COUNTRY SECTOR SUMMARY - August 2018

TRANSPORT: FRANCE

RISK ASSESSMENT: MEDIUM

HIGHLIGHTS AND OUTLOOK

The French economy benefits from excellent transport infrastructures. In addition to its rail and road network, the country is home to the leading freight airport in Europe (Roissy-Charles de Gaulle). The transport sector represented EUR 192 billion in 2016, or 8.7% of GDP, and 1.4 million jobs. Production is mainly divided between passenger transport (27%), freight transport (33%) and auxiliary services (34%), such as warehousing or freight transport organisation.

In addition, certain French groups are among the world leaders in their field, notably in air transport services (Air France-KLM) and maritime services (CMA CGM). Large French groups – in part – are also active in the production of transport equipment such as EADS (Airbus), in aeronautics, and Alstom (whose merger with Siemens' transport branch should take effect in 2019) in rail. Inland freight transport is mainly by road (86.3% of the total in 2016, against 72% in Germany and 76% on average in the EU). In parallel, while less than 3% of domestic freight is transported by inland waterways (cereals and construction materials), 72% of imports by volume are by sea.

The macroeconomic framework remains buoyant in France in 2018, although the growth peak was reached in 2017. Business and household confidence indicators have been on a downward trend since the end of 2017, but remain at high levels. Consequently, passenger and freight transport should continue to benefit from this favourable macroeconomic environment. However, the increase in trade tensions, with the introduction of protectionist measures and the trade war between the United States and the main partners, including the European Union, will affect trade and ultimately the transport of goods. In addition, the sector's profitability is being undermined by the rise in oil prices in 2018. Finally, the loss of market shares of national players in all types of transport raises the question of the competitiveness of French companies in the sector. Several reforms have been carried out notably to this effect in recent years, generating social conflicts, particularly at SNCF and Air France. While the French transport sector has undeniable assets, the challenges remain significant in the face of increasing global competition.

Strengths

- Privileged geographical situation at the crossroads of Western Europe
- Quality infrastructure (7th in the world according to the World Economic Forum)
- World leading groups

Weaknesses

- High labour costs impacting all segments in the sector
- High dependence on road transport (86% of freight transport in 2016)

Key Players

- **Air: Air France-KLM** (37% market share; revenue: EUR 27.8 billion in 2017)
- **Rail: SNCF** (turnover: EUR 33.5 billion)
- **Maritime: CMA CGM** (turnover: EUR 21.1 billion)
- **Road Freight: Geodis** (turnover: EUR 8.1 billion)

Sources: Annual Financial Reports

Regional Risk Assessments: Transport

ASIA	MEDIUM
CENTRAL & EAST. EUROPE	HIGH
LATIN AMERICA	HIGH
M. EAST & TURKEY	MEDIUM
NORTH AMERICA	LOW
WESTERN EUROPE	MEDIUM

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SECTOR ECONOMIC INSIGHTS

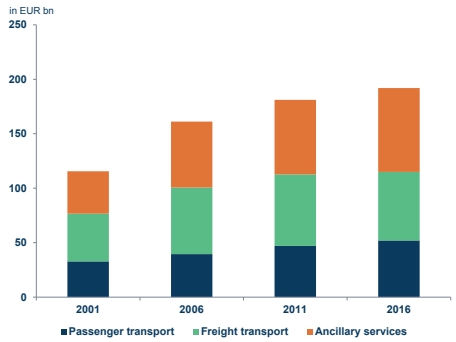
The road network is of very good quality (7th worldwide according to the WEF Global Competitiveness Report 2017-2018) and particularly dense (twice as many kilometres per inhabitant as in Germany and four times more than in Italy). The market share of French carriers is 61% (72% 20 years ago). Largely dependent on household consumption, road freight transport rebounded in 2017, after five years of decline in activity. It was still on a positive trend mid-2018: business insolvencies decreased both in interurban (-2.8% YOY in the 12 months to July 2018) and local (-10.8% YOY) freight transport. The implementation of the A355 project mainly engineered by Vinci to bypass Strasbourg West via the construction of 24 kilometres of motorway (a EUR 553 million investment) –, which is due to start in second half 2018, despite strong opposition from environmental associations – would favour road transport in the East of the country.

