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**RailFreight<sup>®</sup>**  
**SPECIAL EDITION** **SUMMIT**

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## Setting the Scene on the conference that should not have happened

- Only last december we had discussions on the role Russia could play on the New Silk Road, four months later the world has changed in a very negative way
- War in Europe, economic warfare between the world powers and a logistics sector that has to cope with rapidly changing circumstances
- All observations made are personal and do not necessarily reflect the vision of Ecorys



## What do we know when it comes to the New Silk Road in this war?

- All rail links between Russia and Ukraine were destroyed end of February to prevent troop transports from Russia to Ukraine.
- Ukraine was not a major transit country but there were/are ambitious plans to establish this role (e.g. Slawkow border crossing)
- Trains do run – with low transit times - on the northern route via Belarus-Poland but demand has fallen significantly and barriers have risen (sanctions, insurance, logistics, sabotage in Belarus)
- The Middle Corridor has attracted a lot of renewed attention; can it serve as a viable alternative
- Full stop of China-Europe rail transport via the Northern Route (e.g. closing the borders of the EU) as a next step in sanctions?

## Volume developments over 2021 and expectations for 2022

- As always: hard to construct a coherent picture. One has to combine sources like ERAI, RZD and China Railway Express to catch the bulk of the volumes (and routes)
- It seems that in 2021 an annual volume above 1 million TEU between China and Europe (both directions) has been achieved . RZD reported the final figure for 2021 as around 1.1 million TEU compared to 560.000 TEU in 2020 and 347.000 TEU in 2019
- 2022: (only figures jan-feb available via ERAI/Index1520) total so far 87.000 TEU.
- Even in a business as usual situation this would lead to a very significant decline in volumes, put differently: a simple linear forecast would lead to an estimate of 520.000 TEU
- Recent comment by Cabooter (NL) in Belgian newspaper: inbound volumes -80%

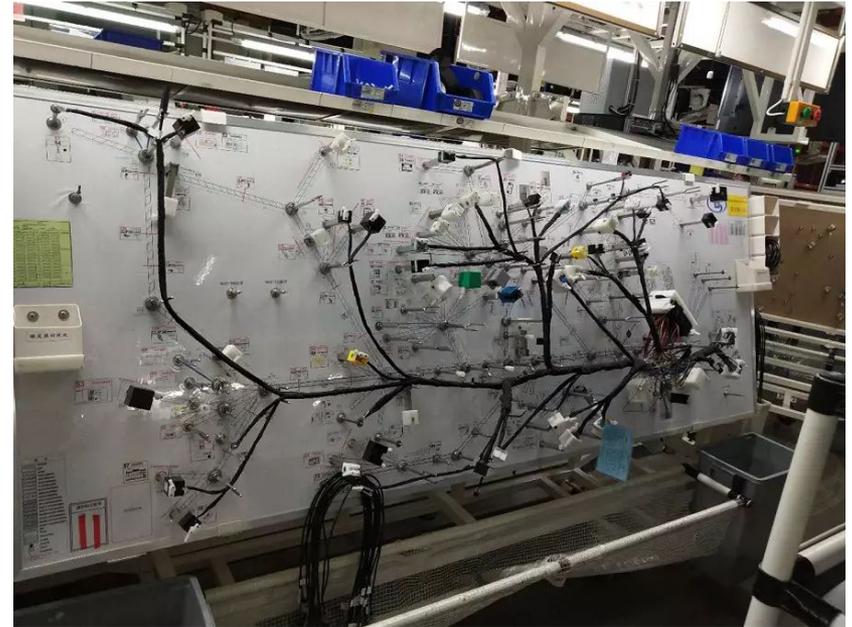
## Huge east-west imbalance: macroeconomics or war related?

