Permanent Delegation of the IRU to the CIS

ROAD TRANSPORT IN RUSSIA 2002 • 2003

EXECUTIVE SUMMARY

Annual Report (IRU Blue Paper)

International Road Transport Union

IRU

The International Road Transport Union (IRU) was founded in Geneva in 1948. It unites some 150 Member organizations from nearly 70 countries. Active Members are national road transport associations, while Associate Members are bodies with strong connections to the sector, such as vehicle manufacturers and insurers. The main IRU objective is to represent the interests of the road transport sector and organize international cooperation in the area of freight and passenger road transport. The IRU works to find solutions to the problems affecting road transport. It works with government bodies to develop unified and simplified rules governing road transport, customs, road safety. Through the IRU, the road transport sector is the only mode of transport to have publicly committed itself to the goal of sustainable development. The IRU works in close cooperation with the European Commission the European Conference of Ministers of Transport, the World Customs Organization and the United Nations Economic Commission for Europe, with which it has Observer status.

Given the vast potential for road transport, particularly of goods, in Russia and the CIS countries, the IRU established a Permanent Delegation to the CIS in Moscow in 1998

The IRU Moscow office's mission is to:

- assist the CIS countries in improving road transport legislation and facilitate their accession to the WTO;
- analyze barriers to development of road transport within the CIS, facilitate the integration of the CIS in European transport bodies and prepare related recommendations for CIS governments.
- support integration of the road transport sector among the CIS countries
- promote the development of North-South and East-West transport corridors within the territory of the CIS, as a major contribution to the economic development of the entire Eurasian region

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EXECUTIVE SUMMARY

New Approaches for a New Environment

The domestic transport industry has witnessed a number of positive developments over the past several years. The time is now ripe for examining the current state of affairs, considering new trends and opportunities, cultivating fresh perspectives and laying out up-to-date approaches.

Regarding growth rates, the transportation complex is an industry leader – a fact not lost on investors. In 2001, investments in the industry increased by 22%, a rate considerably higher than Russia's average. In particular, the country's largest exporters, eager to support a reliable transportation base for the promotion of their products, have begun to invest in transport companies.

Road transport, the most flexible and common means of transportation, differs significantly from other types of transport. Most vehicles in Russia are operated by non-transport enterprises, and the road network is used both by commercial vehicles and private cars, making the barriers to road transport development more complex.

Every day across the country, **approximately 17 million tons of freight and more than 62 million passengers are transported**. With regard to freight transport, this amount is almost six times higher than that for railway transport, while for passenger transport it is 17 times higher.
In all industries combined, over **four million people** are employed in road transport operations. In 2001, a year of impressive recovery in the real sector of Russia's economy, transport by road accounted for more than 90% of all national transportation.

Russia's experience confirms a common pattern – growth of the overall economy is parallel to and, to a certain extent, dependent upon the development of road transport. In 2001 road transport accounted for more than 90% of the total increase in domestic transportation volumes. The growth of international freight transportation by road also exceeds that of other means of transport.

Over the last ten years a high rate of motorization has become the norm in the Russian Federation. During this period the number of cars, buses and motorcycles increased more than twofold. Although Russia's fleet of vehicles is one of the fastest growing in the world, the consumer and environmental attributes of domestic vehicles and fuel fall considerably behind international best practices. The same can be said for the technical condition of Russia's roads and for the level of highway infrastructure development.

Overall, the country's road transport complex meets the growing demand for its services, promotes Russian interests in international trade, and helps to improve key economic performance indicators. At the same time, however, serious shortcomings and negative trends can be seen in current conditions and operations. To combat these, considerable financial investment is needed, as are improvements to the legislative and regulatory framework, the implementation of institutional reforms, financial restructuring of several enterprises, and a strengthening of governmental support to certain road transport sectors.

Russia's current macroeconomic situation is characterized by overall stability, increases in industry output and investment activity, a growth in per capita revenue, and a comparatively low rate of inflation – in both the consumer market and in industrial production. The economic policies implemented by the government have improved the investment climate and resulted in increased investment by Russian companies and organizations.

Financial institutions have begun to seriously consider the domestic transportation industry as a target for long-term investments, and Russian banks have also begun investing. Current forecasts predict a continuation of this trend and a systemization of the interests of various groups of investors in transport.

However, a mere increase in investment flow is not enough. These investments must also be optimally allocated and combined with the goals of improving transportation services to consumers and simultaneously increasing transport capabilities. The objectives of this "new stage" of economic development should be improving the efficiency of the transport industry, reducing transport costs and transport intensity as a percentage of GDP, and substantially increasing the productivity and competitiveness of transport operators.

