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S&P Journal of Commerce

Red Sea disruption drives Asia-Europe shippers to air, rail alternatives

China-Europe rail bookings are up significantly since the start of the Red Sea attacks in December. Photo credit: Jiaye Liu / Shutterstock.com.

Greg Knowler, Senior Editor Europe | Jan 19, 2024, 11:30 AM EST

Demand for air and rail shipments from Asia to Europe is soaring with essential shipments being switched to the alternative transportation modes to avoid delays from ocean carriers diverting ships around southern Africa.

The predicted rise in air freight rates and volumes from Asian origins to Europe is beginning to materialize, while rail operators and forwarders are reporting a surge in bookings for China-Europe rail services.

Air cargo volume from Vietnam to Europe — a major trade route for apparel — spiked 62% in the week ending Jan. 14, according to rate benchmarking platform Xeneta. The volume is up 16% compared with the same week last year.

“This is the first signal in Xeneta data that the Red Sea crisis is impacting air freight,” Niall van de Wouw, the analyst’s chief air freight officer, said in a statement

Friday. “This is typically a quieter time of year for air freight so to see increases of this magnitude, with higher volumes than at any point in 2023, is significant.”

Data from WorldACD also shows double-digit percentage increases in demand to Europe from Asia-Pacific, the Middle East and South Asia in the last two weeks, which the Netherlands-based analyst said could be a result of the longer ocean voyages.

“Although it’s unclear yet to what extent this has contributed to air cargo demand, those elevated tonnage figures to Europe ... likely reflect some contribution from modal shift on these lanes from sea to air and to sea-air,” the analyst noted.

Also taking off is demand for rail freight on the China to Europe network that has been depressed since the Russian war with Ukraine brought shipments via the northern corridor to a virtual standstill in the first quarter of 2022.

Igor Tambaca, managing director of Asia-Europe focused Rail Bridge Cargo, told the *Journal of Commerce* that he has seen a 68% increase in rail requests from shippers this year and 43% more actual bookings.

“Customers tend to use the northern route to be faster into Europe, especially the express rail solution that has a transit time of 12 to 13 days,” he said.

Tambaca noted that for ethical reasons, some shippers preferred not to rail through Russia and used the middle corridor instead, although that route is also used for rail shipments directly into Turkey, Israel and Jordan.

Faster transit time

Average rail rates from China to North Europe are currently $2,500 to $3,000 per FEU compared with ocean rates that the various indices have pegged between $4,500 and $5,500 per FEU, not counting space guarantee fees of up to $1,500 per container being charged by carriers.

“Rail is currently around 12 to 16 days whereas sea freight is around 45 to 57 days so this difference in rate is very little [when measured against inventory carrying costs],” Tambaca said.

Kelvin Tang, global cross-border and multimodal leader at CEVA Logistics, said since the Red Sea disruptions began in mid-December, the volume of the forwarder’s China-Europe truck and rail transport has increased 30%.

“We expect there will be [a further] increase in volume on both routes connecting China and Europe by rail, but especially through the southern routes in Georgia and Turkey using intermodal transportation to reach coastal Mediterranean countries, where we are seeing a greater impact," Tang told the *Journal of Commerce*. He added that rail rates from China to Europe were up around 10% since December.

Thomas Kowitzki, global head of China rail at DHL Global Forwarding, said rail requests to test the northern corridor as an alternative to ocean have risen by more than 45%, with final rail bookings up by as much as 30%.

"The capacity situation is tight but still okay to handle in terms of train space and equipment," he said. "Transit times are very fast with 12 to 18 days rail terminal to terminal and compared to ocean via the Cape of Good Hope, rail has a remarkable time advantage."

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S&P Journal of Commerce

Kazakhstan Railways embarks on ‘Maersk style’ integrated logistics transformation

Kazakhstan has no large locally-based cargo airline with Air Astana focused on passenger traffic. Photo credit: Air Astana.

Greg Knowler, Senior Editor Europe | Jun 24, 2024, 12:14 PM EDT

ASTANA — Kazakhstan Railways (KTZ) has begun an ambitious long-term transformation of the state-owned giant into a Maersk-styled integrated logistics operator complete with an in-house air cargo division and a multimodal reach outside Central Asia.

The rail operator, which has provided a crucial link in the China-Europe rail network since the first train made a westward journey in 2011, wants to grow its business far beyond the transport of rail freight.

