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OCTOBER SAW AN IMPORTANT DEVELOPMENT IN RUSSIA'S CAR LOGISTICS. A NEW ROUTE WAS LAUNCHED DELIVERING NEW CARS TO THE COUNTRY VIA A FAR EASTERN PORT AND THEN TRANSPORTING THEM BY RAILWAY TO MOSCOW. MAZDA HAS BECOME THE FIRST CAR MANUFACTURER TO ADOPT THIS TRANSPORT SYSTEM. WHAT HAS THE PIONEER GAINED AND WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF THE NEW ROUTE? AUTO BUSINESS REVIEW PUTS IT UNDER SCRUTINY

Initially, Mazda in Russia used the same logistics scheme as everybody else, with all cars traditionally imported through Finland. "Today the goods go through the Suez Canal, travel across the Mediterranean to the port of Bremerhaven. We load full ships in Japan, up to 6'000 cars, and we send them to 4 ports in Europe – Barcelona, Antwerpen, Rotterdam, Bremerhaven. From Bremerhaven the cars would go on smaller ships to Kotka in Finland. And from there they would be distributed by trucks in Russia. This can take up to 70 days," explains Jorgen Olesen, vice president for logistics and customer service at Mazda Motor Europe.

Research into alternative delivery routes started in the autumn of 2007 when the first transport test took place, taking cars by rail

from the sea port at Trinity Bay (Zarubino terminal, rail transport operator RailTransAuto, Russian Railways' subsidiary). In early 2008, a new terminal in the Black Sea was tested — Sevastopol Autoterminal Black Sea. This route allowed Mazda to reduce delivery time by two weeks and channel some of its traffic from Finland to the south. The company, however, decided against using it on a regular basis and opted for the Far Eastern route.

"We have tried a transport route via Sevastopol. The main purpose was to test it. The results were very good. The Spanish have learned to work with the vehicles, and a high-quality terminal has been established (one of the founding members of the Sevastopol project is Autoterminal Barcelona — Auto Business Review). But the Trans-Siberian

project remains our first priority. In the distant future, Sevastopol can become the "third phase" and be used as a supplementary point of entry," tells Igor Yukhimuk, Mazda Motor Rus business strategy manager.

In 2008, two more transport tests were made to check additional variables. "It has taken over a year of testing to come up with this solution today. In September 2007, we had the first block train on a schedule like a passenger train had. It arrived on time. Then we tested in February with a small number of vehicles and normal of Trans-Siberian railroad. It also arrived on time, but it took 24 days instead of 10. And in April, we had a full block train loaded with 330 cars. It also arrived on time, and, what is more important, without any damage of cars," says Jorgen Olesen.

Protecting vehicles has received special attention. Both the Mazda cars and the rail cars were inspected to ensure quality. A batch of cars were then shipped by plane back to Japan. They were disassembled and every part was tested for damage that could have occurred during the long train ride. The design of the rail cars was also changed. "We tested the rail for vibration, transit damages and temperature effect on vehicle quality. We modified the chocking system and found no other issues with using the rail," says Jorgen Olesen.

Mazda approved transportation only in the fully closed rail cars from Ruzkhimmash, which protect vehicles from precipitation, vandalism and unauthorized access. The car manufacturer refused to use old auto rack cars, fearing that the risk of damaging the cars during their 9'300 km way would be too high.

After long negotiations, the parties have finally reached an agreement. Starting in October, the Mazda3 cars has been transported by RailTransAuto from the seaport at Trinity Bay. The initial agreement is valid for three months (till the end of 2008). A block train of 33 rail cars (330 Mazdas) leaves three times a week and goes with no shunting or decoupling. Travel time from Zarubino to Mikhnevo is 10-13 days.

"At present, it takes 8 hours (one shift) to unload a train in Mikhnevo. The terminal is capable to accept and send out two trains in 24 hours," says Ekaterina Kulbaka, head of the marketing department at RailTransAuto. The terminal has a parking lot capable of accepting 5'300 cars. The lot is used to store the cars before they are taken to the dealers.

Mazda has partnered with several international and Russian companies to carry out this project. The sea shipping company (from Japan to Zarubino) is MOL Group (Mitsui O.S.K. Lines), one of Japan's largest logistics operators. Russian Transport Lines deals with customs in Zarubino. The cars are insured for the duration of the whole journey from Japan, and Allianz is the insurance partner on Russian territory. The rail transport operator is RailTransAuto. Major Auto Trans handles the transportation of the cars to the dealers.

NARROW ROAD

While the launch of the new route via the Far East is certainly a breakthrough for

Russian car logistics, many issues remain unresolved. And although those issues do not prevent the use of the route at this stage, they may negatively affect its future development and active use by car manufacturers.

