no. 1188

Special Report

Transport
A two-speed world

Euler Hermes Economic Research Department

Economic Outlook

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Content n° 1188

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Economic Outlook n° 1188 | **Special Report** | Transport: a two-speed world

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Editorial

Rethinking mobility

The year 2012 marked a turning point for global transport, whether road, rail, maritime or aviation. Despite a natural market increase driven by demographics and growing wealth, the cards have largely been reshuffled between the world's regions and transport players. Europe appears to be in the midst of a forced landing or even a halt, while the 'new world' – a better name for the emerging countries, which have clearly emerged since the 2008 crisis! - is traveling fast, and in some cases very fast. These relatively worrying figures for Europe are confirmed also in our forecasts. As a matter of fact, the prolonged crisis in the eurozone creates a number of obstacles and even more uncertainty regarding the future of those markets. Public support is declining in the face of massive budgetary adjustments, and households – with purchasing power under pressure – are waiting for better days and deferring their consumption decisions: these are all reasons to expect a negative impact on the profitability of sector players. People are delaying buying a new car, hesitating to travel far on holiday. With flagging activity, the challenges of overcapacity provide further problems for the sector to resolve. The restructurings seen through in the United States, in both the car and airline sectors, seem to have spread to the other side of the Atlantic and are further disrupting an industry the origins of which lie in the industrial revolutions that shaped the Old Continent. And yet, in the words of French-Canadian author Roger Fournier, "Imagination is the world's best means of transportation" and imagine is still alive and kicking in Europe. When looking at the strategies of carmakers, the strength of aircraft manufacturers' business model, or even buzzing innovation (one only needs to attend trade shows to see the incredible inventions still in prototype), it is apparent that, despite a downbeat market, ideas remain bright and abundant. The mobility of knowledge and know-how seem to be a fine evolution for transport in industrialized countries. At the same time, a revolution is indeed underway in – shall we say – less mature countries, when it comes to the transport industry. The catch-up in terms of transport equipment and, especially, mode of transport, will be a revolution. And, as for any revolution, including the industrial revolution, we can always count on Europe ! *_Ludovic Subran*

Maritime transport

▶ Supply overhang

> 1. Maritime transport key figures

Sea shipping plays a preponderant role in globalization, since 120,000 vessels flying 198 different flags carry approximately 80% of total international trade. Of the 80 million barrels in global daily demand for oil, 43 million barrels change hands each day thanks to maritime transport. Passenger transport, which by default necessitated ocean travel for centuries, now goes mainly by air, with the exception of cruise lines. In 2008, 12.6 million people traveled by ship, compared with 2 billion air travelers.

> 2. Maritime freight has benefited from the rapid growth in world trade, but was negatively affected by the economic slowdown in 2012

Maritime shipping of goods has trended in line with world trade, averaging 5.5% annual growth over the past 20 years. But the current situation is much less rosy. Three years after the collapse in world trade in 2008, the first half of 2012 marked the definitive halt to the brief rebound that began in 2010. The deterioration in international trade for goods and services should result in approximately 4% growth in world trade. In recent months, freight trends for container ships, bulk carriers and service activities have revealed the persistence of a major supply overhang in these various markets. The supply chain's ability to tailor its products and services to demand will therefore be essential if the international maritime transport industry is to stabilize freight rates in the months ahead.

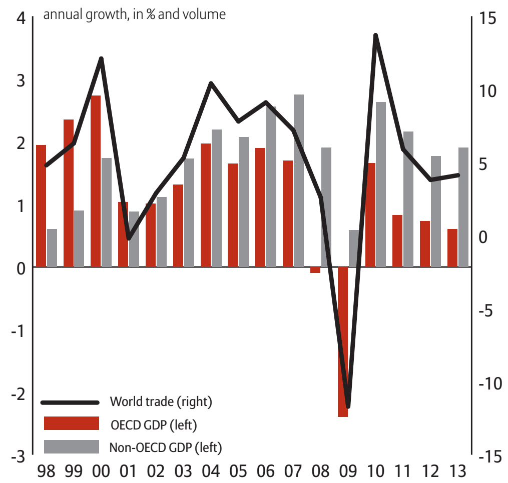
> 3. The supply overhang is expected to remain in place until 2014 and weigh on the profitability of maritime operators

