



The Council Report to the Annual General Meeting

English Version

TABLE OF CONTENTS

1 THE ECONOMIC OUTLOOK	85
1.1 The inexorable worldwide evolution	85
1.2 The two speeds of the enlarged Europe	85
1.3 The uncertainty of the Italian situation	86
2 MARITIME TRAFFIC	87
2.1 The visible effects of globalisation	87
2.2 The “strategic” role of the sea in Europe	87
2.3 Italia: the season of the Motorways of the Sea.	88
3 THE FLEET AND SHIPBUILDING	88
3.1 The explosion of the world scenario	88
3.2 The potential of Europe	89
3.3 Italian excellence	90
4 THE CHARTER MARKET: STILL IN THE HIGH PHASE OF THE CYCLE	90
5 IN-DEPTH EXAMINATION OF POLICIES	91
5.1 Coastal shipping (Cabotage)	91
5.2 Transport	91
5.3 Ports	92
5.4 Finance and Taxes	94
5.5 Industrial Relations.	95
5.6 Training.	96
5.7 Environment	97
5.8 Safety and Security	99
6 CONFITARMA'S ORGANISATION	100
Young Shipowners	100
SUMMARY OF GRAPHS AND TABLES	101

1 The economic outlook

1.1 The inexorable worldwide evolution

An analysis of the primary indicators of the world economy points to signals of a worldwide trade scenario in continuous revival. 2004 featured simultaneous growth of the GNP, industrial production, maritime trade and overall trade throughout the world, with noteworthy rates of growth.

Production growth shows constant recovery, recording progress that reached the level of 3.6%, as compared to the figure of 2.2% for the previous year.

The most suitable indicator for assessing the ongoing development of "tonnage demand" is the growth of industrial production, which, based on the latest figures, rose at three times the rate for 2003, going from a figure of 1.2% to a growth rate of 3.9%.

In line with the overall trend is the ongoing development of world trade, which, after registering an increase of 4.5% in 2003, continues to rise at a more than rapid rate: +9.5%.

In 2004, international maritime trade showed growth of 6.7%, for a figure, in absolute terms, of 6.540 million tons transported along the routes of global traffic.

The figures on "transportation work", measured in nautical mile/tons, show an increase of 6.9%, reaching the level of 27.640 billion nautical mile/tons, confirming the already intense growth of seven percentage points registered in the previous year.

Three variables are having a special weight on world economic and trade equilibrium: the strength of the Euro as compared to the Dollar, the sudden rise in the price of crude oil and the slight recovery of international financial markets.

A detailed examination of financial markets point to a number of noteworthy factors: in 2004 the Dow Jones index holds steady and seems to return to a stable course after the feat of 2003, when its volume of business grew by approximately 25%; the Nasdaq continues its rally at a healthy pace (+8.5%), though one less energetic than was the case last year (+50%); the MIB 30, on the other hand, shows a more balanced recovery.

The figures for currency exchange rates show a highly distinguishable trend: the results for 2004 essentially confirm those for the previous two years, highlighting the significant, albeit gradual, decline in the value of the dollar, compared to both the euro and the yen.

In contrast, the lack of continuity in variations in the price of oil lend the world economy an image of noteworthy instability and uncertainty in terms of future trends.

The distinguishing characteristics of the global economy bring their weight to bear, with increasing frequency, on emerging markets.

In this respect, the growth rates for industrial production constitute a benchmark for the dynamism of the different economies: of particular note in 2004 were the results for China (+16.3%), Singapore (+16.0%) and Eastern Europe (+11.3), as well as Argentina (+7.8%) and Brazil (+7.7%).

Also remarkable are the production results for the United States – which have left behind the stagnation of last year (+0.3%), registering progress of 4.4% in 2004 – and Japan, which recorded an increase 5.5%.

Observation of the geographic distribution of world trade provides an even more detailed overview of the ongoing development of the global market.

The distribution of international imports and exports points to a slow decline in the powers of attraction of the economically advanced and technologically evolved countries, in favour primarily of the eastern portion of the planet.

The member countries of the OECD (Organization for Economic Co-operation and Development), which, as recently as 1998, could point to 75.1% of world exports and 74.6% of the imports, now hold a mere 69.8% of global output and 72.6% of the input.

China continues its exponential economic expansion, with growth rates that, over the last three years, have never been lower than 20%, shifting the balance of gravity of trade and industrial production in the direction of the Far East.

1.2 The two speeds of the enlarged Europe

The GDP of the new European Union, which consists of 25 member countries starting from 1 May 2004, registers a growth rate equal to 2.3%, essentially the same as the rate recorded by the EU-15 (+2.2%).

Despite the scenario of general economic slowdown, noteworthy progress was made in 2004, within the European framework, by a number of countries that have just joined the Union: Poland (+5.4%) Slovakian Republic (+4.9%), Hungary and Czech Republic (+3.9%).

In quantitative terms, the sea constitutes the leading mode of transport for both exports and imports.

In detail, the contribution of the seagoing mode to EU-25 imports was 67.1% of the total, while the use of sea routes for the flow of export traffic was equal to 71.5%.

The propensity to use the roadway mode is more intense when it comes to outgoing trade than incoming traffic: in fact, imports by land represent only 3.6% of the total, while the contribution of the land mode for exports is more than four times greater (15.8%).

The analytical framework changes when one takes into consideration the dynamics of trade within the Community: staying with this same comparison, the "road" mode of transport is found to be the most frequently used both for purchases (34.8%, compared to

20.9% for the sea mode) and for sales (34.5%, compared to the 19.5% carried out by sea).

The use of the "train" mode proves greater with traffic inside the Community than for trade outside of the EU-25 (with averages of 7.2% compared to 5.3% respectively).

1.3 The uncertainty of the Italian situation

The year 2004 marked a moment of cautious economic revival for Italy. After two years of growth very close to zero (2002 and 2003), there was a 1.0% rise in the GDP.

The result just indicated appears less positive when compared to the growth rates in the EU member nations.

As things currently stand, Italy holds last place, together with Germany and the Netherlands, in terms of percentage increase in the Gross Domestic Product.

Exports appear to be on the rebound, registering, after the negative balances of 2002 (-3.2) and 2003 (-1.9), an encouraging increase of 2.3% for 2004.

Growth in employment was registered at slightly under a percentage point, +0.8% to be exact, which was double the performance for 2003, though the figure falls below the standards for the first three years of the new millennium. And on closer consideration, the quantitative results should be weighted in the light of qualitative considerations, such as the greater tendency towards unstable employment in career paths.

Italy's share of world exports continues to decline, going from 3.90% in 2003 to 3.87% for the first months of 2004. The share of imports has stayed constant, remaining perfectly in line with the level registered in 2003.

Despite the slowdown in percentage terms, Italy moved into seventh place in terms of exports worldwide, after having held eighth place from 2000 to 2003, while its import ranking was stable: seventh place, as in 2003.

Italy's foreign trade by mode of transport proved stable in terms of use of the sea mode, which went from 59.1% in 2003 to 59.0% in 2004.

The roadway mode, on the other hand, showed a noticeable decrease, falling to 21.6%, compared to the figure of 22.8% for 2003.

It should be noted that, since 2001, as part of efforts to simplify trade within the Community, operators that made shipments at a level outside of certain thresholds during the previous year, or that assume that they will record such levels during the year underway, are no longer required to declare the mode of transport, which is entered under the statistical heading of "other".

The computation of imports and exports offers a decidedly positive overview in terms of the performance of maritime trade.

Looking at input movements, maritime traffic shows an upward trend: from the 220.2 million tons transported in 2003 to a figure of 226.7 million tons transported in 2004.

In calculating imports, the quantity of goods and services moved using the roadway mode fell between 2003 and 2004, decreasing by almost one and a half million tons.

Exports showed a mirror opposite performance to imports, presenting a positive balance of three million tons for goods and services moved by sea (from 54.6 in 2003 to 57.6 in 2004), while the balance of trade by roadway remained practically unvaried (from 50.5 in 2003 to 50.4 in 2004).

The value of Italy's foreign trade presents different magnitudes, depending on the transportation procedure utilised and the materials transported.

An immediate analysis of the numerical framework provides a first, significant result: the value in monetary terms of the merchandise transported by roadway (284,255.9 million euro) is almost double the value of the materials transported by sea (149,424.5 million euro).

The strategic contribution and the logistical value added of the maritime mode of transport take concrete form primarily in the economic capital accumulated from the movement of petroleum products, solid mineral fuels and metallurgy products.

Within the framework of an analysis geared towards obtaining the coordinates of the political and economic geography of Italy's maritime foreign trade, there is no mistaking the backwards course of national imports/exports in terms of both resources and economic considerations.

