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## INSTITUTIONAL AND ORGANIZATIONAL FEATURES OF CROSS-BORDER CARGO TRAFFIC IN THE POST-SOVIET SPACE INTEGRATION TERMS. PART I<sup>1</sup>

*The article covers the technical, technological, institutional, and organizational barriers of cross-border transportation of cargo. The study uses an institutional approach as a methodological alternative to other approaches. The study touches on institutional and organizational problems of border crossing checkpoints arrangement, the consequences of the application of unified transport documents and the introduction of electronic communication forms. Particular attention is paid to the analysis of demonstrative actions and the daily practice of reducing the time of customs procedures and reducing transaction costs of cross-border cargo traffic. Herewith it is indicated that the most effective way to improve the efficiency of cross-border transportation of cargo suggests simultaneous implementation of technical and institutional innovations.*

*Emphasis is placed on identifying the institutional and organizational features of the international road transportation of cargo, in particular, the problems of the evolution of the guaranteed customs duties payment institute, the permission system in the implementation of cross-border cargo traffic. The fact that the state support of national entrepreneurs requires a mechanism to ensure the parity of Russian and foreign carriers, at least in the field of cargo transportation for state needs, with the involvement of credit resources of government-linked banks is highlighted. It is underlined that the first step towards improving the institutional environment of international road transportation should envisage the elimination of all informal (shadow) relations in this sphere.*

*The article identifies institutional features of cargo transportation in specific areas such as deliveries by road to China through Kazakhstan, and the challenges and prospects for the use and development of transit potential of Kaliningrad Region. The article shows institutional and organizational characteristics of combined transportation in cross-border traffic.*

*The article concludes that the development of cross-border transportation of cargo and the implementation of transport and transit potential of EAEU member states may and should become a powerful source of income for business entities, budgets of all levels and households, as well as the driving force of industrial and technological upgrading and institutional and organizational evolution of economic systems of the countries and integration associations.*

**Keywords:** institutions and organizations, customs operations, the Eurasian Economic Union, railway transportation, road transport, advance notification, e-declaration, transport-transit potential

### Introduction

Up-to-date socio-economic, institutional and organizational processes in the post-Soviet space are characterized by opposing trends. On the one hand, integration associations are being created. It is not just about the beginning of operations (from January 1, 2015) of the Eurasian Economic Community (EAEC) formed by Russia, Kazakhstan and Belarus, with Armenia, Kyrgyzstan, and later, perhaps, Tajikistan will be joining. Other integration processes are happening in the former Soviet Union states—first of all, the Baltic countries economics are functioning in the European Union (EU), Ukraine and Moldova wishes to join the EU. You can have different attitudes to the political side

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of the processes but for transport systems operation they are of great importance and predictable consequences.

On the other hand, there is a process of disintegration that can be observed, contradictions between the post-Soviet states, primarily related to the military-political conflict in the south-east of Ukraine, integration of the Crimea to Russia and the introduction of the mutual economic sanctions. And the consequences of this conflict are not only the growth of mutual distrust between the immediate parties to the conflict and between Russia and developed countries of the world but it also increases contradictions within the EAEC, with the Baltic states, Moldova, and others.

There were problems with goods and commodities passing through the territory of Belarus and Kazakhstan that were included in a list of prohibited cargo for importation into Russia, which leads to the revival of inspections at the EAEC internal borders. One more problem, at least equal to the previous one, is the increased price attractiveness of Russian goods and commodities (due to ruble devaluation) that motivates authorities of Kazakhstan (for example) to seek mechanisms of the domestic market protection.

Analyzing the integration processes in the post-Soviet space, it is impossible not to mention that they proceed under institutional and organizational conditions, corresponding not to (in the terminology of North D., Wallace J, Weingast B. [1]) public access orders, but rather, to mature natural states. A characteristic feature of such systems is that “utilization by a natural state of benefits and rents for a dominant coalition support requires limited access, which prevents the appearance of oppositional civil society, able to influence the policies of the government” [1, p. 247]. Such “limited access also means that new sources of rents are usually in the hands of a ruling coalition” [1, p. 248].

Under such institutional and organizational conditions, any integration process will inevitably be considered by various elite groups in terms of the possibility of rental income creation and embezzlement. We already know the examples of using the conflicts between the regulations of the Eurasian Economic Commission (EAEC) and the Russian legislation concerning rolling stock service life extension, which will be surveyed separately. The same can be said with regard to customs and other forms of cross-border cargo traffic control.

The fight for the control over cross-border cargo transportation can be a reflection of power groups' rivalry, coalitions forming and keeping relative stability in a natural state. Possible examples of such a fight between different coalitions of elite groups, including “experts on violence” (in terms of North D. et al.) are:

- The case of Tri Kita Furniture Store;
- Scandals related with consumer goods from China;
- Provision of Aeroflot, Siberia, TransAero and other companies with privileges at importing foreign aircrafts (and spare parts for them), not compensated by Russian aircrafts purchasing;
- Activities of ROSTEK, FSUE, etc.

At the same time, history shows that efficient customs and transport policy can be the basis for the formation and sustainable development of high-tech economics with increasing returns from production factors.

Thus, the British industry establishment took place under the conditions of tough customs policy functioning (aimed at the protection of promising sectors, first of all, textile production and transportation companies). According to Goldstone J., “a huge army of customs inspectors established the size of tariffs in all major ports of the country ... A number of duties and taxes on key British import and export items remained high until the 19th century. In addition, strict control over the freight ensured that only British traders could participate in trading from British ports and with British colonies...” [2, p. 199]

R. Allen also points out that the success of new fabrics in England depended on export taxes on raw wool, which ensured the export of worsted fabrics from England (and not bags of wool). Wool fabrics exportation was an engine of the British economics. [3, p. 191]

The development of the UK as a leading industrial country demanded high incomes economics functioning, stimulating consumer demand and the processes of labor substitution with capital. Indicating the borders of high salaries economics zone, R. Allen notes that “in this zone such seaports as London and cities of historic Netherlands always took the leading position” [3, p. 73]. By the beginning of the 18th century, a quarter of the working population of London was engaged in shipping, port and related services. [3, p. 163]

The British economist stresses the fact that “intercontinental trade flowering was a key fact, contributing to the rapid development of North-West Europe” [3, p. 188]. Economic mechanism action lies in the concept that “intercontinental trade ... contributes to urban growth while urban growth leads to an increase in agricultural productivity, etc.” [3, p. 182–183]

For the transformation of cities and ports into prospering trans-shipment points, markets, caravansaries, public saunas and customs houses were built. The wealth of trading nations was formed because they used all those who used the trading routes, as tributaries, payers of customs duties and other charges. [4] In its turn, control over transit trading was a stimulus for further conquests for increasing government spending (primarily, for military purposes) financing.

