

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

4-6 JUNE 2009, ST. PETERSBURG

ECONOMICS DAY

SESSION:

MODERN LOGISTICAL SYSTEMS

In cooperation with Mercedes Benz

JUNE 5, 2009

(14:30-16.30, Pavilion 4, Hall 4.3)

St. Petersburg, Russia

2009

Description:

Economic relations between Western Europe and Asia urgently require the development of uniform logistical concepts. A well-elaborated system of distributional logistics is a prerequisite for a competitive economy. A growing need for modern, high-quality and primarily rapid transport networks requires interstate cooperation and significant development of the infrastructure in Russia.

Topics for discussion include modern logistical standards, customs and technical requirements for admission, interconnection between different modes of transport and unification of standards, barriers facing free railway freight transportation, and measures to develop infrastructure (emphasis on Russian regions).

Moderator:

Dr. Klaus Mangold, Chairman of Eastern Committee of German Industry

Participants:

- **Andrei Belyaninov**, Head of the Federal Customs Service of the Russian Federation
- **Oleg Belozеров**, Deputy Minister of Transport of Russian Federation
- **Stanley Hui**, CEO, Hong Kong International Airport
- **Juergen Sauer**, President, Mercedes-Benz Russia SAO
- **Professor Dr. Christopher Jahns**, President, European Business School
- **Vladimir Yakunin**, President of Russian Railways
- **Aras Agalarov**, President, Crocus Group

Transcript:**K. Mangold:**

I am very happy we can spend this day together. I strongly believe that infrastructure and logistics are of major importance, both during the crisis and after it. When economy finally recovers worldwide, we shall see that logistics and infrastructure are critical factors for development of business. Just two weeks ago I was in China, and I saw how much money China invests in infrastructure to become a more competitive country. I suggest that our discussion should basically be focused on the issues of holistic approach to development of infrastructure in Russia. We should discuss those issues together

with representatives of the transportation sector – railway and water transport, their customers and clients, as well as academics. I would also like to introduce to you our round table participants. First of all, I would like to introduce Mr. Oleg Belozarov, Deputy Minister of Transport of the Russian Federation. It is a great pleasure, Mr. Deputy Minister. He is a new man in the Government holding his post since March 2009; however, he has extensive prior experience in the transportation sector as the head of the Federal Highway Agency. I am also pleased to introduce to you Mr. Stanley Hui, CEO of Hong Kong airport, who will make a most interesting contribution to our today's meeting by telling us about innovative concepts of infrastructure in air transport. Mr. Aras Agalarov, who represents Crocus City – one of the largest development project in Russia – will tell us about organisation of logistics in export traffic. Dr. Jahns, professor of one of the best business schools in Germany, is also the head of the Supply Chain Management Institute he founded. He will provide us with his analysis of supply chains in Europe. As you all know, professor Jahns has also established an institute at Frankfurt Airport with a focus on logistics for the combination of road, railway and air transport. This may be an extremely interesting model of combining educational functions with practical logistics goals. I would also like to present Mr. Juergen Sauer, President of Mercedes-Benz Russia. He will complete our today's discussion and tell us about development of automotive transport. It is acknowledged by all that Russia plays an exclusively important role in international traffic flows, and now the transport development strategy developed for the period until 2030 involves rebuilding and reconstruction of virtually all transport infrastructure. Mr. Belozarov considers this one of the economic priorities for the Russian Government. Russian economy will gradually recover and will have an immediate effect on other regions of the world. A very high value is placed on development of infrastructure, and we need to maintain its rate, and it would also be interesting to know what ways and methods you consider to approach development of new infrastructure. You have the floor, Mr. Belozarov.

O. Belozarov:

Mister Chairman, dear colleagues,

First of all, I would like to thank you for the opportunity to join this discussion today. The topic appears to be extremely important, especially for the Russian Federation. I would like to remind that the Russian territory covers 11 time zones. This is an enormous space, and, consequently, transportation costs are very high, currently twice as high as in Europe. The past year was very important in terms of introduction of documents under transport development programmes. The federal special-purpose programme for the modernisation of the transport system is coming to an end this year, and most of the programme targets will be achieved. This is supposed to be done one year ahead of

schedule. Originally the programme was planned to be implemented in 2002–2010. However, in light of the favourable situation two years ago, it was decided to reduce the implementation period by one year. Accordingly, a set of documents was adopted last year to ensure continuity of strategic planning and implementation in the transport industry. It included, first of all, the federal task programme for the development of transport in 2010–2015, and at the same time a transport strategy until 2030 was being developed. The framework for the social and economic development of the country until 2020 was established by last summer, and, accordingly, we, in transport, tried to look ten years into the future since we believe that strategic economic development of the country shall be based, first of all, on key growth points in transport.

What does the strategy until 2030 mean? First of all, it means that virtually all qualitative performance indicators will be changed for all modes of transport. I shall begin with finance. It is 170 trillion Russian roubles, an enormous amount that was originally put in the Programme. And 107 trillion roubles out of it is expected to be raised from extra-budgetary sources, and, accordingly, only around 60 trillion comes from various budget levels. The plan is to expand roads by 350,000 km; expand airports and runways by almost 100 % from 350 to 700; expand railroads; expand our inland waterways and increase cargo throughput at sea ports by more than 100 % as well. New sea ports are also expected to be built.

I already said what our transport strategy means in general. First of all, it is about establishing common space. I already named the basic underlying factors for the physical development of traditional performance indicators. Goals number two and three are to make transport service more accessible and affordable to freight owners and passengers. These goals are further subdivided into specific individual objectives. For example, freight transportation speed as well as passenger accessibility and mobility must increase more than 2.5 times. A special objective within the transport strategy is to integrate into the international transport space, which means that international transport corridors must be developed. Another special objective is to improve safety and reduce adverse transport effects, which was already mentioned at the plenary session today. I mean transport effects on nature and the environment.

This is the first time that such a kind of strategy is adopted, it employs many new indicators, and we believe that it is this strategy that reflects the main areas of development for transport in the near term.

