

## ROAD FREIGHT TRAFFIC BETWEEN RUSSIA AND POLAND<sup>1</sup>

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*A suspension of trucking between Russia and Poland and subsequent shut-down of road freight transportation between Russia and Ukraine have made Russian freight carriers switchover partially their routes to those via the Baltic States. It is to be noted that Poland and Ukraine which initiated border closure for carriers were affected the most by suspension of trucking. Probably, assessment of negative effects prompted Russia and Poland to exchange permits to trucking (170,000 licenses to each side till the end of the year) on 1 April 2016.*

According to the data of the World Bank, road freight transportation is a key method of land carriage of goods between countries and it accounts for about 80% of goods traffic by land<sup>2</sup>. The world practice of international trucking is a license issued to non-resident carriers to transport freight via the territory of a foreign state. Early in February 2016, Russia and Poland failed to agree on cargo traffic<sup>3</sup> quotas and permits and that situation resulted in a short-term suspension (for a month) of trucking between the two countries, switchover of carriers to other routes and shut-down of road transportation between Russia and Ukraine.

Bilateral road transport agreements<sup>4</sup> concluded between countries providing those services are the main documents which regulate access to the market of international road freight transportation services<sup>5</sup>. Access management is carried out by means of issuing of cargo transport licenses within the limits of approved quotas which also limit rendering of similar services by companies of third countries which are not parties to the agreement. Licenses are normally issued on an annual basis.

Flows of goods from Poland to Russia and from Russia to Poland are relatively low: the share of foreign trade turnover between those two states amounts on average to 2.5–2.9%<sup>6</sup> in Russia's foreign trade turnover with all the countries of the world. The indicator of trade with all the EU countries

1 This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.5(23).

2 Quantitative Analysis of Road Transport Agreements (QuARTA) // World Bank, 2013.

3 For more details, see the official Web-site of the RF Ministry of Transport: [http://www.mintrans.ru/news/detail.php?ELEMENT\\_ID=29685](http://www.mintrans.ru/news/detail.php?ELEMENT_ID=29685). In particular, in the official letter of E. Schmit discontent was expressed due to state control getting tougher over international road transportation and change of responsibility for violation of the procedure for fulfilment thereof in Russia. Currently, the countries renewed road trucking till 15 April 2016 having exchanged 20,000 licenses each.

4 Bilateral road transport agreements.

5 According to the data of the World Bank, coastal shipping is banned by 90% of all the bilateral agreements. For more details, see The Quantitative Analysis of Road Transport Agreements (QuARTA) // World Bank, 2013.

6 The data of the Federal Customs Service on Russia's foreign trade with the main countries and groups of countries in the 2015–2016 period.

amounts to 42–48%<sup>1</sup>, which is evidence of the fact that road freight transportation between Russia and European countries<sup>2</sup> is the most required one for carriers both from Poland and Russia. Early in 2016, Poland reduced the number of transit permits to Russian carriers. As a result, according to the estimates of the Russian Association of International Road Transportation<sup>3</sup>, the share of Russian carrier en route from Western Europe to Russia via Poland currently amounts maximum to 30%.

Due to the above, Russian shipping companies reoriented to other trucking routes to Western Europe, for example, through Ukraine, Latvia, Lithuania and Estonia<sup>4</sup>. As a result of reorientation of carriers to routes via Ukraine, first unofficial (from the Ukrainian side) and then official shut-down<sup>5</sup> of road transportation between Russia and Ukraine till 25 February 2016 followed<sup>6</sup>.

Suspension of licenses to trucking has the following consequences:

