

Growing International Use of the Trans-Siberian Railway: Japan is Being Left Out of the Loop

Hisako Tsuji

Senior Economist, Research Division, ERINA

For quite some time, Japan's presence in international container transportation on the Trans-Siberian Railway (TSR) has been diminishing. Last year, the increase in use by the ROK and China and the slump in Japanese use were described in an article in this publication.¹ Amongst other

things, the article stated that i) use of the TSR by the ROK and China for export cargo destined for Finland or Central Asia was on the increase but Japanese use was sluggish; ii) efforts by forwarders and shipping companies, as well as rapid growth in exports to Russia and Central Asia, were

¹ Hisako Tsuji, *Japan and the ROK's Involvement in International Container Transportation Using the Trans-Siberian Railway*, ERINA REPORT Vol. 46, June 2002.

behind the expansion in Chinese and South Korean use; iii) the TSR's speed is its greatest weapon; iv) the decrease in exports from Japan and a failure to dispel Japanese consignors' sense of mistrust are factors in the stagnation in Japanese use; and v) the China Land Bridge (CLB) and other routes have become competitors to the TSR as alternative routes. This article will analyze trends in the use of the TSR route, based on data for 2002.

Use of the TSR route in 2002

International container cargo using the TSR demonstrated high growth in 2002, increasing 1.5 times on the figure for the previous year. According to data published by the cargo handling company Vostochny International Container Services (VICS), the total volume of containers handled in 2002 was 133,804 TEU, an increase of 49% on the previous year (see Table 1). Moreover, this represented an 84% increase on the figure for 2000. Looking at a breakdown of the figures, while transit cargo remained almost the same, showing only a slight increase of 7%, bilateral cargo increased dramatically, rising 85%.² Accordingly, the ratio of transit to bilateral cargo shifted from 61:39 in 2001 to become almost equal at 48:52 in 2002. On the other hand, due to the rapid rise in westbound bilateral cargo and the marginal decrease in eastbound transit cargo, the ratio of westbound to eastbound cargo became distorted in 2002, shifting to 72:28 from 66:34 in 2001. In the case of bilateral cargo, the west-east ratio is particularly unbalanced at 82:18.

What is disquieting is the fact that the volume of empty containers has increased substantially. The share of cargo accounted for by empty containers is growing by leaps and bounds, reaching 6.2% in 2000, 11.1% in 2001 and 18.4% in 2002.

The situation in 2002, as depicted in these figures, can be interpreted as follows. First of all, the huge increase in westbound bilateral cargo signifies an increase in South Korean exports to Central Asia and Chinese exports to Russia. South Korean businesses have assembly plants for automobiles and household electrical goods in Uzbekistan and Kazakhstan, so we can see that there would be a great deal of exports of components. Furthermore, according to forwarders in the ROK, about 90% of South Korean exports destined for Central Asia use the TSR, while the CLB is not used very often. As there is little cargo heading east from Central Asia, empty containers inevitably have to be returned by rail. The positioning of these containers is a thorn in the side of South Korean forwarders. Due to the increase in cargo bound for Central Asia, a direct container train service began operating between Vostochny and Almaty on 27th February 2003. The importance of cultivating eastbound cargo from Central Asia is thought likely to increase further.

Container shipping routes linking Vostochny with Shanghai and Ningbo in China were established in the autumn of 2000, and these have shown sustained rapid growth since then. According to a source at one shipping company, cargo from such cities as Dalian, Tianjin and Yantai is also

shipped to Vostochny via Busan. The main cargo includes clothing, shoes and everyday items produced in various parts of China and household electrical goods produced in South Korean-owned factories, and is either exported via Finland or sent directly to Russia. The destinations of direct exports to Russia include such large cities as Novosibirsk and Irkutsk, as well as Moscow. Moreover, it does not handle cargo bound for anywhere else in Europe other than Russia and the CIS. Given that transportation costs are about the same as the All Water route but the journey time is cut, it is sufficiently competitive. The problem is the one-sided direction of cargo, with 90% being westbound.

Data about the country of origin and destination of cargo are unavailable, but comparing the 2001 shares of the ROK (77%), China (12%) and Japan (11%), we can surmise that China's share has increased, while Japan's has fallen.

Table 1: Changes in the Volume of Containers Handled at Vostochny Port(2000 - 2002)

	2000	2001	2002	2002/2001
Transit: Westbound	25,219	27,731	31,148	1.12
Eastbound	17,512	20,996	20,940	1.00
Bilateral: Westbound	19,748	24,854	46,626	1.88
Eastbound	5,684	6,146	10,406	1.69
Empty containers	4,514	10,044	24,654	2.45
Other	24	146	30	0.21
Total	72,701	89,917	133,804	1.49

Source: VICS (Vostochny International Container Services)

Use of the TSR has risen further in 2003. The volume of cargo handled in the first quarter of 2003 was 1.48 times the volume recorded in the same period of the previous year (see Table 2). The growth rate in transit cargo was particularly noteworthy, reaching 64%.

