

## *Features of National Transportation: The characteristic features of Russian inter-port competition with southern Primorye as an example*

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*Today, the majority of ports are in a situation of unrelenting competition, which is brought about by how the surrounding transport network functions. The inter-port competition had always been related to the competition between cargo transportation routes. The character and importance, however, of this interrelation have begun to change with time.*

The analysis of factors influencing the container market of southern Primorye (Primorsky Krai) has permitted the revealing of a number of features of the formation of transportation routes through seaports and, accordingly, their attractiveness. In carrying out this analysis, two approaches have been used: “transport” and “cargo movements”.

From the viewpoint of the optimization of cargo movements, and in the corresponding point of view of the consignor—the basic customer for services—it is necessary, in the choice of transportation routes, to consider the absolute amount of the customs duties from the customs charges on the cargo and other “non-transport” factors, in addition to the transportation expenses. In theory, it would be more favorable to deliver goods from the countries of the Asia-Pacific region to the eastern regions of Russia via the ports of southern Primorye. In practice, however, the overwhelming proportion of such goods gets to Russia by sea through the Suez Canal, is processed in European warehouses, and is then delivered to the eastern part of Russia. In the scale of customs charges the turnover of such cargoes exceeds \$15 billion. Foreign logistics services constitute the preponderant portion of this amount. Thus, the Russian Far East remains on the sidelines and without development.

The degree of influence of “transport” factors on the choice of transportation routes can be illustrated by the structure of the monetary turnover of the participants in the southern Primorye container market. (See Figure 1)

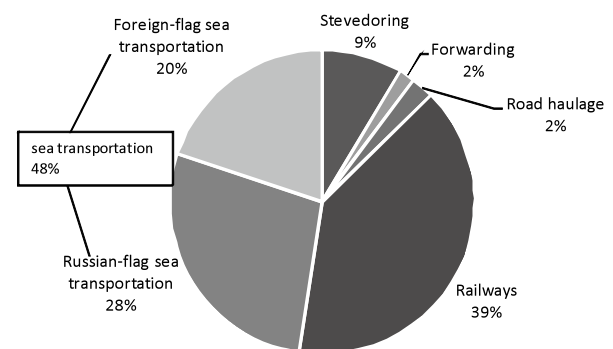
Almost half of the monetary turnover, at 48%, is via sea transportation, 39% is via rail transportation, and stevedoring and forwarding services together total 11%.

At the same time all the constituent segments of the market can be provisionally divided into three groups.

The first group includes forwarding services, road haulage and the areas of sea transportation not involving port charges or payments for stevedoring services. Pricing in this group is determined by market factors, and global and regional trends.

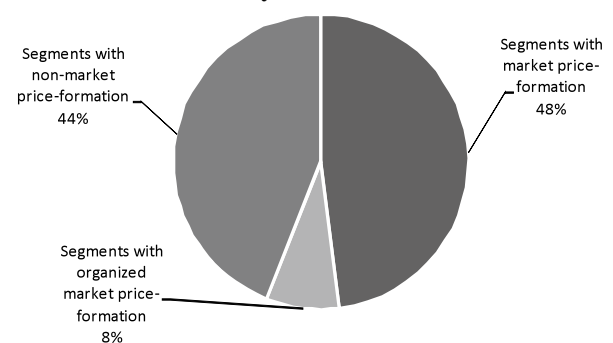
Stevedoring services, which are partially regulated by the state, fall in the second group. Pricing in this segment

**Figure 1: Shares within the total turnover of participants in the southern Primorye container market as of 2006.**



Source: FEMRI research work

**Figure 2: Shares of market and non-market influences on the southern Primorye container market**



Source: FEMRI research work

can be characterized as limitedly market-based.

The third group unites rail transportation with the part of sea transportation that involves port charges, which are a part of sea freight. The transportation services represented by the participants in this group are subject to market influence to a noticeably smaller degree. Pricing here is determined not as a result of market competition, but is imposed (pricing is regulated by the state and is formed in accordance with standards). (See Figure 2)

Thus, under the current market conditions, the attractiveness of ports is to a lesser degree the result of free competition in the transport market, and for the greater part is governed indirectly on the imposed level.

This conclusion is reached regardless of the non-

transport expenses and the factors which have a direct relation on the movement of goods.