Russia has a well-developed and powerful transportation system, and its share in the economy, by any macroeconomic measure, is considerable. However, the entire transport infrastructure was designed to meet the needs of a closed, centralized economy with modest social goals. Hence, the transition to the market, integration into the world economy and the subsequent rearrangement of foreign trade priorities demanded that the transport infrastructure rapidly restructure and modernize.

Russia's economic recovery has led to an increased demand not only for international freight and passenger transportation, but also for domestic transport services. Most forecasters agree that the growth rate of internal demand will surpass that for international transport. For the transportation industry, this means not only increased volumes of internal transportation, but also, more importantly, the need to avoid costly strategic mistakes in choosing a prospective balance of transport alternatives – a balance that even in a market economy depends largely on government decision-making.

In developed western countries this balance turned in favor of road transport long ago. In these countries, it is axiomatic that restricting road transport in a market system means reducing economic growth. Therefore, the task of the government is to reduce the negative consequences of motorization and, as far as possible, reduce the growth of road transportation as a proportion of GDP growth.

In Russia, however, the terms "transport" and "railway transport" have been almost synonymous for decades, and overcoming the natural monopolistic tendencies of railways will require much time and effort. The current restructuring of the railway industry, aimed at creating competition, should be accompanied by the simultaneous restructuring of road and inland water transport. This will promote the establishment of stable, large-scale multi-modal operators that can exploit the capabilities of various types of transport. By competing and interacting with each other, such operators will not only provide a higher quality of domestic transportation services, but will also become independent, easing Russia's accession to the WTO.

Over the last 10 years, the state's monopoly in road transport has actually been eliminated. Almost three quarters of large- and medium-size road transport companies have been privatized. As a result, this market sector has been virtually removed from the government's control.

At present, **approximately 90% of all road transport of freight is carried out by private entities**. Over one-third of Russia's road transport freight fleet – approximately three million units – is owned by individual entrepreneurs and newly established small road transport companies.

Russia's citizens and domestic businesses recognized long ago the expediency of maximally reducing their dependence on transport monopolies. The vivid result is the four billion US dollars that are invested annually by private companies in new passenger cars.

Due to competition, carriers must limit increases on inter-city transportation tariffs, and they raise rates only when necessary due to increases in direct transport costs. For long-haul transportation, road transport companies are competing more and more successfully with railways, due to increases in railway transportation tariffs.

On the whole, there is a surplus of road transport services in the domestic market, and competition is often of a "dumping" nature.

Many problems in road transport are caused by the non-systematic and incomplete nature of a legislative and regulatory framework that has been hastily adapted to market conditions. Simultaneously, in the sphere of implementation, there is a lack of effective mechanisms to ensure the enforcement of laws and the execution of acts prescribed by regulatory and legal documents.

In the absence of efficient rules promulgated by the government, the vacuum has been filled with "shadow economy" type rules. It has therefore become urgently necessary to revise and complete the legal framework regulating passenger and freight transportation.

The regulatory framework for commercial road transport activities in modern Russia's market economy should be based on a new Road Transport Code. Administrations of Russia's federal territories, various trade associations and unions, as well as individual economic entities have repeatedly called for and promoted the approval of this draft law.

The creation of an efficient legislative and regulatory base for passenger transport requires the adoption of a new framework law addressing governmental policy guidelines and the regulation of urban passenger transport.

Passenger road transport is critical for the mobility of individuals. From the social point of view, buses are the most developed and accessible type of scheduled transport. In 2000, after a long decline, transportation and passenger turnover began to stabilize to a certain extent, though in many cases, the quality of service offered, especially in urban transportation, does not meet current standards.

Since economic reform began in Russia, there has been a considerable decline in the rate of passenger taxi transportation. The number of cities and towns serviced by passenger taxis has decreased from 550 to 103, or by 5.3 times.

The Russian Federation government has approved a **federal, purpose-oriented program – "Modernization of the Russian Transport System"**, to be implemented from 2002-2010. This program provides for 1) the introduction of comprehensive measures aimed at solving key problems, and 2) the implementation of priority tasks regarding the organizational, technical and management restructuring of various transportation organizations to ensure their efficient operation. The goals of the program include: 1) improved quality in services; 2) ensuring that the social and economic development of Russia and its regions is supported by the road transport system; 3) ensuring that the sector is able to meet the demands of citizens and the national economy; and 4) promoting international trade in road transport services.

The use of protective measures have somewhat restricted the participation of carriers from third countries in Russia's transport market. The share of international freight transportation by road as a percentage of all transport, excepting oil and gas pipelines, has considerably increased over the past few years and now stands at 4.5-5%. As a percentage of the total value of goods transported, road transport's share amounts to approximately 26-28%.