G. R. Yenikeev notes that “those countries through which the Great Silk Road ran had a huge advantage. Their merchants could go with their goods to the international market, as well as buy and profitably resell products of producers from other countries. And not only merchants, but many others had profitable jobs in trading cities, located along the caravan routes. While the state could collect a good fee from merchants.” [5, p. 48]

According to C. Finkel, “in its best years, the Ottoman Empire stretched both on land and at sea, located at the crossroads of major trade routes of that time. Control over the trade routes of the Mediterranean and Black Seas allowed to establish customs duties, profitable for the Treasury. The expanded network of agents and intermediaries allowed levying taxes on goods transported through the Ottoman territory, as well as on those intended for domestic consumption. Like its predecessors, the Sultan Mehmed bestowed trade privileges to foreign merchants; the main beneficiaries of that time were the Italian states. Such privileges could be canceled during a war and in case of a conflict of interest; the sympathy to a particular state could be a convenient weapon in the hands of the sultan. Foreign merchants considered customs duties, levied at a privileged regime, a small price to pay for access to raw materials on the entire vast territory ruled by the Ottomans” [6, p. 109].

However, as was noted by W. Bernstein, “in order to keep up with maritime shipment, transportation along the Silk Road, divided into areas under the control of hundreds of tribes and, it demanded political stability all over the route. This almost impossible condition was reached only once prior to the present period of history—thanks to the Mongols in the 13th–14th centuries” [7, p. 141–142].

A. I. Amosov noted that “long before our era, the first Chinese emperors used metal money to pay for the completion and maintenance of cavalry, by which the principalities and kingdoms, that formed the Great Empire and the Great Silk Road, were conquered” [8, p. 211].

Sea and river vessels have always been (and will be for the foreseeable future) the most effective way to transport goods over long distances. In its turn, trading by seas and rivers requires political stability at waterways key points and transport security provision. R. Boyer specifically indicates that “at that time ... a merchant, having no means to defend or protect his goods and to provide material success of his deals, was doomed to immediate ruin” [9, p. 119].

However, the most important components of transport and transit economics can function without close economic ties with the neighboring territories, rather being the elements of international trade than of national economics. For example, French economist and historian F. Braudel writes: “It is easy to assume that even in the 11th and 12th centuries, large trading centers, big cities, where people gathered for fairs and ports are generally developed not at the expense of the villages feeding them but through trading, including with distant countries. Trade with distant countries, controlled by the royal power, became active since the time of the Carolingians” [10, p. 129].

F. Braudelenphasizes the danger associated with the development of international trade, which lies in enclavization of points of attraction for global cargo flows. He notes that, at times of the formation of the first French cities, “the cities, standing near the sea—not in the mouth of the river, but upstream, where wave disturbance calms down and ships can safely touch the land, had a privileged position—like Rouen, Bordeaux ... but they felt foreign attraction, lived solely by foreign relations and too often turned away from the inner regions of France” [11, p. 190].

Like R. Allen, F. Braudel emphasizes the major role of long-distance trade in the development of modern capitalism and the industrial development of European states. He points out, that “in the development of capitalism, which inspires, forms, subordinates this process of industrialization and which grows with its help, a dominant part is played, though paradoxically, by the foreign trade, although its total volume is relatively small” [11, p. 308].

The French economics historian highlights another important feature of the functioning of transport and transit economics, namely, the concentration of revenues from international trade in a small number of geographical points and their embezzlement by a very small group of large-scale businessmen. It is emphasized, that “trading with distant countries and trading of expensive goods brings revenues, which are distributed among a handful of European merchants of Venice, Genoa, Marseilles or, later, of Amsterdam. ... Mediterranean cities (during the era of the Inland Sea prosperity) are a ‘bottleneck.’ Here, all the trade is concentrated in the hands of a small number of merchants that control it entirely” [11, p. 312].

The crucial meaning of large corporations for the development of long-distance trade is indicated in the above-mentioned work of North D., Wallis J., Weingast B. They reveal the main peculiarity of these organizations—close and inextricable connection with the state. “In the middle of the 16th century, in England joint stock companies started to be formed, the largest of which were involved in overseas trade and colonization. The first was a Russian company, and then it was followed, among many others, by Virginia Company, East India Company, Massachusetts Bay Company and Hudson’s Bay Company. All of them were the results of a natural state—organizations controlled by elites which used, in this case, by an expressed support of the state” [1, p. 143].

The authors note that “in a natural state all big economic institutions are necessarily political organizations as well, as they cannot survive and protect their privileges, not serving political tasks” [1, p. 260]. The consequence of it is that “organizations existing by the grace of a king or a leader, are not permanently existing ones” [1, p. 268].

The aim of the article is to identify important institutional and organizational characteristics of cross-border transportation of cargo under the conditions of integration processes in the post-Soviet space, in particular [12–20]:

- Demonstration of natural states properties at organization and control over cross-border transportation of cargo under the conditions of integration processes;
- Specifics of establishment and operation of large-scale government-related transportation companies;
- Up-to-date problems of the institutional environment formation for international road transportation of cargo and organizations’ efforts to change the direction of institutional evolution;
- The controversial nature of integration processes in the post-Soviet economic space, associated with defending the interests of national elites and entrepreneurs in the field of cross-border transportation of cargo.

