

Executive Summary Annual Report



CHAIRMAN'S REVIEW

The COVID-19 pandemic has shaped the flow of 2020, generating uncertainty and instability worldwide, to the extent of eclipsing relevant events such as the Libyan and Armenian regional crises, the new wave of European terrorism and the US elections.

During the course of the pandemic, many countries have increasingly adopted restrictive containment measures. This has led to a sharp drop in output, a significant increase in the unemployment rate and a decline in domestic and international demand. Oil prices dropped sharply as demand collapsed and storage difficulties arose. Financial markets suffered the same fate.

Unfortunately, the COVID-19 crisis will not be resolved automatically but requires an immediate agreement that acknowledges its long-standing impact.

The commitment of decision-makers, enterprises, seafarers and the personnel of our companies has been crucial to the protection of domestic and international freight and passenger's transport, highlighting once more our role as an essential infrastructure and, more generally, as the backbone of the Italian economy.

In addition to the courage of entrepreneurs and the exceptional professionalism of our workers, it is necessary to point out two essential developments.

The first one is the intervention of the EU, which, perhaps for the first time in its history, has succeeded in instilling in its

citizens a sense of shared identity and politics, going beyond economic interests.

The second one is the effective and timely response of the State. The administrative system has never failed us, thus ensuring, with our active collaboration, the definition of the necessary operational and sanitary protocols, and supporting the sector during the early phases of the emergency.

As a result of our constant pressure, the Government has also given us the extraordinary support that we consider as the first step in the subsidies required to overcome the emergency.

With regard to cruise industry, Italy has been remarkably successful in defining new rules of engagement to deal with the crisis of an industry of vital strategic importance for its domestic tourism. This is confirmed by the law-makers' will to protect a production system that stems from enterprises to seafarers, ports, shipyards and several companies operating in the industry. Cruise industry ultimately demonstrated resilience by changing frameworks and habits, showing how it can prevail over the pandemic, while continuing to protect passengers' health and safety.

We also warmly welcomed the *Piano Nazionale di Ripresa e Resilienza* ("PNRR"), which acknowledges, perhaps for the first time, our industry as a vital infrastructure for the country. Such plan, besides expenditure forecasts for the modernisation of fleets and ferries, shall empower our sector in an unprecedented way.

In the container and (liquid and solid) bulk sector, the pandemic has caused less damage, even though past production levels have not been reached yet. Such sectors will be significantly influenced by the US elections and by governmental policies, especially Asian policies, aimed at guaranteeing state aid to national companies operating in international markets.

Representing the majority of the operators serving the Italian freight and passenger industry, we are aware of our role and fully understand what is going on in our members' port terminals.

We transport goods and passengers with passion and professionalism as we have always done, improving our reference framework during the epidemic and seizing any opportunities in this extraordinary emergency thanks to the expertise and exceptional support of the Italian Institutions.



Stefano Messina
Chairman Assarmatori

2020: "ANNUS HORRIBILIS" FOR MARITIME TRANSPORT

In June 2020, the International Monetary Fund estimated a reduction in global GDP of 4.9% in 2020, with a partial growth potential of 5.4% in 2021. The UN Conference on Trade and Development (UNCTAD) gave a similar picture with a 5% decline in international trade in the first quarter of 2020 and an expected overall decline of 20% for all 2020. Estimates for Italy show a 12.8% decline in GDP in 2020 and a partial recovery in 2021 (+6.3%). Italy is thus among the most affected countries in the EU.

Maritime transport faced the same fate: the number of port calls in the EU fell by 12.5% during the first 39 weeks of 2020 compared to the previous year. The reduction relates primarily to cruise ships, Ro-Pax and Ro-Ro vessels. On the whole, worldwide port calls faced a severe decline, with an overall decrease of 8.7% compared to 2019.

Despite the challenging operating conditions created by the pandemic, shipping companies operating passenger and cargo services in Italy have assured basic necessities and crucial industrial supplies. Likewise, international container services have provided the necessary services while reducing non-essential calls.