The replacement of Russia's existing fleet of vehicles with those meeting current international standards on overall efficiency and environmental protection, including EURO-2 and EURO-3, has been and remains an extremely slow process. It is a key factor reducing the competitiveness of Russian road transportation carriers in trade with the European Union – Russia's largest trading partner. With Russia's ongoing integration into the international economy and existing levels of transparency, any delay in the massive replacement of rolling stock for international transportation can only lead to a further reduction of Russia's share in this market segment.

At present, the efficiency of Russian road transport carriers on the international market falls far short of their potential. This is a result of lagging development of the material and technical capabilities of carriers, unsettled legal and regulatory questions in the sphere of international road transportation, and inadequate development of border checkpoints. Under the last point, key issues are the direction of transport corridors and the poor arrangement of customs and other control procedures at border-crossing points.

Russia's Automobile Industry

Because of the virtual lack of imported vehicles on the Russian market, products manufactured by Russia's automotive industry do not meet the requirements of commercial freight transportation. The irrational composition of Russia's vehicle fleet – with regard to age, load-carrying capacity, cargo body construction, and the type of fuel used – reduces the operational efficiency of road transport companies.

Looking at technical issues, safety, comfort, reliability and other key factors, the vehicles produced by Russia's domestic car industry fall considerably short of international best practices and, in many aspects, do not meet existing international requirements. In particular, Russian vehicles often do not satisfy the environmental standards set forth in the documents of the UN Unified Economic Commission. Should this situation remain unchanged, it will become a real threat to the development of Russia's transport system and to its overall economic potential.

At the same time, the positive changes recently observed in Russia's overall economy can also be seen in the domestic car industry. Production diversification, aimed at expanding the product mix, has been initiated in practically every large industrial enterprise engaged in vehicle and engine manufacture, as has the process of using new technologies for manufacturing state-of-the-art products, based on both domestic innovations and licensed foreign equipment. New business strategies and priorities have taken shape in marketing, sales and servicing, and the active development of dealer networks is underway. Russia clearly has all the necessary resources for the development of a healthy domestic automobile industry.

The successful creation of such an industry depends on reform to the existing structure and on the organization of new assembly-line production adapted to current economic conditions. Arranging car manufacturing into joint assembly lines could be one way of reducing the existing gap between domestically manufactured vehicles and those of leading foreign companies.

Russia's transformation from a planned to a market economy has drastically changed the environment in which all enterprises operate, affecting all areas of their activities, and has created a competitive national market. Road transport companies, businesses and individuals have had the opportunity to independently choose what means of transport they need. Russian citizens, frightened by a forecasted rise in the price of imported vehicles in 2001, contradicted car producers' conventional wisdom regarding low domestic purchasing power and bought four times more of these cars than they had in the preceding three years.

The sad experience of the Russian aviation industry, which failed to integrate into the rigid system of international environmental standards in time, is a sharp warning to the domestic car industry that it must immediately implement environmental regulations and provide for the manufacture of vehicles meeting EURO-2, 3 and 4 standards.

In the absence of change, the attitudes of consumers toward Russian car manufacturers will inevitably worsen. The assumption of these manufacturers – that consumers will in any case continue to buy the vehicles the manufacturers can produce, and not the ones the consumers need – will be proven very wrong. Investors in this sphere should take the above into consideration.

Russia's Highway System

The growth of Russia's road network has fallen far behind motorization rates and the growing demand for road transportation. These will become decisive factors in the prospective development of roads and highways. **Over the previous 10 years, the number of vehicles increased from 50 to 120 units per 1000 people. By 2010, it will reach 250-270 units per 1000 people, a rate characteristic of a number of European states**.

The ratio of roads per capita is three to ten times lower than in developed foreign countries. Even among NIS countries, the Russian Federation is in fourth place

Russian highways fall considerably behind modern requirements regarding the services available to users. There is an insufficient quantity of filling stations, maintenance stations, motels, hotels, cafes, shops and other facilities, leading to excessive driver fatigue and depressed tourism development.

Both the insufficient length and the low technical level of highways account for a high transport component in the total cost of goods. Transport costs are 1.5 times higher, and fuel consumption is 30% higher, in Russia than in developed foreign countries.

The rate of highway accidents in Russia, and the severity of injuries and damage, remain high, facts largely attributable to the overloading of primary highways. Road incidents partially attributable to inadequate road conditions result in the deaths of more than seven thousand people and injuries to 40 thousand people each year.

Clearly, today's national road network does not comply with Russia's social and economic needs. The measures taken to accelerate the development and improvement of the general-use national highway network have dramatically changed the attitudes of the public and mass media toward the issues facing highway operations in Russia. These measures ensured that the heads of federal and regional agencies, powerful political representatives and influential public organizations were proactive about resolving financial, organizational, social, economic and other intersector problems.

