Russian Railways Logistics: Rail transit on Europe-Asia axis has a strong potential

Russian Railways Logistics (RZDL), a subsidiary of Russian Railways, develops individual transport schemes for every potential project due to its access to RZD subsidiaries and the cooperation with international organisations, companies and authorities. The operator supplies logistics services not only at national, but also at international level, on one of the most important freight transit routes on the Europe-Asia axis being the Trans-Siberian or the Trans-Kazakhstan. As of 2012, RZDL has launched a series of projects for container transport between Europe and China, a route for which a constant growth of freight volumes is expected.

According to analyses, traffic between Europe and Asia has a high development potential which will intensify competitiveness. In this context, the greatest challenges of an operator are infrastructure-related, season fluctuations and instable speed, because of capacity deficits at borders, charging systems and different gauges.

Denis Mazurin, Business Development Director of RZDL, speaks in an interview for Railway PRO about the role of RZDL in Russia and in international traffic and about the challenges, problems and benefits of an operator in the transport system between Europe and Asia.

RZDL develops individual transportation schemes for each project, which is possible due to access of the company to the assets of other Russian Railways subsidiaries and cooperation with the companies, international organizations and authorities. In these circumstances RZD and its other subsidiaries are not the competitors, but partners.

Russian Railways Logistics offers logistics service inside of Russia and internationally transiting through Russia. The most popular rail transit routes are Trans-Siberia or Trans-Kazakhstan, the backbones for Europe-Asia axis. In 2012 RZDL developed several container train projects with its subsidiaries FELB based in Austria and YuXiNoU based in China to serve interest of clients trading between China and Europe. In the view of the company the potential volume of the transit routes (Trans-Siberian and Trans-Kazakh) will grow 50 times from 2012 to 2020.

In addition to opportunities given by access to rail infrastructure and rolling stock RZDL developed sea and port forwarding services due to connection of Russia with the number of sea routes: the Baltic sea - in the West, the Caspian, the Black and the Azov seas - in the South, the Northern sea in the North, the Sea of Japan in the East. One of the greatest advantages RZDL exploits is the fact that the important rail routes are linked to the sea ports, thus the company may comfortably provide transhipment, loading/unloading, distribution and other related services.

Truck forwarding may also be a component of both international intermodal transportation and small cargo delivery projects within Russia and CIS. First of all, this allows providing last mile delivery, which is our main aim, secondly, rail forwarding is the only cost efficient way of shipping to low density areas of Siberia against air freight, which is much more expensive. In
such regions this service has a social impact as it is significant support for economic and social lives for inhabitants and local businesses.

**RailwayPRO:** What is the RZD Logistics’ position through FELB, in the international transport market?

**Denis Mazurin:** In March 2012, RZDL started cooperation with FELB in the framework of its strategy on expansion to European and Asian markets, development and enhancement of the transit potential of the Russian Railways and organization of integrated services for transportation of transit cargo on the route China-Europe. According to analysts rail transit on Europe-Asia axis has a strong potential: capacity of EU-China-EU rail transit will amount to 1.25 mn TEU by 2020.

Over 5 years on the market FELB has become a provider of transit container rail transportation services from China to Europe via Zabaykalsk, Russia and backwards to a number of large companies such as BMW, LG, Samsung. Russian Railways Logistics acquired 25% of the FELB shares. Currently FELB operates under the effective control of RZDL. In 2012 FELB transportation load amounted to TEU 25,000.

FELB diversified the routes and border crossing points for the cargo from China: via Brest/Malaszeviche (Belorussia/Poland) cargo may be distributed to Poland, Germany, Netherlands and Belgium, via Dobra/Chop (Slovakia/Ukraine) to Czech Republic, Slovakia, Italy, Austria and Slovenia, via Zahony/Chop (Hungary/Ukraine) to Hungary, Southern Germany and Austria.

All in all cooperation with FELB may be also useful to our Russian clients to ship to far destinations in Europe, Asia and farther.

**RailwayPRO:** This year, RZD Logistics launched a series of transportation services (to Siberia and Far East, Turkey, Kazakhstan, Armenia etc., very important countries on the map of international transport). What are the policies and projects that encourage the rapid extension to international markets and effective services?

**Denis Mazurin:** Development of the new projects and expansion are initially triggered by the needs of clients. Depending on this we develop cooperation with partner companies, the leaders of the transit countries and other players in order to provide the most efficient and attractive solution taking into account the needs of particular clients. Our priorities are flexibility, quality, speed and price viability.

