

# **Change of Intermodal Trade Routes in the Light of the Russian war against Ukraine – Temporary Solutions or New Normal**

Presentation at Black Sea Ports & Shipping 2023 Conference

Sebastian Wind

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# The war on Ukraine has been raging for over 1 year – Geopolitical effects have impacted intermodal trade at ports and hinterland in the Baltic and Black Sea region

Impact of the war in Ukraine



**24th February 2022**

Start of the war against Ukraine

## Western sanctions against Russia



Wide-ranging sanctions on specific individuals, businesses, bank transfers, exports and imports

## Disruption of established trade lanes



Trade flows to/from/via Ukraine severely hampered (e.g. raw materials)

With impact on ...

1


### Ports and hinterland


- Trade volumes redefining strategic importance of Polish, Romanian and Moldavian ports
- New rail terminals built or under construction in Hungary and Poland to improve access to hinterland routes


2

### Silk Road / Eurasian Corridor


- Transported volumes are being shifted from historically dominant Trans-Siberian Route to 'Middle Corridor'
- However, decreasing shipping rates reduce demand for Silk Road transports at all

 **CNBC** *How the Russia-Ukraine war is worsening shipping snarls and pushing up freight rates*

 **maritime gateway** *Russian Container Trade Shifting From The Baltic To The Black Sea*

 **REUTERS** *Ukraine restores Moldova rail link, could carry 10 mil tons a year*

**WORLD-GRAIN.com** *Hungary's new rail terminal to aid Ukraine grain shipments*

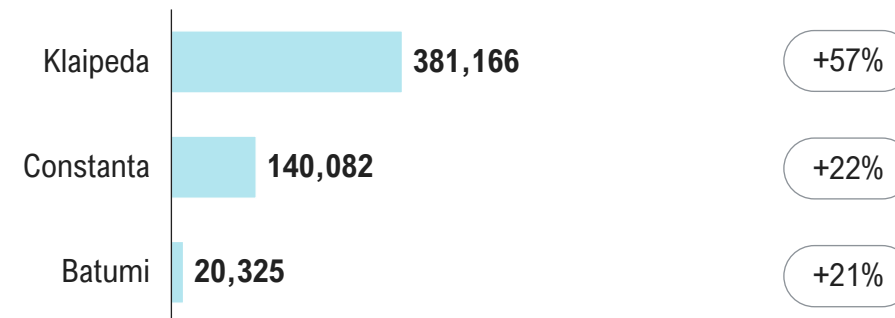
 **RailFreight.com** *New Poland-Ukraine railway connection via emerging hub will be the fastest*

# The development of trade corridors has evolved to reshape the strategic relevance of port locations in the Baltic Sea region – Clear winners and losers have emerged

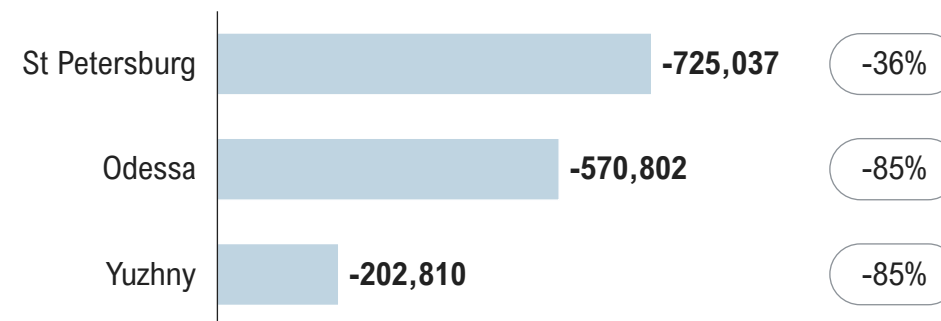
Recent development of container traffic at ports in the Black Sea and Baltic Sea