## **1. Integration Processes in Post-Soviet Space: Current Situation, Problems and Prospects**

### *1.1. Establishment and Functioning of Eurasian Economic Community (EAEC).*

Russia, connected with the countries of the former Soviet Union with production and cooperative ties, is now a member of an integration association in the form of the Eurasian Economic Community (EAEC). On January 1, 2015 the Agreement On the Eurasian Economic Community, participant countries of which (Armenia, Belarus, Kazakhstan, and Russia) use each other’s territory for mutual trade, investments, exchange of services and labor, came into force. By 2020, it is planned to cancel the national residency principle that will stimulate competition between the states, their customs services, as well as among the business community representatives.

By January 1, 2016, it is planned to put the Customs Code of the Eurasian Economic Community (EAEC CC) into force (the Code has been under development since December, 2013). Provisions of the new EAEC CC provide:

- Automation of all customs systems;
- Transfer to electronic declaring (denial of paper copies);
- Need to provide only an e-form of customs declaration (other documents—as a last resort);
- Usage of a “single window” mechanism.

During its formation, EAEC (as a new integration association) has faced a number of challenges. In 2014, a decline of Russia’s trade occurred, not only with the countries—participants of the Customs Union, but with the CIS countries as well. Thus, in accordance with the data of the Federal Customs Service of Russia, the share of chemical products in the commodity structure of export to the CIS countries within the period from January to July, 2014 amounted to 9.9% (compared with 11% in

January—July, 2013). Export volumes of this commodity group decreased by 10.9%, in comparison with the period from January to July, 2013. In addition, export of other categories of goods decreased as well.

Countries—participants of EAEC are going through a difficult economic situation related to the GDP falling, national currency devaluation, inflation rising and population living standards declining. These problems are primarily connected with the crisis phenomena observed in the world economy, domestic economic problems of states—participants of EAEC caused by the raw nature of economics, public administration inefficiency, as well as recently increase geopolitical problems.

Integration processes also face the problems associated with the defense of national interests of the countries—members of EAEC, especially in critical situations. Examples of such problems are the preservation of internal borders of the Customs Union and difficulties with the introduction of authorized economic operator (AEO) institution.

### *1.2. Control Procedures at Internal Borders of the EAEC: Daily Practice and Actions in Special Situations.*

At present, within the Eurasian Economic Community agreements on technical regulation and on sanitary, veterinary and phytosanitary control are concluded and in force. All functions related to the implementation of the above types of control are performed by the customs authorities of the Customs Union, respectively, all controls are carried out on passing cargo through customs border of the Customs Union.

Despite the formation of EAEC, control procedures are held on the borders between the participating countries. On internal borders of the Customs Union border crossing checkpoints are left, except checkpoints on the border between Russia and Belarus, which were eliminated in 1995, in connection with the Union State creation. Keeping other types of control, in addition to customs, on railway crossings located on internal borders of the Customs Union will not allow to objectively reduce time of trains processing, as well as speed of cargo delivery to a consignee.

However, on September 4, 2014, in connection with the aggravation of the conflict between Russia and Ukraine, the President of Belarus Alexander Lukashenko issued a decree restoring a border area in regions adjacent to Russia. The creation of the border area is aimed at monitoring the cross-border transportation of commercial cargoes and suspicious lots of cargo.

### *1.3. Problems and Prospects of Authorized Economic Operators (AEO) Institution.*

The development and introduction of a new institution of the authorized economic operator (AEO) improves the performance of control over the cross-border transportation of cargo (in terms of customs procedures at the borders of EAEC). The creation of this institute implies the provision to certain categories of persons (enjoying the confidence of the customs authorities) with the opportunity to use special simplifications. Special simplifications are provisions of the AEO with the opportunity to carry out temporary storage and customs operations connected with goods production in their premises, outdoor areas and other areas, as well as goods production prior to the customs declaration and other simplifications. At the moment, the Federal Customs Service of the Russian Federation issued a certificate granting a right to operate as AEO to 125 organizations<sup>2</sup>.

Recently, the Eurasian Economic Commission (EAEC), with the help of working group on AEO institution development, has been working to bring its operations in line with international standards. In particular, a chapter of the Customs Code of the Customs Union, devoted to the development of the institution, is being prepared. One of the future innovations is an extension of the list of advantages offered to AEO<sup>3</sup>.

One of the problems of AEO activities on EAEC territory is that the participant countries have the right not to recognize the status of the AEO, if the certificate on its operation was issued by another state—a member of an integration association. The fact is that, in accordance with cl. 2 of Article 38 of the CC CU, the status of an authorized economic operator is assigned to a legal entity by the customs authorities by issuance of the certificate of inclusion into the register of authorized economic operators, recognized in the territory of the state, the customs authority of which assigned this status.

<sup>2</sup> Federal Customs Service. Register of authorized economic operators. [Electronic resource]. URL: [http://ved.customs.ru/index.php?option=com\\_content&view=article&id=1690&Itemid=1971](http://ved.customs.ru/index.php?option=com_content&view=article&id=1690&Itemid=1971) (retrieved on March 10, 2015).

<sup>3</sup> An opportunity to use the benefits will depend on the type of AEO. On January 30, 2015 at the seventh meeting of the Working Group on AEO institution development in the states—members of EAEC discussed the method of calculation of financial stability indicators of foreign economic activity (FEA) participants, which apply to the AEO certificate of the 2nd and the 3rd types. Financially stable companies will be able to get an AEO status, while providing no security payment of customs duties amounting to the equivalent of one million Euros, as required at present.

For example, starting from January 15, 2014, the State Customs Committee of Belarus did not recognize the AEO status in respect of goods transported under the customs procedure of customs transit to (through) the Russian Federation, in cases when a declarant is AEO. It is important that the draft of a new CC CU devoted to AEO also provides rules that allow countries—participants of the Customs Union mutually recognize the AEO status on the whole territory of the Customs Union. This will introduce uniform conditions of the AEO status assignment for all participant countries and there will also be a unified list of special simplifications, available to them.

