

Opinion of the European Economic and Social Committee on the European logistics policy

(2007/C 97/08)

On 17 November 2005, in connection with the activities of the Finnish Presidency of the European Union, H.E. Mari Kiviniemi, Minister for Foreign Trade and Development of Finland, requested by letter an opinion of the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the: *European Logistics Policy*.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 11 January 2007. The rapporteur was Mr Ranocchiari.

At its 433rd plenary session, held on 15-16 February 2007 (meeting of 15 February), the European Economic and Social Committee adopted the following opinion by 82 votes to five with 10 abstentions.

1. Recommendations and conclusions

1.1 Efficient transport is an essential element in maintaining and enhancing European competitiveness. Managing the complexity of transport flows in a modern society requires highly efficient modes of transport and seamless cooperation between them. Advanced and integrated logistics solutions can help optimise freight transport operations and thereby favour growth and make Europe globally more competitive.

1.2 The Finnish Presidency initiative and the communication published by the Commission in June of this year ⁽¹⁾ show how logistics efficiency can be a tool to reinforce and exploit the positive synergies between environmental protection and competitiveness. This can be accomplished by optimising the rational use of vehicles and infrastructure in order to reduce unnecessary transport. This is why the EESC believes it is important to secure a development effort that can capitalise on input from all players: logistics firms and their employees; user undertakings and their employees; public authorities and organisations.

1.3 This effort should be underpinned by a strategic plan for growth and competitiveness through logistics, established by the Commission. The plan must clearly define the duties of the authorities and of the business world. It must take a multimodal approach to transport and be based on economic, transport policy, social and environmental interests and regional factors.

1.4 Logistics is a labour-intensive activity that requires skilled, well-educated staff and management. The plan must therefore illustrate in detail the situation for logistics studies in compulsory education and post-school education. It must also look into the options for providing support for research and infrastructure development.

1.5 In this framework jobs markets could play an important role in maintaining and developing the logistic services that serve the needs of competitiveness and industry. The social part-

ners can promote the procedures and functioning of the logistic employment market through ongoing dialogue. Ensuring permanent jobs and occupational well-being, as well as improving productivity can be seen as joint goals.

1.6 The Commission's previous approach to solving the congestion problem on certain roads within the EU by regulating for a return of transport mode share to 1998 levels seems not to be in tune with current developments in the transport market.

1.7 The main task is to achieve coordination between modes of transport where possible and where the individual mode's efficiency and suitability can be exploited to the full. This will be achieved when the technical, practical and economic conditions are present. The challenge for the EU is to agree on a common policy to create or develop these conditions. The future policy will also have to focus on ensuring safe, environmentally clean and efficient transport systems.

2. Background

2.1 Finland has asked the EESC to draw up an exploratory opinion on **A European logistics policy**, citing a number of reasons why development in this area is so important to European competitiveness. These include the following:

2.2 The global economy is in a period of transition. The most recent phase in globalisation started in the 1990s, when the growing economies in Asia opened up the international market economy. This resulted in a relocation of both industrial production and provision of services. In Europe, EU enlargement, economic growth in the Union's neighbouring countries and Russia's economic recovery are changing the structures of the European industrial production and services markets. The EU has to swiftly and determinedly respond to these challenges as outlined in the Lisbon Strategy.

⁽¹⁾ Freight Transport Logistics in Europe — the key to sustainable mobility COM(2006) 336 final of 28.6.2006.

2.3 These developments are also reflected in the European transport sector. Firstly, transport markets in all Member States must be successfully integrated into Community transport markets. Special attention must be given to the countries that are still technically integrated in the transport system of the former USSR. Secondly, remaining mobility constraints in the EU must be removed and transport operations effectively organised. Thirdly, in order to capitalise fully on the economic opportunities of the EU's neighbouring countries, transport connections to these countries must be developed. The existing bottlenecks on the borders with non-EU countries prove the need for work to be done to solve these problems. Freight transport in many cases crosses the frontiers of the EU, therefore attention to the development of appropriate infrastructure and technologies on both the EU and non-EU country sides is becoming extremely important.

