

III. Infrastructure and Science

China-EU Express Railway Roars On: Putin Did Not Kill China's Eurasian Dream!

by Hussein Askary

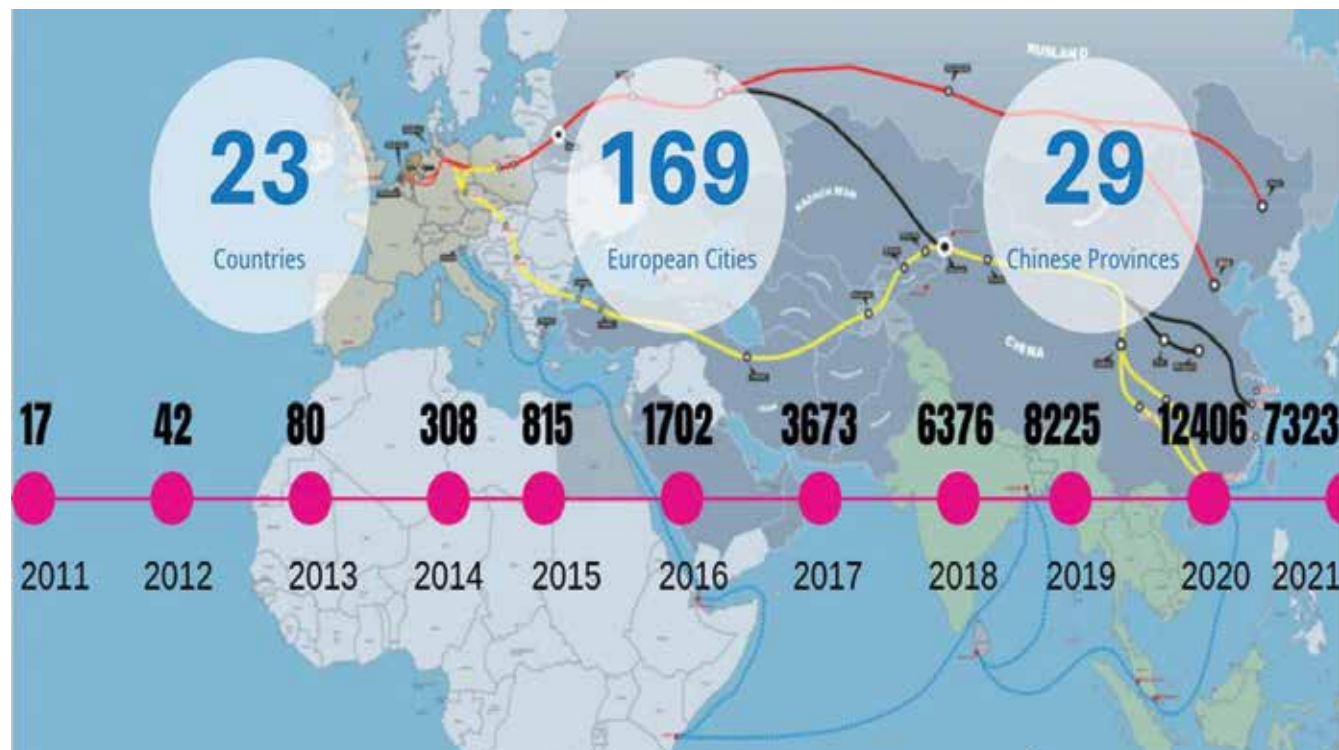
The following article, originally published July 27 on the website of the Belt and Road Institute in Sweden (BRIS), was made available to EIR courtesy of the author, who is Vice Chairman of the BRIS Board of Directors, and also the Schiller Institute's Coordinator for Southwest Asia.

The danger of think-tanks and intelligence agencies providing wishful thinking and propaganda rather than real and objective intelligence, is that policy makers, companies, and the public in general are led to making

mistaken judgments and taking harmful decisions.