At the same time, life dictates changes. Although the mentioned strategy was adopted last November, the federal special-purpose programme for 2010–2015 remains our main tool. Given the changing economic environment, the Government had to somewhat reduce investment in the transport sector already this year. First of all, this affected investment in road facilities. The investment structure also changed significantly. It was decided to allocate certain funds to support air and railway transport. Yet,

despite the overall budget cuts, total investment in transport infrastructure increased by 15 %, as compared to the previous year.

We are sure that the development of transport infrastructure will remain one of the top priorities next year. This year the planning system was modified. The current programme is coming to an end, and its original targets will be achieved. We had to implement and complete the construction of the projects that had already started, and this commitment will be met this year without fail. I am talking about such airports as Yekaterinburg-Koltsovo, Elista, Sochi, Rostov-on-Don, and Novosibirsk-Tolmachevo. The design of a whole new airport for Irkutsk will be completed in Novosibirsk. In addition, new terminals will be built in Yekaterinburg-Koltsovo, Irkutsk, Moscow-Sheremetyevo, and Novosibirsk-Tolmachevo, which will be financed from extra-budgetary sources. In sea transport, a car and train ferry facility in Ust-Luga, a complex in Baltiysk, a number of sea port facilities in St. Petersburg, Novorossiysk, and in the Far East are supposed to be commissioned.

Furthermore, as you know, there is a significant programme for inland waterways. These are now about 100,000 kilometres long, and, as part of environment improvement, great attention will be paid in the nearest future to the development of inland waterways. As for motorways, about 3,000 km will be put into service this year. As you know, there is a major project now in progress – the construction of Chita-Khabarovsk motorway, and we believe that next year the west and east of our country will be linked by a major highway.

Also, there are significant individual engineering structures being built such as those provided for by the programme for the construction of extra-long bridges. Bridges across the Volga River will be commissioned this year in Ulyanovsk, Volgograd, and Saratov. Some construction projects have been going on for more than fifteen years.

We believe that in current situation special attention should be paid to raising funds through private-public partnerships. Despite the crisis, two projects in the road industry continue to be implemented at the federal level: these are exits from St. Petersburg and Odintsovo. Today there is confidence that we, together with concessionaires, will successfully accomplish our efforts this year. The Law on Russian Motorways State Corporation is scheduled to be adopted as soon as next week. The corporation will be responsible for the most congested parts of motorways, their development, construction, and reconstruction, and will act as a concessionaire on the Government's behalf in projects. We think that dealing with private investment nowadays is a very strong and effective mechanism.

Also, amendments to legislation were prepared in order to establish special economic port zones. As I already mentioned, we are convinced that transport development is the most important area of development for Russian economy. The tendency outlined in our strategic documents will continue.

Some short-term goals may be adjusted, but the strategic goals will be fulfilled in any case.

To conclude my speech, I would like to say that 2009 is an anniversary year for the Ministry of Transport. Back in 1809, two hundred years ago, a decree was passed, establishing a single transport agency. This year, on 20 November, we will have an official ceremony, and I would like to take this opportunity and invite all present to join the celebration.

K. Mangold:

Thank you very much. Now I would like to use the occasion to greet Mr. Yakunin, CEO of Russian Railways. This morning President Medvedev spoke about Russia's environmental and climate protection responsibilities. The railroad is certainly one of the most climate-friendly modes of transport. What future opportunities do you see for the development of the railroad – first of all, as an important means of communication not only across Russia, but also between Western Europe and Asia?

V. Yakunin:

Thank you, Mr. Chairman, for the floor.

In response to your question, I would like to tell that two days ago I was in Finland as a member of the delegation led by Prime Minister Vladimir Putin. As you know, some time ago Russian Government announced its intention to impose restriction on container transportation through Finland using trucks and shift to using railway transport. The reaction was so strong, and it took so much time to discuss the damage this decision will cause to Finnish carriers, that during a business meeting – seeing Finnish representatives flood our Prime Minister with questions – I dared ask Finnish Prime Minister a question. My question was formulated as follows: “Mr. Prime Minister, Finland and the Finns are so careful and sensitive about environmental issues, so why does Finland have such an extremely negative reaction to our proposal to shift traffic to the most environmentally friendly mode of transport, which railroad is, from the most polluting, automotive transport?” I gave an example – the remarkable Russian poet Alexander Pushkin once said: “Scratch any Russian and you will find a Tatar”. I offered another version: “Scratch anyone – Russian or foreign – and you will find a rail roader.” Even the two Prime Ministers discuss railway issues. Prime Minister Putin, in response, suggested another formula and said: “We have another saying in Russia, “An uninvited guest is worse than a Tatar”, and from your questions we can see that no one, not even an uninvited guest, can be worse than a rail roader.” That is, a rail roader with his questions is even worse than an uninvited guest. Of course, this was a joke, ladies and gentlemen. However, as you know, many a true word is spoken in jest.

Railway transport remains the most environmentally friendly mode of transport, which is at the same time capable of carrying large quantities of freight over long distances. Today we, at Russian Railways, are positioning a new product named “Trans-Siberian in 7 Days” – seven days from Nakhodka to Moscow. We do it consciously. Today we have already exceeded an average speed of 1,000 km per day. We are going to further increase it, and this is also part of building supply chains.

A feature of our time is that many professionals, both Russian and foreign, have perfectly learned a few words that they use to position themselves as strong supporters of market development. What are these words? Business, logistics, competitiveness, and rating. Other words may also be used if desired. You know, it reminds me of my grandson when he was a little boy. His father went for a training trip to Scotland, and the boy was sent to a local kindergarten. And he knew only two words in English – “yes” and “no”. And, having learned these words perfectly, the boy was very comfortable among foreign children. When I asked the child minder whether he had any problems, she told me there was no problem at all. Well, then those individuals who learned these four words had had no problem until recently when the crisis struck. Now that problems arose I think that the way out of the problems, as the Prime Minister of the Philippines said today, lies, to no small extent, in the development of infrastructure and, undoubtedly, in the development of trade integration and industrial integration of various countries throughout the world.

As you know, we cooperate widely with Europe – for example, with German Railways. German Railways showed the highest efficiency among transport companies last year, with more than 50 % of profit accumulated from logistics, multimodal transportation, rather than from operations, that is, freight transportation by rail.

