IMPROVING TRANSPORT EFFICIENCY BETWEEN EUROPE AND ASIA:

SOME KEY ISSUES

Jack Short
Secretary General

ECMT

THIRD INTERNATIONAL EURO-ASIAN CONFERENCE ON TRANSPORT

St. Petersburg
11-12 September 2003

The views expressed in this paper are those of the author and do not represent the views of ECMT or those of its Member Countries.
INTRODUCTION

It is a pleasure to be in St. Petersburg on the splendid occasion of its 300th Anniversary for this important event. Pushkin said that St. Petersburg was a window on Europe, ‘a radiant and truly European city’. It is an important symbol that a city with such strong European roots now hosts an event that looks eastwards towards the countries and economies of Asia.

Transport has changed dramatically in the 300 year history of St. Petersburg but, its strategic location and advantage as an ice–free port will mean it retains a vital role for Russia as a turntable for trade between Europe and Asia.

This is the third Euro Asian Conference in St. Petersburg and it provides an opportunity to hear in detail how the intentions and declarations of the previous conferences have been followed up. We will see if the ambitious aims are being met. Where they are, we should extend our congratulations to all those responsible. Where they are not, I hope that there will be some open discussion on why not and on what to do next.

In my presentation, I would like to say a few words about the trade and economic background to our discussions and to raise a few issues that I believe are important if the Euro–Asian land routes are to play a more important role in facilitating trade. I will also refer to the institutional process of improving transport between Europe and Asia.

TRADE AND MACROECONOMIC BACKGROUND

Trade is the driving force for closer Euro-Asian relationships and one of the key reasons for holding these conferences. Euro-Asian trade volume has increased almost six fold in twenty years and high rates of growth seem likely to continue into the future. China’s joining the WTO is just one of the factors that make this likely.

Of course, most of this Trade, as much as 99%, is transported by sea. Much of China’s development is concentrated on the coasts, and when this is combined with the established patterns of Japanese and other Asian countries’ trade by sea, it is obvious that shipping will continue to dominate the trade.

But the land connections should not be ignored. There are good strategic reasons to support and develop them, including the need for competition and diversification, as well as the over-dependence on the Suez Canal. Factors like the linking of railways in North and South Korea also provide opportunities.

But the main reason to support and improve the land links may be regional. There will not, at least in the near future, be a great deal of conventional rail freight traffic on the full length of the link using the Trans-Siberian route, nor along the full TRACECA routes. But this does not mean that these links will not be important. On the contrary, they will be vital in helping regional exchanges and trade. Interior regions in Russia, China, Mongolia, the Central Asian and Caucasus Republics and much of Russia will all benefit from good land contacts.

Transit does not represent a major part of the existing rail traffic on the major lines. For example, on the Trans-Siberian, less than 2 million tons of the total traffic of 375 million tons was transit; similarly,
containers accounted for just 1% of net t-km transported in 2001 by Russian Railways. The wish of countries to be transit countries is sometimes based on over optimistic assessments about potential earnings. There are also costs in being a transit country as, for example, Austria will be quick to tell.

**RAIL REFORM**

For the Trans-Siberian to take a significant part of East to West container traffic it will have to offer a better service than by sea at roughly the same price. Reliability of transit services is crucially conditioned by the quality of the system for transporting domestic traffic. If the quality of service is to improve for transit, it has to improve for the system as a whole. Therefore the success of the transit business ultimately will depend on successful reform of the entire Russian Railways. On the impressive test runs, the railway has shown it can cut the trip time significantly (by 50% or more compared to the sea). And the work to set up very ambitious new corridors like that from the US, through Narvik to China is of great interest. But customer loyalty has to be won on the market place through high service quality, low risk of loss, and little uncertainty about reliability. The war in Iraq increased the risk for part of the sea traffic and saw a corresponding short term increase in Trans-Siberian traffic which underlines the potential. But to make the railway routinely faster and more reliable will require substantial spending - on track maintenance and renewals, on rolling stock, on security and tracking systems, and on sales management/customer service.

The Government is fully aware of the financing problem it faces in maintaining, let alone improving, the fixed assets of the railways. There is a special need to halt the sharp deterioration in the condition of locomotives and rolling stock and somehow to create conditions for strong investment in new rolling stock. Setting up the new railway structures, RZD (from 1 October 2003) is a first key step in creating these conditions, and the Government is to be congratulated on its firm action.

The plan is that modification of the tariff regime, awarding discounts to shippers that provide their own rolling stock, will help solve the crisis in rolling stock deterioration. The hope is that some industrial firms will invest in locomotives and start services to compete with RZD.

