

Creating synergies and improving market structure IWT

Update since meeting 2nd of October 2014

PLATINA SWP 1.3 Market mechanisms and transparency

PLATINA II Advisory Committee

Martin Quispel, Brussels, 18.6.2015

Presentation version



PLATINA II is co-funded by the European Union

Developments since October 2014

- NAIADES Dialogue at Barge to Business, Luxembourg, 20 November 2014: presentation and panel discussion

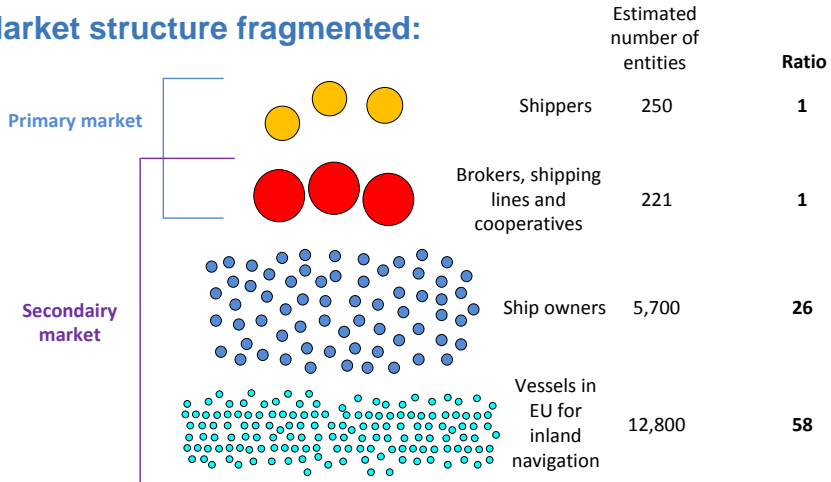


//Barge to Business
Your Waterway Transport Solution

- NAIADES Dialogue, Strasbourg, 4 December 2014
- Dutch Report published and spin-off:
 - Specific attention to clarification of legal framework on competition
 - Report and letter to Dutch Parliament on 26 March 2015
 - Media attention: radio, newspapers, magazines
 - Presentation and seminar CBRB, BLN, Banks, next: September

Summary and recommendations

Market structure fragmented:

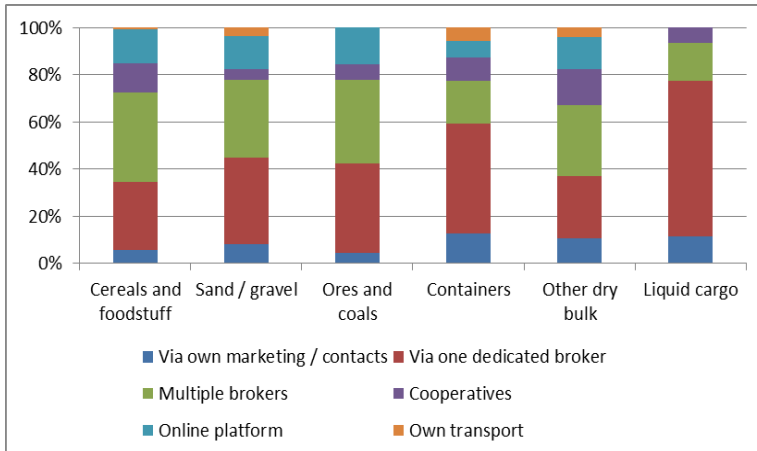


3

platina2

Summary

How do skippers acquire their transport assignments?

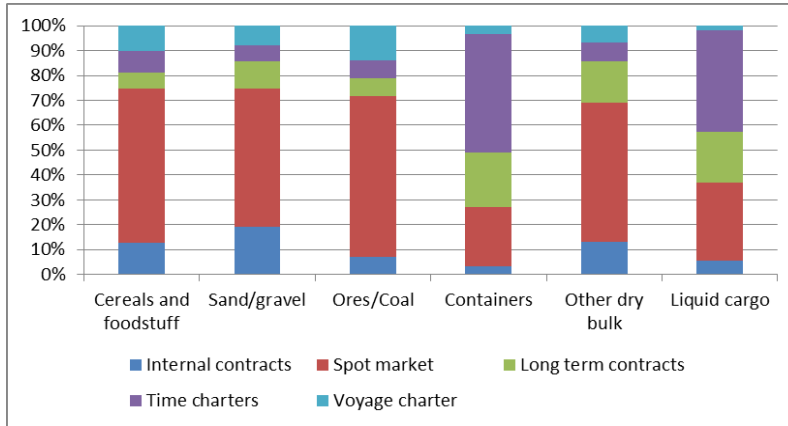


4

platina2

Summary

What is the type of contracting?



Summary

Advantages	Disadvantages
Viewpoint <u>shipper</u> on scale enlargement of the supply side	
<ul style="list-style-type: none"> Higher reliability and certainty, more stable environment for business and investment planning. Larger professionally organised IWT companies (e.g. due to shore based management, back-office, central planning, marketing, etc.), which can be more attractive for shippers to negotiate (long-term) contracts and outsource tasks One-stop-shop including storage, transshipment, connecting modes of transport. Higher quality / efficiency of service, for example by optimising the vessels for the cargo and by joint investments in innovations resulting in higher efficiency and less polluting vessels. 	<ul style="list-style-type: none"> Less opportunity to take advantage of low freight rates on the spot market. A commitment for a longer term gives less flexibility on the change of supply chains and transport volumes. Such a commitment requires a long-term strategy to fix planning of production/distribution processes.

