

Interspecific Competition in the Freight Transportation Market



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Subject to the development of its logistics competences and its ability to use the unique opportunities of its monopolistic position, JSC "RZD" may be in a strong position to compete in the high-income freight transportation segment.

JSC "RZD" holds a unique monopolistic position for a number of destinations, freight and distances. These are Russian peculiarities. There is no another country in the world, including the US and China comparable in terms of size, where railways are so dominant compared to other means of transport. This is a totally objective factor that reduces interspecific competition in the freight transportation segment.

As such, the share of rail transport for freight turnover in the overall Russian transport system is large and has increased considerably in recent years — from 39.5% in 2004 to 44.5% in 2012.

Nevertheless, railways are facing increasing pressure from other means of transport — pipeline, water, road — that operate on an arm's length basis and are less controlled by the state. This competitive pressure is specifically notable in the high-income freight transportation segment.

Competition between rail and road transport intensified in 2012: there is a growing fleet of heavy goods vehicles used to deliver heavy cargo over long distances, for example, from St. Petersburg to Krasnoyarsk.

In particular, the share of road transport is increasing because it can provide "door-to-door" delivery, which is the most convenient service for consumers.

It should be noted that the rules and laws that regulate rail transport operations, passenger safety and freight traffic are incommensurably more stringent compared to those for road traffic. Therefore, increasing the competitive power of rail transport is not just an industry-specific task, but also a nation-wide one.

For JSC "RZD", freight delivery from the vendor's door to the consumer's door is a new model. This transition requires, first of all, competences in logistics and supply chain management. The acquisition of the logistics company, Gefco, will speed up JSC "RZD"'s progress in this direction.

In 2012, JSC "RZD" specialists developed the Concept for distriport management in Russia; its implementation will allow regular freight services between terminals and large cities to be organized.

The Company has set up a committee for transport and logistic business development headed by President of JSC "RZD", V.I. Yakunin. The concept to establish a transport and logistic business unit is under development.

The transition to a regular freight service requires the integration of railroad transport into the public transportation system for the first and last mile. Not only will this secure a competitive advantage for railway transport over other transport means, but it will also help optimize key transportation resources: locomotives, locomotive crews, number of cars in use, etc.

Share of rail transport for freight turnover in the overall Russian transport system

44%

Rail transport share has increased 4.5 p.p. since 2004