We have single projects and long-term contracts. Some projects are developed based on opportunities, which appear as a result of closer cooperation with the neighbour countries’ authorities, companies and infrastructure owners, e.g. the case of Eurasian Customs Union, the members of which are Russia, Kazakhstan and Belorusia are main transit countries on Euro-Asia axis. This integration allowed developing joint projects on transportation from China to Europe through Trans-Siberia and/or Trans-Kazakhstan. In the future common rules on the territory of the Eurasian CU will make all countries harmonize laws, technical specification and unify tariffs including transportation sector, thus it makes possible reduction of demurrage at the borders. Such cooperation also resulted in introduction of the CIM/SMGS consignment note, which is issued in both paper and electronic form and fulfills EU requirements for prior authorisation for the Eurasian rail corridor for countries like China, Kazakhstan and Belorusia as well as Russia. This eliminates the charge for reissuing of the consignment note at each border crossing point, as well as reduces delays triggered by demurrage.

A great outcome of Eurasian integration is a decision on creation UTLC. Russian Railways Holding (RZD), the parent company of Russian Railways Logistics, signed a memorandum on creation of a transport and logistics company with Kazakhstan Temir Jholy and Belarusian Railways, which envisages creation of United Transport and Logistics Company (UTLC) with participation of RZDL to control rolling stock and terminal storage facilities, providing attractive transit solutions and attract significant cargo volume on route Europe-Asia. According to preliminary business plan UTLC total turnover in 2020 will exceed 4 mn TEUs. This project will bring additional income to the national railway companies, which use the infrastructure and contribute to GDP of the Eurasian countries participating in the project.

RZDL geography is already extended: it offers rail transport to Western Europe from a wide range of places like Thailand, Malaysia, China and South Korea. North China traffic uses the Trans-Siberian railway while south China flows go via Dostyk in Kazakhstan, then South Russia and into Europe. The service includes sea freight connections where necessary, customs clearance and forwarding to or from the Chinese railway system if needed. In fact RZDL can offer logistics solutions to or from any continent.

Expansion to Siberia is due to existence of Russian internal railroad network, the main backbone of which is Trans-Siberia; this feature allows linking the European part of Russia with the Far East. From Siberian and Far East terminals cargo may be dispatched to other regions or further shipped by sea to other continents and countries.

**RailwayPRO:** RZD Logistics’ activity is not limited to Russia and CIS countries, but expands to Asia and Europe which means you are in the position of new entrant in many markets. What is the strategy for the consolidation of the company’s position in the markets you already activate and what are the challenges a new entrant has to face? How do you cope with these challenges?

**Denis Mazurin:** As our aim is to provide Transport and logistics market structure (services-2012)

- 3PL/4PL services: 3%
- Shipping: 6%
- Terminal services: 88%
- Transport: 3%

Transport and logistics market structure (2012-2030)

- 3PL/4PL services: 3%
- Shipping: 3%
- Terminal services: 10%
- Transport: 88%
the best possible solution from and to any country in the world we need to think of the best scheme based on the assets, which we have or may have an access to, and develop trustful relations with our partners among transport vehicle owners and our clients. RZD Logistics always looks for new expansion opportunities, but in the periods of economic and trading activity slow-down, the most important thing that we have to provide is the service of even more efficient quality and speed efficient.

As for our strategic interest, as we mentioned before it’s not only Russian logistics, but transit through Russia, CIS, Baltics, initially to destinations of Europe and Asia based on the existing infrastructure.

For example, in 2012 we started providing general cargo transit by means of intermodal freight transport on the territory of Latvia with access to the ports of Riga, Ventspils in cooperation with EuroRailTran Ltd., our joint venture in Latvia. RZDL is mainly engaged in development of transit transportation through the ports in Latvia and providing door-to-door cargo delivery service.

Last year Russian Railways Logistics also initiated freight forwarding services from even further regions of the Middle East and the Fars East. This option offers full range of services including container provision at the port of departure, sea freight to Qingdao and Lianyungang ports in China, port forwarding, freight forwarding, customs clearance, providing hauling stock and reloading into broad-gauge railway carriage, freight forwarding in CIS countries. One example is container train project for OBI from China to the warehouses in Moscow region including container dispatching to the four ports of China, namely Ningbo, Nanjing, Qingdao, Yantyan, sea forwarding to the port of Yingkou, transportation across China and further transit as a part of container train to Moscow railway hub, unloading and organization of container road freight forwarding to client warehouse.

RZDL develops North-South corridor, which is based on the direct rail link between Russia and Iran in the Caspian Sea region and is expected to reach 25-26 mn tons by 2015. In 2012 RZDL started organization of non-military cargo delivery for NATO peacekeeping forces (ISAF - International Security Assistance Force (ISAF)) from the ports of Latvia to Afghanistan. This joint project between Russian Railways Logistics and GEFCO Baltic is designed to develop and support transit potential of railways. Containers are sent by sea to the port of Riga, where later the container train is to be formed and dispatched to Afghanistan transiting through territories of Latvia, Russia, Kazakhstan and Uzbekistan. Transit time from Riga (Latvia) to Galaba (Tajikistan) is 20-22 days. The cargo on volumes of 600TEU’s has been already delivered.

