

# International Container Transport on the Trans-Siberian Railway Continued to Increase in 2004

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## Summary

Since 2000, international container transport using the Trans-Siberian Railway (TSR) has demonstrated remarkable growth. Transport performance in 2004 again surpassed that in the previous year and was 3.2 times the level in 2000. The main factors behind this rise include soaring freight charges on the All Water route, which competes with the TSR in transport to Europe; Russian demand for imports, which has been supported by the healthy domestic economy; and China's emergence as an exporter. However, the main countries of origin and destination of cargo are the ROK and China, with Japanese cargo remaining at a low level.

Although it seems to be doing extremely well, TSR business faces the following problems, which are sources of insecurity for the future.

- i) There is a serious lack of rail wagons at Vostochny Port, with cargo congestion and delays becoming a chronic problem.
- ii) As a result of a lack of eastbound cargo compared with westbound cargo, the transport of empty containers is increasing.
- iii) With regard to transport to Central Asia, the competitiveness of the rival China route (TCR) is growing noticeably and the TSR route is being forced into a difficult struggle.

International container transport using the Trans-Siberian Railway (TSR) declined severely in the 1990s for a variety of reasons, but since 2000 it has experienced a recovery centered on export cargo from the ROK, and cargo volumes are increasing annually. In 2003, it recorded phenomenal growth of 49% on the previous year and cargo originating in and bound for Japan increased, albeit infinitesimally. This paper outlines the recent usage situation on the TSR, based on performance in 2004, and examines challenges for the future.

## 1. The Mechanism Used in Trans-Siberian Container Transport and its Competitiveness

### (1) Overview of routes

The international multimodal transport system that uses the Trans-Siberian Railway and marine transport to link East Asia with Russia, Europe and Central Asia is called the TSR Route. Cargo is transported from ports in the ROK, China and Japan, which form the eastern extremity of the route, to a Russian port (Vostochny Port) on a regular liner and is then loaded onto a TSR block train before heading west. One of the following three routes is used, depending on the destination at the westernmost extremity.

- i) **Europe (Finland) transit:** This links Vostochny Port with the Finnish border by means of a block train (11 days). Although most of the cargo is ultimately destined for Russia and the CIS, it is stored in bonded warehouses in Finland for a time, due to the customs situation in Russia. The marine route between East Asia and Europe (the All Water

route) is this route's competitor. The TSR route is not used to European countries other than Finland because it is currently unable to compete with the All Water route in terms of time and cost.

- ii) **Central Asia:** This route branches off from the TSR at Novosibirsk, running south to Kazakhstan and Uzbekistan. Block trains run from Vostochny Port to Almaty. This route's competitor is the Trans-China Railway (TCR). Cargo is carried on China's railways from Chinese ports (Lianyungang, Tianjin, Qingdao) to Alashankou before crossing the western border and reaching Kazakhstan and Uzbekistan via Druzhba.<sup>1</sup>
- iii) **Russian domestic:** Cargo is transported via the TSR from Vostochny Port to destinations throughout Russia. Block trains run from Vostochny Port to Moscow. Interestingly, the route's biggest competitor in transport to Moscow is the Finland transit route.

Of these routes, i) just passes through Russia and the CIS, so cargo on this route is classed as transit cargo, while cargo on ii) and iii) is destined for CIS countries, so is classed as bilateral (export/import). Rail charges differ depending on whether cargo is treated as transit or bilateral and transit is generally cheaper in terms of the price for a certain distance. In addition, the criteria and number of days required for customs inspections at ports in Russia's Far Eastern region differ. For example, it takes 1-2 days to clear customs at Vostochny Port in the case of transit cargo, whereas it takes 3-4 days in the case of bilateral

<sup>1</sup> Until about 2000, there was a transit route to Afghanistan that acted as an extension of the Central Asian route, but Afghanistan-bound cargo using the TSR almost entirely disappeared with the opening of the faster, cheaper Iran route.

cargo. Furthermore, containers owned by Russian Railways can only be used for bilateral cargo, while the containers used for transit transport must be arranged by consignors or forwarders.<sup>2</sup>

## (2) The marine transport element

The diversification of marine transport linking East Asian ports with ports in the Russian Far Eastern region is progressing. In the 1980s, only container ships linking Japanese ports with Vostochny Port were in operation. In the 1990s, ships also began to be deployed from Busan Port in the ROK and from around 2000, a number of shipping companies entered the sector, bringing the principles of the market mechanism into play. Moreover, in 2000, a direct service from Shanghai to Vostochny was established, leading to a subsequent increase in Chinese cargo. Current routes include Chinese ports–ROK ports–Vostochny, Busan–Vostochny, and Japanese ports–Vostochny. The vessels used on these routes are 400–1000 TEU feeder-type ships.

