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Theses

Prospects for Russia in transport shipments between Northeast Asia and Europe

Esteemed participants to 15th Northeast Asia Economic Forum

Ladies and gentlemen:

Joint-stock company of Russian Railways operates in the transport services market a little over three years. In that period the Far Eastern Railways as a branch of the new company, with its advanced production and technological facilities has demonstrated a high growth rate of shipment operations.

It increased the rate of **cargo movement** by 14%, cargo **turnover** by 17%. **Labor efficiency** improved by 27%.

The Railway's geopolitical location with an exit to sea and cross-border points in Southern Primorye creates a favorable environment for securing international transit shipments from Northeast Asia to Western Europe.

Occupying a leading position in the export and import cargo shipments the Railway handles over 30% of the total exports in Russia and over 25% of transit cargo shipments of the other states. *(Slide #2. Geopolitical status of Far Eastern Railway)*

It is quite obvious that such performance is attained thanks to keeping sustainable partner relations with consignors and consignees, coordinated action of shippers as

to enhancing the competitiveness of transport corridors, well-balanced development of all transport means and broad introduction of logistics in information contacts.

- **Competitive environment in transport shipments of Northeast Asia**

Russian Railways Public JSC not only avails its own infrastructure to the operator companies for transportation of cargo and passengers, but also competes with them and the other means of transport in the domestic market of shipments. Under growing global economic linkages and trade turnover between Europe and Asia efficient integration of Russian Railways into the international transportation system and maximum use of its potential become a strategic task.

Now independent private companies develop fast and they render services of their own or leased from the Railways rail cars. The fleet of private rolling stock is also growing. To compare, two years ago its share in the Railway freight operations was 23% and a year before that 8.8% then in the current year it is already over 30%, i.e. every third loaded rail car belongs to the private owner or operator. The share of private rolling stock in motor car loading operations exceeds 64%, of foods 69%, of fish 82%. **(Slide #3. Private car fleet)**

The companies with their own rolling stock get oriented primarily at carrying highly profitable cargo: oil and petroleum products, motor cars, export timber, containerized cargo, etc. leaving to the railway transport social subsidized shipments. Hence the task of improving the competitiveness of Russian Railways becomes more and more meaningful.

Russian Railways on its part undertakes much effort to additionally attract export, import and transit cargo. Recently a number of meetings were held with the business elite of Northeast Asia that demonstrated our intention not only to

efficiently utilize the transit potential, but also to avail to our customers a modern transportation product for global shipments of commodities.

In March of the current year in Vladivostok there was held an international conference called The Trans-Siberian Railway in the 21st century: prospects of developing cooperation in rail operations. In June our Far Eastern Railway had a presentation at the Harbin show in China. The similar presentation is planned for September in Japan.

Active positioning of Russia's transport opportunities brings its fruit. We can now clearly see that the interest of our foreign partners to international transport corridors crossing the country, among them West-East corridor with the Trans-Siberian as its core, is steadily growing.

- **Current state of the Trans-Siberian and its Far Eastern span**

In the last three years about **40 billion rubles** was invested in development of rail approaches to sea ports and cross-border points, in enforcing the pre-port and cross-border railway stations **(Slide #4. Far Eastern Railway infrastructure improvement)**

Reconstruction of **Nakhodka, Nakhodka-Vostochnaya, Krabovaya, Vladivostok** pre-port stations, marshalling stations of Khabarovsk-2 and Ussuriysk took place and the direction of **Nakhodka – Nakhodka-Vostochnaya** received a **double-track capacity**.

After gasification of the rail main track and transfer to electric traction of the entire Ussuri hub the new **technology of heavy-duty trains** with the total weight of 6 thousand tons to the pre-port stations of Vladivostok and Nakhodka was introduced

and in three years it improved **the average weight of the freight train** by 280 tons increasing the **locomotive production efficiency** by 28%.

Speed on the line and the technological speed have both grown; **freight rail car turnover** went down by 46 hours which means a higher speed on the route and shorter cargo delivery time terms.

Tarmanchukansky, Rachinsky, Kiparisovsky, Kazachinsky tunnels have been built and launched. In July the new **Lagar-Aulsky tunnel** opened.

As a result of actual investments the competitiveness of the Far East transport system has grown considerably and it is important for securing the export and import needs of the Russian economy as well as for transit cargo shipments from Asia to Europe.

Now the Railway is implementing **Mid-term transport infrastructure development program** as far as 2009.

Construction of the second stage of **the Amur bridge crossing at Khabarovsk** is ongoing. Upon completion of works in 2008 its throughput will grow twofold.

For accelerated movement of rail cars through hub and intermediary stations of the Railway the loading and unloading siding is expected.

In connection with higher train load conditions we carry out enforcement of the permanent way structure to enable the train increase speed, to increase the throughput and processing capacity of the Railway and ensure the traffic safety.

Now the Railway is a large high-technology complex. This complex handles the current freight volumes and can do more.