2.4 One of the objectives of the Lisbon Strategy is to make Europe the most competitive economy in the world. A modern, operational and efficient transport system is vital for sustainable economic development. However, improvement, in the competitiveness of EU enterprises requires ever higher quality, punctuality and efficiency in transport. At the same time, a rapid increase in goods transport — especially on roads — causes saturation of transport in many parts of Europe. This means additional costs for European industry. Such undesired development also has negative repercussions on the natural living environment.

2.5 Considerable efforts have been made in the EU to open the markets of logistics services and to integrate the transport networks in Europe. However the results are not yet satisfactory and many barriers to progress still remain. In the EU transport policy, logistics has not received the attention it deserves although logistic costs in industry and trade are considerable. In fact, they form a significant part of enterprises' total turnover. The European logistic sector is also an important employer.

2.6 Logistic efficiency is a tool to reinforce and exploit the positive synergies between environmental protection and competitiveness. This can be accomplished by optimising the rational use of vehicles and infrastructure in order to reduce unnecessary transport.

2.7 Improved logistics may also have positive effects on the EU's regional development, because it decreases the importance of geographical locations and thus promotes regional economic growth and competitiveness.

3. Introduction

3.1 Contacts between Finland and the Commission have resulted in the Commission's publication in June 2006 of a

communication on Freight Transport Logistics in Europe — the key to sustainable mobility ⁽²⁾. The communication looks at the scope for bringing logistics and transport policy closer together.

3.2 In its March 2006 consultation document ⁽³⁾ on this communication, the Commission addresses a number of issues regarding the future development of logistics and its importance for an efficient transport sector in the EU, with a clear emphasis on intermodality and cooperation between modes of transport.

3.3 The document indicates that when comparing GDP and logistics expenditure, including transportation between Europe (EU-15) and North America, the logistics percentage of GDP has grown in Europe from 12.2 % in 1998 to 13.3 % in 2002. During the same period, logistics expenditure in North America has decreased from 11 % to 9.9 %.

3.4 The Commission's consultation document also refers to previous measures adopted by the Commission. Research and Technological Development (RTD) efforts over the last few years have seen a number of projects deal with intermodality on the one hand, and logistics on the other. The aim of these projects is to develop a better understanding of the interrelation between logistics decisions and transport services ⁽⁴⁾.

3.5 The 2001 Commission White Paper ⁽⁵⁾ contains basic information about the EU transport system and puts forward a number of ideas, approaches and proposals for improving the transport situation by 2010. It sets quantitative objectives for different modes of transport. By 2010 the market share between the various transport systems will be restored to 1998 levels. There is strong emphasis on the importance of intermodality, i.e. how the various modes of transport can be integrated, especially as regards long distance haulage within Europe. The aim is to switch more freight to rail and maritime transport. The Marco Polo programme is part of this effort. However, this will require favourable technical and logistical solutions that enable a door-to-door concept to be pursued. The White Paper states that the delays and additional costs associated with reloading are obstructing competitiveness, to the benefit of road haulage, whose highly developed network makes it possible to transport goods to more or less any destination. The above comments on developed road infrastructure apply primarily to the EU 15 countries. The road network in the new Member States is poorly developed and often of low quality. There is huge potential for developing rail transport in these countries; this should be exploited, e.g. by supporting investment in rail infrastructure.

⁽²⁾ Freight Transport Logistics in Europe — the key to sustainable mobility COM(2006) 336 final of 28.6.2006.

⁽³⁾ Communication document on logistics for promoting freight intermodality.

⁽⁴⁾ I.e. projects as: SULOGETA, PROTRANS, EUTRALOG, FREIGHTWISE, POLLOCO, etc.