Looking at ship deployments as of March 2005, eight companies operate 34 ships to Vostochny each month (see Table 1). Five companies sail between Busan and Vostochny, operating 24 vessels a month. Ships sail to the latter port from Busan on four days each week. Of the five companies sailing to Busan, four link Chinese ports with Vostochny via Busan. There are also two shipping routes linking Chinese ports directly with Vostochny, making a total of 24 ships sailing between Chinese ports

such as Tianjin and Shanghai, and Vostochny each month. Looking at trends over the last few years, the number of services originating in and destined for Chinese ports has been on the increase, due to the sharp rise in Chinese cargo. In addition, it seems that there is a lot of cargo that is transhipped at Busan and carried to Vostochny, after being transported from Chinese ports to Busan.

At the same time, there are only two services per month between Japanese ports and Vostochny, which is too few. Consequently, some Japanese consignors and forwarders transport cargo to Vostochny Port by means of the Busan transit route.

It seems that, although it is not mentioned here, there is also container cargo that is carried to Vladivostok Port and then transferred to the TSR route.<sup>3</sup>

Marine transport requires 2-3 days between Busan and Vostochny, 2-3 days between Shanghai and Busan, and around 3-6 days between Japanese ports and Vostochny.

## (3) The rail transport element

VICS (Vostochny International Container Service) deals with loading and unloading of cargo at Vostochny Port. Cargo is transferred from the container yard to Nakhodka-Vostochnaya Station, where the arrangement of block train container cars and procedures relating to the forwarding documents are carried out. 1-2 days are required to clear customs in the case of transit cargo, while 3-4 days are needed in the case of bilateral cargo. Furthermore, if

**Table 1 The Deployment of Ships to Vostochny**

(As of 1<sup>st</sup> March 2005)

Shipping Company	Main Ports of Call	Frequency	Number of Sailings/Month
Sinokor Merchant Marine & Magistral Container Lines (MCL)	Tianjin, Kwangyang, Ulsan, Busan	1/week	4
Magistral Container Lines (MCL)	Shanghai, Busan	1/week	4
Dongnama Shipping (DNAL)	Tianjin, Kwangyang, Ulsan, Busan	1/week	4
Korea Soviet Direct Line: joint line operated by FESCO and Hyundai Merchant Marine (HMM)	Masan, Busan	2/week	8
SCF Oriental Lines	Shanghai, Busan	1/week	4
FESCO China Direct Line	Hong Kong, Guangzhou, Shanghai	1/week	4
Chao Yang Shipping Lines	Ningbo	1/week	4
Japan Trans Siberian Line: joint line operated by FESCO and Mitsui O.S.K Lines	Kobe, Nagoya, Yokohama, Moji, Toyama	2/month	2

Source: www.vics.ru

<sup>2</sup> At present, Russian Railways only owns 20ft containers, so consignors also have to arrange their own containers in the case of bilateral cargo, if they wish to use 40ft containers.

<sup>3</sup> According to the Secretariat of the CCTST (International Coordinating Council on Trans-Siberian Transportation), of the container cargo discharged at Vladivostok Port, about half is loaded on to the TSR and transported for long distances, while the remaining cargo is transported by truck to local destinations.

there is a lot of cargo, Russian Railways is unable to meet the demand for wagons and some cargo has to be left off the block train, leading to delays.

If the journey progresses smoothly, block trains can reach Buslovskaya on the Finnish border in 11 days and Almaty in 9 days.

It takes longer in the case of ordinary cargo trains, with the journey to Moscow lasting 13 days even if the journey goes well; similarly, it takes 12 days to Novosibirsk, 17 days to Almaty and 18 days to Tashkent.