The negative balances would appear to refer, in particular, to the geographic areas where the emerging markets are flourishing: Asia, Central Eastern Europe and Africa.

Italy's balance of maritime trade with North America is different in nature, presenting a positive figure in monetary terms (+10,662.8 million euro) and a partially negative result as regards the goods moved (-4.7 million tons).

The significance of these results can be found in the high value added of the goods exported from Italy, a demonstration, corroborated by the figures for the other continents as well, that high negative balances in terms of weight correspond to decidedly lower negative economic balances.

In the transition from EU-15 to EU-25 Italy makes significant progress in terms of foreign maritime trade, gaining 1.1 billion euro and registering an active balance of 8.0 million tons.

Human resources actively employed on Italian ships of more than 100 tsl total almost 29,000 units. Of these, nearly 65% operate on cargo/passenger ships, 17.2% on liquid cargo ships, 9.4% on auxiliary service ships, slightly more than 9% on dry cargo ships and 0.2% on multipurpose bulk carriers.

The marked propensity of the labour force to concentrate itself inside of vessels engaged in passenger transport is understandable, given that this portion of the fleet accounts for a significant component of the professional offerings tied to services.

2 Maritime traffic

2.1 The visible effects of globalisation

World maritime traffic continues its progressive growth, going from an increase of 5.4% in 2003 to a quantitative consolidation (in millions of tons) of 6.7% in traffic.

The variation in the overall distances travelled points to a stable increase compared to the previous year, at a figure of +6.9% as opposed to +7.0% (billions of nautical mile/tons).

It is interesting to evaluate the track records of average nautical miles travelled per ton: from 1990 to 2004 the average nautical miles decreased sequentially, pointing to a general downward trend along the lengthier routes.

The overall volume of maritime petroleum traffic increased by 7.2% in 2004, after a performance of 5.5% in 2003.

Traffic of crude oil grew by 7.6%, reaching 1.8 billion tons transported, while commercial traffic of petroleum products registered a slightly lower increase, at 5.7%, with 465 million tons transported.

The market share of OPEC (Organization of the Petroleum Exporting Countries) expanded once again, while Russia and West Africa also registered significant growth in their respective capacities for exportation.

Maritime traffic in LNG (Liquefied Natural Gas) showed an upwards trend, going from 125 million tons transported in 2003 to 133 million tons in 2004, while commercial shipping of LPG (Liquefied Petroleum Gas) remained unchanged at 36 million tons for the fourth consecutive year.

In the area of dry bulk commodities it was primarily traffic in iron and carbon minerals that showed growth which points to excellent prospects for future development.

Of particular note is the significant growth in imports of iron ore by China, a trend that is having a favourable effect on exports from Australia and on the volume of Brazilian exports. It is no accident that exports of iron ore from Australia reached 210.4 mt in 2004, for an increase of 12.8% over the previous year, while Brazil brought its level of exports up to 202.7 mt, representing a rise of 8.2% over 2003.

Taken together, Brazil and Australia account for 70% of the entire flow of maritime traffic in iron ore.

Worldwide maritime trade in iron ore was estimate at 590 mt in 2004, as opposed to 524 mt in 2003.

Maritime traffic in carbon showed a positive performance, going from 619 mt in 2003 to 650 mt in 2004.

Carbon exports from Australia reached 224.5 mt, for an increase of 4.5% over 2003, while China's exports for the first 11 months of 2004 showed a slight reversal, calculated at -5.6%.

There was also a mild decrease in the exports of South Africa (-8%), while Colombia, with its increase of 14%, for a total of 51 mt transported, presented stellar results.

The most interesting development shown by the figures for traffic in grain is tied less to the variation in growth, which appears undersized compared to the figures for iron and carbon minerals, than to the significant decline in the average nautical tons per mile registered between 1990 and 2004. This result points to a decline in the range of action of maritime traffic in grain.

Bauxite and alumina show maritime commercial movement that grows by only 4 mt, with an average number of nautical miles travelled per ton that tends to decrease at a constant rate over time.

The situation for maritime traffic in phosphates is more stationary, registering numerical values of 30 mt and 150 billion nautical mile/tons travelled.

Container traffic has grown at a rate of 10% since 2001. Leading the growth in the sector is China, which, in the last year alone, has seen its traffic increase by 18%. Equally strong results were shown by the Asian "Tigers", which closed the year with an increase of 14%. The rates of development in Europe (+6.6%) and North America (+5.5%) pointed to slower growth.

Though the bulk of the growth is traceable to exports from China to Europe and North America, there can be no underestimating the speed with which inter-Asian traffic is prospering.

In 2004, the world cruise market moved beyond the threshold of 13 million passengers, reaching, to be exact, 13,350,000 units.

The key contribution to this trend in the sector would appear to come from the North American market, which registered a rise of slightly more than a million passengers compared to 2003.

The increases registered on the European coasts point to margins of improvement that are no less significant: the cruise sector grew by 140,000 units, making for an overall advance, during the last five years, of slightly more than a million passengers.

2.2 The "strategic" role of the sea in Europe

Maritime routes remain the strategic canal for the internal and external trade system of the European Union. In 2003, 68% of the foreign trade of the 25-member European Union (1,368.4 million tons) and 20.2% of the cargo traffic inside of the Union (576.5 million tons) was carried by sea. The primary effect of enlargement of the Union to 25 member countries will be to redesign the traffic system to and from Germany.

As in the case if the broader worldwide scenario, the prospects for growth of the cruise sector on the European market also appear noteworthy.

Northern European ports present excellent capacity for handling the growth in world maritime trade: Rotterdam, Hamburg and

Antwerp remain at the top of the ranking, with performance ratings, in terms of TEU, distinctly superior to those registered by Southern European ports.

Gioia Tauro has kept step with the Port of Bremen, while Spanish ports have turned in superlative results in the cases of Algeciras, Valencia and Barcelona. Cagliari has earned a place among Europe's 20 leading ports, with a performance that exceeds 500 thousand TEU and an increase of 59.6% in traffic compared to 2003.

The percentage weight of Italian ports out of European traffic as a whole fell slightly: from 15.7% in 2003 to 15.3% in 2004. More worrisome is the decreased percentage weight of Italian ports out of the total increase registered by European ports: only 12.1%, compared to 16.4% in 2003.

2.3 Italia: the season of the Motorways of the Sea

The scenario for container traffic in Italian ports shows signs of weakness: the increase in the cargo moved (not including the item "Others") went from 9.3% in 2003 to 6.5% in 2004.

The downward market trend is probably traceable to the decline in growth of the economically strategic Port of Genoa, as well as the precipitous decreases of the ports of Naples (-19.8%) and Ancona (-14.2%).

The Port of Taranto has seen its growth confirmed (+39.7% in 2003 and +16.0% in 2004), while the revival of the Port of Trieste has become a tangible reality, with an increase of 45.1% in traffic.

Trieste and Taranto are probably the ports which, more than any others, have succeeded in taking advantage of the boom in production activities in Eastern Europe, combined with their favourable geographic positions in the proximity of the Balkans.

Cagliari continues its high-paced growth (+59.7%), while Savona has drawn the attention of the maritime industry as a new protagonist in Italian seagoing traffic (+56.8%).

The Motorways of the Sea appear as a constantly evolving reality within the scenario of national and international transport, continuing to grow at a rapid pace, in expectation of the initiatives which the national government is called on to take in favour of an improved balance between the different modes of transportation and thanks to the constant attention focussed on the sector by the European Community.

In essence, the Motorways of the Sea would appear to have matured an orientation towards globalization that takes the form of a diversification of the various routes, which are thus able to play an increasingly strategic role in the practical formation of the pan-European corridors. New lines have been placed in operation: Civitavecchia - Barcelona, Civitavecchia - Toulouse, Leghorn - Tunis, Palermo - Tunis, Savona - Tarragona and, in the near future, Civitavecchia - Tunis.

3 The fleet and shipbuilding

3.1 The explosion of the world scenario

In 2004 the world fleet numbered 39,932 ships, nearing the threshold of 40,000.

The capacity (dwt) of the world merchant fleet registered an increase of 5.68%, the highest from 1994 to the present.

The size of the international fleet continued to grow, reaching a level of slightly more than 600 million gt.

The world fleet consists primarily of tanker ships and general cargo ships, which, taken as a whole, account for almost 65% of the number of existing ships (tankers: 24.4%; general cargo: 39.1%), in addition to supplying slightly more than 50% of the overall capacity (tankers dwt: 41.5%; general cargo dwt: 10.4%).

