



ECR Sustainable Transport Project

Challenge Papers

Introduction

This document of challenge papers supports the ECR Europe Sustainable Transport Project Road Map, and should be read in conjunction with the Road Map and its maturity levels. The Road Map can be downloaded from www.ecrnet.org

Challenges

In constructing the Road Map the project team have highlighted a number of challenges that may be encountered on the journey to sustainable transport. The purpose of the challenge papers is not to provide a solution to the issues that will arise. The challenge papers highlight the potential issues, and offer practical suggestions that will help companies to reduce the environmental impact of transport in Europe, in a way that is socially and economically sustainable.

Usage

This document is designed as a source of reference. The challenge papers contain suggestions to unblocking the challenges. These suggestions are of a generic nature. It is at individuals companies' discretion whether to adopt these suggestions or not. Companies may consider it prudent to seek legal advice before adopting any taking any actions.

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Challenge Title	Supply Chain Agility / Responsiveness (LEAN)
Description	<p>In response to both consumer pressures for continuous and convenient product availability at reasonable prices, and retail and supplier needs to optimise their investments and cost, service and quality trade-offs, a variety of stock management solutions are implemented (cross-docking, vendor-managed inventory, just-in-time). However, some of these activities can be viewed as being in conflict with sustainable transport initiatives.</p>
The Debate	
<ol style="list-style-type: none"> 1. The major benefit of introducing supply chain practices to reduce total supply chain inventory levels is that this can significantly help reduce the demand 'noise' in the chain, and so help focus processes and ensure improved stock management, forecasting and replenishment. There is a strong correlation between having less total inventory and improving availability 2. Inventory reduction can help in transport planning by smoothing the transport flows; and the use of a collection service, especially through backhaul arrangement, can help ensure that a previously empty-running vehicle will be at least ½ full on its return leg if collecting stock that wouldn't otherwise be on it 3. However, demands for more frequent deliveries with lower volumes directly generates more travel and potentially less efficient vehicle fill 4. There can be a cost impact on suppliers of moving product through cross-docking network, if the logistics teams (inc. 3PL's) are unable to get efficiencies through consolidation 5. Changing order and pick profile potentially involves producing in smaller batches or picking in layers rather than full pallets. This can generate extra costs in production and warehousing. This can have effects on vehicle fill due to the use of sandwich pallets or the inability to double stack 6. There can be more pressure on service levels when delivering to just-in-time/cross-docking requirements. Consistency of service becomes a critical element of the supply chain because of the immediate impact on the order pipeline. The lack of stock in such a chain, if deliveries fail, can lead to an increased risk of out-of-stocks 7. Cross-docking initiatives can include store picking by the supplier, as opposed to the delivery of a bulk order, and so costs and complexity are moved upstream and greatly reduced at RDC's and in store 	
Unlocking the Challenge	
<ol style="list-style-type: none"> 1. In accordance with ECR Europe Operating Principles: manufacturers and retailers need to take an holistic supply chain view when balancing the need for supply chain agility, alignment and flexibility, with the sustainable use of transport and other assets 2. End to end supply chain costing will help identify costs and benefits for trading partners, allowing them to find solutions that are overall sustainable 3. Shared deliveries between non-competing suppliers who have complementary products or replenishment profiles can help off-set some of the above challenges 4. Collaborative forecasting and replenishment initiatives, like VMI and CPFR, can help ensure more accurate and jointly-agreed forecasts for sales and replenishment orders across standard and promotional lines. A structured process can ensure shared accountability and consistent post-event evaluation, so future stock & transport planning is further aligned, performance maximised and wastage limited 	

