

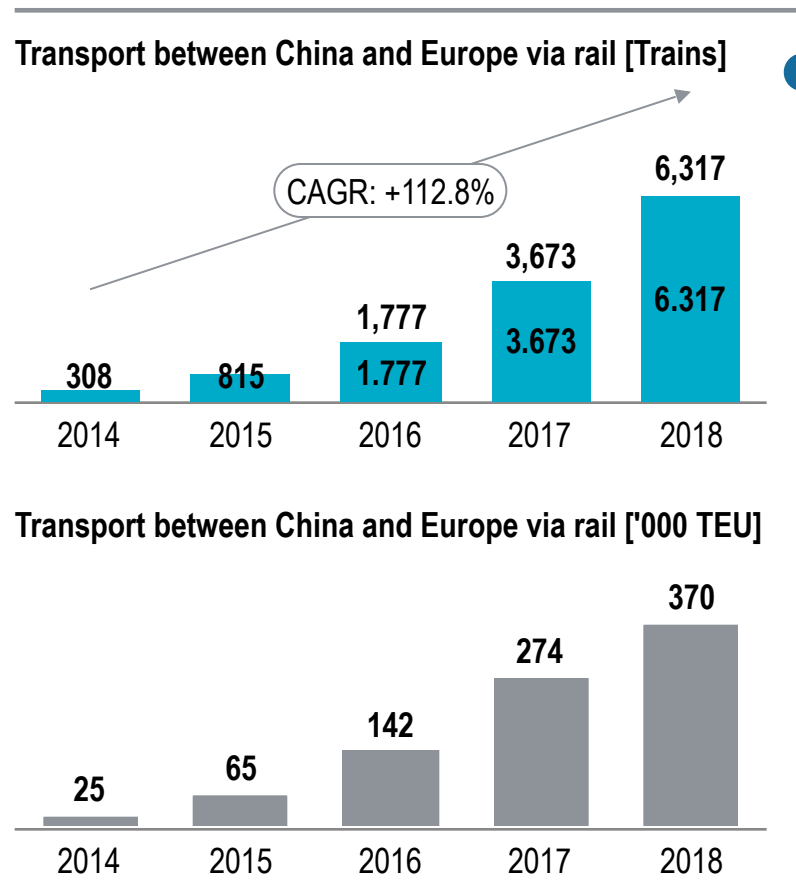
Poland's position in Eurasian rail freight transport

Speech of Andreas Schwilling, Rail
Freight Summit 2019



Overall, Eurasian rail cargo transports have increased significantly in the past years – Rise of e-commerce is a driver of growth

