

The Council Report to the Annual General Meeting

English Version

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Preface by Nicola Coccia, President of Confitarma

The shipping industry, thanks to its wealth of highly capable businessmen unafraid to face new challenges and make new investments, registered an extremely positive trend in 2006 as well.

By the end of the year, the worldwide fleet had reached record size in terms of its capacity, moving beyond the billion-ton mark, while the Italian fleet grew by 11% during the year, with additional growth of 5% in the first six months of 2007.

Italy's merchant marine once again ranks among the world's leading fleets: it holds 13th place among the main fleets, with vessels for more than 13.1 million tons; and it stands among the leaders in various sectors of traffic; it also has 225 ships under construction in shipyards in Italy and abroad, making for more than 6 million tons and an investment of over 15 billion euro. Our fleet is a young, technologically advanced one, capable of satisfying the needs of our industrial sector and attentive when it comes to environmental defence and navigation security.

The evolution of the world economic outlook has made our industry the subject of increasing attention from European and national institutions, based on the indications of the European Commission, with a growing awareness in Italy as well of the strategic role of the shipping industry in our country's development and economic wellbeing. It should not be forgotten that more than 90% of world trade is carried by sea, and that the cost of transporting consumer goods on ships accounts for less than 2% of their sales.

The initiation of navigation reform, through the establishment of the International Register, followed by the introduction of the tonnage tax, plus other measures that have allowed Italian vessels to compete on an equal footing with the tough international competition, has drawn an immediate response from Italian ship-owners, in the form of massive investments in the construction of new ships and numerous initiatives of development.

A new form of dialogue has been established, bringing our world closer to that of government authorities while making it easier to inform the general public of our industry's positive results: these successes represent a step forward for the entire Italian system, being the result of the commitment and passion we bring to our work, as well as our determination to create synergies and share our initiatives and projects with the other organisations and institutions involved.

The transport of cargo and passengers, training, tourism, the fight against piracy and measures taken to reinforce security are only some example of the importance of our industry's role for every sector of the country's economy.

But to continue growing we need to aim at a continued renewal of the fleet. Italian ship-owners are also keenly aware of the need to introduce new financial instruments in Italy in order to attract institutional and private investors to the shipping industry, through approaches such as tax lease schemes and naval funds. At the same time, they must be able to count on a simplification of bureaucratic procedures, which frequently hold back development in the industry.

This is why we need political and government authorities that are fully aware, capable of a fruitful give-and-take with the different categories of industry enterprises, so as to enact suitable policies for the sector, in addition to a public administration capable of implementing policy initiatives and legislative measures in the best possible way. The appointment of a Deputy Minister of Transportation with wide-ranging responsibility in terms of maritime navigation was a positive step that has led to excellent results. We need to continue in this direction, further reinforcing the maritime administration, well aware that the seagoing economy is a subject on which both the majority and the opposition coalitions inevitably agree, not having forgotten Italy's grand maritime tradition, which they are determined to defend.

Italian merchant marine in 2006

Navigation and Finance

Thanks to massive investments in new vessels, and the resulting in the movement of enormous financial resources, the Italian shipping industry has taken on the dimensions of a leading industrial sector in the past few years. For this reason, all the different components of the finance industry (banks, mutual funds, private equity, stock markets) are looking at maritime activities from a different perspective.

Orders for new vessels by Italian shipping enterprises are forecast to reach 6, 7 and 9 billion dollars over the next few years.

The shipping industry is working directly with Italy's major banks, in order to create a new relationship: an operating alliance no longer limited to supplying funding, but also able to provide specialised services and professional skills, all at elevated standards of quality, especially in light of the fact that today's shipping industry is aiming at becoming a global operator, extending its range of activities to land as well, in the role of terminal operator and, in the case of the cruise-ship industry, as a tour operator.

The shortage of specific know-how in the management of maritime investments and the relatively closed nature of the market have created a certain "distance" between individual investors and shipping companies, effectively precluding the latter from drawing on a major source of funding on both the Italian and foreign markets.

The flow of financial resources would provide an immediate response to the need to renew the mercantile fleets, making it possible to purchase new ships and upgrade existing ones to the standards of safety and environmental protection laid down under recent European legislation.

To this end, Confitarma holds that, in Italy, in the wake of the successful use of similar financial instruments already introduced in other countries, it would be best to try out innovative approaches, such as naval mutual funds and the tax lease scheme.

This would mark a decisive advance from the traditional model of mortgage financing to innovative instruments capable of involving a wide-ranging pool of investors and financing subjects.

The introduction of specific rules for mutual funds that invest primarily or exclusively in ships or in holdings in shipping enterprises would respond to and reinforce the increasing allure exercised by the shipping industry on the Italian economy, as regards both specialised operators and individual investors, who, to date, have not been given concrete possibilities for channelling their capital towards companies tied to the maritime industry.

In the same way as for the more advanced foreign markets, and in accordance with what is already contemplated for other categories of investments under the Italian system, it would result particularly useful to be able to establish and operate "mutual naval investment funds" presenting special characteristics, in relation to the object of the investments, the distribution of investment certificates to the public and the possibility of taking on debt.

A similar legal instrument would serve as an incentive for one of the most interesting and dynamic sectors on the Italian economic scene. By creating mutual funds that invest in goods and holdings closely tied to the shipping industry, the attention of investors, and especially private individuals, is focussed on a sector of the market already subject, in the past, to legislative measures, though this time with the further purpose of creating an incentive for financial investments by private savers and companies. Maritime mutual investment funds would constitute instruments with which to facilitate the flow of financial resources towards a sector that, on account of its distinguishing characteristics and those of the commercial operators that deal within it, has remained on the margins of the dynamics of investments and financing from private parties. Maritime mutual investment funds would act as "investment catalysers", linking the capital market (all too often characterised by an excessive dispersion of investment objectives, especially on the part of small-scale savers) and the shipping industry (constantly in search of new opportunities for growth, both commercially and, even more importantly, financially).

Additional factors of innovation, compared to the current situation, fuelling the success of maritime funds would include the transfer to the individual participant of certain tax benefits already granted to maritime enterprises. What is more, the investment would be managed with greater efficiency by subjects with proven experience in the sector, thus optimising the yield of the resources contributed or acquired by the fund and, indirectly, the value of the shares in the fund itself.

Also to be considered is the possibility of benefiting from the greater purchasing power generally enjoyed by parties operating at international level in the maritime sector, thus achieving noteworthy economies of scale.

Finally, in the interests of stimulating investments in ships by institutional subjects while reducing the cost of maritime investments, the shipping industry proposes the introduction in the Italian

legal system of the tax lease scheme, an instrument that already exists in other European countries, such as France, Spain and the United Kingdom.

It can also be assumed that, during a phase in which the shipyards of the Far East countries (and South Korea in particular) would appear to have nearly exhausted their production capacity, a further expansion of the demand for new ships would inevitably bring both the Italian and European shipbuilding industries back into play, following a period in which, with the end of European-Community subsidies, they largely suffered from the aggressive competition of the oriental constructors.

Size and composition of the fleet

At the end of 2006, the Italian owned merchant fleet consisted of 1,480 ships of more than 100 gross tons, for a total gross tonnage of 13,144,608 gt distributed as follows:

- ships of more than 1,000 gt: 713 vessels, making for 12,895,551 gt
- ships of from 100 to 999 gt: 767 vessels, making for 249,057 gt

There are also 958 vessels that fall below 100 gt, making for 27,355 gt

Compared to 2005, there was an increase of 3% in the number of ships and 11% in the tonnage. The units entered in the Italian International Register number 567, making for 11,703,530 gt, equal to more than 89% of the Italian-owned merchant fleet. The ships entered in the Ordinary Register number 905, making for 1,401,907 gt, while the number of Italian-owned ships temporarily flying a foreign flag (bareboat charter) currently number only 8, for 39,211 gt (though these ships are an example of the internationalisation of our maritime industry: in fact, the temporary change of flag allows our ships to penetrate foreign markets, especially those of developing countries reserved exclusively to ships flying the local flag).

The portion of the fleet controlled by subjects whose capital is entirely or predominantly private is equal to more than 95% of the total, while the portion controlled by public-sector subjects shows a constant decline.

The Italian fleet confirms its status as a young fleet, both in absolute terms and compared to the worldwide average: approximately 57% of the vessels are less than 10 years old and 33% are less than 5 years old.

Competitiveness of the Italian fleet

The long and complex legislative process which, starting from the end of the 1990's, restored the competitive strength of the Italian fleet had as its cornerstones the introduction of the International Register (with subsequent modifications to take into account the different operating realities) and the implementation of the Tonnage Tax System.

There remain a number of areas, however, where decisive measures should be taken to improve competitiveness in domestic markets, by now fully liberalised and, therefore, open to European competitors.