For example, there are unfounded assessments that the crisis in Ukraine has ended the operation of China-EU Rail Express (CEER) also known as the Northern Route of the New Iron Silk Road, which has become one of the most important supply chain arteries between China and the European Union (EU). Passing through Russia and Belarus, it connects several major Chinese industrial and logistics hubs with important Western European industrial cities.

One brazen example of wishful thinking becoming



Source: RailFreight.cn
Number of trains between Europe and China, 2011 through 2021.

an intelligence assessment was a March 1 [article](#) in the American *Foreign Policy* magazine titled “Putin’s War Has Killed China’s Eurasian Railway Dreams.” It argued that Russian President Putin’s decision to invade Ukraine has created the conditions for both diminishing freight transport from China to the EU and also affected the purchasing power of citizens in Europe for the US\$ 70 billion-worth of Chinese goods transported on the Eurasian Land-Bridge. Many “mays,” “mights” and “likelys” are thrown out, but no numbers of actual containers transported along the Iron Silk Road or the CEER, nor the plans of shipping companies, forwarders and railway operators since the Ukraine crisis started.

Our Examination

An investigation by our Belt and Road Institute in Sweden (BRIX), which included direct contact with relevant companies running the freight transport along the CEER, showed that although the Ukraine crisis created a temporary reduction in these activities (but only in eastbound shipments), the westbound activities continued normally and even increased. The increase, however, was not as stunning as the 30% to 40% year-on-year in 2020-2021 and 2021-2022 (reaching 14,000 trains) but was only a 3.5% increase. This is a meager increase, but it signals that those operations maintained the record volumes achieved in recent years.

This was the situation in March when *Foreign Policy* published its article:

Around 50% of the eastbound (from EU to China) transport operations along the CEER (EU-Belarus-Russia-China and EU-Belarus-Russia-Kazakhstan-China) were temporarily suspended by the rail and logistics operators, because many of their clients decided to move away from Russia and Belarus to other options, mostly back to sea shipping lines.

Chinese freight companies continue to use this route for westbound freight, although the EU countries were putting up obstacles.

The large European rail operators like DB (Deutsche Bahn), Polish State Railways, and the Belarusian and Russian railways providers did not stop operating the railways which are still functional, but their clients who have used the CEER such as DHL, KN (Kuehne+Nagel), etc. dropped that option temporarily.

The reasons for this massive drop are mainly four, but mostly caused by the EU sanctions imposed on Russia and Belarus, and EU companies not being able to figure out which railway companies, which banks,

and which activities are banned. There was a chaotic situation in which many lost sight of two important factors: first, the Belarusian and Russian railways were not included in the EU sanctions nor were the banks they settle their transactions through. Second, Chinese companies did not pay attention to the sanctions and had their own mechanisms of settling payments of fees due to the Russian and Belarusian railway operators. European companies could in fact use their Chinese partners to settle the payment issue.

