

# MARITIME STRATEGIC EVALUATION FOR ISRAEL 2020/21

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## The Response of the Ashdod Port Company to the COVID-19 Crisis

### *Moshe (Shiko) Zana*

The Port of Ashdod was well-prepared for the COVID-19 crisis. However, the initial drop in trade and the effect that it appears to be having on the Company's business results is surprisingly large. The year 2020 was meant to be a year of accumulation of profit in order to prepare for the introduction of competition among the ports in Israel, which is planned for 2021 when the new ports open ('Hadarom' and 'Hamifratz'). This situation changed as a result of the COVID-19 crisis, in which the Ashdod Port Company is attempting to deal with the shortfall in revenue relative to the expectation presented in the work plan at the end of 2019.

### The first wave

A black swan arrived in mid-February and reached a peak in March–April; characterized by uncertainty and preparations for the next quarter. The pandemic, which began in China and spread to the rest of the world in January–February, reached its peak in March and April and is causing massive disruption worldwide. In the Port of Ashdod itself, the effect was different in several aspects and the adaptations during a situation of uncertainty changed from one month to the next.

**Containers** – During the first wave, the port experienced a drop of about 15 percent in revenues from container activity; however, as of September the decline moderated to only about 4 percent with an expectation of equaling the figure for the previous year.

At the start, a small number of ships were delayed due to concern about infected crew members or about the ship's port of origin. However, almost immediately, rules and regulations were put in place which made it possible to preserve Israel's chain of supply.

**Vehicles** – The original estimates foresaw a 30 percent drop in revenue from vehicle handling. Currently, it is expected that the decline will only be about 20 percent this year. This is a major blow to this segment of the port's activity and is explained by the large number of workers sent on unpaid leave and to the rising unemployment in Israel since the beginning of the crisis, which of course led to a drop in the demand for new vehicles.

In addition, this decline in demand also contributed to the slowdown in production of the auto manufacturers in Europe during these months. They gradually began

to recover in May but have still not returned to full production (as of September 2020). The effect of the auto industry on the revenue of the port and its profitability is almost as large as that from container handling. The situation in this segment is expected to continue at least until the end of 2020.

**Bulk cargo** (cement, clinker, phosphates, grain, etc.) – Despite the fear of a drop of 10 percent in the activity of the port in this segment, the actual drop in bulk imports passing through the Port of Ashdod fell by only a few percent and the port has managed to grow by a significant 8 percent as of September. This is thanks to the major effort by the port to maximize trade activity in this segment. Essentially, bulk cargo has hardly been affected by the COVID-19 crisis, apart from during the first wave and there was an impressive recovery already on exiting from it.

**Cruises** – This is a growing industry that was meant to reach a new record this year, both worldwide and in the Port of Ashdod. Eighty visits of cruise ships owned by the largest international companies had been approved and the vast majority of them were cancelled immediately with the onset of the pandemic. We estimate that the recovery in the activity of the cruise lines will continue even after the conclusion of the COVID-19 crisis, which is still beyond the horizon. In other words, in our estimation, the recovery of the cruise industry will take at least two years. As of now, more than 90 percent of world's cruise ships are inactive and the monthly cost of anchoring them ranges from one to three million dollars per ship.

This is a major blow to the industry and the end is not yet in sight. The cruise industry has flourished during the last decade with consistent growth of about 6 percent per year and about 30 million passengers annually (32 million in 2019). The global revenue of this industry stood at about \$150 billion annually and it employs more than one million crew members. Currently, the industry is basically paralyzed.

The cruise industry is undoubtedly the most affected within the maritime sectors. The Port of Ashdod views this sector as an important source of growth in the coming era of competition. However, as of now, it appears that during the next two years no cruise ships will be appearing in Israel or in the Port of Ashdod.

### **The onset of the COVID-19 epidemic**

The port quickly adjusted to the pandemic according to the rules laid down by the Ministry of Health and the Ministry of Transportation. This included coordination that was meant to create order among the workers who understood the scope of the challenge and who were willing to do what is necessary to continue the port's operations. Simultaneously with this process, I took up the position of CEO of the

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company, which required me to quickly get acclimatized and to close any gaps in knowledge that might interfere with day-to-day operations.<sup>1</sup>

The captains of the ships that visited the Port of Ashdod were asked to report on the temperatures of all their crew members and also not to allow them to come ashore, as well as not allowing them to move around on the deck during the loading / unloading of the ship in the port. This was in order to prevent contact between the port workers and the crew.