Europe and Asia/Oceania control approximately 80% of the world fleet and slightly less than 90% of the total dwt.

The size of the world fleet in terms of the number of ships entered in the 30 leading national registers shows Panama, Liberia, Greece and the Bahamas holding 42.5% of the total dwt.

Hong Kong and the Marshall Islands showed excellent performance, moving, respectively, from eighth to fifth place and from tenth place to the fifth position.

Italy fell to seventeenth place, as South Korea moved ahead of it.

The ranking showing the situation in terms of the control of the world fleet, analysed on the basis of the 30 leading countries in terms of controlled tonnage, shows a number of variations.

Germany and China gained a position, respectively moving from fourth to third place and from fifth to fourth place, to the detriment of Norway, which fell behind both.

Italy confirmed its excellent performance, improving its ranking to fourteenth position, which moved it past India and Saudi Arabia.

The upward trend for the prices of world shipbuilding, which began in 2003, picked up further speed in 2004.

In the Tanker category, prices rose for VLCC (+42%), Suezmax (+31%), Aframax (+37%) and MR prod (+26%).

The price variations for Bulker ships were equally worthy of note: Capesize (+30%), Panamax (+40%) and Handymax (+33%).

More modest price advances were registered on the market for bulk carriers, the sector which, more than any other, suffered the negative effects of the "Chinese blow" that occurred in the middle of the year: Capesize (+12%), Panamax (+8%) and Handymax (+11%).

While it is true that price increases, together with a considerable implementation of demand, have boosted the confidence of ship-

builders, at the same time the worldwide leaders of the shipbuilding industry have been stalled by an unfavourable world economic situation characterised by a sharp drop in the cost of steel and a plunge in the value of the dollar.

This situation has cut away at operating results and led to a decrease in terms of ships constructed, a trend which could continue throughout 2005.

Shipowners, stimulated by the rise in charter prices and low interest rates, have been pressuring shipyards to accelerate deliveries. The capacity of the shipbuilding industry has been expanding, especially in China, while the shipyards of South Korea are increasing their production potential through the application of innovative methods of construction.

The world tanker fleet continues to grow, both in terms of the number of ships, with approximately 150 new vessels in 2003, and as regards dwt, with an increase of almost 6%.

The number of orders to shipyards has risen to a significant extent, along with the capacity of the ships under construction. The number and size of demolished ships dropped sharply, in favour of a vigorous upwards trend in second-hand sales.

The prices of tanker ships, both newly built and second-hand, rose, especially in the two-year period of 2003 and 2004.

The prices of newly constructed Aframax (105,000 dwt) and Suezmax (150,000 dwt) ships climbed between 2003 and 2004 by 69.7% and 59.5%, respectively. Imports of second hand ships in the Aframax (5 years and 95,000 dwt) and VLCC (Very Large Crude Carrier, 5 years old and 280,000 dwt) categories registered extremely noteworthy increase of, respectively, 128.0% and 114.0%.

Taken together, Greece, Japan, the USA and Norway control almost 50% of the tonnage moved by the world tanker fleet.

China has made major progress in the world ranking, moving from thirteenth to ninth place.

Italy, with 240 ships and control of 1.7% of the total dwt, finds itself in sixteenth place.

A significant increase was registered in terms of orders to shipyards for gas tankers carrying LNG, with a percentage variation, calculated in terms of dwt, of +76.9%. Of equal importance was the figure for orders for tankers carrying LPG, which reached the level of +63.9%.

The prices of LNG ships mirrored the growth in demand: the amounts for newly constructed vessels rose, in the last year alone, by 22.6%.

Despite an increase of 12.0% in terms of dwt, the world chemical tanker fleet showed signs of a slowdown: the number of ships decreased, while deliveries of new ships showed a downward trend of -14.3% and orders received by shipyards fell sharply (-66.7%).

In 2004 the world bulk carrier fleet numbered 5,830 ships.

Orders to shipyards rose by slightly more than 8%, while second-hand sales increased by 20.2%. But it was the figure for the delivery of new ships that registered an extraordinary leap: +73.2%, while demolitions dropped sharply: -81.8%.

The prices of new vessels and the cost of second-hand ships showed increases higher than anything ever registered in past years.

A Capesized vessel sized 170 thousand dwt reached a price of \$ 61.0 million US, for an increase of 79.4% compared to 1998, while a second-hand Panamax at 70 thousand dwt and 10 years of age showed a price increase of 235.0% over 1998.

The countries of the East (Japan, China, Hong Kong, South Korea, Taiwan) alone handle 42.0% of the tonnage of bulk shipping.

Making the above figure even more worthy of note are the noteworthy decreases registered by Norway (-23.4%) and the USA (-33.4%).

Italy shows a positive result, with an increase of 5.2% over 2003 and an advance to 14th place in the worldwide ranking.

In measuring the world container fleet, the main contribution to the growth of shipping was made by the "Deep Sea" vessels, which registered excellent growth of +14.5% in 2004.

Italy lags considerably behind in the world ranking, having lost no fewer than four positions (from 21st place to 25th), with a loss of 23.8% in tonnage.

The Netherlands, on the other hand, made a noteworthy contribution to world container traffic, rising eight positions in the world ranking (from 24th to 16th position) while registering growth of +479.2% in terms of controlled tonnage, an increase almost 50 times greater than the growth rate worldwide.

Looking at the world's leading ferry fleets, Italy continues to hold third place in terms of total dwt managed.

3.2 The potential of Europe

In 2004 the European fleet reached a total of 7,698 ships. With the arrival of the new 25-member EU, the situation changes, compared to the earlier ranking based on 15 countries. Malta and Cyprus hold, respectively, 2nd and 3rd place, followed by the United Kingdom and Italy. These five nations alone handle more than three-quarters of the total tonnage.

European shipbuilding activities during 2004 were stimulated by the boom in orders and by the delay registered in deliveries from Asia. What is more, the increase in prices stimulated the implementation of new orders with European shipyards.

The disastrous state of European shipyard activity in recent years finally showed signs of a revival in 2004. The dispute that arose between the European Union and South Korea over alleged illegal subsidies provided in order to benefit the Korean shipbuilding industry was rejected by WTO (World Trade Organization).

Fincantieri is showing an excellent capacity to attract business on the large cruise-ship market, in addition to registering a noteworthy number of orders for ferries and Ro-Pax. The Italian shipbuilding industry would appear to be headed towards a scenario charac-

terised by noteworthy margins of security.

Croatian shipyards continue their positive trend with a further increase in orders. The boom of the Turkish shipbuilding industry is drawing increasing interest in the "small size product carrier market" sector.

Leading shipyards are completing a large number of ships, focussing their attention on standards of quality, and they have initiated a campaign to extend tax incentives on investments.

Polish shipyards obtained new orders during 2004, with "Stozcnia Szczecinska Nowa" covering the entire production output up to the end of 2008. The main problems facing the Polish shipbuilding industry would appear to come not from the list of current orders but rather the prospects for the future.

3.3 Italian excellence

The Italian fleet numbers 1,422 vessels, of which 523 are ships used for auxiliary services, 429 are mixed and passenger ships, 294 are liquid tankers, 174 are dry cargo ships and 2 are multipurpose bulk carriers. The most significant variations were recorded for general cargo vessels, whose number increased by 37.9% in 2004, while the tonnage (gt) grew by almost 30% over 2003. The number of Italian cruise ships rose by 20%, for a total increase in tonnage (gt) of 22.9%. Oil tankers offset the decrease in liquid tankers by growing in number from 105 to 110 units and by registering an increase of 23.6% in tonnage (gt). The lowest results, in terms of growth, were turned in by container and refrigerator ships, which decreased by 20% in number and 13.2% in tonnage (gt) between 2003 and 2004.

The portion of the fleet belonging to Italian navigation companies grew: the portion of the vessels under the control of private ship-owners rose from 93.7% in 2003 to 94.3% in 2004.

The portion of the national fleet belonging to the Tirrenia company decreased by -0.6%.

The Italian fleet successfully continued its renovation effort: 60% of the ships register an age of less than 10 years, compared to the figure of 50% for the world fleet.

The gap between Italy and the world as a whole is decreasing in the intermediate age group: 24% of all Italian ships register an age of between 10 and 20 years, compared to 28% for the world fleet.

The percentage of ships more than 20 years old in the national fleet decreased from 20% in 2003 to 17% in 2004, despite the fact that the equivalent figure for the world fleet stayed at 23% (the same level as the previous year).

The number of ships delivered between 1994 and 2004 rose to 500, compared to the 457 delivered between 1994 and 2003.

