

Overview of Trends in Multimodal Transport

*Sufian Atallah Al-Muhaisen, Vice-President of IMMTA
World Free Zone Convention-IZMIR 2005 Int'l Conference
22nd April 2005*

1. Introduction

Good afternoon ladies and gentlemen. I want to begin by thanking the World Free Zone Convention and the Aegean Free Zone Development and Operating Company (ESPAS) for this opportunity to address such a distinguished and influential audience as well to listen to some very interesting leading experts. This paper gives a brief overview of an important factor in the success of free and special economic zones; that is Multimodal Transport (MT). The topics include defining the concept of MT in a simplified approach, how it developed, the linkage with international trade, the legal environment and prospects and challenges.

Over the past decade the world has witnessed strategic considerable developments. The movement toward globalization and trade liberalization paralleled by the revolution in information and communications technologies is continually advancing and significantly altering existing markets and triggering a race for the future. Apparently a new economic era is materializing and driving more countries toward global economic integration. While partnering and forming alliances are companies' best response, regionalism is emerging as countries' powerful option in face of these ongoing global trends. National borders

are increasingly disappearing and trade barriers are dismantled. Progressively, these developments required changes in the type and quality of transport and logistics services and infrastructure. Therefore, new patterns of provision and management of transport have emerged. The massive growth in containerization which introduced the modern concept of Multimodal Transport has shifted the cargo delivery system from "port-to-port" to "door-to-door". Moreover, several industrial and agricultural companies have changed their production methods to be able to use containers for export and capture the advantages of MT. A good example is the Japanese square melons.

Japanese Square Melones Being Prepared for Transport to the USA



Japanische Bauern verpacken quadratische Melonen für den Schiffstransport in die USA

PHOTO: AP/KYODO

Source: Die Welt, June 15, 2001

2. Multimodal Transport Developments

Simply, Multimodal Transport can be viewed as *“the chain that interconnects different links or modes of transport -air, sea, and land- into one complete process that ensures an efficient and cost-effective door-to-door movement of goods under the responsibility of a single transport operator, known as a Multimodal Transport Operator (MTO), on one transport document”*.

Although the concept might not be new, it developed with the advent of containerization in the late 1950's. Since then, certain important developments have influenced the modern development of multimodal transport. Governmental deregulation of different modes of transport in the late 1970s/early 1980s permitted the various modes to cooperate with one another and to coordinate their operations in meaningful and innovative ways. Other important developments include the removal of transport restrictions and the privatization of state-owned transport enterprises in various parts of the world in the late 1980s.

Similarly, with today's dynamic markets and increasingly changing technologies, companies must be flexible to respond rapidly to competition and market changes. Over the past two decades, hyper-competition led business cycles to develop various management tools and techniques to survive. Quality management, time-based competition, benchmarking, outsourcing and change management are all examples of such instruments which were used to achieve the competitive or comparative advantage. The ultimate goal is to “deliver greater value to customers or create compatible value at a lower cost, or do both”.

Eventually, it was realized that differences in cost derive from the large number of activities performed from creating the product or service up to delivering it to the customer; that is the supply chain. The search to reduce costs and improve customer service resulted in the integration of all activities in the supply chain, including the transport chain. Therefore, whoever manages these activities and their flow more effectively and efficiently will gain the cost advantage and then the competitive lead. With this development of logistics and supply chain management as a competitive strategic management tool, which enables enterprises to achieve the cost leadership, multimodal transport gained increased importance being the facilitator of a global supply chain.

3. Legal Environment

Unfortunately, the harmonization process of the legal environment for multimodal transport has not yet succeeded. Despite the continued expansion of international multimodal transport, there is to date no international uniform liability regime in force. The present regime comprises a “complex mix of: international conventions designed to regulate unimodal carriage (sea, road, rail and air), diverse and often conflicting regional, sub-regional and national laws and regulations, and standard-term contracts”.

While multimodal transport implies the safe and efficient movement of goods, the absence of international rules governing the successive carriage of goods resulted in crucial problems in the field of carriers' responsibility and the liability for loss of or damage to the goods occurring in the course of a multimodal transport operation.

Therefore, during the past decades several attempts were made to establish an international regime to govern this process. In 1973, a set of rules were created by the International Chamber of Commerce (ICC) . In 1980, the UN Multimodal Transport Convention was signed. Although, it allows for the creation of a new entity, called Multimodal Transport Operator (MTO), which could offer to shippers an optional door-to-door system of liability applying to multimodal transport document but this convention has so far received little support. While, the Convention will come into force, when 30 nations ratify it, up to 2004 only ten nations had. In 1990, this situation forced commercial parties jointly with UNCTAD to replace the ICC 1973 Combined Transport Rules by the UNCTAD/ICC Rules for Multimodal Transport Documents. Although, these rules have become commercial practices (new FIATA FBL, new BIMCO COMBIDOC, IMMTADOC), they are of a contractual nature and therefore not a suitable means of achieving international uniformity.