It was decided right away to create a 'Corona Forum' headed by the CEO and to hold meetings of the forum every morning. The port's security officer was designated to manage the day-to-day activity related to the COVID-19 crisis, including to minimize infection among the port workers and preserve redundancy. The frequent announcements and updates were issued to all of the stakeholders as necessary.

Our goal was to immediately stabilize the operational situation and to meet the needs of both customers and the Israeli economy, alongside the players that are in constant interface with the port activities: the Customs Authority, the Ministry of Health, the Ministry of Agriculture, the Ministry of the Economy and the relevant security organizations.

The directives were tightened up and all of the workers and those coming into contact with the port were required to work according to the rules that apply to the general public. A full plan was prepared for risk management, starting from working in capsules and preventing contact between workers during the change in shifts (which slowed the pace of work for defined periods). Furthermore, all of the areas of mass gatherings in the port were closed (restaurants, the synagogue, the gym and the rest lounges). The workers were instructed to wear masks when moving around the port area, and disinfectant products were made available wherever workers gathered.

In addition, there were daily evaluations made which were led by the Minister of Transportation and with the participation of the chairmen and the CEOs of the ports, together with the various regulators, with the goal of identifying trends and creating a dialogue to solve problems.

### **Exit from the first wave (May to September)**

During the months of May–September and prior to the imposition of the second lockdown, the port worked consistently to stabilize its "windows" activity. The level

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1 Shiko Zana became the CEO of the Port of Ashdod Company on March 10<sup>th</sup> (comment by the editor).

of day-to-day activity rose from week to week. The port operated without any capacity constraints, except during the peak of grain imports (which characterizes the end-of-winter period and the harvest period), during which there was stability with stable growth.

During May, there were worrying signs of an increase in infections in Israel, particularly in the area of City of Ashdod. However, following another announcement of reassurance from the officer in charge of managing the COVID-19 crisis in the port, the port continued to operate according to the directives.

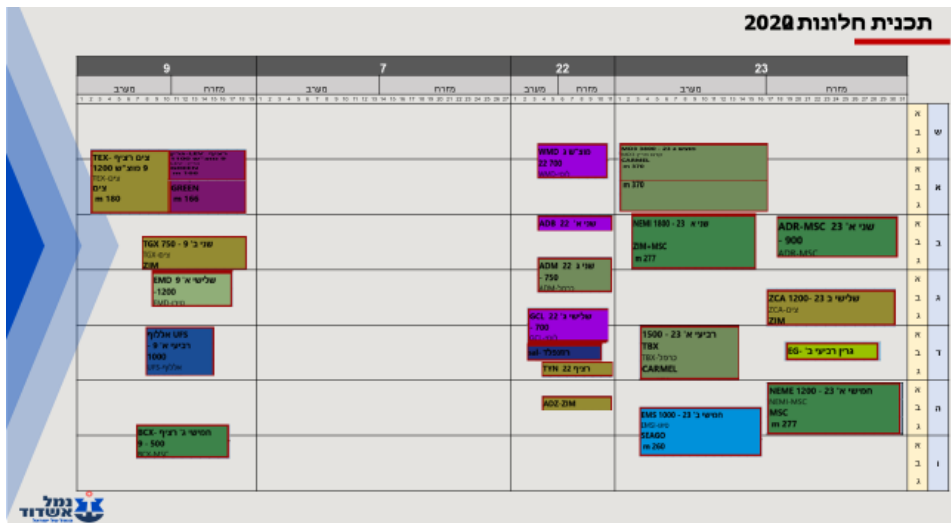


Figure 1: An example of the port’s weekly workplan

Figure 1 presents an example of the weekly "windows" plan for the port. The plan includes the arrivals and duration of stay of every container ship in the port and their ports of origin and ports of destination. The available Pier 7 is designated for ships arriving as part of the operational queue and without any predetermined planning. The plan comprises about 20 thousand containers per week, both in pre-planned windows and from the operational queue.

**The second wave – recovery** (September to October)

The preparations of the Port of Ashdod for the second wave were meant to minimize the gaps created as a result of the lockdown imposed on the economy; however, most of Israel’s trade partners returned to their normal business activity (at least during this period). There were still "economic ripples" from the closure processes

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and the restrictions that we are seeing will affect the continuation of economic activity, primarily containers and vehicles.

The effect of the lockdown diminished prior to The Jewish religious festivals (The Jewish new year and the holidays follows it) which created new processes of demand in the Israeli economy. We are preparing for every scenario with expectations of an aggressive exit from the crisis, when such an exit occurs, in terms of cargo.

