Intercontinental Combined Traffic (ICOMOD)
Status and Prospects of the rail landbridge between Europe and Asia

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Rail transport from Asia to Europe has a significant market potential

Executive summary (1/2)

• Long-term (2030), rail transport between Asia and Europe is forecasted to reach a level of around 950,000 TEU p.a. This includes traffic from East Asia, Mongolia and Kazakhstan to the EU in both directions. Traffic from South Asia could add another 150,000 TEU in the long-term

• Already today, rail could hypothetically achieve a potential of 480,000 TEU p.a. if requirements were already fulfilled

• The rail potential is derived from a volume-based forecast with subsequent translation into TEU. for overall 432 O/Ds and differentiated by NST/R product groups. It analyzes existing transport volumes and applies a growth scenario for the future

• Shift factors were applied to estimate the amount of TEU that could be attracted by rail from maritime transport. Shift factors were differentiated by commodities and, within China, by regions based on their proximity to the coast

• Currently, four viable route options exist: via port of Vostochny, via Manzhouli/Zabaikalsk, trans Mongolia – all of which continue on the TSR –, and trans Kazakhstan via Alashankou/Dostyk. TSR routes benefit from efficient and modern infrastructure, trans Kazakh routes are shorter

• In the long-term, route and terminal infrastructure as well as rolling stock and container equipment will need to be modernized and adapted to future growth
To make Eurasian rail transport successful, rail services need to be improved significantly along five key levers

Executive summary (2/2)

• **Time** is the key differentiation for rail transport. Only **fast and reliable transport times** enable benefits compared to sea and trigger time-based monetary benefits for shippers

• **Predictability** is key to shippers/customers. **Reliability allows for price premiums** if time-sensitive or production-critical materials/goods bear high opportunity costs

• Rail generates **highest benefits in hinterland areas for high-value goods**. Continental consolidation terminals should be optimized. High-value goods also qualify for rail from other origins

• Rail can compete with a **comprehensive price view**, i.e. needs to **include time-based benefits like working capital savings and lead time benefits** in its pricing strategies. Fast and reliable transport times are crucial to justify a rail price premium

• Rail needs to **complement its westbound services with eastbound solutions** to optimize rolling stock and container movements and availability at key origins. Infrastructure needs to be improved to accommodate the rail volumes and timing/reliability requirements

• **Frequency** of services needs to be increased and adapted to specific customer needs. Customs procedures need to be facilitated and, long-term, transferred into a **transit customs logic** with customs being handled in origin and destination terminals only
The ICOMOD project assessed the viability of a rail link between Asia and Europe

PROJECT OBJECTIVES

- Establish **viability of a rail link** between Asia and Europe
- Assess **market potential** and quantify future rail scenario
- Assess **routes and terminals** between Asia and Europe
- Define **required steps** to attract more Asian-European traffic to rail

Source: Roland Berger
Recommendations have been derived from structured expert interviews with all kinds of stakeholders

Approach

INTERVIEW PARTNERS
- Customers, shippers
- Forwarders
- Associations
- Specialized operators/forwarders
- Railways
- Sea shipping lines

DIFFERENT PERSPECTIVES

STRUCTURE OF INTERVIEWS
- Viability of Asia-Europe rail traffic:
  - Prices
  - Transport time
  - Types of goods and volumes
  - Geographical coverage, routes
  - Flexibility and frequency
  - Reliability
  - Customs, cargo documents
  - Additional services

RECOMMENDATIONS
- Analyze and evaluate interviews results
- Prioritize parameters influencing viability of rail link
- Derive need for action along prioritized key criteria

Source: Roland Berger
The trade flow analysis encompasses 35 countries in Europe and Asia

Scope of analysis

- 27 countries of the European Union
- 8 countries in Asia
- All O/Ds split by:
  - Mode of transport
  - Product groups (NST/R)
  - EUR and tons
- South Asia treated separately as long-term potential
- Russia, Ukraine, Belarus considered as transit countries

Source: UIC; Roland Berger
Based on the trade flow analysis, 10.7 m TEU were transported between Asia and Europe in 2009 in both directions.