There are 36 ships under construction for auxiliary services, plus 20 liquid tankers, 19 mixed and passenger ships and 4 dry cargo ships.

Attention would appear to be concentrated on passenger ships (15 new units are expected) and chemical tankers, 14 of which are under construction.

4 The charter market: still in the high phase of the cycle

The charter market for tanker ships shows a clear-cut upward trend, with the highest growth margins being concentrated in the last quarter of 2004.

The increases registered for charters of LPG ships appear significant. Of particular note is the considerable variation in the charter market for MHI (Mitsubishi Heavy Industries Ltd) 78K CBM (cubic metres) LPG ships, which exceeded a rate of US \$ one million monthly (a figure recorded in the last two months of 2004).

Progressively positive variations occurred throughout 2004 for the chartering of Ethylene 7-8K CBM LPG ships, whose rate at the end of the year was US \$ 500,000 a month, a figure unmatched between the year 2000 and the present.

A strong revival was also observed on the market for the chartering of chemical tankers. On all the routes chosen to obtain examples of the results, the growth was found to be fluctuating but solid.

After starting off 2004 with a very positive result (7.599), charters for dry cargo ships, calculated on the basis of the Average Baltic Capesize Index, initiated a downward trend that continued for the next 5 months. Not until the second half of 2004, did the index begin moving in a positive direction once again, eventually reaching the figure of 7.649.

From the end of 2003 to the end of 2004, the amounts for container ships of the types Feedermax 725 teu grd and Handy 1700 teu grd essentially doubled.

5 In-depth examination of policies

5.1 Coastal shipping (Cabotage)

At the end of 2004, a major step forward was taken for the coastal shipping sector.

Under a memorandum issued by the Ministry of Infrastructures and Transportation on 21 December, the percentage of exemption from the social security payments due to the INPS and IPSEMA institutes was raised from 25% to 50% for the two-year period of 2004-2005.

This exceptionally important measure made possible a significant increase in the competitiveness of all ships active in national traffic, especially on a regional level, and entered in the Ordinary Italian Register.

5.2 Transport

Bunkering

A Bunkering Workgroup was organised in 2004, turning out the First Report on Maritime Bunkering in Italy.

The study highlights the size of the sector, which, each year, moves approximately three million tons of bunker in the sixteen ports outfitted for this service.

On account of the fact that costs in Italy are higher than in other European ports, the country's bunkering sector is not competitive, having benefited only marginally, for that matter, from the advantages received by the Italian fleet as whole from the reform of maritime navigation.

The situation is rendered even more precarious by the recent international and European legislation, and in particular EU Regulation no. 1726 of 2003, which prohibits, starting in 2008, the transport of heavy petroleum products (including bunker) for all single-hull oil tankers with capacities of between 600 and 5,000 tons.

The series of initiatives proposed by the study in order to make Italian bunkering more competitive can essentially be summed up in three points:

- granting of an exemption by the Italian Government covering activities in ports, in order to keep the Italian bunker fleet from being forced out of the market starting in 2008;*
- extension of the measures taken to include units entered in the International Register, so as to reduce the cost of labour and recurring tax costs;*
- the passage of measures similar to those already implemented for larger-size tanker ships under Law no. 51 of 2001, in order to favour the renewal of the fleet.*

The roadway transport advisory board

Confitarma has attended the meetings of the Roadway Transport Advisory Board, both in order to monitor the world of land transport up close and in order to promote the interests of combined maritime transport with regard to establishing a suitable inter-modal balance, promoting maritime lines and establishing an eco-bonus as an incentive for the use of maritime carriers by roadway transport operators.

Ten-T Networks

During the year, the European Union reiterated its support for a reinforcement of the role of short-range transport, as well as its commitment to simplify legislation in the sector, which was recognised as playing a very important role in regulating traffic on the European roadway network and given the status of a priority objective of transportation policy, in light of its positive impact on the economy of the European Union, as well as for the defence of the environment and reinforcement of the objectives of territorial cohesion.

To this end, the most primary measures which the European Commission intends to undertake, in addition to the reduction of administrative expenses, the elimination of customs procedures and the establishment of more effective inspections, definitely include the formulation of effective, clear and adequate modes of financing for the "Motorways of the Sea" and the TMCR lines, making possible optimal complimentary actions, or supplements in financing, for the purpose of starting up new regularly scheduled lines while avoiding any possibility of distorted competition with the existing services.

The above initiatives include the activities of RAM Spa, a company created in March of 2004 by the Ministry of Infrastructures and Transportation in order to increase use of the maritime mode through both the inter-border Motorways of the Sea established by the European Union and the reinforcement of national routes within an integrated system of land-sea transport.

RAM Spa will also be responsible for providing investment incentives, using the funds made available by the EIB – European Investment Bank – funds which, at the end of 2004, were increased to 35 million euro for the 15 countries that already belong to the EU.

Universities

Activities involving contacts, classroom presentations and the coordination of initiatives with the departments of the economics and law of maritime transport of Italy's leading universities continued during 2004, with one objective being a renewed version of the

Sea Master program, under the sponsorship of the Young Shipowners' Group.

Following the positive results obtained in Rome and Genoa, the project, with the support of the newly established Maritime Studies Centre of the Link Campus of the University of Malta, is about to be introduced into other territories, starting with Trieste.

Athens Convention of 1974 – Protocol of 2002

During 2004, problems connected to the implementation of the 2002 Protocol to the Athens Convention on the International Maritime Transportation of Passengers and Baggage were examined.

This protocol is currently being studied by the EU Commission for joint ratification by the member countries and in order to be transposed into internal EU legislation by the end of 2005. The EU Commission intends to extend the new system to passenger transport services within the individual member nations (maritime coastal shipping).

The 2002 Protocol introduced a limit of 250,000 SDR on objective liability for each passenger, while the minimum limits of carrier liability that must be covered with obligatory insurance were raised. In cases of liability as a result of negligence, the limit was raised to 400,000 SDR for each passenger.

In 2005, the subject must be examined closely, given that the nations which ratify the Protocol will have to certify that passenger ships possess an insurance policy that meets the requirements of the measure, as a precondition for the authorisation of commercial activities. Given the confirmation on the part of the International Group of P&I that it will not be able to provide shipowners with the coverage required under the new regulations, making it impossible for them to obtain the necessary liability insurance, implementation of the measure, for all intents and purposes, becomes impossible.

The IMO is currently working to resolve the situation by introducing a legal instrument that would make it possible to modify the 2002 Protocol without having to hold a new diplomatic conference.

The ECSA and the European Cruise Council (ECC) have drawn up proposals for the EU Commission under which the limits on objective liability and insurance would be calculated per passenger rather than on the basis of the maximum capacity of the ship, in accordance with the limits set in the Convention of London of 1976, which went into effect in May of 2004. In monetary terms, the ceiling of 250,000 SDR would be reduced to 175,000 SDR. The DG TREN has declared its willingness to promote this compromise within the IMO, providing that it receives the support of member nations.

In June of 2005, the Commission will adopt a regulatory proposal, as part of the Erika III Package, regarding the transposition of the international measure, with this occurring following the meeting of the IMO Legal Committee in the month of April 2005.

5.3 Ports

Labour

The problem of redundancy benefits for temporary port workers took on particular importance in 2004. This because, based on the intentions expressed by the Government, there would appear to be a risk of these benefits no longer being applied due to a lack of funds. In the case of the IMA indemnity for failed hiring as well, a measure included in the port reform act in favour of this category of workers, the Ministry of Infrastructure and Transportation has not yet issued any rules and regulations for its implementation.

It was not until the end of the year 2004 that the ministry of Labour arranged for the payment to temporary port workers of special redundancy benefits for the year 2005, albeit at an amount 20% lower than the sums allocated for 2004.

Though the Regional Administrative Court of Latium has already passed four sentences declaring that the consolidated ports contract referred to under art. 17, paragraph 13, of Law no. 84/1994 is not applicable to salaried employees of port enterprises, but rather to temporary port workers alone, the Ministry of Infrastructures and Transportation has chosen not to comply with these decisions, preferring to appeal them before the Council of State.

In the second half of 2004, therefore, negotiations were begun for the renewal of the consolidated contract applicable to all salaried employees of port enterprise and port authorities: negotiations that concluded in March of 2005 with an average salary increase of approximately 10%.

Reform Act no. 84/1994

The Italian Parliament, though it acknowledges the validity of Law no. 84 of 28 January 1994 and the contribution made by this measure to the revival of national port activities, has nevertheless decided to update the law, in consideration not only of the changes that have occurred in the constitutional and administrative scenario (the introduction of areas of regional autonomy), but also of the need to make the law more responsive to the new operating needs of the country's ports.