Sectors such as regularly scheduled regional passenger service, offshore maritime supply service and bunkering are being closely analysed to determine what legislative and administrative measures are best suited to reviving competitiveness.

At the same time, it becomes all the more necessary to resolve the thorny issue tied to the operation of licensed public services on short sea routes already extensively serviced by private shippers and the resulting distortion of the competitive environment.

In order to make the Italian fleet even more competitive, the Commission on "Rules and Competitiveness", established on 14 February 2006 and consisting of representatives of the shipping industry, the Public Administration and experts on maritime law, has pursued its task of analysing national and international maritime laws and regulations that, being obsolete for today's maritime markets, place excessive burdens on maritime enterprises.

Despite the cooperation received to date, the number of reports received and the objectives obtained so far point to the need to reinforce the contribution of the Public Administration on the subject, so as to be able to take action in timely fashion, with respect to international markets.

An issue considered to be of particular importance is the updating of the measures governing certification, not only a practical concern but also one of image, seeing that Italy has been placed in the grey zone by the IMO with regard to application of the STCW (Standards of Training, Certification and Watchkeeping).

A positive development has been the reinforcement of the staff of the Italian Foreign Ministry, and in particular that of the General Department for Italians Abroad and Migratory Policies.

Naval investments and the renewal of the fleet

During the period 1997-2006, were delivered 475 units, making for 6.5 million gross tons, while, at the end of 2006, there were 43 units under construction for Italian shipowners in Italian and foreign shipyards.

It should be remembered that, between the end of 2006 and the early months of 2007, orders were placed for 31 units, roughly 60% of them commissioned to shipyards in the Far East, making for a total investment of more than 2.2 billion dollars.

As part of the conversion of Legislative Decree no. 4 of 2006 on the Public Administration, renewed funding was provided for Law no. 88 of 2001 on naval investments, through whose incentives many ship-owners, in accordance with the European legislation, placed orders for ships to Italian or European shipyards prior to 2000. A number of these units were recently completed, even though they lacked the planned state financial coverage.

Italian foreign trade by sea

The figures for Italian foreign trade for 2006 pointed to a condition of stability in terms of use of the sea transport mode, whose 230.3 million tons of imports and 62.1 million tons of exports accounted for 58% of total trade, compared to the figure of 20% for roadway transport.

36% of Italian foreign trade is carried out with the countries of the European Union, for a total of almost 184 million tons. Of this amount, 16% travels by sea (10% of imports and 23% of exports). In contrast, 49% of trade with the EU (approximately 90 million tons) is carried out using roadway transport.

Balance of trade

During 2006, the marked maritime vocation of Italian foreign trade was confirmed: the overall volume of international transactions involving maritime transport of cargo and passengers is equal to 40% of the total interchange of transport services, registering a figure of 12.322 billion euro, as compared to 18.213 billion euro for all the other transport systems taken together.

Tourism that comes from the sea

In 2006 nearly 6 million cruise-ship passengers moved through Italian ports, for an increase of 15.4% over 2005. Forecasts for the year 2007 call for a further increase of 27.9%.

Italy confirms its ranking as the leading Mediterranean cruise-ship destination, almost doubling the volume of Spain, which ranks second with approximately 4.5 million passengers handled.

According to the statistics of the report "European Cruise Contribution", presented in Brussels in February of 2007, in Italy the cruise-ship industry employs more than 61,000 workers and accounts for direct spending of 2.5 billion euro, of which 1.2 billion are earmarked for investments involving the expansion and modernisation of the fleet. At present, Italian shipyards are working on the construction of 16 of the 35 new cruise ships on order as of the end of 2006, a figure equal to 42% of the new capacity and of the new investments for the three-year period of 2007-2010.

Other expenses sustained by the Italian cruise-ship industry include 72 million euro for commissions to Italian travel agencies, 69 million euro for merchandise supplied by Italian food enterprises, 73 million euro for non-durable goods produced in Italy (for example, fuel and paint), 37 million euro for metal goods and machinery and, finally, 79 million euro for financial and corporate services on the national level.

In 2005, half a million Italians went on cruises. Nearly 1 million passengers boarded ship in the ports of the peninsula, sustaining direct spending of 250 million euro (more than 56% of the total spending sustained by passengers in Italy) on airplane tickets, port taxes, hotel accommodations, food and beverages, excursions and other purchases. More than 3 million passengers passed through Italian ports, spending a per capita average of 73 euro at each stop. Italy's five leading ports – Civitavecchia, Venice, Naples, Savona and Leghorn – accounted for 75% of the total passenger traffic.

While land-based tourism in Italy registered a period of stagnation and the loss of a number of positions in the international ranking to competing countries presenting undeniably inferior resources in terms of nature and the countryside, archaeology, art and culture, the cruise-ship sector, by stressing factors such as safety, efficiency and quality, has met with great success.

In light of these considerations, on 19 October 2006 Italian Deputy Prime Minister, Francesco Rutelli, and the President of the Italian Ship-Owners Confederation, Nicola Coccia, signed an agreement meant to take advantage of the opportunities generated by maritime and cruise-ship tourism, in the interests of favouring a revival of the Italian tourism market as a whole.

Under this agreement, the shipping industry offers its contribute to the revival of Italian tourism, based on its specific experience with cruise-ship operations.

Cruise-ship sailing and, to a certain extent, ferry operations are the only sectors to have successfully experimented and implemented (in the Mediterranean, but especially along Italy's coasts and its cities of art) forms of off-season tourism: over the last four years, the figures for winter cruises have more than doubled.

What is more, the companies that operate cruise ships and ferries draw on advanced methods of organisation and product marketing, achieving penetration on international markets and putting together packages of offerings that take advantage of a number of different products and destinations at once; in addition, they

can point to thorough coverage of international markets.

The cruise-ship companies carry out full-fledged local marketing campaigns in the areas where their ships dock, favouring a concentration of professional skills while guaranteeing to the tourist standards of excellence in terms of quality, reliability and safety, thanks to complex systems of security and user protection, both onboard and onshore.

A further plus is the fact that these companies are present at the major tourist industry events, where tour operators determine flows and put together fully integrated tourist packages.

Ports too play a key role in the development of tourism from the sea, since it appears increasingly evident, that cruise-ship terminals need to ensure the same standards of quality currently found aboard modern cruise ships. Port entities must soon make an effort, especially in terms of organisation, in order to achieve significant results in this sense.

The Green Book on the future maritime policy of the European Union, presented by the European Commission in June of 2006 in order to initiate a wide-ranging debate on the subject, highlights, for the first time, the importance of tourism from the sea.

Under the agreement signed on 19 October 2006, Confitarma has agreed to create and supply innovative instruments able to contribute to the revival of Italian tourism, undertaking to communicate to the National Tourism Observatory precise data on the evolution, results and trends of passenger traffic (cruise ships, ferries and others), as well as large-scale leisure vessels.

With Royal Caribbean having become a member in 2006, adding itself to the other shipping groups active in seagoing tourism, Confitarma today represents all the leading cruise-ship and passenger transport groups operating in Italy.

The Maritime Network, Ports and Logistics

The National Maritime Security Program

On 27 April 2007, the CISM, or Inter-Ministerial Committee for Maritime Security, approved the National Maritime Security Program (PNSM) against intentional illicit actions, the result of a lengthy effort of formulation carried out during 2006, in collaboration with the CSO (Company Security Officers) workgroup of Confitarma.

This program constitutes the operating and regulatory instrument for implementing in Italy the contents of the ISPS Code, together with the European-Community regulations on maritime security.

The fact is that the first draft of the PNSM placed maritime port situations on a par with airports, an approach that had serious repercussions on the entire system of maritime traffic. At the insistence of the ship-owners, the PNSM was adjusted on the basis of the principle of risk assessment, in accordance with international guidelines. As a result, the provisions of the final text of the PNSM will not have a noteworthy impact on the organisational and procedural measures already taken by the shipping companies.

Highways of the Sea

The maritime lines that meet the definition of "Highways of the Sea" present, as of May 2007, an overall weekly offer of almost 445 departures, for more than 750,000 line metres, with respective increases of 14% and 13% compared to the same period of 2006.

The increase is due primarily to a rise in ro-ro transport services to foreign ports and, to a lesser degree, to Sicily, while Sardinia registered a slight decrease, due to the termination of a number of government owned lines.

International connections offer 130 departures per week and approximately 200,000 linemetres, registering an increase of 25% during the last year. Meanwhile, connections with Sicily registered an increase of 15% in terms of line metres offered.