First of all, the infrastructure of the Far Eastern ports has a long way to reach European standards. Most ports are set up to work with containers, metals and wood. Although used cars from Japan are a significant part of the freight, they do not require skilled terminal personnel and careful handling like new cars. Also, the ports do not have enough facilities for temporary storage of the new cars, let alone roofed-in, specially designed facilities for pre-delivery inspection and preparation. "The Russian Far East ports, especially Zarubino, have many points to be improved. They do not have large space, in which larger PCC can be accommodated. The Vladivostok port is filled with used cars and leaves no space to park more cars. Such situation prevents ocean shipping companies call the port," we were told at the Japanese company MOL Group.

Railway tariff rates are imposed by the Federal Tariff Service. The government approval procedure takes a lot of time and Russian Railways' monopoly leads to the lack of competition and tariffs being set against the logic of the market.

"Railway tariff rates for transporting cars through the Far Eastern ports announced in the beginning of 2008 allowed shipping agents for the first time in 10 years to offer the market land shipping costs comparable with sea shipping costs. However, an increase in the rates for all transportation services (12 per cent), which happened in the middle of the year, drove the cost-effectiveness of the Far Eastern delivery down to almost zero. And another 15-18 per cent increase is forecast for 2009. To change the existing logistical schemes, large car manufacturers need to be able to have steady transportation costs for at least 3-4 years. Otherwise, the optimization efforts will not bring the desired results," says Maxim Bartenev, business development director of the Apparel-2000, rail car transport operator.

The railway infrastructure near Zarubino has a small capacity. At present, RailTransAuto delivers Mazdas from the

port three times a week by block trains running on one path. If more car manufacturers get interested in this route, transportation opportunities will be limited. "Maximum capacity of the new route is one train a day. It can be increased if new access routes are developed," says Ekaterina Kulbaka.

"The capacity reserves of the Trans-Siberian railroad are obviously not limited to three or ten trains a day. Rather, the limiting factors are the speed of processing at the terminals and the finite resources of the load-unload stations. Fuller use of the Trans-Siberian route is possible if sea shipments come to several ports and then go to several regional terminals based on how full they are," comments Maxim Bartenev.

At the same time there should not be any problems with getting a specially designed schedule for the block trains. "The train path determines departure time, arrival time to certain stations and arrival to destination without specifying the day of the week. Three trains from Zarubino use the same train path. If necessary, additional train paths can be obtained. Though if you only have one train a day, one train path is enough," explains Ekaterina Kulbaka.

At the moment, out of 2517 RailTransAuto rail cars, only 410 are modern fully closed cars, 330 of which are used in the Mazda project. It presents another limitation for possible expansion of the Far Eastern route. Japanese car manufacturers are unlikely to agree to use auto rack rail cars for transporting their new cars.

GREEN LIGHT

The first feedback from the Japanese car manufacturer has been positive. The main advantage is faster delivery times. "It has for a long time been the view at Mazda that it is a shame the rail infrastructure is not being used effectively," comments Jorgen Olesen. "And why Mazda and not another company – I think it is because we have some of the best logistics staff in the automotive industry. It takes an entrepreneurial mind set to do something new and never tested."

"The launch of this project has proved the possibility of such delivery. It's too early to make any conclusions for the future. The first experience has revealed some difficulties, from logistics and tariff rates to per-



sonnel and weather. It will be a good sign if all participants in the process, including Russian Railways and the shipping agents, unite their efforts and the project is approved at the level of the local government authorities. It will help convince freight owners that the route is reliable and is going to be used for a long time. The quality of service will still be a deciding factor even if the shipping costs are going to be much lower compared with traditional routes," says Maxim Bartenev.

The project participants are not eager to discuss its financial side. The common answer is that Trans-Siberian delivery costs are comparable to the costs of using the traditional route. "There is a view that it is more expensive to ship cars to Moscow via Far East than via Kotka – under normal circumstances this is correct, but we use full ship loads and block trains which significantly reduce the transport cost to a level about the same as via Kotka," says Jorgen Olesen.

The key problem is the railway tariff rates. Even with the lower quotient (0.54),

they remain high. In terms of sea shipping and port services, this route is cheaper.

"When it comes to freight rates, from Japan to Russian Far East ports is more reasonable. However, it is difficult to compare the route with the European route by simply looking at only the rates. Shippers need to consider other aspects such as other logistics costs and transportation days to estimate the total cost," said a MOL Group representative.

General response to the new route for importing cars to Russia has been favorable but there is some caution in evaluating its prospects for the nearest future. "The Far Eastern direction clearly has good prospects. Its development will certainly continue, although we do not expect it to be fully operational for 2-3 years. The reasons are, above all, the lack of modern trains and the level of development of the Trans-Siberian railroad itself," says Elena Zhadanova, marketing and PR director of Russian Transport Lines.