This positive climate facilitated endorsement of the "Highways" subprogram within the Federal program "Modernization of the Russian Transport System". In essence, "Highways" is the next stage implementing the Presidential "Russian Highways" program, which describes in detail the tasks set for the period from now until 2010.

International experience has proven that road projects are the most efficient of all investment targets. Therefore, road construction is in need of a long-term, transparent financing mechanism to support the stable development of a national highway network.

In order to increase prospective amounts of freight and passenger transportation, primarily for transport arriving in Russia via international corridors, it is necessary to expand the quality and choice of services offered. This can be accomplished through the development of a highway service system providing for the construction of hotels, campsites and motels, parking sites, maintenance stations, and filling stations, and for an emergency communication system on thousands of kilometers of highway.

It is high time for Russia to 1) adopt the necessary laws "On Highways and Road Operations" and "On Toll Roads", thus giving Russian citizens and foreigners the opportunity to invest in the construction of toll roads, and 2) begin implementing an active economic policy regarding the use of wayside and road infrastructure. Taking international experience into consideration, a list of highways that can be transferred to private companies on a competitive basis should be compiled, in order to reduce the burden on the federal budget.

Motorization – Pros and Cons

The past decade has demonstrated that Russia has chosen to "motorize" individual and business activities. The progress of motorization can be measured not only by the growth of the vehicle fleet, but also by a number of concurrent factors. These factors can be both direct (the development of the national car industry, the fuel consumption system, the motorization infrastructure) and indirect (changes in standards of behavior, including those related to the use of public transport, residence, occupation, etc.).

It can be said that Russia now stands at the edge of a "spiral", one that is well known in modern history and that is launched by economic freedom: "more vehicles – more roads – productive development of land – economic growth". It is obvious that democratization and economic liberalization contribute to discovering the abundant potential of road transport, a potential that could not be fully developed in a planned economy.

The average level of taxation per vehicle in Russia is ten times higher than that of EU countries. This high tax load on transport companies leads to mandatory increases in transport tariffs, limits transport investment capabilities, hinders the growth of transport machine-building, and reduces the competitiveness of Russian carriers on the international transportation market. Finally, because Russian individuals and manufacturers must cover all additional costs, economic growth is constrained and inflation increases.

Further improvements in the taxation system can be achieved by amending and adding to the Russian Federation Tax Code, taking into account the peculiarities of the domestic transport complex.

Highway Safety

The level of accidents in cities and on Russia's highways is one of the country's most serious social and economic problems. **Between 1995 and 2000, there were approximately 1 million traffic accidents in Russia, leading to the death and injuries of more than 1 million 200 thousand people**.

The total damage caused by traffic accidents amounts to approximately RUR 200 billion annually, an amount that, according to experts, exceeds by several times the damages caused by railway accidents, fires and other types of accidents. The level of road accidents in European countries is much lower, due to active, goal-oriented activities aimed at reducing the number and severity of road accidents.

A large percentage of Russian road accidents involve passenger vehicles, and are primarily due to low transport discipline, an inadequate level of attention, and driver negligence/error.

To resolve this problem, more attention must be directed toward human factors, i.e., drivers should have a professional attitude, solid qualifications, discipline and a high capacity for work. It must be noted here that both the professionalism and qualification of drivers in Russia are rather low. The system of driver training does not, to a large extent, comply with modern requirements, and its quality continues to fall. Many commercial companies obtain driving licenses under purely formal criteria that do not take into account the content and methods of the training process. New approaches are needed for certifying and inspecting driving schools, improving their material and technical basis, and upgrading the training provided, including advanced training and traineeship programs.

Environmental Protection

Environmental damage (air pollution, noise, climatic effect, etc.) arising from road transport operations **amounts to RUR 110 billion annually** (2-3% of the Russian GDP).

Mitigating the negative environmental and public health effects of road transportation is a complex and multi-variable problem, as it concerns the interests and decisions of various federal executive authorities, territorial/regional administrations and municipal authorities.

Thus, EURO-2 standards for new diesel vehicles are now in effect in Russia, as in other European countries, and the differentiated implementation of EURO-2 standards for passenger cars is planned for 2002.

The broader use of alternative fuels, primarily natural gas, ethanol, and hydrogen – both as a motor fuel and a power source for electric vehicles – will help reduce the negative environmental impact of road transport and help reduce the consumption of petroleum products.

Providing incentives for the manufacture and use of more environmentally friendly vehicles, fuels, lubricants, etc. can significantly reduce the environmental harm caused by road transport. Over the next five to eight years a number of measures – on the technical, processing and organizational fronts – should be implemented to improve 1) the environmental cleanliness of road transport and 2) Russia's system of environmental inspections. Applicable measures include the Federal Law "On Ensuring the Application of International Standards for Harmful Vehicle Emissions " and the Federal Law "On Prohibiting the Manufacture, Import and Sale of Gasoline with a Lead Content Exceeding 0.01 g/dm^3".

