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STATE AND POSSIBLE DEVELOPMENT OF THE MARKET OF INTERNATIONAL ROAD FREIGHT TRANSPORT

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Abstract

In this paper we will analyze the current situation of the market of road freight transport, scenarios proposed by market participants, according to surveys conducted by the author and according to official sources. In addition, the options of possible structural changes in the market under the influence of economic and political situation and possible ways of development will be considered.

Keywords: international road transport, Russian logistics market, International Logistics, economy, the direction of the market road transport development, domestic market

The economy of Russia, its position in the geopolitical arena, the related sanctions imposed since mid-March 2014 and causing the fairly strong devaluation of the Russian currency, had a serious impact on all industrial markets of the country. According to the Ministry of Economic Development the predicted decline in GDP in 2015 relative to 2014 is 3%, in industrial production - by 1.6%, investment in fixed assets - by 13.7%, exports of all kinds of services, including transport - by almost a third. Reduction of exports of transport services is projected at the level of 9%. [1]

In situation of economy weakening the reduced demand for logistics services and freight forwarding services is inevitable. This leads to tightening of competition, lower prices, and as a consequence, to reduction of the profitability of the companies that are players in the logistics market and to reduction of number of such companies. Crisis in 2008 - 2009 led to so strong drop in demand that many companies went out of business.

The current wave of the crisis is of different nature in comparison with 2008-2009, and according to experts, can be more serious test for the transport industry. In the event of collapse, recovery of the industry will take a longer period if the appropriate environmental conditions are not created.

The current state of the market of road freight transport

Road transport market is estimated by its participants as in crisis. However, industry players have different definitions of the crisis degree: this is a serious problem for some players and short-term difficulties for others.

Executive Director of "RosTransEkspeditsiya" LLC assesses the current situation as reduction of the overall market emphasizing on two main trends: the first - gradual reduction in the volume of road transport for the past year and a half, and the second - shock reduction in transportation during some months, which is associated with the period of the greatest ruble fall (February -March 2014, October-November 2014).

According to the holding company "Sovtransavto", last year the volume of work for the market as a whole fell by 15-20%, and in the first quarter of 2015 – by 30% at least. At that, the preconditions to change the situation for the better have not been yet. However, in addition to sharp reduction in imports by the action of the EU sanctions, the United States and other countries, and as a result, to decrease in international traffic, the situation developing in the industry during the period from 2009 to 2011 also has the own prerequisites for the present difficulties. This is due to the fact that after the crisis in 2008, a lot of new players appeared. Truck fleet grew so much that by 2011 the supply had began to exceed the demand. Market mechanisms did their work, and the price of transportation began to decline and met any longer the costs of international routes. The fall-off in the past year has exacerbated the situation and it has become a crisis in a very short time.

According to the Association of international road transport the volumes of international road freight transportation in the Central Federal District declined by 11% by the end of 2014, in the North-West Federal District, oriented primarily on the European market, over the last year the volumes of international road transport decreased by 12%. This year, the negative trend has remained unchanged, the fall in freight in North-West Federal District in the early months of 2015 amounted to more than 30%.

However, the results of 2014 showed the increase in volumes of road freight transport to China. They were 1.7 million tons. According to the Association of International Road Transport Carriers (AIRTC), the volume of international road freight across the Novosibirsk region increased by 8%. At the same time, according to analysts, the Chinese direction is not likely to become a salvation for trucking business in Russia. According to the Federal Customs Service of Russia (FCS), the trade turnover with China on the basis of 2014 decreased slightly compared to 2013 (0.5%), and for the first two months of this year decreased by 28.8%. [2]

The current situation have the most influence on small and medium-sized companies - market participants that had not managed to provide the financial stability or the so-called "safety cushion" for the last few years of growth. However, the victims of the crisis become also the sufficient large and well-known players. One of the first victims of the new economic environment has become one of the rather large freight forwarding company "Avtorading", which consisted of 105 branches across the country, providing the delivery of goods in more than 3,500 localities from Kaliningrad to Vladivostok. However, due to lack of working capital the freighter was actually forced to disband its fleet of 120 trucks Mercedes and 120 trailers Schmitz. [2]