During 2006, in order to provide an incentive for the use of the Highways of the Sea, the shipping industry pressed the case for the start-up of the so-called eco-bonus, based on the program undertaken by the Region of Sicily. On 29 March 2006, the cabinet of the national government, in response to a proposal of the Minister of Infrastructures and Transport, approved a set of regulations for the formulation of procedures for the distribution and supply of funding for the innovation of road transport, the development of logistics chains and the reinforcement of intermodal transportation, with specific reference to the Highways of the Sea, as well as for the development of coastal shipping, processes of corporate restructuring, technological innovation and initiatives to improve the environment. This measure calls for the distribution among the roadway transport enterprises of eco-bonuses amounting to 250 million euro, as incentives for the development of the Highways of the Sea. The aid to roadway transport enterprises amounts to 25% of the cost of transport on the Highways of the Sea already in operation, and to 30% of the cost of transport on the new routes.

The bonus, designed as a reward for external costs avoided through the use of combined sea-road transport, is aimed at trucking enterprises that have the possibility of replacing a portion of the roadway route with an alternative maritime leg, in this way opting for the "sea approach", held to be more environmentally sustainable at European level.

As shown by a study carried out by the "Friends of the Earth" in 1999-2000 (currently being updated) also utilized for the economic analysis underlying the eco-bonus legislation use of the Highways of the Sea can result in noteworthy decreases in external costs, calculated at 133.21 euro for every 100 km of roadway avoided.

The long awaited measure, which is still not operative, would make it possible to free our highways of a convey of trucks roughly 120 kilometres in length every day, meaning a line of travelling vehicles as long as the entire portion of highway between Florence and Bologna, with obvious benefits in terms of reduction of social costs deriving from accidents and pollution.

Subsequent measures have set the list of existing routes eligible for incentives, as well as the criteria for identifying new routes on which the eco-bonus could be utilised. Connections to and from Sardinia are excluded, with the exception of those that link two Sardinian ports, even if they are part of a route ultimately reaching continental Italy.

Figures on port traffic

In 2006, movement of containers in Italian ports showed an increase of approximately 2.7%, for a total of 9.9 million teu. The highest increases were registered in southern Italian ports (Taranto, Naples, Cagliari), while Gioia Tauro showed a decrease of 7%.

Port labour

In February 2006, a hearing was held to examine the appeals presented to the State Council against the sentence of the Regional Administrative Court of Latium, which, in early 2004, had ruled that the national bargaining contract referred to under art. 17, paragraph 13, of Law no. 84 of 1994 applied only to temporary port workers, and not to workers who were salaried employees of other port enterprises or to workers of navigation companies operating on a self-production basis.

In the month of June 2006, the State Council issued four like sentences on the case, confirming the decision of the Regional Administrative Court of Latium and further specifying that the stipulation of the consolidated port contract was not in compliance with the provisions of Law no. 84 of 1994, seeing that the representatives of the port users were not invited to participate in the negotiations, and thus the contents of paragraph 13 of the aforementioned art. 17 were not respected.

On the date of 31 July 2006, the Ministry of Transportation issued a memorandum in which it urged the port and maritime authorities to adjust their rulings to reflect the sentences of the State Council.

At present, the aforementioned authorities would not have appeared to have followed through on the instructions of the Ministry, claiming that they are entitled to administer the matter independently. What is more, a recent meeting held at the Ministry of Labour between the union organisations and the associations of port terminal enterprises brought to the fore the need to modify, as part of the revision of Law no. 84 of 1994, the contents of art. 17, in such a way as to neutralise the effects of the sentences issued by the State Council.

Reform of Law no. 84/1994

With the opening of the new legislature, five legislative proposals were presented to Commission VIII of the Senate on the reform of Law no. 84 of 1994 governing port activities.

At the same time, the Ministry of Transportation began preparing a government legislative proposal on the subject, likely to be presented during the parliamentary procedure involving the reform of the law.

An especially noteworthy development, in light of the above situation, is the signing of an inter-association agreement in April 2007 by Confitarma, Assoporti, Fedarlinea, Federagenti and the national associations representing technical-nautical services. The document identifies modifications to art. 14 of the Law, in the hope that the Government will use it as a reference in drawing up its legislative proposal.

Proposed European Directive market access to port service

In the month of January 2006, the European Parliament rejected for the second time the directive proposed by the Commission on access to the market for port services, forcing the Commission to withdraw the measure definitively on 8 March 2006. This second rejection pointed to the wisdom of abandoning the directive project and examining other regulatory options for orienting policy in the sector.

With this in mind, ESPO (the European Sea Ports Organisation) Conference, held in Stockholm in June 2006, led to a discussion of the Union's future port policy, persuading the European Commission to organise, together with ESPO, a series of conferences on a number of key topics (port financing, sustainable port development, port labour and technical-nautical services, ports and the transport chain, the connection with the hinterland, competitiveness in European ports). There were six conferences in all, the last held in Helsinki on 10 May 2007. At the end of these conferences, the Commission decided to prepare a document on the policy for European ports, indicating the guidelines that are to be followed in the months to come.

Port towing

A political development especially worthy of note is the return to Confitarma of the towing companies which, during the year 2004, had resigned from the Confederation.

After lengthy, complex negotiations, the towing companies belonging to Assorimorchiatori presented requests for readmission in the month of June 2006. Later, in March 2007, the remaining companies, which belong to Federimorchiatori, presented a similar request.

The elements that favoured the return of these companies, establishing once again the conditions for a constructive dialogue, can be traced in the document on strategic guidelines for port policy, approved by the Council of the Confederation on 14 December 2005, stressing concerted action with the associations representing the technical-nautical services, as well as reduction of conflict to a minimum, though with the Confederation free to defend the interests of the ship-owners that use these services.

The appeal to lessen the tensions between the associations not only favoured the return of the towing sector, but also improved Confitarma's relations with the Ministry of Transportation regarding this particular sector.

In June 2006, the Ministry of Transportation, having concluded the first evaluation of the criteria and mechanisms for towing fees set in 2003, issued a memorandum containing updates on the subject, specifically for the purpose of ensuring increased transparency of operating data and of the procedure for controlling fees.

In February 2007, the same Ministry issued another memorandum, in order to clear up uncertainties regarding interpretation by providing additional indications on the correct application of the aforementioned criteria.

Port pilotage

In December 2006, the Ministry of Transportation issued instructions to the Maritime Authorities for the application of the fees for pilotage services performed by pilots in domestic ports, valid for the two-year period of 2007/2008.

Following a lengthy preparatory phase carried out at the Ministry, with the participation of all the national associations representing users and suppliers of the service, as well as that of the General Command of the Harbourmasters' Corps and Assoporti, the fare variations to be applied to the individual ports were identified, resulting, on a national basis, in an average weighted increase of +2.4% over two years.

On the occasion of the fee renewal, as an incentive for the seagoing transport of cargo (Highways of the Sea, Short Sea Shipping), special fares were set for ro-ro ferries, both cargo and mixed, designed and constructed to transport vehicles along connections with the continental ports of the European Union, as well as with Sicily and Sardinia.

In addition, the corrective coefficient for the tonnage of cargo ferries, introduced in 1994 following adoption of the international system of tonnage expressed in GT, was lowered from 0.90 to 0.87.

With regard to the Pilotage Act (the inter-association agreement signed in 2005 on the reform of the pension system for pilots), political initiatives were undertaken to arrive to a rapid implementation of the measure through legislation, since initiative would not imply additional costs for the government.

Docking and mooring

In December 2006, the Ministry of Transportation ordered the update of the fees for the services of docking and mooring carried out in domestic ports by groups of dockers and mooring operators.

The fee variations identified for each port, valid for the two-year period of 2007/2008, have resulted in an average national increase of +2.98% compared with the three years in which the previous fee was in force.

As part of the background work by the Ministry, the commitments undertaken at the time of the previous renewal were enacted and a number of the parameters of the fee formula for the service were evaluated. This evaluation resulted in the insertion of modifications meant to reward operating activities rather than the mere availability of the service. In addition, a maximum ceiling of 72 hours a week was introduced, and it was reconfirmed that the fee would remain unchanged for ships involved in the Highway of the Sea project.

Maritime Agents

In the month of March 2007, the Ministry of Transportation issued a decree indicating the fees for maritime agency valid for the two-year period 2007/2008.

Under this decree, a fee increase of +4% was granted and a number of important modifications were introduced, geared towards eliminating doubts over the interpretation of the application of the compensation due to a ship's agent who serves as the coordinator of the ISPS Code procedures, with it being noted that only an agent who, at the request of the ship-owner, draws up the measures necessary to implement the safety plan in concrete terms is entitled to such compensation.

