



# Russia: Opportunities for Russian Far East Railroads

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## Summary

This report provides an overview of the current railway system in the Russian Far East (RFE) and identifies priority areas for modernization and expansion. This rail system represents the lifelines for the RFE southern territories, and especially, Primorsky and Khabarovsk krais, Amurskaya Oblast, Jewish Autonomous Okrug, Sakhalin Island, and Southern Sakha (Yakutiya). JSC Russian Railways (RZhD), the monolithic inheritor of the Ministry of Railways, is one of Russia's largest companies and includes 17 regional railways with a total length of approximately 86.2 thousand kilometers. The Far Eastern and Sakhalinskaya railway affiliates of the RZhD are the part of the RZhD network with the total length of 9 thousand km. The railway system plays a leading role in the RFE's natural resources exploitation and export, and considerably influences development of the regional economy, and political and social sectors. Northern provinces of China, with booming industries have no access to Pacific, and the TransSiberian (TransSib) Land Bridge (TSLB) provides this heavily utilized access. Also, this is a primary route for a transit cargo shipping from Southeastern Asia to Europe with Asian and European trading partners continually increasing demands on the TransSib. Also, there are plans to connect eastern ports of RFE to Japan and Korea. The Russian railway system remains a highly cloistered and conservative organization; it is centrally controlled and 100% state owned. However, they have identified several vital needs to improve operations, upgrade the railway network and rolling stock, improve tariff policy, attract potential foreign investment, and to partially privatize operations.

## Market Data

### *Developments and Trends in the RFE Railway*

Rail enjoys a competitive advantage over underdeveloped aviation services in the RFE mainland's vast distances and continues to be the dominant mode of freight transport in the RFE and in Russia as a whole. RFE railroads carry about 83% of the region's freight and 40% of the country's passenger turnover. A 100% electrified double track TransSib, a part of the RZhD, runs through Siberia and links Vladivostok to Moscow via Khabarovsk, Amur, and the Jewish Autonomous Okrug. In 2005, it handled 48.36 thousand tons of cargo. The 6 thousand km long Far Eastern railway affiliate of the RZhD with head office in Khabarovsk and four railway departments headquartered in Vladivostok, Khabarovsk, Komsomolsk-on-Amur, and Tynda (Baikal-Amur railway) is a part of the TransSib. Other affiliate of the RZhD, Sakhalinskaya railway headquartered in Yuzhno-Sakhalinsk is over 800 km long. The density of railways in Primorsky krai – 100 km/ 10 thousand square km -- and in Sakhalin -- 120 km/ 10 thousand square meters -- is the highest in the RFE.

Far Eastern and Sakhalinskaya railways have access to major RFE ice-free sea ports -- Vladivostok, Nakhodka, Vostochny, Posyet, Zarubino, Vanino, and Russian-Chinese border crossings. The RFE ports gained in national importance and became major gateways for international transit shipments via railway between Pacific Rim and European countries via Russian territory. The railway heavily depends on the RFE ports' smooth operation and vice versa.

**Baikal-Amur (BAM)** is a part of Far Eastern railway network and is 500 km shorter than TransSib. BAM provides an access to the Pacific in the point of Vanino port. Built in 1984, BAM is a 4.3 thousand km single track serviced by diesel locomotives; BAM runs through Amurskaya Oblast, South Yakutiya, and Khabarovsk krai in parallel with TransSib, and within 300-500 km to the north from TransSib. Today BAM is utilized by 30-50% out of 27 million tons of the projected capacity. In 2003, 8 million tons of cargo was shipped by BAM, in 2006 – 13 million tons. The bulk of cargo shipped via BAM today is coal from Neryungri and Yakutiya to Primorsky and Khabarovsk krais, and Japan. Baikal-Amur railroad, which can handle up to one million TEU

of transit cargo annually through Vanino port, may be engaged in Euro-Asian transit and domestic Russian freight flow, is underutilized today.