It is possible to obtain daily tracing data for trains running within Russia. This is due to a mechanism whereby running information is transmitted to Russian Railways in Moscow from data-inputting stations through which the train passes; in order to access this, it is necessary to obtain the number allocated to the cargo following its dispatch from Vostochnaya Station.

#### (4) Transport times and price competitiveness

Let us compare the overland route with the competing All Water route in terms of transport time in the case of transit via Finland. Comparing the two routes in terms of the time required to get from major ports in Japan, China and the ROK to Hamina (Finland), we can see that the TSR is faster. There is a difference of around ten days in the case of transport from Japan and China, and two weeks in the case of the ROK. If the journey progresses smoothly, the journey from the ROK is approximately halved (see Table 2). As ships frequently sail between Busan and Vostochny, the route is extremely convenient from the ROK. Consequently, even though the TSR route is comparatively more expensive than the All Water route, Korean consignors have developed a high regard for the TSR's speed, so are tending to favor that route.

**Table 2 Transport Times to Hamina**

	Busan	Kobe	Shanghai
All Water	35 days	35 days	35 days
TSR	18–22 days	24 days	26 days

Note: Compiled by ERINA based on information from Japanese and Korean forwarders

As transport charges on the TSR are relatively stable, the route's price competitiveness alters according to changes in shipping charges on the All Water route arising from seasonal factors and the relationship between supply and demand. Looking at marine shipping charges for westbound cargo destined for Europe by the country of origin, cargo dispatched from China is the most expensive, followed by that originating in the ROK, with cargo from Japan consistently the cheapest. One reason why there is little Japanese use of the TSR is that All Water charges have been set at a low level. The charges for the marine transport of westbound cargo destined for Europe have continued to rise since around 2002, against the background of a rise in international cargo, but the structure in which cargo

originating in China is relatively the highest of the three countries, followed by the ROK, with cargo originating in Japan being the cheapest remains unchanged. At the same time, TSR charges have become relatively stable over the last few years. There was a price rise in January 2003 and additional convoy charges were imposed in 2004 to cover the cost of providing guards for the cargo, but these price rises were modest increases in comparison with the rapid rises on the All Water route. As a result, TSR's economic competitiveness compared with the All Water route has increased. Originally, it was a matter of common knowledge that the All Water route was cheaper than the TSR, although it took longer than the TSR. However, it has been estimated that, from around 2003, there was a reversal in the situation, in that the All Water route became more expensive than the TSR in the case of cargo originating in the ROK and Northern China. In the case of cargo originating in Japan as well, even though there was not a complete reversal, the price differential did decrease.

In the transport of cargo to Finland, consignors select a route after taking into account the twin factors of speed and cost. In geographic terms, the TSR is more advantageous the further north is the shipping point; the All Water route is more favorable the further south is the shipping point. It is thought that the watershed on these two routes alters depending on shipping charges and delays arising from congestion. If charges on the All Water route become extremely high and there is a lack of shipping space, cargo from Southeast Asia is apparently diverted to the TSR. At present, Korean forwarders are of the view that the TSR is better for cargo from the ROK and from Shanghai and more northerly parts of China, but the All Water route is better in the case of cargo originating in Southern China.<sup>4</sup>

In the case of cargo bound for Central Asia, there is apparently similarity in the competitiveness between the TSR and the TCR, and most forwarders select one or other route after consideration of seasonality and the ultimate destination. However, in overall terms, the popularity of the TCR has been increasing of late. For example, one Korean forwarder said that, because of the convoy charge, introduced on the TSR in the spring of 2004, cargo bound for Central Asia shifted to the TCR, which is cheaper. Moreover, block trains have also begun to run from Tianjin and Qingdao on the TCR, which previously originated at Lianyungang Port, with the aim of reducing the transport time. Furthermore, in the case of cargo originating in Japan, the frequency of marine transport is the decisive factor. There are only two sailings each month from Japanese ports to Vostochny, but as there are several sailings each week to Chinese ports, the TCR is said to be highly convenient.