New Technologies

Successful restructuring of the road transport industry depends upon the utilization of new-generation control and information systems. High quality service in passenger and freight transportation can be achieved only with the proper configuration of information and communication support. The intelligent transportation systems in current development are now considered necessary tools for the command and control of road transport operations, especially those dealing with passengers.

The creation of information and telecommunication systems for freight and passenger transportation will require the unification of the information networks/communication systems currently found in all modes of transport. On this basis, an integrated network of data transmission can be developed, including a unified, electronic ("paper-less") information exchange system. The establishment of a logistics information system is critical for speeding up freight transportation, reducing transportation costs and rendering the broadest range of services, including those within transport corridors, utilizing satellite and land-based optical and fiber channels for communication.

Russian Customs – Help or Hindrance?

Russian customs fulfills two primary roles. First and foremost, customs has huge fiscal responsibilities to the government. The 2002 budget envisages customs fees to reach RUR 540 billion, i.e., 38% of overall Russian treasury revenues. Customs' second function is providing assistance to foreign trade.

Therefore, further improvement to the regulatory and legal framework is critical, particularly when examining governmental regulation of international freight and passenger transportation. During a review of a new Tax Code draft of by transport unions and trade associations, the parties managed to reach agreement on a number of issues of concern to carriers.

The primary objective today should be the creation and implementation of universal customs procedures at all customs checkpoints. Such procedures are now in effect not only in highly developed countries, but also throughout Eastern Europe. The application of such procedures to ordinary goods will not only help to accelerate customs processing, but will also encourage the prompt introduction of information technologies into the work of Russian Customs, a key issue considering that Russia is expected to soon join the WTO.

Issues regarding the temporary import into Russia of vehicles complying with EURO-2 and EURO-3 standards require immediate resolution at the federal level. It is also urgently necessary to establish more favorable conditions for the import of rolling stock into Russia by international carriers.

The key problems hindering the development of vehicle border checkpoints are the unacceptable number of available access roads with multiple traffic lanes, the lack of short-term parking lots for vehicles during their inspections, and the insufficiency of the technical equipment found at checkpoints. The low throughput of road transport checkpoints negatively impacts transport utilization and, thereby, Russia's transit potential.

The 1975 Convention "On International Road Transport" (the TIR Convention) has been of considerable help to Russian carriers. Serving as an international (not payment based) guarantee system ensuring the secure transport of cargo, TIR has stimulated European economic integration. However, the openess of the TIR system has also raised the interest of international crime rings, and not just in Russia.

These problems, however, are not caused by weaknesses either in the TIR Convention itself or in the system that services it. Quite the contrary, because of the more efficient application of current TIR provisions, including the "Recommendation on the SafeTIR System," it is now possible to find optimal international solutions. The coordination and cooperation of customs and law enforcement bodies must be increased, for only strong measures and severe punishments will succeed in driving the criminal element out of this profitable arena.

Russia's competent authorities, in particular the State Customs Committee – working with the Ministry of Transportation, the International Association of Road Carriers and the International Road Transport Union, are making efforts to reduce losses arising from freight "non-delivery" and attempting to find the proper balance between inspection of 100% of shipments on the one hand, and infinite flexibility on the other.

The RF State Customs Committee has declared its intent to wage a determined war against double invoices and organized crime. The Committee's dedication to this cause was highlighted by the issuance in 2001 of more than 250 orders, instructions and instructive telegrams aimed at combating this serious problem. However, the enforcement of many of the above instructions was hindered because some were not made public in advance, many contained inconsistencies, and all customs offices were not included in the distribution of the instructions. Additionally, a lack of resources meant that many customs offices were unable to implement the instructions at all. As a result, problems have arisen on Russia's external borders and in national warehouses.

The RF State Customs Committee should therefore cease demanding that holders of IRT books submit data they do not have, and should streamline procedures providing for the normal transit delivery of goods to terminals (the customs offices located within RF territory, which conduct thorough inspections and record the final registration).

Many large companies operating in Russia have stated their desire to operate legally (and many actually succeed in doing so). For large trade networks, non-transparency in operations, including customs registration of imported goods, has the potential to damage their reputations and hinder their ability to secure western loans for business expansion. Importers, from their side, expect that in return for following customs procedures they will receive concomitant benefits from the government, such as a reduction in customs duties and the simplification of customs procedures.

In order to improve the competitiveness of Russia's road carriers in the international market, the Customs Laws of the Russian Federation should incorporate the following provisions:

- Shared responsibility between carriers, consignors and consignees for violations of customs laws;
- Differentiation of customs as applied to goods and to means of transportation for international road transport;
- Reconciliation of the clauses regarding temporary import with the provisions of the Federal Law "On Leasing"; and
- A total exemption for Russian carriers on customs duties for temporarily imported vehicles.