Both the 8th Commission of the Senate and the 9th Commission of the Chamber of Deputies have begun moving along these lines.

While the 9th commission of the Chamber of Deputies has initiated an informative investigation of the subject matter, the 8th Commission of the Senate has presented a number of legislative proposals assigned to a special Select Committee for examination. The proceedings of this Committee led to the formulation of a consolidated reform text. This project was approved by the majority of the Committee in the month of November 2004 and is now being examined by the Commission for the purpose of final approval.

The main points addressed by the reform may be summarised as follows:

- *new definition of the legal status of the Port Authority;*
- *new classification of ports;*

- expansion of the powers of the President of the Port Authority;
- streamlining of the procedures for the port regulatory plan;
- modification of the distribution of responsibilities and prerogatives between the Port Authority and the Maritime Authority;
- establishment of a system of financial autonomy in favour of the port authorities.

As early as 2003, and to a particular extent during 2004, difficulties emerged with the procedures for the appointment of the presidents of the port authorities, leading the Minister of Infrastructures and Transportation to appoint commissioners to replace the presidents in the case of many ports.

In an attempt to overcome these difficulties, Parliament, with Law no. 186 of 27 July 2004, has added a paragraph 1-bis to art. 8 of Law no. 84/1994, with the objective being to streamline the procedure for appointing the presidents by giving the Minister the option of choosing between three names indicated by the president of the region in question. Should the president of the region fail to select three names, then the Minister may propose the appointment directly to the Government Cabinet.

Directive proposal of the European Commission on port services

Following the rejection by the European Parliament in November of 2003 of the joint project approved by the Committee of Conciliation, the European Commission, in an initiative sponsored by the outgoing Commissioner Loyola de Palacio, passed a new directive proposal on the date of 13 October 2004 regarding access to the market for port services. The new text largely proposes anew the contents of the earlier proposal, with a number of corrections that primarily regard the practice for self-production, the duration of the authorisations and the transparency of state financing in the port sector. This text will follow the co-decision procedure established for the approval of European-Community directives, meaning that it will be presented in the months to come for examination by the European Council and Parliament. On the subject, the Espo, which represents the port authorities, as well as the Feport, which represents the port enterprises, plus the European union organisations have all expressed significant criticism of the proposal, meaning that it may face noteworthy difficulty in the course of the approval procedure.

Waste produced by ships

Following the passage of Legislative Decree no. 182 of 24 June 2003, which implements Directive 2000/59/EC on port systems for the collection of waste produced by ships and loading residues, the land systems meant to receive loads from tanker ships had suspended the collection of washing water and bilge water, on account of art. 2, paragraph 2 of the aforementioned legislative decree, which required them to obtain a special authorisation issued under the provisions of the Ronchi decree: an authorisation held to be excessively costly and overly restrictive in administrative terms.

The suspension of this service gave rise to a very burdensome operating situation for the tanker ships. This problem has been temporarily addressed through the passage of art. 10-bis of Law no. 47/2004, with which the implementation of the aforementioned paragraph 2 of art. 2 is delayed until a specific set of simplified rules and regulations can be issued under the provisions of arts. 31 and 33 of the Ronchi Decree; these rules and regulations are to be enacted no later than 31 December 2005.

A special workgroup was then organised under the auspices of the Confindustria business confederation, with the participation of Confitarma. Operating in close contact with the Ministry of the Environment and the Defence of the Territory, the workgroup is contributing to the preparation of a special set of measures on the aforementioned simplified procedures for the port sector.

The draft of the related decree is currently being examined by the internal service of the relevant ministries.

Towing

In order to complete the rules and regulations disciplining the fee formula for the towing service, as contained in Protocol Memorandum no. DEM3/1589 of 17 June 2003, the Ministry of Infrastructures and Transportation issued two successive memorandums during the year 2004 regarding, respectively, the appointment of brokers assigned to assess the towing market and the determination of the index numbers to be entered in the formula. These memorandums should have made it possible to initiate the preparatory procedures for the fee adjustments requested during the 2004, but a number of difficulties that arise during the preparatory phase resulted in postponement of the procedures to the first months of 2005, after the Ministry had arrived at a negotiated solution of the difficulties in question.

The Ministry held it best, in any event, to organise a roundtable on the subject, in order to address and resolve the problems that had emerged during the first phase of the application of the fee formula through a concerted effort by the parties.

Piloting – Docking – Maritime Consignees

The background work for the renewal of piloting service fees valid for the two-year period of 2005-2006 was concluded at the end of the year. The new fees, which went into effect on 1 January 2005, resulted in an average national weighted increase of +1.87% for the two years in question. What is more, for the first time the fee formula for piloting was subject to a modification meant to reduce the incidence of the amounts for retired pilots on fees. This modification is part of a broader project for revision of the fee system for the piloting service agreed to with the Ministry on the occasion of the background investigation. The project shall be developed and defined in the early months of 2005, in order to be assessed by the Ministry of Infrastructures and Transportation, which must sponsor a legislative modification on the subject in Parliament. It was also agreed that discussions must be held with the Fedepiloti pilots federation during 2005 for the purpose of evaluating the fee formula and drawing up a proposal of fee reductions for maritime traffic that is part of the Motorways of the Sea project, with the results to be presented for assessment by the Ministry by the end of 2005.

As far as the docking service is concerned, a roundtable has been initiated by the Ministry to assess a number of the parameters of the fee formula, an evaluation which should come to a close before the next two-year renewal of the fees.

During 2004, the fees for maritime consignee agents were renewed. The increase was equal to 3.5%, and it will remain in effect through 31 December 2006. The increase did not regard the compensation contemplated for COW. On the occasion of the fee renewal, a number of regulatory modifications were also renewed, first and foremost elimination of the rules requiring shipowners to draw on the services of a single consignee in order to obtain the progressive discounts referred to under art. 14 of the fee decree.

5.4 Finance and Taxes

Tonnage tax

Legislative Decree no. 344 of 2003, a reform of the business tax structure, introduced, as is widely known, a tonnage tax in its consolidated text on taxes of business revenues, meaning a "lump-sum" system of taxation for income generated by operations of maritime navigation, available to taxpayers as a binding, long-term option.

On the whole, this measure appears to be consistent with the objectives of the law empowering the government to reform the tax system, as well as with the related illustrative report, in as much as it confirms the intent to increase the competitive strength of the national system of production by employing a model of taxation in line with the most efficient systems in place in the other countries of the European Union.

It should be remembered that, on the question of state subsidies for maritime transport, the European Commission has drawn up guidelines that promote the use of a lump-sum system of taxation by the nations of the European Union.

The new procedure represented the missing part in the mechanism of subsidy initiatives taken in support of the maritime sector, being capable of – as stated in the government report that accompanies the tax reform – "increasing the competitive strength of the production system through the use of a tax model consistent with the most efficient approaches currently taken in the countries of the EU".

The overall results of the Government's effort to give competitiveness in the maritime sector the status of an irreplaceable factor for the country system as a whole can be considered satisfactory, given that it has placed the Italian system on the same level as the majority of the lump-sum approaches taken in the other countries of the European Union.

This has been done not only because, in what definitely represents a valid reason, the aforementioned European Community guidelines on the matter recommend that there be no imbalances between the different member countries, but also because the Government, in constructing the model, has never lost sight of the importance of reinforcing the roots of our enterprises in the national territory, at the same time remaining convinced of the fact that the occasion offered an ideal opportunity for attracting shipowning interests headquartered abroad to Italy.

In fact, a lump-sum system of taxation, such as the tonnage tax, presents the advantages, with respect to the facilitated conditions of the International Register, of subjecting a reduced amount of the income to taxation while simplifying the procedures for application.

Nevertheless, in order for the new system of lump-sum taxation of maritime enterprises to become fully operative, a decree of implementation must be issued by the Ministry of Economics and Finance. Unfortunately, it is not possible, at present, to foresee how much time this will take, on account of procedural-bureaucratic difficulties that have arisen.

Not until the regulatory framework has been completed will it be possible for the enterprises to evaluate the pros and cons of exercising the tonnage-tax option by essentially determining whether it meets the objectives set under the mandate act and then assessing whether it is competitive with similar measures already enacted by the other countries of the European Union.

At the same time, it is best to note, from this point forward, that a number of adjustments to the current legislative framework of the new procedure can be foreseen, in what can be considered inevitable modifications, given the novel nature of this approach within the context of the Italian tax system.

The most important of these adjustments is definitely an improved identification of the subjective framework, meaning the economic subject around which the new beneficial procedure revolves.