Table 2: Changes in the Volume of Containers Handled at Vostochny Port(1st Quarter of 2002 and 2003)

	1 st Quarter of 2002	1 st Quarter of 2003	2003/2002
Transit	11,517	18,940	1.64
Bilateral	10,237	13,240	1.29
Total	21,754	32,180	1.48

Source: CCTST (International Coordination Council on Trans-Siberian Transportation)

In January 2003, the Russian Ministry of Railways increased the charges for transit to Finland by about 30%. It is thought that the ministry took this aggressive stance because of the sustained upwards trend in cargo volumes. Shipping companies in various countries and Japanese forwarders vehemently opposed this sudden unilateral announcement. They criticized it as a unilateral decision in contravention of the accord adopted at last year's general meeting of the CCTST and even went as far as to say that it was likely to result in the cessation of cargo transit through Russia. Certainly, there is an atmosphere in which cargo originating in or destined for Japan taking this route seems likely to disappear altogether. However, given that cargo from the ROK and China continued to rise unabated even after the increase in charges, we can see that the Ministry of Railways

² There is a system in which transit cargo is stored temporarily in bonded warehouses near the Finnish border with Russia, awaiting payment by the Russian side, after which it is shipped to Russia. South Korean and Japanese manufacturers have bonded warehouses in such Finnish places as Hamina, Kotka and Kouvla.

has read the situation correctly. With regard to this, an insider at a South Korean forwarding company said that the All Water route raised its charges at the same time as the TSR increase, so the rise had no effect on use. According to forwarders in the ROK, there is no difference between the TSR and All Water in the charge for westbound transport between Busan and Helsinki, and the TSR is preferred because it is faster. Electrification work on the TSR was completed in December last year, and services now run a lot more smoothly.³ Currently, cargo takes between 16 and 18 days to travel between Busan and Finland. In addition, as the monopoly on the marine transport section between Busan and Vostochny has been eliminated and four shipping companies are operating competitively on the route, charges have been kept down. This is in marked contrast to Japan, which still has

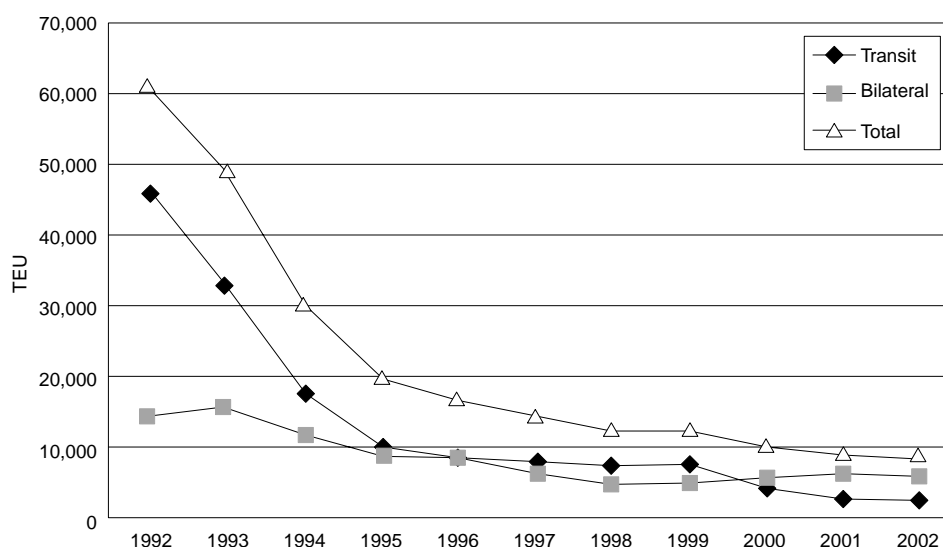
a monopolistic structure.

Japanese use of the TSR

Japan is being left out of the loop when it comes to the TSR route, which has demonstrated a sustained annual growth rate of 1.5 times, and its presence is steadily diminishing. The volume of transit cargo originating in or destined for Japan in 2001 fell to 2% of the level it had reached when transport on this route was in its heyday (in 1983) and declined further in 2002.

