



## Market Observation of Inland Shipping in Europe

### Market Report – April 2011

(Source: CCNR Secretariat)

#### Overall goods transport:

Following on from 2009, which was dominated by the economic crisis, goods transport in inland shipping recovered well by the end of 2010, at least as far as the demand for transport in Western Europe is concerned. The following table shows that the inland shipping industry in important West European countries recorded significant growth during 2010 against the previous year.

Table 1: Goods transport on waterways 2010 / 2009

Country	2010 (in 1,000 tons)	Change in % 2010 / 2009
Netherlands*	Not available	+15
Germany**	191,525	+14
Belgium***	Not available	+12
France	60,451	+7.7
Switzerland #	6.5	+11.4

\* Estimate based on the maritime turnover of the important sea ports. \*\* Germany: only until November; France, Switzerland: all 12 months. \*\*\* Estimate based on the ports of Antwerp and Ghent, # Estimate based on Rhine traffic in the Swiss Rhine ports; Sources: VNF; Destatis; Port of Rotterdam, Port of Amsterdam; Port of Antwerp, Port of Ghent; Port of Basel; calculations by CCNR

We anticipate a slowdown in 2011 against the background of the general economic growth forecasts. A more relaxed pace is to be expected in the export-intensive countries Germany, the Netherlands and Switzerland after the catch-up effect which has been seen in industry and commerce has run its course. At the same time, transport demand will almost certainly exceed pre-crisis levels (2008) during the coming year.

## Dry cargo shipping:

### 1) Demand and freight rates:

#### *Demand*

The following results, which are sorted into individual goods categories, are based on the German and French waterway network, due to the lack of data for the Netherlands and Belgium.

The three most important segments in dry cargo shipping, in terms of quantity, are the construction industry, the steel industry and the energy sector. These segments developed very differently in 2010.

In Germany, the transport of **ores and scrap metal** increased by 45 %, in France by 57 %. Growth rates of 14 % (Germany) and 31 % (France) were recorded for **iron and steel products**.

**Coal** developed somewhat less dynamically than ore. This has to do with the division of the coal market into two sectors. As steel manufacturing increased, coking coal was able to record similar growth to ore, whereas power station coal made losses because of its price disadvantage when compared with gas. On balance, the transport of coal on waterways increased by 15 % in France and by 27 % in Germany.

In the case of **stone, earth and building materials** the demand stagnated – as anticipated in the last market report – both in Germany (+/- 0 %) and in France (-0.8 %).

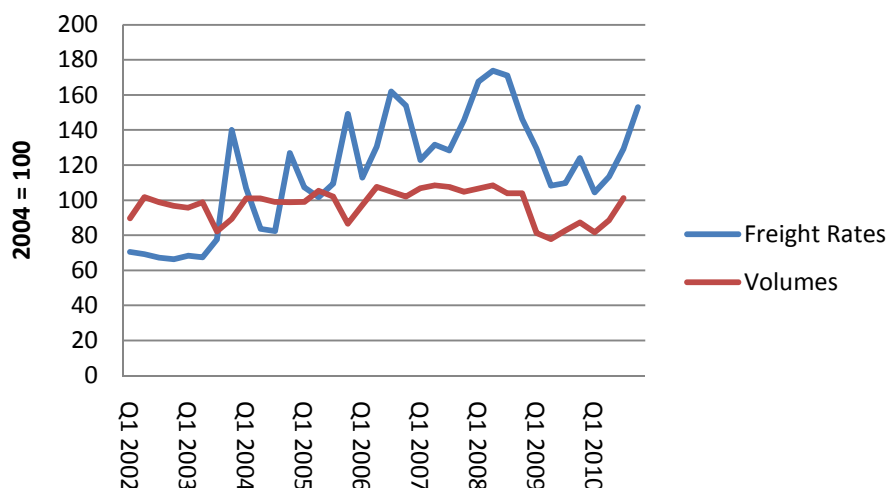
In the **container sector**, the recovery was very strong, so that pre-crisis levels are already outperformed. In France there was an 11 % rise and in Germany a rise of +20 % up to and including November.

#### *Freight rates*

In keeping with the rising demand, freight rates in the dry cargo shipping sector have risen significantly since the start of 2010. However, it must be said that the percentage difference between the level of freight rates at the end of 2010 and the level before the crisis is still greater than the difference in volumes.

In the fourth quarter of 2010 transportation charges were still 9 % below the peak of the pre-crisis level (which was reached in the first quarter of 2008). When we look at the quantity of goods shipped, there is a noticeably smaller difference to the pre-crisis levels.