## Biggest winners, 2021-2022 delta TEUs and growth



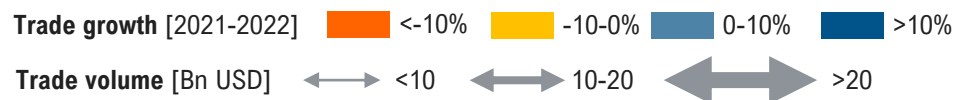
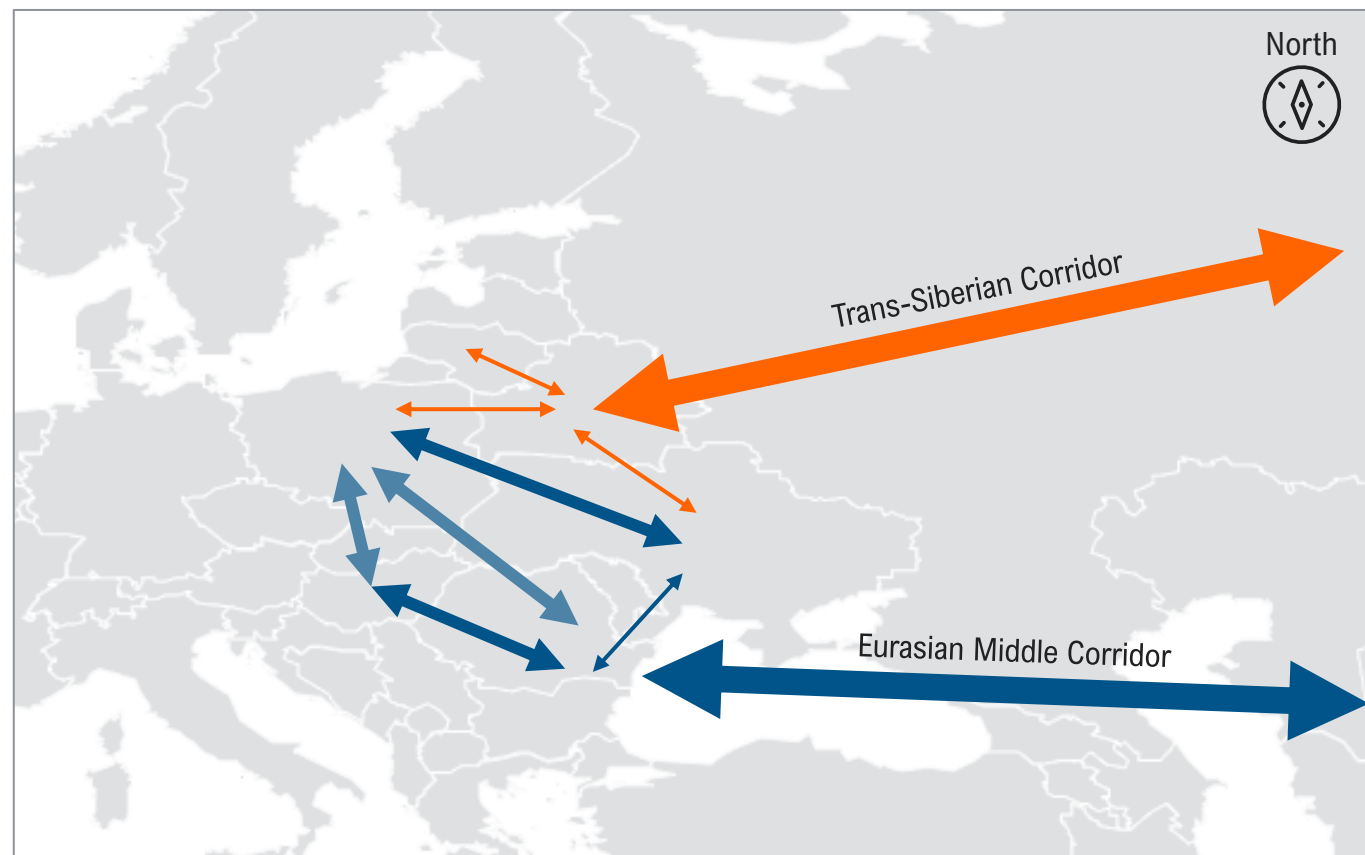
## Biggest losers, 2021-2022 delta TEUs and decline<sup>1)</sup>



1) Estimated figures based on half-year growth and preliminary figures

# The effects on intermodal trade corridors in the hinterland have been significant – Growth in Ukraine-Poland and Romania-Poland trade lanes particularly high

Implications on intermodal traffic in the hinterlands<sup>1)</sup>




## Comments

- China-EU trade seeing **shift in trade volumes** from **Trans-Siberian** rail corridor **to Eurasian middle corridor** owing to Western sanctions
- Rail routes between **Ukraine and Moldova, Poland and Romania** have experienced **increasing volumes handled**, particularly for grain shipments due to the Russian blockade of the Ukrainian sea ports
- **Continued investments in hinterland multimodal hubs** in Romania (Aiud), Poland (CPK) and Bulgaria (Sofia) have further strengthened intermodal trade
- In 2023, Ukrainian railways are **pursuing new intermodal rail services** to Poland, Romania, Austria, and Turkey
- Intermodal trade growth with the **Baltic states remains difficult** as a result of differences in track gauge (broad gauge vs. standard gauge)