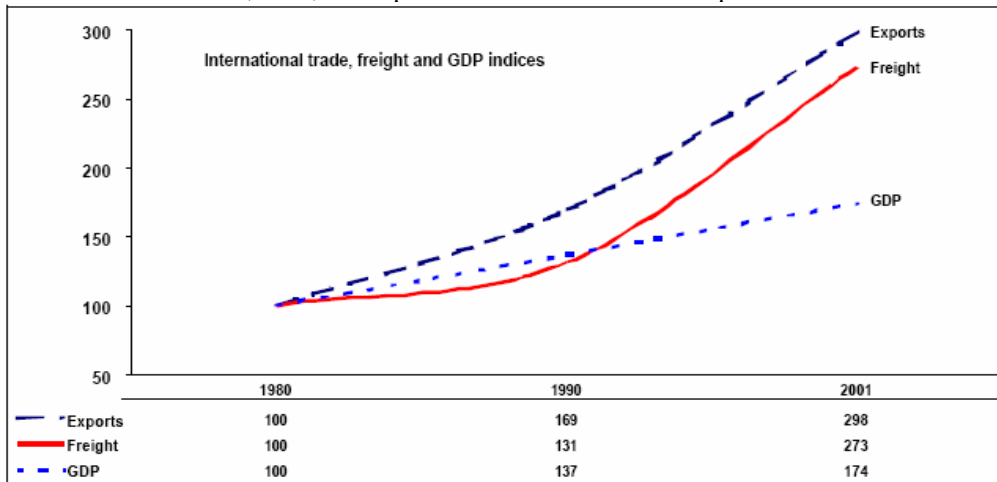
In 1996, the United Nations Commission on International Trade Law (UNCITRAL) initiated an international effort to come up with a comprehensive international convention on multimodal transport that would be ratified and adopted into law by a majority of nations. “At its thirty-fourth session, in 2001, the Commission established a Working Group and entrusted it with the task of preparing legislative instrument on issues relating to the international carriage of goods such as the scope of application, the period of responsibility of the carrier, obligations of the carrier, liability of the carrier, obligations of the shipper and transport documents”. Recently, the Working Group began consideration of a “Draft Instrument on Transport Law” to apply to multimodal transport involving a sea leg. Clearly, this is an issue of utmost importance and

requires attention by all entities interested in facilitating global trade. As an NGO participating in these meetings, IMMTA believes it is crucial that all countries, particularly the developing ones to participate in the deliberations to ensure their interests are taken into account.

4. Trends and Opportunities

As demand on transport is derived from demand on trade, the growth in international trade is reflected in similar and some times higher growth in the demand on international transport services. Consequently, growth in international transport services is evidenced by the explosive growth in trade. Over the last two decades, world trade has grown more than twice as fast as world gross domestic product (GDP). In fact, it was realized that during the 1990s, growth in expenditure on international transport grown faster than trade. While world exports increased by about 75 per cent, real expenditure on int'l transport more than doubled.

Growth of World GDP, trade, and expenditure on international transport



Source: UNCTAD

With the explosive expansion of international trade, global outsourcing of manufacturing, significant growth in internet and E-Commerce and increasing demand for “Just-In-Time” (JIT) deliveries and production system are increasingly shifting the behavior of shippers to demand door-to-door delivery instead of the traditional port-to-port system.

Similarly, today the total “transport chain” from the first origin to the final destination is being regarded as a whole in order to be able to compare alternatives realistically. Therefore, to ensure the efficiency of this chain and gain operational control over it, new transport patterns and practices have emerged. While liner companies became port operators and providers of “door-to-door” services, several levels of logistics services providers were created.

Evidently, this will not only increase the demand for more frequent, more secure and more reliable multimodal door-to-door transport services, but also increase the share of air transportation. Accordingly, the demand for efficient and prominent MTOs will increase.

However, several countries have realized these developments and invested in developing and integrating their sea-air transport logistics system to capture the sea-air transshipment opportunities. While the United Arab Emirates Port of Dubai and the Malaysian Port of Tanjung Pelepas have successfully implemented this logistics solution, several other ports like the Jordanian Port of Aqaba will soon follow.

5. Challenges

Most countries endeavor to improve and enhance their trade competitiveness. While country's productive capacities is an important factor in determining its export competitiveness, it remains undermined ineffective without having an efficient, operative, cost effective connection to global transport and logistics networks.

Apparently, with the globalization of production and the liberalization of services transport and logistics services are becoming ever more crucial for remaining competitive in international trade. Therefore, countries wishing to participate effectively in the global trade face more than ever the challenge of having to improve their capabilities in offering reliable and cost-effective transport and logistics services. Likewise, the responsibility to comply with the new security requirements poses additional challenges.

Another important challenge is seen in the need for harmonization of the legal environment for multimodal transport to ensure a uniform liability regime that protects the interests of all concerned.

References:

- Al-Muhaisen, S. (2004). The Logistics Potentials of the Aqaba Special Economic Zone (ASEZ) as a Regional Gateway". *World Maritime University, Malmo-Sweden*
- Malchow, M. B. (2001). *An analysis of port selection*.
- Porter, M. E. (1996, November - December). What is Strategy. *Harvard Business Review*, Aqaba Special Economic Zone Authority, ASEZA (www.aqabazone.com)
- International MultiModal Transport Association (www.immta.org)
- United Nations Conference on Trade Development, UNCTAD (www.unctad.org)
- World Bank (www.worldbank.org)
- World Trade Organization (www.wto.org)