The phenomenon that most impacted shipping companies and affected, and still affects, the operation of the services, is the inability to provide crew changes. Such state of affairs was not addressed thoroughly, generating a real humanitarian crisis due to the lack of effective coordination among the European Commission, the IMO and the other Member States, both of the European Union and of the United Nations

Convention on the Law of the Sea. Given the prolonged state of emergency, the national legislator extended the validity of the seafarers' certificates of competency until 31 December 2020, but this action - although helpful - did not solve the problem; this may have serious consequences on the working conditions and health of seafarers.

Cruise services have undoubtedly been the hardest hit by the ban imposed by many countries. Several governments have indeed ordered quarantine measures for vessels coming from "red areas" as a containment measure against the spread of COVID-19, which has led to the progressive closing of ports to cruise ships and the complete shutdown of the sector.

In light of the present situation, shipowners engaged in connections with the major islands did not backed down and have continued to provide sea connections for the transfer of basic necessities. In this scenario, the revenue loss associated with passenger transport alone is estimated to be between 50 % and 60 % compared to the previous year. Since the end of lockdown, ferries have started operating again, although the measures enacted in early November 2020 - again restricting the free movement of people - are expected to have a significant impact on year-end company results.

The collapse in demand proved to be particularly harmful even to short sea-shipping for passengers. After a first drastic reduction in passengers and freight traffic, said services have resumed, at least partially, as a result of the re-opening of the country. In any case, losses for 2020 will be significant, with an estimated revenue loss of over €90 million.

THE RESPONSE OF INSTITUTIONS TO COVID-19: EU AND ITALY

The European Union's response to the epidemiological crisis has been diversified and constant since the outbreak of the crisis. In order to sustain the EU economic recovery, on 19 March 2020 the European Commission first adopted a Temporary Framework for State aid, allowing Member States to prepare measures to support enterprises affected by the crisis.

At the same time, the European Commission proposed to activate the general safeguard clause of the Stability and Growth Pact, which, in the event of a severe economic downturn for the euro area or the EU, offers the necessary flexibility to national budgetary policies.

On 16 March, the European Investment Bank launched a plan to mobilise up to €40 billion of financing, i.e. bridging loans, credit holidays and other measures to alleviate liquidity situation and working capital constraints for SMEs and mid-caps, while on April 2nd, the Commission launched the new SURE initiative (Support to mitigate Unemployment Risks in an Emergency) to preserve jobs and support families.

The European Central Bank then set up a temporary asset purchase programme of private and public sector securities called "*Pandemic Emergency Purchase Programme*", with an initial budget of €750 billion. On 4 June 2020, the ECB decided to increase the PEPP resources by €600 billion.

An agreement was then reached at the Special European Council of 17-21 July 2020 on a comprehensive recovery package, based on the Next Generation EU programme and

the EU Multiannual Financial Framework (MFF) 2021-2027.

Reference is made to a comprehensive package of €1,824.3 billion combining, as mentioned:

- I. The MFF 2021-2027, amounting to €1,074.3 billion, and the
- II. Recovery Fund amounting to up to €750 billion.

The total amount of the programme is, therefore, €750 billion, of which €390 billion will be in the form of grants and the remaining €360 billion in loans. Part of the resources will come directly from the Community budget. For the remaining amount, the Commission is entitled to issue Eurobonds. Overall, Italy secured around €209 billion.

The Italian Government crisis response plan was promptly established and supported the different sectors affected. Given the emergency, recovery has been regulated by emergency decrees and specific protocols. The emergency decrees contained essential measures to support the transport sector such as redundancy fund extension, suspension of tax payments and port operations' fees and exemption from the payment of anchor duties.

The Government's action has not been, and cannot be, limited to the enactment of emergency decrees. The following health protocols indeed proved decisive for the continuity of freight and passenger transport.

HOW COVID-19 CHANGED THE STATE-AID REGIME PARADIGM

By the Communication "*Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak*", the European Commission has provided Member States with a temporary framework to allow them to adopt special aid measures in the context of the COVID-19 pandemic.

The ("PNRR") falls within such framework, which is the first step of the Italian final intervention plan that will be examined by the European Union next spring. The document highlights the environmental, social, industrial and economic objectives deemed worthy of interest in which digitalisation, innovation, the environment, mobility, education and competitiveness are the driving forces behind the Plan.