Companies without experience and own rolling stock come under the strongest impact. In a situation of austerities and search of ways to reduce the costs, the users of transport services began to purposefully go directly to the carriers to avoid the additional expenses for intermediaries i.e. forwarding companies. The latter maintain their positions only by providing a range of services: customs clearance, provision of services as a sales representative, service for the cargo storage and handling, execution of the accompanying documents. Their position only reinforces the fact that the number of international carriers with their own fleet and cargo handling terminals, as well as having the status of a customs broker, is very little. On the other hand, diversification is one of the possible ways of the business saving for the carriers, and many companies start to choose this way becoming universal operators for the client.

Another noticeable market trend is the development of the export and the devaluation of the Russian ruble significantly contributed to such development. The number of orders for export shipments increased by 2-3 times under the estimation of employees of transport companies. The main directions of traffic are the countries of Eastern and Southern Europe, from which Serbia stands out most clearly. Also, the requests for transportation to Turkmenistan, Armenia, Abkhazia and some other areas increased. But the main paradox is that the carriers themselves are not interested in export transportation in demand. The reason for this is the relatively low cost of transport in the absence of "back load" of transport. As a result of the reluctance of shipping companies to process the applications for export shipments, the customer has to pay more. Rise in prices for such transportation is noted by all the market participants.

Thus, the main trends in the Russian logistics market as a whole is a decline in almost all segments. Many players are forced to dump in order not to lose its customer base. However, this measure can only be effective in the very short term, but in the conditions of a possible prolonged crisis this measure will lead to the depletion of financial reserves. Crisis management in the current situation will not help. Only those companies, which were able to prepare for a crisis in advance, will be able to survive and keep the volume at the appropriate level.

The direction of the market road transport development and ways of the crisis recovery for transport companies

The main focus of activities for the maintenance of traffic volumes is reorientation on the domestic market.

Despite the fact that interest rates in the domestic market are lower, a large number of international carriers started looking for customers here. Organization of transport in the domestic market is different from the international transport by need in more intensive work. In Russia, the average mileage for the month is about 12-13 thousand km per month, and the time for loading and unloading is regulated in hours, vehicle idle time is also calculated in hours. In case of international transport the large amounts of time is spent on border crossing so the time for loading - unloading and customs clearance is regulated in days (usually 2-3 days). In addition, the number of trips is limited by the strict rules of compliance of conditions of work and rest of the driver. Therefore, the average mileage of the vehicle in this direction is about 7-8 thousand km. The level of income from international traffic is much higher than from the domestic routes and the only solution here may be to increase the speed and the intensity of transport. In fact, with the growth of supply, the level of prices for domestic transportation will have to decline in the medium term. However, the demand growth is not expected due to the external factors. It follows that reorientation to the domestic market cannot be the main anti-crisis measure for international carriers in the long run, and in addition to this it is necessary to look for other ways to solve the problem.

Another significant trend which opens up the possibility to maintain the volumes is China. Direction to the east is called by President Vladimir Putin as Russia development vector in XXI century. At the summit of the Shanghai Cooperation Organization (SCO), in September 2014 the transport ministers of the SCO countries signed the Agreement on creation of favorable conditions for international road transport. The Agreement provides the opening of 6 transport routes in the period to 2020 (Fig. 1).

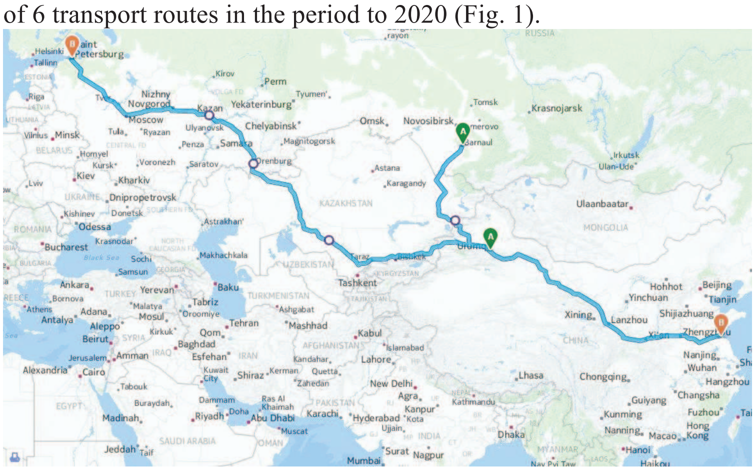


Fig. 1 - Vehicle routes "Russia - Kazakhstan - China" in the framework of the SCO [3]