TEU 2009 [\textprime 000]

<table>
<thead>
<tr>
<th>Region</th>
<th>TEU [\textprime 000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>890</td>
</tr>
<tr>
<td>Japan</td>
<td>853</td>
</tr>
<tr>
<td>China</td>
<td>6,916</td>
</tr>
<tr>
<td>East Asia</td>
<td>10,716</td>
</tr>
</tbody>
</table>

Mongolia

<table>
<thead>
<tr>
<th>Country</th>
<th>TEU [\textprime 000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>122</td>
</tr>
<tr>
<td>Japan</td>
<td>131</td>
</tr>
<tr>
<td>China</td>
<td>317</td>
</tr>
<tr>
<td>Korea</td>
<td>1,485</td>
</tr>
</tbody>
</table>

Source: Eurostat; RB Model

**COMMENTS**

- East Asia is by far the most important trading partner for containerized freight within the scope of analysis.
- China alone accounts for 65% percent of the total TEU trade.
- Central Asia only with small share of total TEU – However, geographically interesting for rail, might benefit from infrastructure improvements.
- Volumes (tons) were translated into TEU.
For 2030, a total rail potential of around 1 m TEU is forecasted – Significant hypothetical market potential already today

Rail scenario/potential ['000 TEU]^1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market share rail</th>
<th>CAGR 2009-2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5.6%</td>
<td>3.3%</td>
</tr>
<tr>
<td>2020</td>
<td>5.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2030</td>
<td>5.2%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shift from sea</th>
<th>Rail[^2]</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>139</td>
</tr>
<tr>
<td>2020</td>
<td>176</td>
</tr>
<tr>
<td>2030</td>
<td>205</td>
</tr>
</tbody>
</table>

COMMENTS

- Total rail potential includes
  - Already existing rail volumes, increasing over time
  - Shift from sea to rail, including growth of sea transport
- Shift is based on the shift assumptions
- 943 k TEU can roughly be translated into 38 trains per day in 2030 (assumption: 100 TEU per train, 3) 250 days of operations)
- Shift from Air as potential, but small (in terms of volumes) upside

1) Difference due to rounding
2) Potentially contains intermodal traffic entering EU 27 by train
3) Range of 80-120 TEU/train, simplified at 100 for calculation purposes

Source: Eurostat; RB Model; Roland Berger
There are four key railway corridors from China to Europe all of which pass through Russia.

Main rail routes Asia to Europe (schematic)

1) TRACECA (Transport Corridor Europe-Caucasus-Asia) route project
To exploit the huge market potential, Eurasian rail services need to be improved significantly along key levers

| Transport time | • Time is the **key differentiation** between rail and maritime transport.¹) Only fast transport times enable benefits compared to sea and trigger monetary benefits for shippers  
  • **Priority** should be given to **reliability/predictability** rather than winning 1 or 2 days more |
| Reliability    | • **Predictability is key** to shippers and customers  
  • Reliability allows for price premiums if time-sensitive or production-critical materials/goods bear high opportunity costs; reliability might differentiate rail if being further improved |
| Target markets | • Rail generates highest benefits in **hinterland areas for high-value goods**. It should optimize its product offer for these interfaces (continental consolidation points)  
  • Look for **balanced traffic** or **combine shorter eastbound traffics** along way back to Asia |
| Pricing        | • Rail can compete with a **comprehensive price view**: D2D, working capital, lead time  
  • Working capital savings, time-to-market and built-to-order benefits allow for a price premium, but are highly dependent on fast and reliable transport times |
| Infrastructure, Ops | • Infrastructure requires **continuous updates** and extensions for long-term rail success  
  • In addition, rail needs to complement its westbound services with eastbound solutions to **optimize rolling stock and container availability** at key origins |
| Frequency, flexibility | • Unpredictable frequency reduces attractiveness of rail. A **regular service** is entry condition for many customers  
  • Target frequency of at least 1-2 departures per week, ideally more than 3 |
| Customs        | • Improvements **urgently** required, but also related to mistakes by operators/shippers  
  • **CIM/SMGS consignment note** and paperless transport keys to accelerate border crossing  
  • **Transit customs logic**: customs only at O/D terminals |