Challenge Title	Supply Chain Process Quality and Right First Time
Description	Inaccurate information and poor quality product and processes drive wasteful transport activity into the supply chain; both in terms of outbound transport, and reverse logistics.
The Debate	
<p>The key areas of opportunity are:</p> <ol style="list-style-type: none"> 1. Item Set Up – The supply chain relies on accurate item set-up. Clerical errors and lack of attention to detail allow weight and cube errors into the logistics system corrupting the load planning process and severely impacting efficient vehicle fill 2. Demand Forecasting – Whilst this is a challenging area, the impact on transport is significant with unplanned peaks and troughs impacting efficient vehicle fill, and disconnecting shared transport arrangements within efficient deliveries 3. Demand Execution – Irrespective of the accuracy of the forecast, clerical errors executing orders can result in the wrong volume of products being shipped or the right products being shipped to the wrong DC's or stores leading to unplanned peaks and troughs on outbound and significant reverse logistics activity to re-position stock 4. Manufacturing Quality – Poor quality in the manufacturing process and failures in QC checking lead to faulty product reaching the consumer followed by product recalls with the associated reverse logistics cost and the expediting of replacement products 	
<p>Unlocking the Challenge</p>	
<ol style="list-style-type: none"> 1. Education and Engagement – when we catch things going wrong; make sure that the cost of transport is explicitly pulled out in the autopsy / correction of errors process and that this cost is understood and felt in the right place. Focus on labour turnover and succession planning to drive experience and appreciation of the cost of failure 2. Celebrating success – catching and rewarding unsung heroes for doing things right first time and having trackers in place to measure improvement and consistency 3. Establish a clear and efficient process for reverse logistics so when things go wrong the corrective action is executed at the lowest possible cost and in a controlled manner 4. Have execution systems with in-built resilience such as check digits and check boxes so the system looks for keying errors and use suppliers to proactively check if orders are not as expected 5. Build the cost of failure into the cost to serve model for high risk high cost of failure products so that contingency is built into the manufacturing, QC and supply chain lead times 6. Establish a robust process for managing the master data file, try and get one source of information to cascade through the supply chain rather than multiple data entry. The GS1 data quality framework provides useful guidance for setting up processes to get data quality right first time 	

Challenge Title	Collaboration “The simplest things can be the hardest”
Description	<p>Many opportunities to reduce transport related carbon emissions require the co-operation of trading partners. This often presents problems in gaining management buy-in at board and operational level, and is also a sensitive area in competition law. The lack of buy-in can present significant barriers to achieving benefits, sharing them and building critical mass.</p>
The Debate	
<p>There is a general consensus on the need and opportunity to reduce emissions, and that companies need to collaborate across the whole supply chain to enable reductions in transport related carbon emissions. However, as work has progressed in ECR Europe and across broader industry, there have been challenges in resolving the barriers to collaboration thrown up by the inevitable conflicts of strategy, interests and methods.</p> <p>The lack of history and the burden of being “first mover” provide initiation obstacles. It is difficult to assess risk and outcomes, when benefits and impacts are effectively unknown. Such initiatives can be seen as all or nothing “leaps of faith”.</p> <p>Some of the obvious core issues come in relation to more traditional commercial and logistics trade offs:-</p> <ol style="list-style-type: none"> 1. Critical mass benefits for all vs competitive advantage from company's own scale 2. Conflicts between companies' brands, logistics, strategies, tactics and operational standards 3. Inventory levels vs transport efficiency 4. Batch manufacturing vs continuous replenishment programmes 5. Negotiations around realising and sharing benefits 6. Retailer vs. Manufacturer vs. 3PL/4PL positions and needs leading to a lack of common goals 7. Flexibility for change vs duration of contracts <p>An example of this is a debate developed within the ECR work group on the issue of retailer transport consolidation. A retailer explained that one of their key focus areas in transport was to consolidate procurement logistics. Manufacturers pointed out that while this may be positive for the retailer, such initiatives can destabilise the rest of the chain by impacting on upstream economies of scale. This reinforces the need to take a holistic supply chain view, which is an ECR Operating Principle.</p>	
Unlocking the Challenge	
<p>In any situation which has the potential for conflicts of interest, simple preparatory steps will help give a better & earlier chance of finding common ground and mutual benefits, before the going gets harder. There follows a series of suggestions to enable progress:</p> <ol style="list-style-type: none"> 1. Obtain advice on competition law in relation to your planned collaboration initiative 2. First principle should be “let benefits be realised wherever possible” 3. Share your supply chain strategies, information and create a flexible environment within the bounds of competition law 4. Take what already exists and develop it rather than setting up your own operation 5. Retailers & manufacturers, whilst competing between themselves, should collaborate where it makes commercial and legal sense, complying with anti-trust legislation in particular e.g. sharing ships/barges, consolidation centres, trains, even delivering to each 	