According to MOL Group, some unanswered questions prevent the mass use of the Trans-Siberian route. "There are still many points to

be confirmed or improved such as the quality of car transportation by train, quality control in winter, custom procedure and PDI."

Experts believe that building new terminals in Yekaterinburg and Novosibirsk is a promising possibility. It would allow unloading cars assigned for the Urals and Siberia, which on average account for 15-20 per cent of sales. "These terminals are certainly going to be in demand in the near future, particularly in Yekaterinburg. But for them to function properly storage facilities will need to be built and, farther along the line, pre-delivery inspection centers developed," says Elena Zhadanova.

However, it's important to remember that railway tariff rates from Zarubino to Yekaterinburg and Novosibirsk will be set based on different factors. The Federal Tariff Service only used the lower quotient to establish its rate for transportation from the Far Eastern port to Moscow area railway stations. Thus, delivery to Novosibirsk will cost approximately the same as to Mikhnevo though the distance is three times shorter. **ABR**

Far East vs. Europe

UNTIL RECENTLY ALL CARS FROM JAPAN ARRIVED IN RUSSIA VIA EUROPE, JUST A “MAKEWEIGHT” TO THE MAIN PACKAGE INTENDED FOR THE EUROPEAN MARKETS. THE USE OF FAR EASTERN PORTS AND THE TRANS-SIBERIAN RAILWAY OPENS UP NEW OPPORTUNITIES FOR CAR LOGISTICS IN RUSSIA. HOWEVER, THE OLD ROUTE STILL OFFERS MORE ADVANTAGES THAN THE NEW ONE

IMPORT VIA THE FAR EAST		AUTO BUSINESS REVIEW GRADE
Reliability	Mazda has become the first automaker to test the Far Eastern route. The necessary infrastructure was only created in 2008. Many issues remain open, such as the level of the port and railway service, transporting capacity of the railway and the unpredictability of the Russian Railway's tariff rates. The Mazda experience will essentially become a deciding factor in determining prospects for this route.	3
Number of legs	<ol style="list-style-type: none"> 1. Cars are ferried from Japan to a Russian Far Eastern port with a railway infrastructure. 2. From there scheduled trains take them to a terminal in the Moscow area with a warehouse (capacity 5'000 cars). 3. From the terminal cars can be transported either to the importer's central warehouse or directly to dealerships. 	5
Delivery time	13-18 days (from load in a Japanese port to arrival in the Moscow area).	5
Possibility of delivery to other markets	In the near future, railway carriers plan to open new terminals in Yekaterinburg, Novosibirsk and in Kazakhstan. It will allow sending some of the traffic to Central Asia. However, due to high railway rates, the active use of this route is unlikely. For the same reason bringing cars to Europe via the Trans-Siberian Railway is unlikely too.	3
Cost-effectiveness	The cost of transporting cars using the new route is, under the current conditions, comparable to the traditional route. Moreover, a faster delivery allows for a faster capital turnover, which is an important advantage. All in all, railway shipping costs remain high, and it is the government (Federal Tariff Service) that regulates the rates.	4
Summary	In its ideal form, importing their cars to Russia via the Far East is the best option for the Japanese carmakers. However, in reality there are a lot of obstacles preventing the active use of the new route. According to expert estimates, it will take several more years to develop this route and make it more attractive financially.	20
TRANSIT VIA EUROPE		AUTO BUSINESS REVIEW GRADE
Reliability	The chain has been used to import cars to Europe for several decades. Many years of using the route have allowed carmakers to develop favorable contracts with shipping and insurance companies and be sure of the quality of services.	5
Number of legs	<ol style="list-style-type: none"> 1. In Japan, cars are loaded onto large ocean ferries (around 4'000-6'000 cars). The shipping route goes across the Indian Ocean through the Suez Channel to the Mediterranean Sea and then to hub ports in the UK, the Netherlands and Germany. 2. From these ports smaller ferries (around 1'000 cars) take cars to the Finnish ports with large storage facilities. 3. Then by car haulers they are shipped to Russia, usually to the central warehouses of the importers. 4. From the warehouses they were taken to the dealerships. 	4
Delivery time	40-60 days (from load in Japan to arrival in Moscow). Part of the trip from the Mediterranean Sea to Finland can take up to 20 days (because of successive unloading in several ports).	3
Possibility of delivery to other markets	About one million new cars are shipped from Japan to Europe, of which 300'000 in 2007 continued to Russia (a two-fold increase on 2005). Thus, it is more convenient to use the same route to deliver cars both to Europe and the CIS, compared with the railway route.	5
Cost-effectiveness	Shipping rates for sea and land are relatively low, and carriers are able to change them quickly in response to any changes in the market situation.	5
Summary	Transit via Europe is a reliable traditional route, and carmakers do not intend to give it up in the near future. Disadvantages include congestion in the Finnish part of the route and a longer delivery time.	22