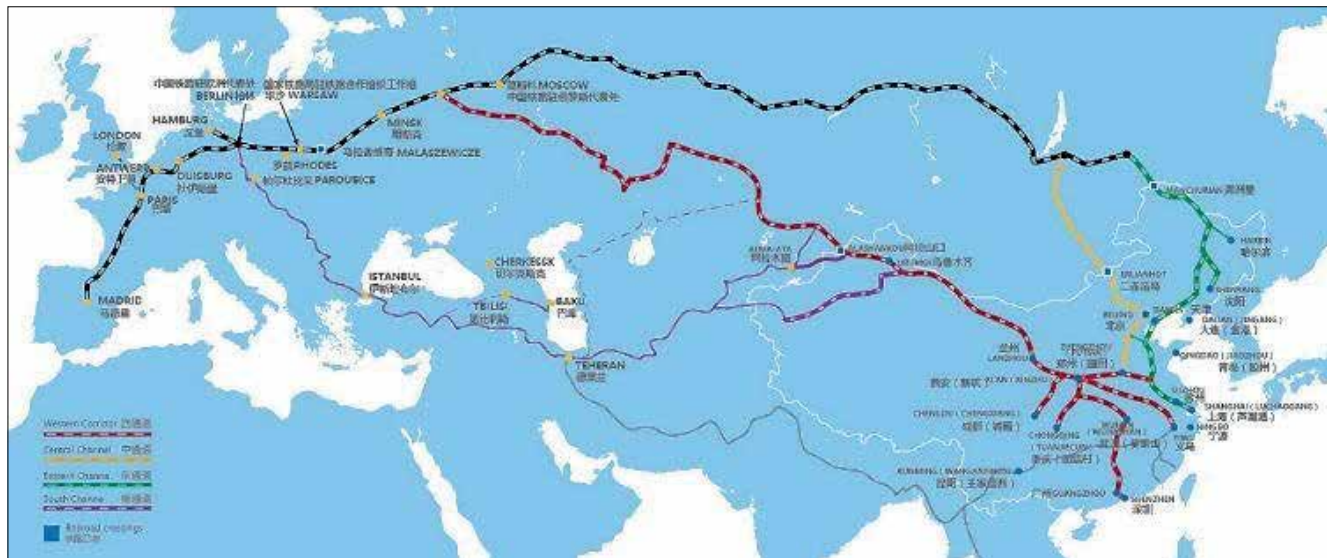
Another reason for the drop on the European side was psychological pressure on major European corporations in the media to stop dealing with Belarus and Russia for “ethical and moral” reasons. There were also high insurance premiums imposed by EU insurance companies due to the highly volatile security situation, although Belarus and Russia were not affected by the military operations. The rising cost of freight due to rising fuel and electricity prices was another reason.

The CEER handles almost all rail freight between China and Europe. A tiny fraction is starting to be handled by the now much hyped “Middle Corridor” which avoids Russia entirely, as will be discussed below. So, the sudden and chaotic reduction was a seemingly big blow to the CEER. It is possible that this is what *Foreign Policy*, similarly oriented think-tanks, and Western media outlets were reacting to.

The reaction in the EU was mostly psychological or political, going along the line pushed by EU governments, the U.S., and the UK shipping companies, and their clients felt the pressure to “stop financing Putin’s war”! Therefore, some large national rail companies decided to suspend their operations with Russia and Belarus. On March 24, the Finland VR Group, a government-owned company that is responsible for rail traffic through Russia to China suspended its operation. The German Duisburg Port company ceased all business activities in Belarus and closed its representative office in Minsk, reporting that “the Port of Duisburg neither conducts business in Russia or Ukraine, nor does it have any holdings there”. Rail Bridge Cargo announced that it “has decided to temporarily suspend all east- and westbound Northern rail routes which are going through Russia, as long as the war aggression and invasion by Russia against Ukraine is taking place.”

A spokesperson for another Finnish company, Nurminen Logistics, confirmed that they can still use Russian railways, but their customers are refusing to do

Operations Route Map of China-EU Rail Express (CEER)



CC/China Railway Express

that for “ethical reasons.” Therefore, they have shifted all their efforts and attention to the Southern Route.

Read the Fine Print

On May 3, the Finnish railway company VR issued a press release in which it confirmed the previous decision taken by its board of directors on April 6 to shut down traffic between Finland and Russia. However, it is important to note the details of this decision: “Traffic will cease completely by the end of the year at the latest,” it says. Therefore, shipping companies are free to use the rail connection through Russia to China and Central Asia.

We estimate that traffic will be reduced to about a third of the original level by the end of the Summer. Some customers want to continue traffic until the end of the notice period, but we are still continuing negotiations on stopping traffic faster than this.

Therefore, things remain open-ended depending on how the situation develops.

A representative of a logistics company in Finland we talked to said they continue to use Russian railways, and that things might change in a positive direction before the end of the year. So, they are not worried yet by the VR decision. He stated that due to reduced volumes, they can only sign in one customer at a time with a volume large enough for a whole block train.