**Railway in the Sakha (Yakutiya)** is a part of Far Eastern railway network. Built in 1995, railway transport is relatively new to the Sakha republic, but today ranks second by freight turnover, following water-borne transport, which handles 70% of all freight into the region. The coal industry is a major cargo-supplying sector and accounts for 9 million tons of coal transported by the Sakha republic railroad annually. In 2005, Yakutiya's railroad cargo turnover was 279.8 million tons/km, which is a 29% increase to 2004. Operating all year round, rail transport holds much promise for the republic as compared to that of seasonal water-borne or expensive air transport. A railway used to connect BAM to Berkakit settlement in Southern Yakutiya and a 360 km rail line connected the Neryungri coal basin to Tommot settlement in Southern Yakutiya, both lines operated independently. Today, there is a need to connect Yakutsk, the capital of the Sakha Republic to the BAM railroad by building a 358 km railway Berkakit-Tommot-Yakutsk. This construction will require \$500 billion US for the period 2005-2010; it will link the BAM-Yakutsk railroad with the industrial centers and raw materials deposits (coal, timber, ore) in Southern Sakha.

**The Sakhalinskaya Railroad** was built in the beginning of the 20<sup>th</sup> century partially by Japanese, when Sakhalin island belonged to Japan. The Sakhalinskaya Railroad had a narrow gauge 1,067 millimeters, when Russia-wide standard requires 1,520 millimeters. Booming offshore oil development on Sakhalin had a direct impact on the railroad re-gauging. Large cargo volumes for Sakhalin oil project arriving by TransSib to the Vanino port are shipped by the Kholmok ferry service to Sakhalin. In 2005, the Sakhalinskaya railroad handled 3.4 thousand tons of cargo, which is a 135% increase as compared to 2004. The major obstacle was that rail wagons had to be re-gauged for a further shipment via Sakhalinskaya railway, and this was cost and time consuming. Today, the Sakhalinskaya railroad reconstruction according to the Russian gauge standard is on a large scale. A five-years project started in 2003, and will require \$500 billion US.

## Transit Corridors and Rail Links

Geographically, Russia is a natural land bridge between Europe and Asia, cutting delivery time and cost. Estimated annual capacity of the 10 thousand km of TransSib is up to 1 million TEU. Russian Federation (RF) Government considers intermodal transport corridors to be an integrant tool for a number of Russian industries and to be beneficial for improving the Russia's geo-economical status. The strategic priorities of transport modernization aim at ensuring that in the future Russia will be a great transit services providing power. RZhD's President Vladimir Yakunin says there has been prepared a specific program until 2010 targeted at the integration of Russian railways into the Euro-Asian transport system (transit corridor) and improvement the technology of export-import transit traffic and optimization the interactions with foreign railways. One of RZhD's modernization priorities is development of railway facilities on the borderline railway crossings and near-port stations, and creates intermodal companies that will coordinate transcontinental container shipments. Today, capabilities of TransSib are ready for transcontinental transit of 300 thousand containers a year, projected capability being up to 1 million containers a year.

**The TransSiberian Land Bridge (TSLB)** is a high capacity double track electrified line of 10 thousand kilometers in length, capable to carry up to 100 million tons of cargo annually including up to 140 thousand TEU's of containers from the Pacific Region countries to Europe and Central Asia. The Nakhodka Vostochnaya pre-port shunting yard handles cargo of the port of Vostochny. The handling capacity of the station is 9 million tons per year. There is a complex to handle up to 120 thousand transit containers a year. Cargo can be consolidated into a simultaneous shipment in a form of a heavy-duty six thousand tons block train, and TransSib can manage such a train.

Initially, this particular corridor offered a transshipment route to move light industrial and consumer goods from landlocked Jilin and Heilongjiang, Northeast China to the U.S. West Coast by-passing the over-utilized Dalian-Harbin route in favor of a shorter route via ports in Primorsky krai and saving 1,600 miles. Initially referred to as East-by-West Corridor, the transit route was proposed by the Transportation Sector of the

Russian-American Pacific Partnership (RAPP). According to preliminary findings, American companies would save an estimated \$1 thousand US per container. Over 350 thousand metric tons of cargo passed between the ports of the U.S. West Coast and Vostochny in 1997, (source: Journal of Commerce). But a large percentage of the containers returned to the U.S. empty, and the corridor's operation was declared inefficient.

