

## **PRESS RELEASE**

### **FERRY SECTOR FACES MAJOR CHANGES**

According to a major new in-depth Report from UK-based Ocean Shipping Consultants Ltd, the international ferry industry is set to continue to experience extensive supply- and demand-based changes over the next decade. This comes after the major upheaval of recent years resulting from the abolition of duty free sales within the EU, the commencement of major fixed links in Scandinavia and between France-UK, the evolution of new generations of passenger-only and freight high-speed vessels, high levels of operator consolidation, and highly variable economic/trade growth.

The following provides a summary of some of the findings of the major 225-page Report, entitled "Ferries : World Fleet & Market Prospects to 2012".

#### **Regional Markets**

- For Baltic markets, long-term freight traffic potential is relatively healthy, linked to economic growth prospects and higher levels of intra-regional trade.
- Several companies in the region will continue to be hit by high costs, whilst the scale of new capacity introduced is likely to lead to a heightening of price competition.
- The introduction of new high-speed vessels is set to markedly change the sector in this region, leading to greater emphasis on speed and size on specific high freight volume routes, although finding the optimum solutions to the conflicting problem of matching the need to maintain tonnage flexibility with the use of specialised tonnage geared to specific

routes, will remain the crucial test for the major operators in the Baltic ferry markets throughout the study period.

- For cross-Channel services, there are a number of trends likely to be witnessed as the market continues to reorganise itself in the wake of the abolition of duty-free sales and the opening of the Channel Tunnel. Prices have risen significantly, and market resistance to price expansion is likely to become more significant.
- Differentiated services, in terms of levels of services and associated prices, will feature more in the coming decade - with a number of low-cost services introduced whilst moves continue towards greater levels of passenger service (through more onboard facilities and luxury on longer crossings and/or lower transit times through higher speeds). These two developments are likely to continue to be noted in the market, leading to more distinct market tiers.
- There is likely to be a shift in favour of freight capacity at the expense of passengers on many routes, although it is likely that a combination of freight/car/passenger capacity will prove the optimum mix for individual ferry operations in this highly competitive market.
  
- In the Mediterranean ferry markets, traffic growth potential remains large, based on an expectation of continued higher levels of economic expansion in the region than in northern Europe.
- A large volume of tonnage for this region has recently been ordered, and threatens to create oversupply in a rapidly changing regional ferry sector. This is especially the case for the main Greece-Italy routes.
- For the region overall, there will be greater levels of inter-company cooperation, largely through pooling and the provision of joint services. Competitive cost pressures could see some of these cooperative arrangements develop into full company mergers and takeovers. This will be helped by the planned privatisation of State-owned Italian and Spanish ferry groups.
- In Greece, there is increased attention to the issue of safety and vessel age in the extensive Greek market, and new legislation on vessel life threatens to have a massive near-term impact on the Greek ferry sector, with approximately half of the 200 vessels deployed in Greek waters facing retirement by end-2006.
- The domestic Greek ferry sector is set to be extensively changed - through the opening up of coastal services to non-Greek operators, and by new legislation limiting vessel life (approximately half of the 200 vessels deployed in Greek waters facing retirement by end-2006).

### **Ferry Operators**

- For vessel operators, the next decade is set to witness the following significant ferry line developments :-
  - ◆ Increase in the number of company failures and bankruptcy;
  - ◆ Increased privatisation of State-owned lines;
  - ◆ Increased cooperation between individual lines;

- ◆ Consolidation by major players.
- Company failure and bankruptcy will inevitably be witnessed most in the areas where inter-line competition is fiercest, and where recent vessel ordering threatens to seriously undermine demand/supply conditions. This is perhaps most likely to be witnessed in the near-term in the Adriatic market.
- One of the likely features of the significant privatisation expected, is the diversification of major lines into 'new' spheres of activity. Several of the leading operators in Northern Europe are expected to be active in the bidding for former publicly-owned operations in the Mediterranean.
- The scale of expected privatisation and company merger and takeover, will see a greater proportion of ferry traffic concentrated in the operations of a relatively small number of large lines.
- The move towards further integration of freight handling and transport efficiency will see a continued blurring of the passenger ferry/ro-ro distinction. This will be allied to further developments in the application of fast ferry technology to freight traffic, where the installation of exclusive port facilities will become more prevalent.
- Ferry freight will increasingly be viewed in conjunction with alternative and complementary road/rail transport, and as part of a wider freight shipping (including containerships) sector. This applies not only to the sea transport leg, but also to port handling and onward distribution – with a more holistic approach to the industry allowing transportation and handling time/cost are to be minimised.

### **Ferry Capacity**

- The current world fleet of >1,000 GT passenger/vehicle ferries equates 1075 vessels, and around 90% of this total is deployed in the North Europe, Mediterranean, and S & E Asian markets.
- It is significant that the largest vessels in the world fleet have been delivered within recent years, and that they operate in North European markets. Of the ten largest vessels in the fleet, eight operate in North Europe (5 in the Baltic market), and nine have been delivered since 1990.
- The current world fleet is dominated by relatively old tonnage. Vessels built more than 20 years ago currently represent 52% of the total fleet (41% in terms of tonnage), with this including an 18.5% share for tonnage built prior to 1970. Whilst recent years have witnessed renewed volumes of newbuilding deliveries, it remains the case that 20+years old tonnage continues to dominate.
- Increasing priority is being given to the issue of vessel safety, and this is set to help fund a renewal of the world fleet.
- The current fast ferry fleet numbers 1555 vessels, with this fleet size continuing to increase on an annual basis. The overall size has grown by 71% in 10 years, or average annual growth of approximately 5.5%. Average annual delivery totals have diminished from around 65 vessels in the first half of the 1990s, to around 70 vessels over the mid-1990s, and slowing to 30-40 vessels by the start of the current decade.
- Fast ferries with capacity for cars have increased in number from 21 as recently as 1995 to a current total of 134 vessels, with annual deliveries in recent years

averaging 15-20. North European and Mediterranean markets dominate – with a combined 58% of all vessel deliveries in recent years.

- There has been an undeniable trend towards ever-larger vessels, with associated increasing passenger capacity. Thus, the average size of vessels within the fleet built prior to 1970 is under 100, with this average increasing to 200 for those built in the 1980s, over 250 in the early 1990s, and over 280 in the second half of the decade. The trend is set to continue, albeit with a growth slowdown - for those vessels built since, the average approximates just under 300 passenger capacity.

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In 225 pages, the highly detailed and extensive new Report contains analysis of what is happening in the international ferry industry, and examines and discusses the likely developments for the next decade.

The Report offers an informed and independent assessment of current and future developments throughout the industry, and is essential reading for all parties with an interest in any part of the ferry sector.

***“FERRIES : World Fleet & Market Prospects to 2012”***

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