Large retailers and timber exporters have a better chance this way. Smaller ones will have to resort to the sea or air routes.

Reality Checks In, Decisions Reversed by June

On June 7, Rail Bridge Cargo (based in the Netherlands) reversed its decision referenced above and allowed operations for customers through Russia. In a press release, Rail Bridge stated:

Despite the unchanged situation in Ukraine we decided to re-open the Northern route for more verticals than only food, medicine and humanitarian goods... We decided to re-open the Northern Route for companies who have no other option to overcome their logistics challenges.

The reasons they publicly say were the grounds for reversing the decision, were companies in Europe facing diverse supply chain issues. “These issues have a negative impact on production, tradelines, companies, jobs and humans,” Rail Bridge correctly noted. Another important reason is that customers who had used the Northern Route and rail before, are now forced to choose air freight. Not only is air freight much more expensive but this shipping mode produces huge amounts of CO₂ (72 times higher than rail) which they must compensate for financially. The cost and even the travel time of air freight itself have increased, because



CC/kees torn

Many European customers are desperate for an alternative to the southern sea route to China. Shown is a Maersk container ship.

European airlines are also banned from Russian air space, thus are forced to take longer alternative routes. Only Chinese airlines are using Russian air space now *en route* to Europe, giving them a greater competitive edge.

According to another European company we spoke to, European customers, especially from the Netherlands and Germany “were begging to reopen the Northern Route,” because all their supplies were declining dramatically. They were also complaining that the sea route is now taking much longer than the usual 45-50 days. This was caused by the outbreak of COVID in Shanghai and the reduction of operations in its port and other Chinese ports. Many customers also complain about the continuous delays on the Southern Route / Middle Route.

The other reason for reopening, is that other shipping companies like Maersk, the largest container shipping company, headquartered in Copenhagen, Denmark, never stopped using the Northern Route, according to one company’s information officer.

As for the “moral and ethical” grounds to boycott Russian and Belarusian railways, the EU’s continued “financing of Putin’s war” through large-scale imports of natural gas, did not help the shipping companies stand their grounds for very long. Compared to how much the EU pays Russia for its gas, the service fees the EU shipping companies pay to Russia’s railway company are miniscule.

Deutsche Bahn Cargo, the largest German rail freight company did not reply to our enquiries on the status of their operations along the CEER, but a glance at their website shows no signs of boycott. On the contrary, what the scanty news provided on its website

shows is that the company was planning and investing in anticipation of growth of its operations with China. In September 2021, a new freight route was opened between Hamburg and Shanghai. In December, two more routes were launched. One from Deyang (Sichuan Province north of Chengdu) to Lodz and the other from Xi’an to the port city of Gdynia. While both Lodz and Gdynia are in Poland, their purpose is to become a transshipment hub to Germany. In January 2022, the route Hefei-Neuss (south of Duisburg) was launched. These new launchings followed a relatively dramatic move in November 2021 by DB Cargo to start “DB Cargo Transasia,” a Shanghai-based subsidiary, 100% owned by DB Cargo. This was a clear declaration of the German company’s desire to maintain and enhance the CEER. This was also an indicator of a planned increase in the China-Germany trade.

As a reaction to the reversal of the decision of an EU boycott of Russian railways, some companies are now receiving many orders from customers from EU countries, especially Germany, to ship through the Northern Route. The volume is bound to increase through the Fall and Winter. However, forwarders prefer to have one customer loading a whole block-train at a time, which is advantageous to large-volume customers.

Many are finding that their decision to move their operations to the Middle Route or Southern Corridor have created new difficulties and those operations are getting more and more complicated.

The Lure of Alternative Routes

The companies we have examined, who celebrated that they are successfully shifting to the Middle Route,

are not really very successful. Even in their most optimistic estimates concerning trip time, which is very long (38-40 days) compared to 12-14 days on the Northern Route (CEER), there are other big logistics and administrative problems along most of the route. So far, the two main companies, Rail Bridge Cargo from the Netherlands, and Nurminen Logistics in Finland, manage two trains per week.

