

The logo for the World Economic Forum, featuring the words "WORLD ECONOMIC FORUM" in a bold, sans-serif font. A thin black line forms a partial circle around the text, starting from the top left and ending at the bottom right. To the left of the text is a thick, vertical blue bar.

WORLD
ECONOMIC
FORUM

COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

BAC Meeting
Evanston, Illinois
April 10, 2008

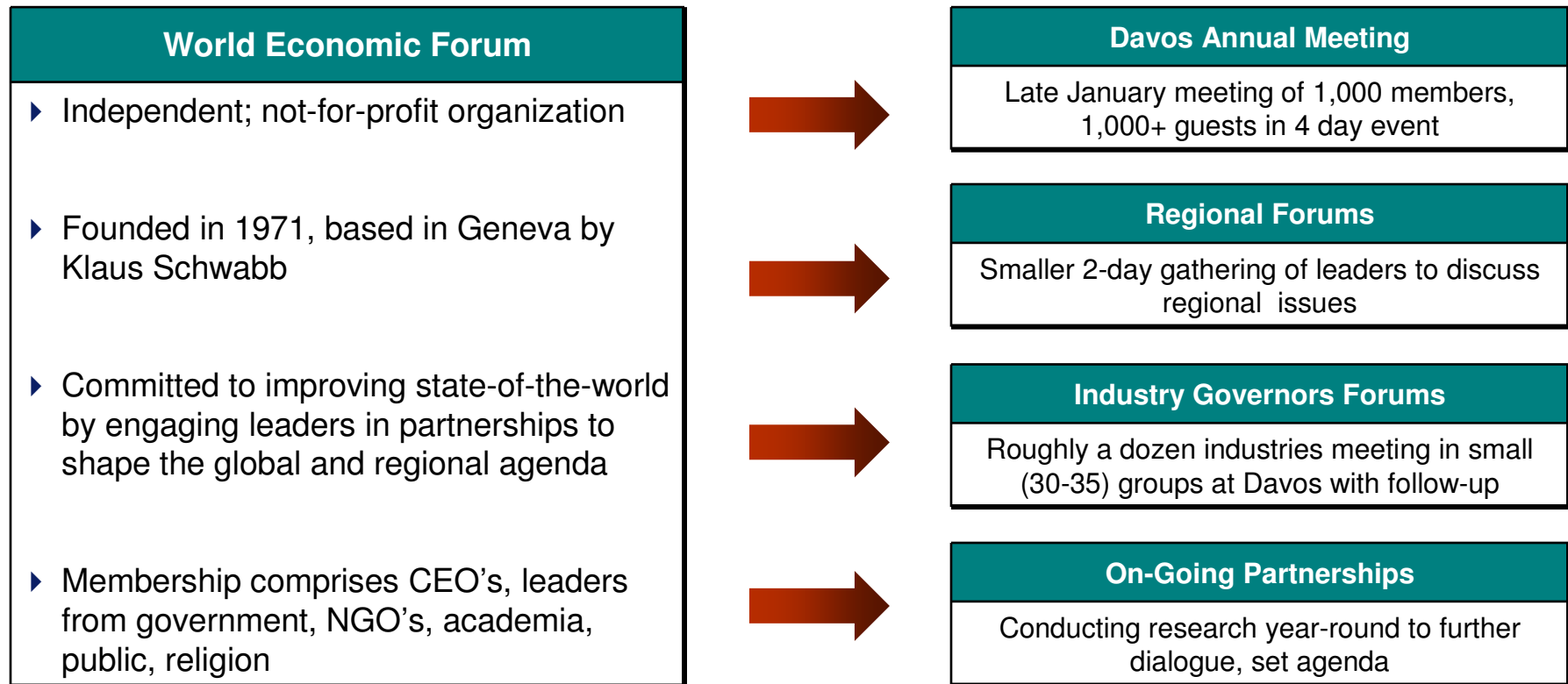
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NORTHWESTERN UNIVERSITY
TRANSPORTATION CENTER