Visa and Consular Services

Bureaucratic barriers, including long and expensive registration procedures, permits, and visa registration for drivers, hinder the flow of professional drivers across borders. Such barriers could be eliminated by political will and the concerted actions of national governments, the European Union, the UN's Regional Economic Commissions for Europe (EEC), Asia and the Pacific Region, the World Trade Organization (WTO), and European conferences of transport ministers.

Recently, practically every European country has tightened requirements on visa issuance to individuals, a move that clearly affects drivers engaged in international transportation and nullifies the chief advantages of road transport – high mobility and quick freight delivery. All of the above issues have a negative impact, not only on the road transport sector, but also on foreign trade as a whole.

The visa issuance decisions of certain countries' consular officials also impact a basic human right – the right to labor. Having been denied a visa, a driver working in international transportation also loses his/her means of subsistence, leading to severe social consequences. The most reasonable solution to this problem is the elimination of visa requirements for all professional drivers employed in international freight and passenger transportation. In this regard, the feasibility of concluding an international agreement aimed at promoting favorable terms for visa issuance to such drivers should be examined.

At the present time, there is a mutual intention on the part of Russia and the EU to find ways of interacting more efficiently, including within the framework of the Agreement on Partnership and Cooperation.

The refurbishment of road transport checkpoints on the EU – Russia border, currently being carried out by the Russian Federation, requires considerable financial expenditures. The EU technical and financial aid to be provided under the Phare and Tacis programs could help promote the creation of an efficient border-crossing system, including a registration system of respective border documents.

Russian road transport carriers face a number of problems while travelling between Russia and the EU countries, some caused by the potential dual interpretation of certain provisions. Countries that have joined the European Union are pursuing a policy aimed at the introduction of vignettes as a means of levying road fees. Thus, in violation of existing bilateral agreements on international road transportation between Russia and certain EU countries, road fees not envisaged by the above agreements are levied on Russian carriers in Benelux, Sweden, Denmark, and Austria, putting them in at a disadvantage with the carriers of these countries.

The above countries explain that it is impossible to eliminate these fees as to do so would violate their EU obligations, but at the same time they are violating their own obligations under bilateral agreements on international road transport with Russia.

Due to its unique geopolitical position, the Kaliningrad region's economy largely depends on the quality of transportation connections with the rest of Russia, as well as on the prospects of establishing foreign trade relations to promote cross-border cooperation and trade. Russia has repeatedly expressed its concerns about the Kaliningrad situation and the lack of progress in negotiations held between Russia and the European Union regarding visas for Russian citizens traveling between Russia and Kaliningrad by surface transport.

The acceptance of a special status, within the framework of the Schengen Convention, for professional drivers engaged in international transportation in the Kaliningrad region would be a good start in partially resolving the Kaliningrad problem and in facilitating the unimpeded movement of professional drivers across borders. As a test, a simplified system of issuing multiple entry documents to Kaliningrad's professional drivers could be developed, including the use of the TIR guarantee system and the involvement of IMTU in negotiations.

Russia and the NIS

The NIS countries are key Russian trading partners. In a geographic ranking of trade volumes, the NIS is in second place, consuming about 14% of Russia's exports and supplying approximately 30% of all imported goods to Russia. Road transport traditionally accounts for 20% of Russia's foreign trade with these countries.

Transport cooperation between the Russian Federation and the NIS countries is based upon political agreements, trade and economic agreements, and contracts concluded at the head of state level, as well as multilateral and bilateral industry documents. Russia and the NIS cooperate in transportation through the work of three intergovernmental organizations: the Executive Committee of NIS countries, the Permanent Committee of the Unified State of Russia and Belarus, and the Integration Committee of Russia, Belarus, Kazakhstan, Kirghizia and Tadjikistan.

An agreement on principles governing transport policy and on interactions among NIS countries could become the basis for creating a common transport area within the NIS. This would simplify border crossings by carriers from member-countries, thus accelerating international freight delivery.

The NIS countries have expressed interest in a policy aimed at liberalizing international road transportation through principles of reciprocity. The policy's main goals include exempting carriers from road and other levies, unification of all transport and customs documentation and procedures, and creation of a favorable environment for carriers in the transport market.

As this overview indicates, the majority of barriers facing the road transport industry do not concern only that industry, but rather touch upon the interests of many agencies. This state of affairs delineates in advance the only possible strategy for successfully eliminating barriers to road transport, namely, the necessity of bringing together the forces of various agencies in the NIS countries, as well as the forces of business, science, government and representatives of various transport modes.