The interpretation of the term "utilisation" provide by the Ministry of Economics reveals the intent of relating the tonnage tax exclusively to the party that carries out the navigation operations – the ship operator in the "strict" sense of the term, so to speak – regardless of the legal title under which the subject possesses the vessel (ownership or chartering).

As a result, any different utilisation (meaning one not tied to the operation of the ship) constitutes an obstacle to obtaining the tax benefits.

On this point, Confitarma, though it agrees that the initial focus should be on the ship operator, has nevertheless pointed out, on a number of occasions and in different forums, that this approach has a limiting effect and, even more importantly, that it does not correspond to the reality of the situation, which often finds shipping enterprises making use of the option of chartering (including ships under foreign flags) in order to deal with certain market situations that call for greater operating flexibility.

It is for these very reasons that the other lump-sum systems of taxation utilised in the European Community, in consideration of these needs, allow navigation enterprises to utilise ships that are managed and operated by other subjects, albeit within predetermined limits.

What the industry hopes for, being interested in having its operating conditions brought fully in line with those of its foreign competitors, is that the scope of application of the subsidy measure may be redefined at the earliest possible legislative opportunity.

Basil 2

With regard to Basil 2 - which, as is well known, is meant to establish a more direct link between the cost and quantity of credit and the effective risk of business enterprises, at the same time promoting more responsible relationships with banks through a more transparent approach by businesses to their economic and financial information - Confitarma has undertaken an initiative in collaboration with the Italian Banking Association, drawing up a Position Paper whose purpose is to throw light on a number of distorting effects that would arise following application of the new agreement.

It has specifically been noted that the classification of certain forms of financing as specialized lending results in treatment that proves more disadvantageous for the normal corporate portfolio.

Such treatment appears unjustified, in light of a series of objective elements that demonstrate the "normality" of the risk tied to the maritime sector, thus justifying "equal treatment" with the corporate segment in general.

In other words, emphasis was given to the concern that the impact of the new rules may further aggravate the economic and operating burdens of our enterprises, with negative repercussions on the industrial sectors that proceed and follow the maritime sector in the overall economic flow as well.

Proposals were drawn up for revision of the scope of application of the Agreement, to be presented to the Bank of Italy and the Ministry of Economics, with the recommendation that they be made a part of the regulatory measures soon to be introduced.

In addition, an informal encounter held at Confitarma headquarters on 10 November 2004 with representatives of the Italian Banking Association, the Bank of Italy and the Ministry of Economics demonstrated the growing awareness of the financial and banking sector with regard to the shipping industry while providing an occasion for a progress report on the implementation phase of Basil II.

Tax lease

Confitarma, in concert with the national shipbuilding industry, is promoting an important initiative in the field of naval investments, in the form of a proposal to introduce into our legal system an instrument of support similar to those found in other European countries.

The effort is inspired by realisation that, although our enterprises are enjoying an especially positive moment in terms of their development, the period is also a delicate one in terms of the evolution of maritime transport within the changing scenario of the international economy.

Today the Italian fleet is young and competitive on the various markets, thanks to the ongoing process of operational internationalisation implemented in recent years through the establishment of the International Register, up to and including the recent measures in support of coastal shipping and in favour of the so-called Motorways of the Sea.

It should be observed, however, that, in the wake of the effort made during the last five-year period, maritime enterprises find it difficult to undertake large new investments.

What is more, there is a widespread conviction, during the current phase, that, what with the shipyards of the countries of the Far East (and Korea, in particular) nearing saturation of their production capacity, a further expansion of the demand for new ships must necessarily bring back into the picture the shipyards of Italy and the rest of Europe, which, following the termination of European-Community support policies, have suffered significantly from the aggressive competition of oriental manufacturers.

In the recent past, countries such as France and Spain have tried out a form of public support for naval investments entitled "tax lease". What is more, the United Kingdom is currently drawing similar measures of support for its shipowning sector.

The Italian tax lease scheme proposal is based on the establishment by investors of an entity, transparent with regard to taxation, that signs a contract for the construction and acquisition of the ownership of a vessel. This is followed by the formulation of a contract for the use of the vessel by a navigation enterprise, with a clause requiring that the navigation enterprise acquire ownership of the vessel within the time period stipulated in the contract.

The subsidiary mechanism revolves around the possibility offered to the financing entity to take depreciation on the vessel according to coefficients that are higher than those currently stipulated, as well as during tax periods preceding that in which the vessel is delivered by the shipyard. In addition, the capital gain obtained at the time of the sale of the vessel to the shipowner is considered irrelevant for tax purposes, resulting in definitive acquisition of the economic advantage achieved.

The significant reduction in the expense that the shipowners are required to sustain for the purchase of the vessel is ensured by the requirement that a portion of the benefit obtained through the higher depreciation rates and the de-taxation of the capital gain be passed on to them, with the exact amount to be determined under the pertinent regulatory measures and with the benefit to take the form of lower fees or a lower redemption price.

The entire process is subject to the authorisation of the relevant branch of the state administration, which must receive the plan for each operation in advance, with an indication of the safeguarded interests to be pursued through the initiative.

5.5 Industrial Relations

Following the modifications made in the law establishing the Italian International Register (Law 30/98), introduced under art. 39, paragraph 14/bis, of Law 326/2003 (the Budget Act for 2004), vessels entered in this Register may take part in coastal shipping services, providing each journey is longer than one hundred nautical miles.

The legislative modification approved in Parliament, as well as Law 30/98, are the result of a joint effort undertaken with the labour organisations that represent the greatest number of workers in the maritime industry on a national level.

In the month of January 2004, meetings were held with the unions, at various levels, to determine the procedures for the signing of the reports on the assessments of conformity needed for the entry of vessels in the International Register.

The union organisations requested in advance the signing of a commitment to employ only Italian/European Community personnel on ships that operate along the routes to Italy's major islands, in addition to confirmation of the embarkation of officers in training, as already contemplated under the earlier agreements.

Relations with the unions organisations have demonstrated the validity of the method of concerted action, which has been the distinctive feature of union relations in our sector for many years.

During the year, fortnightly encounters were held for the entry of new vessels in the International Register.

The increase in the number of ships entered in the International Register is producing major growth in the fleet sailing under the Italian flag, with continuous investments for the construction of new vessels that already place the Italian fleet among the most modern in the world.

But all the above is accompanied by a growing shortage of Italian sailors, and especially of officers. As a result, the demand for non-EU maritime workers shall tend to increase; on many of our ships, they already represent the majority of the crew. The problem of a common language for onboard activities will become increasingly relevant, with the teaching of the English language to Italian sailors becoming an ever more pressing necessity.

To return to contractual topics, during the year 2004 Confitarma reached an agreement with the union organisations, as well as with the Fedarlinea, for the use of apprentice procedures for land personnel, clerical workers and technicians.

In the month of December 2004 an agreement was reached for a renewal of economic terms for the two-year period of 2005/2006 for both seagoing and land personnel. During the negotiations, consideration was given both to the union request and to the parameters stipulated under the Protocol of 23 July 1993, with very little time being needed to arrive at a percentage for a pay increase summarising the two different proposals. As in the past, the non-ideological approach to the negotiations made it possible to reach the agreement without any labour protests and even in advance of the stipulated expiration date of 31 December 2004.

Naturally, the activities also addressed legislative and social-security considerations regarding labour in general and maritime labour in particular: of the total of 200 memorandums circulated by Confitarma, 94 were written to supply companies with timely information on these topics.

The frequent relations with the INPS social security institute and with the IPSEMA make it possible to address and resolve, at times in advance, problems regarding social security. This also means that memorandums of application regarding the shipowning sector can be obtained from the two social security institutes in relatively brief periods of time.

Frequent contact was also maintained with the ministry of Infrastructures and Transportation and with the Ministry of Labour during 2004, especially as regards application of the measures connected with the International Convention STCW '95 for the certification of seafarers, the definition of the final shipowning tables and the specificity of the characteristics of maritime work in terms of working schedules and safety.

During 2004, Confitarma maintained an ongoing relationship with the Confindustria business confederation, especially as regards the reform of the labour market and the transposition into Italian law of European Community directives on labour affairs, which are frequently applied in a special manner in the maritime sector.

During the year 2004, the Industrial Relations Commission met on a bi-monthly basis, addressing, as the occasion arose, the main topics of interest to the sector and those falling under the responsibility of the Commission. Participation in the meetings of the Commission has always resulted in a fair level of attendance on the part of the companies called on to be present.

Internationally Confitarma has continued to take part in the meetings of the ECSA, ISF and ILO, in order to follow the topics on the agendas and promote and defend the interests of the national shipping industry.

