

# Transport: Invisible Force – Visible Impacts

WELCOME TO TRANSPORT WEEK 2009



March 30, 2009

# Transport: Invisible Force – Visible Impacts

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# Contents

- The Hidden Side of Transport
- The Rollercoaster Ride or
- The Future of Transport Financing
- The Role of Transport in Crisis Recovery
- The Universal Access Agenda

# Transport Is Not Neutral

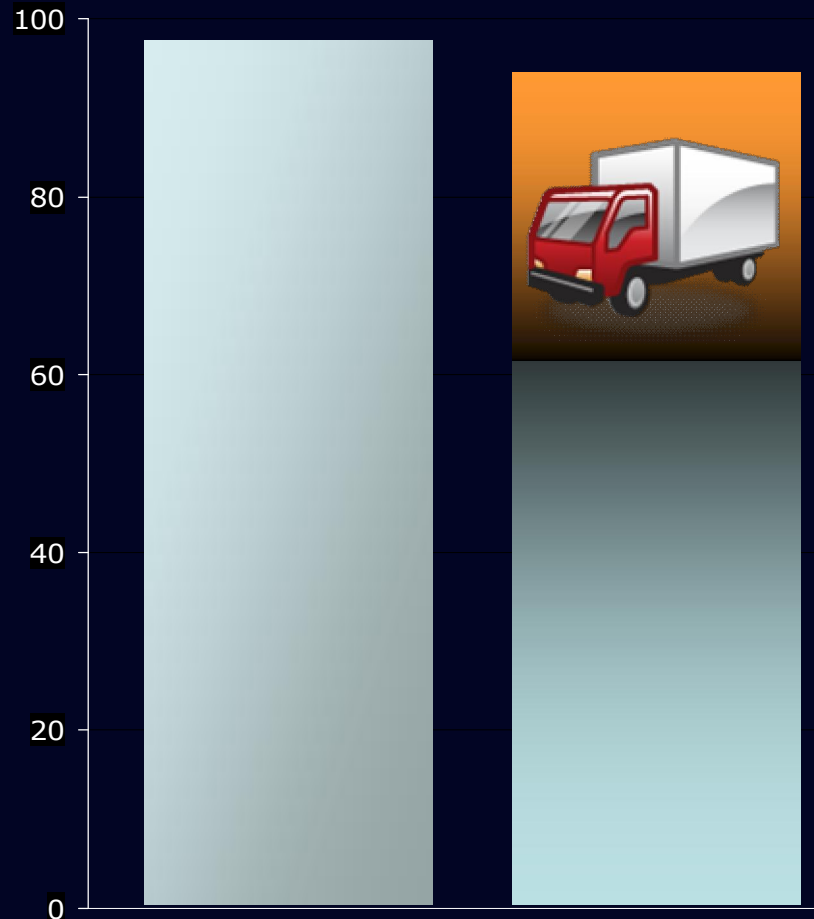
- Amplify initial shocks
  - Food crisis

Post-harvest losses of food in developed countries: **2-3%**

Total post-harvest losses of food in developing countries: **35-50% of the crop**

**30-45%** of that loss due to poor transport and logistics

Share of crop actually reaching consumers



Source: Grolleaud, M. (2004) 'post-harvest losses: Discovering the full story – Overview of the phenomenon of losses during the post-harvest system', FAO, Rome.