- Transportation services become more expensive due to growth in costs by virtue of change in the route. As regards trucking from Russia to Western Europe, a switchover of Russian carriers to a land route via Ukraine makes the distance of transportation 500–1000 km<sup>7</sup> longer with the average length of the route from Western Europe to the European part of Russia amounting to about 4000–6000 km and the average cost, to euro 4000–6000 per trip or about euro 2000–3000 a day (with a 1.5–2 day average duration of a trip)<sup>8</sup>. So, growth in costs per truck amounts to about 10–20%, or euro 500–1000. However, from 11 February to 25 February 2016 that route was not an accessible alternative<sup>9</sup>. Another route between Russia and Western Europe runs through Lithuania and Sweden with a ferry crossing between the city of Klaipeda (Lithuania) and Karlshamn (Sweden). In that case, the distance of transportation becomes 1000–1200 km longer of which ferry crossing accounts for 420 km, while an increase in the land route is equal to about 600–800 km. In such a case, a cost increase is made up of appreciation of land route costs (euro 600–800) and the cost of ferry crossing (euro 230–300<sup>10</sup>); growth in transportation costs per vehicle amounts to 16–22% or euro 800–1,100. It is to be noted that due to the specifics of the types of transport<sup>11</sup> and the fact that the length of other alternative routes as compared to tradi-

1 Ibid. According to the data of the Federal Customs Service, in 2015 the foreign trade volume between Russia and the EU amounted to about \$236bn.

2 Mainly, Germany, the Netherlands, Italy and France.

3 The official Web-site of the Vzgyad daily, <http://vz.ru/economy/2016/2/12/793892.html>.

4 For more details, refer to the official Web-site of Gazeta.ru [http://www.gazeta.ru/auto/2016/02/19\\_a\\_8082899.shtml](http://www.gazeta.ru/auto/2016/02/19_a_8082899.shtml).

5 The official suspension of road freight transportation first became effective on the part of Russia in response to unofficial blocking of passage of Russian carriers through the territory of Ukraine.

6 For more details, refer to the official Web-site of the Ministry of Transport: [http://www.mintrans.ru/news/detail.php?ELEMENT\\_ID=29955](http://www.mintrans.ru/news/detail.php?ELEMENT_ID=29955).

7 That is an estimate of extension of the land route via the territory of Ukraine near the Polish border.

8 The average value in pricelists of companies which carry out trucking and the estimate of the Web-site: [searates.com](http://searates.com).

9 The official Web-site of the RF Ministry of Transport, [http://www.mintrans.ru/news/detail.php?ELEMENT\\_ID=29892](http://www.mintrans.ru/news/detail.php?ELEMENT_ID=29892).

10 Cost estimate in accordance with the price list for Klaipeda-Karlshamn ferry crossing of commercial vehicles.

11 Some goods can be transported only by specific types of transport.

tional transportation routes is much higher<sup>1</sup>, the share of alternative route transportation is insignificant as compared to those mentioned above. According to E. Moskvichev, Chairman of the RF State Duma Transport Committee<sup>2</sup>, in 2015 Russian carriers carried out about 160,000 trips via Poland, that is, on average 440 trips a day. Average growth of euro 700–1,000 in costs of a trip will result in additional costs for Russian carriers in the amount of euro 380,000–450,000 a day or euro 139–160m a year. Due to suspension of road transportation on the Russian-Ukrainian border, the flow of vehicles from Russia to Ukraine decreased by about 170–200 vehicles<sup>3</sup> a day. Losses related to reorientation to routes via Lithuania and Sweden can be assessed at euro 140,000–200,000 a day or approximately euro 51–73m a year. Apart from appreciation of transportation costs due to a change in route, transportation time increases, too: a 500–1,000 km increase in the route<sup>4</sup> leads to a delay of 14–15 hours in cargo deliveries with a truck's average speed of 60 km/h and average road transportation speed of 45 km/h<sup>5</sup> (with duration of stops and time spent on execution of documents at border-crossing taken into account). As regards the route via Lithuania and Sweden with ferry crossing, an increase in transportation time amounts to about one day and makes transportation of perishable commodities and goods requiring special transport conditions virtually impossible.

- Russian shippers will receive less revenues as transportation time between Russia and European countries<sup>6</sup>, including that between Russia and Poland and between Russia and Ukraine increased. On the assumption that each truck running from Russia to Europe through Poland carries on average \$22,000 worth<sup>7</sup> of cargo the cost of a delivery delay can be estimated as 1/365 of the key rate of the Central Bank of Russia multiplied by the average cost of cargo in a truck, that is, \$6–7 per truck a day or about \$2,800–3,000 a day for all shippers transporting freight via Poland by means of Russian carriers. The average cost of cargo in a truck running through the Russian-Ukrainian part of the border amounts to about \$16,000<sup>8</sup>, while shippers' costs,