You know that Germans have an automotive concern in their possession, and so do our neighbours, the Finns. And I cannot rule out the fact that it is time for Russian Railways to consider multimodal transportation since we are expecting to have the ferry as soon as this year. The Ust-Luga – Baltiysk – Saßnitz route is already in operation. This year, as far as I know, Russia is going to join the COTIF, and this will expand our transit capabilities and place us on a par with our other neighbours – the Baltic States.

This all creates very good conditions for the development of supply chains which are a source of profit for many companies today. According to experts, this market will be estimated at approximately 150 billion US dollars by 2015. This is worth fighting for, isn't it?

And we are fighting. Very soon we are going to open a cargo terminal in Shushary and to transfer there all our cargo operations from the centre of St. Petersburg, which will enable us and the city to use the land in the centre of St. Petersburg for other purposes. We are making active efforts to develop a

logistics terminal complex, Bely Rast, near Moscow. We set up a logistics business centre that should become a kind of a growth point for the logistics business of Russian Railways. And you are all aware, of course, of our plans to extend our broad gauge up to Vienna and to build a logistic hub near Vienna. Although some Western Europeans were sceptical about this project in the beginning, I can say that today the railroad community as well as many politicians are beginning to see it in quite a different way, because Asia and Russia are the centre of cargo origination for Europe, and Europe is in most ways the centre of industrial cargo for Asia and Russia. This is why transport corridors 2 and 5 are natural corridors, around which transport logistics centres should be built. By the term “transport logistics centres” we mean the development of door-to-door delivery of goods and cargo. Once again, I would like to refer to the experience of German Railways. We also want to introduce the same service. Both the automotive company and our consistent policy in acquiring shares in container terminals at ports are the links of one chain, because sometimes when we talk about logistics centres we mean developed storage centres or worse.

But logistics is not only about cargo safety, it is also a whole set of consumer services. First of all, the entire route including various kinds of transport is tailored to consumer needs. Then there is presale cargo processing and small shipment handling, which has become very uncommon in Russia. And it causes tremendous problems both to small businesses and to common people. All these procedures are constituents of the logistics business which is wide-spread in the West but is hardly represented in Russia.

In my view, these factors provide very good, creative, and competitive advantages for Russian Railways as the company has spread its network all over Russia. Throughout this network we may identify specific points for logistics centres to be developed. There were attempts to set up such centres in Moscow, for example, independently of railway infrastructure, and some of them led to very significant problems because everyone knows, including our foreign friends who visit Russia frequently, how congested our motorways are. Therefore, I think that logistics centres at Russian Railways would be much more intermodal than similar centres dealing, for example, with motorways only.

In general, I would like to invite all participants of this round table to develop cooperation with us. If you have any offers, please send them to us so that you do not find yourself in the position of a man who runs up, out of breath, to a railway platform and asks a porter, “You know, there was a train to Sochi here, where is it?” The porter answers, “It left a minute ago.” The man glances at his watch and says: “Well, that was not long ago.” The train has already started. Thank you.

K. Mangold:

Thank you very much. I have a feeling that you will have a great future. You outlined your strategy, and I think that's the case. It was very interesting, after Mr. Belozerov's overview, to hear about railway transport. And as for air transport, we would like to ask you, Mr. Hui, to tell us about Hong Kong Airport. Indeed, this is a major international air traffic centre providing both passenger and freight service, this is a huge hub, so I am very interested to listen to what you are going to tell.

S. Hui:

Thank you, Dr. Mangold. Good afternoon, ladies and gentlemen. Earlier on, I asked Dr. Mangold whether or not he's been to Hong Kong or to mainland China. Apparently, he's a rather frequent visitor to China. So I guess he should know roughly what we're going to talk about in terms of our airport and also infrastructures and transportation systems that we have in Hong Kong that support the economic development of Hong Kong and the region.

Obviously, if I may, I wish to say this is my first time in Russia. Obviously, I'm so fascinated by this really great country you have here. Everything is unique, your culture, your history, and of course, your art, opera and ballet. Everything is all very fantastic. And, of course also, there's no other place like it in the world. I think that also includes the transportation problems that you have around the country here.

How many of you know anything about Hong Kong, or have been to Hong Kong, or know where Hong Kong is? I see a lot of Russians and, obviously, people from this country and Europeans. I would just like to say a little bit about Hong Kong and the way it is and what we have been doing. Hong Kong was really a very small fishing village only something like 170 years ago. But, of course, we have come a very long way from being a very small fishing village or, what perhaps was once called a 'fragrance harbour' to a very strong export economy in the 1970s. For those who've been doing trading for long enough, you should know the four Asian Tigers: Hong Kong, Korea, Taiwan, and Singapore. We were actually exporting a lot back in the 70s. But things move on. As China opened up a lot of factories in Hong Kong and started relocating to the area around us - what we call the Pearl River Delta Shenzhen area - then Hong Kong eventually became a service-oriented economy.

Now, today, even further than that, Hong Kong is one of the big international financial centres. So that's, I think, the real heart Hong Kong has developed over the years. But, of course, apart from financial services, being an international financial centre we're also a trading, logistics and tourism centre. Hong Kong's service industry really puts everything in. In fact now, it accounts for ninety

percent of our GDP; our economy. Every manufacturing activity has been moved across the boundary. Why have we been able to do that? Well, that's really all to do with the systems, from transportation systems and other services that we have in Hong Kong to support that development.

What the organiser asked me to say is what's wrong with the transportation system here in Russia, but I think as you know, in our culture we're not in the habit of criticising what's wrong with other countries. I think more so what I really intend to do is to tell you what we have in Hong Kong and what are the things that we have done to support our economic development, in particular for the development of manufacturing activities in Pearl River Delta and also, of course, the development of Hong Kong as a trading centre. The way I look at it is: we'll talk about a lot more than logistical systems. It's really about delivering goods and services from origin to destination speedily and in a very efficient and very cost effective manner. And also on time - Mr. Yakunin mentioned about being late. So I think that's really what modern logistics is all about.