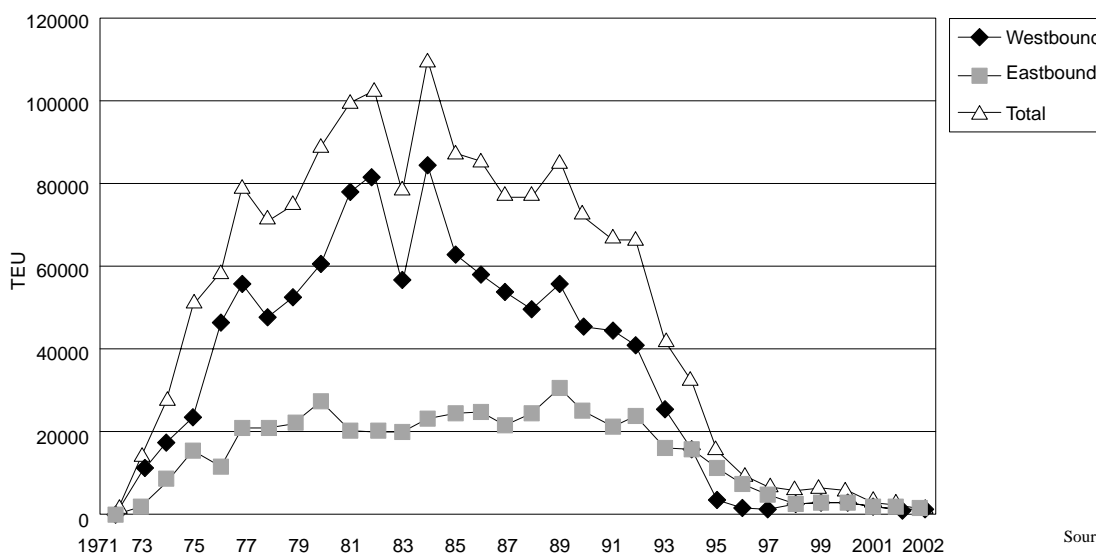
According to industry estimates, the volume of TSR cargo originating in or destined for Japan in 2002 was about 8,450 TEU, down 8% on the previous year. This is thought to include about 2,550 TEU of transit cargo, of which about 950 TEU is westbound and about 1,600 TEU eastbound. About

Figure 1: Changes in TSR Cargo Originating in or Destined for Japan



Source: Mitsui O.S.K. Lines, Ltd.

Figure 2: Changes in TSR Transit Cargo Originating in or Destined for Japan



Source: TSIOAJ

³ Electrification work has taken place on the 175km-long stretch between Sviyagino and Guberovo in Primorsky Territory.

40% of westbound cargo is destined for Finland, with the remaining 60% or so bound for Afghanistan. Most of the eastbound cargo consists of log houses imported from Finland. On the other hand, bilateral cargo is estimated to account for about 5,900 TEU of TSR cargo, with westbound cargo totaling about 3,500 TEU and eastbound about 2,400 TEU. About 90% of bilateral cargo originates in or is destined for Russia, with extremely little bound for Central Asia.

Data from Mitsui O.S.K. Lines, Ltd. (Figure 1), which has the monopoly on marine transportation between Japan and Russia, bears this out.⁴ According to these figures, in 2002, TSR cargo originating in or destined for Japan continued to decline, totaling 8,458 TEU (down 8% on the previous year), with transit cargo accounting for 2,548 TEU (a 7% fall on the previous year) and bilateral for 5,910 TEU (falling 8% on the previous year).⁵ If we compare these figures with the aforementioned VICS statistics, we can see that cargo originating in or destined for Japan accounts for 6.3% of the total volume, while if we consider only containers that have been filled, the Japanese figure is 7.8% of the total.

The cargo volume in 2002 was a mere 14% of that in 1992. The decline in transit cargo is particularly pronounced, falling in 2002 to 5.5% of the level of ten years previously. Shipping routes between Japan and Russia mainly deal with bilateral cargo these days.

The Trans-Siberian Intermodal Operators Association of Japan (TSIOAJ) has some long-term data for transit cargo (Figure 2). However, as these data only include cargo handled by TSIOAJ member companies, the volume handled by non-member companies is missing from the picture. Nevertheless, long-term data are still of value in understanding trends. According to these data, the volume of cargo handled in 2002 continued to decline unchecked, totaling 1,995 TEU (down 11% on the previous year), of which 887 TEU was westbound cargo and 1,108 eastbound. This figure is just 1.8% of the level recorded when transport on this route was at its peak (in 1983).

There are several reasons why Japanese companies are not using the TSR route.

Firstly, it has an image problem. In the first half of the 1990s, there was a spate of losses and thefts of cargo, so although the situation has now been rectified, a not insignificant number of consignors feel that they cannot trust the Siberian railways. In particular, there is an impression that the time taken for cargo on the TSR route is rather changeable. In addition, the deeply rooted mistrust of Russia on the part of the Japanese business community is also thought to be a factor.