Today the corridor creates a smooth, efficient and cost-competitive route linking trading partners – China, Mongolia, RFE (Vladivostok, Vostochny), and Japan. The Russian Ministry of Railways is actively involved in modernizing the TSLB infrastructure, reducing transit times, and improving service levels. In addition, the rail links to the seaports have been modernized. These improvements have resulted in container handling at international standards. Service rate at the Vostochny International Container Services (VICS) terminal is 25-26 containers per hour. Transit time from Vostochny to Moscow is reduced to nine days to Poland and Finland is 11.5 days, and to Germany and Hungary - 12.5 days. Container transit time from ports of Japan and South Korea to West Europe and Scandinavia via TSLB is 17-20 days, which is faster than by sea. High-speed trains (120 km/hour), and wagons capable of carrying 2x40' containers, started to run on Vostochny/Nakhodka-Brest route. Trains are processed via Brest for onward travel to destinations further west, and efforts are being made to centralize deliveries to Moscow so that dwell times upon arrival are reduced. In 2002-2005 RZhD invested \$1.5 billion into the Far Eastern railway modernization to increase its through capacity.

Russian Ministry of Railways pays great attention to developing to TSLD and other rail links with Southeastern Asia. In March 2006, the international conference "A Bridge between Asia and Europe" organized by RZhD took place in Vladivostok. Representative of South and North Korea, Japan, China, Germany, Sweden discussed improvement and modernization of TSLB, tools for attraction transit cargo to this transit corridor, and forms of mutual cooperation.

**Simplified customs procedures.** The State Customs Committee has simplified customs procedures for transit containers transported by the TSLB to all destinations by electronic submission of electronic railway bill to Customs prior to cargo arrival. This allows cutting customs procedures from five days up to two hours.

**Suifenhe-Grodekovo Rail Link** is 26 km single-track railroad between Heilongjiang province in Northeast China and the RFE. The proximity to China has naturally resulted that China has become one of Russia's major trading partners. Commerce between the two countries is characterized mainly by the export of Russian raw materials (timber, oil, coal) and the import of Chinese technology and consumer goods. Annually, this border station boasts an increase by 1 million tons of cargo. In 2005, the Suifenhe-Grodekovo Bridge handled 7.4 million tons of cargo – this is a 20% increase as compared to 2004. It is expected to achieve 8.5 million tons in 2006 of cargo processed, and to grow twofold in 2010. However, slow train speed, stops, and re-gauging process are the major obstacles on this route resulting in transit time delays on this route.

**Trans-Korean Rail Link** would provide the port of Pusan with direct access to Europe via the Russian rail land bridge Khasan (Russia)-Tumangan (North Korea). The Russian Ministry of Railways plans to restore a 930-km stretch of the railway crossing North Korea from the Khasan station of the TransSib to the demarcation line with South Korea. This work is expected to take two years. Most cargo from South Korea to Europe is currently shipped via the Suez Canal, taking 40-45 days. It is believed that the new transport corridor would cut transit time to 10-12 days, and decrease tariffs by \$400. The new corridor will be able to transport 200 thousand containers/year and with the further development, up to 1 million containers/ year via TransSib. North Korea will also receive big earnings on cargo transit. In 2005, RZhD developed a feasibility study. However, it is North Korea that has suspended the project. RZhD continues to discuss this initiative, and Russia's ports have not yet voiced their support for or opposition to the scheme. Port representatives acknowledge that it would seriously undermine their competitive position, particularly that of their transit container-handling services.

**Connection Between Sakhalin and Northern Japanese Island.** RZhD is considering several projects to expand its rail system in Southeastern Asia. A rail tunnel or bridge between Sakhalin and the mainland can

link the island to the TransSib via the port in Vanino and attract cargo to the Baikal-Amur Railroad. There is also discussion of building a similar connection between Sakhalin and the northern Japanese island Hokkaido, allowing Japan to have a direct rail link with Europe via Russia. Annually, Japan sends to Europe 360 thousand TEU containers via Suez Canal. In contrast, the TransSib carries only about 8.3 thousand containers from Japan. Today, 80 miles between Sakhalin and Japan are connected with a ferry with 280 tons lifting capacity. In 2005, over five thousand tons of cargo destined for Sakhalin oil&gas projects were shipped by this route, and this volume may grow. According to newspapers publications, the Japanese businesses are ready to provide financing for the project.

