Logistics platforms as a pivotal element in competitiveness and sustainability

Introduction

A logistics platform is by definition, a functional system which consists in combining and coordinating the operations of different modes of transport as a fundamental prerequisite for ensuring efficient service. The existence of appropriate infrastructure and information technologies (IT) is essential for facilitating cargo transfer from one mode to another in a timely, competent and cost-efficient manner. In its most basic form, this type of infrastructure is known as the cargo terminal; the introduction of value added logistics services and the operation of at least two modes of transport turn it into a comodal platform. The growing complexity of the environment in which transport systems operate has strongly influenced the development of this type of infrastructure, which has evolved from a strictly functional role to incorporate other dimensions of sustainability, which are reviewed in detail in this Bulletin. The State-run port authority in Spain, Puertos del Estado (Spain, 2002), recognizes that local transport functions developed strictly sectoral functions and have now evolved into fully-fledged platforms that facilitate regional integration through the combined use of different means of transport. Ports are considered to be the infrastructure par excellence for providing this type of service. Authors such as United Nations (2001), Europlatforms (2004), Ruminié and Grundey (2007), Rodrigue and others (2009), and Leal and Pérez (2009) have worked on the definition and classification of this concept and have monitored its development.

Under certain technical and regulatory conditions, the implementation of this type of infrastructure has a major impact in reducing not only the economic cost of transport systems, but also the negative externalities that affect the population, thus contributing to sustainable development. The prerequisites for the implementation of competitive and sustainable comodal platforms are discussed below.
I. Comodal logistics platforms and sustainability

Figure 1 presents a simplified approach to the assessment of the economic and social impacts of logistics platforms. Taking as a reference the private internal costs and some of the external social costs (accidents and pollution), the study of Gomes and others (2010) shows the advantages of a comodal transport system, that is, one which coordinates and combines at least two modes of transport in such a way as to maximize the efficiency of the service between points of origin O1 and O2 and points of destination D1 and D2. The first option considers two individual shipments of 10,000 tons each, which are transported over a distance of 300 km. Under the comodal alternative, a logistics platform is incorporated whereby two road stretches of 50 km meet and connect with a 200 km railway segment, which ends at a second platform where the shipments are separated and transported over the final segment, once again by road. The exercise shows that the comodal alternative cuts transport costs (that is, not taking into account the investment, transfer and warehousing costs) by 57%, a figure which is added to the 27% reduction in social externalities. These reductions mean that the total cost is 42% lower. Thus, it is clear that in appropriate environments, comodal practices are profitable and sustainable, since they maximize the efficiency of the transport chain and there is scope for all transport modes. Kim and Van Wee (2009) apply a similar logic to the comparison of CO2 emissions between a unimodal system and a multimodal system and conclude that environmental and social sustainability can be compatible with greater economic competitiveness.

While the above exercise reveals major advantages from the functional and economic point of view, transport systems are actually much more complex and other important variables that have a significant impact on sustainability must be borne in mind: these include economic and environmental regulations, industrial relations and relations with the community, to name just a few. Table 1 shows how the concept of a logistics platform terminal has evolved and highlights elements linked to different dimensions that have a bearing on sustainability.

Table 1

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Infrastructure: transfer and warehousing</th>
<th>Technology: transport mode and transfer</th>
<th>Economic</th>
<th>Organizational</th>
<th>Institutional (Public sector)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal</td>
<td>Infrastructure: transfer and warehousing</td>
<td>Technology: transport mode and transfer</td>
<td>More competitive transport costs (economic sustainability); Mode of transport and economies of scale. Specialization in cargo transfer. Lower congestion costs and fewer accidents (social sustainability); Mode of transport Appropriate infrastructure Pollution costs (environmental sustainability); Less polluting modes Concentration in terminal facilitates better control of pollutants.</td>
<td>Management and control come under one organization. Advantage: organization under the central business enhances specialization (economic sustainability) and better management of environmental issues (environmental sustainability).</td>
<td>Opportunity to coordinate investments directly or through concessions, both in nodal infrastructure and in each mode of transport. It corrects market failure (economic, social and environmental sustainability).</td>
</tr>
</tbody>
</table>

Source: Prepared by the author on the basis of Gomes and others (2010).
II. Considerations for effective and sustainable implementation

Functional dimension

In terms of functions, the infrastructure services of a cargo terminal dedicated to transfer and warehousing can be supplemented with services in manufacturing, assembly, labelling, distribution and other value-added logistics services. In addition to warehouse and transfer equipment, technology will be used for security, data sharing and storage, as well as for assembly, packaging, control and other related functions.