⁽⁵⁾ White Paper on European Transport Policy for 2010: time to decide, COM(2001) 370 of 12.9.2001.

3.6 The Commission's Communication ⁽⁶⁾ on the mid-term review of the White Paper confirming the importance of inter-modality, seems to be more pragmatic as regards the balance between different modes of transport.

4. Finland's focus on a future European logistics policy and logistic trends

4.1 The preparatory work that Finland has submitted to the Commission includes a study of new trends in the field of logistics and an account of the so-called EULOG project. The main objective of the project was to create a discussion paper that comprehensively represents the best global knowledge about the desired future of European logistics and transport logistics and the necessary policies for its achievement.

4.2 The production will grow especially in the developing economies of China, India, Brazil and Russia. The amount of transported goods and the transport distances will grow. The control of global supply chains is demanding and it is possible that the decision making moves to Asia. The competition between the economic areas will intensify which makes the capacity of the infrastructure an increasingly critical competitiveness factor. The growth of production and consumption in Eastern parts of Europe forces to shift part of the goods transport away from roads. The development of intermodal freight distribution centres in the frontier EU countries of that region is thus becoming extremely important. This will mean optimising the EU transport system's operating costs. The EU institutions should support this positive trend and promote environmentally friendly modes of transport as part of sustainable development.

4.3 In production and services customer orientation defines the structures of supply chains. The chains are differentiated not only by the characteristics of the product but also by the needs and expectations of the customers. The system integration is both technological and organisational and it is knowledge oriented. Supply network engineering requires innovation both in products and processes. In western countries the services will increase while the production is moving to other parts of the network. There is a demand for accurate information about the environmental impacts of products and services. This will increase the importance of tracing and tracking in efficiency development and waste avoidance. The importance of reverse logistic will grow when the used products must be utilised or abolished in a controlled fashion.

4.4 Information and communication systems enable to control the vital information flows between planning, managing and executing supply chains. ICT enables to improve the security and service level of logistics at the same time as costs are reduced. New intelligent technologies and standardised interfaces are required. As radio frequency identification becomes common it gives significant possibilities to improve the tracking, tracing and security of deliveries.

4.5 Cost efficiency is always important. The transport cost will grow because of increased labour cost and oil price, congestion and infrastructure charges and tightening security demands. Also reverse logistics will influence cost efficiency. The logistic costs are not sufficiently known and thus decisions are based on partial information. The modelling of true costs must be developed. Logistic costs should be included in key performance indicators of companies. Against this background, the cost calculation model prepared by the European Commission as part of the implementation of the Euro-vignette Directive, which, inter alia, takes into account external costs and the costs of infrastructure utilisation, will be useful for calculating the actual costs of logistics operations.

4.6 Public policies aim to create an operating environment that fosters the competitiveness of trade and industry. Regulation is a necessary part of European mixed economies but it must be intelligent and further development and competitiveness. The harmonisation of policies and regulations and the investments in infrastructure are precondition for abolishing the barriers of common market. Although the importance of regional authorities will grow in the regulation and investments of transport they must consider also the development of the global operating environment.

4.7 The authorities will promote innovations and their exploitation. From logistics point of view the main development areas are the supply chain management and new business models. In the supply chain further development is required e.g. in safety and security, tracing and tracking and intermodal operations. On the logistics business new abilities are needed e.g. in collaboration and risk sharing.

5. General comments

5.1 When the term 'logistics' is used, its detailed content and meaning is generally not specified. There is no uniform definition of the expression. Logistics is a term originally used in a military context. Freight logistics (or transport logistics) can be defined as the process of planning, implementing, controlling and synchronising the efficient, cost-effective forward and reverse flow and storage of raw materials, in-process inventory, finished goods and related information from point of origin to point of consumption for the purpose of meeting customers' requirements. This definition covers the ones the Commission uses in its consultation document.

