

ECONOMIC CRISIS IN INLAND WATERWAY TRANSPORT

Report on the economic and financial situation in the sector

General

The financial crisis has caused a dramatic reduction in industrial production in the last semester of 2008, leading to a considerable reduction in transport of raw materials and manufactured products by all transport modalities. There is a lot of uncertainty about how long it will take to overcome the global downturn and whether all sectors of activity are equally affected.

We see a long-term trend in corporate social governance towards sustainable entrepreneurship, but the crisis does encourage companies to opt for short term cost-saving solutions, such as using low-energy intensive vehicles and transportation modes (incl. inland shipping) where good connections are available. Fluctuating energy costs and stricter environmental regulation also encourages companies to opt for a network of regional distribution centres located closer to their markets to optimise transportation and reduce fuel costs. But right now, most of the shippers have postponed their modal shift projects to use more IWT and are concentrating on simple and quick transport saving costs in order to reduce their global losses. They are preferring quick results to the long term results afforded by logistics reorganisation operations.

Inland waterway transport traffic

Thanks to the economic crisis, the demand for transport by barge has been put under pressure in almost all commodity sectors. The overall picture is mixed with some sector segments more affected than others in January, but total losses seem to amount to 25-30% for the month of January. We expect that IWT traffic will shrink by a 10% average in 2009. The sector is waiting for the final figures for February and March in order to have a better insight into the impact the current economic situation has on inland waterway transport.

Containers (10% of the total): Half-empty sea freighters mean less container transport by inland barges. The transport of containers by barge was already slowing down last year due to the transshipment chaos in major seaports, but now the effects of congestion (BE/NL) and strikes (FR) have been promptly reversed by imports which have plummeted by between 18 and 25%.

Steel (>10%) and cars: With the near collapse of the car industry, the transport of steel has decreased worldwide. Some steel factories are only running at 25% of their capacity and steel transport on the waterways has dropped by between 30 and 40%. An additional impact is that, in France for example, no new cars have been transported the Seine river this year.

Construction materials (30%): Housing and construction plans are being shelved and low temperatures also stopped construction on wharves. Demand sank by more than 35% while capacity is too high.

Oil and coal products (26%) were not yet as severely affected by the downturn due to the cold winter period, but may be the next commodity to be affected.



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On the other hand, the bitter winter with prolonged ice periods also interrupted navigation on a great number of rivers and canals from Germany, Netherlands, France and Austria leading to significantly less traffic.

Finally, agricultural products and foodstuffs (9%) are also down by 15%, although in some countries the picture is more positive.

Inland waterway economic situation

Due to the increasing transport demand in the last few years, the inland waterway transport sector has heavily invested in larger vessels and in modernisation of the existing fleet, providing a positive boost for the European shipping building sector and related companies but leading to a certain overcapacity in the container and tanker business.

The plunging demand in transport and hence the sharp decrease in freight rates will affect the liquidity of many micro and small companies in the sector, which cannot be compensated by the falling oil price. Currently a significant part of the fleet is moored and without work. The economic climate will winnow out the current overcapacity. Real entrepreneurs are likely to stay afloat, although they will definitely have to dig deeply into their reserves, provided the economic turmoil does not last too long and that trade picks up again after summer.

Nevertheless in certain market segments, developments have to be closely monitored to ensure that sufficient loading capacity remains available once markets go upwards again. For instance, the outflow of small ships from the sector was already dramatic before the crisis started. The cumulative effect of the downturn seems to strengthen this trend. National and regional measures to maintain loading capacity and create new small vessel concepts including the inflow of newcomers in this market segment where demand surpasses supply, must be encouraged and accelerated.

Necessary policy measures

Within a free market order, entrepreneurship implies risks and rewards. It is the task of policy makers to correct market failures and to help shift entrepreneurs and workers out of the old economy into the new one. It is about boosting and facilitating entrepreneurship, not killing it by tilting the economic playing field away from entrepreneurial endeavours at taxpayers' expense.

For micro and small enterprises, a fair economic playing field, a lean administrative environment and tailor-made access to innovation and start capital is essential for their competitiveness and growth. In the current economic downturn, such measures become even more urgent to make sure that industry has the tools to be ready when the economy picks up.

INE therefore calls upon European and national policy makers to give absolute priority to the following:

- **A fair economic level playing field**

The European Commission must guarantee a market without distortions of competition when approving state aid plans and Community grants.

- **.A tailor-made state aid policy framework**

While state aid is no miracle cure for the current difficulties and giving money to those industries with the loudest voices and best-paid lobbyists is unjust, well-targeted public support with well-defined strings for companies is a helpful component in the overall effort to unblock lending to micro and small companies and encourage continued investment in a low-carbon future.

The European Commission should ensure quick and fair approval procedures.

Finally, the EU NAIADES action plan to promote inland shipping first recognised in 2006 that the inland shipping industry mainly consists of small companies which, by virtue of their nature, have a more difficult time accessing capital. The Commission

promised state aid guidelines for inland waterway transport in 2007, but nothing has been published so far.

There are two pressing issues in the inland waterway sector which the Commission has not yet addressed:

- For new entrepreneurs, there is almost no stimulation at all to enter the market due to very high financial thresholds. However, newcomers and innovation are essential to a thriving inland waterway business in Europe. INE proposes the creation of a working group of financial experts to create tailor-made access to capital in the IWT sector.

- The effects of climate change require a technological shift to a low-carbon economy. The Commission has loosened EU state aid for eco-innovation in order to stimulate the investments needed to achieve the EU climate and energy targets, but this loosening still applies only to the extra investment costs and not the total costs.

- **Slash red tape and create one-stop-shops**

European and national policy makers are requested to create no regulations which place disproportionate burdens and costs on small and micro businesses.

Further to the results of the screening of administrative and regulatory barriers in inland waterway transport, the planned working group should actively work on the swift removal of all redundant red tape. This should also cover current technical regulations which may stop innovative and green concepts from entering the market. At the same time, the installation of effective and easy-to-use one-stop-shops should be started.

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