“We recently started the long-term transformation of the company into a full-scale multimodal transport and logistics company, and we are looking at developing an air cargo division,” Nurbek Bekmukhambetov, director of multimodal transportation at KTZ, told the *Journal of Commerce* at the Central Asia conference of The

International Air Cargo Association (Tiaca) in the Kazakh capital of Astana last week.

“This is a common practice among transportation providers that have expanded outside their core business, such as Maersk, for example,” Bekmukhambetov said. “It was a shipping company, but they now operate their own air cargo airline, and we are looking for something similar.” He gave no timeline for KTZ’s expansion.

Developing Kazakhstan’s air cargo business with an international reach will take some doing, however. Most of the freight that enters the country is by rail from China, and after being transferred to KTZ trains at the border, it passes through to Russia, Central Asia or Europe without stopping.

Kazakhstan has no large locally-based air cargo carrier — Air Astana only carries passengers and cargo airline Alpha Sky only operates three small freighters. Kazakhstan must also import jet fuel at a high cost and on top of the cost of refueling, any airline bringing in cargo will fly out empty because Kazakhstan has virtually no air freight exports.

While this makes Kazakhstan unattractive as an air cargo destination, both KTZ and the Kazakh government are committed to developing the country into a multimodal Central Asia hub underpinned by a strong air cargo presence.

“There is a strategic focus from the government on logistics and transforming KTZ from a railway company into a logistics integrator,” Catalin Ragu, director general of the Aviation Administration of Kazakhstan, told the *Journal of Commerce* at the Tiaca event. “KTZ already has a strong portfolio across logistic modes that we will use to build the multi-modality we need.

“In this context, there is a need to find a way to set up a national air cargo operator because it is essential for a country like Kazakhstan situated in the middle between Asia and Europe, and in the current geopolitical situation it is even more important for an international air cargo network to be developed,” Ragu added.

Red Sea attacks

Ragu believes KTZ’s rail position can be leveraged into the development of rail-air products that are seeing increasing demand as longer voyages around southern Africa and growing port congestion disrupt ocean container shipping from Asia to Europe.

Red Sea attacks on shipping have forced ocean carriers to sail around southern Africa. The longer transit, combined with early peak season demand and port congestion in Asia, has led to rising demand from shippers and forwarders for multimodal westbound solutions, including rail and rail-air from China to Europe.

Many European importers object to using the northern corridor through Russia following the country's invasion of Ukraine, but that is also having the effect of accelerating both infrastructure development along the so-called middle corridor route through Kazakhstan and the Caspian Sea to the Mediterranean and North Europe, as well as demand for intermodal services.

Sea-air is the most common approach from forwarders using ocean transport to transshipment hubs such as Dubai, Colombo and Singapore, where containers are converted to air freight and flown to destinations in Europe or the US.

But air freight rates have soared in the past few months and there is limited capacity out of China because of high demand for e-commerce, in addition to increasing interest in rail-air services, according to Bekmukhambetov.

"A logistics product we will offer our customers in the near future is a rail-air solution," he said. "There is no point in starting our own airline now because an airline needs volume, and at the moment, KTZ has no air cargo volume.

"We will start with forwarder partnerships and build on those, and we are very well known in China, so we have an advantage over other forwarders," he added. "Chinese forwarders have seen us developing new services and are starting to send requests for air transport."

Trans-Caspian joint venture

KTZ last year formed a joint venture with Singapore's PSA International aimed at promoting the development of the Trans-Caspian International Transport Route — the middle corridor — and improving connectivity and trade flows from Southeast Asia and China through Kazakhstan and on to Europe. The rail company also has an agreement with German counterpart Deutsche Bahn on consulting services for passenger transport and rail freight.

"We are in the rail transit business, so any partnerships need to be complementary to that," Bekmukhambetov told the *Journal of Commerce*. "Transit tariffs are our breakfast and most of KTZ income comes from cargo traveling through Kazakhstan, either to Europe or to other Central Asia countries."

KTZ operates a rail network covering 16,000 kilometers with almost 50,000 freight wagons, 10 transshipment points, two ports on the Caspian Sea and an ocean terminal in China's Lianyungang port. In 2023, a record 27 million tons of transit freight moved through Kazakhstan, including 1.2 million TEUs, up from just 270,000 TEUs 10 years ago. By 2030, KTZ expects transit traffic to grow to 4.3 million TEUs.