The experience in the European Union shows how slow this kind of competition is to emerge, when new operators depend on a national rail company for key services. It is likely that control of a much greater share of the costs of running rail services will need to be in the hands of such new operators, if they are to make a difference.

More generally, rigid freight tariffs that prevent railway companies from responding to market pressures are a danger to the whole industry, including RZD. In the US this was what bankrupted their railways in the 1970’s. With the rapid pace of change in the Russian economy, and therefore a greater need than ever to respond flexibly, care has to be taken to avoid the same fate.

The Government is right to be cautious in its reforms so as to avoid economic shocks. We have seen the way extreme fragmentation of the industry caused so many problems in the UK. Such shocks in Russia cannot be afforded given the importance of rail transport to the economy as a whole.

Some monolithic national railways have been reasonably successful in maximizing engineering and operational efficiency. Others have a record of losing control of spending. But all such railways have shown difficulty in responding to change in the market. Whilst they may be good at running the system in a technical sense, they are not usually good at anticipating new customer requirements or making major changes to the way they do things. This makes them vulnerable to rapidly changing markets.
Already in European Russia, road haulage is growing rapidly, taking business away from the railways directly, and also indirectly by serving new businesses that might drive other customers of the railways out of existence over the longer term.

Competition among the railways themselves, on a wider scale than currently planned could be an important part of the response, not just because competition is supposed to improve market responsiveness but because it can avoid the need for a lot of regulation if it is set up correctly. Regulation is very difficult to get right, whether it is regulation of monopolies to prevent abusive pricing, or regulation to create competition against a monopoly. It carries high risks of getting things wrong and it demands a lot of government resources, in money and expert man-power. If you can create a number of fully fledged rail companies, owning track as well as rolling stock, and allocate the tracks so that key parts of the market -- major cities and industrial areas -- can be served by two or more of them in competition for custom, then a large part of the regulations can be relaxed. Competition will control prices and result in lower tariffs. This should result in higher quality services, or at least services targeted at the level of quality each kind of customer is able to pay for.

In the long term, creating real competition, to serve the interests of the economy and Russia's factories and businesses, could be fundamental in making the railways more effective for the whole of Russia. This will provide the basis for the Trans-Siberian routes to compete effectively for the potentially lucrative traffic from Asia to Europe.

Reform of the railways is important but is not all. Problems at border crossings remain to be solved; paperwork needs to be standardized and security improved. Among the CIS and eastern European countries the legal regime has provided for smooth rail crossings at borders. This needs to be extended east through effective coordination of the OSJD and OTIF systems. Work between these two organisations is supported by all of the Ministers. The Work in TRACECA on documentation and on border crossings provides some encouraging examples.

**NEXT STEPS**

This is the third Euro-Asian Conference. It is interesting that there were also three Pan-European conferences in the early 90’s in Prague, Crete and Helsinki. These were called to give an impetus to the dramatic transition processes underway in Central and Eastern Europe. And, like this conference, they allowed all the actors, Ministers, Officials, Parliamentarians, International Organizations and private operators to come together to understand the challenges and develop shared visions of what needed to be done.

Just as the Pan-European Conferences did for the wider Europe, these Euro-Asian conferences can set out medium and longer term visions involving both Europe and Asia.

Agreeing this vision is a vital step. But the real work, to modernize governments and companies, to streamline and harmonise legislation, to eliminate old fashioned ideas and obstacles was not done at the Pan European conferences. It was done in national parliaments, in Ministries, in national and international working groups and in the companies and businesses that had to change almost everything. And it was not easy; indeed much remains to be achieved.

As with the Pan-European conferences, the political declarations from this Conference need clear ownership and commitment. The follow up needs to be made as practical and concrete as possible. As I said, a strong commitment to domestic reform, especially for the railway is essential. But there are many areas where international efforts are needed, on border crossings, on security, on harmonization and here there will need to be discussion and a careful look at how best progress can be made. Different
international organisations will all be willing to contribute but it will be important that there are synergies between them and that the work actually gets done. As one example, in relation to the Pan European Transport Corridors, the individual working groups show results of differing quality, for several reasons including the real, as distinct from verbal, commitment of Governments, the quality of the people involved including the Chair and the involvement of the right private sector actors.

So it will be very important now that the suggestions and recommendations and agreements here are carried out in ways where the responsibilities are defined clearly and with practical implementation methods and deadlines.

 Compared to St. Petersburg’s 300 years, ECMT’s 50 years is not very much. But we have, over these 50 years gathered a lot of experience and knowledge. There are many lessons to be shared of reforms and changes carried out well and not so well. And all of this is available to you, to the countries of this region in whatever way it might be useful. We would be very pleased to contribute in whatever way we can to making sure that transport links between Europe and Asia are of good quality are efficient, safe and secure.