It's also really about facilitating the flow of goods and international trade. Logistics is a very complex industry that involves multi-faceted parties and also infrastructures and processes. Not just the infrastructure itself - not the airport itself. There are many other things coming together to really make things move speedily and move very punctually and reliably. They also require airports, seaports, roads and railways. Mr. Yakunin has just mentioned that. It also requires people to operate these services. While we have shipping companies, airlines, railway companies and also logistic companies, we also have cargo-forwarding companies and tracking companies. Everything all comes together to make actual logistics work. It also requires financial services such as insurance and trade finance. With all of these things you can have manufacturing, you can have trade, you can have logistics. It's also about clear and very simple custom processes that would then facilitate the import and export of goods. They are very important as well. Manufacturing and trading cannot develop effectively without the support of a very cost effective, a very efficient, and very reliable transportation system. This, I think, in a nutshell, is really what I believe what modern logistic system is all about. It's really multi-faceted. It's not just talking about infrastructure.

Now, in the case of Hong Kong, we are very lucky because of where we are located. We are located, in terms of east and west, in between Europe and the Far East. And also, in terms of north-south trade routes, between say Korea, Japan, China, and then through Hong Kong, going all the way down to South-East Asia, Australia, and New Zealand. This is the north-south access that we talk about. And obviously, the most important for Hong Kong are the trade routes with China, with the western economies and with the United States to the east of Hong Kong.

From Hong Kong, in terms of air transportation, we can also reach half of the world's population by air within about five hours. We are on the doorstep of the world's fastest growing economic regions. I mentioned before, the Pearl River Delta, where all the consumer products such as garments, electric appliances, furniture, electronic goods, mobile phones, computers -you name it: everything that you need for your daily life - and quite a bit of it is manufactured in this region we call the Pearl River Delta. If anyone has been visiting the United States, when you go into department stores and just flip over some of the labels of what you see in the store, I can guarantee more than ninety percent of those products that you see in the department store actually come from Hong Kong. While the Pearl River Delta, I think, occupies only 0.4 percent of the land area of China, that area accounts for something like thirty percent of the total trade of our country. That's huge. That gives you a magnitude of really the quantity of goods that we talk about that we need to transport from the manufacturers to the west and also to the east.

Now, given the geographical proximity of Hong Kong to the Pearl River Delta, the world's factory, transportation infrastructure is very important, connecting Hong Kong and the Pearl River Delta, and Hong Kong and the rest of the world. Typically today, we have raw materials coming from Taiwan and South-East Asia coming to mainland China through Hong Kong by sea or by air. And, when the products are actually produced, they're being shipped to the rest of the world through Hong Kong also by sea and by air.

Apart from these infrastructures there are the roads and transportation systems. I again reiterate and emphasise that all the support services that we have in Hong Kong are important in order to allow all this to happen. The world factory, the Pearl River Delta, in recent years has developed very strong infrastructures, great container sea ports, and also airports are being developed. But Hong Kong continues to maintain its leading role as the logistics centre for trade between China and all of its trading partners. In 2007, Hong Kong handled between fifty to sixty percent of the value of the Pearl River Delta's exports. And the trade handled by Hong Kong contributed between about fifteen percent and eighteen percent to the Pearl River Delta's GDP.

Obviously, we are very different from Russia. We are a very small place. We have a land area of only one percent of your country. Thanks really I think to a very long history of being a free trade port, Hong Kong has become a striving metropolitan city, with a very simple, low-structured regime with an established legal system based on common law, a sound financial infrastructure, and also a very well-educated international workforce. We also enjoy free-flow information and funds, and world-class services in transport and communication. For example, in Hong Kong, the transportation network connects very well with the Pearl River Delta and at the same time, we're connected to the rest of the

world through air services and shipping services.

Now, on the sea front, I've got some figures here just to give you an idea of what we're doing now. Hong Kong has one of the world's most efficient container ports. Last year, we handled 24.3 million twenty-foot standard container boxes. That's quite a lot. And also, in the Pearl River Delta, they handle a similar number of container boxes. We are the fifth shipping registry in the world of ship owners. Owners operate something like 1,500 ships representing over nine percent of the world's merchant fleet in terms of the dead weight tonnage.

Our airport - that's extremely important. It's pivotal in driving our economy and also strengthening our position as an aviation and logistics centre, supporting our economic development and this development as a trading centre. The Hong Kong government, in terms of aviation policy - because the Prime Minister just mentioned about the air services policies of Russia - and I'm glad to say that our government in Hong Kong also adopts a very liberal air services policy. While we have world-class airlines in Hong Kong, based in Hong Kong is Cathay Pacific Airways - a very successful airline providing transport from Hong Kong to the rest of the world, our government also welcomes airlines from all over the world to come to Hong Kong. We open our doors to them, obviously, on the basis of equal opportunities and equal exchange of rights. Our airport, the Hong Kong International Airport, has been voted the world's best airport for a number of years by the Airport Council International. This airport, with all the support systems that are needed to make the airport successful, cost Hong Kong 20 billion USD back in the 1990s. That's a really big sum that the government put in to this infrastructure because it was recognised to be extremely important for Hong Kong's development and of course for mainland China as well. We have over eighty-five airlines connecting to 150 destinations around the world. And we have forty cities on the mainland connected to Hong Kong. We handled close to 48 million passengers last year, and we handled 3.8 million tons of air cargo. It is the airport with the biggest tonnage of air cargo in the whole world for close to twenty years now. This gives you an idea how important our airport is in terms of our support for the economic development of Hong Kong and also of the Pearl River Delta.