Booz | Allen | Hamilton

There are several World Economic Forum initiatives



Shaping the Regional Agenda 2008



- ▶ **World Economic Forum on Latin America**
Cancun, Mexico 15-16 April 2008
- ▶ **World Economic Forum on the Middle East**
Sharm El Shaikh Egypt 17-19 May 2008
- ▶ **World Economic Forum on Africa**
Cape Town, South Africa 4-6 June 2008
- ▶ **World Economic Forum Russia CEO Roundtable**
St. Petersburg, Russian Federation 6-8 June 2008
- ▶ **World Economic Forum on East Asia**
Kuala Lumpur, Malaysia 15-16 June 2008
- ▶ **World Economic Forum on Europe & Central Asia**
Istanbul, Turkey 22-24 October 2008
- ▶ **India Economic Summit**
New Delhi, India 16-18 November 2008

Relevant to the BAC are the Logistics & Transportation and Aviation & Tourism Governor's Programs

Logistics & Transportation

- ▶ Formed last year
- ▶ Focus on freight, all modes and logistics
- ▶ Regional meeting in Dalian, Mexico many others
- ▶ Priority initiative – Enabling Trade

Aviation & Tourism

- ▶ In existence over 10 years
- ▶ Focus on all forms of travel
 - Air, rail, cruise plus hotels, tourism, related infrastructure
- ▶ Priority initiative – Travel & Tourism Index

Davos Attendees

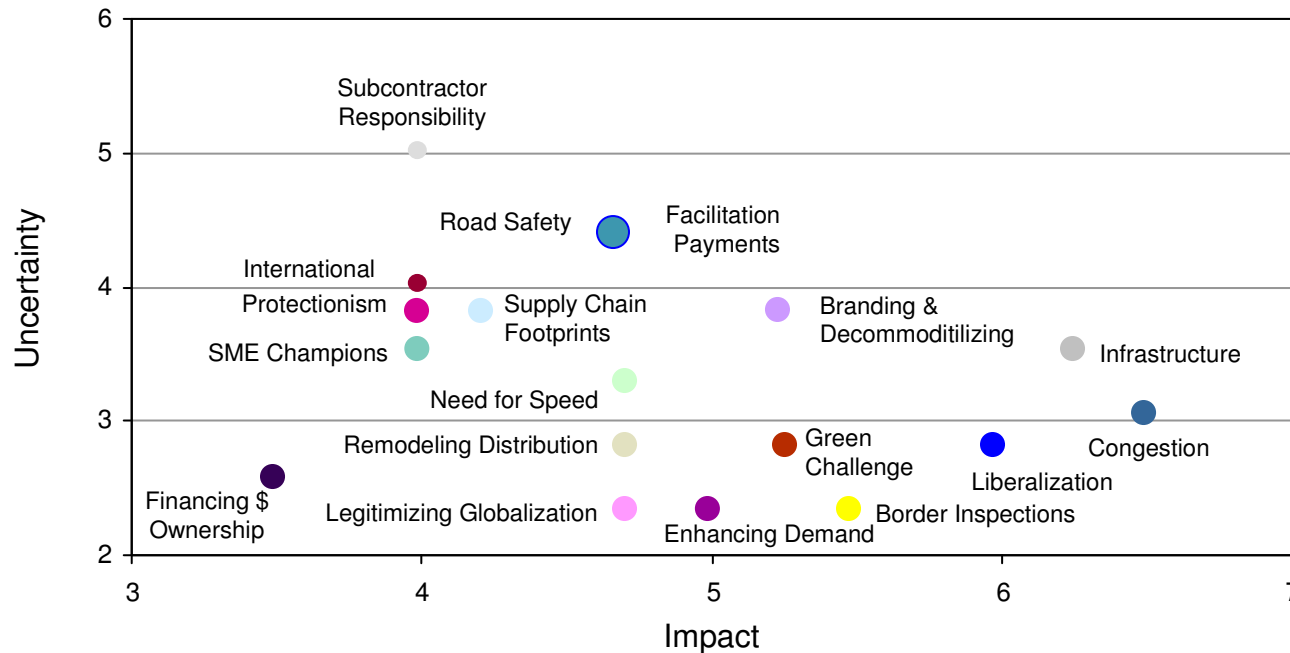
Logistics & Transportation Governors		
Tarek Al-Essa	Chairman	Agility
Hartmut Mehdorn	Chairman	DB
Klaus Zumwinkel	Chairman	DPWN
Sultan Sulayem	Chairman	Dubai World
Michael Ducker	President	FedEx-Intl
Hugo Fiege	CEO	Fiege Group
Hans Fluri	CEO	GeoPost
Fadi Ghandour	CEO	Aramex
Yoshifumi Nishikawa	CEO	Japan Post
Jiro Memoto	Chairman	NYK
Murray Martin	CEO	Pitney Bowes
Eddy Bruyninckx	CEO	Port of Antwerp
Idan Offer	Chairman	ZIM
Hans Smits	CEO	Port of Rotterdam
Jeffrey Schwarz	CEO	ProLogis
Yoshiaki Naoi	Director	SG
Dan Olsson	CEO	Stena
Peter Bakker	CEO	TNT
John Potter	CEO	USPS
Dan Brutto	CEO/NTL	UPS
Alan Gershenhorn	President	UPS – International
Sean Doherty	Head, L&T	WEF