**Tariffs.** The recent upward jump of railroad tariffs caused drastic slump in business for RZhD customers, freight forwarders, and RFE port. In November 2005, RZhD approved new tariffs for the period of 2006-2009. The through rate for transit cargo shipped via TSLB from ports of China and Southern Korea to Finland and Western Europe increased twofold and is \$2,000 US. Export-import cargo tariffs increased by \$12%. Before the 2005 tariffs rise, RZhD introduced the concept of flexible commercial tariffs as opposed to fixed government controlled rates. However, that liberalization of tariffs resulted in confusion for clients – eg., the tariffs for a 20' container shipment varied between \$1,500 and \$1,900 US in the Japanese-Scandinavian direction, and for 40' container - \$2,700-\$3,500 US. Today, the skyrocketing tariffs force many Asian freight forwarders to choose traditional sea borne traffic instead – in the first quarter of 2006 containers handling through TransSib dropped to 81 thousand TEU, or by 7% compared to the same period of 2005. Siberian and the Urals metal manufacturers were major cargo-suppliers for TransSib (15 million tons in 2004) exporting metal to the Pacific Rim countries; but they re-directed their export route to ocean shipment via Western or Southern Russian ports and Suez Canal. Weak points and disadvantages of the new tariff policy are obvious. However, RZhD taking an advantage of being a monopoly in the Russian railway market does not plan decreasing tariffs, and states that the new high tariffs recovered so-called “black corridor” concealed imports. Through a “black corridor” import cargo destined for Russia is transported to Finland via rail under former low tariffs, then is reloaded to automobile trucks and is imported to Russia through an exempt tax and duty-free route via special importers in Western Russia.

## Market Demand

**Modernization Projects.** The Russian Federal Government retains ownership of the main railroad network and the infrastructure related to passenger and freight services, including infrastructure, railway data communication networks, traffic control systems, and locomotive stock. The concept for the restructuring of railways proposed a 49% privatization of companies providing freight forwarding services; other 51% of share should be state-owned. In 2003, a 100% state-owned company Russian Railways (RZhD) was formed out of the assets of the former Ministry of Railways (MPS) to carry out commercial and operational functions of MPS. Privatization procedures will also apply to enterprises engaged in the repair of rolling stock and the production of spare parts and other products of railway transport. At the same time the concept confirmed that the railways were a natural monopoly with direct control from the state. Given the fact that the restructuring concept was announced in 1998 and so far very little has changed, even limited privatization will be a long process. In 2004, MPS was restructured to the Federal Agency of Railway Transport within the RF Ministry of Transport. The Russian railway continues to be a “state within a state,” controlling the Russian economy, but there are indications that this status is beginning to change.

Priority projects include the upgrade of telecommunications systems, improvement of traffic control and wagon tracking systems including satellite systems. Currently, the Ministry of Railways is actively working with a number of American companies especially in telecommunications (IBM, Microsoft, Lucent Technologies, Cisco Systems). Other modernization projects include gradual rolling stock replacement. During 2003-2006, a massive campaign began to reequip and replace aging locomotives.

In 2004, the Far Eastern Shipping Company (FESCO) developed a partnership with RZhD to create a Russian Troika LTD. company, which alone can handle up to 300 thousand TEU annually via the TransSib. In March 2005, within 11 hours, Russian Troika LTD. started with a delivery of a full block train consists of 38 80-foot fitting platforms accommodating 152 TEU with assembly parts from South Korea to a Hyundai automobile assembly works in the city of Taganrog on the Azov sea. In 2005, Russian Troika LTD. handled about 28 thousand TEU.