## **2. Technical, Technological, Institutional, and Organizational Barriers to Cross-Border Transportation of Cargo**

An alternative to improving the institutional and organizational environment of cross-border transportation of cargo is constructing and utilizing other means of communication. Examples of such substitutions are the formation of new road and rail routes in Central Asia, bypassing the neighboring states and the construction of Zhuravka-Millerovo railway in Russia, allowing connecting the Center and the South of Russia, without entering the territory of Ukraine.

Technologies used by the customs authorities do not allow inspecting cargoes efficiently. Border crossing checkpoints use outdated technologies; regulatory agencies have not sufficiently developed electronic document management system. The greatest difficulty for customs control is the inspection of containers contents. Customs control, in this case, involves a whole range of labor-intensive and time-consuming loading and unloading operations, which take about 2–3 hours on average. At the same time, the costs of loading and unloading operations are borne by the carrier and, ultimately, by the consignee.

Institutional and organizational areas of border crossing checkpoints arrangements include:

- Development, utilization and improvement of a mechanism of state-private partnership;
- Identification of funding sources and their structure (for example, “colored taxes” introduction);
- Minimization of misuse and mismanagement of funds;
- Opposition to the practice of creation of a shortage in public services;

Improving the efficiency of control services.

An example of a public-private partnership mechanism utilization at border crossing checkpoints arrangement is the construction of office space for controlling services at the expense of the state budget, accompanied by the construction of transport and logistics terminals (at the expense of commercial structures), creation of service infrastructure: hotels, cafés, shops, etc.

Reduction of competitiveness of rail border crossing checkpoints (RBCC) is stimulated by the fact that establishment and operation of road checkpoints are financed by the Federal Agency for State Border Infrastructure Development, while the maintenance and development of RBCC, located within public infrastructure, are largely funded by its owner, Russian Railways, JSC (RZD, JSC). Therefore, there are difficulties with the interaction of various owners and contractors acting at RBCC, problems of financial discrimination of rail transport are pressing.

Creation of a shortage in public services at cross-border transportation of goods can take place:

- a) For objective reasons;
- b) Deliberately, in order to generate additional rental income;
- c) As a result of ineffective work of controlling services.

An example of objective factors action is that the transfer to customs bodies of Russia and Belarus of additional monitoring functions is not accompanied by an increase in customs officials and their official income. Though the transfer of functions of Rosselkhoznadzor to the jurisdiction of the Federal Customs Service of Russia can both enhance and hinder cross-border transportation of cargo.

On the one hand, eliminating the problem of harmonizing the work of different control services, delays in the development of internal guidelines (as in case with border crossing checkpoints with China in respect of meat and meat products) are solved, which prevents the replacement of export from countries that have fallen under the sanctions of the Russian federation. On the other hand, problems have occurred with new responsibilities training, lack of custom officials competence, already noted the need for an increase in the number of officials have already been noted, dealing with increased workload, and their revenues.

The corruption nature of regulatory authorities activity is in unjustified customs inspections, additional requirements to a set of documents, correction of customs value, etc., which leads to an

increase in time spent on customs operations (up to 5–7 days or more) and an increase in financial expenses of cargo owners.

Even if the deficit of public services is not created deliberately, cross-border transportation effectiveness can be reduced as a result of a leisurely nature of work of controlling services at border crossing checkpoints.

Improving the efficiency of cross-border transportation of cargo requires the institutional environment to change. According to the director of the International Logistics Club Zubakov G., “for further improvement of administrative procedures and optimization of foreign trade cargo traffic, it is necessary, first of all, to change the objective function of customs.” In addition to budget revenues provision, “Customs shall be interested in cargo movement”<sup>4</sup>.

The Director General of Russian Logistics Provider, JSC, R. Kiss is convinced that “along with preliminary notification at railway transport, it is necessary to carry out all customs formalities in parallel with business processes. For example, customs clearance of trains, especially container ones, can be carried out while the train is on the route, for example, to Moscow, not wasting time on the border”<sup>5</sup>.

Company activities also contribute to the improvement of the institutional environment. Thus, the Russian Association of International Road Carriers (AIRC) set a target to reduce the time for trucks passing through all control procedures at a checkpoint down to 20 minutes by 2018<sup>6</sup>.

Let us note that the simplification and acceleration of cross-border transportation of goods are only the first stage in the customs institution activity improvement, which should in the future become an effective instrument of industrial policy introduction in Russia and EAEC countries. In the context of confrontation with the developed countries, it is possible to abandon the principles of free trade, implied when joining the WTO.

### **3. Utilization of Standardized Shipping Documents, Introduction of Electronic Forms of Information Transmission, Preliminary Informing on Transported Goods: Demonstrative Actions and Everyday Practice**

In rail transport, pilot projects have been implemented, carrying out demonstrative actions on time reduction for customs clearance procedures and technological operations at RBCC. Fixing the obtained results for a long period of time is usually due to use of services of companies, associated with Russian Railways, JSC: TransContainer, PJSC, RZD-Logistics, JSC, Project Office UTLC, LLC.

According to the Deputy Head of the Center for Customs Activities of Russian Railways, JSC, U. Sirotych, the usage of the preliminary information system on cargo imported into the territory of the Customs Union by railways allowed to reduce the time of container transportation from China. Thus, at the Zabaikalsk station passage all procedures (both customs and technological ones) for cross-border movements of accelerated container train was reduced from 16–18 to 10 hours<sup>7</sup>.

In March 2014, at Zabaikalsk RBCC procedures were set in place for customs clearance in respect of container trains, which run from the PRC to the European Union, within a pilot project of Project Office UTLC, LLC (Russia, Kazakhstan and Belarus) and DHL Global Forwarding (Germany). Time of the first four trains declaring at Zabaikalsk station in cooperation with Zabaikalsk RBCC customs post of Chita customs office, was: minimum—12 hours, maximum—up to 18 hours<sup>8</sup>.