# Transport Is Not Neutral (cont.)

- Spread shocks throughout the economy

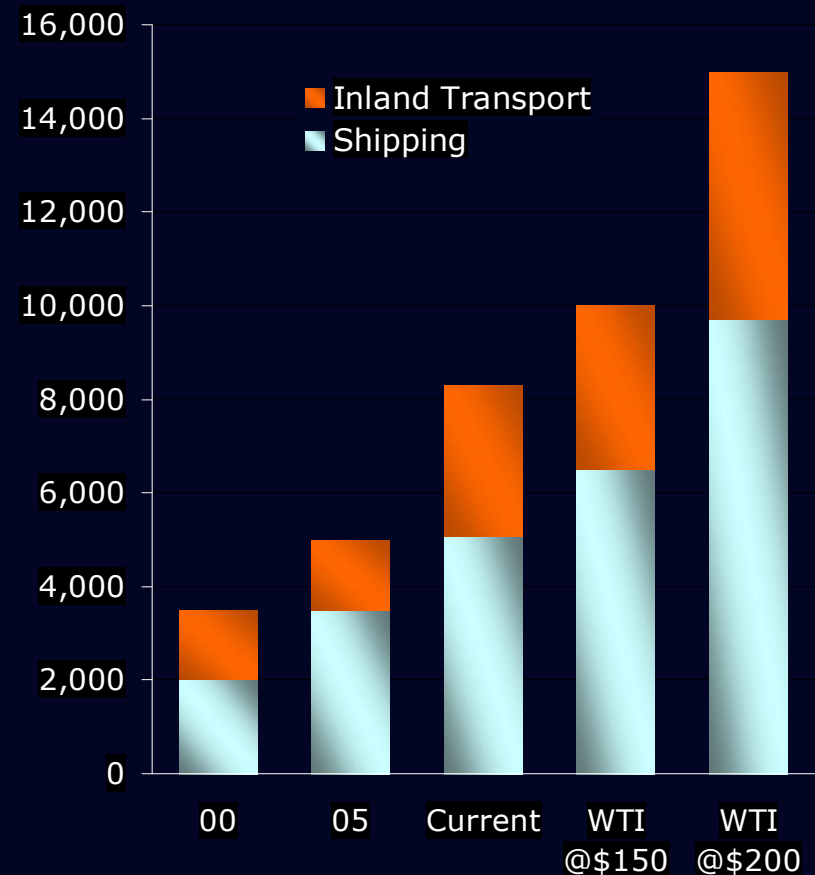
## Energy prices

- May 2008:  
“Higher energy prices are impacting transport costs at an unprecedented rate”

*CIBC World Markets Inc.*

- For US trading partners:  
Oil \$20 a barrel: transport costs equivalent to 3% tariff rate  
Oil \$150 a barrel: transport costs equivalent to 11% tariff rate

Total cost of transporting a 4-' container from Shanghai to US East Coast



# But Transport Hidden Behind

- Conveyor Belt
  - We see the product, we don't see the belt...



# But Transport Hidden Behind

- Conveyor Belt
  - We see the product, we don't see the belt...
  - ...until the belt fails



# Transport and Growth Model

Developing Countries Growth Model based on:

- Preferential Access ===== *being phased out*
- Cheap Labor ===== *becoming less cheap*
- Low Cost of Transport ???
  - In 2000: Shanghai-US East Coast \$3,000/TEU
  - In May 2008: \$8,000/TEU
  - At \$200/barrel \$15,000/TEU ?