Davos Attendees

Aviation, Travel & Tourism Governors		
Tom Enders	CEO	Airbus SAS
Geoff Kent	CEO	Abercrombie & Kent
Yoji Ohashi	Chairman	ANA
Pierre Beavgoin	COO	Bombardier
Martin Broughton	Chairman	British Airways
Marilyn Carlson Nelson	CEO	Carlson
Hubert Joly	CEO	Carlson Wagon Ltd
Chen Feng	Chairman	Lina Hainan Air
Stelios Haji-Ioannou	Chairman	Easy Group
Maurice Flanagan	Vice Chair	Emirates Group
Thomas Pritzker	Chairman	Hyatt Corp
Mark Frissora	CEO	Hertz
Naresh Goyal	Chairman	Jet Airways (India)
Mark Booth	CEO	Netjets Europe
John Rose	CEO	Rolls-Royce
Richard Pain	CEO	Royal Caribbean
Samer Majali	CEO	Royal Jordanian
Erich Sixt	CEO	Sixt
Anne-Marie Idrac	Chairperson	SNCF
Karl Schatmaier	CEO	Steigenbrger Hotels
Christoph Franz	CEO	Swiss
Jeff Clarke	CEO	Travelport
Alan Parker	CEO	Whitbread

For the Logistics & Transportation Governors there were a number of concerns going into Davos