- others stores when it reduces emissions and makes business sense
6. Take small steps initially and build up from simple successes
 7. Look at tactical opportunities which fit with current strategy and infrastructure
 8. Developing and applying common metrics throughout the supply chain will help support a common view and more objective decision making
 9. Emphasise the sharing of benefits to help develop a will for common achievement, so improved sustainability overrules short term individual gains to the advantage of common long term goals
 10. Mapping the supply chain to identify activity, duplication and capacity issues will often provide a number of quick wins with low levels of potential conflict
 11. Gain commitment in principle from senior managers by changing mindset to understand the benefits of collaboration
 12. Shout about the good news i.e. cost and emission reductions, enhanced reputation
 13. Ensure that the frequent correlation of reducing CO² = reducing costs is appreciated,
 14. Get trading partners to buy in by focussing on the outcomes, and less on the "how"
 15. Use 3PL's & 4PL's position as a neutral third party wherever possible
 16. Develop a plan for improvement by using the ECR Europe Road Map for sustainable transport
 17. Keep emission initiatives clear of commercial agreements

Many managers fail to investigate the above opportunities well enough before embarking in working on transport emission reduction initiatives with trading partners. Being well prepared, having clear terms of reference and having quantified risks and benefits with the senior management team prepares the ground for success.

Building critical mass will help hundreds of companies to deliver fewer and friendlier miles.

You may find the following publication helpful:

GCI report : New ways of working together " Future Supply Chain Framework"

Challenge Title	Cube Utilisation Trade Offs
Description	<p>The objective is to maximise the utilisation of the given transport unit (whether in terms of the volume or the weight constraint, whichever is approached first), this can be constrained by the following:</p> <ul style="list-style-type: none"> • The ability to double stack • Pallet height • Weight
The Debate	
<p>The ability to double stack: This can be constrained by insufficient packaging strength, in particular for vulnerable products. In this context, the trend towards shelf ready packaging (SRP) and the demands for evermore lightweight packaging can be a barrier to double-stacking.</p> <p>Pallet height: From a manufacturer point of view, centralised production would ideally require a streamlined approach to distribution logistics relying on standard pallet heights, enabling best use of available capacity. However, warehouses around Europe are not designed to a single standard and there are significant variations in distribution centre (DC) rack heights, which mean that pallet heights either have to be designed to lowest common denominator or pallet configurations changed according to destination. Similarly, automation of warehouses to different standards impacts the integrity of unit loads. Finally, site-specific health & safety rules concerning maximum permissible pallet heights will also have an impact.</p> <p>Weight: There are laws on maximum permissible weight of a truck which constrain the total weight of the load which can be carried. With certain dense products this weight will be exceeded before the vehicle, or even floor space, has been filled. This can be exacerbated by restrictions on the maximum weight of a pallet.</p>	
Unlocking the Challenge	
<p><u>Collaboration:</u> Better collaboration between retailers and manufacturers allows proactive load planning and optimisation of cube utilisation / vehicle fill.</p> <p>Talk with your trading partners about the impacts of packaging, warehousing on the utilisation vehicle space with the aim to optimise the end to end costs throughout the supply chain.</p> <p>Work with your trading partners to find opportunities for Delivery date harmonisation between manufacturers. This will increase vehicle loadings for single destinations (rather than multi-drops) and support efficient load sizes to remote destinations.</p> <p><u>Transport vehicle development:</u> Seek opportunities to deploy flexible capacity vehicles e.g. double deckers. Extend the use of combined temperature controlled / ambient equipment (with moveable bulk heads)</p> <p><u>Reduce non-value added weight:</u> Reduce use of sandwich pallets, move to more multi-product pallets. Encourage use of slip sheets where possible to avoid using pallets as separators and to reduce weight</p> <p><u>Packaging design:</u> Build Logistics considerations and constraints consistently into packaging design process (e.g. shelf depth, case count, warehouse configurations). Quantify the trade off between secondary packaging and pallet build height</p>	