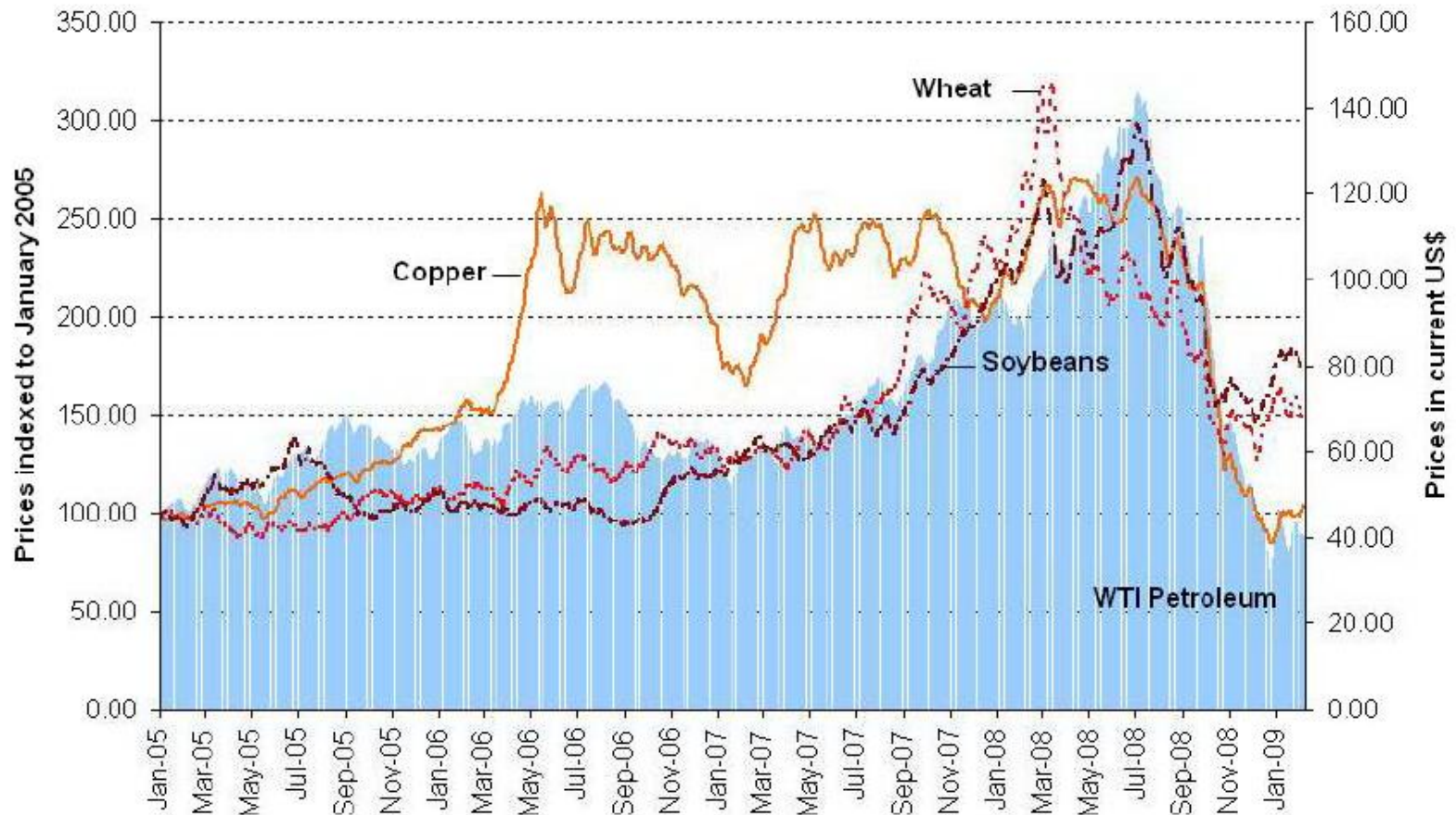
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# Commodity Prices