#### (5) The Finland transit mechanism and its convenience

I would like to explain here why cargo ultimately destined for Russia (mainly household electrical appliances) is transported via Finland. The advantage of transit via Finland is that it is more advantageous in terms of customs duty than entering directly via a Russian port. Piecing together comments made by those involved in the industry,

<sup>4</sup> According to interviews with major forwarders in the ROK conducted in November 2004.

it seems that most household electrical appliances cross the border from bonded warehouses in Finland in Russian trailers and discounts on customs tariffs are apparently obtained by such means as the illegal rewriting of invoices at the Russian customs checkpoint. To be more specific, there is information that cargo is put through customs by grey dealers, with a charge (a handling charge paid to the customs inspectors, rather than customs duty) being paid per truck that includes customs duty and VAT, irrespective of the declared value of the freight.<sup>5</sup> In addition, there are bonded warehouses in Finland that are easy to use, and there is also the effect of transit rail charges, which are considerably cheaper than in the case of bilateral cargo.

The manufacturers of household electrical appliances are commonly aware of the convenience of Finland. However, although Japanese companies mostly use the All Water route for transport to Finland, Korean companies use either the TSR or All Water, according to their needs.

Finland's bonded warehouses are located in places that are handy for trucks heading for Russia, such as Kouvola, Hamina and Kotka. Finland, Russia's neighbor, enjoys economic benefits as a result of the warehouse business.

## 2. Transport Performance in 2004

No official data on transport volumes on the TSR route are published, but I would like to provide an overview of the data that I have obtained from a variety of sources.

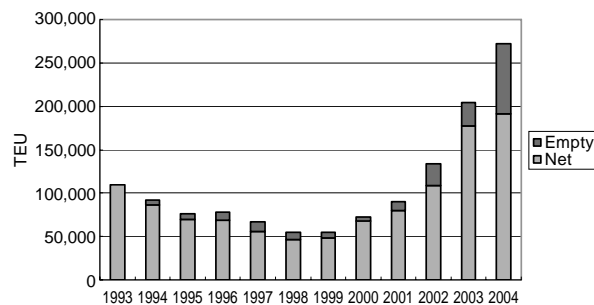
The Secretariat of the CCTST (International Coordinating Council on Trans-Siberian Transportation) estimates that the quantity of containers handled by Vostochny and Vladivostok ports in 2004 reached 386,900 TEU. In addition to international containers, this includes empty containers and domestic cargo handled by VSC (Vostochny Stevedoring Company).

VICS includes empty containers in the figures that it publishes concerning the quantity of international containers handled. According to these, the total volume of containers transported in 2004, including empty containers, was 272,529 TEU, which was an increase of 33% on the previous year. Looking at long-term trends, we can see that the volume of cargo, which hit rock bottom in 1999, has grown at a considerable pace since 2000. What is the cause of some concern is the increase in empty containers as a result of a lack of eastbound cargo: in 2004, about 30% of all containers transported were empty. Consequently, the number of loaded containers remained at 191,334 TEU (see Figure 1).

According to statistics collated by Navix Transport concerning the volume of cargo handled at Vostochny Port (excluding empty containers), the volume of containers handled in 2004 was 191,405 TEU, up 31.9% on the previous year. This demonstrates that exports from East Asia to Russia are growing strongly.

Looking at the situation from the standpoint of the direction of the cargo, it is remarkably one-sided, with the ratio of westbound to eastbound cargo standing at 84:16. As the ratio in 2000 was 75:25, we can see that the

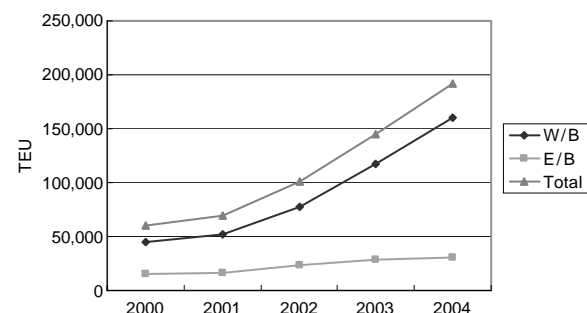
**Figure 1 Volume of International Containers Handled at Vostochny Port**



Source: VICS

disparity is becoming wider each year. In particular, if the focus is limited to Chinese cargo, the ratio of westbound to eastbound was 90:10. The factor behind this is a situation in which exports to Russia (westbound) from the ROK and China are increasing, while eastbound cargo is struggling to grow (see Figure 2). Korean forwarding companies are doing their best to find eastbound cargo, but it remains limited to timber, pulp and paper from Finland and cotton from Uzbekistan. Consequently, empty containers have to be sent back along the eastbound route to Vostochny.