The political counterpart of the Recovery Fund is that the plans must be such as to secure the achievement of two objectives: the economic recovery after the COVID-19 crisis and the creation of an industrial platform suitable for achieving the climate targets that Europe has set itself (zero net emissions by 2050). The €209 billion due to Italy will be distributed as follows: €81.5 billion in grants and €127.5 billion in loans.

Among the projects included in the PNRR, those having a direct impact on the shipping industry are:

- I fleet renewal: at least 20% of the short-range fleet with more sustainable models (electric propulsion, alternative fuels such as methane and hydrogen);

- II implementation of the "National Cold Ironing Plan"
- III development of hydrogen mobility for both vessels (such as ferries and large cruise ships powered by hydrogen) and port infrastructure (including hydrogen storage and distribution facilities).

It should be noticed that the attention of the PNRR to our sector further confirms the fact that the Government intends to consider maritime transport and the motorways of the sea as an essential infrastructure of the country evenly balanced with the railway and road network. Fleet revision and ecological conversion of vessels will be, therefore, an essential step in the modernisation of the logistic structure of the country.

HOW TO RECOVER FROM THE COVID-19 EMERGENCY

Conscious of the impact of maritime transport on the environment, Italian shipowners want to move quickly and far in their ecological and energy transition. Enabling sustainable technologies and digitisation will challenge us to rethink business models, operating routines, risk assessment and many other aspects of maritime operations. Harnessing such potential requires increased research efforts in a number of disciplines, as innovation is crucial for competitiveness and the creation of future value.

Nevertheless, the transition toward a low-carbon economy is ongoing. Without delay, shipowners are already deploying the available solutions even though the real challenge is to make the transition economically sustainable. It is acknowledged that there will be no single but multiple solutions, each fit for different maritime uses, e.g. the development of a new supply chain of alternative fuels (sulphur-free fuel, LNG, biofuels, etc.) or the establishment of a system to provide shoreside electrical power to a ship at berth. To this end, Assarmatori acts within its ecosystem to ensure that progress is made on all issues, and strives to facilitate the dialogue among shipowners, ports and technology suppliers who propose solutions for maritime transport. “Greening” maritime transportation affects the entire harbour ecosystem, and shipowners need ports to implement such transition.

This inevitable energy transition forces us to reflect in detail on the renewal of the Italian fleet. A valid measure could be envisaged to allow effective refitting of younger units, facilitating the shift to LNG or dual fuel solutions and

installing scrubbers on units using heavy fuel to reduce emissions. It is imperative to emphasise that, many of these resources can be invested, both for the purchase and refit of ships, in Italy, where there are shipbuilding centres and a well-distributed network of shipyards, operating in both construction and maintenance.

In any event, the effective management of the resources of the Recovery Fund will be decisive for recovering the pre-crisis production levels of the shipping industry. In such context, Assarmatori is actively contributing to the ongoing work on the environmental policy concerning the “Green Deal” decarbonisation targets. For the first time, the maritime sector could be included in the EU Emissions Trading System (ETS). Assarmatori drew the attention of European and international institutions to the consequences of such inclusion and is currently working on raising awareness among the Members of the Parliament. Specifically, the Directive on the Emissions Trading System will represent an important obstacle to the renewal of the fleet of several European shipping companies, already weakened by the COVID-19 crisis.

Europe's decision-makers must ensure that EU companies operating in the field of internal transport are on an equal footing at global level in terms of reducing their environmental impact. In other words, shipping is international in nature and it is therefore necessary to ensure that European fleets are not penalised and lose market share. This would be unnecessary from an environmental point of view and would seriously damage

the European marine industry. Similarly, the same global playing level field must be guaranteed to European companies during the entire life cycle of the ship: from design (EEDI) to management (EU-MRV and IMO-DCS), up to its recycling (Hong-Kong Convention and EU-Ship Recycling Regulation).

Moreover, Assarmatori has continued to work on the improvement of the countless laws governing the sector. Such accomplishments can be summarised in a series of amendments introduced by Decree-Law No. 76 of 16 July 2020 on "*urgent measures for simplification and digital innovation*".

