**ITF Summit**

**Ministers' Roundtable on the future of supply chains:**

**Innovation and regulation for greener, more accessible freight transport**

**18 May 2022**

## Summary Report

Global supply chains have faced a huge array of challenges recently, ranging from the Covid-19 pandemic, the war in Ukraine and extreme weather events, to Brexit and the Suez Canal blockage by a grounded container ship. This has resulted in disruptions in supply chains, with general longer transit and waiting times, higher costs and more unpredictability. Some transport sectors, such as container shipping, made record profits in this period, whereas others, e.g. the trucking sector, realised huge losses and cancellation of millions of jobs. The resilience of supply chains came under severe pressure, which has had significant impacts for exporters and importers.

These supply chain disruptions underlined the importance of resilience: the possibility to rebound from shocks via alternative routes or buffer capacity. Transport operators have adapted to these disruptions, attempting to sustain trade flows despite adversity, even if not all operators have facilitated trade (e.g. operators giving priority to transporting empty containers rather than export cargo). Governments could use their leverage over transport companies, via regulation and incentives, to make sure that they serve the largest possible public interest. Governments could also make transport systems more resilient via improving the cross-border infrastructure and inter-operability, which could provide possibilities to continue exporting for countries in war. Supra-national authorities, such as the European Union, could focus on developing gaps in international transport networks, such railways and inland waterway networks that could strengthen their resilience.

Organisations like the ITF could help governments in moments of crisis like these, by sharing knowledge and good practice and undertaking policy reviews, so that governments

can implement smart regulations and create an enabling framework to deal with external shocks. Part of the analysis of good practices could include good corporate practices that public policy could highlight, stimulate and incentivise.

***Competition and transparency***

The global supply chain disruptions have also revealed weaknesses in the current freight transport system based on centralisation (hub and spoke). Freight transport companies have become highly consolidated and integrated. Shipping strategies have been based on economies of scale via ever-larger ships, consolidation and intense collaboration, resulting in hub-and-spoke freight networks, critically dependent on a select group of mega-carriers and mega-ports capable of handling mega-vessels. Such networks are highly vulnerable, as problems in one hub port can quickly congest the whole network, with global repercussions.

As the vulnerability of supply chains is exposed, risk diversification is becoming more important, for example, by diversifying supply chains and fostering competition. The core motivation of a freight transport system is facilitation of external trade, not the provision of the greatest possible benefits to transport companies. This could imply in certain regions stimulating more direct connectivity via smaller ships and strengthening the capacities of smaller ports. It could also mean more local logistics and reducing unnecessary transport activity, (e.g. transporting shrimps caught in Europe to Africa for peeling and then transporting them back for exporting).

As part of fair competition between different transport modes, there should be a level playing field, for example with respect to labour and taxation, to avoid social dumping and distortion of competition via fiscal incentives. Better performance information on transport modes could help to create more transparency and improve competition. Rather than blunt competition between ports, there could be a cross-border approach to creating a resilient transport system. Governments should be vigilant of abuse of market power by transport oligopolies, such as those in container shipping.

***Digitalisation***

Digitalisation could help to increase the efficiency of supply chains by making processes more transparent and by stimulating cooperation between the different stakeholders in the chain. Better exchange of information related to different transport modes could improve

multi-modality. There is also a huge potential for customs procedures to be simplified and dematerialized. Long-distance transport operators spend a substantial part of transport time at border crossings. Often, the largest transport industry players dominate digital platforms for logistics, which could hamper access to freight transport options. This concern about control of the data has proved to be an obstacle for data sharing throughout the transport chain. Some countries have adopted comprehensive block chain regulation that could apply to freight transport.

***Greening of freight transport***

Greening is one of the major challenges of freight transport. This can take the form of avoid, shift and improve. Avoiding freight transport could be the result of a more circular economic model. A shift-strategy could take the form of a shift to inland waterways and improving rail corridors. Various countries have engaged in reforms of rail freight transport, e.g. by providing access of operators to the rail network, but also by levelling the playing field via rail subsidies, in order to make it competitive with road freight transport. In many cases, full modal shift is difficult to realise, but many gains are to be made by improving multi-modality, for example via infrastructure investments in terminals and connections of ports and logistics centres to the rail network.

An improve-model could take the form of greening transport modes and the transformation of their energy mix, including gas as transition fuel for trucks, electricity for urban transport and the development of green hydrogen. Electrification is not the solution to all environmental problems, so governments should accompany the electrification of the car fleet by measures that make cars less heavy. Fiscal incentives such as carbon taxes could also help to achieve decarbonisation. Countries would need to cooperate during this fuel transition, as no country will be able to achieve this on its own. There are various ongoing supranational approaches, such as the EU Fit for 55 programme. A central question is the synchronization of all these measures and the supply of energy sources.

## Annex

## Participants of the 2022 MRT on The future of supply chains: Innovation and regulation for greener, more accessible freight transport

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