Development of rail freight between China and Europe

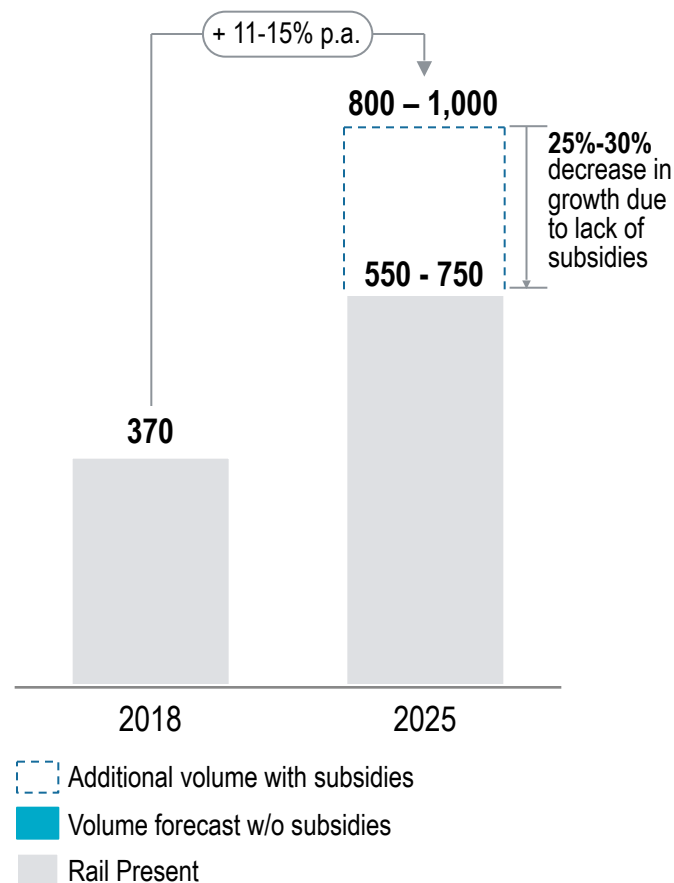


Growth drivers of Eurasian rail freight traffic

- Reduction of transit time to 12–16 days and increased punctuality
- Increase of destinations to 42 in Europe and 48 in China
- Reduction of freight rates, subsidies from China's BRI initiative
- Targeting of suitable customers and regions e.g. Western China
- Ease of border crossings through Eurasian Customs Union
- Upgrading and extension of infrastructure e.g. in Kazakhstan
- Rapid development of e-commerce in Europe and Asia

Ideally, the Eurasian rail cargo volume could increase to 800,000 -1,000,000 TEU in 2025 – 25-30% lower potential without subsidies

Rail potential forecast ['000 TEU]



