

Croatia Shipping Q4 2012

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Abstracts

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2012 Looking Like A Difficult Year For Croatian Ports Although our forecast for the Croatian economy has not changed substantially compared to how we saw things three months ago, and we are also sticking to our predictions for the ports and shipping sector, we believe the downside risks are growing. The macroeconomic outlook is dominated by the eurozone sovereign debt crisis, which continues to undermine confidence and growth across the region. At home, the ruling coalition is focused on fiscal austerity targets, and this too puts a lid on domestic growth factors. Admittedly, the good performance of the tourism sector is a plus. But on balance we are sticking to our view that 2012 is a year of recession in Croatia, with GDP dropping by 1.5%; we think in 2013 there will be a weak recovery with 1.0% GDP growth.

At the country's main port, Rijeka, we think this means that tonnage will fall by almost 10%, while box traffic will be more resilient, managing modest single digit percentage growth. However, there are definite downside risks here. We note that at Croatia's second most busy facility, the Port of Ploce, volume fell by almost one third in the first quarter. In addition Rijeka port authority registered a loss in the second quarter of this year, potentially an early indicator of disappointing volume numbers.

Headline Industry Data

We are maintaining our earlier forecast that in 2012 Port of Rijeka tonnage will fall by 9.6%. Over the mid-term we project an average annual contraction of 0.6%.

2012 Port of Rijeka container throughput forecast to grow 3.7%. Over the mid-term we project a moderate-to-good average annual increase of 3.5%, ahead of GDP.

2012 total trade growth forecast at -2.9% (marginally worse than the -2.8% we had predicted in our last report).

Key Industry Trends

Upgrade For Adriatic Gate Terminal Announced: International Container Terminal Services (ICTSI), the Philippines-based joint operator of the Adriatic Gate terminal (together with Croatian port operator Luka Rijeka) says it will spend HRK133mn (US\$22.2mn) for 2012 and a further HRK88mn (US\$14.6mn) for 2013 to upgrade the facility. The initial development programme has significantly improved crane productivity, truck dwell time and equipment availability at the terminal. ICTSI also announced that it had signed an agreement for the delivery of new equipment to Adriatic Gate. The equipment will be delivered by Chinese industrial manufacturer Shanghai Zhenhua Heavy Industries Company and includes two post-Panamax quay cranes, eight rubber-tyred gantries and rail-mounted gantries.

Ploce Makes A Profit Despite Falling Sales: The Port of Ploce reported a first half 2012 profit of HRK7mn (US\$1.14mn), representing an increase of 48.9% on the comparable year-earlier period. The improvement came despite a 14.1% year-on-year fall in sales to HRK61.6mn. Total revenue was also down, by a smaller percentage – 3.9% – to HRK71mn. Total expenditure stood at HRK64mn. During the first half the port said it had handled 1.4mn tonnes of cargo.

Neum Corridor Good for Ploce?: Croatia and Bosnia were expected to set up expert committees by the end of October to draft a treaty on a transport corridor that would run through the Bosnian coastal town of Neum, which divides Croatian territory in the southern Adriatic coast area. Croatian transport minister Sinisa Hajdas Doncic told a news conference that the Croatia/EC joint negotiating position stated that the transport corridor issue should be resolved by a bilateral agreement between Croatia and Bosnia. Doncic said that his government would like to connect Croatia's southernmost part with the rest of the country as soon as possible, but in any case before July 1 2013, when it would become an EU member state. Bosnia's transport minister Damir Hadzic told the same conference that the transport corridor through Neum should also define the use of the Croatian Adriatic port of Ploce. Ploce is used by Bosnia and is essential for the conduct of that country's foreign trade.

Risks To Outlook

As in our last report three months ago, an intensification or prolongation of the eurozone

financial crisis remains the single most substantial downside risk to our Croatia ports and shipping industry forecasts. At the time of writing, Greece was at the centre of the storm; now it is Spain. Although Croatia is not (yet) a member of the European Union or of the eurozone currency agreement, it remains highly dependent on the health of the wider European economy, far and away its most important trading partner. Therefore we remain concerned about the negative knock-on effect on Croatian exports, coupled with lower domestic demand caused, among other things, by a contraction of the tourism industry.

Balkans political risk is another factor that needs to be monitored. Although there are some causes for concern on this front, BMI thinks that Croatia is still on track to join the EU without major ructions with its immediate neighbours. Analysts had noted a chill in relations with Serbia, following the election of a nationalist President there. The new President, Tomislav Nikolic, made a series of public statements saying that the idea of a 'Greater Serbia' was an 'unrealised dream' that the Croatian town of Vukovar which was destroyed by Serb forces during the war, is actually a Serbian city; and denying the Srebrenica massacre. In response to these inflammatory remarks, the leaders of four Balkan nations, including Croatian President Ivo Josipovic, boycotted Nikolic's inauguration on June 11. While our core scenario is for ties with Serbia to come under pressure in the coming months as the new Serbian government settles into power, over the longer term, our expectation for Serbia to remain broadly committed to EU integration will mean that relations between the two neighbours will not come under any significant threat

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