Entry point on the track 1520 ↕	Exit point on the track 1520 ↕	VOLUME OF TRANSPORTED GOODS	
		TEU ↕	Thousand tons ↕
		87 326 (-6,71%)	497,65 (+0,49%)
DOSTYK (EXP.)	BREST-CENTER (EXP.)	22 308 (-22,97%)	132,19 (-17,27%)
ALTYNKOL (EXP)	BREST-CENTER (EXP.)	15 370 (+31,50%)	93,66 (+51,38%)
BREST-SEVERNY (EXP.)	DOSTYK (EXP.)	11 952 (+2,68%)	60,78 (-2,92%)
BREST-CENTER (EXP.)	DOSTYK (EXP.)	6 294 (-44,97%)	24,97 (-55,58%)
DOSTYK (EXP.)	BREST-SEVERNY (EXP.)	6 190 (+8,18%)	38,60 (+22,65%)

Source: ERAI Index1520.com

## Effects on supply chains

- Even in a post-covid world (in the west) supply chain managers face hard times
- Limitations on transport of "dual use" goods have caused problems with for instance Dutch customs
- Shutdowns of production in the automotive sector: Ukraine major production location for wiring harnesses for cars and trucks – and we all thought nearshoring was such a good idea...



## New Silk Road and Western sanctions

- Strictly speaking the rail transport can go through; one can still perform financial transaction with RZD (in their role of infrastructure manager and provider of traction and transport services)
- Chinese forwarders arrange extra trains towards Russia (explicitly stating this can offset the cancellation of sea borne services)
- London marine insurers label all Russian waters high risk: how does this work for land based transport?
- Trucking to Russia (if we see that as Silk Road as well): stories of long queues at Latvian-(Bela)Russian borders and very critical inspections of export cargo. Long wait is backed by customs data found online: waiting time of 60+ hours

## (Self)sanctioning as a powerful weapon?

- Next to companies not willing to run risks associated with fully complying with sanctions we see companies decide themselves to leave Russia, this can be because of
  - Public outcry (“Why are you still active in Russia?”)
  - Shareholder pressure
- Nationalisation of assets (i.e. your Russian subsidiary) a significant risk; not yet formalised but legal framework is apparently in place
- We see firms like Maersk/APMT selling off Russian assets (e.g. Global Ports)
- Noteworthy development: rumours on possible buy back of RZD stake in GEFCO by CMA CGM in a deal brokered by the French government to overcome the entry into force of the latest sanctions



Three days after suspending traffic between Finland and Russia, VR Group can resume it. Effective from Wednesday, 30 March, the decision to restart rail freight operations to and from Russia results from further consultation with the UK authorities clarifying that sanctions do not apply to VR Group's contracts and agreements.

## Extra sanctions because of “Bucha massacre?”

- Sanctions would have to include the energy sector; ban of Russian gas bridge too far? Coal, chemicals and wood reported, oil?
- Can we expect restrictions on Russian flagged, owned or controlled vessels in EU seaports? Also ‘road transport operators’ mentioned.
- Halting China-Europe train traffic as sanction measure (also because of involvement RZD), likely?
  - Who would be hampered most by this sanction: Russia, China or EU countries?

### Financial measures



- **SWIFT ban** for 7 Russian banks
- restrictions on Russia's access to the EU's **capital and financial markets** and services
- ban on **transactions** with the Russian Central Bank
- ban on supply of **euro-denominated banknotes** to Russia

### Transport

- closure of EU airspace to all Russian-owned aircraft
- restrictions on **exports** to Russia of maritime navigation goods and radio communication technology