# Exports from Ukraine have moved through neighboring countries like Poland and Romania – Pressure on Russia has seen Silk Route trade lanes suffer considerably

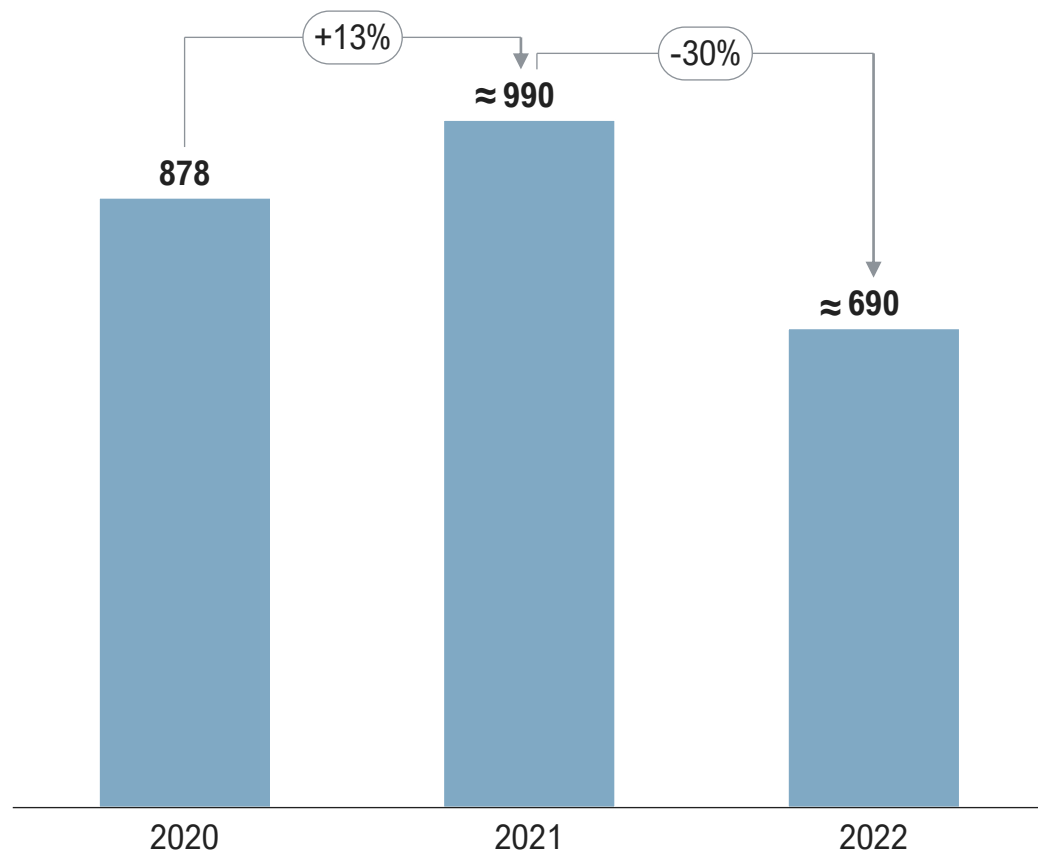
Economic trends and drivers of main trade lanes

	GDP growth (2022) <sup>1)</sup>	Trends	Comments
 <b>Ukraine</b>	-33.3%	Shifting exports from the black sea to hinterland routes	<ul style="list-style-type: none"> <li>• <b>Exports have slumped</b>, affected by restricted access to the Black Sea trade</li> <li>• <b>Intermodal hinterland rail</b> solutions have guaranteed not only <b>exports to Europe</b> but have also ensured <b>food security</b> for the Ukrainian population</li> </ul>
 <b>Russia</b>	-2.1%	Decline in intermodal trade between China and Europe via Russia	<ul style="list-style-type: none"> <li>• Traditionally, much of the <b>intermodal trade between Europe and China</b> has passed through <b>Belarus and Russia</b></li> <li>• The international fallout of the two countries have caused shippers and logistics providers to <b>cut capacity on the corridors</b></li> <li>• Companies have increasingly <b>shifted from rail to sea freight</b> or <b>rerouted</b>, for example via the Middle Corridor – volumes remain comparably low on the latter</li> </ul>
 <b>Poland</b>	4.9%	Using Polish ports and intermodal terminals to handle Ukrainian exports	<ul style="list-style-type: none"> <li>• Poland's direct economic access to European and western trade have given it a <b>preferable position</b> for Ukrainian foreign trade</li> <li>• Particularly <b>Polish infrastructure like seaports and intermodal terminals</b> have given Ukraine a new international window for exports and imports</li> </ul>
 <b>Romania</b>	4.8%	Grain exports rerouted via Romania (Port of Constanta)	<ul style="list-style-type: none"> <li>• Similar to Poland's role in accommodating Ukrainian exports, <b>Constanta in Romania</b> has seen <b>considerable growth</b> in 2022</li> <li>• Large volumes of <b>grain shipments</b> (accounting for ~70% of Ukrainian grains) have been routed through Constanta in addition to large amounts of iron ore</li> </ul>