Economic dimension

The most basic of terminals takes advantage of each transport mode, coordinating shipments and achieving economies of scale and modal specialization. The progression to a logistics platform increases the levels of services using more flexible means with traceable and reliable delivery. In terms of social advantages, rail, maritime and air transport are the safest with the lowest accident rates, hence their combination with the road mode helps to reduce the costs associated with motor accidents. In the same way, a lower volume/vehicle ratio (such as the ratio for road transport) results in high operating costs and an increase in social costs due to congestion in the system, whereas comodal alternatives make for maximum efficiency in the transport system, which, in this case, is reflected in high rates of use per vehicle, greater energy efficiency (economic benefits), less congestion and fewer road accidents (social impacts) as well as lower emissions. Indeed, emissions are much lower when modes with a higher volume/vehicle ratio are used. This advantage is illustrated in tables 2 and 3, which shows the transport costs per mode for passengers and cargo; the data are valid for Portugal for 2000.

Comodal logistics platforms provide the advantages of concentration or clustering, usually referred to as economies of agglomeration, for clients and suppliers as well as for strategic partners; these include lower research and transaction costs (prices, quality, reputation, risk). Also included here are positive externalities associated with knowledge dissemination and competitive development, which arise from geographical proximity and from shared knowledge and private or public institutions generated in this context. As regards environmental sustainability, concentration is more economical since transport costs, hence energy requirements, are lower; concentration also promotes collaboration and the implementation of cheaper mechanisms for tackling environmental projects.
Table 2
PORTUGAL: BREAKDOWN OF PASSENGER TRANSPORT COSTS, 2000 (€/PASSENGER-KM)

<table>
<thead>
<tr>
<th>Mode of transport</th>
<th>Internal costs</th>
<th>Total internal costs</th>
<th>External costs</th>
<th>Total external costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>Inspection</td>
<td>Insurance</td>
<td>Energy</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Automobile</td>
<td>0.039</td>
<td>0.001</td>
<td>0.010</td>
<td>0.020</td>
<td>0.007</td>
</tr>
<tr>
<td>Buses</td>
<td>0.010</td>
<td>0.000</td>
<td>0.001</td>
<td>0.013</td>
<td>0.008</td>
</tr>
<tr>
<td>Trains</td>
<td>0.016</td>
<td>0.000</td>
<td>0.000</td>
<td>0.008</td>
<td>0.012</td>
</tr>
</tbody>
</table>

Source: Gomes and others, 2010. CITTA 3rd ANNUAL CONFERENCE ON PLANNING RESEARCH.

Table 3
PORTUGAL: BREAKDOWN OF CARGO TRANSPORT COSTS, 2000 (€/TON-KM)

<table>
<thead>
<tr>
<th>Mode of transport</th>
<th>Internal costs</th>
<th>Total internal costs</th>
<th>External costs</th>
<th>Total external costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>Inspection</td>
<td>Insurance</td>
<td>Energy</td>
<td>Maintenance</td>
</tr>
<tr>
<td>Light freight vehicles</td>
<td>0.081</td>
<td>0.002</td>
<td>0.021</td>
<td>0.052</td>
<td>0.021</td>
</tr>
<tr>
<td>Heavy freight vehicles</td>
<td>0.014</td>
<td>0.000</td>
<td>0.002</td>
<td>0.038</td>
<td>0.009</td>
</tr>
<tr>
<td>Freight train</td>
<td>0.006</td>
<td>0.000</td>
<td>0.000</td>
<td>0.003</td>
<td>0.004</td>
</tr>
</tbody>
</table>

Source: Gomes and others, 2010. CITTA 3rd ANNUAL CONFERENCE ON PLANNING RESEARCH.

Organizational dimension

With respect to organization, comodal terminals have a strong influence on economic sustainability, especially when they are part of the organization’s core business. Given the need for substantial volumes to cover the high cost of the fixed investment component, firms whose main business is not logistics and which specialize in a high-tech area are very likely to have their own terminal.

