

TRANSPORT FOR A GLOBAL ECONOMY

*Challenges and Opportunities
in the Downturn*

SUMMARY CONCLUSIONS OF POLICY PANEL 1

Transport and the Downturn Social, Environmental and Economic Impacts

***Session 1: Economic Aspects
Thursday 28th May 2009***

Participants:

- Moderator: Melinda Crane, journalist
- Rapporteur: Anthony Venables, Oxford University
- Anthony Albanese, Minister for Infrastructure, Transport, Regional Development and Local Government, Australia
- Camiel Eurlings, Minister of Transport, Public Works and Water Management, the Netherlands
- Wolfgang Tiefensee, Federal Minister of Transport, Building and Urban Affairs, Germany
- Rüdiger Grube, CEO, Deutsche Bahn AG
- Joachim Hunold, CEO, Air Berlin
- Candan Karlitekin, CEO, Turkish Airlines
- Leif Östling, CEO, Scania
- John Rice, Vice Chairman, GE
- Ron Widdows, CEO, Neptune Orient Lines

The global economic crisis has reduced the flow of passengers and goods worldwide, thereby placing severe constraints on many manufacturers, transport operators and facilities. In turn, this has created consequences for the many millions who work in, and depend on the transport sector.

In the panel's first session, on "Economic Impacts", Ministers, CEOs and high-level experts discussed how plummeting demand, fluctuating fuel prices and liquidity issues are affecting global business. In this session, panellists also considered what national governments and international organisations can and should do to help mitigate the impacts of the crisis on the sector and stimulate economic recovery.

A second session then shifted focus to the "Social and Environmental Impacts" of the downturn, considering the measures needed to deal with the social consequences of the economic downturn and how environmental goals can be met even in this time of the economic constraint.

Economic Impacts

The transport sector has suffered heavily as a result of the global economic crisis. With ailing global financial markets, several panellists noted that credit is lacking for maintenance, and for the development of new infrastructure and equipment in all modes of transport. A newly emerged "nationalism" in banking has restricted availability of financing for transport in a number of countries. Lack of liquidity remains a problem for financing transport system improvements.

The session concluded that international co-operation would pave the way for recovery, with greater accessibility and improved connections between markets and across transport modes forming the vision for success in the future.

Globalisation and investment in research and development remain the way forward

Globalisation should not be reversed in response to the crisis, said Rüdiger Grube, CEO of Deutsche Bahn. The crisis should be viewed as an opportunity to invest in research and development. In this respect, he conceded, the automotive industry is significantly ahead of the rail industry.

"Reverting to protectionism would be totally, totally wrong." Rüdiger Grube, CEO, Deutsche Bahn

Developments have to take account of the importance of the environment, Mr. Grube said, with efficient and fair conditions for investment for rail as well as the automotive industry. Wolfgang Tiefensee, the German Minister of Transport, supported this view, stating that we need to improve the modal share, putting more goods onto rail and waterways.

"Integrating the different modes of transport more efficiently will make it possible to be economically efficient and environmentally friendly." Wolfgang Tiefensee, German Minister of Transport

Maritime shipping weathers changes in trade flows; a different 'world order' to follow the crisis

The shipping industry is implicitly linked to the economy, and tends to experience the impacts of economic fluctuations before other areas of the sector, said Ron Widdows, CEO of Neptune Orient Lines. Several factors were already contributing to a sectoral downturn when the crisis hit, including a maturing in off-shore manufacturing with a corresponding gradual decline in direct foreign investment.

Mr. Widdows noted that there had been signs of a cyclical downturn in container shipping prior to the crisis, and that the precipitous drops in demand and tightening of liquidity in the financial markets during the crisis had exacerbated this. In addition, for some time, there had been "irresponsible investment" - excessive ordering of new ships - which has led to excess capacity. The current lack of liquidity in markets will thus not necessarily be detrimental to the shipping sector, because new investments are not presently needed in the sector.

Job creation and investment in infrastructure are now likely to take place in a robust way, opening access to lower labour costs in, for example, China. When there is economic recovery, the world will not return to the way it was, Mr. Widdows predicted. Growth rates in maturing countries will be less than previously seen, and there will be much more domestic growth in India and China. In turn, this will have a significant impact on trade flows.