**Figure 2 Volumes of East- and Westbound Cargo Using the TSR**



Source: Navix Transport

Looking at freight movements by country of origin and destination, the ROK accounts for 62%, China for 33% and Japan for 5% (see Figure 3).

Cargo originating in or destined for the ROK forms the majority of cargo and has been increasing consistently each year, but as a share of the whole, it has been experiencing something of a downward trend since reaching 82% in 2000. In 2004, cargo originating in or destined for the ROK grew to 118,645 TEU, up 8.7% on the previous year; however, if the focus is limited to westbound transit, we can see that there was actually a fall of 14.2%. Most Korean cargo consists of household electrical appliances bound for Finland. As stated above, the ultimate destination of these household electrical appliances is Russia and the CIS. With regard to bilateral cargo, components bound for Korean companies that have established bases in Central Asia

<sup>5</sup> Hiroshi Mizuno, Russia's Transport Situation, JETRO, *Research into the Transformation of the Russian Market and Business with Russia: Chapter 4*, March 2004. (Japanese)

and Russia are on the increase.<sup>6</sup> In addition, resin (the raw material from which plastics are made) is exported from the ROK to Russia. With regard to eastbound cargo, the ROK imports timber and paper pulp products from Finland and raw cotton from Uzbekistan.

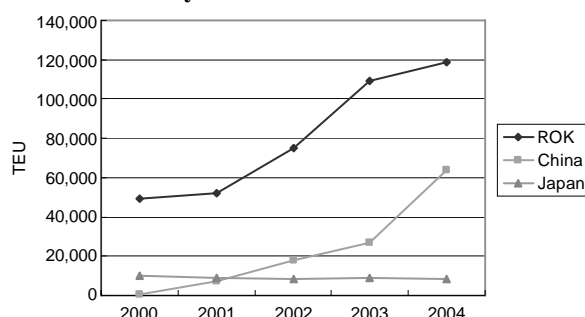
There has been a slump in cargo originating in or destined for Japan, the decline in the share of which has continued each year since falling to 17% in 2000. In 2004, the cargo volume was 8,678 TEU, a fall of 2.2% on the previous year. The main westbound cargo consists of car components bound for Russia, while timber from Finland (for building log houses) is the main eastbound cargo. It is believed that in these statistics, cargo sent from Japan to Vostochny using the Busan transit route is counted as Korean cargo.

Compared with this, cargo originating in or destined for China has been demonstrating remarkable growth, with the volume of cargo in 2004 rising 136.6% on the previous year to 64,082 TEU. Furthermore, it is thought that some Chinese cargo undergoes feeder transport to Busan, where it is transhipped and sent to Russia as Korean cargo, so it is estimated that the true quantity of Chinese cargo is even greater.

The main items exported as Chinese cargo are such consumer goods as clothing, footwear, bags and accessories. These consumer goods, which are exported to Russia and the CIS, are transported to Vostochny Port either directly from Chinese ports or using the Busan transit route. Russian forwarders generally export these goods as bilateral cargo.

There has been a recent increase in Chinese export cargo in the form of household electrical appliances manufactured by Korean companies which have established bases in China. In search of cheaper labor, Korean companies have established manufacturing bases in various parts of China and, in an increasing number of cases, the goods manufactured at their Chinese factories are exported to Russia. Korean manufacturers entrust Korean forwarders with the transport of these goods from their Chinese factories and, in many cases, the goods are transported on the TSR, in the same way as household electrical

**Figure 3 Volumes of Cargo Using the TSR, by Country**



Source: Navix Transport

appliances manufactured in the ROK. The shift of Korean companies into China is believed to be one factor in the fall in westbound transit cargo from the ROK.

### 3. Factors Supporting the Increase in Cargo

Let us now look at the factors that have supported the TSR's container business, which has been on an upward curve since 2000.