### Signs of a 'Corona routine' – The current situation

One should be careful not to have overly optimistic expectations. An article in the Economist on September 26<sup>th</sup>, 2020,<sup>2</sup> presented the position that many governments in the West are adopting the wrong measures and are trying to solve economic problems "on the fly". These include more than a few of Israel's trading partners in East Asia and certainly in the rest of the world. Therefore, the return to full cargo activity with Israel's trading partners will be largely dependent on the measures their governments adopt.

In contrast, things are different in the maritime container trade. The shipping companies that belong to the three large alliances, i.e. Ocean Alliance, THE Alliance and 2M, which are active along the import routes from East Asia and China by way of the Indian Ocean on the way to the Suez Canal and Israel, have not returned to routine supply on the routes leading to Israel. This includes the cancellation of arrivals on an unprecedented level. This is contributing significantly to the profitability of the shipping companies who are maximizing activity at the expense of service; however, these activities are a direct result of the COVID-19. For example, THE Alliance line, which includes four shipping companies: Hapag Lloyd, Yang Ming, HMM and ONE, which arrives once a week in Israel, will have approximately three times more cancellations of planned arrivals than in the previous year. This amounts to about 12 less arrivals with an average of about 2,200 containers per week and this is simultaneous with about a 30 percent drop in imports through the port.

*"30% to 60% outbound shipping capacity withdrawn in Asia-Europe marine routines have severely disrupted trade activities". Alphaliner*

The cancellation of arrivals is a recurring theme in many ports of the world. In Israel, the phenomenon is not as common as in the rest of the world. Thus, while prior to the crisis, the port planned for 8 percent growth in container activity, it will finish the year at the same level as in the previous year.

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2 Why governments get covid-19 wrong?, The Economist (26 September 2020)  
<https://www.economist.com/weeklyedition/2020-09-26>

The growth forecast of the Port of Ashdod in container traffic for 2021 is about 6 percent on a national level (the entire Israeli economy) and on the condition that the intensity of the COVID-19 crisis diminishes or is even completely halted.

### **What is expected in the future? A cautious evaluation for the near future**

The IMF, in the beginning of its most recent study, defined the crisis as unprecedented, and therefore there is no indication of any certainty this year. There is no region of the world that has not been affected to one extent or another and the mutual effects between countries are pervasive. According to the data gathered by the IMF, the nations of the world have spent more than \$8 trillion in fiscal assistance.

There has been a major decline in global output and the IMF is forecasting a drop of about 6 percent this year in Israel. If the crisis continues in Israel, together with the second lockdown, the Ministry of Finance expects a drop of 5 percent in GDP.

The WTO barometer<sup>3</sup> for consumer goods is showing a decline to a historic low for the second quarter of 2020. The effect of the second wave is unclear, but clearly it will not be positive.

The impact on container trade is correlative. A return to the pre-crisis routine is expected, according to various forecasts, only after the crisis is behind us or after we have learned to live with the COVID-19 within a healthy economic routine. This means a full return to work globally, and primarily in the large economies of the world.

The scenarios of the various research organizations in the industry are being updated on a quarterly basis. The port, like many other organizations in the Israeli economy, must adapt itself to this period of uncertainty.

### **Competition in a time of Corona**

Following are a number of issues that in our opinion will be the focus in the era of competition in the ports of Israel and will be accompanied by the COVID-19 crisis:

1. Making it as easy as possible, within the rules for safety and health, for ships to visit without any mishaps, while taking into consideration the ships' crews.
2. Technology as an essential factor.
3. Upgrading of the ability to work remotely.

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3 WTO trade barometers. [https://www.wto.org/english/res\\_e/statis\\_e/wtoi\\_e.htm#top](https://www.wto.org/english/res_e/statis_e/wtoi_e.htm#top)

4. Communication with customers – Greater importance given to existing relationships and the development of continuous communication.
5. A fundamental need for greater efficiency and the adjustment of the company to change.
6. Focus on cost saving and improving the customer experience.
7. Getting more with less effort.
8. The ports of the Eastern Mediterranean as the port of Ashdod's competition.
9. Israel as a transshipment center.
10. Improving the tradeoff faced by governments and companies between closing the economy and quarantining it as a response to the COVID-19 pandemic on the one hand and the opening of the economy in order that life can continue as usual to whatever extent possible on the other hand.

## Conclusion

The Port of Ashdod Company, the shipping industry and the supply chain in general must prove themselves during this period of uncertainty and therefore the Port of Ashdod is doing all it can to adapt itself and to maintain flexibility in providing a response to the challenges it faces during this period.

In my opinion, the Port of Ashdod has been successful in providing an optimal solution for the economy during the first wave, and certainly during the second. Currently, as the leading governmental port in Israel, we are prepared to support the economy in maintaining its day-to-day routine, with the possibility of providing for all of the State's essential needs.