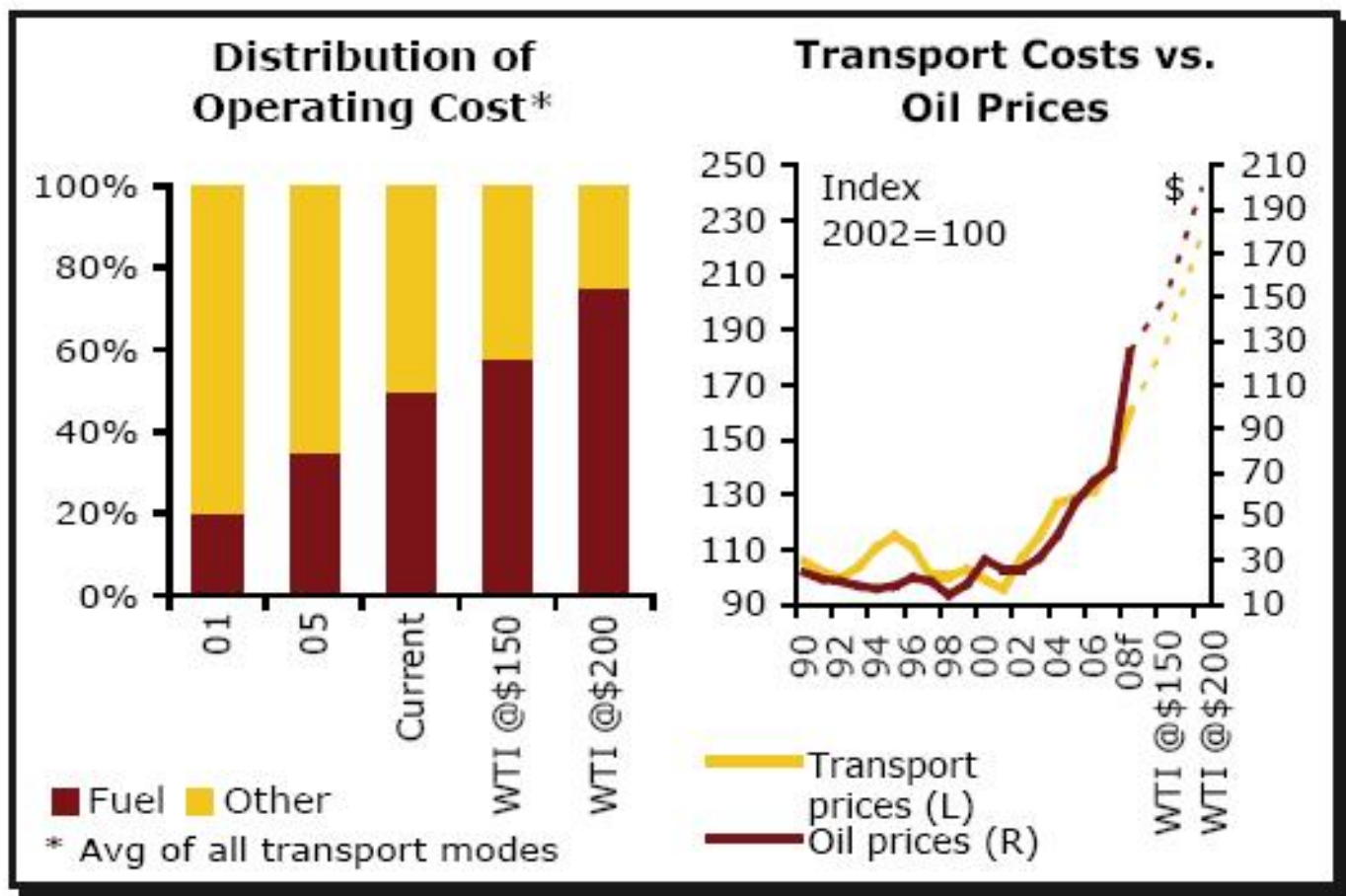
## Commodity prices (5-day Moving Average)

Petrol WTI in current US\$, Copper, Wheat and Soybeans are indexed to January 3, 2005