A unified NIS policy that facilitates, endorses and coordinates the activities of its market participants will improve the NIS's position on the international road transport market, reduce or eliminate the administrative and other barriers regarding market operations, and promote integration and cooperation in transport operations. The attempts that certain countries have made to independently resolve complex transport problems have only lessened their chances for successful economic development. This indicates the expediency of expanding transport cooperation to promote 1) the most efficient use of labor and material resources and 2) the most efficient adaptation of the transport complex to current market conditions for transport services.

At present and in the nearest future, the priorities of NIS transport policy development should include the following:

1. NIS governments, taking into consideration economic liberalization and the implementation of market reforms, should endorse an agreed-upon transport policy. This policy would include:
   - the formation of a common market, ensuring favorable and equal conditions for all transport providers;
   - the pursuance of a unified tariff and tax policy;
   - the preservation and development of a unified technical and processing infrastructure for transport operations; and

- the development of a common approach towards cooperation with third countries and international organizations.

2. The promulgation and reconciliation/unification of transport laws by the legislative agencies of NIS countries. This includes:
   - the formation of a legislative basis for intergovernmental relations in the transport sphere;
   - the enacting of laws and regulations governing transport operations;
   - the undertaking of a comparative analysis of the transport laws of all NIS countries and, further, working to reconcile and unify them; and
   - the formation of a unified legislative framework for transport activities.

Transport Corridors

International transport corridors run across 72 RF territories. The importance of these corridors, in transport, trade and politics, is constantly growing, both for the territories themselves and all of Russia. Imports of production equipment from Western Europe continue to rise, as do exports of raw materials and semi-finished products from Russia.

At present, **24 European network routes, with a combined length of 19,100 kilometers**, cross Russian territory. Corridor No.9, after it has been extended to the ports of the Caspian Sea, along with the north/south corridor running in the same direction will provide extensive support for foreign trade between Northern Europe and the Indian Peninsula. The extension of corridor No. 2 from Nizhny Novgorod to Ekaterinburg will become the axis for Euro-Asian continental transport connections and will provide the European transport infrastructure with inter-modal access to Asian roads.

In order to develop key international routes with access to the Asia-Pacific Region, Russia has proposed including its key eastern highways within the Asian "A" network of international highways, a network that is currently being constructed under the auspices of the UN Economic and Social Commission for Asia and the Pacific. In addition, current NIS highways also play a role in this development. All of the above highway networks are within the territory of the Russian Federation and are of international importance in servicing Euro-Asian routes - one of their primary functions.

In the modern world, the establishment of a unified transport zone and common transport services market is one step towards the creation of multi-modal corridors. Unified transportation technology, based on inter-modal principles, will be the framework for integrating national transport systems into international systems.

The existing network of terminals and terminal complexes, even taking into account those under construction/reconstruction, does not meet the demand for the widespread development of a terminal system for transportation on the roads making up transport corridors. In some large cities, major industrial complexes and transport centers adjacent to transport corridors, there are no terminal facilities at all. This lack of facilities reduces the quality of transport and forwarding services that can be provided, and does not allow for the implementation of terminal technology in all links of international road freight transport.

Russia and the WTO

As a result of Russia's entry into the WTO, export and import flows will grow considerably, increasing the load on the transport infrastructure. Arguments in favor of Russia joining the WTO, such as increased access to less expensive imports of components and raw materials for its enterprises and less expensive goods and services for its population, with a concomitant rise in standards of living, are well known.

Though integration into the world economic community has obvious advantages, it also requires serious preparatory work. Joining the WTO would obligate Russia to further liberalize the access of foreign service providers to the Russian market – a step which may considerably strengthen the position of such providers. This is of special concern because the current competitiveness of the majority ofRussia's domestic service providers is quite low.

At present, WTO negotiations with Russia regarding transport services have changed character, moving from the information and explanation phase into real negotiations to determine mutually acceptable conditions for access of foreign service providers to the Russian market. Work has commenced on a report that will fix the terms and conditions of Russia's WTO accession and membership.

The bilateral negotiations that have been held with WTO members and the EU regarding the specific terms and conditions of Russia's WTO membership in the field of transport services have shown that there are still some sectors of transport services on which agreement has not been reached. These include maritime transport (auxiliary services, port services) and air transport (computer reservation systems, sales and marketing of air transport services). The spheres of motor and inland water transport services, being the most developed, are more protected.

Regarding road transport, it has been proposed that Russia take on international passenger and freight transportation, leases of commercial vehicles that include drivers' services, and vehicle repair and maintenance services.

Russia's accession to the WTO will not have an immediate negative impact on the activities of Russian road carriers as long as the current procedures regulating international motor transportation are preserved. With this in mind, international road transportation services should be excluded from Russia's road transport obligations, and instead be regulated by bilateral agreements.