Just to give you an idea of all the cargo and passengers we handle at Hong Kong, eighty percent has to do with mainland China. As you will recall I said in the beginning, many of our factories are being relocated into the Pearl River Delta. And that's why all the cargo coming through Hong Kong is shipped to the rest of the world. And as for the passengers we handle coming through Hong Kong, fifty percent are related to mainland China. So I think without good connectivity on the road, on the sea, and in the air we would not be achieving these numbers. Of course, we talk about this infrastructure and how as we, Hong Kong, operate under one country, through systems and there is a question of how to

actually connect our infrastructures with that of the Pearl River Delta. Mr. Yakunin has mentioned about the difficulty of integrating Russia's railway system with Finland. In our case, obviously it's never easy, but at least we work within one country. So we do have a lot of major infrastructures connecting Hong Kong and the Pearl River Delta. One good example, costing ten billion USD that is, in fact, starting to be build is a bridge linking Hong Kong - a very long bridge, something like thirty kilometres - linking Hong Kong with Macau and Zhuhai that is, in fact one part of the Pearl River Delta. We're also looking at building a railway between our airport and Shenzhen airport. If that is eventually done, it will easily cost another ten billion USD, but these are very important infrastructures in support of economic development and also of the integration of the economies of Hong Kong and of Pearl River Delta. And then the major project - another railway. We put a lot of emphasis on railways. There will be a high-speed train that will connect the northern part of the Pearl River Delta - what we call Guangzhou City - with Hong Kong. That, again, is a big, big project that will take another couple of years to complete. When it is completed, it will reduce the transportation time between Hong Kong and Guangzhou to roughly about an hour, from now currently two hours, even two-and-a-half hours. So I think speed, as you mentioned, is very important. It's one way to really increase the efficiency of the transportation system.

I think that, in a nutshell, is what we have in Hong Kong. As I mentioned, a good transportation system, supported by infrastructures, supported by all of the other services in the community. They are important for the economic development of the community, or, the country. I think that's (sort of) sharing the experience we have in Hong Kong. I hope that it could be useful for Russia as well. No two countries are the same, I would say. Well, there are general principles that we follow but, obviously, you've got your own history, you've got your own development, you have different political situations. So maybe you have to deal with that in a slightly different way. Thank you, gentlemen.

From audience:

Yes, I accept this offer, but I would like to add the following as a comment: I do not think that to reach any part of the world from Hong Kong in 5 hours would be the right goal, because it takes 8.5 hours to fly to Slovakia, for example. So I think we should not permit such a kind of discount advertising.

K. Mangold:

Thank you for your comment. But we really have to improve our services. I think that, from the investment perspective, certainly this report is very much impressive, and we see that enormous amounts are being invested. In particular, Hong Kong Airport is a very important example of a

government concentrating its efforts there.

And now, Mr. Aras Agalarov, President of Crocus Group. He is engaged in quite a different type of business, the one that provides the best distribution opportunities and is closer to a sales network, to stores.

A. Agalarov:

Thank you for the opportunity to speak at this round table. The representative of Hong Kong has just made a very important speech and he said something very significant, that 24 million forty-foot containers mainly go to the USA. I will try to explain why it happens. I think this lies within the area of the customs and tariff policy. The thing is that, unlike Europe and Russia, the USA have a well balanced customs and tariff policy, and customs duties on many goods vary from 3 to 6–7 % on the average. Therefore we, as consumers and as buying agents for sales networks in Moscow and Russia, see one interesting trend. For example, bath towels made in Pakistan or in Vietnam are cheaper to buy in the USA than in the manufacturing country. In my view, this is due to the fact that a huge amount of goods goes to the USA and then it is distributed from there. I am talking about a national logistics system which depends on the customs and tariff policy of a particular country.

Two small examples: joiner's tools for construction: 2 billion is imported to the USA and 500 million is exported from the USA. Locks, usual door locks: 1,600 million is imported to the USA and 800 million is exported from there. Note that Chinese locks are not cheaper in America, but it is much more convenient to buy them there rather than in China because they are packed in the USA. And it is stated fairly that they are packed in the USA, and they can be bought in small amounts. And if you are going to buy in China you will have to buy in forty-foot containers.

Now, as to Helsinki. Mr. Minister said a very important thing, that a great number of containers come to Russia from Helsinki. But, as you know, there are not so many "Made in Finland" goods in Moscow. So what are those containers? Those are containers coming from Hong Kong, China, Korea, and Japan. And why do they come to the country, and even to Moscow, via Helsinki? There is only one reason: it is not even that railway rates are high, but that railway transportation is slow, and there are certain legal difficulties with customs clearance, cargo transshipment. If I am not mistaken, such difficulties have resulted in a situation where goods, the amount of goods coming to Moscow by rail has decreased almost to a minimum, and transit from Nakhodka Port to Europe is somewhat 50,000 containers.

What I mean is that there are countries that had no economic or financial resources in the past, but reached great results in a very short time due to the adequate legal environment, while our country, in my opinion, is slightly stuck exactly because there are laws that interfere with its rapid development.

For example, if we speak about trade in Russia, we all know that in Moscow goods are much more expensive than in Europe or in America. Which is why Moscow is always deserted on Saturdays and Sundays. It is next to impossible to imagine that someone would come to Moscow for shopping. In contrast with New York or Milan, for example. Many of our people go to neighbour countries for shopping because the customs and tariff policy is such that it has become pointless to buy goods, especially luxury goods, in Moscow. It is more efficient economically to travel first class, stay in a foreign hotel for a couple of days, and go shopping there rather than do the same in Moscow.

This topic can be further developed. Suppose that the US import exceeds export almost by 50 %. In some years the proportion was 900 billion against 600 billion, I do not remember recent figures. But nobody thinks about who buys the goods. Suppose that the Japanese sometimes buy their cameras and their tape recorders in New York, Europeans sometimes buy luxury goods in New York. Unfortunately, you can hardly buy anything Russia-made in New York, but when I was there at a building exhibition I noticed that much of Russian plywood is sold in the USA as Canadian. It was obviously Russian, but sold as Canadian for some reason. Due to its adequate tariff policy the USA keeps 25 % of world output under its control, and it has been absolutely correctly stated that the material production in developed countries today is gradually becoming of secondary importance, and services are coming to the foreground, accounting for 80 % of the GDP, and the GDP is more than 13 million dollars. I wish the same to our country: to quickly revise and somewhat amend our laws and to achieve the same or comparable results. Thank you for your attention.