Summary

Advantages	Disadvantages
Viewpoint of the <u>broker/logistics service provider</u> on more structural collaboration with shipowners	
<ul style="list-style-type: none"> • Stronger in acquiring long term contracts resulting in more stable revenues • Ability to compete on quality and comfort for the clients rather than price competition (marketing distinct competitive advantages, for example sustainability, one-stop-shop, all inclusive pricing, green transport) • More added value for the client and increased efficiency with higher profit margins, expansion of services for example regarding storage, handling, transshipment, multimodal transports. 	<ul style="list-style-type: none"> • Less opportunity to take advantage of low prices on the spot market (e.g. in case of low demand of transport and/or high water level situations) • A commitment for a longer term implicates less flexibility on the change of volumes in the market. • Higher transparency as shipowners see also the contracts with the shippers, possibly resulting in lower margins for the brokers.

7



Summary

Advantages	Disadvantages
Viewpoint <u>shipowner</u> on collaboration with other shipowners and/or brokers	
<ul style="list-style-type: none"> • Stable revenues, less risks and more common contract conditions, less late payments. • Better market information, more rational and effective investments, better negotiation results. • Lower costs due to joint purchasing, spreading of risks and a share in the profits of the cooperative. • Possibly a higher utilisation rate of the vessels and reduced variable costs (smart steaming, internal lay-up). Better balance on transport lanes as longer-term contracts and routes allow more efforts in acquiring suitable return loads. • Increased quality of life due to a more stable business environment, more opportunities to take holidays and more focus on specific tasks that fit to the interests and competence of the shipowners • Marketing of distinct characteristics and innovations (e.g. green vessels) 	<ul style="list-style-type: none"> • Less opportunities to profit from the high freight rates on the spot market in time periods of high demand for IWT services (e.g. in case of booming trade and transport and low water situations). • A more limited market and full dependency on the results of marketing and sales efforts of the cooperative structure. • High dependency on the quality of service and professional attitude of colleagues in the cooperative structure. Less possibility to distinct on own individual competitive advantages • In case of a centralised planning of trips less freedom to decide where to sail and to choose trips that fit to the interests of the private needs (e.g. staying close to a home or family at shore-side). • A longer-term commitment to enter a cooperative structure means less flexibility to change business environment.

Summary

What is the position of commercial cooperatives?

- 20% of entrepreneurs is member of a cooperative organisation (1100 out of 5700 in Europe)
- 1100 companies have a total fleet capacity of 1.7 million tons. This is 13% of the European fleet.
- Largest cooperatives: NPRC, MSG, DTG, PTC, ELV and CBO.

What are the barriers for more commercial cooperatives?

- Entry and exit thresholds at existing cooperatives
- Financial advantage of working in a cooperative?
- Strong culture of individualism in inland navigation
- Solid and long-standing relationships with the broker
- Lack of understanding on the competition regulations
- Poor perception of cooperatives ⁹

Summary

Conclusions on legal framework: a lot is possible!

- Never a single aim to settle the prices or limit competition!
- Primary focus on increasing quality and better or new services for clients (create more added value)
- Crucial factors:
 - How is the cooperation and management organised?
 - How big is the cooperation, can it have a significant influence on the market? If yes, is that influence disturbing the market?

Summary

What are the promising markets for cooperatives?

Large share of trading seen on spot market, such as:

- Agribulk
- Coal for power plants
- Construction industry

- New markets and characteristic shippers:
 - high value logistics
 - one-stop-shop solutions, long term contracts, stable prices
 - specific solutions (e.g. greening, special vessels).

11

platina2

Recommendations

Market and professional organisations

- Follow-up actions are now primarily to be done by the market parties themselves.
- Communication about the opportunities for collaboration
- Bring together individual market parties, catalyst for market players to identify, discuss and evaluate sustainable win-win options and next steps
- Financial resources for technical assistance can be made available by means of the Reserve Fund? Article 8 of Regulation (EC) No 718/1999 provides option to encourage private owner-operators to join cooperatives

12

platina2

Recommendations

Financial institutes/banks

- Provide incentives for entrepreneurs that have less economic risks and focus on long term stability
- As member of a commercial cooperative structure a smaller risk of default. More focus on long-term contracts while the risks are shared between members. Reduce interest rates and be more lenient on share of own capital depending on the risk profile of the client.
- Provide support for the preparation of business plans and financing of cooperative structures to reduce risks and volatility in the market.

13

platina2

Recommendations

Education institutes / EDINNA

- Level of individualism is a significant barrier for increased collaboration. Enhance awareness, educate about cooperative structures and collaboration.
- More attention for the various stakeholders and roles in the transport chain, better understanding, e.g. by means of serious gaming or special courses on collaboration in the supply chain.

14

platina2

Recommendations

Public authorities

- Provide clear guidance on competition law and check if the limit of 500,000 tons is still up-to-date in the current market environment. The regulation could be redundant as general competition rules cover the freedom for collaboration as well.
- Link between fragmentation and overcapacity. To be addressed in the EU IWT market observatory: follow the development of the size of enterprises and the cooperative structures.

15

platina2

Thank you for your attention

Martin Quispel
Partner



STC-NESTRA BV
Lloydstraat 300
3024 EA Rotterdam
The Netherlands

Mobile: +31 6 129 52 382
Quispel@stc-nestra.nl



www.naiades.info
Opening your door to inland waterway transport in Europe



PLATINA II is co-funded by the European Union

16

platina2