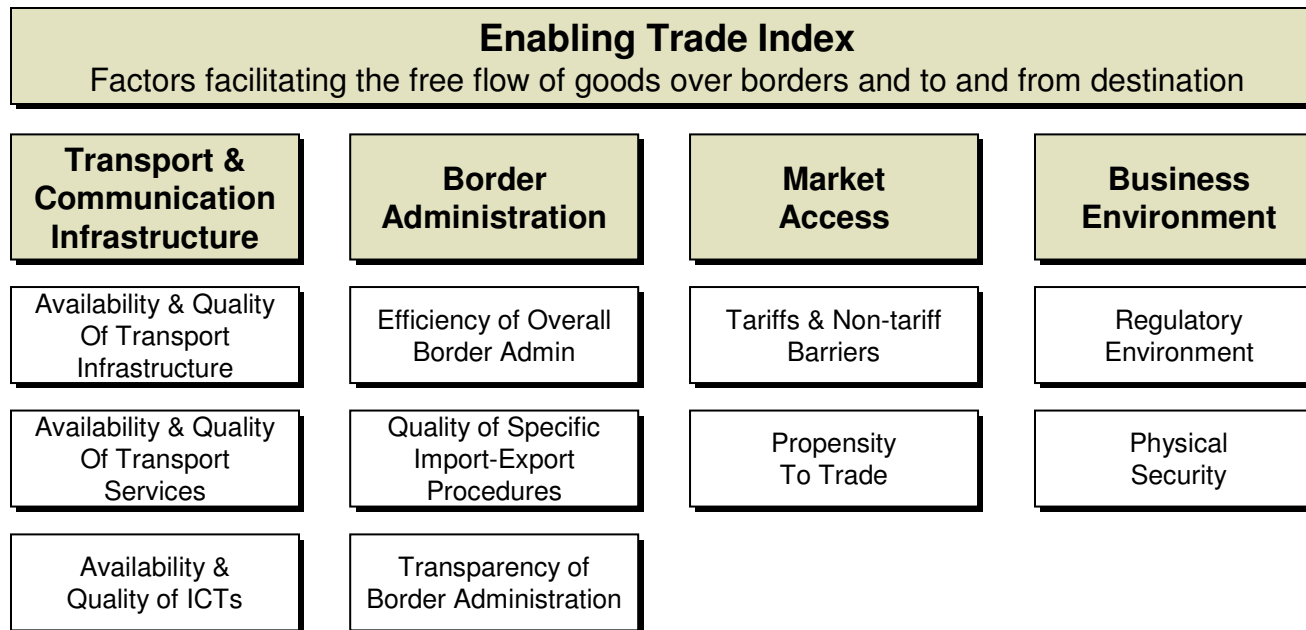
Logistics & Transport Issue Survey 2008



Topic One: Open borders – Enabling trade

- ▶ Research project started at 2007 Davos meeting
- ▶ Premise:
 - Trade critical to national prosperity/well-being
 - Increasing legislation/treaties to realize tariffs/facilitate trade
 - Non-tariff barriers – infrastructure/regulation/supply chains -- a continuing problem
 - Issues cut across government, industry, public
- ▶ Joint initiative comprising
 - Institutions: NEF, WTO, UNCTAO, WCO, World Bank, ITC, GEA, Harvard
 - Members: FedEx, UPS, TNT, DHL, Agility, Dubai Ports, BAH, others
- ▶ Initiative had three-pronged approach
 - Index of national rankings – cross country analysis of factors impacting free flow of goods
 - Series of high level dialogues
 - Media-friendly report
- ▶ Report due out in May, 2008

National Openness Index Structure



Topic Two: Borders of the enterprise - effective subcontracting

- ▶ New topic launched at 2008 Davos gathering
- ▶ Premise
 - In response to deregulation, carriers/shippers using more subcontractors
 - Reasons for strategy
 - Expanded capacity/reach
 - Access to new capabilities
 - Lower cost
 - Higher levels of service
 - Avoid unionization, social costs
 - Examples
 - Road: Greater use of owner/drivers, regional partners to provide line haul
 - Maritime: Shedding terminals assets and operations at ports
 - Air: Expanded use of forwarding and related services, particularly on the ground
 - Rail: Increasing use of concessionaires for line haul, maintenance and more
 - The lines that define what constitutes an organization's business are increasingly blurred
- ▶ Subcontracting under aggressive attack – Unions, taxing authorities, NGOs, immigration authorities, investors, politicians, others

Borders of the Enterprise: Subcontracting

Potential Risks in the Logistics Chain

Health, Safety Environment

- ▶ Environmental regulations are growing, how does your contractor manage their carbon footprint?
- ▶ Liability extends up the chain, does your contractor have adequate safety, prevention and monitoring processes?
- ▶ Is your contractor tracking their employees appropriately?

Security and Emergencies

- ▶ How will your contractor respond during an environmental crisis?
- ▶ Does your contractor adequately enforce national security requirements?
- ▶ How does your contractor manage theft prevention?

Labor

- ▶ Does your contractor comply with immigration regulations?
- ▶ Is your contractor prepared for labor disruptions?
- ▶ What is your contractors relationship with the unions?
- ▶ Is your contractor leveraging independent contractors, creating further separation?

Customer Service

- ▶ Is your contractor focused on customer service?
- ▶ What role does your contractor play in CRM?
- ▶ Is the contract dynamic so that the contractor can meet customer requirements?
- ▶ Is your contractor maintaining confidentiality agreements?

