the London Baltic Exchange since 1985 and tracks the freight rates and transport costs of the main categories of dry bulk cargo ships carrying non-liquid (*dry*) and bulk materials (*bulk*) (Thomastrend.com, 2020).

The subject of the study is interesting because maritime transport is a strategic sector for Italy, which has the third-largest commercial fleet among the G20 countries with about 17 million tonnes tonnages, occupying significant positions in the most advanced sectors of *shipping*. According to the most recent data available (Belladonna, Gili, 2020), shipping contributes about 45 billion euros to the national GDP (equal to a share of 2.9%) and employs about 880,000 direct and indirect workers (equal to 3.5% of the total workforce).

The crisis in the maritime sector caused by Covid 19 has also affected the Italian shipping industry, which has lost its position at a global level (Capuzzo, 2020 on UNCTAD data, 2020) also due to the process of formation of large oligopolistic conglomerates, which now single-handedly control about 87 % of the market (Belladonna, Gili, 2020 and Aragona, 2020).

Despite these difficulties, Italian *shipping* does have some strengths in the cruise ship, ferry, and *ro-ro* sectors on international *deep-sea trades*. In particular, *roll-on/roll-off vessels* (also called *ro-ro*) are a type of ferry designed to carry wheeled cargo such as cars, trucks, or railway waggons. They can be used in international long-distance navigation

(between ports belonging to different states in any sea and at any distance from the coast) defined in maritime practise as *deep-sea routes* (Scafarto, 2003).

Moreover, thanks to the economic aid provided by the National Recovery and Resilience Plan (PNRR), all the major Italian companies operating in the *shipping* sector will be in a position to make innovative investments in various segments of robotics and transport technology to support maritime traffic, the usability of ports and the improvement of the *supply chain*.

The research outlined the current picture of the shipping industry and the main measures that *shipping* operators are implementing to cope with the market crisis exacerbated in 2020 by the pandemic.

## **Methodology**

This research describes the current interventions and perspectives to support the *shipping* sector in Italy after the pandemic has passed.

The questions the author intends to answer are

- Q<sub>1</sub> What were the conditions of the *shipping* market in Italy considering the previous crises?
- Q<sub>2</sub> What are the choices made by Italian shipping companies to cope with the crisis caused by the pandemic and what are the short to medium-term prospects for the sector?

After proposing a brief review of national and international literature (par. 3), the author answers these questions (par. 4), describing

- H<sub>1</sub> the characteristics and peculiarities of the *shipping* market in Italy after the 2008 and 2016 crises and in the aftermath of the pandemic;
- H<sub>2</sub> the new investments that allow an overall improvement in the performance of the main *players* present in the market.

In conclusion, the author intends to specify what are the current strengths and weaknesses of Italian *shipping* companies and the tools and measures available to Public Authorities to optimise and improve the entire sector.

In particular, the research proposes to the readers some critical considerations in virtue of the most recent scientific contributions on the themes under examination treated by the most accredited literature.

Considering the above, a qualitative methodology was adopted for the drafting of the article to produce a systematic review of the literature on *shipping* at the time of the pandemic.

The author's professional experience enriches the bibliographical references cited; as an advisor, he has assisted the composition and bankruptcy bodies that managed the liquidation phase some important *shipping* companies which, hit by an irreversible economic and financial crisis, had to declare bankruptcy.

### *Literature review*

The bibliography consulted can be distinguished concerning the two main themes addressed in the article.

### *Shipping market trends*

A comprehensive and exhaustive picture of the *shipping* sector taken into account in the research is proposed in Gozzi, Scarsi (2013). The authors examine some relevant issues useful for understanding the dynamics of this complex market.

In particular, the short-term cycles of *shipping* are described in Stopford (1997) while the entrepreneurial choices made by shipping entrepreneurs and the positive or negative consequences that derive from them are widely reported in Scarsi (2007) and, again, in Gozzi, Scarsi (2013).

The success or failure of an entrepreneurial choice made by a shipowner also depends on how the fleet is used: it is vital for the survival of the *bulk shipping* company to choose when to use its owned vessels or when to charter them. This issue is discussed in detail in Norman (1982) and Tsolakis (2004).