Sergey Titz, CEO of Central Asian multimodal logistics provider Asia Freight, said the growth of air cargo in Kazakhstan was slow because of limited volume, lengthy customs processing times clearing cargo railed in from China and the high cost of jet fuel.

“Air cargo only makes sense if there is high speed processing of the cargo documentation, efficient customs, significant volume and affordable fuel,” Titz told the Tiaca conference. He said on some rail routes from China there could be a three-week wait for the cargo to cross the Kazakh border and be cleared for onward air freight shipping.

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S&P Journal of Commerce

Bottlenecks build as China-Europe rail network battles rising demand

Forwarders estimate China-Europe rail volume increased more than 50% in the first quarter, straining the Khorgos terminals where cargo must be transferred between trains. Photo credit: Vladimir Tretyakov / Shutterstock.com.

Greg Knowler, Senior Editor Europe | Jun 27, 2024, 9:59 AM EDT

ASTANA — The modal shift from congested ocean trades to China-Europe rail freight is creating lengthy delays at key China-Kazakhstan train transfer points, leading to longer transit times and fast-rising rate levels.

Forwarders estimate China-Europe rail volume increased by more than 50% year over year in the first quarter with strong demand for less-than-containerload freight.

"The volume increase on rail requires more time for reloading at the China-Kazakhstan border and therefore longer transit time," Thomas Kowitzki, vice president and global head of China rail at DHL Global Forwarding, told the *Journal of Commerce*.

All cargo entering Kazakhstan must be transferred to new trains because rail tracks in Central Asia have a different gauge than those in China.

“On average, the border crossing between China and Kazakhstan takes between six and nine days, but a lot depends on [the] day of train transfer and available rail wagon equipment,” Kowitzki said, adding that with ongoing strong demand the limiting factor was the available capacity within the China Railway Express network.

Taiwanese forwarder Dimerco puts the congestion-related transshipment delays at six to 12 days, increasing transit times from China to Europe on the northern corridor via Russia to more than 20 days.

Nurbek Bekmukhambetov, director of multimodal transportation at Kazakhstan Railways (KTZ), said the transshipment points at the China and Kazakhstan border where cargo swaps trains are heavily congested.

Bekmukhambetov told the *Journal of Commerce* on the sidelines of The International Air Cargo Association’s (TIACA’s) Central Asia conference in Astana last week that rail infrastructure in Kazakhstan was being rapidly expanded to accommodate the greater freight volume. Measures were also being put in place to speed up cargo flows, such as bypassing the city of Almaty and connecting directly with the so-called middle corridor route that bypasses Russia, as well as upgrading supply chain software.

Limited capacity, infrastructure shortcomings

Prior to Russia’s invasion of Ukraine in February 2022, the headhaul northern corridor, which travels from China through Kazakhstan, Russia and Belarus en route to Poland, handled at least 95% of all China-Europe rail freight. The middle corridor via the Caspian Sea carried the balance, but as European importers turned their attention to the route, they quickly found infrastructure shortcomings severely limited capacity while multiple cargo handovers and long transit times raised rates to uncompetitive levels.

After two years of infrastructure building and greater cooperation between Central Asia governments that included the aligning of customs processes, Bekmukhambetov said the middle corridor has improved significantly and has “huge potential” to be a viable alternative to the northern route through Russia.

“The European Union is interested, China is interested and we are expanding our capacity on the corridor to the two ports on the Caspian Sea that we operate,” the KTZ executive said.

Bekmukhambetov said the route has become more viable with faster transit times and bonded trains requiring fewer cargo handovers.

“Using shuttle trains with sealed cargo, it can take 14 to 23 days for a container to be transported from our Lianyungang port in China to South Europe via the middle corridor, and that is a huge improvement," he said.

But with Russia's war on Ukraine in its third year and with Houthi militant attacks on shipping keeping the Red Sea route largely unavailable, the northern corridor is coming back into play.

"Some European shippers are deciding to resume their use of rail and trucking solutions that transit through Russia," Kelvin Tang, global cross-border and multimodal leader at CEVA Logistics, told the *Journal of Commerce* in a recent interview.

Whether cargo owners use the northern or middle corridors, the transit times of both routes beats ocean shipping, where sailing around southern Africa adds 10 to 14 days to an Asia-Europe voyage and port congestion extends the transit times even further.

"Despite longer transit times, rail is still a much faster option as congestion in ocean ports is also delaying the already longer transit times…," Kowitzki said.

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