Challenge Title	Bio Fuels
Description	<p>A wide range of biomass products such as sugar cane, rapeseed, corn, straw, wood, animal and agriculture residues and waste can be transformed into fuels for transport, as an alternative to conventional mineral oil based fuel. Generally, a distinction is made between first-generation biofuels (mainly produced from crops such as sugar beet and rapeseed) and second-generation biofuels¹ (from ligno-cellulosic or 'woody' sources and via new technologies to convert biomass to liquid (BTL)). The two main first-generation biofuels are bio-ethanol and bio-diesel. Brazil and the US are the main producers of bio-ethanol; the EU has the largest production of bio-diesel, with Germany, France, Sweden and Spain in the lead.</p>
The Debate	<p>At the March 2007 European Council, EU leaders committed to raising the share of biofuels in transport from its current level of around 2% to 10% by 2020, with a view to reducing Europe's dependency on oil and contributing to the fight against climate change. The 10% target is binding - under the condition that the biofuels produced are sustainable and that so-called 'second-generation biofuels' become commercially viable. The conditionality is linked to increasing concerns about the sustainability of those first-generation biofuels currently available - such as biodiesel and bioethanol - which are made from agricultural crops (such as corn, sugar beet, palm oil and rapeseed).</p> <p>The reasons for introducing renewable biofuels are:</p> <ol style="list-style-type: none"> 1. To reduce dependency on mineral oil, which is finite 2. Biofuels are considered "carbon-neutral" 3. Biofuels also emit less toxic particles than mineral oil based fuels 4. They can be grown and sourced locally 5. They lead to new economic activities, especially in the farming sector which is undergoing heavy strain with the review of the CAP 6. In some countries, such as Brazil, biofuels can be produced inexpensively <p>The reason why biofuels are currently undergoing controversial debate is that they are not necessarily grown in a sustainable manner, in particular first generation bio-fuels. The following challenges have been identified:</p> <ol style="list-style-type: none"> 1. Land use: potential backlash for food production (biofuel crops encroach on food crops) and trigger for deforestation, as it is an easy and cheap crop to grow 2. Environment: heavy use of fertilisers and pesticides to speed up growth.

¹ According to a UN report on biofuels, "second-generation fuels are made from ligno-cellulosic biomass feedstock using advanced technical processes". Ligno-cellulosic sources include 'woody', 'carbonous' materials that do not compete with food production, such as leaves, tree bark, straw or woodchips. However, in the longer term, many envisage second-generation biofuels being made from materials that are not dependent on arable land, such as algal materials growing in water. This could unlock the controversy currently surrounding the biofuel debate.

3. The energy balance of biofuels production is still under discussion. Some studies indicate that the amount of energy needed over the life-cycle to produce biofuels (input) is higher than the amount of energy produced (output)
4. Emissions: The UN Energy Division released a report in May 2007, saying there is a considerable risk of increased CO² production through the use of biofuels in transport. The report notes that with respect to reducing greenhouse-gas emissions, biofuels would be more appropriately used for combined heat and power production rather than for transport

Unlocking the Challenge

In January 2008 the Commission defined second generation biofuels in its review of the 2003 Biofuels directive. The revised directive confirms the 10% target for 2020 but contains "sustainability criteria" to prevent mass investment in cheaper but environmentally harmful biofuels. Notably, biofuels that fail to deliver life-cycle CO² savings of at least 35% compared to fossil fuels, as well as biofuels planted, after 1 January 2008, in protected areas, "highly biodiverse" grasslands, forests and wetlands will not be considered as counting towards the 10% target.

Retailers and manufacturers engaging in the use of alternative fuels need to be mindful of this debate and remain flexible as to their choice of energy source, depending on the evolution of the scientific research. Future generation biofuels and other alternative energy sources, such as hydrogen, natural gas, solar energy, hybrid systems, electricity, etc. should all be part of companies' energy policies.