#### What does customs tell us?

The choice of transportation route by consignors is also influenced by other factors, such as customs regulations. Interviews with representatives of the world of business have elucidated that a considerable influence on the deciding of routes is exerted by the law-enforcement practices of customs bodies.

Per se, customs charges on Asian goods in Primorye should be lower than at the western points of entry. That is not the case in practice, which is in conflict with the geography of routes but not with the logic of businesses saving on customs payments. Indeed, the share of such payments in the delivery cost of goods is impressive, and loyalty to customs is one of the important conditions for comfort in the conducting of business.

Practice shows that with identical tariffs for customs duties, the absolute size of payments differs among customs posts, and, as a rule, not in the favor of the Far East. The result is an obvious rupture in the transport architecture of the country, an artificial barrier to choosing potentially effective routes for cargo movement.

The customs payments accounts are fully in line with the logic of the consignor or consignee for planning a route for cargo movement. If the share of customs payments in the total cost of the movement of goods on different routes does not differ, then its influence on route choice is absent. But if the given shares on different routes or at different customs posts are not identical for any reason, it influences the choice of consignors and consignees.

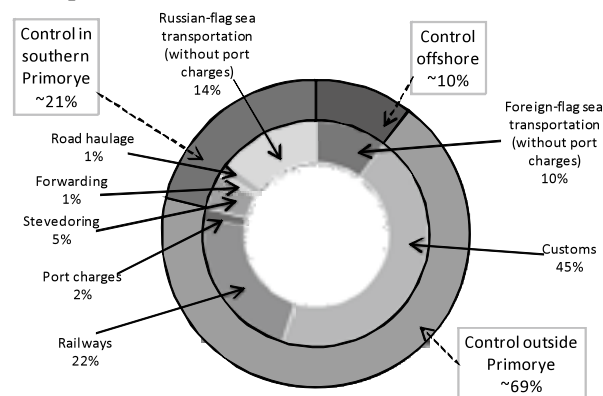
Differences in law enforcement practices (despite the observance of the established order) could lead to a full neglecting of economically expedient matters, and from the viewpoint of transport parameters, the cargo-moving routes. This factor in many respects “strengthens” the market positions of the routes bypassing the territory of the Far East, including the ocean route to Europe.

On the other hand, the facts mentioned underline the considerable potential of Special Economic Zones and customs regulation not just in the questions of the development of separate courses for foreign-trade activity or industrial production, but also in the questions of the lifting of infrastructural constraints in the development of the economies of various regions.

The data of the Far Eastern Customs Administration (DVTU) on the volume of the turnover of goods in foreign trade and the paid customs duties in 2005, regarding the turnover of goods in containers, permits the estimation of an approximate “customs share” within the cost for the movement of goods. The sum of duties on the foreign trade and transit cargoes in containers which have passed through the seaports of southern Primorye comes to around US\$760 million. The given size is comparable to the volume of the share of southern Primorye in the container market of Northeast Asia as of the same year: US\$930 million.

In the current conditions of the development of logistics it would naturally be desirable to see a graph with other shares. But it is necessary to analyze what we have: at this juncture the choice of routes and transfer ports depends

**Figure 3: Comparison of the shares of influence on route choice (presented in the form of a correlation of the turnovers of the participants in cargo transportation, including customs), with the southern Primorye container market, as of 2005–2006, as an example**



Source: FEMRI research work

least on the efforts of ports (5%) and the market factors operating in Primorye (21%). To an overwhelming degree (69%) it depends on the customs policy of the state and the transport tariff policy. (See Figure 3)

#### Paper barriers

Apart from the sizes of customs payments in the scheme for the determination of transportation routes, such factors as organizational or bureaucratic costs, and also the lack of legislation in the transport sphere, are still “at work”. The evaluation of those factors in monetary terms is difficult. The opinions of experts and participants in the container market, however, have permitted ascribing them as vital issues that cannot be ignored.

An example which illustrates the lack of legislation is the protracted idling of ships in ports pending registration of their arrivals and departures, as well as delays in loading and unloading. With regard to container transportation, it is necessary to note the defects in the Federal Law of the Russian Federation on Customs Duties, which selectively hampers the process of container transportation where the carrier is a Russian organization. The problem lies in that the law assumes that a container is not transport equipment but a commodity. As a consequence, the time for customs registration increases by 3–4 days, with the collection of an additional payment. At the same time, customs procedures concerning the containers of foreign carriers are considerably simplified.

