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“Policy Actions for Developing Efficient Inland Transport Links between Asia and Europe”

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1. TRANSPORT BETWEEN EUROPE AND CHINA: PRESENT SITUATION AND OUTLOOK

The onset of the 21st century is being shaped by unprecedented changes in the transport linkages between Europe and Asia due mainly to the spectacular development of the Chinese economy.

Between 2000-2004, European imports from China increased at a rate of nearly 15% a year compared with an annual rate of 9% between 1995 and 2000. During the same periods European exports to China increased respectively by 20% and 1.4%.

The figure showing the evolution of exports for different world regions is a clear illustration of this break in the trend.

Exports (1995=100)

One of the features of the current growth in trade between Europe and Asia is that a broad number of countries is now involved from Europe to China, with important roles played by Russia and Central Asian countries, and by other more southerly countries such as Turkey and India. Sharper growth in trade and significantly higher container traffic have been registered for the exchanges amongst Asian countries. This growth has been sustained more by the availability of raw materials, and oil in particular, than by exports of manufactured goods. Foreign trade for CIS countries also recently registered sharp growth that has given rise to new trade flows in the Black Sea and Caspian Sea areas and throughout the Eastern Mediterranean. This spatial dissemination of trade
Exchanges is paramount in tracing the broad routes of world trade, which flows not just between the peripheries but also between major centres of the continent of Eurasia.

In an initial phase, the major exporting centres of Asia and China were concentrated primarily along the coasts, triggering a real explosion of major urban centres serving also as ports and attracting rural population from the hinterland.

**Population in China: main cities**

Now, however, a current objective of Asian governments is to conquer inland areas as well, in order to limit internal migration and establish centres of economic growth in the interior of countries like China. For businesses, this conquest of the hinterland, facilitated by the construction of highways (5000 km of new motorways a year in China) and railways (2000 km of new lines in China per year), holds out the promise of cheaper labour than in coastal cities.
All these changes have given rise to new opportunities for the development of inland transport links between Europe and Asia.

The repercussions of the sudden acceleration of trade between China and Europe are fundamental. They are not limited to the impact on volume but involve profound changes in the structure of the transport itself. The organisation of maritime transport has already been transformed in response to international traffic growth with the emergence of major hubs in the Mediterranean, Northern Europe and Asia and the arrival of a new generation of vessels in excess of 10 000 containers on the Europe-Asia links. At the same time, inland networks originating in Western Europe and Asia are taking shape and interconnecting affecting countries located in the central portion as well as in the Black Sea and Caspian Sea Areas - in Russia, Kazakhstan, Turkey and Iran. These new long-distance links hold out opportunities for rail transport.

**Main Maritime Ports of Container Traffic**

The emergence of Asian countries has led to a rapid growth of container traffic. For example, the number of containers entering the EU from China increased from 660 000 TEU in 1995 to 1.3 million in 2000 and 2.7 million in 2004. According to various scenarios this number will reach 12 to 15 millions in 2020, with the trade between Europe and China being multiplied by 3 to 4 between 2004 and 2020.
Until now this container traffic was mainly maritime in nature, 1% only of the TEU between Europe and Asia being transported by inland transport, mainly by the trans-Siberian railways (150,000 TEU a year).

The comparison between maritime transport and inland transport shows that distances are generally shorter by land than by sea. The maritime transport of containers takes 4 to 6 weeks between Europe and Asia and is very reliable. Rail transport is more rapid, the transport of a container between China and the centre of EU taking 2 weeks -- through the trans-Siberian -- but there are some doubt concerning the reliability of this route. As regards costs, the door-to-door costs are quite similar, the advantage of the lower cost of maritime transport being severely eroded by the cost of inland access to ports.

Economic analyses prove that the overland route is viable and could free-up significant capacity at competitive costs on a large number of links between Europe and Asia.

In the bid to find new long-haul routes that meet not only transport needs but also the accessibility requirements of the countries they pass through, rail transport will be in a strong position, all the more since rail costs could be substantially reduced with the improvement of operating conditions, eg. longer trains, better utilisation of rolling stock and personnel, double-stacking. Four potential rail corridors have been identified by the Saint Petersburg Conferences: the trans-Siberian, the TRACECA corridor, the Southern route via Turkey and Iran and the North-South link providing maritime access to Central Asia through Iran.
Road also will play a key role, particularly in providing denser coverage to link main towns. Furthermore, in the South, the physical geography of the region poses greater problems for rail (for example, double stacking will be very difficult because of the number of tunnels) than for road. This already explains the growth in very long distance road haulage in this area, as seen with Turkish haulage services to Central Asia.
Intermodal transport solutions seem to offer one of the most promising prospects for land haulage on Europe-Asia links because of its ability to combine the performance of road, rail and maritime modes to its best advantage. This was clearly demonstrated by a Seminar jointly organised by ECMT and UNECE in Kiev in 2004. An ECMT Peer Study on intermodal transport in Turkey is currently in progress to assess more precisely the potential for this mode and highlight adequate policy measures to promote its development in this country. This study will be published by the end of this year.