Ports under the 2007 budget act

Law no. 296 of 27 December 2006 (the 2007 Budget Act) include a number of important measures regarding ports, allocating to the port authorities the proceeds from the government and port taxes on merchandise, plus the anchoring tax, collected in the ports found within their jurisdictions. To complete the project for the financial independence of the port authorities, an inter-ministerial decree will be issued setting a portion of the revenues other than taxes and port duties to be attributed to the port authorities on a permanent basis. In addition, the ceiling placed on infrastructure investments by the port authorities under the 2005 Budget Act was eliminated.

Furthermore, a number of amendments were introduced to art. 5 of Law no. 84 of 1994, in order to overcome the stall in projects for the dredging of ports. To this end, however, the Ministry of the Environment and of the Defence of the Territory and the Sea must draw up a specific decree identifying the methodologies and criteria to be used in analysing the waste materials from the dredging, and this decree has not yet been issued. Finally, the Port Authorities have also been entitled to levy surcharges on taxes, fees and duties to fund the tasks of surveillance and the security services contemplated under the plans for port security.

International Navigation and Maritime Traffic

World Trade and Maritime Traffic

The year 2006 registered noteworthy growth of the world economy, together with vigorous expansion in trade. The GDP rose by 3.7%, showing generalised positive performance, largely traceable to the economic revivals in Europe and Japan, whose growth trends proved more positive than forecast; the economy of the United States continued to show elevated levels of expansion, while the economies of China and India kept up their record rates of growth. Forecasts of future growth were further confirmed by the results registered in the first months of 2007.

The generally positive situation of the economy also had an effect on the expansion of world trade, which registered growth of 8% in 2006, as compared to the figure of 6% for 2005. Europe witnessed noteworthy growth of both its exports and imports, bringing it in line with the significant expansion of Chinese trade and that of other emerging economies, in particular those of the Asiatic area.

With a volume of almost 7 billion tons of cargo transported, worldwide maritime traffic for 2006 registered an increase of 4.8%, higher than the rate for the previous year. The demand for maritime transport services, defined in terms of both quantity and distance, was equal to 30,686 billion ton-miles, showing an increase of 5.5% over 2005.

The breakdown of the loads transported was: 33.4% crude oil and petroleum products; 27.4% the main solid raw materials (iron ore, coal and grain); 1.5% other dry bulk commodities; with the remaining 37.7% consisting of general loads, plus goods carried on ro-ro cargo ships and container ships. The latter showed a constant tendency to obtain increasingly higher market share: in 2006 cargo transported in containers accounted for 13% of all maritime traffic.

The World Fleet

In line with the increase in demand for seaborne transport, the world fleet reached record levels in 2006, registering more than one billion tons of cargo capacity, for a further increase of 7%. The Teu (Transport Equivalent Unit) capacity rose by 14.9%.

According to the statistics of the Lloyd's Register, as of 31 December 2006, the dimensions of the world fleet were 721.9 million registered tons and a carrying capacity of 1.014 billion tons.

Italy rose to 13th place in the ranking of the main national ship registers, while it continued to hold 14th place among the world's leading fleets based on ship-owner control.

Worldwide Shipbuilding

As of 31 December 2006, the world order portfolio for newly constructed ships was 6,908 vessels, making for 208.9 million gt, of which 29% shall be completed by the end of 2007.

In 2006, the leading countries in terms of naval construction were once again South Korea and Japan, whose combined shipyards account for 64% of the orders. Next comes China, with 21% of the orders.

South Korea ranks first in terms of the construction of oil tankers (207 units for crude oil and 162 for petroleum products, making for more than 27 million dwt), container ships (419 units, for almost 22 million dwt), chemical tankers (363 units, for more than 12 million dwt) and gas tankers (203 units, for 12 million dwt). Japan is the leading builder of bulk carriers (460 units, for 41 million dwt) and ro-ro cargo ferries (92, for 4.5 million gt).

Italy holds seventh place worldwide in terms of naval construction and third place among the countries of the European Union, coming after Germany and Poland. It is the leader in the construction of cruise ships, with orders for 13 units (1.4 million gt) and in the construction of mixed passenger/ro-ro cargo ferries, with orders for 21 units (560 thousand gt).

Maritime markets

In general, the year 2006 registered good performance, though at levels lower than those of 2005. The bulk of the traffic was influenced by developments in China, especially in the markets of bulk carriers and container ships. China accounts for 42% of maritime trade in iron minerals, but less than 8.6% of the worldwide demand for oil, a category where the United States, with its 25.1%, continues to be the main importing country.

Crude oil and petroleum products

In 2006, oil prices proved highly volatile, due in part to the impact on prices of variable climatic conditions, as well as extra-economic factors, such as the tension in Iran and Iraq. Finally, the increased bargaining power of OPEC, following the entry of Angola as a member, and the higher margin of increased production, in the event of need, also influenced prices.

For the year 2007, the analysts predict growth of 1.8% in the demand for oil, while the estimated increases for the years 2010 and 2011 are, respectively, 8.2% and 10.5%. The primary causes for this growth will be an increase of 5% in the demand from China and 1.3% in the demand from the USA.

At the end of 2006, the world tanker fleet totalled 374.5 million dwt, for an increase of 3% over 2005, following delivery during the year of 563 newly constructed ships, for a total of 38.4 million dwt.

During the same period, orders were placed for 1,379 units, equal to 93 million dwt. The majority of the newly constructed ships are to be delivered by the end of 2008. In general terms, the tanker fleet is forecast to increase by 6.9% in 2007.

In 2006 the volume of oil shipped by sea showed an increase of 2.3%, for a total of 2.331 billion tons transported, consisting of 1.814 billion tons of crude oil (+1.7%) and 517 million tons of petroleum products (+4.4%). In terms of ton-miles, the increase for crude oil was 277 billion ton-miles (+3%), while petroleum products rose by 125 billion ton-miles (+5%). Forecasts for 2007 call for an increase of 3.8% in seaborne oil traffic, measured in ton-miles.

Looking at the tanker market for 2006, the results for chartering on the majority of routes were very low. At year's end, most of the tanker sectors showed earnings below those for 2006. Charters of VLCC showed an especially sharp decrease, as was also the case for oil tankers for petroleum products and SuezMax. Only Aframax registered improved figures.

Gas

In 2006, the fleet of gas tankers for liquefied natural gas (LNG), numbering 225 units, for a capacity of 27.4 million cubic metres, registered an increase of 17.8% over 2005. At the end of the year, orders for new units at shipyards worldwide totalled 141, for 23.5 million cubic metres.

The fleet of ships used for the transport of liquefied petroleum gas (LPG) rose by 5.1% in 2006, reaching a total of 968 units, for a capacity of 15.2 million cubic metres. At the end of 2006, orders had been placed for 184 units worldwide (7.2 million cubic metres).

The ongoing development of maritime traffic of LNG continued, setting another record in 2006, with a total of 161 million tons transported, equal to an increase of 12% over 2005, while traffic in LPG grew by 8%.

Dry bulk merchandise

In 2006, the bulk-carrier fleet grew by 6.6%, reaching 366.8 million dwt. Orders for the construction of new ships, at 75.4 million tons, showed an increase of 9.3% over 2005, amounting to 19.6% of the existing fleet, while demolitions in 2006 were only equal to approximately 1.3 million tons.

At 2.814 billion tons, the amount of dry bulk merchandise transported by sea in 2006 registered an increase of 5.7% over 2005. The primary reasons are the high level of steel production and the constant growth in the demand for coal, used in heating.

Maritime traffic in iron minerals grew from 652 million to 711 million tons; coal traffic went from 710 to 755 million tons; traffic in grains went from 251 to 262 million tons.

The figures for dry bulk charters in 2006 showed constant increases, due primarily to the strong demand for raw materials on the part of China, especially as regards iron ore.

Containerized cargo

The world container-ship fleet showed an increase of 17.3%, reaching a capacity of 9.5 million teu by the end of 2006. The world's shipyards hold orders for the construction of 4.7 million teu of new container ships, the equivalent of 50% of the existing fleet.

The dimensions of container traffic remain sizeable, with growth of 11.6% in Asian ports, 12.1% in North American ports and 8% in Northern European ports.

The charters market showed lower performance for ships of less than 2,700 Teu. The figures for charters registered constant growth up to April, followed by a significant reduction in the months that followed.

Ro-Ro ships

The extremely positive trend for cargo transported by ro-ro ferries continued in 2006.

The supply of ro-ro cargo ships registered an increase of 7.4%, while those used to transport passengers, a sector in which Italy is the world leader, rose by 2.9%. There was also an increase in the car carriers fleet, which totalled 573 units at the end of 2006, with 38 of these units having been delivered during the year.

Cruise ships

In 2006 the world cruise ship fleet grew by 3%, and forecasts call for the delivery of another 31 new units by 2010. In the ranking of countries with the most cruise ships flying their flag, Italy holds fourth place among the world's leading fleets and first place among the fleets of industrialised countries.

