

CCNR ANALYSIS

Economic impacts of the COVID-19 crisis on European inland navigation

Analysis of the CCNR market observation, situation on 27th March 2020

The spread of the COVID-19 virus in Europe is supposed to have strong impacts on the economy overall, and also on inland navigation.

First of all, inland waterway transport is helping to maintain the provision of the economy and society with important raw materials and products, such as agricultural products, food products, iron ore, mineral oil products, chemicals and consumer goods.

On the other hand, transport of goods and passengers on inland waterways is hit **from the demand side**: Many economic sectors, which depend in their functioning on inland navigation, are strongly reducing their activity, with negative effects on IWT (Inland Waterways Transport).

The sectors of the economy that are particularly affected – for which a decline in capacity utilisation of 90 % is assumed in the coming months¹ – include hotels and restaurants, aviation, and leisure industries (travel, sport, entertainment).

Impact on passenger and on goods transport

Therefore, the crisis will have dramatic **effects on passenger transport** (both **river cruises and day trips**). In mid-March 2020, river cruises were suffering from a wave of cancellations and had to postpone the start of the season, at least until early May 2020.

Not only passenger transport, but also **goods transport** is affected from **travel restrictions and lockdown regulations**: The strict entry and quarantine regulations for nautical personnel in many European countries are causing increasing problems in staffing vessels.

In mid-March, the German automobile industry decided to temporarily suspend production in its plants for several weeks. This will affect demand for steel, and therefore also transport demand for iron ore, scrap metal, coke coal and metal products. These materials account for around 25 % of all volumes transported on the Rhine.

For container transport, the full effects of the crisis will be felt from April and May onwards, when the imports from the Far East (normally produced and loaded in the first quarter of 2020) will not arrive in the same volume in European seaports.²

The *Central Federation of German Seaport operators* estimates that the declines in maritime cargo traffic are in the double-digit percentage range, depending on the type of cargo and location. The precise effects will only be known when port figures will be available for the coming months of April, May and June.

¹ Source: Kieler Institut für Weltwirtschaft (Kiel Institute for the World Economy)

² Source: Zentralverband der deutschen Seehafenbetriebe (Central Federation of German Seaport operators)

Two main scenarios for 2020

In order to estimate the financial effects of the crisis on the European inland navigation sector, two scenarios of the *Kiel Institute for the World Economy* are used as a basis.³

- 1) A **V scenario**, in which the main activity restrictions due to the epidemic would last until end of May and be followed by a recovery in the form of a technical rebound or V-effect.
- 2) A **U scenario**, in which the activity restrictions would continue at least until the end of 2020. In this U scenario, production in the various sectors would not return to pre-Covid-19-levels until the beginning of 2021.

Regardless of the question, which scenario will occur, the Kiel Institute of World Economics expects **German GDP in March and April 2020 to decline by almost 18 % compared to the previous month.**

The financial impact of the two scenarios for the European inland navigation sector has to be estimated separately for goods and passenger transport. The following scenarios are assumed:

- Passenger transport: A reduction of the activity by **90 %** is assumed for passenger transport on EU inland waterways until the end of May (V-scenario), or until the end of the year 2020 (U-scenario).
- Goods transport: A reduction of the activity by **30 %** is assumed for goods transport on EU inland waterways until the end of May (V-scenario), or until the end of the year 2020 (U-scenario).

Reasoning of the scenarios

The assumptions regarding passenger transport can be explained with the following evolutions/assumptions:

- River cruises are currently cancelled by all tour operators, at least until the end of April.
- The Kiel Institute of World Economics assumes a 90 % reduction of tourism, sport, entertainment.
- The Centraal Bureau voor de Rijn en Binnenvaart CBRB and BLN Schuttevaer in the Netherlands assumed in their loss estimations a 100 % fall in passenger transport on inland waterways in the Netherlands in the 1st half year.⁴

The assumptions regarding goods transport can be explained with the following evolutions/assumptions:

- The three main segments of goods transport (dry cargo, liquid cargo, containers) are affected differently. The 30 % loss is an estimation of the global effect, based on information from container handling, dry and liquid cargo handling. Indeed, container handling currently operates at a level of approx. 60-70 % of normal volumes, according to information from container operators. A similar drop (of around 30-40 %) is expected for dry cargo handling, due to the decrease in industrial production. Tanker shipping is still operating at normal levels, although a drop is expected to come soon.

³ See: <https://www.ifw-kiel.de/de/publikationen/medieninformationen/2020/update-konjunkturbericht-deutsches-bip-duerfte-2020-zwischen-45-und-9-prozent-einbrechen/>

⁴ See: press release of the CBRB published on March, 19th 2020: Vele miljoenen euro's schade voor binnenvaart door corona-crisis

- The Centraal Bureau voor de Rijn en Binnenvaart CBRB in the Netherlands assumed in its loss estimations a 40 % fall in goods transport on inland waterways in the Netherlands in the 1st half year.