First of all, due to unprecedented volumes shifting to this route, there are congestions in all the ports along the route in Aktau (Kazakhstan), Baku (Azerbaijan), Poti (Georgia), Constanta (Romania) and Varna (Bulgaria). The first two are on the Caspian Sea, and the latter three on the Black Sea. The other problem is that in Baku and Aktau, “due to the difference in culture” as a representative of a European company called it, they had to open offices there and have their own personnel on the ground to facilitate (“pay some local actor”) to get their containers on board the ferries first. Customers who do not have people on the ground will risk having their containers ignored and kept in a queue for many days. This situation has enraged many customers using this route. The biggest logistical problem is that there are not enough ferries moving from Aktau to Baku, and then across the Black Sea. On the Caspian Sea, the good news is that the number of ferries increased from three to six in July. But that is still a very small capacity.

One other factor leading to increasing congestion in Varna Port, is that insurance companies are hesitant to ensure cargo going through neighboring Constanta Port which is closer to the fighting in Ukraine.

The route by land from Europe through Turkey (via the Great Istanbul Tunnel) is another option, but the tunnel is still under construction, and when completed will take longer. It goes from Istanbul to Kars in Turkey and later to Tbilisi (Georgia) and Baku in Azerbaijan. But again there, it will face the same difficulties to reach Aktau by sea across the Caspian.

Therefore, the Middle Route will remain “a potential” rather than a realistic immediate alternative. There is need for massive investments in the rail lines, logistics parks, ports, unifying the custom clearance

systems of several countries, etc. There is absolutely no reason why not to invest in developing this route and the route going from Turkey through Iran to Central Asia by land, as the world will need more such routes as trade will naturally grow between East and West. But this development should be based on practical considerations and economic estimates, not wishful geopolitical whims (avoiding Russia at all costs).

The major advantage of the CEER is not only the shorter distance, but the fact that it is not “multi-modal.”

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It is rail only, thus requiring few stops to load and reload and passes through much fewer countries, where there are very solid customs clearance and payment systems in place.

For these purely economic reasons, the Northern Route remains the only viable option for rail freight between the EU and China at this moment, and because it is not affected by sanctions and the war in Ukraine, it should be utilized.

Poland’s Dilemma

The *Foreign Policy* article referenced above opens with a critical note thrown at Poland’s President Andrzej Duda because he was the only EU leader who attended the Beijing Olympics and talked with President Xi Jinping personally Feb. 6 on “the vision of transforming Poland into China’s ‘gateway to Europe.’” This optimism, according to the article, “was shared by Xi, who also hopes to transform Poland into a logistic hub along the China-European Union supply chain.” But the article declares: “Russian President Vladimir Putin has likely put an end to that dream.”

This proclamation is naturally mistaken. The case of Poland is typical of the discrepancy between what politicians say on politics and the reality of the economy, transport logistics, and trade. While the Polish



KPRP/Andrzej Hrechorowicz

Andrzej Duda, President of Poland, was the only EU leader who attended the Beijing Olympics and discussed with President Xi Jinping a vision of transforming Poland into China's "gateway to Europe." Here he is (right), with Xi Jinping, during the inauguration of a railway line in Warsaw, June 20, 2016.

government has emerged as one of the most anti-Russian, and the main conduit of arms from the West to Ukraine, its railway and logistics companies continue to develop the route to China along the CEER through Belarus and Russia.

Two indications are important to note: The Logistics Park in Małaszewicze (LPM) on the border with Belarus (Brest); and the increase in Germany-Poland cargo rail traffic (unrelated to arms shipments).