### Energy

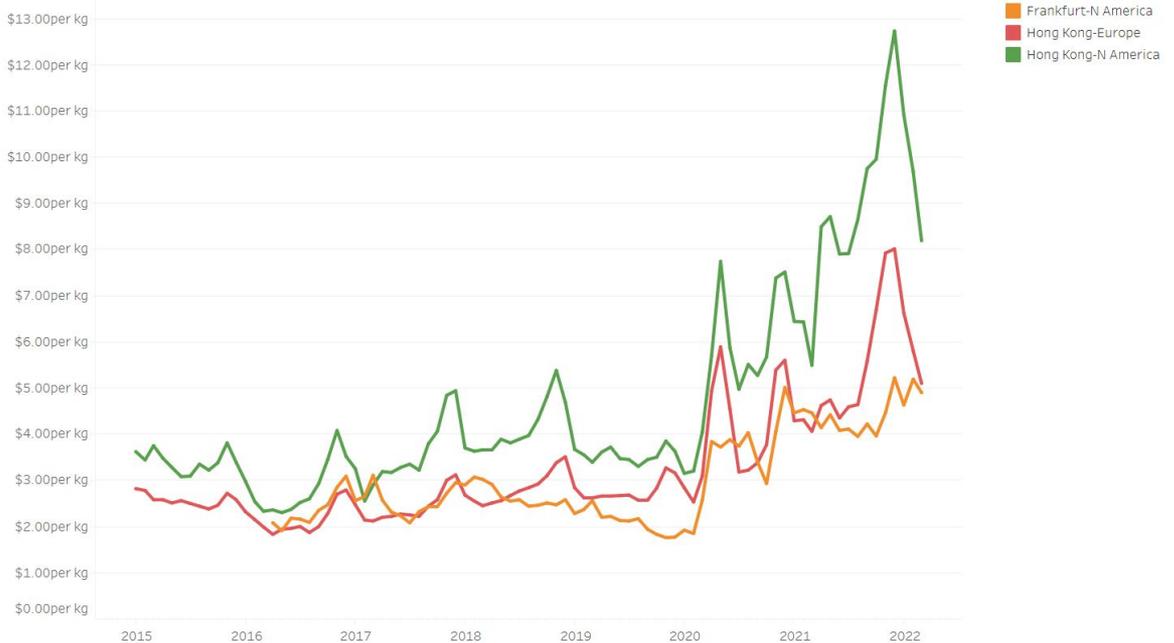


- ban on exports to Russia of goods and technologies in the **oil refining** sector
- ban on new **investments** in the Russian energy sector

## Rail vis-a-vis air and ocean

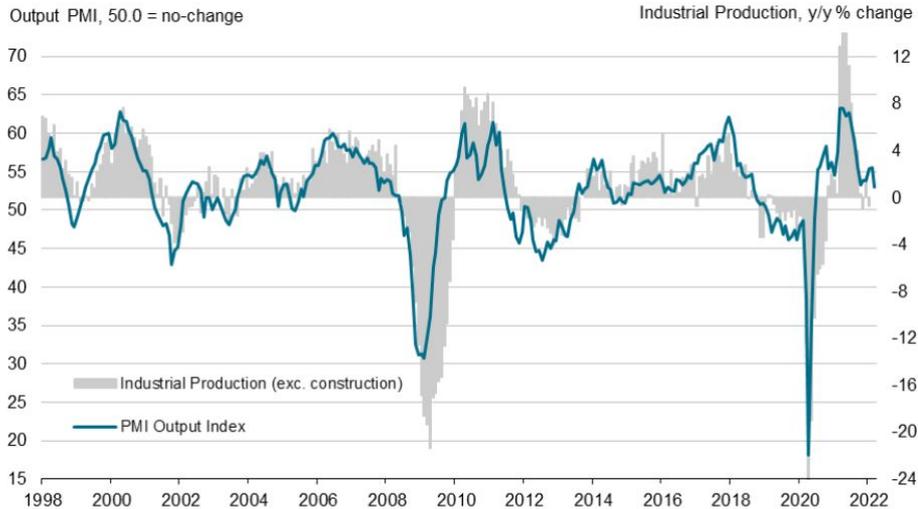
- Tariffs in ocean freight seem to normalise a little: spot rates are slowly declining (Yet Long-term contracted ocean freight rates climbed by 7% in March, pushing shipping prices up 96.7% year-on-year according to Xeneta)
- Air freight shows a mixed image: closure of Russian airspace leads to detours for Western carriers (not for CN or Gulf carriers...) hence less efficient schedules and higher fuel cost. Rates declined however due to slower demand
- Tariffs in air freight are historically seen high though

Baltic Exchange Air Freight Index (BAI) powered by TAC Data  
Copyright: Baltic Exchange. Chart created by Air Cargo News