Financial impact on turnover in European inland navigation

- 1) Passenger transport (Usual turnover in IWW goods transport in the EU per year: 3.1 billion Euro, source: Eurostat)
 - Under the V scenario, turnover of inland waterway **passenger transport** in the EU would be nearly cut by half and reduced by 1.4 billion Euro. It would drop from 3.1 billion Euro down to 1.7 billion Euro (for the year 2020).
 - Under the U scenario, turnover of inland waterway **passenger transport** in the EU would decrease by even 2.8 billion Euro in 2020, down from 3.1 billion Euro to only 0.3 billion Euro in 2020.
- 2) Goods transport (Usual turnover in IWW goods transport in the EU per year: 5.3 billion Euro, source: Eurostat)
 - Within the V scenario, turnover of inland waterway **goods transport** in the EU would decrease by 0.8 billion Euro. It would go down from 5.3 billion Euro to 4.5 billion Euro (for the year 2020).
 - Within the U scenario, the loss would be almost 1.6 billion Euro, with turnover dropping from 5.3 billion Euro down to 3.7 billion Euro (for the year 2020).

For the whole inland navigation sector (goods and passenger transport together), the total loss would amount to

- **2.2 billion Euro in the V scenario,**
- **4.4 billion Euro in the U scenario.**

It must be emphasized that the above described scenarios are not predictions, but rather reflect possible conditions in the future. The exact losses for the inland navigation sector are strongly dependent upon the length and the intensity of the crisis, which currently cannot be predicted.

Estimation of financial damage in the Netherlands

(Source: CBRB and article 'Binnenvaart lijdt maandelijks 120 miljoen coronaschade', in: *Weekblad Schuttevaer*, 25th march 2020)

According to estimations of CBRB and Royal BLN-Schuttevaer, the Corona crisis costs Dutch inland navigation 120 million euros per month. Last week, the Central Bureau for Rhine and Inland Navigation (CBRB) and Royal BLN-Schuttevaer issued this estimate to the Ministry of Infrastructure and Water Management.

"We see that the Corona crisis is having a major impact on the cargo flows via inland shipping, both in dry cargo, container shipping and tanker shipping. In passenger transport there is even a total drop to zero for the entire season," write the two advocates of inland shipping.

"In the coming months, we expect a **decline of around 40% for freight transport** and **100% for passenger shipping.**"

The turnover of Dutch inland shipping is approximately 2.6 billion euros per year, of which 90% freight transport and 10% passenger transport (source: CBS).⁵

The damage in passenger transport (in the Netherlands) therefore amounts to approximately 260 million euros for the 2020 season and, assuming a seven-month season, to approximately 37 million euros per month.

The turnover in Dutch IWW freight transport is approximately 200 million per month. In the event of a 40% drop in demand, the damage is approximately 80 million euros per month.

For the Netherlands, a first indication of the economic damage for inland navigation as a result of the Corona crisis is therefore **almost 120 million euros per month**. Inland navigation is an internationally operating sector. The economic impact will therefore be much greater. The two organisations also call for the European transport of goods by water to continue.

Impact on European river cruises

(Source: article 'Riviercruisevloot valt volledig stil', in: *Weekblad Schuttevaer*, 25th march 2020)

The European river cruise fleet of **almost 400 ships** is **in a standstill mode** for at least six weeks. All cruise lines have cancelled their voyages because of the coronavirus.

Examples:

- *Viking River Cruises* (50 river cruise ships active) cancelled all voyages until 1st May.
- *Scylla Tours* (34 river cruise ships active) cancelled all its voyages until 30th April.
- *Avalon Waterways* (14 river cruise ships active) berthed their ships until 30th of April.
- *Emerald Waterways* (8 river cruise ships active) cancelled all voyages until 30th April.
- *AmaWaterways* cancelled all its river cruises from March 12th until April 25th.

Scylla Tours belongs to the Reitsma family and in recent years has grown by three ships a year.

"In the coming period it will become clear how long this will take", Scylla Tours is cited.

"We are still discussing all the measures to be taken. At the moment, the impact of all this on the company is incalculable. Nobody can predict exactly how it will turn out. Normally the cruise season starts by end of March, but that has been postponed. Borders are closing and ports no longer allow cruise ships. As a result, the destinations we normally call at are no longer accessible."

Impact on customers:

- *Scylla Tours*: the company will refund the cancelled trips to their customers. Guests can opt for a refund of already paid trips or a voucher with a value of 125% of the paid trip. They then have 24 months to use this voucher. If they don't succeed within those 24 months, they still get their money back.
- *AmaWaterways*: Passengers will receive their money back or a voucher worth 115% of the booked trip, which they can then use on all river cruises in Europe and the Mekong River until 31 December 2022.
- *Avalon Waterways*: Passengers can get their money back. Those who rebook the trip can look forward to an extra credit of 200 dollars.