The world cruise-ship market continues to grow, having doubled its size over the last ten years. It is estimated that the number of cruise-ship passengers worldwide totalled more than 14.2 million in 2006, with the figure expected to rise to 18 million in 2010 and 20 million by 2015.

European Shipping and the Union Maritime Policy

The EU fleet and its role in world maritime traffic

The merchant fleet of the European Union continues to play an important role in international shipping.

Statistics of the Lloyd's Register show that, in 2006, the fleet flying the flag of the EU consisted of 14,433 units, making for 196.915 million gt (144.852 million dwt) and accounting for 19% of the transport capacity of the world fleet (20% in terms of tonnage).

For that matter, when the entire fleet controlled by countries of the Union is considered, meaning those flying foreign flags as well, the percentage rises to 37% of the world fleet.

Among the fleets flying European flags, Italy's ranks fourth, following those of Greece, Malta and Cyprus, meaning that Italy ranks first among the leading countries of the European Union.

70% of the foreign trade of the European Union (1.577 billion tons) is moved by sea. And the percentage rises to 90% when the distance travelled is considered as well, with the figures expressed in ton-kilometres.

With its 262,3 million tons, Italy holds first place in the ranking of European seaborne trade with the other major areas of the world.

Next come the United Kingdom (226 million tons), Spain (212 million tons), the Netherlands (185 million tons), France (175 million tons) and Germany (146 million tons).

As far as trade within the Community is concerned, 40% takes place by sea.

Green Book on the future maritime policy of the Union for oceans and seas

On 7 June 2006, the European Commission published the Green Book "Towards the Future Maritime Policy of the Union: oceans and seas in a European vision", the occasion for launching a wide-ranging consultation of the member countries and their public opinions regarding the potential benefits of pursuing development of sector-based and national policies, in order to arrive at the formulation of a maritime policy featuring increased integration.

The Green Book on maritime policy, together with revision, over the medium term, of the White Book on transportation and the communication on logistics, are the most recent examples of a unified policy focussed on the development of the maritime system.

It is most significant that the European Commission has initiated the process of drawing up a new European maritime policy, and one which takes into consideration the existing inter-relations between all the economic activities that, in one way or another, are connected with the sea (logistics, tourism, highways of the sea etc.): the idea is to formulate a "holistic" policy, so as to ensure the development and balance of the European maritime cluster.

This means, first and foremost, that Europe, at its highest institutional levels, must have a clear and concrete understanding of the strategic importance of the maritime system for the economy, with this realisation constituting the starting point for any serious, worthwhile project of maritime policy, be it European or national.

A similar awareness on the Community level should stimulate reflection in Italy as well, restoring the shipping industry to the rightful role assigned to it by globalisation.

The conference held in Bremen from 2 to 4 May 2007 constituted the culmination of a year of lively debate on the contents of a future policy: all the stakeholder voiced their full support of an initiative on the European level, though, naturally, one taken in full compliance with the principle of the subsidiary distribution of power.

The debate on the Green Book showcased the competitive strength of the European maritime industry, whose world leadership has been further reinforced; still, the global competition is strong and experienced, reducing the margin of error for our enterprises, which must succeed in making increasingly wise financial decisions. Stress was also placed on the crucial role, when it comes to maintaining levels of European know-how, of putting into action policies for the development of maritime careers (education and training).

The creation of a Common European Maritime Space, a sort of internal market for maritime transport, inside of which administrative and customs procedures would be simplified, was urged, for the purpose of further reinforcing an integrated policy of cargo logistics.

As for the topic of ports, at the conclusion of the series of six conferences on the future of EU port policy, the European shipping industry emphasised the need to be able to count on a regulatory framework (soft law) capable of stimulating port investments and establishing connections with inland zones, so as to achieve more efficient services. Finally, issues of environmental protection, including the question of atmospheric emissions, were given noteworthy attention, with stress once again being placed on the need to establish international legislation (International Maritime Organization) and enact the measures already in existence.

The Italian government and Confitarma played an active role in this important process, meant to implement a policy of sustainable maritime development while searching for the proper balance between the economic, social and environmental dimensions of shipping activities.

The European Parliament shall express its opinion before the summer of 2007, and the Commission shall issue two publications in October of 2007: one on the outcome of the public consultation and the other on the European vision of the integrated policy, following which proposals for medium and long-term action shall be listed.

Report "Contribution of Cruise Tourism to the Economies of Europe"

According to the results of the report "Contribution of Cruise Tourism to the Economies of Europe", commissioned by the ECC- European Cruise Council, in collaboration with Euroyards, MedCruise and Cruise Europe, and presented in February 2007 in Brussels, the growing popularity of cruise-ship vacations and the numerous cruise ships under construction in European shipyards will have a significant influence on rates of employment, on the creation of wealth and on flows of tourism entering Europe.

The report makes available, for the first time, figures that demonstrate the true economic value and capacity of the cruise-ship sector as a whole at European level.

Direct ship spending by cruise-ship companies, shipyards and passengers in Europe totals 8.3 billion euro, and forecasts call for a 50% increase, up to 12.7 billion, by the end of 2010. What is more, the cruise-ship industry already gives work to 180,000 through the continent, a figure that is estimated to increase by more than 50,000 units, moving past the 250,000 mark by the end of 2010.

Europe's position of worldwide leadership in naval design and construction favours the current trend. It is estimated that, in 2005, the cruise-ship industry as a whole invested 3.1 billion euro in the construction and maintenance of cruise ships in Europe, meaning more than 35% of the total direct spending of the European cruise-ship industry. And forecasts call for this figure to grow by more than a billion euro, reaching 4.4 billion by the end of 2009.

During the next two years, European shipyards shall construct ten large-size ships a year, and they hold orders for more than 95% of the new cruise ships to be built from now until 2010, for an amount of more than 18 billion euro.

Cruises also represent an important source of tourism for European countries. Between 1995 and 2005, the demand for this type of tourist product more than doubled worldwide, going from 5.7 to 14.4 million passengers.

In 2005, 2.8 million passengers boarded cruise ships from European ports, and 90% of them were European citizens. On the average they spent 100 euro each in the port where they boarded the ship, and 50 more euro in each port of call. During their vacations, cruise-ship tourists registered more than 13 million transits in European ports.

By the end of 2010, there should be an increase of 1 million cruise-ship tourists in Europe, with an increasingly massive presence of travellers from the United States, attracted by the American ships stationed in Europe and by the introduction of elegant, new-generation vessels with increased capacity. According to the report European Cruise Contribution, by the end of the decade, there will be more than 3.6 million cruise passengers boarding ship in Europe, bringing the number of passenger transits in the ports of the Old Continent up to 17 million.

Between 1995 and 2005, the number of European citizens who decided to take cruise-ship vacations throughout the globe more than tripled, going from 1 to 3.3 million, and the commissions paid to European travel agencies in 2005 were estimated at 480 million euro. Forecasts call for this rapid growth to continue, with 4 million Europeans taking cruises by 2010 and 5 million by 2015.

Common policy on maritime transport Maritime security

Following approval by the European Commission, in November of 2005, of the legislative proposals of Package III on maritime security, supplementing the two earlier packages of measures (Erika I and II), the European Parliament and Council continued their examination of these same proposals.

Of the seven legislative proposals of Package III, four represent updates to existing regulations, being geared towards improving the prevention of accidents and marine pollution through measures designed to:

- > render the requirements for flying the flag of a member country more rigorous;
- > reinforce the current measures governing forms of classification and control on the part of the State of Arrival (PSC);
- > modify the directives on the monitoring of maritime traffic (determination of sites of refuge).

The other three proposals aim at achieving more efficient treatment of the consequences of accidents through:

- > the establishment of a regulatory framework, harmonised on the European level, for the performance of inquiries on accidents;
- > the transposition into European law of the provisions of the Athens Convention (2002) on the liability of carriers transporting passengers by sea, in the event of an accident;
- > the introduction of civil liability and financial guarantees on the part of ship-owners.

As planned, the European Parliament expressed its opinion on the seven proposals at the end of April 2007, while examination by the EU Council will require more time, given the difficulties that have arisen over certain questions, in particular the Convention of Athens of 2002 and the financial guarantee. In all likelihood, consideration of the proposals will continue during Portugal's term as rotating EU President, in the second half of 2007.

Security and Customs

Regulation no. 648/2005 modified the Community's Customs Code, so as to take into consideration concerns regarding security.

The main modifications are:

- > the requirement that operators provide customs authorities with information on merchandise before its import or export to or from EU territory, referred to as the "European 24 h notice", established in response to the American measure known as the "US 24 h notice";
- > the creation of a statute for authorised economic operators, allowing "reliable" operators to obtain treatment under simplified measures;
- > implementation of a mechanism of uniform Community criteria for risk evaluation.

