

Exploring the Trans-Eurasian option

20/Nov/2008 by Chris Thorby



A container block train operated by Trans Eurasia Logistics (TEL), a joint venture between German rail operator Deutsche Bahn and Russian railway company RZD, is currently en route from Hamburg, northern Germany, to China, and due to arrive in Beijing and Shanghai in late November.

It is the first commercial container train eastbound in that approximately 10,000km trade lane and will provide shippers with a viable alternative to ocean freight. The rail option is more expensive than moving cargo by sea, especially now that average base ocean freight rates in the westbound Asia-Europe trade have dropped to \$500 per TEU (twenty-foot equivalent unit), but it is considerably faster, with a transit time of 17-20 days, compared with up to 30 days by sea. One Deutsche Bahn executive pointed out that the Asia-Europe rail freight rates are typically lower than for sea-air, for which the transit time is not many days less.

The TEL block train comprises almost 85 TEUs, mostly 40ft containers, of goods from a variety of shippers in different industries, including engineering goods and raw materials, which have been consolidated by DB Schenker, the transportation and logistics provider of Deutsche Bahn.

That development follows the operation of a similar TEL blocktrain, which carried 50 containers of high-end IT products from Xiangtang, China, to Hamburg on behalf of Fujitsu Siemens Computers, in September this year (*Ti Logistics Briefing, News, September 23*). Those two container trains are precursors of scheduled door-to-door rail freight services, for which TEL will be the managing operator, with a weekly frequency in each direction between Germany and China. Those services will commence after the next Chinese New Year in February 2009, with a maximum capacity of 110 TEUs per train.

At the German end, the trains will serve Duisburg and Nuremberg, as well as Hamburg, and both in Germany and China TEL will provide feeder connecting rail services, at the request of clients, to/from cargo origins or destinations throughout the respective countries. The majority of the containers (mainly 40fts) are owned by TEL, while some of the shipper customers will also provide containers. The rolling stock will be owned and operated by the national rail companies of the countries through which the service will move, such as Deutsche Bahn, RZD, the Chinese Ministry of Railways (MOR) or the rail networks of Poland and Belarus. The China-Germany block train in September also transited Mongolia, while the scheduled services will not. They plan to move over the more circuitous route directly from China to Russia, crossing the border at Manzhouli, northern China.

As detailed below, demand for these services is expected to grow over the next few years due to improvements in that rail corridor, including a large-scale expansion of intermodal container infrastructure underway in China. Deutsche Bahn, its subsidiary DB Schenker, and other logistics service providers see major opportunities in the future due to those developments.

Many other logistics service providers are expected to participate in the 'Trans Eurasia Express', as the recent ad hoc container trains have been named. Germany-headquartered intermodal service providers Polzug and Kombiverkehr, as well as Transcontainer, the container transport unit of RZD, will purchase space on the trains, which they will sell to freight forwarders and shippers. All those

companies, in addition to Deutsche Bahn and RZD, are shareholders in Trans Eurasia Logistics. The joint venture partners Deutsche Bahn and RZD each own 30% of the company, while Transcontainer owns 20%, and Polzug and Kombiverkehr each have a 10% share. Deutsche Bahn and RZD are currently in discussions with the MOR with respect to the possibility of the latter's participation in the joint venture.

TEL is marketing the service, for FCL (full container load) traffic only, to global 3PLs such as DB Schenker, Kuehne + Nagel and DHL Exel Supply Chain, with the 3PLs consolidating LCL (less than container load) shipments received from shippers into FCLs. DB Schenker, which currently provides a wide variety of transport and logistics (including value-added) services in northern, southern and central China, sees that train service as a way of expanding its rail logistics service offerings substantially in the country. In China, DB Schenker has approximately 60 offices in 36 cities, and over 260,000 sq m of logistics and warehousing facilities.

Norbert Benschel, Head of DB Schenker on the Management Board of DB Mobility Logistics, responsible for the Transportation and Logistics Division, explained: "With the introduction of the regular timetable and fixed departure times, this new link in our global network will enable us to offer a new level of quality in the trans-continental exchange of goods." There has been interest in the new service from companies in the automotive, chemical, engineering and paper industries, as well as from manufacturers of household goods.