Secondly, there are problems relating to costs. Japanese consignors say that the TSR route is expensive compared with the All Water route. They say that the reason why the TSR was heavily used in the 1980s was that it was extremely cheap in comparison with All Water, but that they cannot use it at the high prices now charged. It is now Japanese consignors

who say that they prefer the cheaper option even if it takes a little more time. On the other hand, in the ROK, there are many consignors who praise the speed of the TSR, saying that faster is better, even if it costs a little more. Furthermore, forwarders in the ROK like the fixed charges on the TSR route, as opposed to the All Water route, on which there are sharp changes in fares.

Thirdly, marine transport services between Japan and Russia operate at a frequency of just twice a month, so are inferior in terms of convenience.⁶ In contrast, there are two sailings per week between Busan and Vostochny. On the other hand, there are as many as three sailings per week from Japanese ports that link up with the CLB, making this route convenient for cargo bound for Central Asia.

Finally, as Japanese companies have shifted their manufacturing bases overseas, to China and Southeast Asia, export freight from Japan has diminished. In particular, in the case of household electrical goods bound for Russia, South Korean-made products are more competitive in price than Japanese-made ones. In addition, containers transported to Finland as transit cargo are then sent back to Russia, but there are no recent data regarding the degree to which containers in Finland that originated in Japan are being transported using All Water. If the volume of containers originating in Japan that are transported to Finland via the All Water route were high, some kind of effort would have to be made in order to achieve a shift in favor of the TSR route.

Future issues and Japan's response

As stated above, forwarders in various countries were rattled when the Russian Ministry of Railways suddenly announced a rise (of about 30%) in cargo transit fees. However, South Korean forwarders have stated that it had no effect. The reason for this was that charges had also risen on the All Water route, but one could sense from this the trust they had in the reliable TSR, and the result was that cargo volumes have actually risen.

There has also been a marked increase in Chinese cargo. Will its explosive growth of 1.5 times annually continue in the future?

According to forwarders in various countries, if All Water tariffs fall in the future, the TSR is also likely to lose customers. In other words, a rise in tariffs could also prove to be a fatal blow.

Problems that have been pointed out regarding the CLB, which is a competing route for cargo bound for Central Asia, include the fact that cargo cannot be traced along its journey and the time taken for customs inspections in Kazakhstan. Nevertheless, if China's railways improved the service they provide or their competitiveness, including in terms of their charges, the route could become a formidable competitor with the TSR. At present, almost all Japanese containers destined for Central Asia use the CLB route. In contrast, in the case of the ROK, use of the TSR is dominant. It is said that there is very little difference between the conditions on both routes,

⁴ Mitsui O.S.K. Lines, Ltd. and FESCO (Far Eastern Shipping Company) jointly operate routes between Japan and Russia.

⁵ The bilateral figure includes some cargo originating in or destined for Taiwan that is transiting Japan.

⁶ Due to the fall in cargo volumes, the shipping company reduced the service to twice monthly in January 2002. Only about 40% of the capacity of the ships sailing between Japan and Russia is being used.

but whichever makes improvements has the potential to expand its share.

A number of problems were also pointed out during the CCTST working group meeting. First of all, there is dissatisfaction about the length of time taken to clear customs at Vostochny Port. If cargo volumes rise, then waiting times will also lengthen accordingly. It is necessary for customs checkpoints to make greater efforts, for example by increasing the number of staff. Moreover, the dearth of bogies was commented upon. If cargo volumes increase, investment and an improvement in facilities commensurate with this is likely to be required.

Why are Japanese consignors still not showing an interest in the TSR even now? Given that consignors in the ROK and China are content to use it, we can judge there to be no major problems regarding trustworthiness and punctuality on the TSR route. Japanese consignors should try to erase their adverse impressions of the route arising from its past, stop rejecting it out of hand and evaluate the TSR of today with an objective eye. There is a saying: "When choosing a restaurant while on one's travels, one should choose the most

popular one, which people are queuing up to get into." If this is the case, the modern TSR is the popular restaurant. There is nothing to be lost by trying it.

Michal Frydrych, General Director of VICS, said resignedly that, "It is impossible to pitch the TSR to Japanese businesses." I do not know what kind of marketing efforts VICS has tried, but he seems to see it as the world's most difficult market to enter. Recently, I have begun to worry that Russian feelings toward Japan are deteriorating. I hope that Mr. Frydrych will not throw in the towel, and will devote his efforts to cultivating the Japanese market, leading Japanese companies to abandon their prejudices as a result and begin to use the Russian route. Not only VICS, but also the Russian railways and Russia's forwarders should join hands and cultivate this conservative, unenlightened market. Possible initiatives include the application of special discount rates for trial shipments and temporarily increasing the number of marine services between Japan and Russia. Shipments via Busan are also a possibility. It is not sufficient just to hold a single seminar at the Russian embassy.