

## NOTES FROM THE ADVISORY BOARD MEETING

The Hague, 30 November 2009

The Advisory Board of the International Transport Forum met in The Hague on 30 November 2009, in the presence of Mr. Camiel Eurlings, Minister of Transport, Public Works and Water Management of The Netherlands. The Board considered the impacts of the global economic crisis on the transport sector, and the role of innovation in the future of transport.

The following points emerged from the discussion:

### *Ongoing impacts of the global economic crisis*

As discussed at the 2009 Forum, the impacts of the crisis have been profound, and their full ramifications are yet to be understood. At least where transport is concerned, it is still early to speak of recovery; many firms in the transport and logistics sector can be expected to suffer the consequences for some time to come. While there are some positive signs in terms of economic growth, true recovery will not occur until new jobs start to be created. Full recovery to pre-2008 levels will likely not occur until after a couple of years, and even then trade and supply chains will likely not return exactly to previous patterns. Some developed-country markets may not see a return to previous levels of trade, and some countries and regions may increase their internal trade.

### *The restructuring of the world economy, and the increasing importance of East and South Asia, as well as South America*

Economic growth in key non-OECD countries can be expected to outpace that of OECD countries. For example, the development of new infrastructure in China can be expected to increase the extent to which manufacturing occurs in that country, by opening up new areas as production centres. Added to this, demographic change will continue to drive the relative importance of Africa, Asia and Latin America, where economic growth will also result in increasing demand for transport and mobility.

### *The response to the challenge of climate change*

Following the COP-15 discussions in Copenhagen in December 2009, there is a clear need for the transport sector to decrease its greenhouse gas (GHG) emissions. Achieving this will have important implications for both the development of technology and its application. In addition, current underinvestment in energy production, due to relatively low prices, could lead to a major spike in fuel costs in the medium term. This will also increase the cost of energy and, thus, of transport, leading to a need for increased efficiency, as well as different spatial organisation of the activities that generate transport demand. For example, slower maritime transport can be expected to increase the maritime transport time in supply chains,

and this may be expected to place greater pressure on the land-side legs of the transport chain. Furthermore, in future, firms may increase their focus on reliability to make up for decreases in speed.

### *The ongoing need for investment in innovation, coupled with limited public funds*

Following the current period of stimulus funding, public funding will be lacking, but the need for increasing the capacity of the transport system will continue, particularly in order to limit the impact of congestion on trade and mobility. In the majority of the developed economies there is still a real need for new investments in infrastructures projects in order to solve the congestion problems in big metropolitan areas. The higher economic growth in East and South Asian countries, as well as in South America, should have a positive effect in the development of new transport infrastructure.

Ongoing infrastructure investment will require new approaches that take greater advantage of private financing, and it will be important to tap into new sources, particularly pension and insurance funds, as well as sovereign wealth funds. Attracting such funding will require strong and stable legislative and regulatory frameworks, as well as policy frameworks that incentivise private investment in infrastructure. In any event, credit for infrastructure investment can be expected to be more expensive than it has previously been.

Investment in other sectors will also be essential to the future of transport. For example, the increased use of renewable energy will demand better electricity grids.

### *Transport and Innovation: Implications for Public Policy*

In each instance, innovation - in terms of the development and implementation of new technologies, ideas and practices - will need to play a role in responding to the challenge. Important areas for innovation include the development of new infrastructure and other assets, information technology applications, and improvements to the efficiency of supply chains, among others. In some instances, innovation may take the form of implementing policy principles that have been well known for years, but have traditionally met with public and political resistance, such as road pricing.

In order to introduce important innovations within the transport sector, the private sector needs a stable and predictable regulatory environment based on clear signals from public policy.

This not only implies a need for clear policies at the national level, but also international coordination to create unified approaches throughout regions and across the globe, including in such areas as energy use, GHG emissions, border procedures, and intellectual property, while recognising the different circumstances of developed and developing countries. Countries and regions could collectively establish objectives for the future of transport. This is equally true of energy markets, which are essential to transport; the harmonisation of regulations and creation of cross-border and regional markets for energy could greatly improve supply. As it currently stands, energy distribution is often too nationally focused. For example, the creation of a single energy regulator for Europe could do much to help where this is concerned.

Innovation for greater sustainability can also be encouraged by introducing pricing structures that fully integrate the costs and benefits of different transport options, and thus provide appropriate incentives.

The public sector is not necessarily well placed to pick winners in terms of the technologies of tomorrow. Rather, governments would do well to provide the right incentives to unleash the private sector's creative energy to develop such technologies, as well as regulatory environments that create the conditions for full competition between different technological options. While electric technology is important in improving sustainability, it is not the only area where improvements can be achieved.

Governments can help industry by providing support in the crucial pre-industrialisation phase of innovation. It is recognised that public funding will be more limited in future. Of growing importance is the governance of the transport system. For instance a long-term commitment to the decarbonisation of transport is needed to induce heavy investment by the private sector in new production lines for clean vehicles, etc.

Bringing about innovation in transport also requires a break with the conservative approach to change that is often seen in the sector. The public and business alike should come to understand that there is a need for change. This would be helped by clear policy signals regarding key issues from the highest levels of governments, linked to strong statements regarding what is required to reach these goals. Business may need to understand and accept paradigm shifts in supply chain management, such as an increased need to focus on efficiency and reliability, as opposed to speed.

### *Creating the future of transport*

The Advisory Board noted that there is no collective consensus in industry or otherwise on what the transport system of 2050 will look like. However, the challenges are well understood, and clear policy objectives to address these would play an essential role in allowing the private sector to bring about fundamental changes in how transport is supplied.

While, ultimately, mutually agreed-upon quantified targets would be useful, in the short term it will also be important for countries to publicly recognise that major changes are required in transport, and must be worked towards. For example, it could be recognised at this point that worldwide GHG emissions from transport must be reduced, and this will ultimately entail clear and predictable policy signals.

In short, some important changes in the way transport is used and provided will be necessary, and policy ambiguity will only prolong the required adaptation and increase the costs.

At the same time, other priorities for transport remain essential as well, such as providing basic mobility and reducing the human costs of transport, like deaths and injuries due to road crashes.

It is important to establish positive visions for the future focusing on what is possible, such as minimising emissions in cities and greatly reducing the numbers of casualties on our roads. Also, the opportunities inherent in innovation should be emphasized, including the generation of new employment, as well as reducing the costs associated with environmental degradation, traffic crashes and other negative externalities of transport use. It is also important the governments show a concrete willingness to act boldly, particularly by way of regulation, in order to give credibility to their messages.