1) Real annual GDP growth

# Eurasian rail cargo volumes have experienced significant declines – Volumes 2022 to be below 2020 levels

Development of Eurasian rail cargo volumes<sup>1)</sup> ['000 TEU]



- RZD confirms **-35% decline** of traffic **from China to Europe** and back for the first nine months 2022
- **Duisport** as key hub currently reports about **30 silk road trains** per week (compared to peak in pandemic of 60-70 trains)
- In general, volumes have **recovered steadily** after a slump immediately after the start of the war, however, western shippers avoid silk road transports
- **Today, Middle Corridor not competitive yet** in terms of regular service, travel time and cost, ≈1% of volumes
- Beside the war, **normalization of shipping rates and lockdowns in China** have reduced demand for Eurasian rail cargo

1) Defined as EU28 (all European Union countries + UK) to Asia 5 (Kazakhstan, Mongolia, China, Japan, South Korea)

# Besides the war, trade volumes with China and the price delta to shipping are expected to determine the Eurasian silk route volumes going forward

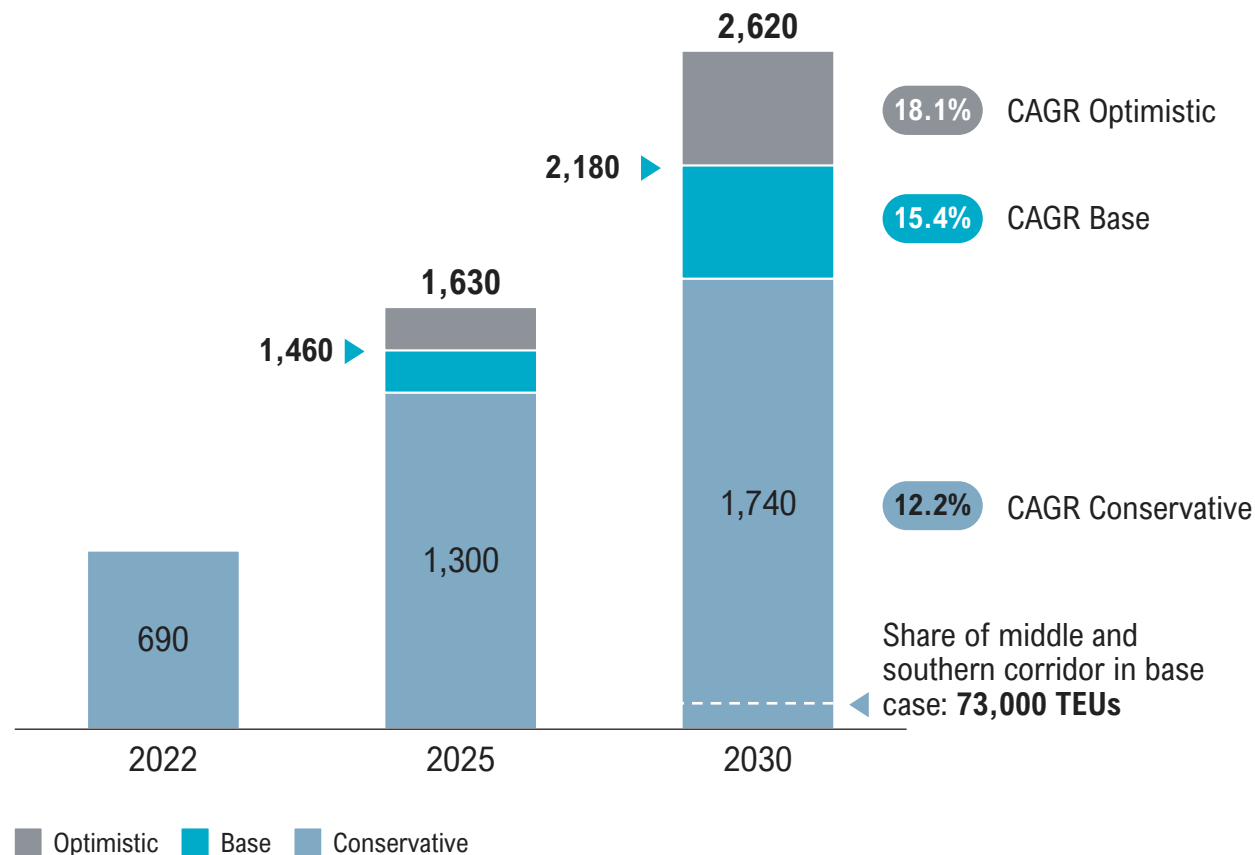
