Speech DSG Leterme for conference of European Seaports Organisation (ESPO), 15 May 2014, Göteborg, Sweden

Mayor, Minister, Director of the Port, Chairman of ESPO, participants,

It is a pleasure to be here with you at the annual conference of the European Seaports Organisation. I consider ports to be essential drivers of economic growth, so I am more than happy to share with you our prospects on the world economy and the implications for European ports.

Last week, we organised the OECD Week in Paris, in which the new OECD Economic Outlook was presented. I will present you here the main findings and disclose the main implications for European ports.

I will do this, by asking four questions:

1. What are the economic prospects for Europe in the short term?
2. What are the prospects in the very long term?
3. What does this mean for European ports?
4. What could be the factors that make these projections fail?

1. Economic prospects in the short term

The global economy is rebounding, but the recovery will gain momentum only slowly in the coming years.

- Global growth this year is projected to be slightly lower than expected in our *Economic Outlook* last November: just under 3½ per cent in 2014, picking up to almost 4% in 2015 <Slide 1>.

- Growth in the United States will be stronger than in Japan and the euro area.
- The major emerging market economies are displaying less of their former dynamism; their growth is projected to remain close to current rates.
- The balance of risks remains somewhat to the downside, despite the improving economic outlook. There are concerns about uncertain prospects in China, the impact that steps toward monetary policy normalisation in the United States may have on some emerging marker economies, fiscal challenges in Japan, and, in the euro area, remaining financial fragilities and possible additional disinflationary pressures.
- Geopolitical uncertainty has also risen, in part due to the events in Ukraine.
- On the upside, some of these concerns could ease more quickly than expected.

The growth rates for Europe remain relatively moderate:

- We project for the euro-zone area 1.2% growth in 2014 and 1.7% in 2015.
- This is lower than the projected growth rates for the global economy.
- The good news is: it is higher than we projected in our outlook last November.

Trade intensity has been very low.

- Following an initial rebound in the early stages of the recovery, global trade growth has until recently moved in line with global output growth, well below pre-crisis norms.

- In the decade prior to 2008, trade intensity rose steadily, with trade growth being around 1¾ times the pace of global GDP growth. This reflected the rapid globalisation of economic activities and supply chains during this period and development of many emerging economies, especially China.
- The factors behind the weaker recent level of trade intensity remain unclear, but may include an increased number of trade restrictions since the crisis began.
- Fixed investment - a trade-intensive expenditure category - has been much weaker than in the pre-crisis period, and import growth has slowed particularly sharply in those economies in which investment has been the weakest relative to pre-crisis norms.

However, trade growth is expected to pick up.

- There is stronger demand in the major OECD economies, particularly for fixed investment and inventories, and trade of emerging market economies has resurged.
- Global export orders have also strengthened over the past six months in all G7 countries.
- For trade intensity to pick up further, much depends on whether capital investment can strengthen gradually. If this would be the case, trade growth could pick up to just over 5¾ per cent in 2014 and around 6½ per cent in 2015, around 1½ times the level of global GDP growth <Slide2>.
- In the medium-term the direct effects of the trade facilitation measures in the recently concluded Bali agreement should boost global activity and trade.

- A successful conclusion to the current negotiations on the transatlantic and trans-pacific trade agreements could further boost such effects.

Prospects for the euro area are brightening up:

- In the euro area, growth has picked up a little faster than anticipated and confidence has continued to improve.
- Nonetheless, the recovery is set to gain momentum only slowly.
- Improving export prospects and a gradual upturn in private investment are expected to help the recovery strengthen, but private consumption is projected to remain subdued throughout this year and next.
- GDP growth in Germany, Austria and a number of smaller economies, including Ireland, is projected to be a ⅓ percentage point or more above that for the area as a whole.

2. Long term projections

In the long term, GDP growth of OECD countries is projected to remain lower than non-OECD countries, but the differences will diminish:

- Trend growth of the non-OECD since 2000 has averaged about 7% per year, compared to 2% per year for the OECD.
- In our long-term projection, non-OECD growth slows to an average of under 5% per year over the period 2014-30 and 3% per year over 2031-60.
- OECD growth will likely average approximately 2% per year in the same periods.

Growth in China is set to be slow and will be surpassed by that in India and Indonesia.

- China's average growth rate was 9-10% per year since 2000; this average growth rate is set to roughly halve over the period 2014-30 and halve again over 2031-60.
- India and Indonesia are projected to surpass China to become the two fastest growing countries by 2020, maintaining these positions up to 2060.

There will be a massive shift in global GDP towards non-OECD countries, in particular in Asia.