The maritime transport sector is threatened, especially in the developed countries, by marine fuel price trends, strict environmental policies and the unfavorable economic situation of several European shipping companies. The biggest problem most of them face involves the glut of shipping capacity as opposed to a shortage of demand. The increase in the worldwide fleet, and therefore of shipping capacity, is expected to last at least through 2014. This situation has two consequences for ship owners, the first being reduced capacity utilization and therefore lower fixed-charge coverage, and the second being greater difficulty setting prices.

> 4. The paradox of a sector that is still growing but penalized by its overcapacity

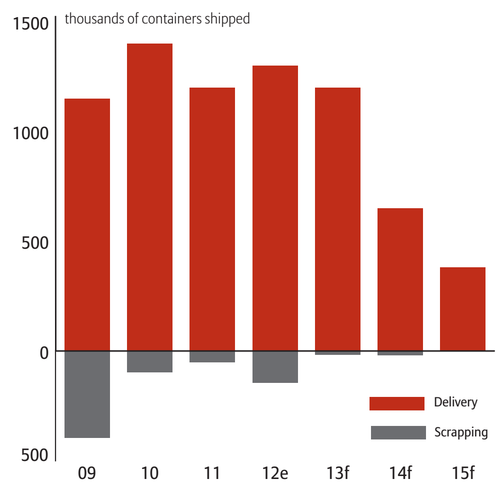
For 2013, the maritime transport industry outlook remains a concern in light of the still depressed economy, notably in Europe. This downturn causes traffic in the main maritime markets to slow even as new vessel deliveries continue at a significant pace, threatening to further exacerbate overcapacity. ▣ *YL*

▶ GDP and world trade

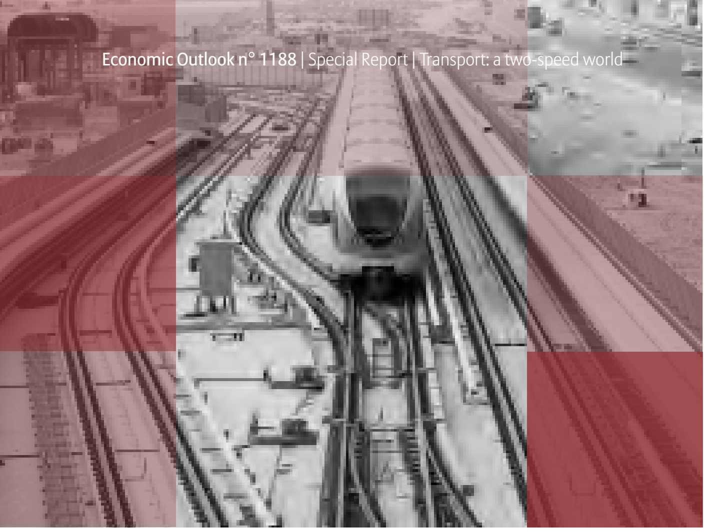


Sources : IHS Global Insight, Euler Hermes forecasts

▶ Growth in global fleet of dry bulk vessels

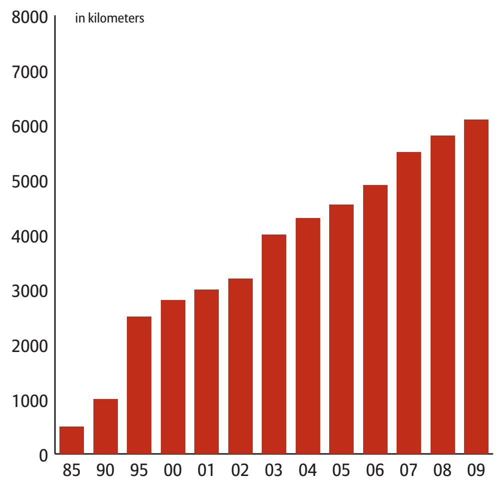


e : estimation, f :forecast
Source : BIMCO, CRSL



Rail transport

▶ Growth in high-speed rail lines in the European Union (1985-2009)