Figure 1: Development of freight rates and the demand for transport\* in dry cargo shipping



Source: NEA; destatis; calculations by CCNR. \* Goods transport on the Rhine

In the first half of 2010 the freight rates for dry cargo shipping were still stagnating at a level which in many cases did not permit any viable shipping operation.

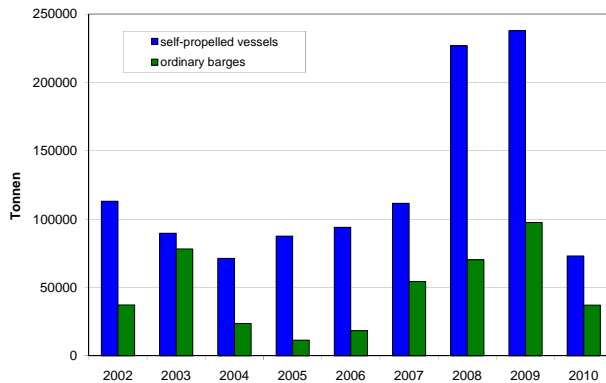
This can primarily be explained by the significant growth in capacity (see following section). This situation puts many shipping companies, especially independent ship operators, in a critical financial position, in which their subsistence depends on support from the banks. Recently, ships have been auctioned and purchased by the bank itself at relatively high prices.

## 2) Supply:

According to the most recent information, 24 new motorized freight ships with a capacity of about 73,000 tons and 24 cargo lighters with a capacity of 37,000 tons were added to the market during 2010. This confirms the significant reduction in new ship building in this area which has been expected.

Even if the number of dry cargo ships scrapped in 2010 increased considerably when compared with the previous years, the capacity withdrawn from the market (about 25,000 tons) still only corresponds to 1/5 of the added capacity. It must also be considered that the added capacity has a higher productivity than the scrapped tonnage.

Figure 2: New ship building for dry cargo shipping



Source: IVR

## 3) Outlook 2011:

Altogether, steel consumption will probably grow at a slower rate in 2011 as compared to the previous year, in view of the slowdown in the automobile sector, a slight dip in machine construction, and only slight improvements in the construction sector. The transport of ore and scrap metal is therefore set to grow at a slower rate in 2011 than in 2010.

The transport demand for sand, earth and building materials, which are the most important segments in terms of quantity, should benefit from the slight increase in private investments in construction. However, only a modest increase of about 1-2 % can be expected for this segment as a whole.

The general conclusion for the dry cargo shipping sector is that the demand for transport will increase much more slowly in 2011 as in the recovery year 2010. A growth of about 1 to 5 % is expected.

## Tanker shipping

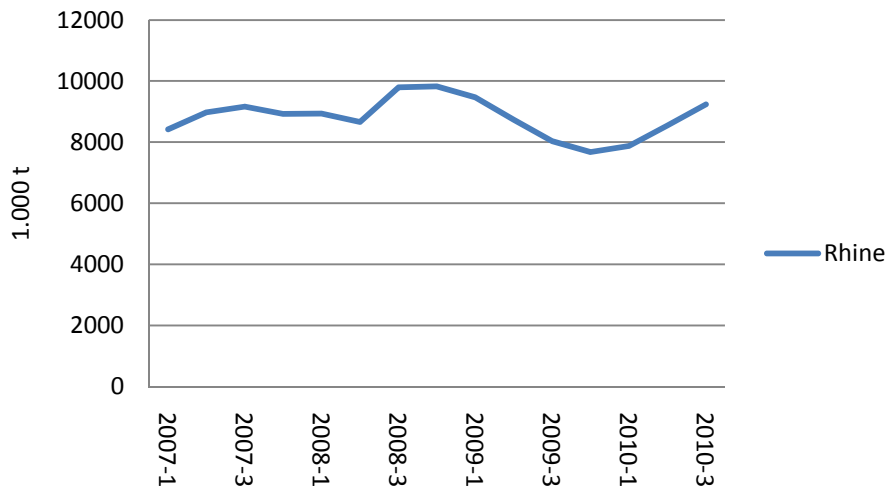
### 1) Demand and freight rates

#### Demand

In the case of **mineral-oil products** there was a recovery during 2010, which applies to the Rhine as well as to the entire network of German waterways. This was partially due to low stocks.

On balance, however, the transport volume stagnated in comparison to the previous year because of the weak demand in the first half of the year. On French waterways, the transport of mineral oil products rose by about 20 % compared to the previous year.