While there is no doubt that in the future sea transport will continue to be a key player in the Europe-Asia transport market, there are nonetheless three factors currently driving the diversification of routes and the opening of new inland links between Europe and Asia:

- The problems for land access to ports. According to experts, ports and shipping companies will have the capacity to cope with the expected increase in maritime traffic, particularly container traffic. The same is not necessarily true on the land-side networks, connecting ports to their hinterlands. The risk of saturation on road networks to these ports are high while rail often have insufficient capacity.

- The vulnerability and security of maritime shipping routes mainly at strategic chokepoints such as the Strait of Malacca, the Bosphorus, the Suez Canal, Gibraltar or the English Channel with high risks of accidents or terrorist attacks. If these chokepoints were blocked, finding alternative maritime routes would be extremely difficult and costly.
The need to meet the demands of developing regional trade along Europe-Asia corridors.

All of these factors are conducive to the opening of new land arteries, some of which retrace historical trade routes such as the Silk Road or the trans-Siberian route. According to a recent study from the consultant firm NESTEAR, the rail share of the market for the relations between Europe and the North-East of Asia could reach 10% instead of 1% presently in the ten years to come. For the relations with South Asia, sea transport will however still keep a virtual monopoly because of the construction of new ports such as the Yangshan deepwater port near Shanghai and the modernisation of the existing ones in this region.

2. POLICY ACTIONS REQUIRED

Establishing efficient inland links between Europe and Asia, however, poses a number of problems, mainly in the Caucasus and Central Asian countries, that can only be overcome by taking the appropriate policy decisions on issues such as the development of adequate transport infrastructure and the removal of regulatory and institutional barriers that prevent the development of efficient transport services.

It was with this in view that the issue was put to the ECMT’s Council of Ministers and that the Council, at its 2005 session in Moscow, adopted recommendations for a whole series of actions in support of a comprehensive approach to the provision of efficient inland transport links between Europe and Asia. This document is available in English, French and Russian.

At the following session in Dublin, the Council of Ministers decided to transform the ECMT into the International Transport Forum. This new entity open to the participation of non-European countries will cover all modes of transport including air and sea transport and will focus on topics of world-wide strategic importance. Clearly a topic such as globalisation and the traffic between Europe and Asia will be one of the key issues for this new entity. In two weeks, the first meeting of this new entity will take place in Sofia with a single subject on the Ministers’ agenda: “How to mitigate congestion in transport”. Among the policy responses to congestion that will be discussed by Ministers, I want to mention a “Better system management” because the documents proposed on this topic suggest different measures to facilitate more efficient trade flows and alleviate obstacles at the borders.

All the measures recommended by Ministers in Moscow or submitted for discussion in Sofia are crucial for the improvement of the inland transport links between Asia and Europe. Countries of the Black Sea region and those involved in the revival of the Silk Roads are particularly concerned by these recommendations which are summarised hereafter.

2.1 Adapting capacity and making adequate infrastructure available

The provision of good quality land links between Europe and Asia requires investment in order to bring existing infrastructure up to standard and to build missing links, chiefly in border areas. The limited resources available and the need to ensure good coordination between projects will entail development of a planning process on an international scale and a selection of projects after an in-depth review of suitability.

Priority should be given to an approach based on major routes between Europe and Asia such as defined by the UNECE-UNESCA expert group on developing Euro-Asian Transport Linkages. Close co-operation among all the countries on these routes and strict prioritisation of investment based on sound economic evaluation (for which the expert groups also proposed a common methodology) and on reliable traffic census and forecast are warranted in order to best use scarce resources.

Infrastructure bottlenecks are undoubtedly part of the problem but often they seem to be overemphasized, while institutional reforms are overseen or even neglected.

2.2 Removing barriers to the provision of efficient transport services by implementing a Trade and Transport Facilitation (TTF) programme

TTF reform package assumes a holistic approach, encompassing transport, communication, customs and other border agencies. It needs a realistic and revolving action plan over a longer period of 5 to 10 years. For its success it is also essential to reach an agreement over the TTF priorities with neighbouring countries, the countries along the key corridors, as well as with the business communities.