Sources : Union internationale des chemins de fer Fer – high-speed rail department, national sources

Note : these figures only take into account lines or segments on which trains can travel at more than 250 km/hour

A sector that is growing but dependent upon public financing

> Key figures for the rail industry

The rail industry includes everything from subways and tramways to high-speed trains. According to the International Union of Railways (Union Internationale des Chemins de Fer - UIC), railway transport accounted for 2,700 billion passenger kilometers and 9,000 metric ton kilometers in the freight segment in 2011. Overall, there are approximately 1 billion kilometers of railways around the world. In Europe, railways account for around 6% of total passenger transport and 7% of all freight transport.

> Toward clean mobility

The entire sector is benefiting from investment. In Europe and North America, this investment is going toward improving and, in some cases, renovating existing infrastructure. Meanwhile, Asia and South America are designing new rail networks that will serve their cities and regions, which are experiencing rapid population growth. Whether it involves reducing urban congestion or pollution, subways and tramways offer a promising growth outlook, with numerous cities around the world developing this form of public transportation. The transport sector accounts for around 23% of global CO2 emissions, with the vast majority of these emissions attributable to road transport and automobiles. Global CO2 emissions have steadily increased since 1990, and all transport modes – with the exception of rail – have seen an increase in their relative shares of greenhouse gas emissions produced through combustible energy. Railway companies operating around the world currently produce less than 1% of total CO2 emissions attributable to transport activities.

> Large-scale projects for high-speed rail lines

Rail transport also offers a promising outlook following the revolution that occurred some 30 years ago with the advent of high-speed trains. These trains are well-known in Europe and Japan thanks to the French manufacturer Alstom, the German company Siemens and the Japanese firms Japan Railway (JR) Tokai, JR East and JR West. Numerous projects have also been launched recently in China, where plans were laid starting in 2003 to build 12,000 km of high-speed rail lines by 2020, a figure that has since been increased to 16,000 km. In fact, given the massive investments, China decided to develop its own high-speed train, which it now offers for general export. According to the UIC, the rapid development of the high-speed rail lines, notably in Asia, should boost overall high-speed railway capacity to 50,000 km by 2050. The projects are multiplying in several countries, with Morocco planning to build 1,500 km by 2035, Saudi Arabia 450 km by 2014 and Brazil 510 km by 2018. Aside from the kilometers of tracks laid, the most promising outlook for export growth lies in rolling stock, as was the case for Alstom in South Korea and more recently Morocco. As with any growth sector, competition is stiff, notably with the German manufacturer Siemens, which in addition to winning bids in its domestic market also won contracts in Spain, Russia and China.

> Strong growth outlook dependent upon public financing

According to OECD forecasts, demand for rail transport is expected to increase by 80% for freight and 50% for passengers by 2050. Rail transport is expected to grow eight-fold, with passenger rail transport expected to increase 12-fold. One major point of uncertainty remains, however, namely the extremely high cost of such investments. The cost per kilometer of a high-speed rail line is estimated at €15 million for a right-of-way without obstructions. The sovereign debt crisis, notably in Europe, could put the brakes on some projects, as occurred in the United States, where only six of the 11 projects initially presented by the U.S. Department of Transportation in early 2010 remained under consideration by mid-2011. Five were abandoned, typically for lack of public financing, which was impossible to raise in the United States, as evidenced most clearly in Florida. ▣ *YL*

▶ The relative weight of civil engineering in a high-speed rail project

> New high-speed railway projects are very costly. The audit estimated the cost to build a 400 km railway over a right-of-way presenting no natural obstacles:

Infrastructure construction	Cost (€ millions)	Relative to total (%)
Land ownership and/or control (for the record)	540	9
Engineering(PO, PM)	600	10
Civil engineering (earthworks, engineered structures)	3,180	53
Track, ballast	1,080	18
Railway equipment (overhead lines)	300	5
Railway equipment (signaling, telecommunications, etc.)	300	5
Total	**6,000**	**100**

PO : Project Ownership ; PM :project Managment, OA : ouvrage d'art ; Source : MEDDTL

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