The author consulted the weekly bulletin International Research & Valuation (various years) to analyse the trends in the freight market examined especially during the two periods of greatest recession (since mid-2008 and from 2016).

The price is formed to the value that the market is willing to pay to shipowning companies for the use of ships. Most shipping companies employ their fleets in two types of services: *time charter* (TC) and *spot charter* (spot). Limited to the first type:

- a) the ship is chartered to third parties (typically other shipowners or transport companies) for a defined number of days;
- b) when a third party charters the vessel, the company calculates the fees collected on the basis of the number of charter days (USD/days);
- c) the customer bears the living costs of operating the vessel (fuel costs and port and agency fees).

With reference to Italy and the importance and strategic role of the maritime economy, reference is made to the recent Censis Report (2020), which describes the importance of certain sectors such as shipbuilding, the cruise sector, ferries, and ro-ro ships. The Italian maritime economy must make major investments remain a leading player in the European “transport” system, which has been reduced in size by globalisation to the benefit of the great Asian powers (China and Korea above all).

Another difficult factor for the Italian maritime industry is the “conglomeration” phenomenon favoured using the merger processes involving the world’s largest operators. This phenomenon, which has become even more pronounced during the pandemic, has further reduced the operating margins of Italian shipowning companies which, with a few exceptions (especially in the cruise sector) represent only marginal realities within a sector governed by a few oligopolists (Aragona, 2020).

Moreover, further consequences of the prolonged *shipping* crisis in Italy should not be underestimated. The crisis has also manifested its effects on a large part of the economy of the maritime industry induced. Some authors (e.g. Carlini, 2016) had already highlighted how the collapse in freight rates had also penalised shipping agents and brokers. The consequence was a gradual reduction in their commissions and an increase in the volume of outstanding claims caused by the bankruptcy of some leading Italian shipowning companies.

The most immediate and visible consequence of the two above-mentioned crises was the default of some leading national shipowning companies. The bankruptcy and composition procedures, under the control of the competent Judicial Authorities, have favoured the

transfer of the assets of the bankrupt companies to leading investment funds that have acquired entire ship fleets owned by some historic shipowning companies in crisis.

Between 2019 and 2020, primary shipowning companies operating in the Naples area were forced to apply for admission to bankruptcy procedures of different types. It is also worth mentioning the sale (in 2014) by the bankruptcy organs of major Naples *shipping* company of its remaining fleet of twelve *dry bulk* ships to Maltese company.

Moreover, identical transactions have also been carried out in the Genoa area (Naples and Genoa are, in fact, the most important hubs of the Italian maritime industry). A turnaround fund acquired part of the fleet of important Genoese *tanker* company (Capuzzo, 2020a).

These judicial interventions have safeguarded the economic value of the operations and have also preserved the seafarers' workforce.

### ***Pandemic and new shipping crisis***

The lockdown introduced with the spread of the pandemic at the end of 2019 and the beginning of 2020, rapidly weakened the entire global economy and, as a result, also affected the *shipping* industry and its *supply chain* (maritime operators, port operators, shippers, brokers and embarked seafarers).

Devran, Bekir, Tsz Leung, Po-Hsing (2020) outline the new challenges and potential solutions to the *shipping* industry crisis. The authors examined the structure and strengths and weaknesses of four maritime companies operating in four different sectors (dry bulk, tankers, containers, and cruise ships).

Keshta, Elmesmary, Obrecht (2020) describe the latest technologies currently used in maritime *supply chains* and how they can be used to minimise the negative effects of the pandemic on the *supply chain*.

Among the most interesting and original studies is the one by Notteboom, Pallis & Rodrigue (2021). The authors, examining the container sector, compared the main crisis factors affecting the supply and demand of container ports and container *shipping* during the pandemic period with those occurring during the 2008–2009 financial crisis and showed that the behaviour of *shipping* operators was different in the two crises.

Still, on container shipping, Charłampowicz (2021) highlights how the pandemic negatively affected the container terminal market. In the last decade before the pandemic,

the container terminal market had been growing steadily. The author described how even in the pandemic context, it is possible to improve the quality of service of maritime container terminals, which then positively affects the entire *shipping* industry.