Rail infrastructure business dynamic is excellent overall (5th in the world), with a network similar to Germany that is about 30% denser than those of Italy and Spain. However, rail transport is much less developed for inland freight activity (10.9% of the total, against 19% in Germany and 17% in the EU). 2018 was marked by the reform of the SNCF adopted in June, aiming to change the status of the public operator into a public limited company with public capital with a view to opening up to competition in 2019 for regional trains and end 2020 for high-speed trains. This reform led to a split strike (2 days out of 5) between the end of March and the end of June which is estimated to have roughly cost EUR 400 million to the company, in particular because of the abolition of the status of railway worker (early retirement, lifetime employment) for new hires. Twelve years after freight was opened up to competition, SNCF Fret has lost 40% of its market share to companies such as Colas Rail, ECR (Deutsche Bahn) or Europorte (Getlink). In the medium term, the Lyon-Turin rail line construction project (total investment of EUR 26.1 billion, of which 40% financed by the European Commission, 35% by Italy and 25% by France) would provide an alternative to road and air freight and passenger transport, with a journey time saving of 2 hours. However, while the project was due to start in 2018 (for commissioning at the end of 2029), it now depends on the political situation in Italy. If the Minister of the Interior, Mateo Salvini, has spoken in favour, his partners in the 5 Stars movement have expressed their reservations. In the short term, rail freight transport, which depends on the agri-food sector, should be affected by the disappointing cereal harvests in 2018, after a marked rebound in 2017.

Air transport infrastructure is of good quality (18th in the world according to the WEF Global Competitiveness Report 2017-2018). Air freight transport is booming: in 2017, it grew by 9% worldwide (against 3.6% in 2016), with European airlines recording a 12% increase in traffic. This dynamic demand can be explained by the desire of companies to shorten lead times at the expense of costs, particularly in «high-tech» technologies and, more generally for e-commerce players (mainly from Asia to Europe and the United States) which is expanding rapidly. Finally, air transport is also dependent on the pharmaceutical sector, which is expected to remain dynamic in France in the coming years, thanks to continued substantial public spending on health. According to the International Air Transport Association (IATA), growth in air freight transport is expected to reach 4% in 2018, a slight slowdown due to a deceleration in global growth and protectionist tensions, after an exceptional 2017. The main player on the French market, the Air France-KLM group (5th largest airline in the world in terms of turnover and passengers) is experiencing a difficult year 2018, marked by a strike of several months (demand for staff salary increases) which led to the resignation of the company's CEO. For the first time a non-French Air France CEO was later appointed, Benjamin Smith, former n° 2 at Air Canada. This nomination has been well received by the market. The market share of French companies in passenger transport is 41.5% in France (80% for domestic traffic, 32% for international traffic), against 60% in 2000. Thus, while French air traffic is growing strongly (+6% in 2017 to 164 million passengers), this dynamism mainly benefits foreign airlines (low cost, Gulf airlines). In March 2018, the government therefore launched the «Assises nationales du transport aérien» to reflect on the competitiveness of French airlines «in an extremely competitive context, faced with foreign carriers enjoying more favourable tax and social rules».

Port infrastructures are of fairly good quality (27th in the world according to the WEF Global Competitiveness Report 2017-2018). Port activity is concentrated (87% of goods) in eight ports, the two main ones being Le Havre (56th worldwide) and Marseille (110th). Petroleum products account for one third of volumes. The French market is dominated by the CMA CGM group (4th worldwide group with 12% market share). Globally, the trend is towards concentration: the five main players now control 60% of the market.

TRANSPORT SECTOR OUTPUT BY SEGMENT



Source: INSEE

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