



## PROJECT REPORT

### Logistics Sub-Committee, Local Cooperation Committee

|                                |  |
|--------------------------------|--|
| <b>Project Title</b>           | <i>Pilot Transport Testing Project<br/>(Mudanjiang-Suifenhe-Grodekovo-Vladivostok-Donghae-Sakaiminato)</i>   |
| <b>Participating Countries</b> | <i>China, Russia, South Korea, Japan</i>   |
| <b>Development Partners</b>    | <i>Heilongjiang Provincial Government, (Primorsky Krai), Gangwon Provincial Government, Tottori Prefectural Government, DBS Cruise Ferry, Chinese and Russian Customs, Chinese/Russian railway companies and forwarding agents</i> |
| <b>Time Period</b>             | <i>Actual Transport: October 14, 2016 through November 21, 2016</i>  |
| <b>Budget</b>                  | <i>JPY 1,300,000 (APPROX. USD 11,200)</i>  |
| <b>Funding Sources</b>         | <i>Tottori Prefectural Government and Private Sector</i>   |

#### Project Framework

|                       |   |
|-----------------------|---|
| <i>Background</i>     | <i>Easing cross-border trade is vital for economic development in the GTI region, while challenges exist due to the close proximity of national borders. In cooperation with relevant local governments, Tottori Prefecture conducted a pilot transport from Mudanjiang, Heilongjiang Province, to Sakaiminato, Tottori Prefecture, via Suifenhe and Vladivostok to identify logistics problems on this sea-land (railways) route.</i>  |
| <i>Objectives</i>     | <i>To find out logistical problems lying in the GTI region, such as cost, infrastructure and custom clearance, by transporting cargoes from Mudanjiang, Heilongjiang Province to Sakaiminato, Tottori Prefecture.</i>   |
| <i>Key Activities</i> | <i>A Japanese company (hereafter referred to as the consignee) is going to import wooden products from Heilongjiang. Tottori Prefectural Government covered a part of expenses borne by the consignee, including cost for compiling report.</i> <ul style="list-style-type: none"> <li>- Shipping details: <ul style="list-style-type: none"> <li><i>Shipper: two wooden companies in Mudanjiang</i></li> <li><i>Consignee: Maruju Co., Ltd. (Kurayoshi, Japan)</i></li> <li><i>Forwarding agent: SWIFT Transport Group</i></li> <li><i>Origin of Shipment: Mudanjiang, Heilongjiang Province</i></li> <li><i>Via: Suifenhe, Vladivostok</i></li> <li><i>Destination: Sakaiminato, Tottori Prefecture</i></li> <li><i>Quantity: two 20-feet dry containers</i></li> <li><i>Content: wooden products (chopsticks, plate)</i></li> <li><i>Mode of transport: rail between Mudanjiang through Vladivostok ship (DBS Cruise Ferry) between Vladivostok and Sakaiminato</i></li> </ul> </li> </ul> |

## Time Line of Transport

| Days | Date        | Place                | Remarks   |
|------|-------------|----------------------|---|
| 1    | October 14  | Vladivostok          | Empty containers picked up by SWIFT Transport Group at the passenger terminal and transferred to Commercial Port (VMTP) |
| 6    | October 19  | Vladivostok          | Block train departed VMTP with the containers on board.   |
| 7    | October 20  | Suifenhe             | Block train arrived at Suifenhe Station   |
| 8    | October 21  | Suifenhe             | Custom and quarantine clearance completed   |
| 10   | October 23  | Suifenhe, Mudanjiang | The containers transferred by trucks. Stuffed containers returned to Suifenhe Station.                                  |
| 11   | October 24  | Suifenhe             | Documents prepared for custom clearance.  |
| 12   | October 25  | Suifenhe             | Custom clearance completed. Block train departed.   |
| 13   | October 26  | Grodekovo            | Block train arrived at Grodekovo Station.   |
| 14   | October 27  | Vladivostok          | Containers arrived at VMTP.   |
| 18   | October 31  | Vladivostok          | Documents submitted to the Customs.   |
| 25   | November 7  | Vladivostok          | Custom clearance completed.   |
| 26   | November 8  | Vladivostok          | Application submitted to the Customs to transfer the containers to the passenger terminal.                              |
| 32   | November 14 | Vladivostok          | Application approved. The containers transferred to the passenger terminal.   |
| 33   | November 15 | Vladivostok          | The containers on board DBS Cruise Ferry. Departed Vladivostok.   |
| 36   | November 18 | Sakaiminato          | Ferry arrived at Sakaiminato.   |
| 39   | November 21 | Kurayoshi            | The containers arrived at the consignee's warehouse.  |

Source: SWIFT Transport Group, Tottori Prefecture



## Summary of Transport

*It took 30 days to transport containers from wooden factories in Mudanjiang, Heilongjiang Province to the consignee's warehouse in Kurayoshi, Tottori Prefecture. The lead time is approximately one and a half times longer than the existing (alternative) transport route, which the consignee mostly uses. (Mudanjiang - Dalian - Kobe - Kurayoshi, approximately 20 days by truck and container ship)*

*The containers stayed in Vladivostok for 20 days after they arrived at Commercial Port of Vladivostok (VMTP) on October 27. This is partly because it was the first try for parties concerned to connect Commercial Port of Vladivostok (VMTP) with the passenger terminal at the Port. During the period, they missed two sailings of DBS Cruise Ferry, which calls Vladivostok once a week.*