- This shift will be at the expense of both North America and Europe.
- Having accounted for about one-quarter of global GDP at the beginning of the century, Asia's share has already risen to over one-third and is expected to reach 40% by 2030 and stabilise at around 45% in the 2050s.
- This is reflected in the ranking of the top five countries by GDP at the end of the projection: China, United States, India, Japan and Indonesia.

3. Implications for European ports

GDP growth generally translates into more port traffic.

- The idea behind this is simple: GDP growth leads to growth of external trade which translates into port growth.
- This relation can also be shown <Slide 3>. This graph for example shows how GDP growth and container port growth run more or less in parallel.
- This graph also makes clear that container growth rates are usually much higher than GDP growth, both positive and negative. This can be expressed in a container to GDP growth-multiplier. This multiplier over the last decade has been around 4.5 in Europe: the average growth rate of container handed in European ports was 4.5 times higher than the

real GDP growth. This multiplier is similar to the one for the previous decade, so was more or less stable over the last twenty years.

So the projected growth in the euro area would normally result in considerable port traffic growth:

- Estimated container growth rates in Europe could roughly be estimated at 5% in 2014 and 7.5% per year in 2015.
- Container traffic in Europe reached 80 million TEU in 2013. According to our estimations this could come close to 90 million TEU in 2015.
- This is under the assumption that the average relation between GDP growth and container growth applies to the coming two years.
- This is of course not certain. The last years have shown that external trade grew at the same pace as GDP, whereas it usually grows almost twice as fast. This also explains relatively sluggish port growth rates. If trade growth would now accelerate, as the numbers seem to suggest, this could mean that the container to GDP growth-multiplier is back to "normal".
- Port traffic forecast puritans will of course object to using a simple multiplier, and suggest more sophisticated forecast models that take into account industrial structure, activity and location dynamics.
- Our response to that is simply: yes, it would evidently be great if such a model existed for projecting European port traffic – but it does not, according to our knowledge.

The dominance of North-West European ports is not going to weaken in the short term, quite the contrary:

- A long-established feature of the European port system is the dominance of North-West European ports, from countries like the Netherlands, Belgium and Germany.
- The northern dominance has become less pronounced in the 1990s, but has stabilised since 2000. In that year the container throughput of Northern ports was 1.7 times bigger than the Mediterranean ports in Europe; this was still the same ratio in 2012.
- In the coming years, this dominance is likely going to increase again. Key markets for northern ports, in particular Germany, show higher GDP and external trade growth projections than those for the main Mediterranean economies. Port capacity constraints have been resolved via large port expansion projects, so these northern ports will be able to accommodate higher growth.

In the longer term, the relative marginalisation of European ports will continue.

- In 2012, there were 19 European ports in the top 100 largest container ports in the world. This was 30 ports twenty years before and half of the top 100 in 1972.
- This is not so much an illustration of European decline, but rather the emergence of other continents, in particular Asia.
- This is a tendency that will continue. We expect that in 2060, there will be less than 10 European ports in the global top 100 of container ports.

As mentioned, we project that the main growth opportunities will come from India and Indonesia

- Some European ports already have well-developed relations with India and Indonesia, in the form of partnerships and joint ventures. These might be investments that will pay off in terms of strong traffic growth for these ports.

4. Cautionary notes on projections

After all these projections and estimations, some words of caution.

- We can almost be sure that the world in 2060 – and possibly also in 2015 – will not look as we had imagined it.
- The world is shaped by structures that we can try to understand and model, but also by events that are in many cases much more difficult to predict.
- The crisis in the Ukraine is an example in case; we did not predict it in our last Economic Outlook, yet it has an impact on the European economy, especially to countries with large exposure to Russia <Slide 4>. And this obviously has an impact on the ports in these countries.
- Of course, ports are facing other developments that are sometimes also difficult to predict. Shipping lines consolidate which can work out well for some ports, and less for others; think of the P3 alliance and its possible impact on port calls in the largest European ports. Shipping routes change, with more and more talks about the Arctic Route, which could change the port hierarchy in Europe. Most of the goods from Asia come via the Suez Canal, so Europe – and in particular Med ports - is highly dependent on developments in Egypt.
- So, our projections should be taken with a pinch of salt.

A final word of caution is also needed, which in a way is also an expression of hope:

- The European economy has evidently an impact on the ports sector in Europe.
- But the relation is also the other way around: ports can also be drivers of European growth.
- A TEN-T network has been defined with a comprehensive network of core ports. This will structure the long-term development of the European economy. Along these axes and around core ports we can expect economic dynamism.

Ports in Europe have an essential role to play, not only as main nodes for global trade flows, but also as economic actors essential to the future of Europe.

Thank you.