1) Barnaul - Veseloyarsk (Russian Federation) / Auyl (Kazakhstan) - Semey - Bakhty (Kazakhstan) / Bakhtu (China) - Tachen - Kuitun - Urumqi;

2) St. Petersburg - Orenburg - Sagarchin (Russian Federation) / Zhaisan (Kazakhstan) - Aktobe - Kyzylorda -Shymkent - Taraz - Almaty - Khorgos (Kazakhstan) / Horgos (China) - Urumqi - Lianyungang;

3) Urumqi - Kashgar - Karasu (China) / Kulma (Tajikistan) - Murghab - Khorog - Dushanbe (Vahdat);

4) Urumqi - Khorgos (China) / Korgas (Kazakhstan) - Almaty - Taraz - Shymkent - Konysbaeva (Kazakhstan) / Yallama (Uzbekistan) - Chinaz;

5) Kant - APP "Ak-Tilek" (Kyrgyz Republic) / Karasu (Kazakhstan) - Taraz - Shymkent - Kyzylorda - Aktobe - Zhaisan

(Kazakhstan) / Sagarchin (Russian Federation) - Orenburg - Saint Petersburg;

6) At-Bashy - Torugart (Kyrgyz Republic) / Turugart (China) - Kashgar - Urumqi - Lianyungang. [3]

The dynamics of this market development makes it possible to make an optimistic forecast. Trends in traffic in the period from 2012 to 2014 are shown in Fig. 2. As it can be seen from the chart, the market leading position is occupied by Russian carriers so far. In addition to the overall growth in traffic, which was 4.4% in 2013 in relation to 2012, and 3.5% in 2014 compared to 2013, the share of Russian carriers increased from 79.7% in 2012 to 84.4% in 2014.

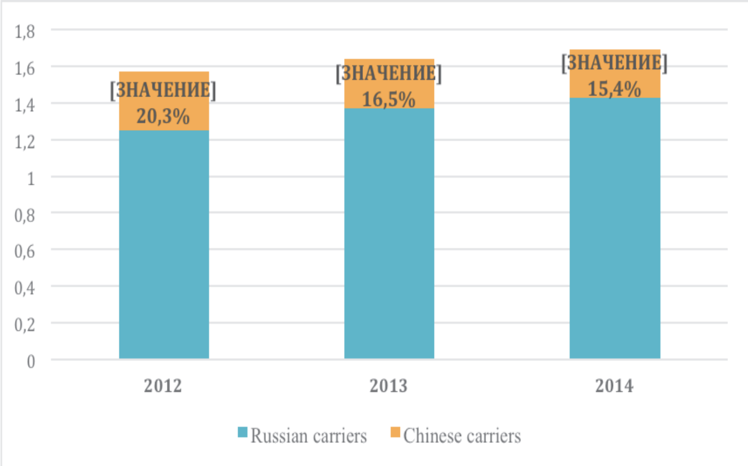
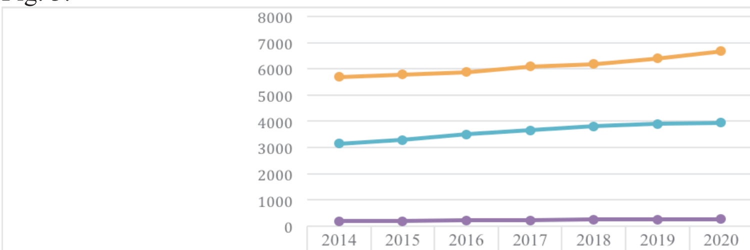


Fig. 2 - Dynamics of the volume of cargo transportation in the direction of Russia – China [3]

Certainly, such a change in the direction of traffic will be very difficult to implement for transport and forwarding company, the main trips of which have been provided to Europe, and would require additional investment, and maybe, even the transfer of business to the eastern part of the country. However, in the long run this is, in my opinion, the most profitable direction of development. With account of the dynamics of GDP growth in China over the past few years, the level of development of international relations with the East and the lack of well-developed logistics infrastructure of the Far East, allowing the entire demand of the market to be covered, this line of work opens up the development opportunities for international transport and logistics companies.