The logic is different in the case of comodal logistics platforms, since, given the variety of functions, it would be almost impossible to manage, implement and control all the services and businesses. Moreover, the competitiveness of these structures depends on the specialization of each of the organizations that operate within them. Hence, it is increasingly probable that these platforms will coordinate specific strategic investments in telecommunications, recycling, reduction of waste or emissions, which cannot normally be done if there is geographical disaggregation. Logistics platforms are also a physical option where if not the majority, at least many supply chain operators come together; this enhances the organizational and physical integration of the logistics chain and streamlines inventory levels and transport requirements. This streamlining has an economic impact insofar as total logistics costs tend to diminish; furthermore, the better use of resources implies lower negative social and environmental externalities. Lastly, an important outcome of organizational efficiency, aided by the specialization of organizations within the logistical platforms, is institutional sustainability. Although this concept is usually associated with public entities, the presence of a platform management authority rallies the different companies and sectors around the objectives, activities, resources and long-term plans; civil society and the public sector must also be brought into the equation, especially when the territorial impact or market structure and characteristics warrant it.

Public institutional dimension

Logistical investments whether in terminals or comodal platforms are usually private, and may take the form of direct investment or other mechanisms such as concessions. Nevertheless, public sector intervention is also necessary for coordinating and regulating specific complementary (risk-reduction) investments or for ensuring optimum prices or quality services where the market power exists. Port terminals are a good example of this, since it is the port authority (or other relevant authority) that can spearhead initiatives relating to investment, or generate the necessary incentives for achieving competitive prices and services. In terms of sustainability, the existence of this institutional framework is crucial for leading or regulating activity by generating an environment that is safe (accident-free), uncongested and clean (environmentally sustainable). The institutional dimension is important for overcoming market failures in the provision of
infrastructure. Thus the economic sustainability of a terminal or of comodal logistics platforms depends largely on the existence of appropriate institutions conducive to efficient and sustainable transport.

Public institutions afford a great opportunity for business development, since joint public-private activities can be much more effective for dealing with issues of security, public health and foreign trade. Joint marketing or the implementation of systems that measure the carbon footprint can be much more sustainable in the long term if they are conducted by public-private institutions. All of the foregoing also fosters a public-private culture which leads to lower coordination costs, trust and greater consensus in terms of the long-term perspective and objectives.

### III. Operational and regulatory considerations

The arguments presented in the foregoing section show that comodal platforms are a valuable system for achieving a sustainable economy. However, the proper functioning of such platforms calls for timely regulation and coordination by the private and public sector. The specialist literature states that the efficient operation of this type of logistical structure depends on a number of variables, in particular, location, market characteristics, the presence of complementary infrastructure and a favourable and dedicated public environment.\(^1\)

Intermediacy and centrality are useful concepts in assessing location. Although these concepts are used to understand how economic activity relating to the port industry impacts on local economic activity in a coastal city, usually referred to as the city-port relationship, the principles discussed here are also valid for smaller geographical areas and also in the case of passenger transport. In practical terms, an intermediate location is one where there is a relatively high concentration of maritime traffic in relation to the urban concentration of the city, whereas a central location is one with a high relative concentration of the urban population in relation to maritime traffic, which means that the size of other economic sectors overshadows that of the port or local logistics. Depending on the scale, the concentration of traffic can generate a substantial demand for cargo and other services, thereby favouring the development of comodal logistics platforms.

Market variables are much more specific, above all in terms of the definition of services that can be provided by a logistics platform. Market volume is one of the most important variables, mainly because of high fixed investment costs and maintenance charges. The high volumes help to reduce operating costs and to amortize investment costs; in addition, they help to meet the operating risk of the business, especially those relating to nodal infrastructure and its linkages with other specific modes such as maritime and rail transport. With respect to types of cargo, the concentration of industrial activity is an important element which triggers the demand for specific services such as large-scale storage and public services relating to health and legal issues. At the other extreme, population size and density are critical for concentrating cargoes of goods for mass or intermediate consumption and which also require specific services, such as transport, warehousing and offloading of containers; cargo value added services, such as repacking, cross-docking, labelling and end-processes in manufactures such as assembly; or else, specific services for the logistics industry itself, such as maintenance of equipment, financial services, provision of inputs or even personal services. In the same vein, per capita income is also important, insofar as it has an impact mainly on the demand for consumer goods and high value added.

Infrastructure is another important variable that has a bearing on private participation, since both nodal and complementary infrastructure have significant sunk costs, which private investors may not be prepared to incur; thus preconditions and incentives must be generated to encourage them to participate. The quality of the infrastructure is important as well as availability. Infrastructure must facilitate the provision of services in terms of capacity, speed and reliability. Recent studies demonstrate the importance of a local business base with knowledge and logistical capacities that facilitate the establishment of partnerships and joint ventures between global and local operators.