¹) Of course also to air transport, but the bulk of the volumes which rail could attract comes from maritime transport
Rail pricing Asia-Europe needs to take a comprehensive view beyond exclusive transport rates

Price – Logic of rail pricing for Asia-Europe and to dos

TO DO’S

• Include working capital savings and roughly quantified lead time benefits into price benchmarks
• Ensure like-for-like comparisons and benchmark rail as door-to-door against sea (expensive feeding/de-feeding)
• Ensure one-stop-shopping convenience for customers
• Create as much flexibility as possible
• Create an appropriate level of transparency
• Promote need for predictable (infrastructure) prices
Rail transport times need to be further speeded up – Key is to improve drivers of time and reliability

Transport time – To dos

**TODAY**

- Introduce schedule/regular departures or adjust departures to actual customer needs (block trains)
- Improve efficiency of border crossings (especially customs)
- Improve customers'/forwarders' understanding of required transport and customs documentations
- Improve infrastructure
- Improve capacity planning (availability of rolling stock, east bound traffic)
- Optimize routing to achieve fastest transport times for each O/D
- Enhance joint/coordinated planning

**TARGET**

- Comments
Rail should focus on specific commodities – Anything else only opportunistically

Volumes – Analysis of interview

<table>
<thead>
<tr>
<th>COMMODITIES¹)</th>
<th>TARGET FOR RAIL</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-value</td>
<td>::</td>
<td>• Highest working capital savings, also potential from non-inland locations</td>
</tr>
<tr>
<td>Automotive, parts</td>
<td>::</td>
<td>• Time sensitive, just-in-time production, high value, often heavy</td>
</tr>
<tr>
<td>High-tech, electronics, FMCG, computers</td>
<td>::</td>
<td>• Mostly confirmed as target commodity, but also contradicting assessments (temperature sensitive)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>::</td>
<td>• Mostly high-value, sometimes high volume at low weights</td>
</tr>
<tr>
<td>Spare parts</td>
<td>::</td>
<td>• Contradictory assessments, low containerization for high-value chemicals</td>
</tr>
<tr>
<td>White cargo</td>
<td>::</td>
<td>• Dangerous goods mostly seen critical due to complex permissions, but also critical on sea. Potential for niche positioning of rail</td>
</tr>
<tr>
<td>Health care</td>
<td>::</td>
<td>• Time sensitive, but singularly mentioned in interviews only</td>
</tr>
<tr>
<td>Fashion</td>
<td>::</td>
<td>• Only singularly mentioned in interviews; high volumes and high weight</td>
</tr>
<tr>
<td>Food</td>
<td>::</td>
<td>• Only singularly mentioned in interviews</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Time-sensitive character before start of seasons, otherwise price sensitive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Only singularly mentioned in interviews; temperature/cooling issues</td>
</tr>
</tbody>
</table>

¹) Partly overlapping
Rail positioning is best for high-value goods between inland origins and destinations

Volumes and geographical coverage – Analysis of interview

Value of goods

**Medium rail affinity**
- Rail to compete via time sensitivity and lead time
- Strong (price) competition sea

**Strong rail affinity**
- High feeding cost sea, i.e. lower price disadvantage rail
- Best time positioning

**Low rail affinity**
- Reduced time advantage
- Price key criterion, i.e. sea advantageous

**Medium rail affinity**
- High feeding cost sea
- Rail can compete for low value cargo
- Case by case decision

**Distance to next port**

**TO DO'S**
- Generate know-how for target volumes rather than try to do everything at the same time
- Create customer tailored and flexible products and optimize these segments
- Aim at strong competitive position in "strong rail affinity" segments to establish market footprint, expand from there
- Benefit from footprint to conquer further market and geographical segments
- Within a focused approach, develop infrastructure in target regions and corridors
- Benefit from existing catchment areas
A higher and reliable frequency of services is considered necessary for the viability of the rail link