K. Mangold:

Thank you very much, Mr. Agalarov. I guess there are no representatives of customs authorities here most likely because they probably know perfectly well what you wanted to tell them. But I think you did the right thing to make a comparison with the USA. Now let us call on Professor Jahns. What sort of people do we need in such a complicated logistics system today, in our complicated world? When we do we have to provide road, sea, railway, and air transport, and all this is associated with rather complicated and confusing systems, what sort of people do we need? What sort of people do you bring up in your business school to ensure that they are able to manage commodity and passenger traffic throughout the world?

K. Jahns:

In the beginning I would like to cordially thank one more time Mr. Sergey Yakunin for his support to our work: what I mean is a concept created through joint efforts with the St. Petersburg State

University of Railway Transport, Maim University in Germany, and Deutsche Bahn; together with DB Board, we managed to build a logistics centre in St. Petersburg where young men and professionals receive education so that they are able to operate any logistics system. And what you see on the screen is like my mobile phone: a small device in your hands, which has travelled around the globe many times because it consists of many pieces made in various parts of the world. The same is true for logistics and the management system, which consists of many pieces.

In Germany we faced the same situation as now in Russia. As to the knowledge in logistics, all universities, all business-schools had perfect technical knowledge, there were many technical universities providing logistics learning and conducting logistics surveys, but the problem we had to solve was to create a very large centre specifically to manage knowledge in management. We see the same tendency in China, for example. Only Shanghai has a higher school that deals with higher management in logistics. India also has such a department, but it is mostly engaged in mathematical calculations of logistics chains and movements. Regarding our cooperation with partners, Russian universities before and now have been teaching great mathematical knowledge. I simply envy Russian talents: how perfectly they are educated in mathematics. On the other hand, general universities lack management and logistics knowledge. I believe that, speaking about various industries, like electronics, automotive industry, and other industrial areas, the chains will appear extremely complicated, and it is no longer a matter of simply organising transportation from point A to point B. What we need is a common, even extremely integrated solution that would provide a real opportunity to manage all these global chains. That is why we set ourselves a goal to take the best local university as the basis – Graduate School of Management of St. Petersburg State University and Moscow School of Management.

On this basis we tried to create a centre which would provide young people with an opportunity both to acquire knowledge and to conduct investigations, that is to apply the received knowledge and realise it in practice so that it becomes a new point which would help Russia to develop.

Frankly speaking, the export problems discussed before in Hong Kong, for example, in many respects are linked with mathematical problems, because the objectives set have to be put into life, and it refers first of all to such topics that are especially burning for Russia. Problem-solving requires management solutions.

When it comes to the management of logistics processes in Russia, it is a specific situation that has to be taken into account. Look how logistics is organised in Moscow. Logistics systems here are specific in their own way: first, there are no really experienced personnel who have come to logistics from the sector industry. This is a very rare situation, absolutely unusual, since elsewhere in the world logistics

companies are service companies. All over the world experts in this area traditionally come from the automotive industry or from other manufacturing industries, and only then receive additional training, acquire new knowledge, and start to work in logistics. The second specific feature is that most participants of this process (80 %) are professional teachers, more specifically, teachers of the English language, as English is the language of international communications. They start to learn a new trade, but very seldom they are able to do business at a sufficiently high level.

I would also like to offer another couple of considerations. Intralogistics, that is logistics inside logistics companies, is at a surprisingly low level in Russia. In Germany outsourcing amounts to 63 % and in China it is also becoming a large scale process. But in Russia outsourcing makes some 10–15 % of internal company logistics, so there is an enormous potential in this respect. This applies to railways and other transport and service companies, as well as those huge areas where enormous, tremendous optimisation opportunities remain unrealised, and this is a great surprise to those who investigate the issue. According to recent surveys, which we carried out together with Russian colleagues, Russia loses a significant part of its annual GNP growth percentage due to the lack of logistics on the one hand, and to the quality of transport services in Russia on the other. Much could be done in St. Petersburg: for example, expand airports and transform them into an international hub. Besides, the automotive industry is growing, and in this respect everything will depend on how you can deal with logistics infrastructures. The system has to be improved so as to become really competitive. And this will be one of the key factors to allow for the development of the automotive industry. In the future this should actually become one of the main subjects for discussion. Today we have already spoken about it at the opening of our plenum.

K. Mangold:

When we have problems, most of the problems in delivery and supply, are linked with infrastructure. You cannot sell fresh vegetables if the infrastructure doesn't work and you have big problems with tomatoes from Uzbekistan if trucks aren't working. My overall question, and this will be my question to Juergen Sauer, the CEO of Mercedes Benz in Russia, is: How can we find an intelligent play between all sys-logistic parts in one system, in one concept. You're certainly very much involved in the truck business, so we are interested to see what is the overall need you identify from the perspective of the company Mercedes Benz if it comes to future logistical challenges in this wonderful country?

J. Sauer:

Before I start answering this question, I would like to make a comment on Mr. Yakunin's point. I have

been worked at Mercedes Benz for 30 years, and if you scratch me, you will find a truck driver, not a rail roader, under my skin. I was truly amazed to know that 50 % of freight traffic between Europe and Asia goes through Russia. Russia is the largest country in the world, and it has sufficient potential to support all traffic between Europe and Asia. However, among major challenges in this country are its geographical, climatic, and transport conditions, insufficient infrastructure, and lack of advanced logistical technology. According to export estimations, Russia lost 3 % of its gross national product due to its underdeveloped road system. This is 6 times more than in Europe. And 29 % of all federal roads in Russia are heavily congested.

All transport systems suffer from the crisis. Virtually the entire logistics system is in the state of recession and that has affected all transport systems. In April 2009, traffic in Russia decreased by 18 % as compared to 2008. The cessation of growth in traffic impacts both infrastructure and logistics solutions. This gives us a chance to make new roads and reconstruct old structures.

Now we have a chance to work on infrastructure. The crisis can result in more investments in infrastructure, which the Government failed to use despite great possibilities in the past. The new infrastructure could unite Russia and Europe into a single economic area, give access to sources of raw materials, link remote areas to the centre, and help reduce enormous expenses, and in this case further development will not be stopped.