<sup>4</sup> In order to optimize the movement of foreign trade cargo flows, it is necessary to change the objective function of customs // RZD-Partner. April 9, 2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/dlia-optimizatsii-dvizheniia-vneshnetorgovykh-gruzopotokov-neobkhodimo-pomeniat-tselevuiu-funktsiiu/> (retrieved on March 15, 2015).

<sup>5</sup> Optimization of customs procedures at railway transport should be carried out in a complex // RZD-Partner. April 9, 2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/optimizatsiia-tamozhennykh-protsedu-na-zh-d-transporte-dolzha-osushchestvliat'sia-v-komplekse/> (retrieved on March 15, 2015).

<sup>6</sup> Together for Better Future // International Road Transportation. 2014. No. 3 [Electronic resource]. URL: [http://www.map.asmap.ru/3\(115\)\\_14/index2.html](http://www.map.asmap.ru/3(115)_14/index2.html) (retrieved on March 15, 2015).

<sup>7</sup> Preliminary information allowed to reduce the time of containers transportation from China // RZD-Partner. September 30, 2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/predvaritelnoe-informirovanie-pozvolilo-sokratit-vremia-perevozki-konteinerov-iz-kitaia/> (retrieved on March 15, 2015).

<sup>8</sup> Through Zabaikalsk RBCC of Chita customs office there started container trains movement in the direction of China—Europe // RZD-Partner. April 23, 2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/cherez-zhdpp-zabaikalsk-chitinskoi-tamozhni-nachalosdvizhenie-konteynernykh-poezdov-po-napravleni/> (retrieved on March 15, 2015).

Since February 2011, at Russian-Mongolian Naushki RBCC a voluntary preliminary informing on transported cargoes was started, by the middle of 2014 the share of pre-declared consignments was 98%<sup>9</sup>.

Currently, at Buslovskaya RBCC, located on the border between Russia and Finland and served by Vyborg customs office, an average of at least three hours are needed to carry out the customs controlling procedures for goods, arriving by a single train. Significantly less time of cargoes passing through this RBCC (unlike Russian-Chinese passages) can be explained by the lack of transfer operations due to the same width of rail track in Finland and Russia. Using the system of preliminary informing will allow reducing the time of customs clearance down to one hour, through the implementation of the majority of security check activities prior to the arrival of a train to the crossing checkpoint<sup>10</sup>.

Other changes taking place are changes in the part of validity and registration of transport documents. For example, a number of amendments were drafted related to the Agreement on International Goods Transport by Rail (SMGS). The new text of the Agreement will allow carrying out international transportation within the borders of one state by several subjects or by one subject—within the infrastructure of several countries. In other words, the new version of the agreement will provide cross-border transportation. Amendments will enter into force on July 1, 2015<sup>11</sup>. At the moment, however, CIM/SMGS way-bills apply only in 26–27% of rail traffic through the Eurasian corridor<sup>12</sup>.

In general, according to the Vice-President of Business Russia Public Organization V. Survillo, “the implementation of the measures implied for the optimization of foreign trade traffic and customs administration improvement needs more accurate monitoring. ... For example, we sometimes hear that at individual railway crossing checkpoints the time of freight and cargo passage in pilot mode is less than two hours, but we receive information from the business representatives that does not confirm this data”<sup>13</sup>.

#### 4. Reduction of Transaction Costs at Cross-Border Transportation of Cargo through Innovations and High Technologies Introduction

Examples of possible directions of transaction costs reduction at cross-border transportation of cargo through the use of high technologies are:

1. Establishment and improvement of communication channels, first of all, the FCS internet portal.
2. Development of a special internet resource that will contain the necessary information on the organization of railway traffic through the border crossing checkpoints, for example, through Suifenhe-Grodekovo RBCC in Russian and in Chinese.
3. Establishment and implementation of a single transport and logistics platform in the EAEC market, including IT-infrastructure, after the start of an active work of United Transport & Logistics Company (UTLC), under which all its subsidiaries will operate.
4. Equipment of customs offices with inspection-examination complexes (IEC) on the basis of X-ray machines, allowing carrying out cargo inspections without vehicles, wagons and containers unloading.
5. Application of information technologies at monitoring the presence of permits (transit licenses) for road transportation of cargo, using a bar code.

An important and promising area of institutional evolution (to simplify cross-border transportation of cargo) is the introduction of impersonal forms of border and customs control with the use of information technologies. It is impossible not to pay attention to the words of the Chairman of the

<sup>9</sup> Customs officers of Buryatia took part in a meeting of railway men of Russia and Mongolia // RZD-Partner. 21.08.2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/tamozhenniki-buriatii-priniali-uchastie-v-soveshchanii-zheleznodorozhnikov-rossii-i-mongolii/> (retrieved on March 15, 2015).

<sup>10</sup> Customs Service prepares itself for preliminary informing at railway transport // RZD-Partner. 09.04.2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/tamozhnia-gotovitsia-k-predvaritelnomu-informirovaniu-na-zh-d-transporte/> (retrieved on March 15, 2015).

<sup>11</sup> SMGS provides “cross border” // Gudok. 18.02.2015. [Electronic resource]. URL: <http://www.gudok.ru/newspaper/?ID=1255418&archive=2015.02.18>. (retrieved on March 15, 2015).

<sup>12</sup> CIM way-bills reduce the time of customs clearance at the border—DB Schenker // RZD-Partner. 23.04.2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/nakladnye-tsim-sokrashchaut-vremia-tamozhennogo-oformleniia-na-granitse---db-schenker/> (retrieved on March 15, 2015).

<sup>13</sup> More accurate monitoring of measures on foreign trade cargo traffic optimization—Opinion // RZD-Partner. 14.04.2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/neobkhodim-bolee-tochnyi-monitoring-mer-po-optimizatsii-dvizheniia-vneshnetorgovykh-gruzopotokov---m/> (retrieved on March 15, 2015).

Board of the Association of International Road Carriers (AIRC) Alexander Nikolenko, that now “it is possible to organize the process in such a way, that registration at the border will take place with little or no participation of border and customs services”<sup>14</sup>.