The seventh Annual Report prepared by SRM - Studi e Ricerche per il Mezzogiorno (2020), offers an updated and complete picture of the current condition of the Italian maritime economy and the impact that the pandemic has had on ports and maritime logistics. The study also points to Italian port models that have shown a higher degree of resilience to the pandemic through an efficient intermodal network and increased environmental sustainability.

As the pandemic spread, the most common practice adopted by many shipping companies was *blank sailing* as a way to reduce costs and contain losses. However, the adoption of *blank sailing* also penalised some routes to Italian ports (Lesam International Group, 2021).

A concise but interesting picture of the prospects for post-pandemic maritime transport recovery is proposed in Belladonna, Gili (2020). The authors call for the adopting of new and advanced technologies by maritime operators.

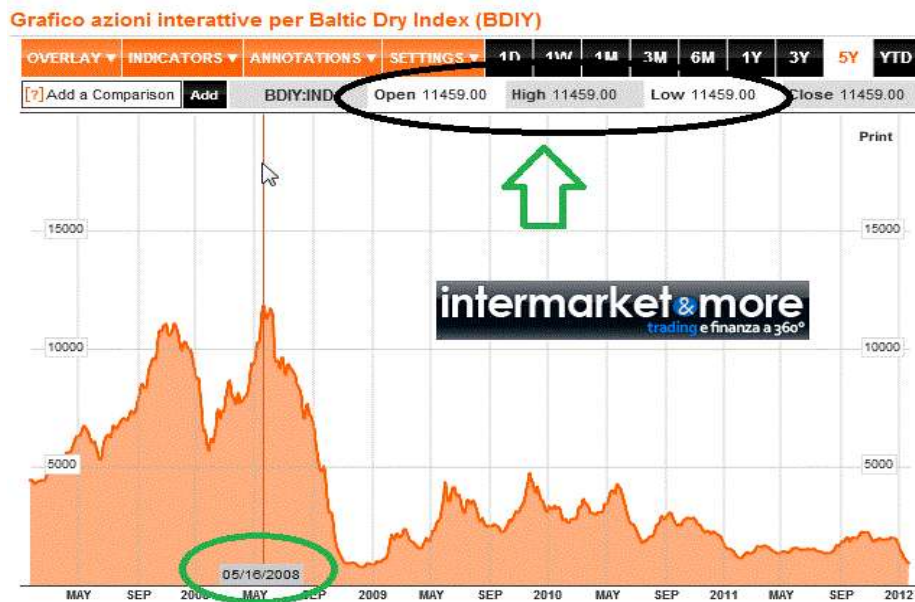
## **Results and discussion**

At the peak of BDI growth at the end of the first half year 2008, the main Italian shipowning companies had initiated substantial investment programmes to expand their fleets. The sector with the highest ship orders was *dry bulk shipping* and *tankers*. In May 2008, the BDI reached its highest ever recorded value of 12,000 points. This peak would never be reached again, as it was an exception to the normal trend of the index over the years.

It is, therefore, possible to say that when faced with an abnormal growth in freight rates, many shipping companies decided to order an excessive number of ships following irrational and emotional behaviour.

In the second half year 2008, at the peak of the investment boom, the shipping market experienced its first major collapse, also due to the U.S. financial crisis. The BDI fell from 12,000 points to less than 600 points as of June 2008. In the following years, the BDI would improve slightly but would remain below the 5,000-point mark (Figure 1).





**Figure 1 - Trend of the “Baltic Dry Index” for the period 2008 - 2012**  
**Source: Bloomberg**

The second major crisis in the freight market occurred in 2016, when the BDI fell below 300 points for the first time. The fall in commodity and oil prices, the excessive number of ships and the general slowdown in the world economy and in China in particular, had caused this other significant fall in the BDI (Figure No. 2).