United Nations Web Page on report for 'unbiased' view of benefits & drawbacks of Bio-Fuels
www.un.org/apps/news/story.asp?NewsID=22480&Cr=energy&Cr1

Challenge Title	Global vs Local Sourcing
Description	The trade off between low cost / all year production (global sourcing) and an increased transportation requirement in terms of distance, cost, resource availability and environmental impact.
The Debate	
<p>Local Production vs Global Production</p> <p>Why Global Sourcing</p> <ul style="list-style-type: none"> • A combination of lower labour and capital costs in emerging markets makes them a cheaper source of production • Producing for multiple markets out of one location drives significant production economies of scale. • Sourcing fresh produce globally enables all year round supply by avoiding the impact of seasonality • Some globally sourced products have a lower overall carbon footprint than locally sourced depending on the manufacturing / growing process e.g. flowers from Kenya (grown naturally) vs. Netherlands (in greenhouses) <p>The Sustainable Transport Problem</p> <ul style="list-style-type: none"> • By definition, globally sourced products require a longer distance transport leg than locally sourced products, increasing the requirement for transport resources, transport infrastructure and resulting in increased cost, congestion and emissions • Certain products which are globally sourced require air freight as the mode due to time sensitivity thereby exacerbating the impact 	
Unlocking the Challenge	
<ul style="list-style-type: none"> • Ensure that the full cost of transport has been reflected in the cost of goods within the sourcing decision process and that a buyer is not simply comparing factory gate prices with no consideration for the transport impact • Compare the transport carbon emissions of a globally sourced product vs. a locally sourced option and build this both into the decision making process, and into your CSR / Ethical Sourcing policies • If there is no alternative to a global sourcing decision then use the best practice themes such as modal switch, maximising the cube etc. to minimise the impact of the transport operation 	

Challenge Title	Infrastructure Capacity
Description	<p>Rail, short-sea and inland waterways are often seen as <i>the</i> solution to achieve more sustainable transport. However, the capacity of these alternative modes is limited and requires expansion to allow these modes to take a larger market share. The challenges faced require political decisions at country and European level regarding construction, financing and environmental impacts.</p>
The Debate	
<p>Environment As capacity of the alternative modes is being expanded for the benefit of all citizens, some individuals might be negatively impacted by the expansion. Be it by a loss of their home in a land trading scheme, by noise, or any other impact originating from the alternative transport mode. Also, the expansion of the transport infrastructure capacity might require sacrificing valuable pieces of land / nature. The protection of the individual and natural resources which is mirrored in legislation makes it difficult, costly and time consuming to carry out major infrastructural projects. Projects can be controversial and subject to political debate and dispute at local, national and regional levels.</p> <p>For each modal type:</p> <p>Road Road capacity is becoming exhausted. Expanding road capacity on a large scale will not solve the issue; it will just attract additional traffic.</p> <p>Rail In many countries, rail passengers take priority over cargo. This leads to longer transit times and less reliability for cargo, turning rail transport into a less attractive solution. In addition, overall rail track capacity is already exhausted on many connections. Today's rail infrastructure is not easily able to accommodate the needs of the consumer goods industry.</p> <p>Water borne transport Water borne transport includes sea transport (deepsea = intercontinental and shortsea = intra-European), and inland waterway (rivers and canals). Whilst the capacity of sea and inland waterways is very flexible and seemingly unlimited, the key to successful implementation of these alternative modes lies in having sufficient transshipment facilities available and having excellent 'hinterland' connections via the other modes (rail and road).</p>	
Unlocking the Challenge	
<p>More Efficiency First and foremost the existing infrastructure should be used in a much more efficient way by participants in the supply chain. Examples of how this can be achieved are described in the Sustainable Transport Road Map.</p> <p>Infrastructure (elimination of bottlenecks) In pursuing friendlier miles, barriers and obstacles created by infrastructural and organisational deficiencies must be strongly challenged and new developments influenced</p>	

through:

- Industry participation in the political process by country and at EU level
- Co-operation within the industry to improve the quality of long term planning and ensure commitment

For the alternative transport modes to be able to absorb organic growth projections and take market share from road transport, their capacity will need to be expanded.