- **Railway container operations as the most prospective trend for transportation system of the Far East. Trans-Siberian container corridor**

Russian Railways aim at maximum efficiency of the Trans-Siberian and BAM potential for international container shipments. After the effective changes the Far Eastern part of the Trans-Siberian in recent years has been actively growing its **container operations** (Slide #5. Container operations in dynamics)

In 2005 the amount of handling of export and import container cargo went up by 4%. In the current year 24% more import containers are handled and export containers went up by 25%.

In that, the share of handling containerized cargo from Korea was at 56.5% of the total processed cargo, from China at 36.3% and from Japan at 7.2%.

There is everything for sustainable growth of the container flow: a developed infrastructure and a whole set of beneficial commercial and technological advantages of the Trans-Siberian international container corridor.

Maximum time for dedicated transit container trains from Nakhodka-Vostochnaya to the border with Finland, Belarus and Middle Asia is from 9 to 10 full days at the speed over 1 thous km per day. It means over twofold saving on time against the sea route from the APR to Western Europe and saving over 300 dollars per each container due to its turnover faster by 2 to 3 weeks.

The regularity of transportation operations, letting the trains through without any coupling or uncoupling of cars, guard service for each train, door-to-door delivery, this all together with a high speed makes land transport route by rail more attractive for foreign consignors.

The Trans-Siberian became much more of demand to the customers after it introduced information technologies. Every customer has access to electronic trade of transportation services on the Internet where not only reference on the operative status of the rolling stock is found but also preliminary estimate of transportation costs.

Earlier container trains were held at cross-border stations because of imperfect customs procedures, now this problem is removed. Processing of transit cargo and its crossing the border was made much easier and it gave a 40% time saving on documentation processing. The technology of electronic cargo declaring being introduced cuts down on the customs formalities time from 3 days to 1.5 hours.

Now the prospective market segment of the container shipments shows successful Russian Troika incorporated in March 2005 together with Far Eastern Shipping Company. In the first year of its operations it carried out 19 thousand containers with motor vehicle complete parts of the South Korean Hyundai to Taganrog plant by the Trans-Siberian, the route several times shorter than the sea one and showed top quality and safety standards of railway operations.

Russian Troika is but a small part of the Company effort directed at development of intermodal operations. The core of the business is certainly Transcontainer, the dedicated branch of Russian Railways Public JSC.

Registered on July 01 2006 as a daughter company (from the former subsidiary) Transcontainer will become a serious player in the container shipment market of Northeast Asia.

Now Transcontainer keeps its agencies at all large container handling outlets and large pre-port stations for the goal of organizing transportation and forwarding containerized cargo of customers.

Within the framework of developing our container business we are looking for new customers interested in cargo shipment on the corridor of East-West. In July from Nakhodka-Vostochnaya station started the container train with complete parts for Toyota Motors car assembly plant at St Petersburg. The train covered the distance of 10 thous km in 10 days 23 hours and 9 minutes that made the relative impression on Japanese specialists who got acquainted with the operational technology and service quality of container shipments on the route. The freight amount is expected at 3 600 containers per annum.

- **Interaction of Russia with Northeast Asia states in developing the regional transport infrastructure**

The Railway pays great attention to growing cargo transportation across the surface cross-border points with Korea and Russia. To that end the throughput capacity of the Railway and the handling capacities of railway cross-border hubs and crossings are enhanced.

Long-term measures are under way to improve the track facilities at **Grodekovo and the nearby spans, and** introduce up-to-date technical means and new technologies. The Chinese side carries out the reconstruction of **Suifenghe** station. **(Slide #6.Grodekovo – Suifenghe cross-border operations growing)**

With the new scheme of information interaction with the counterparts and customs authorities the time for handling each train at the cross-border point of Grodekovo went down from 5.6 hours to 2 hours or 2.8 times.

The policies pursued by Far Eastern Railway and Harbin Railway will increase the freight flow across the border at Grodekovo – Suifenghe by 38 – 50% against last year. By the end of 2006 the planned cargo turnover between the neighboring states will make **8.5 MT**.

Now taking into account such high cargo growth rates we are considering the option of the second track on the route.

With regard to the development of the **Trans-Korea international transport corridor** from 2000 the Railway is steadily reconstructing the span of **Baranovsky – Khasan**.

We launched enforcing track facilities, upgrading the electric power supply along the line, telecommunications and automation control. That increased the train speed at the span, improved the scaled assessment of the track and cancelled regular speed restrictions.

During the recent visit of V.I. Yakunin to the Korean Republic and to the PDRK the Protocol on reconstruction of the 540-km span of Khasan – Rajin was signed and the recovery of the Trans-Korea Railway will begin with it, connecting it with the Trans-Siberian. The work will start in September – October as planned and the track maintenance facilities of the Far Eastern railway will be involved.

Under globalization of the world economy this project has a clear geopolitical impact for both Russia and Korea. The Trans-Siberian and the Trans-Korean Railways in the nearest future will become key links of the rail chain connecting Europe and Asia.

Thank you.