## Cost Analysis

*Breakdown of the expense for transporting a 20' dry container (Mudanjiang – Sakaiminato)*

| <i>Item</i>   | <i>Cost</i>           |
|---|-----------------------|
| <i>Trucking in China</i>                                | <i>RMB 2,000</i>      |
| <i>Railway Freight in Russia</i>                        | <i>USD 1,300</i>      |
| <i>Ocean Freight</i>                                    | <i>USD 700</i>        |
| <i>Terminal Handling Charge in Vladivostok</i>          | <i>RUB 5,724</i>      |
| <i>Railway Freight in China</i>                         | <i>RMB 1,500</i>      |
| <i>Custom Clearance in China</i>                        | <i>RMB 300</i>        |
| <i>Quarantine Clearance in China</i>                    | <i>RMB 250</i>        |
| <i>Gateway fund in China</i>                            | <i>RMB 100</i>        |
| <i>Storage in Vladivostok</i>                           | <i>Exempted</i>       |
| <i>Clearance Handling (for urgent smooth clearance)</i> | <i>USD 200</i>        |
| <i>Demurrage Charge (DBS Cruise Ferry)</i>              | <i>Exempted</i>       |
| <i>Handling Commission</i>                              | <i>USD 300</i>        |
| <i>Compiling Report</i>                                 | <i>Free of Charge</i> |
| <i>Total Expense</i>                                    | <i>USD 3,220</i>      |

*Source: SWIFT Transport Group*

*\*1USD=63RUB=6.6RMB*

*\*\*The transport cost between Sakaiminato and Kurayoshi is not included.*

*Cost and time comparison between the trial route and the existing (alternative) route*

| <i>Route</i>                                  | <i>Cost</i>       | <i>Time</i>    |
|---|-------------------|----------------|
| <i>Trial Route</i>                            |                   |                |
| <i>Mudanjiang – Vladivostok - Sakaiminato</i> | <i>USD 3,220</i>  | <i>27 days</i> |
| <i>Sakaiminato - Kurayoshi</i>                | <i>JPN 36,700</i> | <i>3 days</i>  |
| <i>Existing (Alternative) Route</i>           |                   |                |
| <i>Mudanjiang – Dalian - Kobe</i>             | <i>USD 1,700</i>  | <i>13 days</i> |
| <i>Kobe - Kurayoshi</i>                       | <i>JPN 63,600</i> | <i>7 days</i>  |

*Source: SWIFT Transport Group and Maruju Co., Ltd*

## Analysis

*The difficulties of this project were originated from the rareness of such transport. In addition, it is hard to move physically any cargo from one terminal to another at Vladivostok Port due to the regulations of Russian Customs.*

*According to SWIFT Transport Group, the Vladivostok customs house had never handled a trans-border container from Grodekovo to Commercial Port (VMTP), and then to the passenger terminal, which requires a very complicated procedures.*

*During the pilot transport, the customs house officials had several meetings and finally found the way to deal with it.*

According to SWIFT Transport Group, the transit time could be reduced greatly by the following ways.

- The customs house has become familiar with how to handle such a case through the trial transport. Therefore, the transit time in Vladivostok would be shortened.
- If SWIFT Transport Group could store empty containers in Suifenhe, there would be no need to spend time on repositioning empty containers from Vladivostok to Suifenhe.

The expected and optimized transit time would be 13 days as below.

| Days | Place                  | Remarks   |
|------|------------------------|---|
| 1    | Suifenhe, Mudanjiang   | Pick up empty containers at Suifenhe Station. Go to factories for stuffing and return to the station. |
| 2    | Suifenhe               | Documents prepared for custom clearance.  |
| 4    | Grodekovo              | Train arrived at Grodekovo Station.   |
| 5    | Vladivostok            | Containers arrived at VMTP.   |
| 9    | Vladivostok            | Custom clearance completed.   |
| 10   | Vladivostok            | Departed Vladivostok by DBS Cruise Ferry.   |
| 13   | Sakaiminato, Kurayoshi | Arrived at Sakaiminato, then transferred to Kurayoshi   |

#### Key Conclusion (Based on the report by SWIFT Transport Group)

The pilot route is reliable for transportation. The logistics cost, transit time and the related service would be improved in the future if a certain level of cargo volume is maintained. Smooth operation at Vladivostok Port would also be crucial to optimize transit time.

However, there are certain limitations on the pilot route.

- There is much restriction on the cargo catalogue along the pilot route. The weight limit is 20 metric ton including cargo and container tare at the passenger terminal at Vladivostok Port.
- The pilot route cannot support too large volume. The block train is not designed for public service but private service for the VMTP terminal only. Normally any container from the third party will not be allowed on board the block train.
- There is an issue of availability of empty containers in the GTI region. As seen in this trial transport, container repositioning results in increasing cost and lead time. Lack of empty containers is generally caused by trade imbalances, and it is necessary to consider a mechanism to enable fast and effective reallocation of empty containers.

#### Follow-up Actions (Proposal)

Further analysis of the pilot transport is necessary with the cooperation of GTI Transport Board, GTI Trade and Investment Committee (Customs Sub-Committee), which have an extensive knowledge and experiences in the field.

As post-analysis follow-up, it would be useful to conduct field studies at Vladivostok Port by a task force. The task force should be composed of members from Logistics Sub-Committee, Transport Board and Trade and Investment Committee, and private sector.

The task force would visit port and railway facilities and interview customs and railway officials, port operators with regards to the present situation of infrastructure and custom procedure. The result and concrete proposals should be compiled in a report and submitted to the committee and to be shared with other GTI organs.

*The goal of this task force is to answer the following question; How can rail and sea be connected more smoothly at Vladivostok Port? Vladivostok is one of key transport hubs for both cargo and passengers in the GTI region, and smooth and efficient traffic at the port would greatly contribute economic development in the region.*

*In parallel with the task force activities, Tottori Prefecture will conduct similar trial transport along the selected routes to find the way to optimize logistics cost and transit time in cooperation with related local governments and private sector.*

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