**Need in additional container fleet.** In 1997 the Russian Ministry of Railways and Far Eastern Shipping Company (FESCO) signed a container interchange Agreement allowing usage of each party's containers thus reducing shippers' costs by \$100-150 US per 20'container. In 1999 the Russian Ministry of Railways and Hyundai Merchant Marine Company signed a similar Agreement. Also, in 1999, the Russian and Chinese Railways signed a container interchange Agreement. The purpose of this Agreement is intended to increase cargo flow between Russia and China, to use containers more effectively and to reduce dispatch time.

**Problem of Attracting Cargo Volumes to the RFE Railroad.** In 2002-2003 the RZhD's officials said that the container volumes had more than doubled, as shippers in Japan, Korea and Vietnam opt for the land route instead of by sea, through the Suez Canal, and that the war in Iraq was driving cargo shippers in Asia to stay as far away as possible from the conflict zone. Federal rail sources told that they had to add an extra third container train per day from the Nakhodka-Vostochnaya railway station alone. However, today, the volume of containers that can be shipped via Russian railways transit corridors decreased up to 300 thousand/ year -- it is minuscule when compared with ocean shipping capacity. The Vostochny port is designed to process over 50 million tons of cargo annually, but the single-track rail line serving the port has an annual throughput capacity of but 25 million tons. RZhD itself states that its throughput capacity is utilized at only 60%, which influences the ports productivity. TransSib turned to be a bottleneck of the RFE's rail system, due to poorly developed rail spurs and limited throughout capacity in ports and boarder crossings, shortage of rail wagons, and uncompetitive rail tariffs, which were raised recently.

**Short supply and poor condition of wagons** and inappropriate fleet management result in erratic freight delivery schedules and unwanted delays in transit and generate dissatisfaction of clients and failures to high-value and time-sensitive consignments deliveries, such as just-in-time ones between manufacturing and assembly plants. Over 50% of Russia's rolling stock is considered to be operating beyond its effective service life; also there is a shortage in container platforms at stations, where demand is traditionally high (in ports). There are only 13,000 platforms in all of Russia, and 7,000 are processed monthly in Vostochny alone. The rail wagons deficit may reach over 25% per day in Vostochny International Container Services only. Also, few of the RZhD container terminals have equipment/ cranes to clear access to railways from wagons on a timely basis.

Freight flows to and through the RFE are largely of a transit nature with a major imbalance depending on the raw materials exports oriented Russian economy. There is a problem of minimizing the volume of empty back-hauls in transit cargo handling -- half of its containers are empty upon return. The proportion may not be so extreme for transit traffic destined for other parts of Russia, but the situation is much the same.

**Railway Control Standards and Risk Assessment.** Cargo safety has always been a major concern of freight forwarding in Russia, and the RZhD had to develop solutions for protecting cargo: discover the insurance breaks; identify reliable and cost efficient container tracking/ monitoring and security technologies and devices on port-to-rail and rail-to-destinations; ability to quickly identify time-sensitive shipments and help those shipments move first. Also, every block train moving via the TSLB is accompanied by armed security guards. The former RF Ministry of Railway Transport created several Centers for Transportation Safety throughout Russia in order to secure door-to-door delivery, control cargo safety, and continually monitor cargo location. TransTelecom installed a digital communication line along the TransSib. Digital fiberglass telecommunication network through TransSib allows conducting a real time efficient container tracking/ monitoring and implementing modern security technologies.

In terms of Russian Federal Program on Enhancing Railway Safety, in 2005-2006, RZhD re-equips over 70 (of 550 total) railway/highway crossroads on TransSib with crossing warning products -- electric signs, busy signals, and automatic road barriers to avoid collisions.

## Best Prospects

The Russian rail sector represents one of the world's largest and potentially lucrative markets for supplying equipment (rolling stock and components), track maintenance, telecommunications and information technologies, rail management systems, and safety equipment. Industry experts note that the U.S. can offer Russia the best model for freight railroading based on similar distances, volumes and climate conditions within the countries.

Solutions to meeting the equipment needs may come from integrating foreign technologies into Russian manufacturing processes and management techniques in freight and passenger transportation. The need for new generation diesel locomotives (with AC/AC transmission), freight wagons, and components to upgrade the existing rolling stock offers opportunities for U.S. firms to enter the market. However, the emphasis will be made on developing domestic production with participation of foreign partners.