#### (1) The healthy Russian economy

The strong willingness of consumers to make purchases, which has been supported by the healthy macroeconomy in Russia, is supporting the TSR. If we look back at macroeconomic indicators in Russia, we can see that the GDP growth rate recorded negative growth between 1990 and 1996. The growth rate in 1997 was 0.9%, but returned to negative growth in 1998, following the financial crisis. However, following the attainment of 10% growth in 2000, the Russian economy has continued to grow smoothly, recording growth rates of 5.1% in 2001, 4.7% in 2002 and 7.3% in 2003. Growth of 7.1% was seen in 2004 and the soundness of the economy is impressive, as can be seen from such achievements as the completion of repayments of the country's debts to the IMF. If we recall the pattern of recovery in the quantity of cargo that we saw earlier (in Figure 1), we can see that it corresponds with the trend towards recovery in the Russian economy as a whole.

#### (2) The steep rise in marine transport charges between East Asia and Europe (All Water)

Since 2002, transport charges on the East Asia–Europe shipping route (All Water) have continued to rise. The increase in westbound carriage charges from China to Europe has been especially pronounced. The factors behind this are China's fast economic growth and intense demand for exports and imports. In addition to the steep rise in freight charges, there are those who say that there are not enough ships and that it is not possible to secure space on container ships. Hitherto, as mentioned above, if one compared transport between East Asia and Europe by mode of transport, the TSR route was said to be faster, but also more expensive than All Water; however, with the rise in freight carriage charges on the All Water route and the increasing difficulty in acquiring space, the sense that the TSR route is comparatively more expensive has lessened and some cargo from the ROK and China has shifted to the TSR.

#### (3) Market development by Korean companies

It is believed that zealous market development on the part of Korean forwarders and household electrical appliance manufacturers has also contributed to the expansion in TSR business.

Firstly, Korean forwarders own their own containers and lend them to consignors. Among the major forwarders, there are some that have more than 10,000 TEU of their

<sup>6</sup> In the automobile industry, Daewoo Motors (owned by GM) have established a factory in Uzbekistan, while Hyundai Motors have built a factory in Taganrog in Southern Russia. In the field of household electrical appliances, LG and Samsung have begun operating in Central Asia.

own containers. On the TSR route, bilateral cargo can use containers owned by Russian Railways or FESCO, but consignors need to arrange their own containers for transit cargo. Consequently, on the Finland transit route, containers provided by forwarders are generally used. As hardly any Japanese forwarders have their own containers, they are dependent on leasing them, and leasing charges are a factor in the comparatively high forwarding charges. Moreover, according to one Japanese forwarder, they have recently had to turn down orders from consignors wishing to use the TSR, due to a lack of containers. One reason why Japanese forwarders are wary of owning their own containers is that managing the containers one owns can be troublesome.

Secondly, many Korean household electrical appliance manufacturers and forwarders own bonded warehouses near the Finnish border with Russia, in order to make exports to Russia more convenient. There are some forwarders that also store cargo that Japanese companies have sent to Finland on the All Water route.

Thirdly, Korean forwarders are developing new routes, with the aim of providing more efficient services, and are demonstrating the pioneer spirit through the running of block trains. For example, a trial run took place on the Busan–Brest–Poland route in 2004. In addition, there was a trial run on the Tianjin–Shenyang–Harbin–Manzhouli–Zabaikalsk–Finland route. Furthermore, on the China route (TCR), as well as the existing block trains from Lianyungang Port, some forwarders are running block trains from Tianjin and Qingdao to Alashankou.

Fourthly, Korean forwarders pick up Chinese cargo actively. In particular, most of the export cargo from Korean household electrical appliance manufacturers who have established manufacturing bases in China is handled by Korean forwarders. Transit at Busan is apparently another source of income for forwarders.

Finally, by bringing multiple forwarders into competition with one another, Korean consignors are benefiting from more favorable transport terms.

#### (4) The diversification of shipping routes linking ports in Far Eastern Russia with East Asia

With regard to container routes linking East Asia with Far Eastern Russia, a single shipping company monopolized routes between Japan and Russia, and between the ROK and Russia throughout the 1990s. However, a new company began operating on the ROK–Russia route in 2001, breaking this monopoly. At present, as shown in Table 1, seven companies operate services on shipping routes linking the ROK and China with Vostochny. There can be no doubt that, as a result of this, the frequency of services and number of ports of call have increased, carriage charges have been kept down and services have become increasingly convenient for consignors.