Data Source: WB DEC PG

# Transport Costs Highly Sensitive to Oil Prices

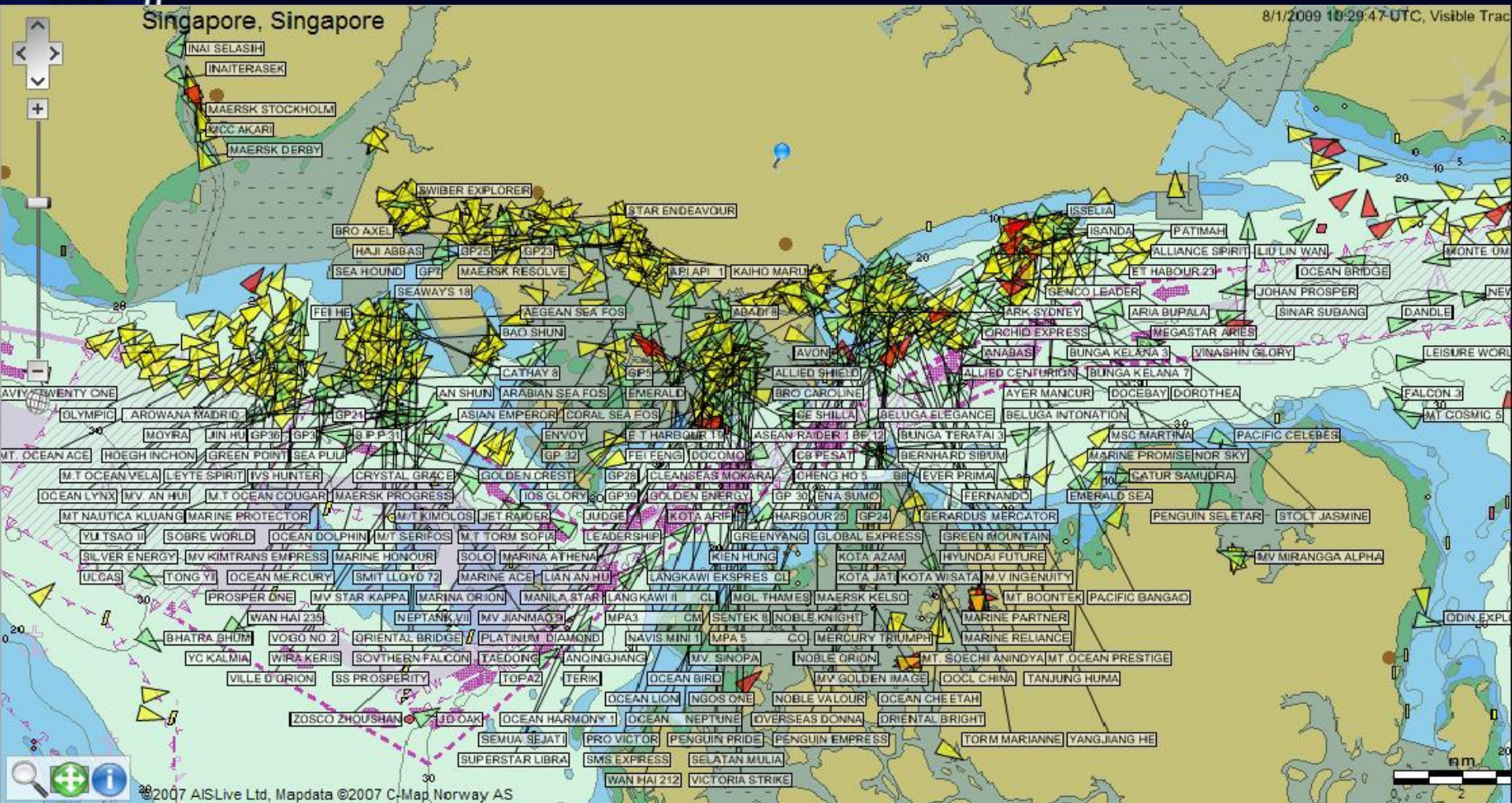


Source: RMT, CIBCWM

# Jan 2008 – Jan 2009: The Transport Rollercoaster

- **Jan-Mar 2008:** “Container lines reveal healthy 2007 profits and optimism for 2008, despite rising operating costs.”
- **Apr-Jun 2008:** “Higher oil prices could slow globalization”
- **July 2008:** “Can lines live with oil at \$120 a barrel or higher, with more than 60% of vessel operating costs going into bunkering?”
- **Jan 2009:** Spot rates plunge to zero on Asia-Europe trades
- **March 2009:** 20% of world container fleet expected to be laid-up in 2009

# Transport for Trade...



# What we heard From Two Main Operators' Boardroom

- **DP World**

*(13% world market, 29 million TEUs handled)*

- Defers half of its capacity expansion plans
- Anticipates activity returning to 2007 levels

- **Hutchison Port Holdings**

*(30% world market, 66 million TEUs handled)*

- Froze all investments for new projects in 2009

# Modal Trends

- Shipping
  - Sitting on a supply time bomb
    - Container freight rates Asia-Europe dipped 70%
    - 35% drop in volume year-on-year
    - 15% additional capacity to be delivered in 2009
- Air Transport
  - Mounting losses
    - 12% decline in revenues expected in 2009: projected losses of \$4.7 billion—worse than losses following 9/11
    - 13% decline in freight volumes, 6% in passengers (IATA 2009 forecasts)