Off-cycle development must become the main goal. We know that, according to the transport development strategy until 2015, major investment will be channelled into the transport system, and this is the right way. This is what we can call a good and timely measure.

We hear that 500 million roubles will be spent on transport infrastructure development. This will be a very significant response to the crisis.

It is also important to find an optimal combination of different transport systems. In multimodal transportation, we need to find an optimal combination of trucks, trains, and ships involved in supply chains. In Europe we see a shift of freight from railways to motor transport. This trend has been evident over the recent 10–20 years. Such are the consequences of changes in the production structure. There is a growing need in door-to-door transportation and, moreover, customer preferences are changing. Flexible transport systems must be introduced, especially for high-quality goods, so that a just-in-time delivery system could be established. Specifics of those industries where the product value exceeds warehousing costs should also be considered.

As a response measure, carriers now started to improve their logistics chains. Along with heavy trucks, they are using light trucks thereby reducing delivery times and transport costs. Today nobody wants to wait 6 weeks for freight delivery. Furthermore, web-based delivery dates need to be tracked. The role

of international transport, where freight can be delivered to any location in the world, is increasing despite even the fact that the situation now is significantly better than in the past.

Mercedes Benz is the first company in the world to start employing heavy trucks that will be more environmentally friendly. We offer a clear solution for freight delivery and safety. Use of appropriate fuels for heavy trucks can further decrease adverse effects on the environment. We have reached almost a 95 % decrease in nitrogen emissions since we started this business, and even noise emissions have been decreased significantly. Today, 24 Mercedes Benz trucks together produce the same noise level as one truck used to generate in the 1970s. We have invested around 14 billion euros in research and development to ensure that our technology is not harmful to the environment, and only this way, by joining our efforts, can we deal with these challenges – by uniting railways, automotive transport, and air transport. Investment in the transport infrastructure is also associated with the improvement of the road traffic control system – before all, everything must be safe. This is our position, and we confidently look into the future together with sea transport, personal transport, and steamship transport.

K. Mangold:

Before inviting the audience to ask questions, I would like to address a question to Deputy Minister Belozerov. What is your overall estimate of investment needs in Russia, talking about all transport systems? Maybe you could share an approximate estimate with this international forum and also tell us about your philosophy regarding private-public partnerships and privatisation of transport infrastructure services.

O. Belozerov:

Thank you very much, Mr. Chairman. I have already mentioned this figure, and it is included in the transport development strategy. For the period until 2030, it is 170 trillion Russian roubles. This figure is a sufficiently precise estimation. Breakdown by mode of transport is also available. Regarding private-public partnerships, we consider this a most important aspect, as it will give a very strong push to the development of all modes of transport, and we believe that around 60 % of investment here should come from extra-budgetary sources, that is from the market.

Talking about the railway development strategy we defended last year, we used rather a conservative approach and estimated the figure at around 13 trillion Russian Roubles. This is an enormous amount and almost half of it must be financed by Russian Railways themselves, with the remaining portion to be split among regional governments, private investors, and the federal budget. We totally agree with all players of the transport market that it would be impossible to use Russia's transit potential without

developing infrastructure – the point which we have already discussed here.

If you allow me, I would like to make a small remark. The transportation problem today has nothing to do with the railroad gauge. It takes about two hours to exchange all bogies of a full train on the Belarus-EU border in Brest, and this is unacceptable. Strange as it may seem, main problems are legal ones, because before joining the COTIF, we have to completely rewrite shipping documents on CIS-EU borders. To rewrite one waybill at the Belarus-Poland border costs 500 US dollars. If I were not a rail roader, I would rather be an office clerk on this border and make good money there. Russia's joining COTIF would effectively solve these problems.

As for the remark about the flexibility of automotive transport, I think it is absolutely correct, however, automotive transport is most unlikely to ever become comparable to railways in terms of environmental cleanliness, because railways is not standing still either. Perhaps, the future of transport system development is in building integrated logistics chains (where I absolutely agree with the representative of Mercedes), development of integrated supply chains that we already see in Europe and, in particular, in Finland. Now the time has come for Russia to think about it. By the way, we are in a position to consider an offer to create a joint automotive company based on Russian Railways in order to provide our customers with door-to-door services. You are welcome. Thanks.

From audience:

Thank you, Dr. Mangold, for the opportunity to share one observation of mine. I work at UPS, and I think we have facilitated the development of some logistics systems. We are the largest railway customer in the US, though my grandfather was not a rail roader. We use all modes of transport to the extent that it is useful for our customers. We do what our clients want us to do and what they want to pay for – whether it be railway, airplane or ship – we don't make any difference. We think about strategies for the future. I believe that the coordination among different modes of transport should be seamless. It should cover all modes of transport –otherwise the whole modern logistics system will fail. Examples may be found in both Western Europe and the US, and elsewhere. There is also a very small but very important issue: special attention should be paid to small and mid-size businesses. I believe that all present here would agree that such businesses are very important for the economy. Everyone knows this and still such businesses are suffering from severe economic “turbulence”. Is it the matter of liquidity? Liquidity is what cannot be omitted when it comes to money. But logistics is about money as well. If your current capital works 2 or 3 days to secure a deal, but it remains locked up for 5, 6 or 7 days, this would almost double the cost of your service. Prices need be reduced for both clients and service providers. This is what Russian companies would eventually benefit from. I wish people from

the customs service had been present here for them to see that valuable goods, high-value goods require shorter delivery times. This could significantly improve the situation. Thank you.

K. Mangold:

Does anybody have any comments to this point?

From audience:

I could only agree with this point, and I would like to add that at Russian Railways we are going to introduce a new service to our clients, specifically, to small and mid-size businesses, so that they could use our transport facilities. Twenty-foot containers are often just too large for small and mid-size companies; therefore, an appropriate logistics service is required. That is what I was talking about during my presentation: this challenge needs a cooperative action.

From audience:

I would also like to add a few words that the role of the small and medium business for the transport industry should not be forgotten. The amount of services provided by such companies in the Russian Federation is around 350 billion roubles year on year. A special programme has now been developed to support the small and medium business. First of all, it is planned to reduce the tax burden and reporting, plus additional preferences in providing loan financing, as well as reducing and compensating lease and loan rates. Thus, this matter is currently given extremely much attention.