The Logistics Park in Małaszewicze, Poland

In August 2021, the Polish rail and logistics company Cargotor reported a new record in the history of the CEER. Each day 18 outgoing trains and 15 entry trains passed through the company's infrastructure. It was then decided to build the Logistics Park in Małaszewicze (LPM), which is planned to become one of the largest intermodal facilities in Europe. The most tangible effect of its operations will be the target capacity of up to 55 pairs of trains per day on the border with Belarus. The investment will cost around Polish Zloty 3.5 billion. (around €600 million).



cargotor

The Logistics Park in Małaszewicze (LPM) at the EU-Belarus border, one of Europe's most modern multi-mode transshipment hubs, shown in April 4, 2019.

However, this year, the EU Commission refused to finance the project for obvious geopolitical reasons. The business plan of the LPM was awarded 19 positive points instead of the required 15. The project was also recognized as a project of common European interest (IPCEI) and its added value throughout the European Union was appreciated by increasing bandwidth, efficiency, and security, according to Cargotor. The application for funds was submitted in January 2022 to the European Executive Agency for Climate, Infrastructure and Environment (CINEA) for co-financing by 50% of the construction of the LPM from the Connecting Europe Facility 2021-

2027 (CEF 2).

The EU decision forced the government of Poland to change the ownership form of the project to make it a fully state-owned company, thus the Polish government will take full responsibility for financing and building the LPM. This decision was made June 24, 2022, as a draft amendment to the act on commercialization and restructuring of the state-owned enterprise (Polish State Railways) and the Act on the Railway Fund was published on the website of the Government Legislation Centre (RCL).

The next step was taken July 7 when the company announced the start of the bidding and selection process of the company (companies) that will build the project. The LPM construction will start in the first half of 2023.

In describing the project after this decision was taken by the Polish state, Andrzej Sokolewicz, the Cargotor CEO said:

After the successful submission of the application for a building permit, we are looking forward to the issuing of an administrative decision by the Lublin Voivodeship Office which will allow Cargotor to undertake this unique venture.... [Construction of the LPM] may be considered multi-dimensionally [and] as an element of the New Silk Road.

These dimensions are first, global, Sokolewicz continued:

Our activity and development is an advantage that ought to guarantee that goods shipped from the Far East, especially from China, but also from Japan and South Korea, can reach recipients in Poland and the European Union via Małaszewicze in the fastest, cheapest and safest way.

Secondly national, with customs duties and taxes that go to the government, he continued:

This year alone, the revenues of the Polish state budget will once again be supplied with a multi-billion-dollar amount.

Third regional, helping the promotion of the region—at home and abroad.

Fourth, local, as the LPM contributes to the development of, among others such communes of the Lublin Province. The Cargotor company itself will double its employees from current 200 to 400 and several thousand in the terminals and sidings under construction.

The increase in Germany-Poland cargo rail traffic is the other indicator of the importance and increased traffic on the CEER. Hupac, a Swiss-based company, announced June 28, 2022 that as of July 5, it is going to increase the frequency from three to six roundtrips per week between Terminal Duisburg DRT (Germany) and Terminal Gadki Metrans (Poland).

At the same time, Hupac is completing the construction of its intermodal terminal in Brwinów near Warsaw. A new logistics center is being built on a plot of almost 14 hectares, which will consist of a 42,000-square-meter warehouse and four 750-meter-long tracks. The facility is scheduled to start operating in early September. After its launch, trains that currently go from Duisburg to Pruszków will be directed there, according to the company.

With all these indicators reviewed, it is not difficult to realize what direction the activities and development of the CEER are headed. The main issue here is that *geopolitics* is standing in the way of *geoeconomics* where the physical reality and the needs of people and corporations are the determining factors. Reality does not always obey the fantasies weaved by certain politicians, think tanks and journalists.

What is happening in Ukraine is tragic and must soon end in a peaceful manner. Ukraine should take its natural place among nations of the world as a bridge between East and West, and not become another Berlin Wall.

In the meantime, the CEER trains will continue to roar ahead between China and the EU.



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