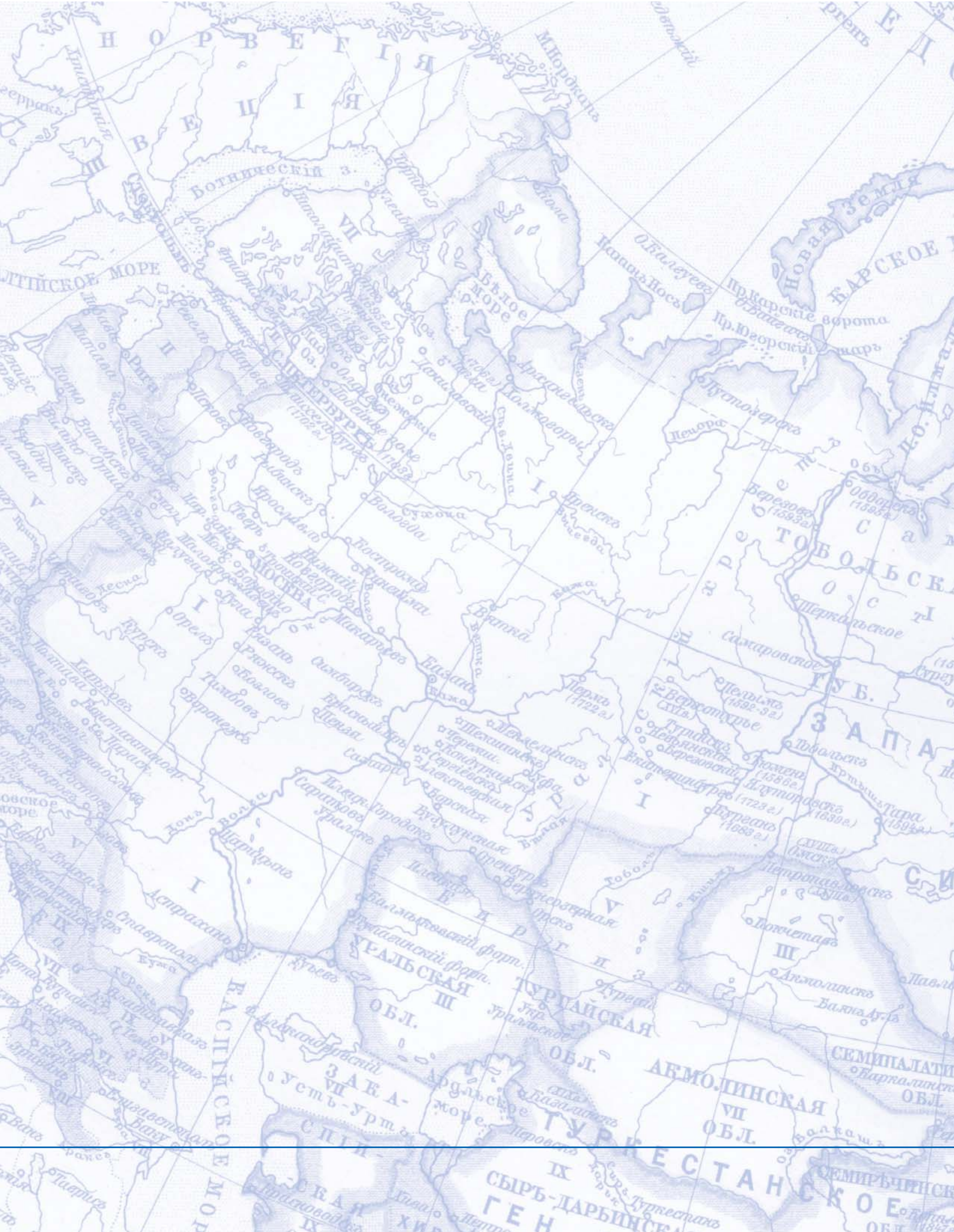
In Place of a Conclusion

Road transport is the most prevalent, market-oriented and flexible type of transport. Road carriers provide critical support for the development of regional commodity markets, fulfilling the transport needs of retail trade, agriculture and many other sectors of the economy.

The current situation in Russia's freight transportation sector differs considerably from that of countries with a longer market history. Development of freight transport by road in Russia was purposely restrained under its former planned economy. It was only the market restructuring of the 1990's that created the conditions for discovering road transport's full potential.

In a number of sectors, there is simply no real alternative to road transport. Efficient development of the road transport industry will have a considerable positive impact on the economic growth rates and restructuring, while, conversely, constraints on its development will hinder economic growth and development.

Contens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Moscow, World Trade Center
Krasnopresnenskaya nab., entrance 6, office 417
Tel: +7-095-258 17 59
Fax: +7-095-258 17 60
Web site: www.iru-cis.ru