1 Substantial appreciation of haulage costs.

2 The official Web-site of the RBK daily: <http://www.rbc.ru/business/01/02/2016/56adc10b9a79476a30b36f8e>.

3 The estimate is made on the basis of comparison of the data of the Federal Customs Service ("The Data on Load of Motor Vehicle Checkpoints for a Day", <http://customs.ru/avtochkp/>) on the number of transport vehicles which passed through checkpoints on the Russian-Ukrainian border on relevant weekdays during suspension of carriage (15 February 2016) and resumption thereof (21 March 2016) on the assumption that reduction of the flow of vehicles on the border is justified only by the fact that transportation via Ukraine is closed for Russian carriers.

4 That is transportation through Ukraine.

5 Estimate of the average speed of land transportation presented by searates.com.

6 On the assumption that there is no change in transportation service provider.

7 Calculated on the basis of the 2014 statistics of the Federal Customs Service (the later data are not available) on the monetary and physical volumes of exports passing through checkpoints on the border between Russia and Belarus and Poland, as well as the number of transport vehicles carrying relevant cargo.

8 Calculated on the basis of the 2014 statistics of the Federal Customs Service (the later data are not available) on the monetary and physical volumes of exports passing through checkpoints on the border between Russia and Ukraine, as well as the number of transport vehicles carrying relevant freight.

to about \$4–5 per truck or about \$900–1,000 a day for all shipper transporting freight through Ukraine by means of Russian carriers.

- The transport sector of Poland and Ukraine will receive less revenues than before. As closure of the border with Russia on the route under review makes it impossible for Polish and Ukrainian carriers to deliver goods to the place of destination, the losses of those two countries can be estimated on the basis of carriers' short-received profit. According to the data of the Polish Association of International Carriers, about 600 Polish trucks<sup>1</sup> went to Russia daily, while according to the data of the Federal Customs Service only 80–100 Ukrainian trucks<sup>2</sup> entered Russia from Ukraine. With the average cost of a trip amounting to about euro 2,000–3,000 a day<sup>3</sup>, Polish carriers short-received about euro 1.5m a day, while Ukrainian carriers, about euro 225,000 a day or about euro 548m and euro 82m a year, respectively.
- European shippers will not suffer losses as they (on the assumption that there is competition on the international freight transportation market) may change a carrier without getting into higher expenses.

In the light of the existing situation, Poland and Ukraine are hit the hardest due to the ban on passage through Russia (euro 1.5m a day and euro 225,000 a day, respectively). Losses of the Russian Federation are substantial (on average about euro 170,000 a day), too, however, they are much lower than those of Ukraine and Poland. In the long-term prospect, it is important to take into account adverse effects caused by suspension of deliveries of goods which have already been shipped, delays and appreciation of deliveries of import intermediate goods to Russia (due to a switchover to other types of transport and routes and transaction costs related to a change in a carrier); the above factors cannot but affect the volumes and quality of domestic production in the long-term period. With limitation of access of European goods (transported by trucks) to the Russian market for a long period of time, import substitution processes may consolidate, however, it is a long process and its effect may become explicit only in two-three years. Repetition of developments of February 2016 will definitely prompt Russian carriers to switch over to new routes (mainly via the Baltic States) which they are already familiar with. ●

1 The official Web-site of Gazeta.ru, [http://www.gazeta.ru/auto/2016/02/04\\_a\\_8056457.shtml](http://www.gazeta.ru/auto/2016/02/04_a_8056457.shtml).

2 The estimate is made on the basis of comparison of the data of the Federal Customs Service ("The Data on Load of Motor Vehicle Checkpoints for a Day", <http://customs.ru/avtochkp/>) on the number of transport vehicles which passed through checkpoints on the Russian-Ukrainian border on relevant weekdays during suspension of carriage (15 February 2016) and resumption thereof (21 March 2016) on the assumption that reduction of the flow of vehicles on the border is justified only by the fact that transportation via Ukraine is closed for Russian carriers.

3 Assuming that on the market of road freight transportation between the RF and Western European countries carriers from different countries can compete with one another, costs of freight transportation services of Polish, Ukrainian and Russian carriers should be almost the same.