Rationale for slower growth without subsidies



Discontinuation of subsidies

China no longer subsidizes Eurasian rail freight services



Rise of rail freight rates

Operators increase prices to make up for the loss in subsidies



Decrease in demand

Price-sensitive shippers switch back to sea freight



Market consolidation

Operators join forces and merge rail freight services

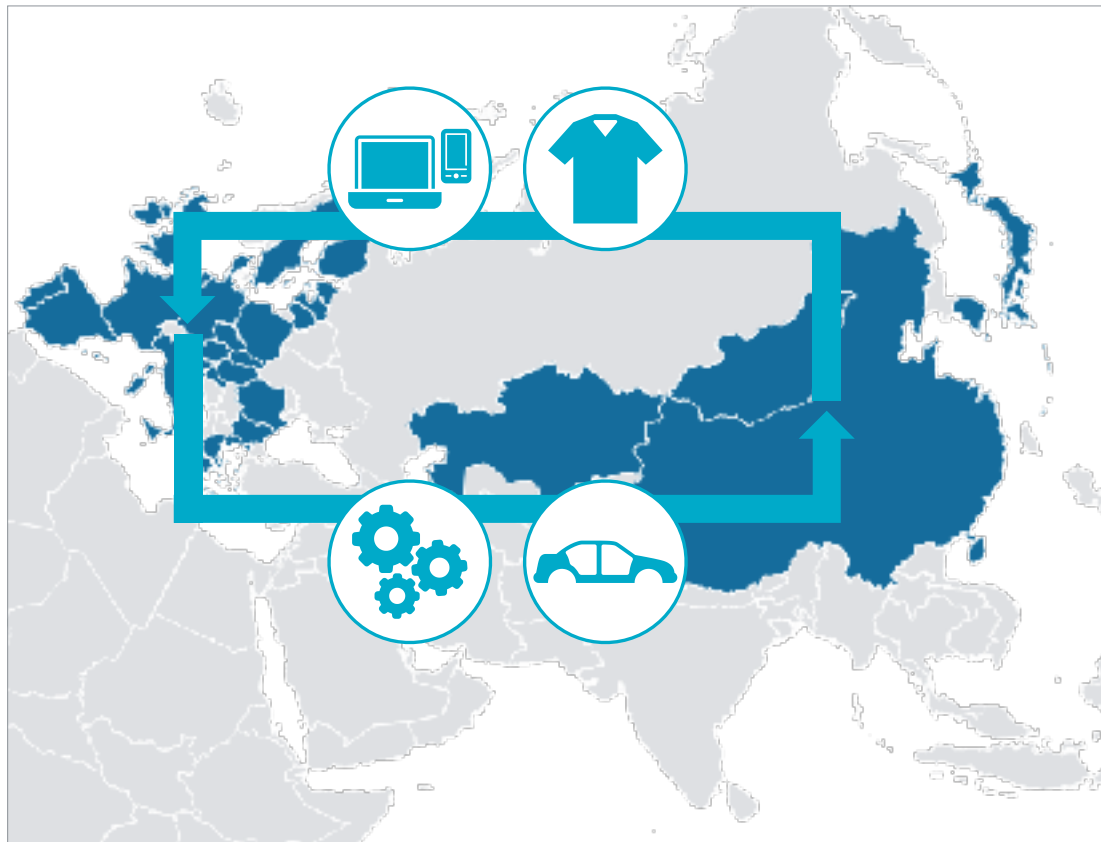


Route optimization

Only profitable routes with sufficient demand are served

Eurasian rail cargo services are mainly used for containerized goods as the majority of exports and imports are of higher value