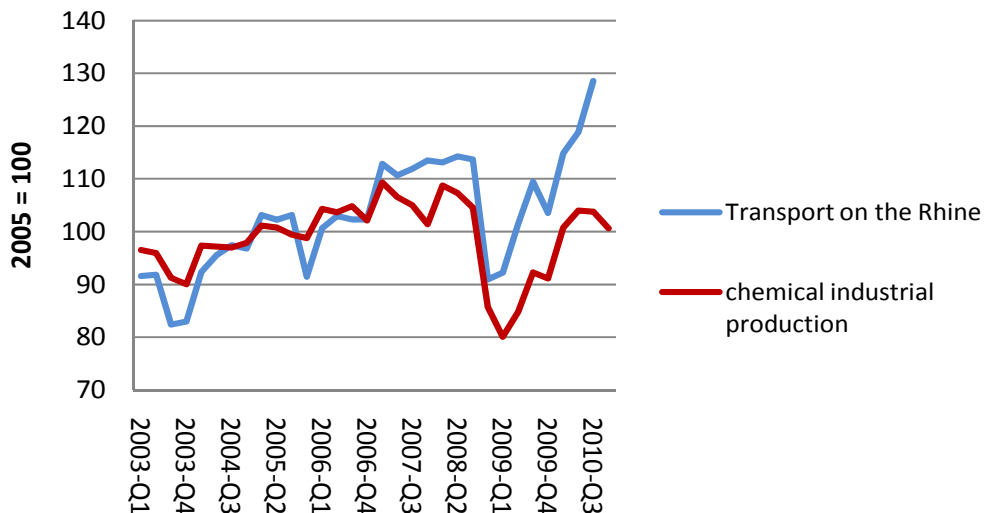
Figure 3: Transport of mineral oil products on the Rhine



Source: destatis

As regards **chemical products**, there was a very strong increase in 2010. On the Rhine, the pre-crisis level of 4.6 million tons (value for third quarter 2008) was already reached in the first quarter of 2010. About 5.2 million tons were transported in the third quarter of 2010. On German waterways, up until October, there was a total increase of 20 % compared to the previous year. France could report a growth of +14.5 %.

Figure 4: Transport of chemical products on the Rhine and chemical industrial production\*

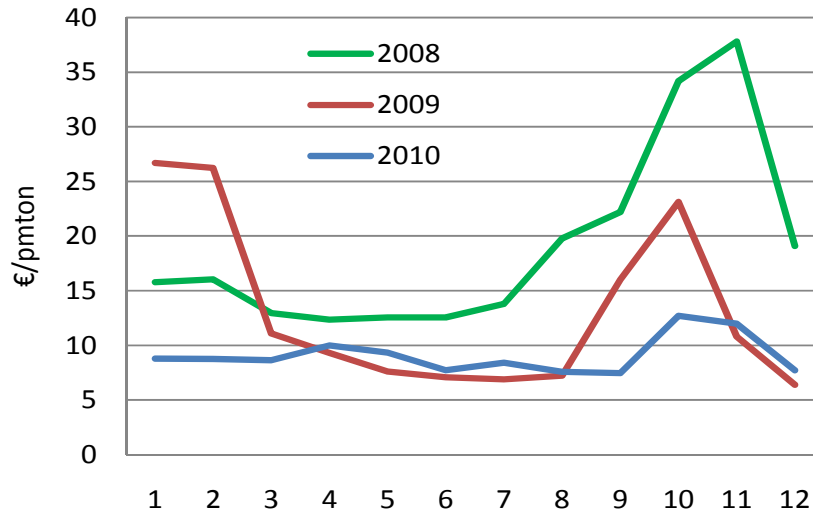


Source: destatis. \* Chemical production in Germany

### Freight rates

At the start and end of 2010, the freight rates for tanker shipping were at a lower level than the previous two years. In autumn, the positive seasonal boost was less noticeable than usual, which was not so much caused by the demand situation as by the high water levels and the strong expansion of supply (see following section).