It is necessary to emphasize the crucial importance of this step in the transition from a mature natural state to a state with public access, when the vast majority of transactions are impersonal. And, if, in developed countries, this anonymity is achieved in the course of contacts between companies and regulatory authorities; in Russia it is more reliable to replace them with IT-processes.

However, electronic innovations may impede cross-border transportation of individual shippers. For example, Deputy Director General of the Kazakhstan Association of Carriers and Car Operators and the Association of National Freight Forwarders of the Republic of Kazakhstan, S. Adambaev, indicates that “Russia has ETRAN software (electronic waybill). It is an automated system of preparation and execution of shipping documents for rail freight by Russian Railways, JSC in the territory of Russia. The system was developed and is supported by IntelLeks, JSC. All rights reserved by Russian Railways, JSC. With the help of this software, the Russians protect their market, when, for example, Kazakh consignors, for whatever reasons, cannot register in the system”<sup>15</sup>.

In addition, there is an opinion that the effectiveness of preliminary informing at railway transport depends on the volume of traffic coming through a border crossing checkpoint: the bigger the volume, the less effective preliminary informing will be<sup>16</sup>. Information systems of customs authorities cannot cope with the vast amounts of information.

### 5. Impact of Technical Standards Institution on Cross-Border Transportation of Cargo

In addition to imperfections of customs procedures, technical and technological difficulties related, first of all, to the need for overloading on the border (due to the difference in railway track width), which can take from several hours to a day, can also prevent export-import and transit cargo traffic. Delays in cargo transportation can occur through the lack of rolling stock, including due to the different requirements to its specifications. For example, during a passage over Russian territory and the CIS countries the length of a freight train may be about 1 km, but the maximum length of the train in Poland should not exceed 600 m. As a result, after the passage of the border with the EU, the train needs to be divided into two. There is a proposal to issue special authorization for long trains, running through the EU<sup>17</sup>.

Movement of speed container trains also requires compliance with increasing requirements to technical characteristics of rolling stock, locomotives and container platforms. Container platforms manufacturers are only talking about the possibility to use rolling stock (manufactured by them) for the transportation of containers at a speed of 120–140 km/h, but in practice, operators are recommended to use them at lower speeds. According to the Deputy Director of the branch of TransContainer, PJSC in the October Railway, V. Veselov, the “declared constructional speed is in reality the limit at which a platform cannot be operated continuously”<sup>18</sup>.

Technical features of cargo transportation, taking adverse climatic conditions into account, also require institutional execution in the form of supplementary agreements. The agreement between RZD-Logistics, JSC and Zhengzhou International Land Port Development and Construction, LLC on the organization of international container train Zhengzhou (China)—Hamburg (Germany) involves the interaction in organization of insulated container transportation for the development of food

<sup>14</sup> According to Einstein Laws. Interview with the Director of Transit Group of Companies (Smolensk), the Chairman of the Board of the Association of International Road Carriers (AIRC) Alexander Nikolenko // International Road Transportation. 2014. No.3 [Electronic resource]. URL: [http://www.map.asmap.ru/3\(115\)\\_14/index2.html](http://www.map.asmap.ru/3(115)_14/index2.html) (retrieved on March 15, 2015).

<sup>15</sup> Like on tracks // Expert Kazakhstan. 2014. No.52 (496). December 22–29. [Electronic resource]. URL: <http://expertonline.kz/a13336/> (retrieved on March 15, 2015).

<sup>16</sup> The effectiveness of the preliminary informing system will depend on the traffic at a crossing checkpoint // RZD-Partner 09.04.2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/ieffektivnost-predvaritel'nogo-informirovaniia-budet-zaviset'-ot-gruzopotoka-na-pogranperekhode/> (retrieved on March 15, 2015).

<sup>17</sup> Eurasian Corridor: Yesterday, Today and Tomorrow. Interview with the Head of a business segment of the Eastern region of DB Schenker Rail and the Chairman of the Supervisory Board of DB Schenker Rail Polska SA—Hans-Georg Werner // RZD-Partner. 09.07.2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/interviews/interview/glavnoe-dostoinstvo---ieto-skorost/> (retrieved on March 15, 2015).

<sup>18</sup> We need a new platform to speed container trains // RZD-Partner., 29.01.2015. [Electronic resource]. URL: <http://www.rzd-partner.ru/interviews/comments/dlia-uskoreniia-konteynernykh-poezdov-nuzhna-novaia-platforma/> (retrieved on March 15, 2015).

products and electronic products transport in winter on the route from China to Europe and Central Asia and back to China. According to the management of the Russian company, tariffs for platforms provision and cargo transportation in ref-containers will be set at the level of standard containers. The price difference for cargo transportation in the insulated train is created only by the cost of fuel used in generating sets of refrigerating containers in winter<sup>19</sup>.

Institutional constraints can be (and are) the requirements for rolling stock modernization and extension of rolling stock service life. One example of such a restriction is a situation with the extension of service life of freight wagons (car transporters) owned by Apparel (Lithuania)—a subsidiary of Apparel GC (Russia) and its representative in the EU. At the beginning of 2015, the Federal Service for Supervision of Transport decided to exclude wagons from the rolling stock on the expiration of the maximum allowable lifetime (28 years). Since Lithuania is not a member of the Customs Union, specifications will be prepared according to which the extension of wagons service life is only possible through their modernization, and not through capital repairs<sup>20</sup>.

## **6. Institutional and Organizational Characteristics of Mixed and Combined Transportation within Cross-Border Traffic**

The state of the market of international road transportation of cargo is affected by environmental regulations and policies tightening aimed at “green” logistics development. EU countries restrict the entry of vehicles of low environmental classes, charging them with higher road dues. As a result, many carriers have moved to states with more loyal environmental legislation (first of all, to Finland and the Baltic countries).

Realization of their environmental responsibility leads to increased efforts of foreign transport companies to find return loads. The growth of cargo traffic meeting the highest environmental standards, will be contributed by organization and operation of large-scale transportation companies able to effectively organize the combined road-and-rail (piggyback) traffic. In addition, piggyback traffic leads to a reduction in time of border procedures passing. The reaction to delays at borders and other difficulties of cross-border transportation of cargo (such as difficulty in transit licenses obtainment) is the use of automobile and railway companies of ferry services.