Unfortunately, only a few of the proposed amendments have been implemented in the legislation, which highlights the possibility of reopening the debate of the new legislation related to Law No. 30/98 and the necessity to ensure the extension of state aid to the sector of local, national and international transport by Ro-Ro/Ro-Pax ships. Assarmatori has often reiterated the overall value of the existing regulatory framework and, while being aware of the difficulty to issue regulations in a short time, has checked the importance of the relevant provisions already in force, which certainly are a tool for the development of logistics in the shipping supply chain.

Several considerations must be made with regard to the so-called Italian "International Register", following the European Commission's approval of certain measures to support maritime transport in June 2020. The European

Commission confirmed the compliance of the Italian International Register scheme with the existing EU rules. The Commission, however, is now asking for certain changes. More specifically, Italian authorities are required to extend all the benefits of the scheme to all eligible EU companies and ships registered in the EU or EEA. Such changes must be approved by next February.

Given that the original rule deals with the protection of seafarers without making any distinction, the benefits currently due to Italian seafarers (just as to European Union seafarers residing in Italy) on board ships flying the Italian flag should also be extended to seafarers who are on board ships flying the flags of the European Union.

It is therefore not a question of pure principle, it's all about reasoning on whether the time has come to change course by taking to heart (also) those Italian seafarers whose cost, between salary and contributions, is not consistent with the standards of the international maritime labour market.

Assarmatori has devoted a great deal of energy to persuade Italian policy makers to tackle the issue of unemployment in a systematic way and the measures that the Italian Government is required to transpose into our legislation are a unique opportunity to address this challenge once and for all.

This is directly linked to the training of seafarers. The ongoing training of shipping companies' personnel - not only seafarers - is the backbone of the future of such companies. In an area where artificial intelligence and self-managed

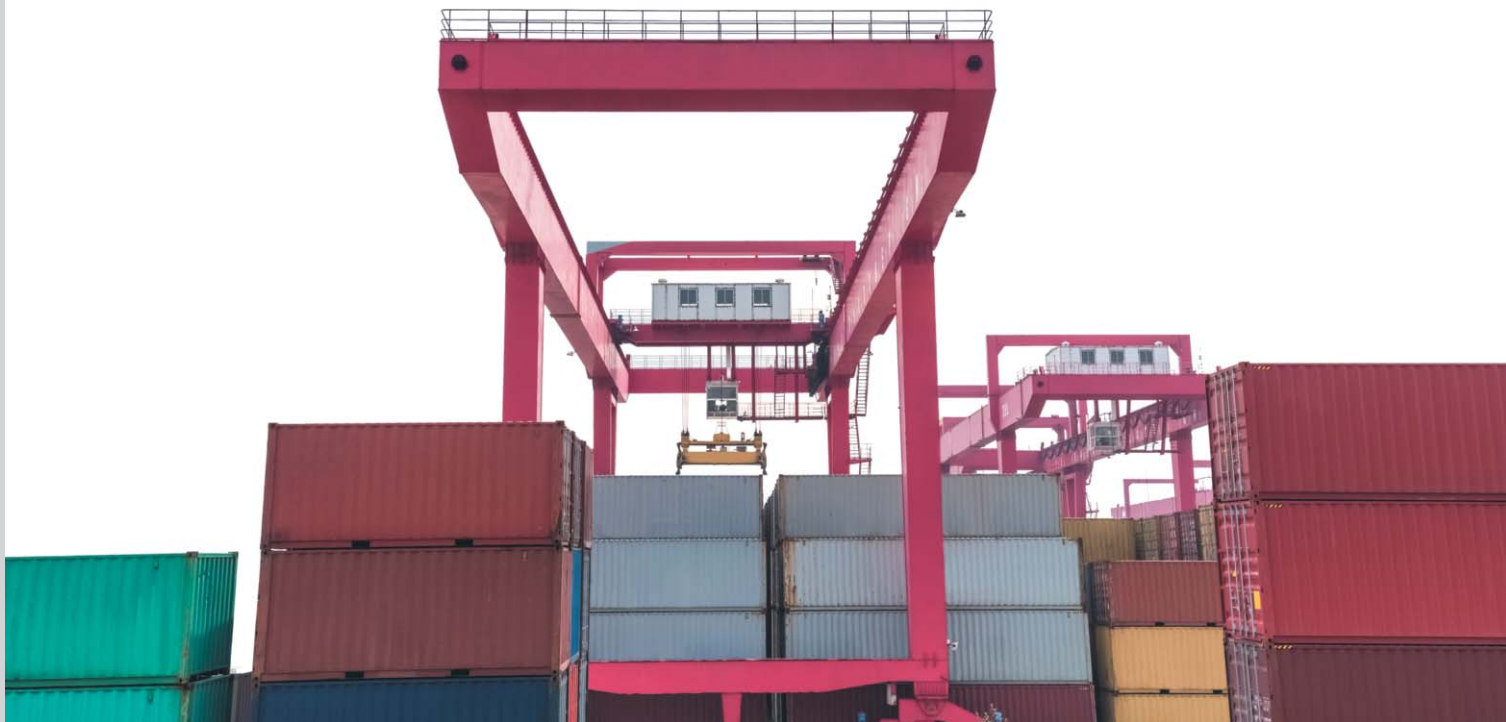
ships are being considered, Assarmatori is working on the integration of young seafarers in order to promote the enhancement of maritime careers through the continuous professional training of shore staff and seafarers.

