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TRANSPORT FOR A GLOBAL ECONOMY

*Challenges and Opportunities
in the Downturn*



International
Transport
Forum

SUMMARY CONCLUSIONS OF POLICY PANEL 2

Supply Chains and Gateways in Volatile Markets

Thursday 28th May 2009, Hall 2 - 14:30 to 16:30

Participants:

- Moderator: Robert Wright, Financial Times
- Rapporteur: Mary Brooks, Dalhousie University
- Etienne Schoupe, Secrétaire d'Etat à la Mobilité, Belgium
- Igor Levitin, Minister of Transport, Russian Federation
- Cumhuri Atılğan, General Manager, RODER, Turkey
- Ján Kubiš, Executive Secretary, UN Economic Commission for Europe
- Janusz Lacny, President, JMJ-TRANS, and President, International Road Transport Union
- Kunio Mikuriya, Secretary General, World Customs Organisation
- Karl Mohmsen, CEO, TX Logistics
- Scott Price, CEO, DHL Express Europe

Background:

The situation with the global supply chain had changed dramatically over the last year. Then, growth outstripping capacity was the main challenge. Today, the challenge is adapting to new market conditions, alleviating the effects of the downturn for logistics companies and preparing tomorrow's supply chains.

Organisation:

Discussion revolved around four key questions:

- *Is the downturn changing the structure of supply chains and the role of the different modes in the chain ?*

Logistics actors everywhere have seen a steep decline in volumes traded in the first quarter of 2009. Panellists came to the agreement that globalisation would continue but there was not necessarily agreement that supply chains would remain the same. Smaller players are being pushed out of the market and the global supply chain sector is likely to emerge consolidated. Freight forwarders are re-evaluating possible trade-offs between lower manufacturing costs and higher transport costs which could translate into less demand for intercontinental trade. Energy prices and environmental factors are also emerging as key drivers in the supply chain reconfiguration with increased demand for land-based, short sea shipping and intermodal transport. In this sense, the current downturn is also an opportunity for any well-organised and managed company to exploit.

- *Where are the weak links in the global supply chain ?*

Within each mode, bottlenecks of a technical or administrative nature were frequently cited as an important hindrance to the smooth flow of international freight. There was general consensus that removing existing regulatory barriers, introducing electronic document workflows and adopting common risk management approaches offered least-cost pathways to a truly integrated global supply chain. Replacing existing cabotage laws - reported to account for 30% of Europe's empty runs - was perceived by several panellists as the single measure with the highest impact on freight efficiency.

Seamless transport services are essential to supply chain actors. A discussion arose on ways to step up the convergence of logistics services into a truly global transport market. Customer-driver intermodal solutions can offer an energy-efficient transport service with potentially large economies of scale but, in many cases, require start-up investments allowing the fleet and infrastructure to adapt to new technical requirements. Public support needs to favour intermodal developments where there is greatest carbon productivity and largest potential for modal shift.

- *How does infrastructure need to be adapted ?*

Infrastructure increasingly needs to be devised with the global market in mind. Freight corridors and gateways serving several markets at once offer an example where coordinated investment strategies are needed. Sea ports in particular needs to be devised taking into account hinterland connections and the requirements of different users of the service, such as customs services and the wider business community. Industries will only use gateways that effectively reduce their overall costs to market.

■ *What can governments do ?*

Avoid protectionism: When multiple economies slide into recession simultaneously, the prospects for an export-led recovery are dimmed. This effect may be exacerbated by the tendency for economies sliding into recession to look for any and all available means to boost output for their domestic industries. This makes short term protectionist measures very attractive.

Harmonize standards and reduce administrative burden. There is a need for quality information and a rationalization of the document/data management not only for better customs processing and security but also for planning purposes.

Provide start up support to intermodal programmes. Any financial aid must be of limited duration, long enough to address the reluctance of users to shift modes but not so long as to be distorting.

Coordinate infrastructure investment programmes where international markets are impacted.

Work with all the stakeholders especially when devising large freight gateways and corridor.

Key message for policy-makers

Ultimately, many of the supply chain choices are driven by the customers themselves as they seek lower shelf prices. However, it is government that effectively sets the rules of engagement. The regulatory climate needed is one that is less parochial, more global in its thinking and adjustable to future cyclical crises.