**Figure 2 - Trend of the “Baltic Dry Index” until the year 2020**

The oversupply of ships on the market contributed to the crisis in the *bulk shipping* sector. According to the most authoritative authors, many investment plans were the result of emotional attitudes on the part of shipowners who, in contrast, should have adopted a “rational” behaviour to follow the short-term cycles of the shipping market (Stopford,



1997), which consist of four moments: growth, minimum peak, maximum peak, and fall. The ‘counter-cyclical’ behaviour (Scarsi, 2007 and Gozzi, Scarsi, 2013) occurs when the market peak is minimal: since the cost of ships is linked to the level of freight rates, ordering a ship when the market peak is minimal results in a less expensive purchase and in reaching the break-even point at a lower level.

Additionally, *shipping* companies had not always correctly utilised their *asset play* (own ships) or, alternatively, their chartering to third parties (*operating*). In fact, in the *shipping* business, it is crucial to understand when profits can be generated from the use of own ships (which are a point of weakness when the market is depressed) or when chartering them (Norman, 1982). In fact, operations can be a viable alternative to profitably deploying vessels while waiting to make the maximum profit from their asset play (Tsolakis, 2004).

Finally, the banking system almost entirely financed the investment plans, given the chronic undercapitalisation of the main Italian shipowning companies.

In conclusion, in the context of a substantially weak *shipping* sector, the following issues emerge

1. The unsustainable investment plans would have affected the capital and economic structure of the companies.
2. The sale of vessels, to which the companies in the most difficulty were forced, would have led to a devaluation of the company’s assets since their sale would have been at a lower price than that paid for their purchase by the shipyards.
3. Recourse to a high level of bank debt would have worsened the companies’ economic results because of the increase in financial charges.
4. The banks themselves would have had to manage a considerable volume of impaired loans because the companies were either unable to repay them or had even gone bankrupt.

The global spread of the pandemic in the early 2020s immediately frustrated the tentative attempts at recovery in the sector that had emerged in 2019.

A first consequence was the slowdown or disruption of the entire *supply chain*, which during the lockdown affected both transport and cargo handling activities at ports (Institute for Supply Management - ISM, 2020).

A second effect of the pandemic was that shipowners chose to use *blank sailing* (Lesam, 2021). This practice occurs when a shipowner cancels a port call of his vessel or an entire route. Consequently, goods cannot be loaded or unloaded in the ports affected by the cancellation.

## Conclusions

1. *The presence of certain strengths and the degree of resilience to overcome market turbulence suddenly hit by the pandemic characterise the shipping sector in Italy.*
2. *The brief overview described in the study confirms the initial hypotheses ( $H_1$  and  $H_2$  in par. 2).*
3. *The collapse of freight rates in 2008 caught many Italian shipowners unprepared, especially in the bulk carrier segment, as they had made substantial investments that were not in line with market cycles. The consequences of these wrong entrepreneurial choices had worsened the economic-financial performance of the companies ( $H_1$ ). For this reason, many of them had (i) scaled back their investment plans by not withdrawing ships ordered and thus bearing heavy losses or (ii) even declared bankruptcy. This picture follows from the brief review offered on the precarious state of the industry after the second drop in freight rates in 2016 ( $Q_1$ ).*
4. *The innovative investments that should be made by shipowning companies are fundamental to allow operators to seize the opportunities offered by the recovery in demand ( $H_2$ ). The improvement in the performance of Italian companies is confirmed by an examination of the factors that affect the decisive recovery of shipping in Italy in the short to medium term ( $Q_2$ ).*
5. *These can be summarised as follows:*
  - *The first factor concerns the “regional” strengthening of Italy in short-sea shipping in the Mediterranean Sea about to the ferry and ro-ro sectors in which Italy is already a leader (SRM - Studi e Ricerche per il Mezzogiorno 2021).*

- **The second factor represents support measures of the Italian Government introduced during the lockdown. These can be summarised as (i) the possibility of receiving State-guaranteed financing, (ii) the suspension of bankruptcy proceedings against companies already in difficulty, and (iii) a 12-month freeze on the payment of mortgage instalments granted by banks.**
- **The third factor consists of the opportunities offered by the PNRR, which will allow investments aimed at (i) introduce progressive automation of the logistics chain by using robotics and innovative technologies; (ii) reduce harmful emissions caused by the handling of goods, (iii) improve the energy efficiency of ports and (iv) modernise and potential ports with particular attention to those in Central and Southern Italy.**

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