5.2 By way of introduction, the EESC notes that the Finnish presidency gives a long list of reasons for the importance of a fully operational European logistics market and argues convincingly for logistics to be given a significantly higher profile in European transport policy. The Committee realises the importance of this and is therefore ready to give this initiative its full support.

⁽⁶⁾ See footnote No 2.

5.3 The renewed Lisbon Strategy is a major challenge and its delivery depends upon economic growth in Europe. Economic growth requires increased trade and continued streamlining and innovation in industry. It is increasingly affected by international influences and competitiveness factors.

5.4 In almost all areas of society, passenger and goods transport are essential to economic activity, manufacturing and trade. Time and cost factors are crucial to business localisation decisions, but also to individual choices. Just as structural changes in society impact on transport needs, changes are driven by the introduction — or otherwise — of new transport facilities.

5.5 The EESC believes that in an increasingly internationalised economy, logistics and logistics costs will be increasingly important factors in competitiveness and streamlining, and increasingly important for environmental protection. Delivering access to markets, employment, education, services, etc. via increased mobility is dependent on one essential criterion: the existence of *efficient transport systems*.

5.6 The EESC therefore endorses the Commission's view that transport is an essential element in maintaining and enhancing European competitiveness. Managing the complexity of transport flows in a modern society requires highly efficient modes of transport and seamless cooperation between them. Advanced and integrated logistics solutions can help optimise freight transport operations and thereby favour growth and make Europe globally more competitive.

5.7 It is important to remind in this context that logistics is an enterprise-based, customer-driven activity which the market has a duty to deliver. This means that consumer transport requirements are the main driver in this area. For example, the transport needs of manufacturing industry are continually increasing in order to reduce storage of manufacturing components and finished products. The increase in internet commerce and a liberalised postal market are other areas where the demand for fast, punctual transport — and consequently logistics — will increase. It is also important to stress that such a development must be carried out in a sustainable way, providing for specific rules in order to safe-guard social and environmental requirements.

5.8 Customer transport choices are influenced by a large number of factors and depend, of course, on the type of goods to be transported. Valuable, fragile or easily damaged goods are usually transported by road or by air. Low value, heavy or bulky goods are often transported by sea or by rail. Time factors (just in time) and the number of reloads are other factors affecting the choice of mode of transport.

5.9 This approach also permeates the communication on mid-term review of the White Paper, and which the EESC endorses. The EESC intends to discuss the communication in a separate opinion, but wishes nevertheless to make some comments here. The consultation document that preceded the communication focused exclusively on intermodality as set out in the 2001 White Paper, i.e. transferring transport volumes from the road haulage sector to the shipping and rail sectors.

5.10 The EESC is pleased to note that the Commission no longer sees intermodality as an end in itself, but rather as a means to coordinate different modes of transport.

5.11 In the Commission consultation document on the 2001 mid-term review of the White Paper, the Commission stood by its view that the balance between modes of transport must be restored to 1998 levels. The 2001 White Paper stressed that the European Union must act to address the increasing imbalance between modes of transport. The growing popularity of car and air transport brings with it increased network congestion. At the same time, alternatives to road haulage are hindered owing to a failure to capitalise adequately on the potential offered by rail and short range shipping. However, traffic congestion within certain parts of the EU should not be allowed to hide the fact that peripheral areas have inadequate access to centrally located markets.

5.12 According to the Commission, over time this has led to a transport imbalance resulting in increased congestion, particularly on the trans-European transport routes and in cities. The Commission believes that in order to solve this problem, two overarching objectives will have to be achieved by 2010:

- regulated competition between the different modes of transport;
- coordinated development of the different modes of transport in order to achieve successful intermodality.

5.13 The EESC criticised this position in its 2002 opinion on the White Paper ⁽⁷⁾. With regard to the first bullet point above, the Committee emphasised the following: 'The problem of congestion is one of the central themes of the document. But there is no recognition that this problem really affects only a small part of the territory of the Community, specifically areas with very high population density (which is one of the causes of the problem) ... It is thus inappropriate to draw up a general, uniform transport policy for the Community as a whole ... What is really needed is a specific policy for each of these areas.' The EESC maintains this view.