Finance

Investments will need to be made to eliminate bottlenecks. These initial investments are of a magnitude that no private enterprise is large enough to bear alone. On the other hand investments by public bodies must be improved in terms of meeting targets in building cost budgets and timelines. An alternative is presented by public-private partnerships (PPP) in which investments in infrastructure are made jointly by local, regional or national authorities with private enterprises. Both are committed to success.

Per modal type this may entail the following:

Road

Acceptance that enhancing sustainable transport in some areas unavoidably requires elimination of bottlenecks through the construction of new roads.

Rail

Actively participate in the promotion of rail transport with local, national and European authorities by demonstrating what can be achieved through increasing goods transport by rail.

Water

Help provide the insight into where and when new terminal capacity will be necessary and stimulate authorities to make land and port infrastructure available. Stimulate the development of transshipment terminals for commercial parties by committing flows to the alternative modes.

All shippers should understand that they cannot treat the alternative modes as a 'commodity', but should actively educate providers of these modes as to their requirements. All participants should join forces in convincing authorities of what can be achieved.

Above all: be persistent and don't give up.

Challenge Title	Legal Constraints: Taxation and incentive policies
Description	Consumers have an expectation for prices to remain competitive. However manufacturers and retailers are faced with the ongoing challenge of increasing costs of taxation of road transport.
The Debate	
<p>The Fast Moving Consumer Goods sector is a massive user of road transport on mainly short distances (less than 200 km). In most cases, alternative transport modes are not relevant.</p> <p>Transport taxation policies are currently being defined at European level to promote green transport, the obvious objective being to move trucks off the roads.</p> <p>This taxation is applied to compensate for negative aspects of road transport in the following areas :</p> <ol style="list-style-type: none"> 1. atmospheric pollution 2. noise 3. climate change 4. congestion 5. road accidents <p>The global financial impact is estimated at around 2 to 3% of the Gross National products.</p>	
Unlocking the Challenge	
<p>Road transport is an inevitable part of our modern economy. Retailers and manufacturers should lobby the relevant authorities for taxation to be about smart ways to:</p> <ol style="list-style-type: none"> 1. Transfer to other modes what can be transferred 2. Encourage the use of green trucks, collaboration initiatives and promote best practices when road transport can not be avoided <p>Therefore taxation should become an incentive and not only repressive.</p>	

Challenge Title	Legal Constraints: European and national policy harmonisation
Description	The lack of European and national policy harmonisation is slowing the global process towards sustainable transport.
The Debate	<p>Manufacturers, retailers and logistics providers have worked together to develop best practices in order to reduce the impact of transport on the environment. But some legal constraints due to the lack of harmonisation in European and national policies limit the impact of these solutions and reduce the freedom of movement of goods:</p> <ol style="list-style-type: none"> 1. Belgium, Italy, Luxembourg, Denmark, Finland, Norway, Sweden and the UK adopted the norm of 44 tons of gross weight for the transport of heavy products. This adoption increases the tons transported by 15% while the emissions increased of only 7% 2. Finland and Sweden authorised the European Modular System for bulky products. The energetic efficiency is increased by 18% 3. Varying traffic bans across Europe lead to non optimised transport, empty running and difficulties at borders because of the lack of harmonisation 4. Lower driver labour costs in the new EU countries allow competitive advantages that encourage increased road usage 5. The rules of urban access are not coherent with environmental necessities: reducing the size of the vehicles is not a solution. By using smaller delivery vehicles the traffic volume in the city centres will increase and as a consequence higher CO² emissions for tons of goods transported
Unlocking the Challenge	
<p>Manufacturers and retailers should engage in joint activities to make transport more sustainable. In particular companies are advised to put into action the recommendations of the ECR Europe Sustainable Transport Road Map.</p> <p>Manufacturers and retailers, through their representative trade associations, should engage in lobbying activities at all levels (regional, national and European), to bring about harmonisation of European transport policies.</p>	