⁵ See also CCNR/EU market insight, to be published in April 2020

- *Emerald Waterways*: The company offers customers a credit of 125% of the travel sum or refunds the travel sum.

Impact on employees

The postponement also has implications for the employees working on board the ships (hotel and nautical personnel). **Per cruise ship it concerns about 40 employees.**

Scylla Tours looks for the best solution for their employees and the company. The measures to be taken will be worked out in the next few days. "Finding good personnel requires a lot of attention", said financial director Hans Reitsma earlier in Schuttevaer. Therefore, they will **try to bind the personnel as much as possible**. *Scylla* recruits personnel in the Netherlands, Eastern Europe and Asia.

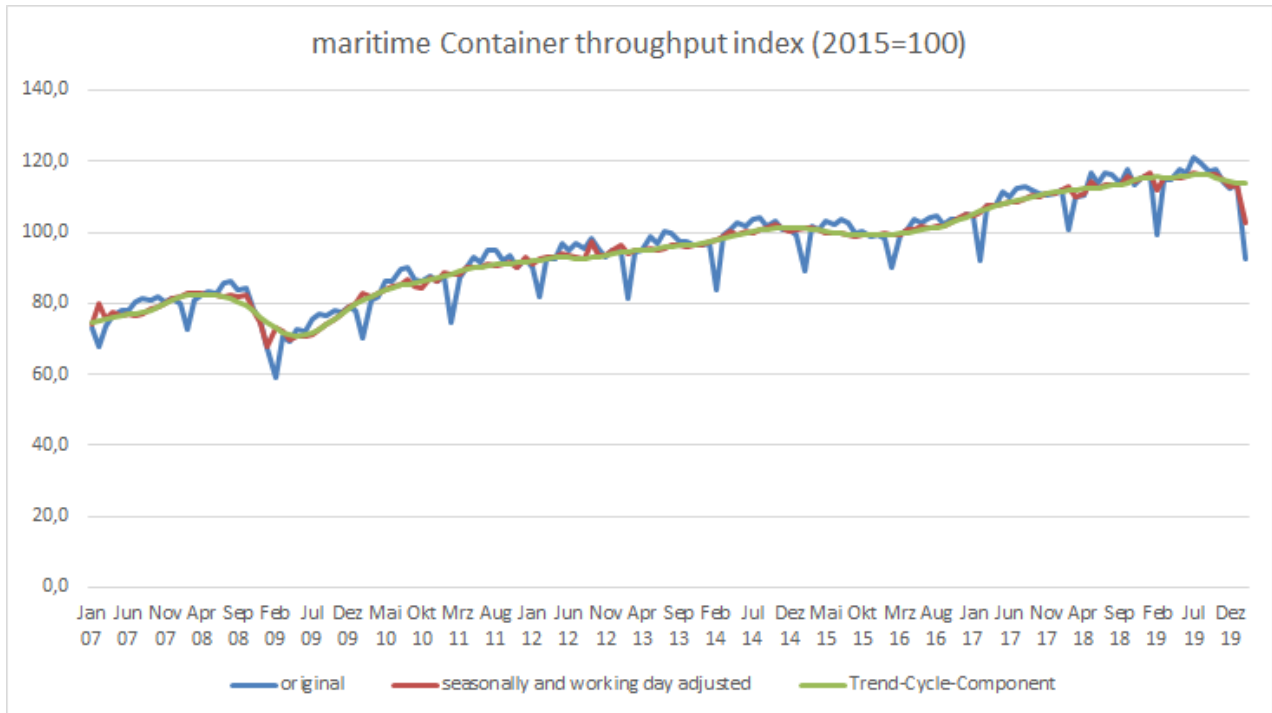
Impact on Container transport

(Source: Institute for Shipping Economics and Logistics ISL and RWI - Leibniz Institute for Economic Research, 26th march 2020)

The **Container Throughput Index** of the RWI - Leibniz Institute for Economic Research and the Institute for Shipping Economics and Logistics (ISL) **dropped sharply in February 2020** according to the current flash estimate. It is the strongest drop ever observed. The fall was mostly a result of the development in **Chinese ports**.

The driving force of the drop were the Chinese ports, but also ports at the U.S. West Coast handled significantly less containers.

- In the U.S., the trade conflict with China had a negative impact. The COVID-19 pandemic will only show its full impact in March.
- In China, the drop will be mostly due to **missing terminal handling capacities** as many port workers returned to the ports late after the Chinese New Year holidays due to **quarantine measures**. The halt of industrial production due to the COVID-19 pandemic and the related drop of imports and exports is likely to show its full effect in March.
- The flash estimate for February is based on information from 44 ports representing 65% of the handling volume represented in the index.
- The RWI/ISL Container Throughput Index for *March 2020 will be published on 30 April 2020*.