Except for the inventory of hazardous materials, imposed on European and non-European vessels operating in European ports, European vessels are disadvantaged as they may be dismantled in relatively few European yards.

Europe has indeed ceased to have a significant and

competitive ship dismantling industry due to the high costs in which shipowners may incur. As a result, vessels are sent to the many non-EU shipyards that are already compliant with the Hong Kong Convention, bringing profits to companies that usually carry out this kind of activities even when in breach of the requirements on safety of workers or the environment.

From this point of view, the European Union must speed up the shipyard certification process in order to defend of the EU ship recycling industry.



THE FIGHT AGAINST PIRACY: OUR RELATIONSHIP WITH THE ITALIAN NAVY

Piracy continues to be a severe concern for international shipping in some regions of the world: attempted armed attacks of piracy against ships have been carried out in the course of this year leading to violent actions.

The activities of the Italian Navy are taking place in this global scenario, where there are increasing areas at "risk of piracy", with a focus on the Gulf of Guinea. However, it is worth noting that attacks have been launched even hundreds of kilometres away from the coast, demonstrating a remarkable operational capability and the continuous need for the EU and international navies to carry on with their oversight activities.

Almost no ship remained safe: bulk carriers, container ships and tankers, but also gas carriers and RO/RO vessels were the most affected. The presence of international military navies, under the leadership of the Italian Military Navy, and the possibility of armed surveillance onboard ships have been an effective deterrent.

In this context, Assarmatori has always advocated, at every institutional level, for the support of our military ships on the most endangered merchant routes while insisting on an increased exchange of information between the Navy and the national shipping industry. Indeed, the daily information provided to our shipowners in real-time by the Navy is of fundamental importance in terms of safety.



THE COMMITMENT: SHIPS FOR MIGRANT ASSISTANCE

In the midst of the COVID-19 emergency, the migration phenomenon in the Mediterranean continued relentlessly, leading Italy to face more migratory flows than the previous year. The result was the failure of the accommodation capacity of the migrants' reception centres and the serious health risk that resulted amplified by the potential spread of the coronavirus in such crowded environments.

To address the crisis, in mid-April the Government decided to establish a quarantine service for migrants on vessels. To this end, the Italian Ministry of Transport and Infrastructure has provided a list of Italian and/or European Union flagged ships for such missions.

In this circumstance, our companies responded with immediacy even though crews would be exposed to several risks as the presence among migrants of dangerous individuals cannot be excluded and the risk of being excluded from ports is real.

Generally speaking, what has emerged in recent years is that national and international regulations are inadequate for managing said phenomenon, which should be dealt with more specifically from an operational and legal perspective.

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