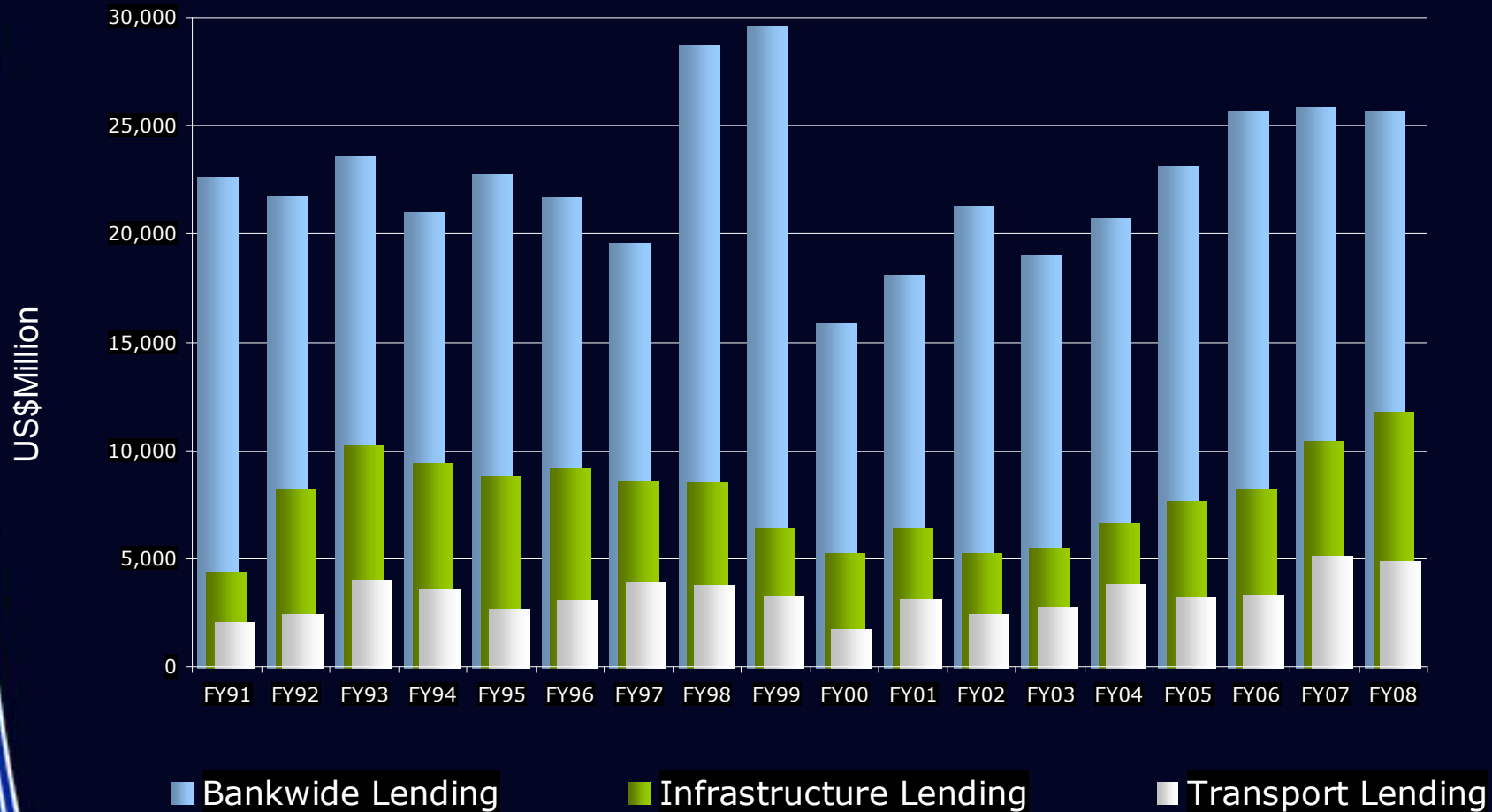
# Transport and Energy

- Falling Demand
  - Impact on research on alternative fuels
    - Cheaper oil
    - Lower transport costs
      - *Weakening incentives ?*
  - Impact on modal shift
    - Public transport vs. The Nano
    - Decreasing municipal resources
      - *Impact on private preferences ?*