Figure 5: Average freight rate level for gas oil in 2008, 2009 and 2010 in Rhine shipping \*



Source: Data from PJK International; calculations by CCNR. Numbers 1 to 12 = months. \* Average values for gas oil transport charges from Rotterdam for 6 destinations along the Rhine

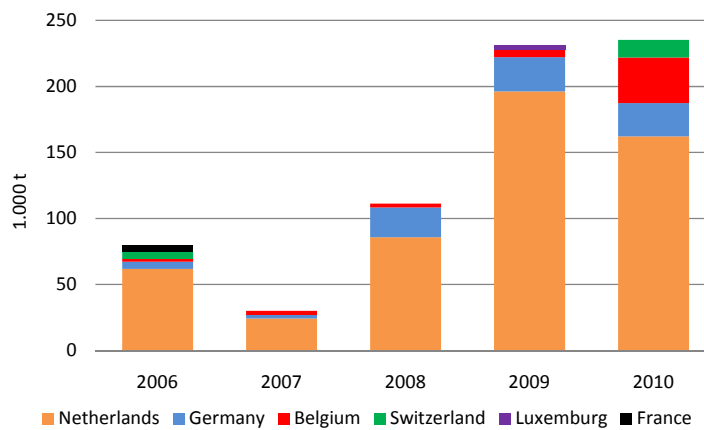
Calculations show that, despite the greater volumes being transported, turnover in the tanker shipping sector fell because of the lower freight rates. This was evident primarily in the first quarter and in the second half of the year, while there was a higher turnover in the second quarter.

### 2) Supply:

In respect of new ship building in the tanker shipping market, the year 2010 was roughly as intensive as the previous year (see graph). The main reason for this is the conversion of the fleet of single-hull tankers into double-hull tankers. Against this background, in late 2008 orders for dry cargo ships were often changed to liquid cargo ships.

This change in orders was stimulated by the fact that the dry cargo market was hit by the economic crisis more heavily than the liquid cargo market in the year 2008. Hence, because of the collapse of the dry cargo shipping market, many orders for dry cargo ships were changed at the last moment to orders for tankers.

Figure 6: New ship building in West European tanker shipping



Source: IVR; Shipping Authority Mainz

Altogether, because of the uneven development of supply and demand, a structural overcapacity was built up in the tanker shipping sector.

For instance, demand in the entire tanker shipping sector (on the Rhine) only increased by 4 % from the years 2003 to 2010. By contrast, the total fleet capacity in the Netherlands, Germany, Belgium, Switzerland and Luxemburg grew by about 35 %.

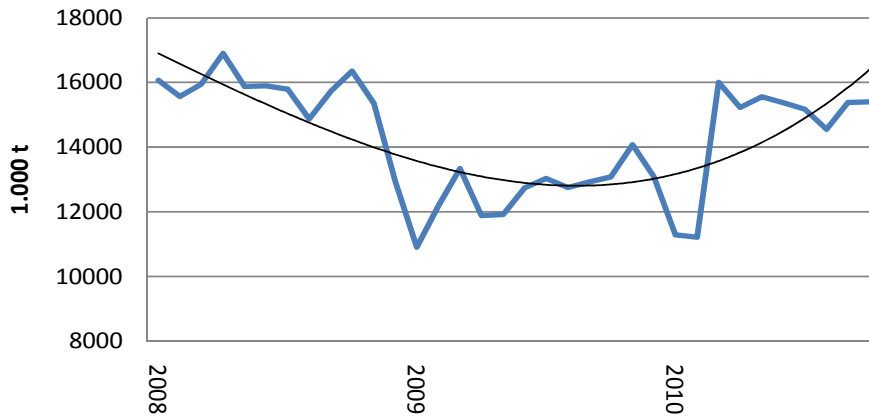
### **3) Outlook 2011**

In view of the anticipated oil price rises and the still-full stores for the Rhine and for Germany, we can expect a slight fall in the transport of mineral oil products. The chemical segment, similar to the dry cargo sector, will see a slowdown in its previously rapid catch-up pace. It is likely, however, that there will be further growth here.

In the tanker shipping sector too, the transport volume will also grow at a slower rate in 2011 than in 2010. A growth of about 1 to 5 % is expected.

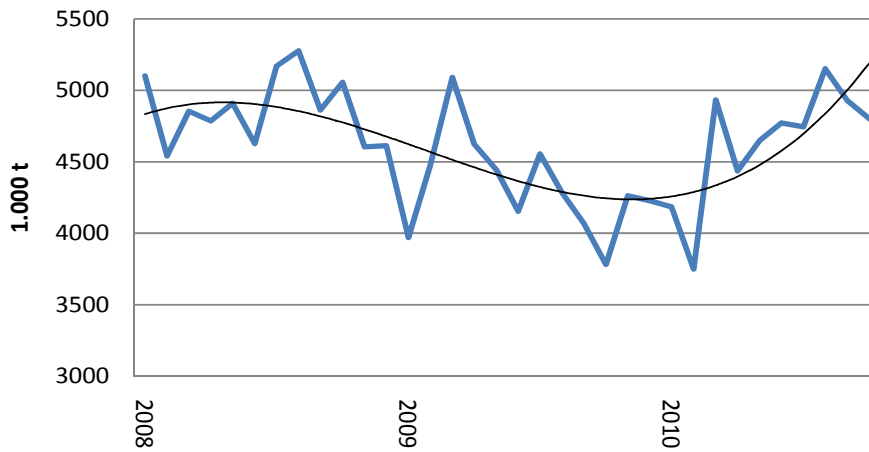
**Appendix:**

Figure 7: Monthly transport demand for dry cargo shipping in Germany, including trend