Source: ISL / RWI

Reaction of banks in the Netherlands

(Source: article 'Banken geven bedrijven half jaar uitstel van aflossingen', in: Weekblad Schuttevaer, 25th march 2020)

ABN-Amro, ING, Rabobank, the Volksbank and Triodos Bank have decided to grant smaller companies, that are fundamentally healthy, but are in financial distress because of the coronavirus, **a six-month postponement of repayments of their current loans.**

According to the Nederlandse Vereniging van Banken (Dutch Banking Association), the financial distress among companies in many industries is now great. The economic picture is deteriorating noticeably.

The measure applies to corporate clients in all sectors with financing of up to EUR 2.5 million. Entrepreneurs can contact their bank to request a deferral of repayments.

However, the banks do ask that companies always first investigate whether they can make use of government measures, such as deferring taxes and applying for a reduction in working hours.

For the group of companies with a higher financial obligation, the banks follow the further developments in the corona crisis closely. In consultation with the government and the supervisory authorities, this could lead to additional measures in the near future.

Suspension of loan payments was an important means for barge operators and banks during the economic crisis from 2009 onwards to postpone the threat of bankruptcy.

Keeping liquidity inside the companies

“This way, liquidity remains with the entrepreneur and does not go to someone else,” says Marco van Beek, inland shipping sector manager at Rabobank, about the postponement of repayments. Many businesses receive less money, but money still flows out of the company. And the costs of financing are a fairly large part of the spending pattern, certainly in inland shipping.

Screening of companies

“We are still doing a screening, by the way; companies need to be basically healthy. The customer has to apply for a defer and we will actively approach a number of customers ourselves”, Mr van Beek added.

Comparison with 2009

At the time of the outbreak of the financial crisis in 2008/2009, it was mainly the large overcapacity that affected inland navigation. “The capacity is now more or less in balance,” says Van Beek, and adds: “There is room in the market for ships that are available now. It would be a shame to keep vessels inactive now.”

Measures welcomed by employer associations

Associations of Dutch small and mid-size companies welcomed the initiative of the Dutch banks and said that they hope that these measures could also succeed in cases where larger loans are needed. They added that the postponement of the loan repayment would give entrepreneurs extra air in these difficult times and are perfect additions to the government's package.

Financial advice for inland shipping companies

(Source: *Advies boekhoudkantoor Stichting Abri: 'Wacht niet te lang, praat met de bank', in: Weekblad Schuttevaer, 25th march 2020*)

Stichting Abri is a bookkeeping, administration and advice firm for the inland navigation sector in the Netherlands.

In an interview with the journal *Weekblad Schuttevaer*, its director Mr Lucien de Boer said about the corona crisis: “I hear that many ships are stationary because there is no work. Fewer containers are coming from China and as these are uncertain times, cargo may be retained. In addition, worldwide economic activity is declining and there were also some floods to be seen recently.”

Stichting Abri advises barge owners who are at risk of financial problems to raise the alarm in good time. And gives them the following concrete advice:

- To talk to their financial adviser and to their bank, for example to **ask for the postponement of loan reimbursement** or to **postpone cash sweeps**.⁶

⁶ Firms always have the option to pay down debt with excess cash or to use the excess cash for other purposes. A Cash sweep, or Debt sweep, is the mandatory use of excess free cash flows to pay down outstanding debts. In the present crisis times, the postponement of a cash sweep helps to keep liquidity inside the company, in order to stabilize its existence.

- In accordance with their bank and their financial adviser, to consider going back into operation, if they have staff and there is less work, for example by switching from a 24-hours to a 14-hours sailing mode. They can then **apply for a part-time unemployment benefit** and reduced working hours for their staff.
- To **contact the Tax and Customs Administration**, to propose a payment arrangement for their tax assessment for 2019 or have their provisional assessment for 2020 **adjusted downwards**.
- To reduce the provisional tax assessment for 2020 in case the provisional assessment for 2019 has already been paid.
- To apply to the Tax and Customs Administration for a **reduction in working hours**.

About the CCNR

The Central Commission for the Navigation of the Rhine (CCNR) is an international organisation that exercises an essential regulatory role in the navigation of the Rhine. It is active in the technical, legal, economic and environmental fields. In all its areas of action, its work is guided by the efficiency of transport on the Rhine, safety, social considerations, and respect for the environment. Many of the CCNR's activities now reach beyond the Rhine and are directly concerned with European navigable waterways more generally. The CCNR works closely with the European Commission as well as with the other river commissions and international organisations.