⁽⁷⁾ Opinion of the Economic and Social Committee on the 'White Paper on European transport policy for 2010: time to decide' (COM (2001) 370 final) — OJ C 241, 7 October 2002.

5.14 It is misleading to have distribution of market share as a quantitative objective for the different modes of transport. Total goods transport volumes within the EU via separate transport modes do not account for a significant market in which road, railways, short sea shipping, inland waterways and pipelines compete with each other. The statistics currently used, where the market shares of the various modes of transport are compared on the basis of goods transport volumes, does not accurately reflect the actual situation on the transport market. The development of more advanced statistical methods should be encouraged, which distinguish between long-distance and short-haul transport.

5.15 The main task is to achieve coordination between modes of transport where possible and where the individual mode's efficiency and suitability can be exploited to the full. Generally speaking, this requires advanced logistics solutions. In the long run, the result of these efforts could provide for a significantly more rational and environmentally-friendly exploitation of global transport capacity, which could reduce congestion to some extent on certain roads. The Committee takes the view that this must not be allowed to obscure the fact that a modern, efficient infrastructure is needed to achieve the objectives.

5.16 The EESC notes that in its Communication on the mid-term review of the 2001 white paper, published while this opinion was under preparation, the focus now is shifted toward a holistic approach in which each mode of transport has its proper place in order to create a transport policy that can boost the international competitiveness of combined transport and offer solutions integrating several modes, the main aim being to remove bottlenecks and weak links in the logistics chain.

6. The importance of an efficient logistics market

6.1 Transport — regardless of mode — is physically the most visible part of the logistics chain. Transport will therefore inevitably be in focus when logistics is addressed.

6.2 Logistics govern the industrial product and information supply chain, and the distribution of end products. This activity chain must meet customer demands and expectations, while being environmentally and socially sustainable.

6.3 Coordination and integration are two key concepts for the transport sector. Physical coordination involves reloading that makes transport more expensive while putting the goods at risk. If this coordination is to work, freight carrier reloading

needs to be easy. This is a technical issue, but also an organisational one.

6.4 In order to achieve coordination, work is required in several areas. Organisational coordination is needed between different modes of transport, as is a holistic approach to the development of transport nodes, intermodal freight carriers and multimodal systems. This approach must be developed in order to achieve effective, competitive logistics systems and sustainable transport.

6.5 Logistics is thus a component in industrial and trade activity. The trend is to move away from capacity-governed delivery towards order-governed delivery. Products are adapted to customers. Great demands are placed on short lead times and short advance planning, and on precision and flexibility. Trade is being globalised. Many subcontractors are involved in the supply chain. Goods values increase as businesses limit their stocks in order to reduce capital tie-up.

6.6 This requires fast, punctual deliveries during both the production process and during distribution to end customers, and in return flows. There is greater demand for efficient logistics. The ability to exploit and intermesh transport chains to the full is key to success in controlling and managing material and product flows.

6.7 All modes of transport are needed and the interplay between them should be promoted. This intermodal transport calls for some new thinking in order to link the different modes together.

6.8 The creation of terminals, networks, electronic information management and good mutual confidence create new opportunities for cooperation between transport market operators.

6.9 Every mode of transport has its own history but the change in a more liberal direction has been driven by external technical, economic and trade conditions. The EU has had and continues to have a major role to play in this ongoing change.

6.10 All firms realise the prime importance of efficient logistics in the production and transport chains. Many sectors are working hard to make progress in this area; this work should be supported and encouraged, as it could also be helpful in a broader context of sustainable mobility.

6.11 This is the background to the European Economic and Social Committee's support for the Finnish presidency's initiative to put European logistics on the agenda.

Brussels, 15 February 2007.

The President
of the European Economic and Social Committee
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