Working alongside the customs authorities, Confitarma has contributed to the formulation of Regulation no. 1875/2006, which proposes a series of concrete steps, to be taken over a period of two years, for implementation of the measures referred to above:

- > starting 1 January 2007, a common framework for the management of risks is utilised to support the controls of the Customs Authorities based on risk analysis. The risk-management system shall be fully computerised in 2009;
- > on 1 January 2008, the measures on the status of Authorised Economic Operator shall go into effect;
- > starting 1 July 2009, operators shall be required to provide customs services with a summary declaration (EU Cargo advance declaration) for all cargo entering or leaving the customs territory.

The complex, voluminous nature of the regulatory system in question made necessary three years of work on the part of the committees of experts in Brussels. During this time, the national and European shipping industries made known the difficulties of implementation for the sector, asking that the Commission's service reconcile, as best they could, two seemingly "irreconcilable" objectives: guaranteeing greater security (meaning more effective efforts against terrorism, through increased controls of the international supply chain) while, at the same time, looking for instruments able to facilitate trade.

Marco Polo II

With approval of the new financial instrument Marco Polo II, more ambitious than the previous measure (€ 450 million for the period 2007-2013) and geared towards further reinforcing inter-modal operations, reducing roadway congestion and improving the environmental performance of the cargo transport system, the EU is betting that it can transfer, by 2013, a significant portion of the forecast annual aggregate increase in annual roadway traffic, measured in tons/kilometres, to short-sea shipping, railway transport, navigable inland waterways or combinations of modes of transport in which the portions travelled on roads are as short as possible.

The program involves the member countries of the EU, the countries that are candidates to become members, the countries of the EFTA (European Free Trade Association) and the EES (European Economic Space), as well as the neighbouring countries to the east (Russia, Belarus, Moravia and Ukraine), plus the countries of the Balkans and those of the Mediterranean Region.

The objective of the program Marco Polo I was to transfer the growth in international cargo traffic towards alternative modes of transport through three types of actions: catalyst actions, modal shift actions and common learning actions. Marco Polo II reaches even further, setting as its objective a general reduction of inter-

national roadway transport of cargo, while extending its scope of application to two additional areas: the Highways of the Sea and the reduction of traffic. The ultimate goal is to favour the rationalisation of transport operations, logistics and supply chains.

Liner Shipping Competition

In September of 2006, the EU Council unanimously approved the proposal of the European Commission to abrogate the exemption from (EEC) Regulation no. 4056/86 previously granted to the maritime conferences. The Council also called on the Commission to extend application of the rules on competition contemplated in the EC Treaty (arts. 81 and 82), as contained in Regulation no. 1/2003, to short-sea and tramp transport services as well.

Under Regulation no. 4056/86, maritime companies operating routes to or from the EU and organised in conferences had been able, to date, to waive art. 81 of the EC Treaty, which prohibits restrictive commercial practices regarding prices or capacity. Nevertheless, the new regulation, which went into effect in October of 2006, calls for a moratorium of two years, in response to the arguments presented by the industry, meaning that the abrogation shall not go into effect until October 2008, in addition to which the Commission is required to publish guidelines that establish a framework able to replace the maritime conferences. The existing maritime conferences may continue to operate until 2008, but from 2008 onward they shall no longer be allowed to reach agreements on prices and capacity.

To ensure correct application of the new rules for competition in the sector of maritime transport, the services of the Commission and the ELAA (European Liner Affairs Association) are working to ensure that the regulatory framework constitutes a balanced approach, seeing that it plays such a crucial role in the investment policies of ship-owners in both the container and tramp sectors.

Research and Innovation

On 1 January 2007 the 7th Framework Program of the European Communities for Activities of Research, Technological Development and Demonstration (2007-2013) went into effect, followed by publication of the first calls for proposals. Total funding is 50 billion euro for 7 years, approximately 40% more than what was allocated for the 6th Framework Program. It should also be noted that 2.7 billion euro of additional funding was granted to the EURATOM program for nuclear research.

The "Cooperation" Program, with funding of 32.413 billion euro, shall provide support in 10 different areas, including the transportation sector. In the case of the maritime sector, the activities shall take into account the work carried out by the European Technology Platforms (ETP), which shall determine the specific topics to be supported.

Within this overall scenario, an initial result on the national level is the Agreement Memorandum signed in the early months of 2007 by Assonave, Cetena, Confitarma, Rina and Ucina, for the purpose of establishing an organ of technical coordination among all the industrial interests tied to the mobility on the sea of persons and objects, and between these interests and the institutional entities involved in research and training.

On-board labour and training

Maritime employment

At the end of 2006, on-board jobs with the Italian fleet numbered more than 30,500, for an increase of 11% over the previous year, with 20,000 of these jobs held by Italian or European sailors and 10,500 by non-European personnel. With rotation, the jobs in question employ approximately 40,000 sailors. The ratio between personnel on land and personnel aboard is currently estimated at one to five, meaning that the number of jobs on land at the end of 2006 should be approximately 6,000 units.

International maritime convention (ILO)

A new, all-encompassing measure governing labour in the maritime sector was approved by the International Labour Organisation (ILO) during the 94th International Conference on Maritime Labour, held from 7 to 23 February 2006.

The result of four years of preparatory work, the International Maritime Convention, which was approved with 314 votes in favour, none opposed and 4 abstentions, demonstrates noteworthy support on the part of the delegates from 102 countries and the representatives of ship-owners and labour unions, standing as an historic achievement for the maritime professions, seeing that, for the first time ever, a single instrument addresses the working conditions, life onboard and social security on an entire category of workers. This convention opens the way to a new international order of labour, highlighting the ability of the maritime industry, as the carrier and the main beneficiary of globalisation, to react to the threat of social deregulation, an end it is frequently accused of pursuing.

The Convention shall be applicable to all categories of ships engaged in commercial activities, with the exception

of fishing boats and traditional vessels. Along with obligatory measures, this innovative instrument introduces penalties in the event of violations and authorises the blocking of ships that fail to respect the minimum requirements, even if they fly the flag of a country that has not ratified the Convention.

The new document is meant to achieve a number of different purposes: in addition to safeguarding sailors, it attempts to create more balanced conditions of competition by eliminating substandard ships from the market.

The Convention also takes into account the minimum needs for sailors that work on a ship, in terms of working conditions, hours of work and rest, food and lodging, healthcare coverage and medical treatment, plus insurance.

The new document introduces the procedures of rapid amendment for rules and regulations, creating a system for the certification of work by sailors: under the new regulations, ships with a tonnage of more than 500 gt that intend to travel on international routes or make voyages that include foreign ports of call are required to present a "Certificate of Maritime Labour" and a "Declaration of Compliance of Maritime Labour".

National problems issues

The Confederation has been involved in the renewal of the national collective bargaining contracts in the maritime industry, which expired on 31 December 2006, since the early months of the year, producing documentation containing proposals for modifications in the texts of the contracts. This document, discussed at length, stresses the need to reintroduce into the labour contracts the convention for enrolment for set periods of time.

On account of the extended period of time required for the preparation of the union platform, it was not possible to initiate the negotiations for the renewal of the contracts until the end of the month of January 2007. The negotiations, structured with respect to the individual sector, presented certain elements of objective difficulty, especially with regard to the towing sector.

The most relevant topics, on which agreement was quickly reached, were: the initiatives regarding professional training, the start-up of supplementary pension coverage and the need to identify a contractual area for connections with the minor islands.

The negotiations should come to a close by the middle of June 2007.

In the course of the encounters for the renewal of the contracts, a general agreement was reached on the determination of the criteria and of the margins for exceptions to the rules on working hours in the case of short-term trips, meaning those between domestic ports. The understanding shall be stipulated at the same time as the agreement on the renewal of the contracts, which shall also call for participation in a supplementary pension fund on the part of workers who choose to participate.

With regard to application of Legislative Decree no. 108/2005 on the working hours of maritime professionals, contacts continued with the Ministry of Transportation and the Ministry of Labour on problems that could be solved through ministerial memorandums.

In July of 2006, Presidential Decree no. 231 of 18 April 2006, reforming the employment of seagoing personnel, was published in the Official Gazette. Enactment of the measure, which was drawn up without the involvement of either the employers' associations or the union organisations, calls for numerous ministerial decrees to be issued.

Confitarma, together with the other representatives of employers in the maritime industry, has pointed out to the Ministry of Labour the need to suspend application of the measure, emphasising the negative repercussions on the management of labour relations and proposing a roundtable at which to analyse any modifications or additions to the earlier ministerial regarding maritime employment. The problem remains unresolved, until such time as the necessary decisions are made by the Ministry of Labour.