## Outlook

  
**Development of Ukraine war and political tensions with Russia**



# In the amicable scenario of a ceasefire and easing of sanctions, volumes are expected to return to the levels projected one year ago

## B Europe (excl. Russia) to Asia rail traffic<sup>1)</sup> ['000 TEUs]



### Key assumptions

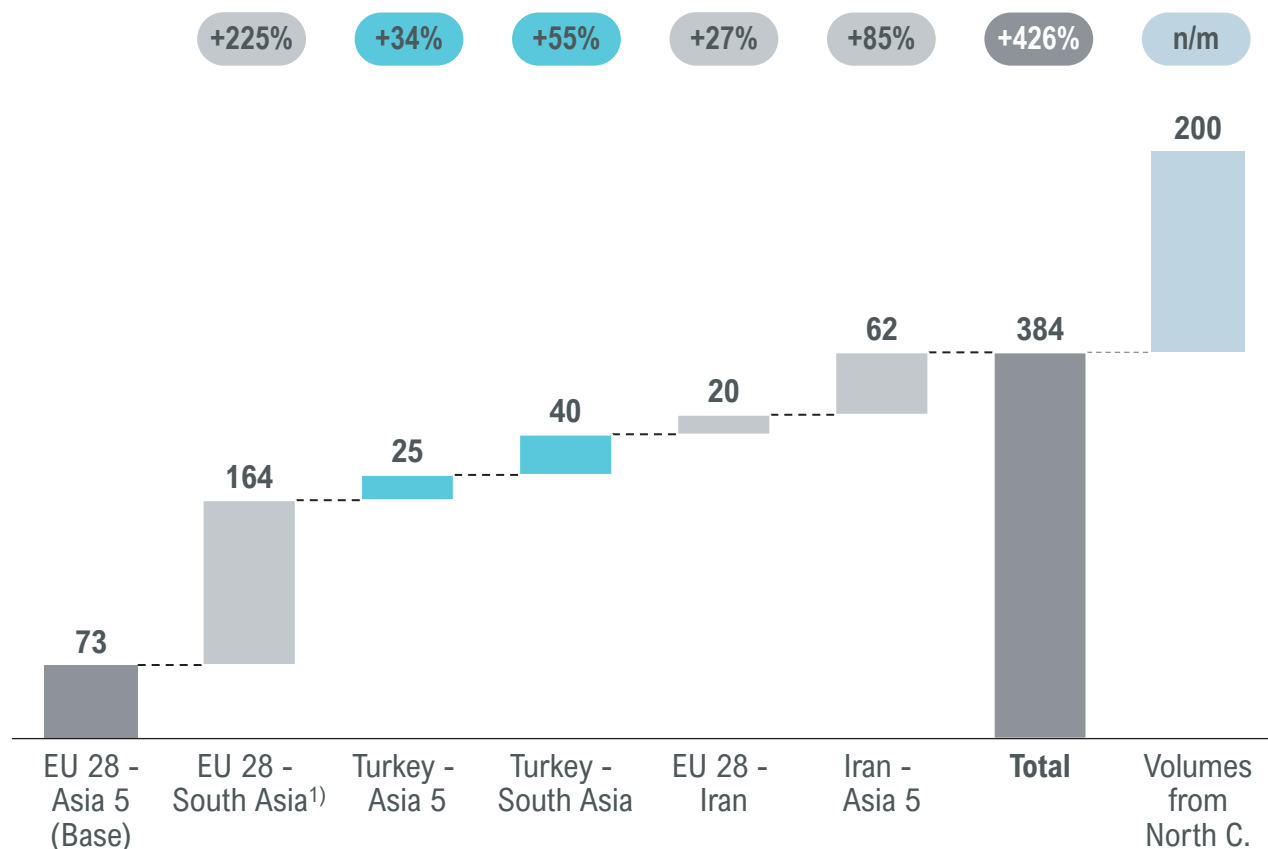
- Strong growth for Silk Road rail traffic**  
 After a cease fire, Eurasian rail cargo expected to return to growth path, conservative case relevant if trade volumes between China and Europe stagnate and sea shipping rates decline to 2019 levels
- Rail expected to be a stable alternative**  
 Currently, rail has only a ~2% share of containerized traffic, experts expect the share to increase gradually over the years but will stabilize at ~4-6%, as there will always be goods that need the low cost of sea and the high speed of air
- Middle Corridor will grow, but remains minor**  
 The southern and middle corridors can obtain more share based on trade flows within their natural catchment areas if they can become more competitive in performance – Even so they are likely to remain minor