Regrets have already been voiced out here regarding the absence of an official from the Federal Customs Service, but I would like to say that the Government Transport Commission last week discussed the issue of international transport corridors running through the territory of the Russian Federation. I spoke there and we clearly outlined the problems occurring in the travel of goods through Russia. One of the problems, probably the key one, was the customs problem. Notably, the customs service fully acknowledged this, and, therefore, an appropriate task was given to develop in the shortest possible time a mechanism of comprehensive approach to solving the problems, both customs-related and other ones, in order to ensure faster movement of goods through Russia. This, for example, includes simplified waybills, multimodality, integrated logistics centres with customs and border control services, and transport services. Moreover, additional services are required for carriers, as already discussed here. These are small shipments, cargo packaging and distribution. All these problems were touched upon quite seriously. Now they are under consideration and will be solved.

From audience:

I can't help agree with this point. It does give rise to a serious concern. Speaking of export and import clearance, there are certainly things to improve. The main thing is to reduce time for clearance of goods at the border, and we should try to simplify this system.

S. Gavrilov:

One question, please. My name is Sergey Gavrilov (State Duma of the Russian Federation, Traffic Committee). For Russia, with its eleven time zones, air transport is not less important than for Hong Kong, but as we know, the air traffic has sharply decreased over the last 15 years, and so did the condition, quality, and quantity of airports. In this connection, in the context of multimodal transportation and, generally, shifting the economy to innovative rails, what prospects do colleagues see for the Russian air transport infrastructure, mainly airports, in terms of their integration into the modern logistics chains? Thank you.

O. Belozerov:

Again, I will first refer to the strategy until 2030, which contemplates that, compared to 350 airports assumed for 2010, their number should double by 2030. In addition, we have worked out a development strategy for a hub system that would be included in intermodal logistics systems and allow us not only to operate inside Russia, but also consider issues of international air routes and international cargo movement.

From audience:

Thanks for the opportunity to make a small comment. I represent DLA Piper, an international legal practice. I also lead a working group within the State Duma's Customs Regulation Commission, dealing with the concept of transferring customs clearance to the border and, unfortunately, I can only complain that the Federal Customs Service is not represented here, especially given the fact that participants say very competent things. I guess we have many representatives from the business community in this room, for whom the customs administration, customs tariff policy, and transport structure are of extreme importance. No doubt, it is really difficult to develop business in Russia without transport support and customs support and administration. Unfortunately, there is an obvious unbalance among various governmental agencies and executive authorities responsible for implementing certain actions intended to settle problems as for example with the transfer of customs clearance to the border. Existing logistics schemes that have already been developed and proven by

major manufacturing companies and distribution centres are absolutely neglected. I completely agree with Mr. Agalarov that we are stuck, to put it mildly, in customs tariff regulation, but, even to a greater extent, we are stumbling around with the mechanism that appeared with the change of legislation, when such a tool as a risk monitoring and management system was vested in the customs. In other words, it is possible, even without changing anything at the legislative level or in the tariff policy, simply at a subjective level, to impose such burden on business that the business would not be able to grow at all. Therefore, this is the area that still requires many efforts, within all structures. Thank you.

From audience:

Is it possible to add a comment to that?

We are talking about customs and this sort of thing. I think that all of us in this room hope that logistics will grow in the future. This morning President Medvedev mentioned sustainability as a key topic. I don't think we should need to leave this room to think about what we as human beings are doing. I mean, I bought these socks, for example, last week in New York and this pair of socks cost 15 dollars. You really have to follow the supply chain of these kinds of socks. I mean, we get the cotton from South Africa, the socks are then stripped in Morocco, afterwards we transfer the cotton to Turkey - and then they are washed again and coloured again before they are shipped to somewhere in Poland, where the socks are packaged. Finally, I can buy them in New York. So I think sustainability for logistics and supply chain management is a key topic. For technology - yes; for automobiles - yes; for electronics - yes. I think we have to have this in our minds.

From audience:

I have the impression that my socks are more expensive than yours!

From audience:

A question for Mr. Yakunin. Russian Railways becomes a more and more diversified company in terms of its assets in other modes of transport, other than railway, and, at the same time, we are witnessing a very uneasy restructuring process in the railway transport: one cargo company was spun off, with another one to follow. Russian Railways cuts its own fleet in its possession. To what extent is the company prepared to control and integrate these assets, especially within the multimodal transportation system, within such complicated processes, and in the economic crisis environment?

V. Yakunin:

We have two main aspects inherent to those processes: the first one is processes and technology and the other one is people.

Regarding processes and technologies, all is simple, as you heard. Generally speaking, we lack specialists in the area of logistics being discussed today. I am very well disposed to teachers, especially to “Englishwomen” as we used to call them in school. However, from the technology point of view, these should certainly be specialists.

In terms of the ability to manage such a diversified business, there is nothing new to be discovered. If we take a look at the world outside the CIS or Russia, we will see that such management is successfully handled. An example of successful management is our German colleagues. From the global community perspective, they probably run the most advanced and successful system of managing a diversified business.

Speaking about us, last year I invited seven MBA graduates from the best foreign schools to join our company, and this year, after my lecture at the London School of Economics, another dozen of young specialists expressed their intent to come to Russian Railways. I think that this is the way for us, while adhering to the traditional conservative railway safety policy and high safety standards and technical requirements, to attract young, competent people with knowledge of modern economic trends, who are able to apply this knowledge in the specific area of railway transport.

But, answering the question about the integration of systems, I am afraid to be called a supporter of further monopolisation, therefore I will simply give one historical fact. In Russian history, the emblem of the Ministry of Railways had, in addition to the conventional railway component, an anchor because ports were also part of the Ministry’s system during that period. And the traditional wings on our old emblem lead to a conclusion that all we have to do is just to combine these two emblems and everything will work absolutely perfectly.

Dr. K. Mangold:

I have enjoyed these discussions and the environment in which we have been working. I hope that we will soon be able to put an end to the crisis just through our joint efforts and we should have a good time. Thank you.