In the case of the public sector, the physical, financial and spatial scope means that comodal infrastructure projects usually involve three phases: (i) project design; (ii) investment; and (iii) implementation and operation. Each of these stages is determined by the characteristics of the market they serve, so that market failures occur not only as a result of the risk and competitive behaviour but also because of information asymmetries between interest groups in each phase. Hence, an appropriate regulatory market is required, as well as leadership to enable them to address the challenges that each market presents in the different phases.

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Design phase

Comodal logistics platforms are structured around the coexistence of a variety of firms and businesses that cluster together to take advantage of the gains associated with economies of scale and agglomeration. At the same time, business risk structure calls for a high degree of coordination not only among private entities but also between the public and private sectors so as to minimize the risks associated with the business. In addition, the social and environmental impacts that these platforms can generate must be taken into account, which means that in addition to the initial group and interest groups, other social organizations linked to the territory where the activity is being developed become involved. Thus, there may be a broad range of interests within the respective interest groups, which, if not managed properly, can adversely affect the alignment of interests, jeopardizing both the investment and the implementation of this type of infrastructure.

The participation of the public and private sector must be coordinated, failing which this diversity of interests will be an additional risk factor and may cancel out the economic, social or environmental benefits. Public leadership must seek to bring the public and private interests in line with the long-range perspective, while private leadership must uphold a strategic commitment to reducing accidents, congestion and negative externalities arising from its commercial operation, and to satisfying the interests of the other groups (employment, professional development) in a clean environment conducive to intergenerational equity. Leadership must also be based on concrete actions that are part of a system that seeks to reduce information asymmetries for and in all interest groups so that the convergence of interests is based on well-informed decisions and on individual and collective benefits (institutional sustainability).

In this context, the private sector must demonstrate a willingness to contribute to the systematization of public information by generating, maintaining, updating and publishing information relevant to the project. Partnerships with academic institutions can prove useful for ensuring the continuity and the generation of knowledge in the long term and for future initiatives. Many of the efforts at this stage are considered to be sunken costs and, generally speaking, not all stakeholders are willing to make this investment; hence the importance of studies generated by the public sector to allow for well-informed decisions adopted in a transparent manner. Lastly, this support proves useful also at the feasibility stage, which requires a series of preliminary studies by private and public entities in preparation for the subsequent phase: investment.

Investment phase

Investment in this type of infrastructure, as mentioned before, is associated in some respects with certain market failures. While this calls for the intervention of the public sector, insofar as the private sector requires certain conditions to operate, it is also true that the public sector faces an opportunity cost and must set priorities among important issues such as health, education and social spending. This reciprocity between the public and private sectors also underscores the need to establish the degree of involvement that the public sector should have in this type of undertaking.

The first case has to do with vertical linkages, which one or more private entities establish in order to reduce the operating risk, and the specificity of the investments or the need for complementary investments. The public sector must put these mechanisms in place so that the private sector can have a better risk-return profile and avoid opportunistic behaviour by clients or business partners. At the same time, however, it must ensure that these vertical linkages do not give the operator an excessive amount of market power that could be wielded at the expense of the consumer. In other words, the public sector must ensure social efficiency and must adopt mechanisms that encourage competitive prices or high-quality services so as to ensure social and private efficiency.

Another case closely related to the foregoing has to do with the necessary balance between the investor’s strategic commitment and the opportunity cost associated with the effort by the public sector. Regulatory frameworks may allow a significant involvement of the public sector, even in investments that the private sector would rule out on the basis of market conditions. The opportunity cost of this effort (the government may divert funds that would normally be invested in health or education) has to be measured against the strategic commitment of the investor. That is, in a very low risk scenario and with low exit costs, opportunistic behaviours may be made that encourage a high turnover of operators who make short-term gains at the expense of the social and environmental sustainability of the initiative. In such a scenario, compensation mechanisms or incentives should be considered that diminish the environmental impacts associated with the investment phase.
Operation

Most of the externalities in the logistics industry —those directly linked to transport as well as those relating to transfer and warehousing operations— become visible at the operating phase. Although the case of transport is fully covered in the literature, which identifies the main externalities as congestion costs, accidents and contamination, those costs also arise in transfer and warehousing operations, which are typical activities in a logistics platform. Thus, the public sector should promote instances of collaboration in order to keep the main sources of environmental pollution under control and similar schemes for adopting measures that maximize the security of operations that contribute to social and environmental sustainability.