## **7. Creation of Large-Scale and Privileged Corporations—Way to Increase Competitive Advantages of National Companies in Global Market of Transport Services**

As was noted in the introduction hereinabove, in a natural state an economic system usually has large-scale commercial structures closely associated with the state. While transferring to systems with public access, the competitiveness of free players in the market of cross-border transportation of cargo is developed. However, at the moment, for example, in the market of global maritime transportation of containerized cargo there can be noted the creation of transport alliances, supported by public authorities and regulatory bodies of the EU. Only large companies from Russia and EAEC, with the support of states authorities and integration associations, can compete with these associations.

An example of organizational evolution, leading to an increase in revenues from services of cross-border transportation of cargo, is the ownership by Russian Railways, JSC of French logistics operator—Gefco, which is among the ten largest logistics operators in Europe.<sup>21</sup> The Gefco Group wishes to become a famous 3PL/4PL-operator at “1,520 mm track area,” and plans to develop connections between Europe, Russia, and Asian countries in the field of multi-modal transportation. One of the promising areas of the company’s activity is an organization of cargo transportation from Hungary and Germany to China and from China to Europe<sup>22</sup>.

The largest transport company, designed to carry out cross-border transportation of goods, is United Transport & Logistics Company (UTLC), established by business entities of Russia, Kazakhstan

<sup>19</sup> Logistics, Uniting Countries. Interview with the Director for Sales of RZD-Logistics, JSC P. Lagov // RZD-Partner of 20.01.2015. [Electronic resource]. URL: <http://www.rzd-partner.ru/interviews/interview/logistika--obediniyaiushchaia-strany/> (retrieved on March 15, 2015).

<sup>20</sup> Resignation after Unloading // Gudok. 04.02.2015. [Electronic resource]. URL: <http://www.gudok.ru/newspaper/?ID=1253058&archive=2015.02.04> (retrieved on March 15, 2015).

<sup>21</sup> The main clients of Gefco are leading carmakers and industrial enterprises: Peugeot Citroen, GM, L’Oreal, Siemens, Bosch, IKEA, Henkel, Procter&Gamble. Turnover in 2013 amounted to 4 bn Euros.

<sup>22</sup> Challenges for Future // Gudok, 02.02.2015. [Electronic resource]. URL: <http://www.gudok.ru/newspaper/?ID=1252653&archive=2015.02.02> (retrieved on March 15, 2015).

and Belarus. According to the President of the company and the Director General of TransContainer, PJSC, P. Baskakov, “thus far UTLC is rather created on paper.” However, he points out that the “success of logistics business is directly proportional to its activities scale.” And the larger the scale, the greater the involvement of assets and the higher the efficiency of the company<sup>23</sup>.

In the spring of 2014 TransContainer, PJSC declared its interest in buying more than 50% of a logistics operator—ZSSK Cargo Intermodal (Slovakia). In case of the asset acquisition, the Slovak subsidiary company can smoothly blend in to UTLC project, promoting inland transport services in Europe, so that the transportation process does not end in Brest, but can continue to Hamburg and other Western European cities. The acquisition of subsidiaries in the EU will allow reducing the transaction costs on cross-border transportation of cargo and to expand the scope of activities of Russian companies in the global market of transport services.

### 8. Institutional and Organizational Features of International Road Transportation of Cargo

International road transportation of cargo is characterized by high transaction costs associated with the need to obtain permits, with customs clearance, filling in invoices and way-bills of international standard, etc.

The current institutional environment of international road transportation of cargo, ways of its impacts on transportation process and main efforts of organizations, directed to the institutions evolution are listed in the table below.

Table

**Institutions and Their Impact on Transportation Process and Areas of Institutional Evolution in the market of International Road Transportation Services**

No.	Name of Institution	Impact on Transportation Process	Organizations' Efforts on Institutional Evolution
1.	Institute of guaranteed customs duties payment, problems with TIR Carnets utilization	Increasing the costs of cross-border transportation of goods, problems with movement in the territory of neighboring states (Ukraine)	AIRC, IRU, business associations supported TIR system, a new guarantee organization is yet to be chosen
2.	Licensing system functioning, control over permits (transit license) presence	Restriction of foreign trucking companies' access to the market of transport services, a periodic deficit of transit licenses for individual countries	Efforts of the Ministry of Transport and AIRC to overcome the deficit of transit licenses, toughening responsibility for their absence
3.	Features of competitive procedures for cargo-carriers selection	Displacement of Russian companies, losing in price competition to foreign carriers, from the market of transport services	Efforts of lobbyists on legislative securing of parity with foreign competitors, giving priority to Russian companies in the right to transport goods for the state needs
4.	Institute of toll roads and pay the passage of certain types of vehicles on federal roads	Organization of transportation process on market principles, overcoming rail transport infrastructure discrimination	Stiff opposition from road transport organizations, lobbying delays of introduction, searching detours
5.	Control over the size and weight parameters of vehicles	Reduction of trucking companies effectiveness by reducing vehicles overloading, an increase of fines payments, increasing roads safety	Efforts of AIRC on allowing slight overloading, considering vehicles characteristics
6.	Institutionalized relations of a consignor, a consignee, and a carrier	Securing means of transport, routes and methods of payment for transport services in contracts on goods supply	Improvement of contract system and practice of pre-trial and other settlement of disputes
7.	In-house rules of transportation organization	Fuel consumption control, tracking routes, forcing to intensify work in order to reduce travel time	Efforts of trucking companies associations on the reduction of external regulation of their in-house standards

<sup>23</sup> Peter Baskakov: Scale Matters. Interview with the President of UTLC, the Director General of TransContainer, PJSC—Baskakov P. // RZD-Partner, 02.02.2015. [Electronic resource]. URL: <http://www.rzd-partner.ru/interviews/interview/petr-baskakov---masshtab-imeet-znachenie/> (retrieved on March 15, 2015).