Despite repeated urging on the part of the shipping industry, the Ministry of Transportation has not yet issued the ministerial decrees regarding the new job qualifications and authorisations, or the renewal of adequate certificates. Failure to issue the decrees would have serious consequences for the training activities of the Merchant Marine Academy and would risk compromising the proper operation of the entire system of maritime labour relations.

Professional training

Professional training activities continued during 2006, and in the early months of 2007, with noteworthy results for onboard and land-based personnel.

The numerous initiatives demonstrate the significant attention focussed by the Italian shipping industry on the training of its sailors and land-based personnel, in the interests of having highly qualified personnel man its units, whose technology is constantly advancing.

The Italian Merchant Marine Academy in Genoa is continuing its program for deck and engine-room officer cadets, as well as bursar cadets, with excellent results. The competitive entry examination was given in 2006 as well, and another 100 cadets (60 deck officers and 40 engine-room officers) began their course of training, alternating periods of study and courses at the Academy with periods aboard ship. The cadets at the Academy

number 200 in all, and 15 of them are women. 60% come from the regions of southern Italy (especially Sicily, Apulia, Campania and Abruzzi), 22% come from northern Italy (especially from Liguria, Tuscany and Friuli), and 18% from Central Italy (Sardinia and Latium). Approximately 130 cadets should complete their course of training by February 2008, but for this to be possible, the Ministry of Transportation must issue the decree regarding the 12 months of service aboard ship needed to take the examination to become a navigating or engine-room officer.

Confitarma has also backed the Academy of the Sea in Venice, established by the main local government bodies and meant to train qualified professionals for duty aboard specialised units (gas, chemical and petroleum-product tankers) and placement on the maritime labour market.

Given the success of the experimental course for onboard chefs, held from March to June 2006 for 20 students, 18 of whom graduated, in an initiative organised largely to satisfy the request of the ANPAN – the National Association of Naval Suppliers and Contractors, which had expressed the need for 150 new chefs over the next two years to offset the natural turnover of personnel in this position, 8 training courses have been planned for onboard chefs and mess personnel. These courses, whose students are awarded the title of "Onboard Chef", have already been recognised by the Campania Regional Government, after which recognition from the Ministry of Transportation must be received.

The Chefs School of Naples was opened in May of 2007, and its courses will get underway by the end of June, under the auspices of FORMARE, the National Training Centre for Shipping established by Confitarma and accredited, in May of 2007, by the Campania Regional Government as an instrument for the enactment of initiatives regarding training in the sector.

The ongoing and rapid technological development that has characterised the maritime transport sector in recent years, together with the progressive and constant evolution of the international and community regulatory framework, have highlighted the need for professional figures possessing top-flight cultural and scientific methods and contents applicable to a context in which the globalisation of maritime traffic calls for prompt, adequate responses to the growing demand for security and sustainable development of transport activities.

To this end, on 10 May 2007, on the occasion of the 48 Hours of the Sea, Confitarma, the General Command of Harbourmasters and the "Parthenope" University of Naples signed a convention establishing a 1st level degree course in nautical studies for "Merchant Marine Officers and the Management Personnel of Navigation Companies". The three-year program will be open to a minimum of 20 students, who shall subsequently be employed in the ranks of shipping companies.

On 17 May 2007, Confitarma signed another agreement, this one for the revival of scientific and technological studies in technical institutes, for the purpose of contributing to improving relations between the worlds of education and work while providing training for professional positions, such as that of the non-commissioned officer, which are in danger of extinction, meaning that, in the majority of cases, they are filled by non-Italians.

In response to Memorandum 10/SM of 4 January 2007, in which the Ministry of Transportation ruled that sailors working onboard ferries and high-speed vessels used on national routes must receive specific training in assisting individuals with reduced mobility, a course has been started up, with support from the AIAS – the Italian Association for the Assistance of Spastics – in order to provide sailors with a level of preparation suitable for providing a maximum level of assistance to individuals suffering from reduced mobility and for dealing with emergency situations.

Environmental protection and shipping safety

There is undoubtedly a close connection between environmental issues and all social and economic activities. And this is all the more true for a sector such as the sea, for which the environment represents its working habitat and the foundation of its very existence.

Ship-owners are extremely active in their commitment to the environment, focussing a large part of their entrepreneurial and financial efforts on emphasising this concern by establishing and supporting a procedure whose chief objective is the achievement of sustainable development and the construction of an ongoing dialogue between the production and environmental sectors.

Successful coexistence of ecology, commercial development and technology constitute the present and the future of maritime traffic, representing the economic and cultural paradigm to be used in formulating the next set of models for development and the guidelines for an economic policy able to integrate competitiveness, innovation and sustainability.

Within this context, Italian navigation enterprises are working towards the dual objective of reviving the economy and preserving the state of health of the sea and the territory, through initiatives able to establish a program for the eco-sustainable development of the fleet, so as to take advantage of all the development opportunities provided by the specific characteristics of the maritime sector and by heightening of the sense

of environmental responsibility among ship-owning enterprises.

It should not be forgotten that, unlike terrestrial sectors, the maritime sector does not require the creation of infrastructures, with the environmental impact being limited to certain areas rather than entire corridors within the territory.

The first and most important step being taken by Italian navigation enterprises in the direction of sustainable, environmentally compatible development is the improvement of their companies and ships.

To this end, the "RINA Information Window" began operation on the Confitarma website starting on 1 February 2007. Officially presented on 13 December 2006, this initiative allows shipping companies to obtain timely, clear responses regarding the large number of complex international regulations that govern maritime security and the defence of the environment.

Port State Control

Port State Control is an instrument that allows the administrative authorities of a given country to carry out a series of controls regarding compliance with international regulations of navigation security on foreign ships that dock in its ports.

The ships to be inspected are selected on the basis of a predetermined risk profile (target factor).

In 2006, the fleet flying the Italian flag, with only 10 ships detained out of 415 inspected, consolidated its position on the White List of the Paris MoU, which includes all countries that guarantee high levels of safety for their ships.

In Italy, Port State Controls are performed by officers of the Harbourmasters' Corps – Cost Guard trained for the task at the "Admiral De Rubertis" Centre in Genoa.

In 2006, for the 8th straight year, Italy ranked first, among the member nations of the Paris MoU, in terms of number of inspections performed (only on ships flying foreign flags), the number of shortcomings discovered onboard and the number of vessels stopped.

Emissions – Annex VI to the Marpol 73/78 Convention

Respecting the environment and implementing increasingly rigorous regulations for its defence and safeguarding undoubtedly remain a priority theme.

The year 2006 featured the establishment, on 19 May, of the SECA (Sulphur Emissions Control Area) of the Baltic Sea, in response to the implementation of Annex VI of the Marpol 73/78 Convention. This measure constitutes progress in the effort to lower emissions of SO_x by using fuels with levels of sulphur lower than 1.5% m/m (percentage in weight).

The next step will be the establishment, in November of 2007, of a second SECA area in the North Sea. The establishment of the second SECA area can be considered an introductory phase in the formulation of a more general approach to the highly relevant topic of emissions.

Ships, which are obliged to use hydrocarbons to fuel their internal-combustion engines and boilers, give of, as a consequence, various types of emissions, with the most important being NO_x, SO_x, PM₁₀ and CO₂.

Nitric oxides (NO_x) both favour the formation of ozone and cause methane to decompose. They are formed by excess air and the high temperatures that arise in engines during combustion. Regulatory action had already been taken in 2000, in the form of Annex VI of the Marpol 73/78 Convention, whose NO_x Code introduced precise limits.

Sulphur oxides (SO_x) also have a dual impact: they form compounds that reflect sunlight, favouring cooling, and they also favour the condensation of vapour, causing the so-called "acid rains". Regulatory measures have already been issued on these gases as well, both internationally (Annex VI to the Marpol 73/78 Convention) and by the European Community (Directive 2005/33/EC), setting the allowable limits.

PM₁₀ is a particulate given off primarily by Diesel motors, and it too has been given a maximum threshold. Special attention should be given to carbon dioxide (CO₂), especially in light of the recent media reports alerting public opinion to the extent of this type of emission from ships.

It should be remembered that 90% of world trade takes place by sea, with approximately 50,000 merchant ships transporting every type of cargo.

Given the volume of traffic involved, ships remain the most competitive means of transport in terms of both energy savings and environmental impact.

In fact, research on energy efficiency by the British Government demonstrated that energy consumption for roadway transport is between 0.7 and 1.2 Megajoules/tonne-km, while a tanker ship of 3000 DWT travelling at a speed of 14 knots consumes approximately 0.3 Mj/tonne-km, and a container ship moving at 18.5 knots registers energy consumption of roughly 0.12 Mj/tonne-km.