Initially, the bulk of the demand is expected to be for goods moving between China and Germany, particularly westbound from China (the headhaul or dominant leg), although as evidenced by the train this month there is also no shortage of cargo demand eastbound. Some of the containers will be loaded/unloaded in Russia too, as there are confirmed customers for the service located in Moscow, and demand for consumer and other goods destined for Kazakhstan. However, Deutsche Bahn does not expect the Russian shipment volumes to be as high as to/from China for the foreseeable future, at least until a viable transshipment hub system for rail cargo is established in Russia, which may not happen for several years from now or longer.

TEL, DB Schenker and its 3PL competitors see China as providing more cargo growth opportunities for the service in the next few years. That is largely due to the MOR's commitment to increase the volume of container traffic moving within China from the current approximately 2m TEUs to 10m TEUs per annum, as part of its 2006-2011 five-year plan. To achieve that, the MOR plans to develop an intermodal service network by constructing 18 terminals encompassing all China's main industrial regions. Since June 2008, the construction of seven such intermodal facilities has begun, which are scheduled to become operational in 2009. Those will be located in Qingdao, Chongqing, Chengzhou, Dalian, Wuhan, Xi'an and Chengdu.

In order to fund the proposed investment of CNY12bn (\$1.75bn) required for the project, the MOR invited foreign investors to participate in a joint venture for the construction and operation of the 18 terminals. The joint venture company, called China United International Rail Containers Co Ltd, is branded CRIntermodal and has seven partners from different parts of the shipping and logistics industry. They are: (1) CRCT, a 100% subsidiary of the MOR; (2) NWS, a Hong Kong-based group managing other transport related projects in China; (3) marine container manufacturer CIMC; (4) Hong Kong-based financial investor Promisky; (5) CMA CGM, the French container ocean carrier; (6) Zim Integrated Shipping Services, the Israeli ocean carrier; and (7) Deutsche Bahn. CRCT owns 34% of

CRIntermodal, NWS owns 22%, CIMC and Promisky each own 10%, while CMA CGM, Zim and Deutsche Bahn each have an 8% share of the joint venture.

While Deutsche Bahn and its partners in TEL are confident that there will be no shortage of cargo, in view of those initiatives and the competitive transit time, they admit that there are also a number of operational challenges, due to the involvement of the various national rail companies with different modus operandi, as well as the need for increased and on-going investment in the route infrastructure and railcars. Overcoming those challenges requires meticulous advance planning by TEL for it to maintain a high degree of schedule reliability on the service.

First, establishing the transit routes has not been a fast process with numerous political obstacles.

Secondly, there are major differences in the railway infrastructure between the participating countries, in terms of the power systems and widths of the track gauge. The rail networks in the CIS (including Russia) and Mongolia have a track gauge of 1,520mm, wider than in China and Europe, whose networks have the 'standard gauge' of 1,435mm.

Differing regulatory systems between the countries also create challenges. Those include different consignment notes used by European, Russian and Chinese rail authorities; different Customs procedures between the countries, with respect to documentation and the flow of shipment data; and goods restrictions in certain countries, e.g. certain classes of dangerous goods not permitted to be hauled in Russia.

Despite those challenges, the ad hoc block train from Xiangtang to Hamburg achieved its goal of a 17-day transit time and the eastbound train currently in transit is reportedly moving without a hitch. In view of those developments, and the operational and commercial planning between TEL's joint venture partners, the weekly services planned for early 2009 are expected to run according to schedule.

To find out more about the issues discussed in this article, book your place at [Global Distribution Strategies Conference 2008 – Asia Pacific](#) at the Langham Place Hotel, Hong Kong, December 2-4. This unique event combines insightful presentations by leading industry experts, including some from Deutsche Bahn, and TI analysts, the leaders in knowledge delivery for the logistics and transportation sectors.

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