Eurasian rail cargo – Containerization

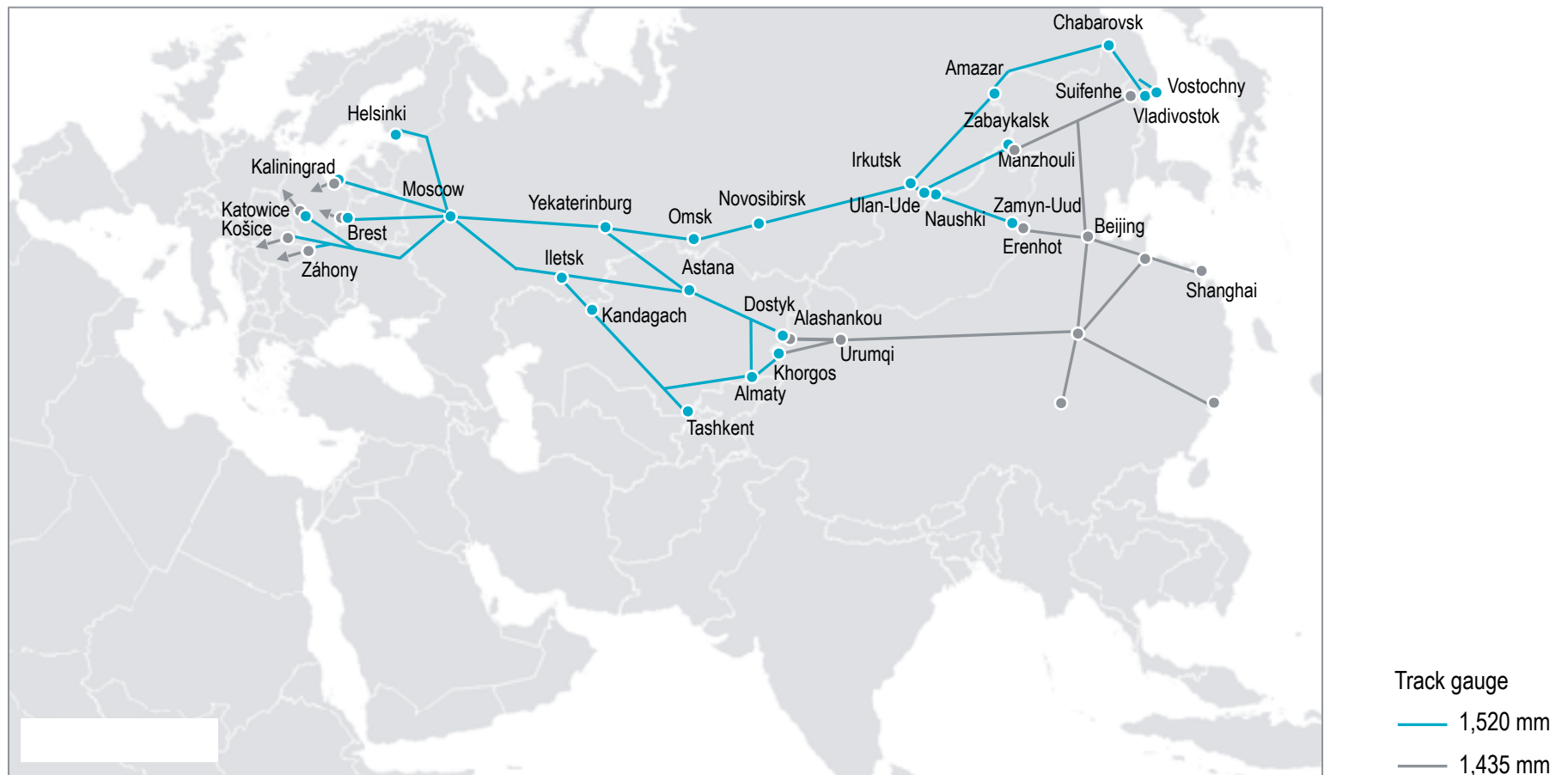


- > Eurasian land bridge mainly being used for transport of **containerized goods**
- > **Europe-bound trains** carry consumer goods, garments and high-tech IT products such as laptop computers and mobile phones
- > Companies like Foxconn or Hewlett-Packard use **block trains** to ship their products from China to Europe
- > Increase in shipments of **perishable goods** by rail thanks to reefer containers
- > **China-bound trains** carry machinery equipment, car parts and components
- > Yet, overall, **imbalance between west- and east-bound trains**
- > In 2017, **2.4 times as many trains went from Asia to Europe** as from Europe to Asia

■ Origin and destination (O/D) countries

Brest/Małaszewicze is one of only a few main intersection points¹⁾ for all Asia-Europe routes passing through the Moscow area