Airlines - Adapting the business model

Airlines are restructuring and revising their business models to adjust to the effects of the economic crisis and the excess capacity that has emerged in the sector over many years of relatively easy credit and proliferation of market players. This means, for instance, reconfiguring available products to better correspond to the price the passenger is willing to pay. It also means concentrating on core business activities (e.g., less on-board duty-free sales) with fewer cross-subsidies, according to Candan Karlitekin, CEO, Turkish Airlines.

Joachim Hunold, CEO of Air Berlin, concurred that, in times of crisis, markets tend to consolidate, with capacity having to be adapted. These are circumstances that the airlines have managed well in the past, he noted, provided the appropriate market conditions and frameworks have been in place.

Panellists called for a new set of global market conditions in order to facilitate efficient functioning of the sector. There was general agreement among panel members that global policy responses are required for global problems - emissions trading in aviation was cited as one example of this.

A single international sky in terms of regulation and air traffic management is essential for the airline industry, asserted Minister Tiefensee. Anthony Albanese, Australia's Minister for Infrastructure, Transport, Regional Development and Local Government, echoed this point, highlighting the need for a *global* single sky,

without which distortions would emerge and disadvantage the Southern Hemisphere, particularly if emissions trading were to target the first point of landing.

Joachim Hunold also supported the need for a single sky, noting that 47 different control centres exist in Europe, whereas in the United States there is only one. This means, he explained, flights do not always take direct routes in Europe, therefore contributing to higher costs and carbon emissions.

Decline in demand in the automotive industry

Reflecting on the impact of the crisis in road transport, Leif Östling, CEO of Scania, confirmed that business in the first quarter had declined by 90% compared with the first quarter of 2008. For equipment manufacturers, the economic crisis has dealt a heavy blow, he said.

As a result of the credit crunch, small and medium-sized enterprises in road transport are struggling in particular to finance maintenance of working capital. In addition, the average age of vehicle fleets is increasing by 2 - 2.5 years, engendering higher emissions and greater safety risk. Moreover, product development costs are rising as a proportion of sales, with drastically reduced demand and lower sales volumes.

A role for government - stimulus packages need to preserve open markets, consider longer term objectives

Stimulus packages are designed to preserve the job market, emphasised John Rice, Vice Chairman of General Electric. Although there are signs emerging of the effectiveness of stimulus programmes in meeting this objective, the danger is that these programmes can go beyond their economic stimulus objective and become protectionist in nature, as language regarding the allocation of stimulus funds would suggest in some cases.

“The big danger is protectionism.” John Rice, Vice Chairman, GE

Camiel Eurlings, Minister of Transport, Public Works and Water Management for the Netherlands, echoed this concern, calling for stimulus packages that were “timely, temporary and targeted”, and noting the need to remain vigilant with regard to growing public deficits.

Maintaining balance in the stimulus package

Minister Albanese outlined the Australian response to the crisis, with stimulus funding focusing on road and rail infrastructure. Although it is easy to bring forward road, as opposed to rail, projects, he said, policy-makers should not repeat mistakes that have led to a market distortion through failure to invest in productivity.

Minister Albanese highlighted the tension in investment decision-making between short-term (3- to 4-year) political decisions taken in response to popular pressure, and longer-term infrastructure investment cycles of 10 years or more.

“We need to break the nexus between the political cycle and the investment cycle.” Anthony Albanese, Minister for Infrastructure, Transport, Regional Development and Local Government, Australia

By definition, investments in infrastructure will yield benefits in the longer term. Therefore, investment decisions that deal with the immediate need to create jobs should also consider longer-term objectives, such as the mitigation of climate change.

Minister Eurlings highlighted the need to ensure increased efficiency in transport operations by reducing bureaucracy in investment decision-making and administrative procedures at border crossings.

Need for co-ordinated action

Panellists agreed that working together across countries - especially on innovation (e.g., electric vehicles) and climate change mitigation - is essential. In particular, international solutions are needed in aviation emissions trading, and in terms of fiscal incentives to support innovation.

Governments need to strive together for equitable market conditions among modes, panellists agreed. And perhaps most importantly, Countries must ensure that markets remain open - especially in this time of economic duress. Market entry barriers need to come down in road transport, as well as in both passenger and freight rail markets.

“We need to open the frontiers and we will be stronger than before.” Wolfgang Tiefensee