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# UIC, the worldwide railway organisation, publishes its latest study on Eurasian corridor development

(Paris, 24 March 2020) This 2020 study was undertaken in collaboration with IEC (Infrastructure Economic Centre) consultancy based in Moscow and Paris and proposes:

- an analysis of major changes undergone over the last years on the Northern routes;
- a volume forecast for the period up to 2030 based on existing macroeconomic background;
- an analysis of the elasticity of the demand for rail freight transport in relation to the level of Chinese subsidies, the digitalisation of processes, border crossing improvements, speed of transit.

## Main changes over the past couple of years

In 2016-2018 the market has been growing actively, but in 2018 and especially in 2019 the dynamic changed from fast to moderate growth and volumes were estimated at 345,000 TEUs This resulted in an active search for niche and balancing solutions between exports and imports by market players and further cooperation increase.

In 2018 the ratio of westbound to eastbound transit traffic (transit only) was about 56.6% to 44.4% for all traffic and 67.6% to 32.4% for loaded containers.

The dynamics of flows and operations in volumes since 2016 changed from considerable shift in 2017 to moderate, but still stable growth in 2018 and 2019. Besides, it is characterised by a volatile share of empty containers ranging on average between 16% to 30%. This is probably a consequence of fast-growing volumes without relevant balancing solutions.

Further development of new routes is being observed along East – West – East corridors. Despite a growing interest for the North – South – North routes, the capacity East – West – East is still not fully utilised.

About 95% of Euro-Asian transit in both directions (and including Asia – Central Asia traffic) goes via Russia, while the remaining 5% uses the Middle corridor and other routes.

Key route that appeared since 2016 is Baku – Tbilisi – Kars and its connection to the Trans-Caspian rail route forming the Middle Corridor.

Automation and digitalisation are increasingly being introduced in all aspects of logistics and that trend is accelerating.

Market players are in deep search of rail niche solutions – types of cargo best fitting railway proposal in comparison to sea or air, such as fresh vegetables or fruits, expensive mass cargo sensitive to humidity, etc.

Actors are stepping up marketing efforts and engaging in alliances and cooperative projects therefore indicating that the market is still developing and has not yet reached its final configuration.

## Forecast

Three macroeconomic scenarios were considered for the study: pessimistic (supposing trade wars, health crisis, geopolitical tensions), baseline (supposing stabilisation of growth) and optimistic (supposing acceleration of growth rates of largest economies and further globalisation). The modelling is based on the baseline scenario.

The macroeconomic background under baseline scenario supposes favourable conditions for further growth of Eurasian traffic until 2030, but also increasing disbalance between eastbound and westbound traffic ranging between 42-43% to 58-57%.

The share of rail transportation in overall volumes is not likely to change much. In 2018 it varied from 0.1% to 9.1% for different European and Chinese regions and in 2030 it may grow to 1.0% - 9.8%.

Still the bottom and top volumes of the market in 2030 can vary: from less than 450,000 TEUs under pessimistic scenario and unfavourable factors, such as decrease of rail subsidies in China or the possible impact of COVID-19, to more than 2 million loaded TEUs in 2030 under optimistic scenario coupled with positive factors, such as digitalisation, infrastructure improvements and support measure for rail transportation.

For the purpose of this study the baseline scenario, which forecasts TEU 872,000 by 2030 was the one on which the analysis was carried out.

## **Elasticity of demand**

An analysis of the elasticity of the demand for rail freight transport in relation to the level of Chinese subsidies, the digitalisation of processes, border crossing

improvements, speed of transit was undertaken pointing to the following impact assessment on volumes.

According to the modelling results, rail transit is more sensitive to price than to speed. Speed increase along the Trans-Siberian, the launch of regular feeder lines from Republic of Korea and Japan, and 100% use of CIM/SMGS consignment note are perceived to have to most positive impact on volume development.

On the other hand, and not surprisingly, the decrease of rail subsidies in China and port development programmes are the factors most detrimental to volume growth.

Capacity of border-crossings and speed of border operation are important but their impact on the attractiveness of rail is mitigated. The "best rail case" option which would combine speed increase/reduction of transit time, more use of e-technologies and the reduction of overall price along the corridors brings the most benefits to the market. Under more realistic scenario, a decrease of Chinese rail subsidies from 50% to 20% be a key stressing factor for the sustainability of the Eurasian rail transit system. This should lead to a reallocation of flows, market reshape and emergence of new services.

What changes and challenges will most probably arise in case of the decrease of subsidies?

The reduction of Chinese subsidies is likely to have a drastic impact on flows and see a reallocation across the different corridors. Southern routes via Kazakhstan are likely to be the first impacted and see their volumes decrease. This is due to the fact that most of the cargo currently transported heavily relies on subsidies which will then shift to sea). With the exception of commodities sensitive to time or requiring specific conditions of transportation (such as foodstuffs, machinery products, chemicals, etc.)

In a second step, it is likely that we will witness a market reshape in the sense that new opportunities will arise for market players on the northern routes and less for southern routes (via Kazakhstan and the Trans-Siberian and Middle Corridor).

Third, niche and "high-tech" services, including e-services, are to develop as a market response to decreasing competitiveness with deep sea by price. The latter is also true for generally unfavourable economic conditions corresponding to pessimistic scenario.

Finally, an intensification of cooperation projects among both business and governmental stakeholders is possible, also as a response to falling competitiveness.

As the survey presented in the study shows, a corridor-based approach is in high demand. Negative changes in flows may stimulate the realisation of such approach and its transfer from theoretical solutions to practical decisions and actions.

### Mitigating measures

As the modelling shows, the best solution to mitigate these difficulties is a coordinated joint work along ocean-to-ocean corridors, which can be an important part of international sustainable development policy.

The objective of the initiative is a development of rail transportation along Eurasian corridors, from ocean to ocean, thanks to further integration of segments on 15200 mm and 1435 mm area, including links to the Republic of Korea and Japan.

It can raise the overall competitiveness of rail transportation, also under unfavourable external conditions and help coping with inequality of flows in different directions thanks to creation of a balanced network of logistics hubs combining transit flows with exports and imports.

For an interview request with Mr François Davenne, please contact Marie Plaud-Lombard: <u>plaud-lombard@uic.org</u>

More information: <u>https://uic.org/IMG/pdf/uic-iec2020\_eurasian-corridors-</u> <u>development-potential\_exec\_summary.pdf</u>

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