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# Future of Transport Financing (1)



Source: Business Warehouse data, includes IBRD/IDA, GEF, Guarantees, SF, and Carbon Finance

# Future of Transport Financing (2)

- Investment Banks

Back in 2006:

- Goldman Sachs purchased 49% of terminal operator Stevedoring Services of America (SSA)
- American International Group (AIG) bought the US terminals of Dubai World Ports

» *What Now ??*

- Infrastructure Funds/Pension Funds

- Seek long-term returns and once saw transport infrastructure as secure and stable

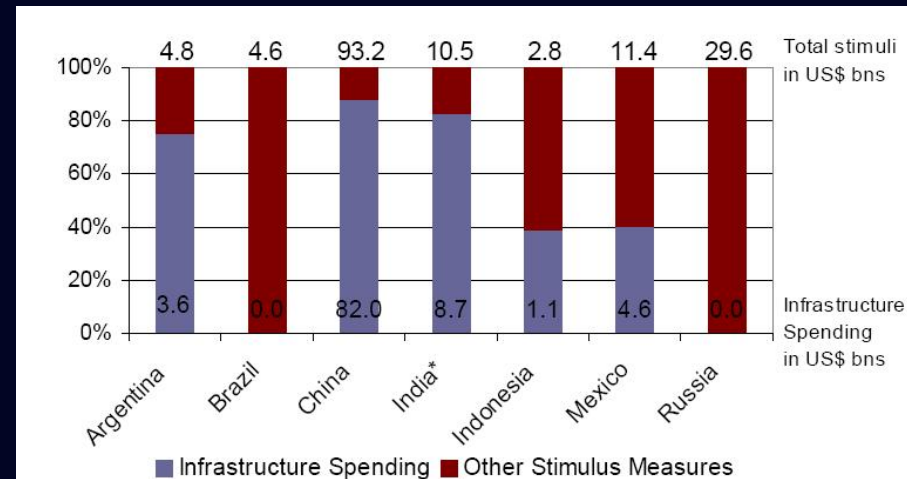
» *Will they keep this view ??*

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# Infrastructure in Stimulus Packages

	2009		
	Total stimulus (bns of US\$)	Total stimulus (% of GDP)	Infra- structure spending (% of total stimulus)
Argentina	4.8	1.3	75.0
Brazil	4.6	0.3	0.0
China	93.2	2	88.0
India*	10.5	0.9	82.8
Indonesia	2.8	0.5	39.3
Mexico	11.4	1	40.4
Russia	29.6	1.7	0.0
<b>Total</b>	<b>156.9</b>		<b>63.7</b>



Note: Figures do not include banking sector support measures

Sources: IMF(2009): "The state of Public Finances Outlook and Medium Term Policies After the 2008 crisis", Fiscal Affairs Department, January 26, 2009, World Economic Outlook, Saha and Weizsaecker (2008):

Estimating the size of the European stimulus packages for 2009", JVV/DS, 12 December 2008, UBS Investment Research (2008): "Global Economic Perspectives The global impact of fiscal policy", 10 December 2008, World Bank staff estimations.

# Keeping Transport Infrastructure and Services Ready to Run

- Transport Infrastructure
  - Maintaining full operational status of all assets is critical to avoid any delay in recovery when growth resumes
  - Infrastructure maintenance must be protected throughout the crisis as a matter of priority
- Transport Services
  - Impact of market consolidation on competition
  - Availability and coverage of services

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# Transport: An Universal Access Agenda

The Forum this week will illustrate the key role of Transport in:

- Connectivity
  - Geography and Spatial Economics
- Competitiveness
  - Trade logistics efficiency and reliability
- For people, goods and institutions
  - Social inclusion
  - Equitable participation in growth
  - Access to social services and protection of the poor in times of recession



Thank you