

## Current State and Prospect of Trans-Siberian Railway (TSR) International Container Transportation

TSUJI, Hisako

Researcher, Research Division, ERINA

The TSR International Container Transportation transports containers on the transportation route that connects Japan and Korea with Russia and Europe through the combination of feeder vessels and the Trans-Siberian Railway. The route was developed in the 1970s and has played an important role as the shortest trade corridor to European countries for about 40 years.

The feature of the route is the shorter distance and smaller number of days required for transportation compared to the deep sea route to Europe via the Suez Canal. For example, in a case where goods are transported to Moscow from Japan or Korea, the number of required days is reduced from the 40 to 45 days for deep sea transportation to the 20 to 25 days for TSR transportation. Moreover, the Trans-Siberian Railway is network-linked with China, North Korea, Mongolia, Central Asia and European countries through its many branch lines, which enables the establishment of a variety of transportation routes to suit the destination.

The history of 40 years can be divided into four phases:

During the first phase, or between 1970 and the 80s, the route was used for transit transportation from Japan to Europe and the Middle East, and in 1983, the volume totaled 110,000 TEU (twenty-foot equivalent units), counting only the loaded containers. During that time, the Soviet Union set a rate for transit transportation about 30% lower than that for deep sea transportation in order to secure foreign currency earnings, which successfully won support from cargo owners.

The second phase was in the 90s, or during the days of confusion after the collapse of the Soviet Union, when the competitiveness of the route was lost and the volume of transportation remained low.

President Putin assumed office in 2000 and the third phase started, during which time the Russian economy boomed aided by the surging crude oil price. Newly affluent Russian people demanded consumer goods, and home electric appliances made in Korea and consumer products made in China were transported directly or via Finland transit to Russia.

The fourth phase was after January 2006 when Russia practically eliminated the transit discount. The volume of cargoes increased further in the form of direct export to Russia, which replaced the transit transportation. Korean car manufacturers established production bases in Russia and the CIS, and the system worked to regularly transport a large volume of production parts to assembly factories on block trains. The total of cargoes transported to and from East Asia and between Europe and Russia reached 710,000 TEU in 2008. Vostochny Port, the doorway to the Russian Far East, set a record cargo handling volume of about 400,000 TEU.

The volume started dropping sharply due to the global financial crisis triggered by the Lehman Shock in September 2008, when the fifth phase of the TSR transportation started. The financial sector of the Russian economy was hit hard, which stalled the momentum of the production, consumption and trading sectors. Moreover, due to the rapid drop of ocean freight rates caused by the global economic downturn, the TSR transportation lost its economic competitiveness and as a result lost many of the trade cargoes to the European deep sea route. The year 2009 was a year when the TSR transportation was battered by the global financial crisis and it is estimated that the volume of TSR transportation to and from East Asia dropped by 50 to 60% over the previous year.

In 2010, the Russian economy is expected to recover and recovery of the TSR transportation is anticipated. What are the issues that should be addressed for the recovery?

Firstly, the price competitiveness is questionable. It is said to be more expensive than deep sea transportation even in ordinary times. There is nothing that can be done in the case of a sharp drop in sea freights due to the global economic downturn. Accordingly, it is necessary to flexibly set the rates.

Secondly, there is room for improvement in the seamless transportation between composite transportation businesses. Japanese and Korean distributors have a high level of distrust of customs clearing procedures at Russian Far East ports and harbors.

Thirdly, the issue of feeder services from Japan to Russia is pointed out.

TSR transportation different from existing routes and services is also drawing attention.

Firstly, attention is paid to the branch line route originating from China. In the fall of 2008, TransContainer opened a container terminal equipped with rail transshipment facilities in Zabaykalsk, which connects northeastern China and the Trans-Siberian Railway. The terminal has the capacity to daily transship 600 containers from standard- to broad-gauge tracks. Currently, it is only used for transportation between China and Russia, but as it is possible to use the well-established marine shipping route between China and Japan, it could be used for transportation from Japan.

Secondly, it is possible to transport finished cars by rail. In the fall of 2008, Mazda Motor Corporation of Japan transported finished cars from the Russian Far East port of Zarubino, using a special car transportation vehicle. It took about 20 days to transport them from Japan to Moscow, or 30 days less than the days required for the conventional transportation via the Suez Canal/Finland. Many Japanese car manufacturers are showing interest in the use of the above route.

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