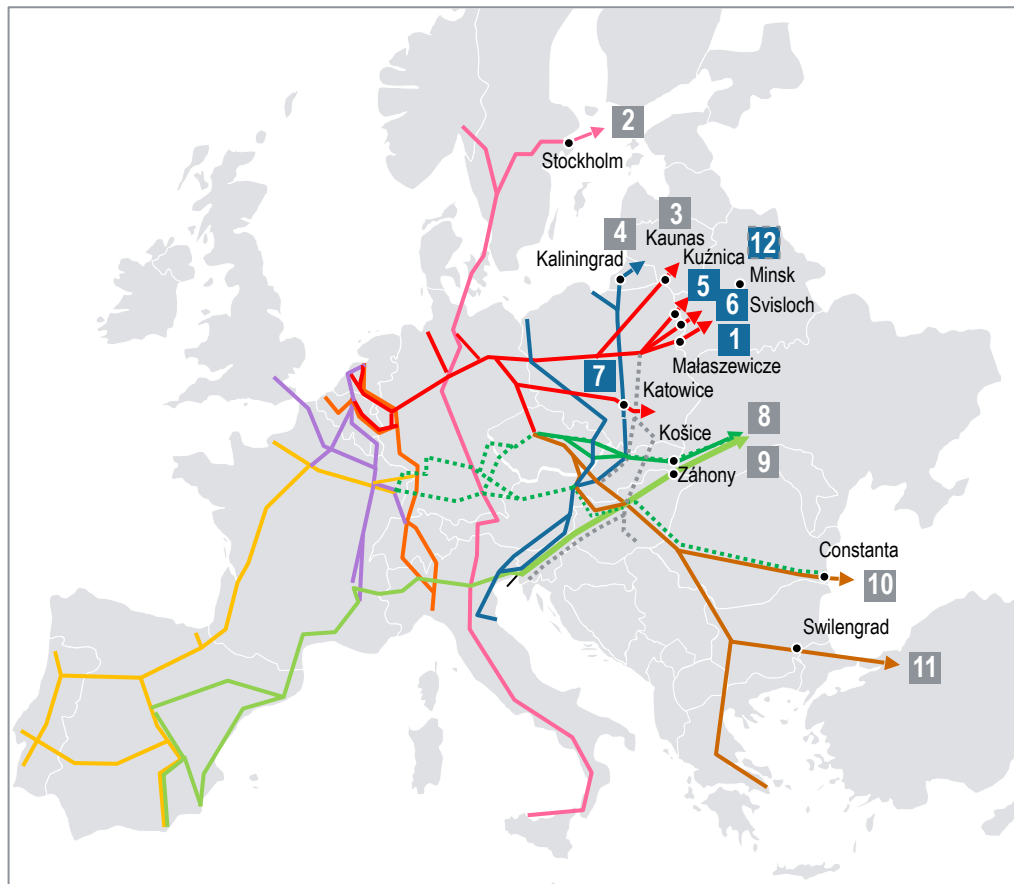
Main Eurasian routes via Moscow



1) Connections between broad- and standard-gauge

Currently, there are eleven potential interconnection points with intermodal terminals for routes between Asia and Europe

Interconnection points for European RFCs (I/II)



Interconnection points of routes from Asia to European Rail Freight Corridors

- 1 Brest – Malaszewicze (RFC 8/11¹⁾)
- 2 Stockholm via Baltic Sea (RFC 3)
- 3 Kaunas/Šeštokai (RFC 8)
- 4 Kaliningrad – Braniewo (RFC 5)
- 5 Bruzgi – Kuźnica (RFC 8)
- 6 Svisloch – Siemianówka (RFC 8)
- 7 Sławków – Katowice (RFC 8)
- 8 Dobrà/Košice (RFC 9/11¹⁾)
- 9 Záhony (RFC 6)
- 10 Constanta via Black Sea (RFC 7/9²⁾)
- 11 Kapikule – Swilengrad (RFC 7)
- 12 Great Stone Park Minsk³⁾

1) RFC 11 to be launched in 2019 2) Extension of RFC 9 to be implemented by 2020 3) Construction of multimodal terminal to be started in 2019

The route Brest – Małaszewicze is the central gateway to Europe – Yet, it has proven to be a bottleneck due to its limited capacity

Route characteristics

Małaszewicze terminal

- Operator: PKP Cargo
- Area¹⁾: 20,000 m²
- Storage capacity: 1,870 TEUs
- Equipment: 4 cranes
- Tracks: 8

Brest terminal

- Operator: Belintertrans
- Area¹⁾: 20,000 m²
- Storage capacity: 830 TEUs
- Equipment: 3 gantry cranes
- Tracks: 4



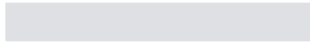

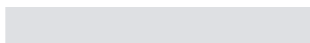

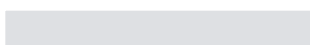





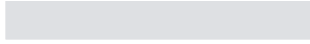


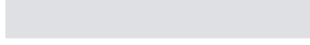


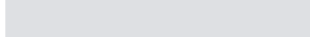

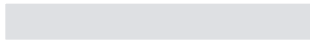


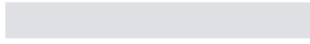


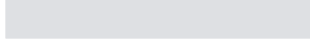


- The terminals in Brest and Małaszewicze are the **most frequented interchanges** between broad-gauge and standard-gauge in Europe. **~95% of rail cargo transports** between Asia and Europe go through Brest - Małaszewicze
- Both terminals **suffered from infrastructure constraints and inefficient processes** which led to long delays and waiting times of one to three days
- Operators also reported that the **transshipment procedures** are very **complex and intransparent**
- PKP PLK made **significant efforts to extend the infrastructure** and to improve quality on its network. Until 2022, **ten additional broad gauge tracks** will be installed to increase the Małaszewicze/Brest capacity.

1) Container yards/sections only

Brest – Małaszewicze offers the shortest distance to main industrial destinations except for Austria and Southern Europe







Route assessment by distance [km]

		Distance from Dostyk ¹⁾		Relative deviation
Destination country	Destination city	Via Brest – Małaszewicze	Via Ukraine/Slovakian Rep.	
Germany 	Duisburg	 6,505	 6,860	+5.46%
	Mannheim	 6,505	 6,660	+2.38%
	Hamburg	 6,255	 6,610	+5.68%
Austria 	Vienna	 6,055	 5,810	-4.05%
United Kingdom 	London	 7,105	 7,360	+3.59%
France 	Paris	 7,105	 7,210	+1.48%
Italy 	Rome	 7,205	 6,860	-4.79%
	Milan	 6,805	 6,760	-0.66%
Spain 	Madrid	 8,305	 8,310	+0.06%
Netherlands 	Rotterdam	 6,605	 6,860	+3.86%