As for environmental impact, a Swedish study compared the carbon dioxide and exhaust emissions for different modes of transport, once again confirming that the ship is the means of transport that pollutes the least per unit of cargo transported.

It is estimated that CO₂ emissions attributable to maritime and railway transport account for roughly 2% of

total emissions, once again per unit of cargo transported, as compared to 75% by roadway transport and 13% by air transport, with the remaining 10% consisting of miscellaneous and atypical modes (inland waterways, local traffic etc.)

On 26 July 2006, after approximately 33 months of preparation, the project "Shipping with EMAS (European Environmental Management and Audit Scheme)", developed by Confitarma, Cons.a.r, D'Appolonia, Deiulemar and RINA, was presented at the Confitarma headquarters.

The development of innovative methodologies, the reduction of environmental impact caused by navigation, the establishment and dissemination of good practices of environmental management are only some of the actions called for under these methodologies. The results have been placed on a CD ROM distributed not only to Confitarma members, but also to the associations of the other countries of the European Union, in order to promote as widespread a use as possible of this important instrument.

New Annexes I and II to the Marpol 73/78 Convention

The implementation – on 1 January 2007 – of Annexes I and II, as well as that of the revised IBC Code, had implications in terms of both technical and environmental considerations, leading operators to make the necessary adjustments as early as the end of 2006.

New Annex (Regulations for the Prevention of Pollution by Oil)

First and foremost, it incorporated all the different amendments passed from 1983 to the present (including Reg. 13G, Reg. 13H etc.), separating the construction prerequisites from the operating ones and making the distinction between what is required for new vessels and existing ships. New prerequisites are found under Reg. 22 (Pump room bottom protection) and Reg. 23 (Accidental oil outflow performance). Furthermore, the Sea of Oman has been added to the list of "Special Areas under Annex I".

New Annex II (Regulations for the Control of Pollution by Noxious Liquid Substances in Bulk)

The most important change regards the new classification of the substances. Since 1 January 2007, categories A, B, C, D and Appendix III have become categories X, Y, Z and OS (Other Substances); as an immediate consequence, a large number of products which, before the change, could be transported with single-hull tanker ships, must now be carried by chemical tankers. In particular:

Oil-like substances: can be transported only with chemical tankers that meet the Chemical Code, and the residues are classified as chemical substances.

Vegetable oils: must be transported with chemical tankers that meet the prerequisites for ship type 2. The Administration may allow certain vegetable oils to be transported by ship type 3 vessels whose loading zone is basically protected by a double hull. A number of limitations have also been introduced on dumping water from washing and stripping at sea.

The new IBC Code

The Code has been totally revised, primarily to bring it in line with the new classification of substances in Annex II of the Marpol. In particular, the new chapters 17 and 18 contain the prerequisites for bulk chemical products.

Security

The commitment of the shipping industry to operating quality grew even further, especially with regard to tanker ships used to transport hydrocarbons: in fact, the introduction of the TMSA (Tanker Management Self Assessment) made necessary additional improvements in all the existing procedures already required under the ISM Code.

TMSA

What is TMSA? It is essentially a procedure that the OCIMF (Oil Companies International Marine Forum), with regard to the IMO regulations in force since 1998 and revised in 2002, indicated as the preferred approach – or rather, obligatory – approach to be taken by tank ship companies in:

- > performing self-assessments involving the listing and evaluation of real and potential risks;
- > tracing the severity and probability of the occurrence of damaging events;
- > identifying and defining procedures of prevention and repair.

COATING

A new element of security regulated by the IMO is that of the surface treatments of the internal spaces of ships utilised as ballast chambers and dry facilities; along these lines, the Maritime Safety Committee of the IMO (MSC 82) approved, with Resolution MSC.215 (82) of 8 December 2006, the "Performance Standard for Protective Coating (PSPC)".

This measure essentially represents an amendment of the SOLAS, modifying Chapter II-1 Reg. 3.2; the ballast chambers of all type of ships and the spaces of the double bulwarks of bulk carriers more than 150 m in length must, in the course of their construction, be painted in accordance with this standard. In addition, preservation on good condition of the protective treatment must be included on the ship's maintenance chart. The effectiveness of the aforementioned protective treatment shall also be evaluated over time by the relevant administrative units.

CSR (Common Structural Rules)

From a purely technical point of view, a noteworthy new development is the introduction by the classification firms of the CSR (Common Structural Rules) for the design and structural sizing of tanker ships and bulk-carriers.

Approved on 14 December 2005 by the IACS Council, these rules went into effect on 1 April 2006. They apply to double-hull oil tankers at lengths of 150 m or more, as well as to single-hull or double-hull bulk carriers at lengths of 90 m or more.

The stated objective of the CSR (which include the "Performance standards for coatings" referred to above) is to construct ships that are sturdier, more secure and more ecological, allowing the ship-owner to achieve, among other things, potential cost savings on maintenance.

The Confitarma 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 – and the **I.I.N.** – Italian Navigation Institute; in addition to being a founding member of the **FEDERAZIONE DEL MARE** – the Federation of the Italian Maritime System –, of the **SHORT SEA SHIPPING** Italian Promotion Office and of the **IDC** – Italian Distribution Council – plus the National Logistics Agency.

Internationally it 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

After six months of informal activity, the Young Shipowners group was founded on 28 June 1995, in implementation of art. 26 of the Confederation By-Laws, with the following objectives:

- promoting within the Group 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 needs of the shipping industry, based on the dynamics of the economic and social context;
- favouring the training of fresh forces for the management of shipowning enterprises and the correlated association activities.

The Group counts more than 60 members representing approximately 50 companies, including shipowners and the children of shipowners, plus management personnel and staff members 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 Management Council of CONFITARMA.

The individuals sitting on the Management Council, together with the other members, are widely represented on the advisory committees, which contribute to the development of the main themes of the shipping industry and the maritime system.

The young Shipowners play an active role in the work of Confederation's Commissions and of the workgroups of the ECSA.

The Group's efforts for the year 2006-2007 were focussed primarily on organising the first visit abroad of a Confitarma shipowners' delegation. In addition, training activities and in-depth study of a number of issues already addressed by the Group in earlier years continued.

In December of 2006, the updated regulations of the young Shipowners went into effect. Approved by the Confederation's Board, they contain a number of improvements of the earlier text.

The specific initiatives organised by the Group during the last year include:

- *A RINA seminar on the services provided to the shipping industry in terms of naval certification, consulting on new ship construction, quality certification, security, the environment etc. Taking part in the seminar was Ugo Salerno, the Managing Director of RINA.*
- *General Meeting organised in occasion of the Conference held by Confindustria's Young Entrepreneurs in Capri on October 2006.*
- *Two training seminars meant to prepare the Young Shipowners for the trip to China, with economists, university scholars, shipping professionals and corporate consultants and finance authorities, giving talks and supplying expert know-how on China.*
- *The trip to China took place between 24 February and 8 March, with noteworthy participation on the part of the Young Shipowners. During the three stops in Hong Kong, Shanghai and Beijing, the Group paid visits to the two leading Chinese shipyards, located in the Shanghai area, as well as to the Port of Hong Kong and its Vessel Traffic Center, plus the Port of Tianjin, and it was received by China's most important maritime bodies (the Port Authorities of Hong Kong and Tianjin, the Chinese Ministry of Transportation, the shipowners' associations of Hong Kong and China, the COSCO and the China Classification Society), as well as by the institutional and economic representatives of Italy present in China (the Italian Ambassador to Beijing, the Consul General for Hong Kong and Shanghai, the ICE and the banks Banca Intesa, Capitalia and San Paolo).*
- *In the month of March, President Giuseppe Mauro Rizzo was assigned by President Nicola Coccia to take part in Italian Prime Minister Romano Prodi's trip to South Korea, an initiative that gave him the opportunity to further strengthen the institutional relations established with the most important Asiatic authorities and organisations on the occasion of the trip to China.*
- *As part of the initiative 48 Hours of the Sea, organised by Confitarma at the Maritime Station of Naples on 10 and 11 May, the Young Shipowner's returned to the topic of generational renewal in family enterprises, with an ad hoc session organised by President Giuseppe Mauro Rizzo. On hand, in addition to President Rizzo, were Prof. Guido Corbetta, Dean of Faculty at the Bocconi University of Milan, Vittorio Volpi, President UBS Italy, and Gioacchino Attanzio, General Director of the AIDAF, who also coordinated the proceedings.*
- *The Young Shipowners have recently started cooperating with the Young Officers of the Coast Guard by taking part to their first general meeting held in Rome on June 22nd, 2007. On that occasion, Giuseppe Mauro Rizzo and Franco Napp, invited speakers, hand over recognition plaque to Admiral Luciano Dassatti about to be replaced by Admiral Raimondo Pollastrini as Chief Commander of the Italian Coast Guard.*