The best sales prospect for U.S. companies in the RFE is developing smooth, flexible, cost-effective cargo and passenger transportation services for both local and international users:

- Improving logistics services through local freight forwarders for both Russian and foreign intermodal operators;
- Creating multimodal logistic centers, perfecting the operational system, cargo/container/wagon fleet handling and distribution;
- Human resources management;
- Transportation services marketing;
- Insurance services brokering;
- Safety system for transit cargo monitoring;
- Development of infrastructure of the transit cargo checkpoints;
- Marketing of SABRE/ GALILEO/ other IT global booking system.

## Prospective Buyers

As said before, the Russian railway is a "state within a state". A 100% state-owned company Russian Railways (RZhD) supervises its affiliate offices in the RFE. Daughter companies, as Russian Troika LTD. company, JVs, as a newly formed one between RZhD and German Deutsche Bahn AG, VICS/VFS, and freight forwarders locked at providing services to railway clients can be potential buyers of U.S. products in the railway sector. There are few key local players in the RFE providing reliable railway transportation services. VladivostokVneshTrans, Ltd. is a leading railway transportation company, a member of the Russian Association of International Forwarding Agents. The major service of VladivostokVneshTrans is containerized cargo forwarding via the TransSib from the ports of Vladivostok, Posyet, Zarubino, the TransSiberian railway station of Khasan (Zarubino). The densest concentration of railway transportation companies serving export/import and transit cargo shipments via the TransSib is in Khabarovsk. Transport-Service-Transit, East-by-West, DTK-Freight, MCh-1, DalVneshTrans, and TransRail-Vostok provide containerized and bulk cargo transportation, and loading/unloading, and warehouse-to-warehouse delivery.

## Market Entry

Based on the current situation in the RFE railroad equipment market, the recommended strategy for expand to the market is to establish a relationship and attempt to directly sell diesel locomotives, freight wagons, and components directly to the Far Eastern and Sakhalinskaya railroad head offices, their daughter companies, rail freight forwarders, and their clients. These contacts may have a capacity for service station operations and a distribution network for spare parts sales. It is preferable that the local contact has a good record with the banks, so that he can get a bank loan or leasing agreement. This strategy will allow for considerable market share for the U.S. products for railroad within a short period of time. The sale of spare parts, accessories, and service equipment can be handled through the official agents or dealers of manufacturers/exporters or

through companies involved in import and distribution of spare parts and special railway equipment in Russia or Southeastern Asia.

**General Tips for Entering the Market.** Today, the business environment and economic situation are beneficial for U.S. companies to enter the RFE market. Ruble is becoming stronger against the U.S. dollar and EURO continues growing, which makes European products less competitive. This results in increased buying capacity for local companies and growing price competitiveness of U.S. products. Also, domestic manufacturers can use the current downturn in the U.S. to consider new markets. Interested U.S. companies seeking to penetrate the RFE building products market are encouraged to use the following tips:

- 1) Pricing strategy;
- 2) Financing considerations, e.g., extension of credit;
- 3) Willingness to invest in training of potential dealers and customers;
- 4) Participation in tenders;
- 5) Direct contacts with local railroad decision makers;
- 6) Participation in exhibitions at national and local levels;
- 7) Presentations and seminars. The availability of technical information in Russian language is very important for such seminars.

### Market Issues & Obstacles

It is not easy to get in the door of RZhD, which is a semi-military organization. Almost 90% of decisions to purchase some product or establish partnership will be approved by RZhD's Moscow headquarters.

There are few options for a U.S.-based company to enter the RFE railroad sector market -- direct access, a joint venture, or access through a broker or agent. Direct access is the most complicated way to enter the market. First, a foreign company has to open an office in Russia. Then it has to obtain a license for providing transportation services in Russia.

Joint Venture (JV) is a popular vehicle to enter the RFE market, but is associated with considerable risk. The usual practice is that a foreign company provides investments and management expertise while a Russian partner provides licenses, certificates and permits. Low overhead and labor costs, some tariff reductions, and large market potential make these joint ventures profitable. Partner selection is the most crucial issue. A positive example of JV operations in the RFE is VICS and VIFS. In most cases, our office would recommend against the JV approach in this industry, due to poor legal protection for foreign investment in Russia.