Another possible scenario can be the increase in the transport market of the Customs Union. Strengthening of relations among the participating countries over the last year and the planned policy of economic relation development in the future can also give impetus to the development of economies of these countries and, consequently, increase the demand for transport services. After admission of Kyrgyzstan and Armenia to the Customs Union, the number of round trips in demand should be increased.

Forecast of development of transport volumes within the Customs Union and the Common Economic Space is presented in Fig. 3.



	2014	2015	2016	2017	2018	2019	2020
Russian Federation	5700	5800	5900	6100	6200	6400	6700
The Republic of Kazakhstan	3150	3300	3500	3660	3800	3900	3950
Republic of Belarus	190	195	215	230	250	265	270

Fig. 3 - Forecast of volumes of road freight transport in the Member States and the CU CES, in mln. tons. [4]

The main trend of the market is long-term contracts for transportation services. Nuance is the fact that the customers of the market are willing to work more with freight forwarders and give priority to contracting them.

The difficult economic situation in Russia, of course, weakened the position of many companies in the market of road freight transport. It is clear the prospect of this situation is reducing the number of market participants, the exit of small companies from the market and potential growth of "gray" forwarders. The main direction of development and retention of the positions should be change of geography of transportation in accordance with the potential growth prospects in these markets and the policy of development of the State as a whole.

Government measures to support the market of road freight transport

It should be mentioned just that the great prospects in the issue of support to the transport market by the State are not marked.

According to managers of transport companies, as for the state the transport business looks like small and medium, which one is not particularly interested. All the development programs of road transport relate mainly to the road construction. Some measures were still carried out, but now they turned to someone as negative. For example, for international traffic a few years ago it was allowed to purchase the duty-free vehicles, but they cannot be used in the domestic market. Many companies acquire the vehicle and equipment under such conditions, but now they have found themselves in a situation where the use of the rolling stock is not possible. Such a measure of support in the long term was not only ineffective, but even destructive.[5]

The main state regulation of road transport is aimed at the domestic market. The part of the obligations that is introduced in relation of the carriers in the Russian market, become the norm in the international market long ago. In particular, the introduced obligation on the use of tachographs, which allow you to monitor the observance of the regime of work and rest of the drivers. Many Russian carriers refused deliberately from installation of the equipment, as this will significantly reduce possible run, and as result, will increase the time of carriage of goods and reduce the total volume of traffic for the period.

Another innovation from the government relates to fare on federal highways. The government has been trying to introduce this measure for a long time, but it is planned to be introduced by November 2015.

Both measures relate to the requirements rather than the support from the State. But they will make their impact on the market of road freight transport. All this is reflected in the rise in tariffs, increasing the "gray" forwarders and industry development.

The main direction of state support for the international transport market is the development of foreign economic relations and long-term contracts for supply of goods in export and import direction. As already noted, here the basic perspective direction for the next few years is China and the Customs Union countries.

Conclusion

International Logistics is now undergoing changes phase. The economic crisis will affect the market by the end of 2015. As noted, the outcome of this situation will be to reduce the number of market participants and their possible geographic reorientation.

From a research point of view, this trend is becoming more interesting, because it opens the possibility of finding the ways of development of individual areas of the market and their possible integration. Russia is at the stage of possible restructuring of the foreign economic activity, possible geographical shift of the economic center in the direction of the East, as the main vector of development of the State. Timely response to dynamically changing environment on the part of players in the market of road transport and logistics market as a whole, will affect significantly the development of logistics infrastructure in the Russian Far East and Siberia, which in the long run will provide the economy increase, strengthening of positions in the international market and the development of the industry.

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