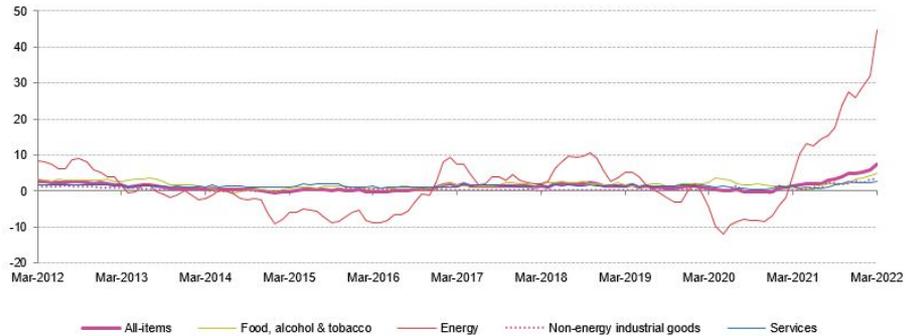


## Macro economic effects

Two graphs that show what is ahead: falling confidence in production and extremely high inflation rates in Europe:



**Euro area annual inflation and its main components, March 2012 - March 2022 (estimated)** (%)



Source: Eurostat (online data code: prc\_hicp\_manr)

## Macro economic effects – longer run

- Chinese companies stepping in on the Russian market to fill the gaps left by Western competitors?
- Fears of big economic downturn if EU bans Russian energy products (heavy reliance on Russian gas as shown in the graph to the right)
- A recession in Europe will help in solving constraints in supply chains and alleviate pressure on the transport system

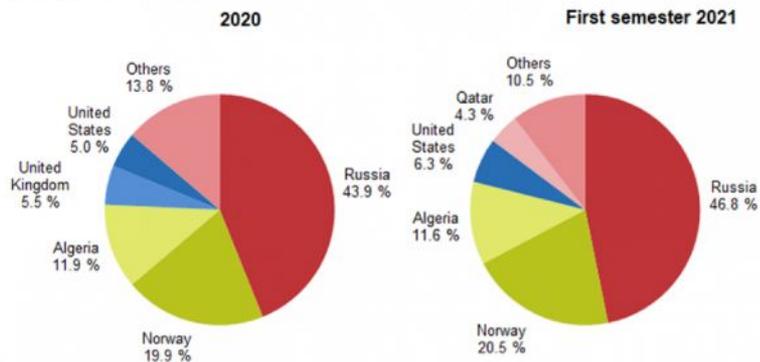


**We will ... explore ways to work with Russian companies under the backdrop of the belt and road strategic development**

*Wang Chuanbao, Federation of Overseas Chinese in Moscow*

Source: SCMP 29-03-2022

Extra EU imports of natural gas from main trading partners, 2020 and first semester 2021  
(share (%) of trade in value)



Source: Eurostat database (Comext) and Eurostat estimates

## Middle Corridor to the rescue?

- Middle and Southern Corridor as viable alternatives to the Northern Corridor?
- 30.000 TEU versus 1.000.000 TEU, how fast can we bridge the gap? How to speed up progress (topic for today?)
- Southern Corridor most likely not feasible because of sanctions against Iran (i.e. problem for many shippers)
- Possible role for the EU (e.g. via the Eastern Partnership and the respective TEN-T policy) in fostering development of the Middle Corridor?



## Chinas' role in Ukraine

- A question that keeps coming up: will the position of China in the conflict change because of the strategic importance of the Belt and Road project? Can the BRI project help in achieving a ceasefire sooner?
- China is the largest trading partner of the Ukraine. In 2021, the value of trade between China and Ukraine topped US\$19.3 billion, up by 29.7 per cent from the year before, while the value of exports to Ukraine reached US\$9.4 billion, up by 36.8 per cent
- Chinese assets in Black Sea ports; e.g. COFCO owning several export facilities and terminals for grain. Also Chinese investment in wind farms and rail transport infrastructure in the country



## And then there is another elephant in the room...

- Chinese zero-covid policy and the omicron type seems to be an unfortunate combination
- Prolonged lock-downs in major industrial centres
- Although terminals continue working shortage of truck drivers and bottlenecks elsewhere lead to ships diverting to other ports: reports of slowing down production





**Questions, comments?  
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