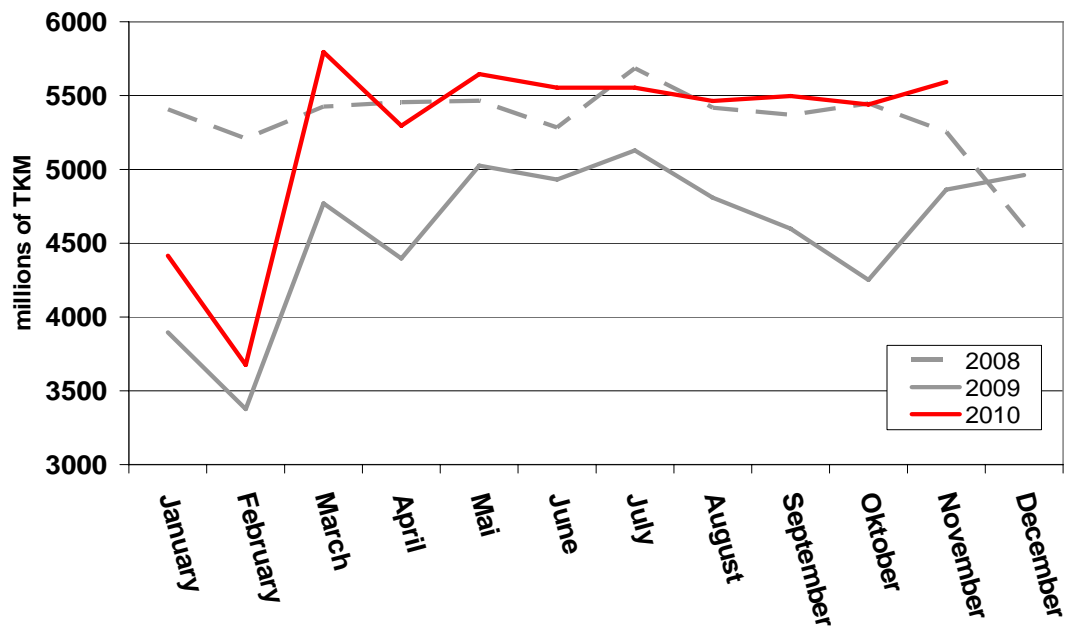
Source: Destatis. \* Up to and including November 2010

Figure 8: Monthly transport demand for tanker shipping in Germany, including trend



Source: Destatis. \* Up to and including November 2010

Figure 9: Transport performance in Rhine shipping



Source: Destatis.



### Forecasts for 2011 (German inland shipping)

Sector	Production / imports	Share of total traffic	Foreseeable influence on the demand for transport (compared to previous year)
Agriculture	Bad harvests compensated by seaport imports	16.00%	0
Coal	Transport forecast + 5 % on 2010	19.00%	+
Steel industry: Ore	German steel production: In 2011: + 7 % on previous year	20%	++
Steel industry: iron, steel	German steel production: In 2011: + 7 % on previous year	8.00%	++
Building materials	Slight pick-up in building demand, but a cold winter again	27.00%	+
Other goods / containers	Consistent container growth	10%	+++
<b>Overall forecast for development of demand in dry cargo shipping</b>			<b>+</b>
Oil products	Higher oil prices, low stocks effect is exhausted	60%	0
Chemicals	Chemical industry +5 to +10 %	40%	++
<b>Overall forecast for development of demand in tanker shipping</b>			<b>+</b>

**Sources:**

Eurofer  
 Euracoal  
 German Coal Importers Association  
 Chemical Industry Association  
 CEFIC  
 CCRN forecasts based on historical developments and calculations

**Development**

0 %	0
1 % to 5 %	- / +
6 % to 10 %	-- / ++
11 % to 15 %	--- / +++ +
16 % to 20 %	---- / +++ + +
over 20 %	----- / +++ + + +