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TRANSPORT FOR A GLOBAL ECONOMY

*Challenges and Opportunities
in the Downturn*

WORKSHOP 1 CONCLUSIONS

Intermodal Transport and Supply Chains Moving the Global Economy

Tuesday 26th May 2009

Background

The Workshop on Intermodal Transport and Supply Chains Moving the Global Economy provided an opportunity to examine the forces driving development of the sector, discuss the potential ramifications of the current severe downturn and the impact of volatile energy prices and reflect on the future development of supply chains over the longer term. The Workshop also discussed the broadening activity base and integration of transport and logistics firms and the potential for growth in intermodal rail, barge and short sea shipping services.

The transport sector faces urgent problems in the short-term, but must also focus on actions to support long-term strategies

Workshop participants noted that the current credit crisis is severe and it affects many industries simultaneously. However, the general view of participants was that growth will return and the crisis will not have a significant impact on continuing globalisation. With this in mind, the quality of infrastructure and existing bottlenecks will remain a challenge. ITS systems are likely to have bigger impact and effective functioning of these systems is of importance.

The future development of supply chains will depend less on the price of energy and more on the capacity of logistic companies to provide reliable end-to-end services

The impact of volatile energy prices and a potential return to high oil prices on supply chain configurations in the long term was considered not of immediate concern and probably not that significant. Logistics costs represent around 10-15% of total turnover in manufacturing industries and transport related costs account for one third of this. Often, inventory and management costs are much bigger than direct transport costs. This is not to say that transport costs are insignificant. Often they are out-of-the-pocket costs, directly visible to companies. Therefore sensitivity and elasticity to even small price changes may affect modal choices.

The reliability of logistics chains was considered an important service factor. Unreliability is most likely to arise at interfaces - between countries, between ports and hinterland connections, at modal interchanges and between warehouse and carrier. Despite its importance, network and service reliability is not yet systematically incorporated in the transport planning process and rarely incorporated into cost-benefit analysis.

The current crisis will reinforce the trend towards new global “mega players”

The current economic downturn has severely impacted trade volumes and profit margins have collapsed. Some transport and logistics companies will not be able to survive the downturn and are likely to exit from the sector. In order to manage interfaces, many agents along the supply chain have become engaged in horizontal and vertical integration of activities. This has increased efficiency in the movement of cargo and seen the emergence of some very large companies, including logistics businesses operating across the world and maritime shipping companies controlling large assets and operating globally. Transport operation itself will no longer be the major part of the turnover for these new companies. The implications for competition are examined in reports prepared for the Forum.¹

Clients require a smooth transportation system that calls for cooperation between modes to enhance intermodalism in the supply chain

Cooperation between businesses to improve intermodal transport will be important to surviving the current crisis. Legislative and regulatory differences are serious obstacles for smooth operations and there is a need for international cooperation in harmonising legislation and procedures (such as need to extend the use of the uniform CIM/SMGS consignment note to more railway corridors and routes and improving border crossing procedures). There is also a need for more international cooperation in reconciling national with regional interests in questions such as cabotage.

Participants:

- Moderator: Zoltan Kazatsay, European Commission
- Mary Brooks, Dalhousie University, Canada
- Weijun Fei, Waterborne Transportation Institute, China
- Hans Jeekel, Ministry of Transport, Netherlands
- Lauri Ojala, Turku School of Economics, Finland
- Boris Lapidus, Russian Railways, Russia
- Jean-Claude Raoul, Académie des Technologies, France
- Lars-Göran Rosengren, AB Volvo, Sweden
- Wolfgang Stölzle, University of St Gallen, Switzerland
- Hans-Georg Werner, DB Schenker Rail Deutschland AG, Germany

¹ Integration and Competition between Transport and Logistics Businesses, Summary and Conclusions, JTRC Round Table, Discussion Paper No. 2009-8, OECD/ITF 2009.