In more details such a TTF programme needs the following actions:

A. Deepening transport sector reforms, expanding liberalisation of transport services and targeting modernisation

Increased competition has already shown its beneficial impact on cost reduction. For international road freight transport, the ECMT multilateral quota has been and continues to be a unique opportunity for phased liberalisation. Undoubtedly the BSEC-URTA proposal to develop the ECMT quota system in the BSEC region seems a step in the right direction. In the road transport sector reforms could also include tasks such as:

- reforming infrastructure pricing and funding; eliminating discriminatory charges, fees and other practices which affect road transport in particular;
- reforming the road administrations so they would be able to manage the improvement of the road network according to market economy conditions;
- improving the competitiveness and efficiency of the road transport operators through the enforcement of licensing regulations and promotion of professional training;
- harmonising gross weight and axle load of road vehicles; introducing jointly acceptable weight certificates;
- negotiating new bilateral road transport agreements which will be based on qualitative criteria rather than on quantitative restrictions.

For railways, actions will consist in:
- continuing to modernise and to reform railways in order to make them more efficient and customers oriented\(^3\);
- reforming the international railway relations for example through tariffs for container transport;
- implementing harmonised pricing and charging policies\(^4\);
- harmonising technical specifications for future rail infrastructure development and increasing network interoperability;
- improving railways operational procedures and streamlining border procedures both for the railways and the border agencies;
- eliminating shunting and marshalling as far as possible at all points on the international corridors including at borders;
- introducing interface connections of the information systems of the railways and the border agencies not only within one country but along the main transport corridors;
- developing a framework for standard bilateral rail transport agreements taking into account the fundamental changes induced in the rail market structure by the rail transport liberalisation within the EU.

B. Customs modernisation and institutional reforms

The main weaknesses which provide a barrier to the real growth of land transport between Europe and Asia are undoubtedly the recurrent problems encountered at border crossings and the need to facilitate procedures currently in force. The Global Economic Prospects report of 2004\(^5\) calculated that one extra day in customs as in port adds on average 0,8% to costs. Inefficiencies in border-crossings can be very costly and have a detrimental impact on the competitiveness of the low income countries by prohibitively

\(^4\) See for instance : « Railway Reform and Charges for the Use of Infrastructure », ECMT, 2005.
increasing their transport and logistic costs. A recent ECMT survey\(^6\) provides an extensive list of the inefficiencies encountered on border crossings by different transport modes. Lack of good governance and motivation at customs and other border agencies continues to be a problem, in particular in South-East Europe, South-Caucasus, along the TRACECA corridor and on several CIS sub-regions.

The type of reforms necessary for solving these problems varies depending on the level of development and on the intensity of regional co-operation and integration among countries. The long list of customs reform may include the following actions:

- simplifying and harmonising border control procedures with the development of standards for border crossing procedures and design and with the introduction of selectivity and risk analysis; more generally streamlining administrative procedures that weigh particularly on Europe-Asia links for which protectionist consideration are often the only justification;

- ensuring co-operation between transport, customs and controlling authorities particularly through an integrated border management approach within countries and across borders with the introduction and application of one-window customs interfaces;

- developing cross country co-operation among customs administration with immediate neighbours as well as among all the countries on the same corridor both at the higher political level and on the working level at the border sites;

- moving customs clearance to inland terminals as much as possible;

- effectively implementing the provisions of the TIR convention, extending its scope of application and increasing the use of the Safe-TIR; developing transit systems by political support given by Transport Ministers, due account being taken of transport needs as opposed to customs; enforcing respect to cargo travelling under a custom transit guarantee system such as TIR.

- phasing out obligatory convoys;

- enabling the development of harmonised information and communication technologies with a view to facilitating the exchange of data and to freight flow monitoring while increasing transport security. This harmonisation must be multi-sectoral with, for instance, interface connections of the information systems of the railways and the border agencies;

- launching border crossing indicators to assess border crossing performance and monitor the changes in border agencies’ efficiency with the introduction of benchmarking;

– finding a long-standing solution to visa problems with a multilateral agreement or even a visa guarantee system for professional transport crews or drivers.

C. Promoting closer co-operation between the authorities and business communities that enables users of the border services (shippers, manufacturers, transport operators, freight forwarders …) to voice their concerns and force the authorities to respond to the needs of the private sector. Transport policy makers, regulators and civil servants need to be more aware of the legitimate needs of business in order to create an enabling business environment in transport and introduce a more conducive environment for logistic services. Transport operators should be seen and treated as customers of the border crossings.

Training and retraining in logistics and trade and transport facilitation of all participants in the TTF chain including custom officials, brokers, forwarders, shippers, transport operators is required to bring about the necessary changes in business ethics, border crossing management, attitude and mentality.

CONCLUSION

At the end of this intervention, I would like to stress again that the ECMT Council of Ministers encouraged regional organisations such as BSEC or TRACECA to take all necessary steps to implement the actions outlined above and to strengthen regional co-operation on transport. ECMT Ministers also underlined the necessity to promote a process of integration of Europe-Asia transport by encouraging the convergence of national regulations and harmonising the legal and regulatory framework governing the conditions for the provision of transport services. This is clearly a pre-requisite for an efficient development of inland transport links between Europe and Asia among them the Silk Road is one of the most promising.