5.6 Training

Confitarma has undertaken major initiatives in the area of training, some of which were given practical implementation during the current year.

The most significant initiative, officially presented in the month of April 2005, was the founding of the Italian National Academy for the Training of Cadet Officers for the Merchant Marine.

This is an important project of the Provincial Government of Genoa, and one to which Confitarma has devoted much attention, especially through the interest expressed by the Young Shipowners Group.

The goal of the Academy, which will be headquartered in Genoa, is to improve the professional training of the students who graduate from Italian naval academies.

The course of study alternates periods on land, during which the students may take not only the obligatory courses required under the STCW '95 International Convention, but also courses of specialisation, with periods of sailing that lead to certification as a level-III officer.

A significant feature is the fact that the courses are offered free of charge and that students can participate in the activities of all the Italian Nautical Institutes through residence on the campuses.

Art. 4 of Law 53/2003 reforming schooling activities stipulates that a number of students are to be given the opportunity, during the school year, to alternate periods of classroom study with periods of onboard training.

Here too our companies have provided a wide range of project possibilities, and a significant number of 4th-year nautical institute

students have been able to partake in this interesting experience onboard our ships.

During the year, a number of companies pointed to a shortage of cooks among the crews, as well as a significant overall age increase, making for a shortage of candidates for turnover.

The problem has been brought to the attention of the Ministry of Infrastructures and Transportation, with which consideration is being given to the possibility of recognising periods of kitchen service performed on land as being equivalent to periods of kitchen service at sea.

Another major initiative, scheduled to be completed during the current year, is the holding of courses of specialisation focussed on onboard activities for the job categories of refrigerator technicians, electricians and mechanical, non-commissioned officer positions in which there is a shortage of manpower onboard the ships.

Finally, evaluation is being made of the possibility of holding, together with the Harbourmasters' Offices, a number of courses for the upgrading of radio-telegraph operators, still on active duty in a number of navigation companies, into officers.

5.7 Environment

Issue of the insurance certificate for civil liability for oil pollution caused by hydrocarbons

In January of 2004, the ISVAP (Istituto per la Vigilanza sulle Assicurazioni Private e di interesse collettivo) presented an official request to the P & I Clubs, asking that the issue of insurance certificates covering civil liability for oil pollution, as per art. 7 of the Brussels International Convention of 1969 – London Protocol of 1992, be preceded by a written communication certifying that the Blue Card has been issued.

After intensive negotiations between the ISVAP and the P & I Clubs, coordinated by Confitarma, an agreement was reached at the end of the year calling for the issue of a single original of the Blue Card printed on a special filigree paper, to be used as an instrument of certainty for the insurance coverage.

Improvement of the quality of environmental management

In 2004, the Life Environment project EMAS SHIP, initiated by Confitarma at the end of 2003, with the support of the European Commission, entered its operating phase, consisting of the experimentation of the EMAS rules (the scheme for environmental management and auditing promoted by the European Union) onboard a number of ships, together with the formulation of guidelines for voluntary compliance by maritime enterprises.

Of particular importance among the different activities contemplated under the project is an analysis of the possibilities for integration of the current system for the management of safety and environmental defence, already obligatory for ships engaged in international traffic, with a voluntary system geared towards the systematic collection of data on environmental performance levels and ongoing improvement.

As part of efforts to disseminate, heighten awareness of and publicise the project and its results, the Internet site was created for the purpose of acquainting the general public, both nationally and internationally, with the objectives of the project, its results and possible future developments, all while ensuring that the activities lend themselves to transfer elsewhere.

Sulphur content in fuels – MARPOL Annex VI

In terms of the legislation of the European Union, the newly elected European Parliament continued the second examination of the draft of the directive on the sulphur content of marine fuels, a measure that amends the earlier directive 1999/32/EC. The change in the legislature has also entailed the appointment of a new moderator for the proposal, the Finnish Member of Parliament Satu Hassi of the Green legislative group; it was hoped that Ms. Hassi would make a number of beneficial modifications in the previous draft, something which, unfortunately, did not take place; indeed, the measure passed contrasts with our recommendations.

In fact, a number of parameters regarding the percentage of sulphur in fuels were made more restrictive, while some dates of implementation were moved up. For example, after the first step of 1.5%, which will be made obligatory starting from May 2006, as of 1 January 2010, the fuels used must have a sulphur content of no more than 0.5%; in addition the deadline for the use of fuel with a sulphur content of less than 0.1% for ships docked in ports has been moved up to 1 January 2008 (from 2010).

This development is all the more troubling when one considers that Annex VI of the MARPOL (on air pollution) is about to go into effect, meaning a measure that addresses the same subject matter on an international level – and not from a regional perspective, as in the case of the directive – doing so with regulations and deadlines that are more gradual; what is more, Annex VI makes it possible to create additional SECA areas under the conditions established therein, to say nothing of the fact that the Annex has been approved by all the member countries and is sure to be ratified by all them in the very near future.

Throughout the various debates and parliamentary inquiries, Confitarma has always taken pains to heighten the awareness of our European Members of Parliament with regard to the grave repercussions for the economy and the environment of a number of the directives contained in the draft of the directive, especially those that would contribute to undermining the competitive strength of the cargo/passengers ships and ferries that represent our country's best possibility for a portion of roadway transport onto the sea, and that would suffer a sharp decline in their ability to compete.

It is our hope that these continuous reminders and alarms will lead to at least some of the desired results.

Halon

After a number of years of uncertainty over proper conduct, as a result of the multiple interpretations possible for the text of EC Regulation 2037/2000 on the removal from use of Halon, and especially for Annex VII of the text on "critical use", the guidelines to be followed in eliminating the product in question from use as an extinguishing agent in fire-prevention systems onboard ships have finally been drawn up.

In fact, in a Ministerial Decree of 2 September 2003 that modified art. 2 of the earlier Ministerial Decree of 3 October 2001, the Ministry of the Environment called for Halon to be removed from use according to procedures contained in a specific plan to be presented by the navigation companies, eventually through their industry associations (Confitarma and Fedarlinea) and following the approval of the Ministry.

The plan in question was drawn up and discussed in depth within the associations and finally presented to the Ministry of the Environment. Approval arrived promptly in the middle of February 2005, with this last step marking the conclusion of a less than easy procedure that began in 2000 and continued throughout subsequent and numerous discussions and contacts with our Administration.

This result is important because it was achieved through the pursuit of joint objectives and a shared awareness with our Environmental Administration, in addition to which it finally sets certain dates and modes of conduct for ships still equipped with halon fire-prevention systems: dates and modes of conduct which, as mentioned earlier, the European Community regulations referred to above had played no small part in rendering confused and vague.

Given that the possibility of operating within a well defined regulatory framework constitutes a favourable element for the management of shipping activities, and considering that the time periods set by the plan for removal from use make possible adequate programming of the initiatives, this conclusion has been met with satisfaction on the part of the member shipping operators.

CEM – Sea Emergency Centre

Starting from its official opening on 20 September 2004, the CEM (Sea Emergency Centre) has been in operation at the CONFITARMA headquarters in Genoa, offering to associations members, in fulfilment of its principal task, a centralised system for the collection and management of data on ships, including: the instantaneous position of the vessel, plus the speed, the course and the route covered during the last voyage. Using this system it is possible to transmit the data in question to all interested parties, such as shipping companies, the General Headquarters of the Harbourmasters' Corps, charter operators etc.. In the future, it will be possible to add further options, such as the possibility of visualising various elements of information on the vessel, the cargo and the Company, which, if deemed to be of use, shall be entered in a specific database. The second area of activity, planned but not yet in active operation, will be the supply of a media-consulting service to shipping companies in the event of accidents. This type of assistance will provide the companies with specific professional support meant to deal with maritime accidents in terms of communications as well, an area which, in recent years, has taken on increasing importance.

This type of experience is inherently far removed from the professional skills normally found in a navigation company, and so it is held that support in this sector, agreed to and coordinated on a centralised level, could provide a noteworthy amount of added value to the services supplied by the Sea Emergency Centre.

The ERIKA III Package

The European Commission has initiated consultations designed to lead to the passage of an additional package of measures geared towards reinforcing the maritime safety of cargo and passenger ships: the so-called "Erika III Package". These measures were the subject of two consultation meetings involving the member countries and the industry, and they shall probably be passed by the Commission by the end of June 2005.