On the other hand, the monopoly on routes between Japan and Russia still exists, even now. At present, there are only two sailings each month and the average load on these services is less than half of capacity. Although the lack of cargo is one reason why there are no new entrants into this

particular field of operations, it cannot be denied that the current frequency of sailings is decidedly inconvenient.

## 4. Emerging Problems and Future Challenges

The quantity of cargo is continuing to increase, but a number of problems have also emerged. Let us now consider for how much longer this strong performance can be maintained and whether there is the possibility of new problems arising in the future.

### (1) Infrastructure that cannot keep pace with the increase in cargo

We are seeing an increase in containers being compelled to wait because they cannot be loaded onto block trains at Vostochny Port, due to a lack of freight wagons, and it has been noted that this is a problem requiring an urgent solution. According to the explanation given by VICS on its homepage, as of March 2005, around one-thirds of the wagons that it had requested from Russian Railways had still not been provided.<sup>7</sup> As a consequence, delays are occurring and the TSR, the selling point of which is supposed to be speed, is becoming unable to justify its customers' faith in it. According to some Korean forwarders, the delays arising from the lack of freight wagons are particularly pronounced during peak season (autumn and winter) and, in the case of transit transport between Busan and Hamina, the journey that normally takes around 22 days if all goes smoothly apparently takes 30–40 days.

In addition, with regard to the provision of containers for bilateral cargo, Russian Railways has been criticized for its failure to provide 40ft containers. Japanese forwarders have also pointed out that the lack of containers and freight wagons mean that Russian Railways is missing out on Japanese business.

The lack of freight wagons and containers is plain for all to see when cargo volumes rise. At the CCTST's annual conference, there is a tendency for the executives from Russian Railways to talk only of their pipe dreams of increasing cargo volumes. At the 2004 conference in Vienna as well, they spoke of their expectations of aiming for 300,000 TEU on the TSR route. However, the upgrading of such vital elements as infrastructure is the prerequisite for realizing this dream of theirs. Is it not perhaps necessary for Russian Railways to consider from a medium- to long-term perspective what kind of infrastructure it should develop, commensurate with the projected increase in cargo?

### (2) Increasing empty containers

As stated above, there is a relative lack of eastbound cargo, so large quantities of empty containers are sent back to Vostochny on the eastbound route. The transport of empty containers is apparently a major burden on Korean forwarders, who own their own containers. The only way to solve this problem is to develop eastbound cargo. For example, sizeable amounts of car components are transported from Germany to Northeastern China via

<sup>7</sup> www.vics.ru

the All Water route. In addition, a considerable volume of timber is apparently transported from Northern Europe to Japan via All Water. In order to get this cargo to switch to the TSR route, why not tap new markets by devising such measures as providing more advantageous terms with regard to carriage charges or introducing new block train routes?

(3) The increasing competitiveness of rival routes

The TSR route is constantly exposed to competition from rival routes. The TCR, which is the TSR's rival in transport to Central Asia, is seeking to improve its facilities and increase transport speeds. As stated above, in addition to the Lianyungang Port–Alashankou route, block trains to Alashankou have been introduced from Tianjin and Qingdao as well, which has apparently led to a reduction in transport times. Moreover, the TCR can carry Chinese shipping companies' containers (20ft and 40ft) to Almaty and Tashkent. Furthermore, as stated above, when convoy fee was introduced on the TSR in the spring of 2004, some cargo destined for Central Asia from the ROK apparently switched from the TSR to the TCR.

In the case of the All Water route, which is the TSR's rival in transport to Finland, there is a possibility that there will be increased leeway in transport capacity in the future due to the introduction of new ships, which could lead to a reduction in shipping charges. Moreover, vessels are becoming ever faster. At present, the journey between Busan and Hamburg takes 26 days, but if this were reduced to 21 days, it would be about the same as the duration of the journey via the TSR. It is necessary for the management of the TSR to forecast as early as possible the potential for an increase in competitiveness on the part of such rivals and to strive to maintain the route's competitive edge, both in terms of speed and price.

(4) The overseas shift of Korean manufacturing industry

Since around 2003, Korean household electrical appliance manufacturers have increasingly been establishing bases in China. The electrical appliance makers Samsung, LG and Daewoo have built factories in such cities as Tianjin, Qingdao, Yantai, Shanghai, Nanjing and Shenyang, and export some of their products to Russia. Hitherto, many Korean companies established bases in the Shandong Peninsula area, which is close to the ROK, so a lot of them tended to use the TSR route.