1) City on the border between Kazakhstan and China

Route via Bruzgi – Kuźnica has not reached its full potential yet – Upgrades and construction of terminals and tracks are ongoing

Route characteristics

Kuźnica terminal	Bruzgi terminal
 Tracks ¹⁾ : 6	 Tracks: 4
 Warehouse: 1,170 m ²	 Warehouse: 38 ha
 Storage area: 2 ha	 Storage provided



1) A total of 10 tracks is planned



The **Kuźnica terminal** is located six kilometers from Poland's border with Belarus. Its annual transshipment volume is 6 to 8 million tons which is mainly directed to Polish ports or other destinations in Western Europe



On the other side of the border is the **Bruzgi railway station** which is currently being used for the transshipments of a **weekly train service from Łódź to Chengdu**



The railway station in Bruzgi will soon host **another loading terminal** which is supposed to be **used for container traffic between China and Europe**. The construction could be completed by end of 2019



Most recently, **Belarussian Railway and RZD Logistics** agreed to develop **transit container transportation services** across the border point between Bruzgi and Kuźnica



It is estimated that the container transportation volume from China to Europe via Kuźnica/Bruzgi border crossing **could increase to approximately 30 trains per month**

The border point between Svislach and Siemianówka has emerged as another alternative for Eurasian rail cargo traffic

Route characteristics



The **Chryzanów transshipment terminal** started operating in May 2018. It can handle between **4 to 6 trains daily**



Belarussian Railway spent **USD 10 m** to develop facilities on the secondary crossings at Bruzgi on the Hrodna – Białystok line and **Svisloch between Vawkavysk and Hajnówka**



Border crossing in Svisloch (Belarus/Poland) can play a more **important role in the future**. There are also many activities of **Chinese investors**, but also of other **European investors** who want to expand at the respective borders



Russian Railways subsidiary, **RZD Logistics**, and **Belarussian Railway** have agreed to cooperate on **China – Europe – China transit freight services** by developing container shipments at the Brest – Terespol, Svisloch – Siemianówka, and Bruzgi – Kuznica border points

Another way to enter the European corridors is via the broad-gauge line to Katowice – Regular operations to be established in 2019

Route characteristics



The **broad-gauge line** from Katowice to the Ukrainian border was built in the 1970s as an extension of the **Trans-Caspian route**. It mainly serves the purpose of transporting iron ore and coal from the Ukraine to the local steel plant in Katowice



In June 2018, Far East Land Bridge (FELB) tested the broad-gauge line as an **alternative route for container traffic between China and Europe** via the Middle Corridor



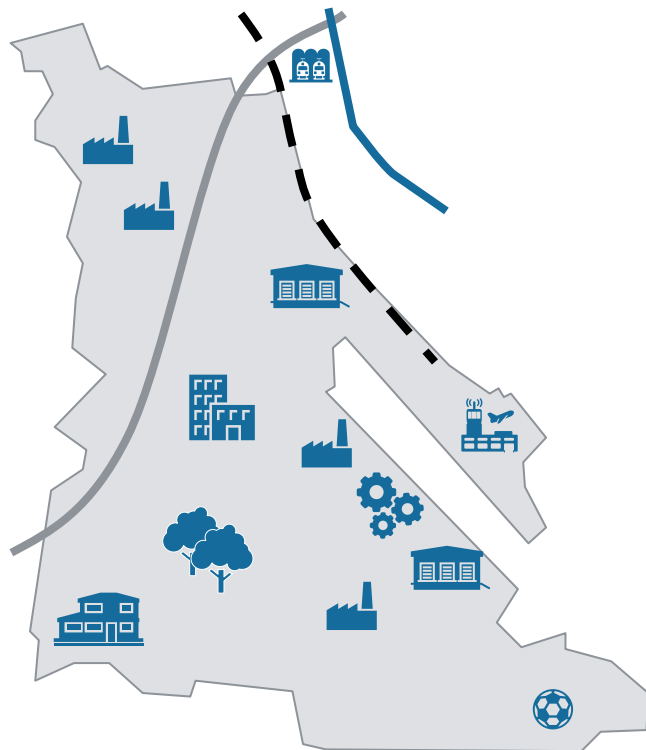
In November 2018, the local railway operator **PKP Linia Hutnicza Szerokotorowa** and a consortium of Chinese logistics companies agreed to launch a **regular container service from Chengdu to Sławków starting in 2019**