Flexibility and frequency – To dos

<table>
<thead>
<tr>
<th><strong>Required frequency [trains/day]</strong></th>
<th><strong>COMMENTS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum</strong></td>
<td>• Position rail as a different product than sea/air with their daily departures (individual carrier less frequent)</td>
</tr>
<tr>
<td>1 train per week is enough, two would be nice</td>
<td>• Ensure high number of services Asia-Europe from consolidation points/terminals (i.e. minimum volume per train to be ensured for terminals)</td>
</tr>
<tr>
<td><strong>Ideal</strong></td>
<td>• Benefit from feeder trains/trucks to terminals to be able to deal with smaller volumes from original customer points – cooperate with feeder service companies at origins (e.g. Chinese railways)</td>
</tr>
<tr>
<td>Ideally, more than 3 trains per week</td>
<td>• Introduce schedule</td>
</tr>
<tr>
<td></td>
<td>• For block trains, adapt frequency to specific customer needs (departure when required)/ enhance joint planning with customers</td>
</tr>
</tbody>
</table>
Reliability as one key success factor needs to be optimized by improving especially timing and border crossing issues

Reliability – To dos

<table>
<thead>
<tr>
<th>RELIABILITY</th>
<th>BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border crossings</td>
<td>• Facilitate border crossings (unified documents, pre-advice, etc.)</td>
</tr>
<tr>
<td></td>
<td>• Reduce number of required customs stops (transit mindset)</td>
</tr>
<tr>
<td>Security</td>
<td>• Reduce danger of theft, e.g. by reduced stops, container tracking, surveillance of terminals</td>
</tr>
<tr>
<td>Tracking, handling of irregularities</td>
<td>• Introduce comprehensive tracking systems, improve IT equipment</td>
</tr>
<tr>
<td></td>
<td>• Introduce system-based information management to customers</td>
</tr>
<tr>
<td>Predictability for customers</td>
<td>• Enhance joint planning of operators/forwarders and customers to meet customer expectations on transport</td>
</tr>
<tr>
<td>Transport times</td>
<td>• Depending themselves on other inputs (e.g. border crossing)</td>
</tr>
<tr>
<td></td>
<td>• Improve infrastructure, optimize routing, introduce regularity</td>
</tr>
<tr>
<td></td>
<td>• More trust in rail product, positive case</td>
</tr>
<tr>
<td></td>
<td>• More regular services, hence better predictability for customers (can plan ahead)</td>
</tr>
<tr>
<td></td>
<td>• Chance to equal reliable and proven maritime benchmark</td>
</tr>
<tr>
<td></td>
<td>• Opportunity to position rail as more secure because of no piracy issues (compared to maritime)</td>
</tr>
<tr>
<td></td>
<td>• Better planning of rolling stock and containers</td>
</tr>
<tr>
<td></td>
<td>• Justification for price premium</td>
</tr>
</tbody>
</table>
International rail transport needs to be positioned appropriately to enable attention for customs improvements

Customs – To dos

Customs "OWNERS"

- Conduct **stakeholder dialogue** with customs "owners" to promote international rail transport
- **Train customs** officers
- Further promote **unification and electrification of transport documents**
- Long-term, establish **customs points at port/terminal of origin and destination** (transit customs logic)

Customs "USERS"

- **Inform and educate** customs "users" about customs' requirements of all potential border crossings (required documents, languages, notice periods, etc.)
- Emphasize need for users to **present complete and correct documents** for all customs points along a selected route
- Support stakeholder dialogue by providing **suggestions for unified documentation** and harmonize interfaces/ systems to prepare for electronic customs documents
Additional services merely differentiate rail transport – Container tracking required to further support predictability of services

Additional services

- Additional services mentioned during the interviews, examples warehousing, labelling, re-packaging
- Are usually done in the proximity of ports/terminals, i.e. are also common for maritime transport
- Additional services normally offered by logistics/forwarding companies, i.e. rail operators do not need to take care of them or would then compete with their ordering parties
- However, transparency services need to be established to comply with market standards, examples train/container tracking, automatic delay messages
- Additional services incur additional time and hence dilute the time advantage of rail

Little potential for rail differentiation, rather need to close the gap to market standards