No.	Name of Institution	Impact on Transportation Process	Organizations' Efforts on Institutional Evolution
8.	Control over work and rest of drivers	Reduced drivers' labor intensity, improving road safety, reaching compliance with European standards, roadside service development	Efforts of trucking companies associations to reduce tachographs cost, increase the duration of a transitional period

*8.1. Problems of the Evolution of the Guaranteed Customs Duties Payment Institute at Trans-Border Road Transportation of Cargo (TIR Carnets, Financial Guarantees).*

Cross-border transportation of cargo is provided with the help of the Customs Transit Institute. Customs transit is used, among other things, for the transportation of foreign cargo from the customs office (at the place of arrival) to the internal customs office. Measures to ensure custom transits include:

- 1) Ensuring payment of customs duties and taxes on foreign goods;
- 2) Customs escort;
- 3) Establishment of a goods transportation route.

When transporting goods by road, a global practice of application of the procedure of cargo transportation in accordance with Customs Convention on the International Transport of Cargo under Cover of TIR Carnets (TIR Convention, 1975) is used. However, in July 2013 the Federal Customs Service of Russia (FCS of Russia) issued a series of letters, which, without being normative legal acts, in fact, prevent the application of the Convention in the territory of Russia. Moreover, the application of the transit securing rules was different in the territory of the Customs Union, despite the desire of integration association for customs procedures unification.

This situation has led to problems for Russian carriers and at transit transportation of cargo through the territory of neighboring states. Thus, in 2014, in Ukraine requirements were introduced for national financial guarantees of Russian carriers in transit traffic. According to the decision of the State Fiscal Service of Ukraine (SFSU), carriers with a transit cargo, declared under the terms of the TIR procedure, are required to provide additional documents to ensure custom duties payment: financial guarantees of transit, guarantees of temporary importation with under ATA Carnet<sup>24</sup>.

The new procedure only applies to Russian and international carriers, it is temporary and valid till the cancelation of restrictions on TIR Carnets application, introduced by the Federal Customs Service of Russia. Continuance of this procedure validity would complicate conditions for goods transit through Ukraine, especially in the "east—west" direction<sup>25</sup>.

Formally, the reason for the decision of the FCS of Russia was the debt of the Association of International Road Carriers (AIRC) in payment of custom duties, which has been repeatedly litigated by the Association in courts. At the same time, the Customs Service made efforts to develop alternative ways to ensure payment of customs duties, including involving Russian organizations as guarantors and for payment (for example, Arsenal Company). However, there is no any viable alternative to AIRC and it continues its work.

The evolution of the Institute of guaranteed customs duties payment was hindered by the activities of many organizations. Apart from the already mentioned AIRC, the International Road Transport Union (IRU), related associations from other countries, with active support of public associations of entrepreneurs, such as Support of Russia and Business Russia, the Russian Union of Industrialists and Entrepreneurs, the Chamber of Commerce, the Union of Transport of Russia stood for the preservation of the Customs Convention on the International Carriage of Goods by Road.

In July, 2014 after the meeting with the Government of the Russian Federation on the execution of the TIR Convention in Russia, it was decided to extend the guarantee agreement between the Russian FCS and AIRC till November 15, 2014. At the same time, till November 15, 2014 the Russian Customs Service had to organize a tender for the approval of a new guaranteeing association, which would operate and provide the transit in the territory of Russia instead of AIRC. However, this tender was

<sup>24</sup> ATA Carnet is an international customs document that replaces customs declarations and allows to perform a duty-free, simplified and accelerated declaration of temporary imported of goods in connection with exhibitions and trading fairs, as well as for cross-border transportation of commodity samples, professional equipment, and some other categories of goods.

<sup>25</sup> Ukraine complicates conditions for Russian transit // RZD-Partner. 07.10.2014. [Electronic resource]. URL: <http://www.rzd-partner.ru/news/tamozhnia/ukraina-uslozhniaet-usloviia-dlia-rossiiskogo-tranzita/> (retrieved on March 15, 2015).

not organized, and the Federal Customs Service of Russia informed the AIRC about a new delay of termination of the Agreement on obligations related to the application of Customs Convention on the International Transport of Goods under Cover of TIR Carnets, to February 28, 2015.

In early March, 2015, the President of the Russian Federation Vladimir Putin ordered “to ensure a continuous application” of Customs Convention on the International Road Transport. The order also requires the Federal Customs Service of Russia to fulfill the agreement with the AIRC till the determination of a new guaranteeing association, which was about to be selected by June<sup>26</sup>. As you can see, the possibilities of various elite groups fighting for control over the customs transit procedure are far from being exhausted.

According to the Minister for Customs Cooperation of EAEC Vladimir Goshin, the supranational body is working on the establishment of the institute of guarantors, ensuring payment of customs duties at customs transit. The mechanism, proposed by EAEC, is fairly close to the guarantee institution, acting in the states - members of the Customs Union, but there are some significant differences. A final decision on customs transit improvement areas has not been accepted yet.

The Minister also expressed the opinion of the EACE, that “within the Customs Union, competitive and effective mechanisms for the delivery of goods under customs transit, which the carriers would choose at their own discretion, are to be operative. In addition, these mechanisms should ensure the effectiveness of custom controls at customs transit and the transparent system of customs payments collection for undelivered goods, as well as allowing the quick and objective application of sanctions to violators of customs rules applied at customs transit”<sup>27</sup>. Only time will tell how achievable this expectation in terms of the functioning of a natural state is.

(To be continued)

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<sup>26</sup> Putin ordered to recover the Convention on Road Traffic // Vedomosti dated March 2, 2015 [Electronic resource]. URL: <http://www.vedomosti.ru/newspaper/articles/2015/03/01/konventsia-vernetsya> (retrieved on March 15, 2015).

<sup>27</sup> Interview with the Minister for Customs Cooperation of the Eurasian Economic Commission—Vladimir Goshin for the Russian customs portal TKS.RU—Everything about the Customs, February 14, 2014. [Electronic resource]. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/18-02-2014-1.aspx> (retrieved on March 15, 2015).

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