Transshipments between broad-gauge and standard-gauge are done at the **Euroterminal in Sławków** which has been operating since 2004 with a **capacity of >250.000 TEU**

The development of the industrial park Great Stone in Minsk is expected to have a major potential impact on Eurasian rail traffic

Great Stone – Industrial park Minsk



- Industrial site
- Office buildings
- Green space
- High speed rail
- Engineering facility
- Residential area
- International Airport
- Freight rail track
- Warehousing
- Sports facilities
- Rail terminal
- National highway

Source: Great Stone

- The **industrial park Great Stone** is the largest foreign investment project in Belarus and an important **cooperation between China and Belarus** within the framework of the Belt and Road Initiative

- The vision of this project is to create a **modern international eco-city** focusing on **competitive high-tech production** with **high export potential** of up to USD 50 bn per year

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- Duisport**, one of the key drivers of Eurasian rail freight traffic and a minority shareholder of Great Stone, has been assigned to develop a **multimodal railway terminal** at the industrial park starting in **2019**

- The terminal will also require a **standard-gauge railway line to the Polish border** to enable cargo transshipments in Minsk

According to our expert interviews, the majority of problems today are related to transit time, reliability and infrastructure

Main obstacles today – Quotes from expert interviews

"Competition is done through transit time but always in combination with the price. Rail rates cannot differ too much from sea freight rates in order to be attractive"

Forwarder

"On average, we have to wait 24 hours for our trains to pass the terminal. Yet, sometimes it takes up to three days. This makes it extremely hard to predict when a train will arrive at the final destination."

Operator



"The problem in Małaszewicze is not only capacity constraints at the terminal, but also construction works on the routes leading to the terminal"

Port operator

"As long as the political situation has not calmed down and stabilized, we will not consider operating a train via the Ukraine."

Operator

"The Ukrainian corridor is not attractive at all for organizational, price and compliance reasons."

Railway carrier

"Transit time is the most important criterion for us. If it is faster to take a detour via Dobrà than going through Małaszewicze, we will do it."

Forwarder

"Certain terminals lack transparency in a sense that they cannot tell us what the status of our container is after it has arrived."

Operator

"As the Chinese subsidies are expected to be reduced over time, container rates may rise and cause consolidation."

Railway carrier



"Due to the land connection and the multi-modal solution through the ports of the Baltic Sea the route via Kaliningrad offers more flexibility delivering freight."













Operator

"Reliability has improved but customers still tell us that rail is not reliable enough. Reliability could be improved through more information."

Rail Freight Corridor

Although terminals can only partly influence the main criteria for route selection, they have several levers







Success factors and key criteria

Criteria	Importance	Influence of terminal operator	Comments
Transit time			<ul style="list-style-type: none"> > Transit time is the key criteria for the choice of route and terminals > Minimizing delays at terminals is a major lever to reduce transit time
Reliability			<ul style="list-style-type: none"> > Shippers/consignees demand high level of reliability to ensure punctuality > Reliability can be increased by terminals through process optimization
Time-to-market			<ul style="list-style-type: none"> > A short time-to-market enables terminals to grow with the market > An efficient construction & a phased launch can lead to a time reduction
Cost/ Productivity			<ul style="list-style-type: none"> > Cost is a crucial factor for rail routes with similar transit times and reliability > Terminal cost make up only a fraction of the entire transport cost
Countries			<ul style="list-style-type: none"> > Transit countries vary in terms of political stability and transport regulations > Terminals do not have any influence on the transit countries of a route
Infrastructure			<ul style="list-style-type: none"> > Sufficient capacity of local rail network is needed to avoid bottlenecks > Infrastructure operators are responsible for upgrading the rail network