Entering the local railway market through a local freight forwarding/logistics agent is the most reliable and cost-effective access. A local agent better understands the local business environment, is flexible in developing transportation routes, and can provide better and faster access to any destination in the local market. A U.S. partner is expected to provide promotional support, training, and clarification of his requirements to avoid misunderstanding in different business environment.

Direct sale of U.S. railway equipment/products, if delivered directly from the States, may be too expensive to be sold in the RFE as customs costs increase the price substantially. Moscow and St. Petersburg, which have privileged customs regimes, appear to be the major "gateways" for foreign products into Russia. It is much cheaper to buy goods certified according Russian standards from a warehouse in Moscow and deliver them to the RFE than to bring them directly from the U.S. However, other obstacle is the fact that such specific equipment as railway fleet cannot find its distributor in Russia. Then the only way to upgrade its fleet is a direct purchase. In this case, for a shipment from U.S. to the RFE, the most advantageous scheme for transportation of products from the West Coast of the U.S. is to deliver goods to Pusan, Korea on large vessels and then reload and deliver them to the RFE via Vostochny or Vladivostok's ports.

The limitations for a direct sale approach will be the lack of import experience on the part of the buyer and the financing of the deal. Russian companies can not afford to take cash out of working capital to prepay for such a costly product as diesel locomotives, freight wagons, and components, wait 30 days for delivery of the products,

and pay custom duties and VAT before the machinery/equipment even start working. Russian bank loans are mostly short-term (up to 1 year), med-term (3-5 years) are available only to big and well-established companies, and expensive (at least 9-12% for US dollar loans). Also, the companies exploiting railway fleet will need spare parts and after sale services, which may be difficult to provide to the clients in the RFE from the United States.

## Trade Events

A trade show is an important promotion technique in Russia, which local industry professionals use as an educational opportunity to learn about new technologies and products. This is a low cost, but effective and easy way for a U.S. company to evaluate market potential, gain exposure and explore opportunities in this market. U.S. companies may consider participating in the international annual event

### Event: **Sigold. Oil, Gas, Infrastructure.**

Annual oil, gas, and transport exhibition

Dates: August 22-24, 2006

Location: Sakhincen, Yuzhno-Sakhalinsk, Russia 680000

Organizer: Sakhalin Expocenter

Phone: (7-4242) 741 142, 744 169

Fax: (7-4232) 744 169

E-mail: [sakhexpo@isle.ru](mailto:sakhexpo@isle.ru)

[www.sakhexpo.ru](http://www.sakhexpo.ru)

Focus: the international exhibition of the newest engineering and technologies for the development of the mineral-raw materials and energy resources.

### Event: **Transport & International Transit. TRANSTECH-2007**

Annual International Transport and Logistics Exhibition and Conference

Dates: September 26-27, 2006

Location: St-Petersburg, Russia

Organizer: TransTech Neva Exhibitions

Phone: (812) 321 2676/ 2817

Fax: (812) 321 2677

E-mail: [transtec-neva@setcorp.ru](mailto:transtec-neva@setcorp.ru)

[www.setcorp.ru](http://www.setcorp.ru)

Focus: latest transport, information and logistic technologies, improvement of the Russian transport infrastructure and the provision of high-quality services to consumers of transport products.

### Event: **TransRussia-2007**

Annual International Transport and Logistics Exhibition and Conference

Dates: March, 2007

Location: Moscow, Russia

Organizer: ITE LLC Moscow

Phone: (495) 935 73 50

E-mail: [transport@ite-exhibitions.com](mailto:transport@ite-exhibitions.com)

<http://www.transportshows-ite.com/pages/ExhibitionInfo.htm>

Focus: latest transport, information and logistic technologies, improvement of the Russian transport infrastructure and the provision of high-quality services to consumers of transport products.

## For More Information

The U.S. Commercial Service in Vladivostok, Russia can be contacted via e-mail at:

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