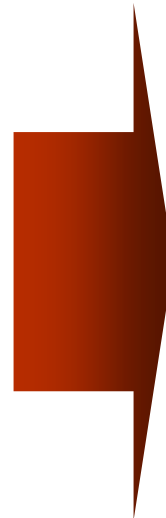
Borders of the Enterprise: Subcontracting

- ▶ Companies are finding that they are being held increasingly accountable for the mistakes and misfortunes of their subcontractors.
- ▶ Company representatives indicate that current levels of understanding, monitoring and control are generally low, particularly of far-flung regional contractors
- ▶ Admittedly, improvement is tough, as steps to tighten control of subcontractors can lead to higher rates and unwanted legal responsibilities
- ▶ However, several companies have been taking steps to better understand the overall impact of their business and report this. Measuring and understanding are first steps to managing risk
- ▶ Effective subcontractor management may require new and different ways of aligning, managing, communicating and measuring performance, with a new vision of the boundaries of responsibility

Topic Three: Anti-corruption

- ▶ Growing concerns across WEF industry groups – logistics, financial, manufacturing, etc.
- ▶ The World Bank estimates that corruption costs over US \$2 trillion a year; adding 10% to the cost of doing global business and undermining the legitimacy and effectiveness of governance
- ▶ Corruption definitions range from blatant bribes for establishing a business, through facilitation payments for customers processing to overly extravagant frequent-flyer type purchasing manager reward schemes
- ▶ Facilitation payments were seen as widespread with pernicious knock-on effects. Standardization and computerization were viewed as immediate tools to reduce the room for discretion
- ▶ However, circumvention via agents and outsourcing calls for a more comprehensive effort
- ▶ Strong policies on specific issues, clear definitions, transparency and tested management systems can have clear effects. These can be magnified when part of a broader national, industry or issue-focused effort

Anti-corruption



- Implementation Framework**
- ▶ A common language on corruption and bribery: The forum has developed the Partnering Against Corruption Principles for Countering Bribery
 - ▶ Providing a platform for top-level commitment: A support statement for CEO's to sign, commitment to zero tolerance for bribery, and to engage employees on all levels to avoid mixed signals
 - ▶ Supporting implementation and working on means for compliance and verification

The PACI is a multistakeholder initiative that works with a number of organizations including The International Chamber of Commerce (ICC), The Organisation of Economic Co-operation and Development (OECD), Transparency International (TI), The United Nations Global Compact (GC), The Multilateral Development Banks and selected International Financial Institutions to fight corruption

Topic Four: Changing Mobility Demand

- ▶ New initiative hatched in 2008 Davos gathering, primary focus for Davos 2009
- ▶ Premise
 - In many supply chains, a velocity imperative has taken hold. A whole new jargon has developed to describe these phenomena – “flying warehouse”, “just-in-time”, “expediter”, “in-night”, etc.
 - Unsurprisingly, the higher velocity modes of transport – road transport, express package, air cargo – have experienced higher rates of growth relative to competing modes in many parts of the world
 - These phenomena have coincided with increasingly global supply sourcing and product modularization, leading to goods being transported back and forth around the globe in search of competitive advantage
 - These trends of speed and globalization have delivered substantial benefits in terms of steadily declining logistics and product costs, and greater customer fulfillment
 - However, the basic concepts – involving goods greater distances with greater velocity – are under attack. The continually rising cost of fuel and growing attention to carbon footprints within the supply chain have prompted many to question the affordability and acceptability of high-velocity global supply chains
- ▶ Virtually all logistics professionals are feeling the pressure to be “lean and green”. The pressure comes not just from government, but from customers, communities, employees and shareholders

Mobility Demands

- ▶ Nature of the Davos dialogue
 - The responsible course of action is far from clear. Modal shifts and better capacity utilization can reduce fuel and carbon costs when “next-day” is replaced by “time definite”.
 - Executives indicate that there is still great scope for managing energy costs and carbon footprints through supply chain efficiencies.
 - Separate optimizations occur in sourcing transport and distribution, producing skewed decisions on where and how to manage sorting, customization, inventory, repair, etc. and a sub-optimal whole
 - Significant savings in supply chain throughput and time can be made independent of transport speed
 - The carbon reduction question is not purely one of costs. Carbon Labeling is appearing in retail outlets, driving consumer preferences more radically than a percentage change in cost
 - Deriving an accurate and meaningful value for a supply chain carbon footprint is extremely complex, however and the industry needs to use its expertise to avoid the imposition of overly simplistic solutions

Other topics of interest across industry groups

- ▶ Gleneagles dialogue on climate change
- ▶ Sustainable biofuels
- ▶ Slim city mobility
- ▶ Airline and tourism wargame

The World Economic Forum provides an opportunity for executives to not only participate in discussions but to shape policies critical to our industry