○ Low importance ● High importance ○ Low influence ● High influence

The route via Brest – Małaszewicze fulfills the success factors already well

Route assessment Brest – Malaszewicze

Criteria for success	Assessment
Transit time	 <ul style="list-style-type: none"> > Direct route to Duisburg and Hamburg > Short distance to Moscow
Reliability	 <ul style="list-style-type: none"> > Established processes > Operational issues at terminal > Non-transparent procedures
Time-to-market	 <ul style="list-style-type: none"> > "First mover" advantage as terminal is already up and running
Cost/Productivity	 <ul style="list-style-type: none"> > Low transport cost to terminal > Investments for upgrades and expansion needed
Countries	 <ul style="list-style-type: none"> > Minimum number of transit countries from China
Infrastructure	 <ul style="list-style-type: none"> > Currently capacity constraints > Construction work ongoing (terminal & rail infrastructure)

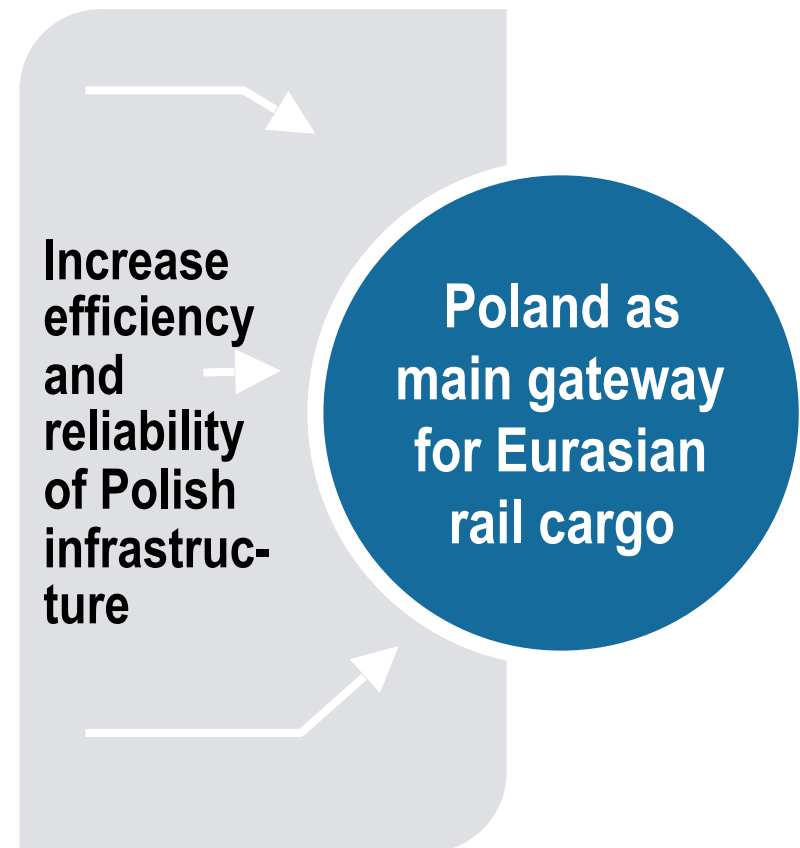


Good conditions to defend market leader position

Poland can benefit and remain the market leader as gateway for Eurasian rail cargo in Europe if it fulfills three main criteria

Conclusion

- 1 Keep total cost at competitive level (track access charges, gauge change, terminal charges, etc.)
- 2 Further improve process efficiency
 - > Terminal, gauge change
 - > Customs and other admin processes
- 3 Safeguard that track capacity is able to meet demand
 - > Dimensioning for growth (double track, electrification, etc.)
 - > Wise, long-term oriented construction site planning



Roland
Berger

THINK:ACT