1) Defined as EU28 (all European Union countries + UK) to Asia 5 (Kazakhstan, Mongolia, China, Japan, South Korea)



# We expect the middle and southern corridor to benefit little if sanctions against Russia are tightened further and the northern corridor becomes unusable

**B** Volumes middle and southern corridors and upsides<sup>2)</sup> ['000 TEUs]



## Key take-aways and assumptions

- ➔ **Middle/Southern corridor will not become significant with "traditional" Eurasian flows**  
 Mainly due to the **natural catchment area** of the southern and the middle corridors and the longer transport time needed
- ➔ **Major potential comes from upsides with countries that have no other alternative**  
 For countries like Turkey, Iran, and countries in South Asia, southern and middle corridors are not only the **natural, but the only rail route**
- ➔ **All upsides come with heavy pre-conditions that need to be met**  
 South Asia, esp. **India**, has huge potential volume. However, political rivalries with Pakistan need to be resolved or circumvented and rail connection towards Myanmar be established. Iran's potential is heavily depending on sanctions

1) Defined as Pakistan, India, Nepal, Bangladesh, Myanmar, Thailand. Of the potential with EU, majority >50% is attributable to India  
 2) All numbers for the year 2030, upsides only refer to flows with enough distance between them, but not adjacent flows

# Detours have emerged with logistics players willing to bear the additional costs – However, uncertainty over long-term future infrastructure developments remain

"Temporary Solutions" or "New Normal"

## 1 Temporary Solutions

### Prerequisite

Russian-Ukraine ceasefire

### Impact on infrastructure



- **Reopening of Ukrainian Ports** and re-establishment of **hinterland transports**
- **Investor confidence and readiness** to restore Ukrainian port and hinterland infrastructure
- **No further investments** in capacity of ports and terminals **in neighboring countries** to handle Ukrainian foreign trade

### Impact on trade lanes



- **Increased imports from Ukrainian** grain, fertilizer, iron ores and manufactured goods
- **Cost of shipping** via alternative routes remain higher versus traditional **pre-war** trade routes

## 2 New Normal

Continuation of war

- Companies re-assessing geopolitical risks, **moving production facilities** to lower-risk countries
- **Investments in rail infrastructure** such as railway lines and intermodal terminals e.g. in Romania and Hungary
- **Build-up of new warehouses, loading facilities and logistics centers** along the new established trade lanes
- **Stronger reliance of Ukraine** (long-term partnerships) **on neighboring countries** (i.e., Poland, Romania, Hungary, Moldova)
- Long term establishment of **new trade lanes** into Western Europe



How to profit from trade lane changes?



Where and what investments have the highest priority?



Chances from investments into Ukraine during and after the war



How to reduce risk for infrastructure investments?

**Thank you for participating in this session, we are looking forward to a vivid discussion – Please contact me in case of further questions**



## **Sebastian Wind**

Hamburg



**Director for Ports & Hinterland**

E-mail: [sebastian.wind@rolandberger.com](mailto:sebastian.wind@rolandberger.com)

Mobile: +49 160744 4246

An aerial view of a large railway yard with many tracks and freight trains. The trains are composed of various colored freight cars, including orange, blue, and white. The tracks are arranged in a grid pattern, and there are overhead power lines and support structures. The scene is brightly lit, suggesting a clear day.

Roland  
Berger