At the other extreme, the benefits of collaboration may also be extended to measures for attracting increasing levels of traffic or for generating new and better logistics services. Thus, mechanisms for fostering public-private partnerships are a prerequisite for the economic sustainability of this type of project. As mentioned in the conceptual framework, in addition to a regulatory framework, the public and the private sector must demonstrate commitment and leadership.

IV. Policies for promoting comodal logistics platforms

The overview presented above underscores some important issues to be taken into consideration in formulating integrated transport policies. Comodal logistics platforms are effectively a type of transport infrastructure with a high impact on sustainability, and therefore should be the focus of integrated transport, infrastructure and logistics policies. Many of the results expected from an integrated policy are obtained from fostering comodal platforms:

- They provide more efficient and economical transport systems, fostering and increasing competitiveness not only of the participating companies but also of the economic sectors they serve.
- In terms of social benefits, they reduce congestion, accidents, noise pollution, and gas emissions and overall the pollution associated with the operation, so that significant savings are generated in terms of external costs and hence social benefits.

Since this type of infrastructure is used in a market environment, a significant number of the issues covered by an integrated policy are associated with the operating conditions, which are complemented by regulatory standards. In the operating sphere, economies of scale and agglomeration, appropriate infrastructure and a reliable public sector, which assumes a leadership role in development, are the main prerequisites:

- The profitability of this type of investment depends on economies of scale and scope. Thus, volumes are important, as are the presence of different operators and the concentration of cargoes and operators.
- Existing infrastructure and the quality or potential of the services it supports help to reduce sunk costs, lower risk and speed up operating and implementation processes.
- A reliable public sector is vital both as a regulatory authority and as an institutional framework. The rules of the game must be clear and consistent over time so as to generate the trust necessary not only at the time of the investment but also during the operation.

As with most transport-related infrastructure, regulation has to be assumed by the public sector, bearing in mind that market failures act as a disincentive for investment. The intervention of the public sector must not, however, be limited to issues relating to the concession. On the contrary, a significant number of private and public stakeholders interact in comodal logistics platform. They generate an appropriate scenario for implementing collaboration and coordination initiatives, which range from the pre-investment phases to operation, in which the State has a central role to play in ensuring sustainability:

- At the project design phase, the public sector should concentrate on reducing information asymmetries and reconcile the objectives of all the interest groups involved. Studies must be carried out to identify clearly both individual and collective benefits, and to assess social costs and benefits.
- At the investment phase, concession mechanisms are important tools for avoiding opportunistic behaviour by the main operators of this type of infrastructure. At the same time, however, the various public and private stakeholders promote the generation of coordinated investment mechanisms among public or private stakeholders, or between private and public stakeholders.
- Collaboration and coordination of the above-mentioned phases can and should be extended towards the operating phase. Here, again, the public sector is well-placed to spearhead initiatives, such as joint marketing projects designed to place the platform and each of the participating businesses in a competitive position; or to promote collective initiatives and projects that seek to improve security and efficiency or to reduce emissions and noise pollution.
Thus, comodal logistics platforms may be the outcome of an integrated transport, infrastructure and logistics policy, but, in addition, they can be a significant opportunity for implementing particular measures in the context of an integrated policy, generating a virtuous cycle of private, social and sustainable development.

V. Conclusions

Comodal transport is a concept based on the development of nodal infrastructure and, hence on logistics terminals or platforms that include two or more modes of transport, that is, comodal platforms. Hence, comodal platforms are infrastructure systems that promote the sustainability of transport systems, insofar as they foster more economical and more competitive systems, but at the same time, with a lower burden of externalities, specifically in terms of congestion, accidents, noise and gases that pollute the environment.

Certain operating and regulatory conditions are required for comodal platforms to function. The operating conditions include scale, pre-existing infrastructure and a reliable public sector that is pro-active in developing this type of initiative. In terms of regulation, comodal platforms must be the fruit of integrated transport, infrastructure and logistics policies. Specifically, integrated policies must foster the development of comodal platforms, not only at the investment phase, but also at the pre-investment and operating phases, in which they must participate actively. Platforms must, moreover, be an opportunity to implement specific policies, principally with respect to collaboration and coordination schemes. The public sector must assume a regulatory role and participate proactively in the development of this type of infrastructure.
VI. Bibliography