Another corridor is transcontinental East-West route to the Far East, Mongolia and China, the backbone of which is Trans-Siberian route. As a part of providing integrated logistics solutions in the Russian Far East RZD Logistics diversified the services into port forwarding, including loading/unloading, transshipment, warehousing, customs services, additionally tracking, reporting, issuance consignment notes in the ports of Vladivostok and Nakhodka, the port of Vanino may also be added to this list.

Globalization of cargo traffic, development of the world economy and interna-
Denis Mazurin: Among the greatest challenges on Europe-Asia route are infrastructural bottlenecks, seasonal fluctuations, demurrage and unstable transportation speed due to deficiency of border crossing capacity and changing gauges in the forwarding countries, including transit countries (the 1520 mm gauge of the railways in Russia and the CIS opposed to the European and Chinese ‘standard’ gauge of 1435 mm.), volume imbalances and deficiency of rolling stock for specific directions, price instability due to different tariff system and need for document and train parameter harmonization in all countries. Transportation in the regions of the Russian Far East and Siberia (as well as in Mongolia and China) is influenced by seasonality and extreme weather conditions. For this reason RZD Logistics offers cargo transportation in 45-foot containers with autonomous diesel generators, which are larger than the usual ones and can keep the necessary temperature inside.

RailwayPRO: Although railway transport is the most promoted transport mode (due to well-known characteristics), the largest part of the transport volumes between Europe and Asia-China are carried by sea. How can the railways attract a higher volume of freight and what are the challenges posed to railway transport?

Denis Mazurin: Actually sea freight is the most popular transportation mode on Europe-Asia axis having 99% of all shipped goods on the Southern Europe-Asia route of 20,000 km or up to 45 days via Suez Canal. However, recently China announced about exploring the Northern Sea Route, which may become an alternative to the first one as it is shorter and safer. However, railway transport is considered to be more favourable as it reduces time spent on cargo delivery twice to maximum of 14-20 days and shortens the route length to 11,000 km of railways, but rail forwarding is more pricey. Yes, rail transit on Europe-Asia axis has a strong potential: according to majority of analysts, capacity of rail transit EU-China-EU market will amount to 1.25 mn TEU by 2020.

In order to overcome challenges like tariff and non-tariff barriers, which hinder free movement of goods between China and Europe, RZD Logistics upgrades technical capacities (tracking and tracing for safer and faster delivery), offers its customers collection and last mile distribution service (door-to-door), introduces CIM/SMGS consignment note for shipment to far destinations in order to avoid re-expedition on transit route though China, Kazakhstan, Mongolia, Belorussia and Russia. According to preliminary calculations in the upcoming years transportation via Russia may be reduced to 7 days in the framework of «Trans-Siberia road in 7 days» project initiated by Russian Railways, while travel time between the two continents may be shortened to 15 days for the Northern route via Trans-Siberia, from about 15 days to 10 days – for the Southern route. Reaching the speed of 1100 km per day will allow the consigner to cut costs.

Intense traffic on Europe-Asia axis demands the logistics services to be more competitive in regards to time, quality, transport infrastructure and capacity. Based on market demands RZD Logistics provides intermodal transportation by integrating different modes (rail, truck, sea) and offered its customers (mainly manufacturers from the East) container train service on East-West route, and full range of logistics services including terminal and warehouse handling, customs clearance and supply chain management. In the framework of RZD Holding Strategy-2030, a core network of terminal-logistic centres will be set up in the largest transport hubs and industrial zones of the country, primarily those used by participants in international corridors.

RailwayPRO: What can you tell us about the competitiveness of the logistics sector in Central Asia and Europe?

Denis Mazurin: Competitiveness on the logistics market in Europe is rather high, logistics services are well-developed. This is due to single standards in the EU as a result of harmonization of laws in all member countries regarding documentation and technical standards, strict control of monopoly behaviour and policy on free movement of goods, which allows having single customs border and eliminating additional demurrage at each border of the EU countries. The region has up-to-date railroad infrastructure and exits to the important sea routes through the ports. There are numbers of strong players like DB Schenker, OBB, SNCF and others. Thus logistics business in Europe in our view is very well functioning.

Central Asia is a different region with sovereign countries not integrated in one union. Usually logistics infrastructure and vehicles are monopolized; however, due to the common Soviet past technical standards are still the same or similar, which makes transpor
tation easier but delivery hindered by existence of separate border crossing points between countries and customs, diverse tariffs, and other barriers. Some of them like Russia, Belorussia and Kazakhstan are part of EurA
sian Customs Union, and will participate in UTLC, which makes forwarding activities especially for Euro-China trade viable, while some of them are the members of Shanghai Cooperation Organization, which has other aims than integration.