However, it seems likely that, in the future, they are increasingly going to opt to move into Southern China and Southeast Asian countries such as Vietnam. As stated above, the further south one goes, the more of an advantage there is to be gained in using the All Water route for

transport to Finland, so it is possible that there will be a shift away from the TSR. This is the same process as was experienced when Japanese consignors moved away from using the TSR.

(5) Will the Finland transit route continue?

As stated above, the iniquitous Russian practice of making false customs declarations is behind the tendency for items being exported to Russia, such as household electrical appliances, to be diverted via Finland. For how long do the Russian authorities intend to turn a blind eye to this "grey" practice?

Russia's customs authorities have already succeeded in creating a system to prevent these "grey" practices with regard to import duties on cars. Under a system termed the "green corridor", export manufacturers designate dealers and distribution outlets that they can already trust and notify the customs authorities of the sale price, thereby preventing importers fiddling their customs declarations.<sup>8</sup> Currently, the scope of application of this system is being broadened from cars to encompass related transport equipment.

The Russian customs authorities are trying to introduce this system for household electrical appliances passing through customs checkpoints and seem to be asking Japanese and Korean electrical appliance manufacturers to submit lists of sales outlets, as in the case of car exports. However, compared with cars, household electrical appliances are cheap and small, and there are many more types of them, so it is difficult to control prices; accordingly, the application of this system is likely to be tricky.

There are those who believe that fraudulent customs declarations will be abolished if Russia accedes to the WTO in the future, but it is unclear exactly how this is to be achieved.

(6) Is there any potential for a return to TSR use by Japanese cargo?

Although there was a slight pickup in Japanese cargo in 2003, it fell again in 2004. Is there any possibility that Japanese cargo will return to the TSR in the future? The following two factors would seem to give cause for hope.

First of all, if carriage charges on the All Water route continue to soar and there is still a lack of space in the hold of All Water vessels, it is possible that Japanese cargo bound for Finland and destinations within Russia will increase. However, carriage charges to Europe from Japan on the All Water route are still cheaper than those from China or the ROK and the feeling persists that the TSR route is relatively more expensive. Moreover, as Japanese consignors emphasize punctual delivery, it is imperative

<sup>8</sup> To be more specific, under this system, export manufacturers first of all submit to the customs authorities a list of their designated dealers and distribution outlets in Russia. The manufacturers sell only to designated distribution outlets at a price that has been declared to the customs authorities in advance. Before approving them, the customs authorities themselves check the past tax payments of these distribution outlets and whether they have any history of malfeasance in their previous customs declarations. Once the customs authorities have approved a distribution outlet and the cargo arrives, they implement strict checks of the cargo code, price and details regarding payment for the cargo. The distribution outlet submits to periodic audits by the customs and tax authorities, with sales documents and flows of money being checked. Under this system, the cargo can only pass through customs at a limited number of terminals.

that the chronic delays at Vostochny be eliminated. In addition, it is vital that some means of supplying containers be devised.

The second factor is the fact that Japanese companies are now beginning to look towards Russia. As Russia is continuing to experience stable economic growth, the number of companies perceiving it to be a promising market is increasing. These include companies who are seriously planning direct investment in Russia in such fields as the automotive industry. Once they decide to expand into Russia, the export of investment-related resources and parts to Russia will increase and the TSR route will be used as a matter of course. If we take the example of Korean car manufacturers, which have already established bases in Russia and are transporting components on the TSR, expectations that Japanese companies may one day follow

them begin to grow.

It is the nature of international transport that a number of routes are constantly in competition with each other. The most appropriate of the various routes, with their individual characteristics, will be chosen according to business requirements and the nature of the cargo. Moreover, it is necessary to bear in mind the possibility that it will become impossible to use one transport route for some reason. In this case, alternative routes could come under the spotlight. In light of this, it is a good thing that there is both the All Water route and rail corridors such as the TSR in transport between East Asia and Europe, as well as the competition between the TCR and the TSR in transport to Central Asia. In the future, Japanese companies will constantly bear in mind the principle of selecting from multiple options, including the TSR.

### The Trans-Siberian Land Bridge Network



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