The main objectives are:

- I. A proposed directive on the minimum criteria for the flying the flag of a given country. These criteria, based on the IMO resolutions on the subject, would make it possible to establish obligatory standards for the governments of the states whose flag is flown while allowing the Commission and the EMSA (European Maritime Safety Agency) to operate a system of obligatory auditing for EU flags;
- II. At the same time, the Commission intends to make radical changes in the current system of Port State Controls (PSC). The Commission suggests that the "targeting" system be refined through the use of the so-called "black lists", the prohibition against entry in ports and a preferential approach for the state whose flag is flown, in the event that certain conditions are satisfied (auditing);
- III. The Commission proposes that the international standards of the ILO (International Labour Organisation) be transposed into the legislation of the European Community, in order to ensure uniform application in the EU. With enactment of these rules on all EU ships, through their application by the state whose flag is flown, and on ships flying non-EU flags through the mechanism of Port State Controls (PSC), the Commission intends to create a "level playing field" in terms of the living and working conditions of sailors;
- IV. The Commission renews its intention, already expressed in an earlier communication in the year 2002, to intervene in the area of liability and compensation in both the petroleum transport sector (CLC-Civil Liability Convention, IOPC Fund-International Oil Pollution Convention) and in the area of passenger transportation (the Athens Convention 1974/2002);
- V. The Commission makes a number of suggestions for improvements in Directive 58/2002, regarding the monitoring and control of ships, and in particular the procedural rules governing ports of haven;
- VI. Finally, with regard to investigations carried out following accidents, the Commission proposes that a common European methodology be developed, in accordance with the model currently in place in the air transport sector.

5.8 Safety and Security

PSC – Port State Control

After a less than excellent 2003, a year that ended with a number of detentions which, though still falling within honourable limits, was rather high, 2004 saw the Italian fleet rapidly redeem itself, as the year ended with a result that showed significant improvement, at figures that proved extremely satisfying.

It should be remembered that Port State Control – PSC – activities are meant to guarantee, through continuous inspections by the bodies assigned to the task, that the ships respect and maintain high standards of safety; in 2004, Italy confirmed and improved its “standing” on the so-called “white list”, meaning the list of companies deemed to be capable of guaranteeing the highest levels of safety onboard vessels.

We hold that the results achieved in 2004 by our ships – which, having turned in a very low number of detentions (7) for the number of inspections (370) performed, find themselves with an “excess factor”, a quality index used to evaluate the performance of the ships flying a country’s flags, very close to -1 (the best possible result) – are a direct result of the significant effort made by all the subjects involved. The properly instructed and competent crews, the diligence of the shipping offices in formulating strategies, the key function of guidance and stimulus exercised by our Administration, the effective controls applied by the recognised bodies and, last but not least, the continuous urging of our Association to make the maximum effort have all led the Italian fleet to reach the first places on the “white list” of PSC performance levels.

The task now to be faced may be the most difficult yet: maintaining the position achieved. Rather than resting on our laurels, the utmost attention should be paid to the PSC visits made by other Memoranda (for example, “Tokyo Mou”) or other administrations, such as the USCG, with regard to which, at the moment, we cannot point to the same record of success. It is likely that, in the future, these shall become part of a general Mou within which the performances of the ships shall be evaluated.

We are confident that our members will continue their unflagging efforts to ensure that their ships are always operated in full compliance with international conventions.

ISPS code

On 1 July 2004 the new ISPS (International Ship and Port Facility Security) Code, approved by the IMO (International Maritime Organization) in December of 2002, went into effect, introducing a series of obligatory measures applicable to navigation companies, ships and ports and designed to avoid risks tied to acts of terrorism, sabotage and piracy.

The European Union, with (EC) Regulation no. 725/2004 regarding the improvement of the safety of ships and port facilities, has transposed into European Community legislation the IMO measure of 2002 for the purpose of guaranteeing application of the international measure no later than 1 July 2004 for international traffic (vessels for the transport of cargo and passengers) and ensuring harmonised application in the different member states.

This regulation, which regards approximately 43,000 mercantile units throughout the world, specifically calls for the implementation of plans of safety regarding ships, companies and port facilities, as well as the appointment of officials in charge of onboard safety (Ship Security Officers), as well as the safety of individual navigation companies (Company Security Officer) and port facilities (Port Facility Security Officer).

The two innovative aspects of the Regulation lie in the extension of the field of application to include vessels operating as part of national traffic since 1 July (class-A passenger ships), together with their companies and the port facilities that service them, plus the possibility available to the member states, starting from 1 July 2007, to adjust the application of the provisions of the Regulation, following an obligatory evaluation of safety risks, to suit other categories of ships that perform national coastal shipping services (cargo and classes B, C and D passenger ships; in addition, a number of sections of part B (validity of recommendation) of the ISPS Code have been made obligatory.

On the national level, as of the end of 2004, there were 494 Italian ships active in international traffic and possessing an approved safety plan; of this total, 490 vessels have obtained ISSC certification. Looking at the ports, of the 394 port facilities that require a safety plan, 342 have obtained approval, while the approval process is underway for the remaining 52.

The CISM (Inter-Ministerial Committee for Safety in Maritime Transport), established in January of 2003 under the auspices of the Ministry of Infrastructures and Transport, carried out extremely important activities of coordination during the year 2004 involving application of the new ISPS Code in Italy.

The enactment of the new measure has given rise to a series of problems, especially as a result of the scarce improvements made by the majority of ports to comply with the required safety measures.

An especially significant problem is the introduction of an ISPS surcharge by numerous ports and port terminals, a situation that primarily affects container traffic.

Confitarma, working through the Ocean Navigation Commission, is attentively monitoring this problem, in close collaboration with the CSOs of the associated companies.

6 Confitarma's organisation

Heir to a tradition of associations of shipowners and operators that dates back to 1901, CONFITARMA, currently stands as the main industry association in the field of Italian navigation, representing nine-tenths of the country's merchant fleet and grouping together navigation enterprises and shipowners' groups that operate in all sectors of cargo and passenger transport, as well as in the cruise ship sector and with auxiliary traffic services.

CONFITARMA'S objectives include promotion of the development of the Italian merchant marine, the supply of assistance and the safeguarding of the interests of all the member enterprises, representation of the members in dealings with political and administrative authorities, as well as with any public or private entity, national or international, stipulating labour and economic agreements, plus collective bargaining contracts, in addition to representing and defending the interests of the members on issues of labour and economics of both general and specific interest and supplying members with information and consulting.

CONFITARMA belongs to CONFINDUSTRIA and to FEDERTRASPORTO – the National Federation of Transportation Systems and Modes – and it is directly represented on the CNEL – the National Council of Economics and Labour – as well as the IPSEMA – the Social Security Institute for the Maritime industry – in addition to being a founding member of the FEDERAZIONE DEL MARE – the Federation of the Italian Maritime System –, of the SHORT SEA SHIPPING Ufficio di Promozione Italia and of the IDC – Italian Distribution Council – plus the National Logistics Agency.

Internationally, Confitarma belongs to and collaborates with:

- ECSA – European Community Shipowners' Association
- ICS – International Chamber of Shipping
- ISF – International Shipping Federation
- BIMCO – Baltic and International Maritime Council Association
- INTERTANKO – International Association of Independent Tanker Owners
- IMO – International Maritime Organization
- ILO – International Labour Organization
- INTERCARGO – International Association of Dry Cargo Shipowners

CONFITARMA has its headquarters in Rome, a delegation office in Genoa and offices of representation in Naples and Ravenna.

Young Shipowners

The Young Shipowners group was founded on 28 June 1995, after six months of informal activity, in implementation of art. 26 of the confederation by-laws, with the following objectives as an association:

- promoting among young shipowners an awareness of the ethical and social function of free enterprise and of the related responsibilities of the entrepreneur;
- examining in depth topics of far-reaching strategic importance regarding the shipping industry and the maritime system as a whole;
- contributing to the constant effort to keep Confitarma in step with the changing economic and social conditions of the shipping industry, as well as to the training of new candidates for the management of enterprises and the related association activities.

There are roughly fifty members of the Group, including shipowners, the children of shipowners and managers and personnel of the member enterprises directly involved in the business sectors represented by Confitarma.

The Young Shipowners play an active role in the life of the Confederation. Their President is automatically a member of the Board and the Executive Committee, and they are widely represented on the Advisory Commissions that contribute to the development of the main themes of the shipping industry and the maritime system. During the year 2004 the members of the Management Committee also played an active role in the proceedings of the ECSA workgroup.

The Young Shipowners continue to monitor the national government's reform of the school system, and in particular professional growth tied to generational change in shipping enterprises, the majority of which are family owned, while paying attention to the new rules of corporate governance as well. Especially worthy of note is their commitment to supporting the maritime professions, as well as their decisive contribution to the establishment of the first Italian Academy of the Sea in Genoa.