As a result, the attractiveness of the Russian transport system decreases, primarily through time loss. Furthermore, “discrimination” against Russian carriers and Russian ports is practiced. For example, for container vessels under the Russian flag the customs registration procedures in Russian ports are much more difficult, prolonged and expensive than for ships under a foreign flag or for ships under the Russian flag in foreign ports. Cumulative losses from the established practice demonstrate in all obviousness the low efficiency of the over-scrupulous declaration for containers set in place for Russian carriers.

Thus within the existing transport control system, the attractiveness of the ports of southern Primorye to an overwhelming degree—at a level of 70–80%—depends on customs and tariff policy, and on the legislative base and its practical application. The mere remaining 20–30% equals the potential of the ports and other transport companies of southern Primorye.

It is necessary to recognize that within global market conditions and the surrounding competitive environment this value is too low and does not give any “room for maneuver” for the qualitative management of the attractiveness and competitiveness of transport industry business.

### **Real competition is at 20%**

The container terminals of Primorye are relative competitors—“relative” because they compete only at the regional level (a regional intra-structural competition) in separate segments of the container market, for the most part in exports and imports. Taking into account all the levels of competition and various segments of the market, there should be more competitive-partner relationships within their activity. Similarly, the transport systems of neighbouring countries, within a situation where cooperation with them is necessary, cannot be recognized only as competitors.

Today, the development of the southern Primorye container market is to a greater degree influenced not by the positions of separate competitors and the geography of their activity, but by the dependence of port terminals on their partners—the operators of sea and overland routes, transport-forwarding companies, and bodies of state control and other organizations connected with the observance and execution of established procedures.

The international level of the competitive environment clearly demonstrates that there cannot be solely partner relationships or solely competitive relationships in transport. In the transition to a higher level of competition, there occurs a change in competitive relationships vis-à-vis partners: the market players within infrastructure, competing at the local level have partner relationships externally to a greater degree.

Meanwhile, the competitive environment in the transport sphere, both in southern Primorye and in Russia as a whole, is now more often perceived as at a primitive level: the importance of strategic partnerships is underrated, and the internal competition “burns out” the competitiveness parameters of the entire transport system.

It is characteristic, to some extent, of other countries, where those involved in transport undervalue the importance of the balance of competitive and partner

relationships. An example is the criticism advanced by the Korea Maritime Institute (KMI) in 2006 relating to the ports of Busan, Gwangyang and Incheon (in the ROK), which became engrossed in internal competition and lost out to Chinese ports.

The mutually advantageous balance of competitive and partner relationships can become an effective tool for increasing the parameters of competitiveness of transport. On this question, however, there is the extreme matter called “collusion”<sup>1</sup>, which is prosecuted in accordance with the law.

This factor to some extent explains the world trend of the consolidation of the separate segments of the transport and forwarding services into one unified service, which is rendered not by several organizations, but by one operator. On the other hand, such customary “linear navigation”, in the ordinary sense but not in the legal sense, is nothing other than “collusion” between a sea carrier and a port operator (with an understanding of this term as a respectable partnership).

The practice of transport business development in Russia shows that appeals for a respectable partnership and the working-out of a general strategy enabling functioning do not have any noticeable effect. But it is necessary to search for efficient alternatives in the structural organization of the interests of the separate participants in transport chains.

Today, the solution of the present problem is actively discussed with reference to the connection of two types of transport, the railways and the ports. That is important today, but the circle of participants in transport processes at that connecting point is wider. The necessity of studying the question of the creation of a unified operator, for example in the form of an operating company at the sea port, is obvious. Such a company can be delegated the authority for the management of the necessary processes at the transport node, including the coordination of the activity of the individual participants and interaction with the service customers.

The solution of the problem can be a unique one, of Russian origin. But where are the guarantees that it won't be over in a matter of years? It could depend upon the wealth of experience abroad, where diverse variations have already been tested practically and their efficiency has been proven. So should we perhaps begin with the overseas experience?

[Translated by ERINA]

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<sup>1</sup> Collusion (*Сговор / sgovor*) is a situation where firms act in concert with the aim of determining the price and volume of a product made by each of them or of defining the geographical region in which each firm can sell their production. A distinction is made between open and secret collusion. There are of the order of ten forms of collusion which are prosecuted in accordance with the law (the Criminal Code, the Antimonopoly Law, and the Code of Administrative Offences).