


**TRACECA: Trade Facilitation,
Customs Procedures & Freight
Forwarding Project
Overview of the Freight
Forwarding Industry**

April 1997

Overview of the Freight Forwarding Industry
Form 1.2. REPORT COVER PAGE

Project Title	: TRACECA Project: Trade Facilitation, Customs Procedures and Freight Forwarding	
Project Number	: TNREG 9308	
Countries	: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan	
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Date of report : April 1997

Reporting period : April 1997

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EXECUTIVE SUMMARY

- The freight forwarding industry in the TRACECA countries is at an early stage of development. There is most activity in Kazakhstan, Uzbekistan and Azerbaijan and least activity in Tadjikistan and Armenia.
- The main constraint to the development of an independent freight forwarding industry has been the significant reduction in trade volumes during the transition from a command to a market economy.
- Freight forwarding requires a certain traffic mix to generate adequate trading margins to sustain activity. The low levels of higher unit value products being traded has limited the potential for the industry to expand.
- The current trading terms used in the region result in routing control being outside the region. This system favours the use of overseas rather than national forwarding organisations.
- Freight forwarders in the region generally offer a limited range of services to their clients. There are specific difficulties relating to forwarders acting as customs brokers. This precludes them from offering comprehensive door-to-door services.
- State forwarding organisations are still dominant in some Republics. This makes it difficult to develop an independent sector and limits competition in the market.
- There is a general lack of understanding as to the role of a freight forwarder at governmental and trade level. Forwarders themselves appear to have limited knowledge about their national markets and are undertaking only limited marketing.
- There is evidence that volumes are now increasing. However, this may not be sufficient to support a large independent sector in all eight Republics. It is inevitable that some smaller markets are serviced from neighbouring countries if competitive levels of service are to be offered.
- Increased buying power at government, corporate and personal levels and the development of higher value export products should create a more favourable investment environment for forwarders.
- Development of freight forwarding should enable traders in the region to consider the use of more favourable terms of trade.
- International freight forwarding companies should be encouraged to establish operations in the region because of the expertise, resources and range of services they can bring.
- Freight forwarders should be allowed to and encouraged to become customs brokers. This would improve clearance procedures and enable them to offer more comprehensive services.

- A licencing system needs to be developed which is non-discriminatory in nature and is based on qualitative issues. The TRACECA Legal Framework project will provide model legislation for consideration.
- Awareness levels have been raised due to training seminars in the project and assistance in the formation of Freight Forwarding Associations and membership of FIATA. This programme needs to be continued if an effective forwarding industry is to be developed to international standard.

1. INTRODUCTION

The original Terms of Reference for the Trade Facilitation, Customs Procedures and Freight Forwarding project identified the lack of independent trade facilitation activities, such as freight forwarding and customs agencies, due to the previous centralised control of transport in the command economy of the Former Soviet Union. Despite the moves towards a market economy, the freight forwarding organisations remain largely uni-modal and are usually attached to transport operating companies.

It was proposed that a pilot demonstration of a regional freight forwarding multi-modal operation should be undertaken, for possible financial support by TACIS. This was later altered, with the agreement of TACIS, due to funding constraints. The work was therefore re-designed to focus on providing “an overview of the perspectives of an independent freight forwarding industry within the region” as indicated in the original Terms of Reference.

This report has been provided with that new objective and has been compiled based on information collected during the duration of the project in connection with the four reports previously published. These were:

- Trade Documents & Customs Procedures Report
- Customs Border Post Report
- Computer Systems Report
- Trade Facilitation Institutions Report

Additional research was also undertaken in association with the National Trade Task Forces (NTTFs) in each country.

Some of the information collected from freight forwarders was of a confidential nature and was given on the basis that it would not be used in such a way as to give competitive advantage to another company. As a result some collected detail has had to be omitted, but this has no significant effect on the conclusions reached.

It is important to define the role of a forwarder in a market economy in the context of this report, since there is often some confusion on what services he provides. In simple terms, he manages the activities along the “international transport chain”. This commences at the point of dispatch and is completed on final delivery and normally includes some or all of the following processes:

- booking of transport, container, flight or sailing
- issuing collection and delivery instructions to transporter

- obtaining export clearance
- supervising loading
- issuing of export documentation
- arranging transit documentation
- obtaining import clearance
- issuing collection and delivery instructions to transporter
- providing proof of delivery documents
- paying for the transportation services
- paying for the documentation services
- paying for import and export clearance charges and duties
- arranging of insurance

The more integrated the forwarder, then the more activities he will either perform or arrange. The freight forwarder is essentially an “arranger” of international transport services, which he may provide with his own resources, but in most cases will sub-contract. A standard road haulage company is not a forwarder unless he is physically taking total responsibility for the cargo during an international movement. Many forwarders are also road transporters, but few road transporters are forwarders.

The freight forwarding industry develops more rapidly within a liberalised market economy. Because the main role is as an “arranger”, he is, in effect, trading in transport services - buying wholesale from a supplier (airline, shipping line, road transporter) and selling retail to his customer (importer or exporter). His profits are generated from the trading margins between buying and selling, as well as some fixed charges for performing documentation and clearance activities.

The structure of this report is as follows:

Section 2 provides an outline profile of the forwarding industry in each of the countries along the TRACECA corridor.

Section 3 identifies the current key development problems and Section 4 indicates some possible solutions and opportunities which would result in a more competitive independent freight forwarding industry in the region.

The Appendix shows the range of services provided by international freight forwarding companies. This section was used during the programme of training seminars in the region to explain the range of services possible from an established freight forwarding company in Europe.

2. PROFILE OF FORWARDING IN COUNTRIES IN TRACECA REGION

This section provides an outline profile of the forwarding industry in each of the countries located along the TRACECA corridor. It provides the following information:

- Market environment
- Key transport routes and modes
- Main operators
- Constraints to development

2.1 Armenia

2.1.1 Market Environment

The levels of international trade have declined in recent years, thus the demand for an active freight forwarding industry has been low. As a result, there are relatively few operators and the range of services that they can offer is limited. The Ministry of Trade, Services and Tourism is keen to assist in the expansion of the forwarding industry. Both Forwarders and Customs brokers are required to be registered.

The main exports are scrap metals, chemicals and cognac, with Russia and Iran as major trading partners. The main imports are fuel, humanitarian aid, wheat, foodstuffs and consumer goods.

2.1.2 Key Transport Routes

There is only one international rail route to/from Armenia which is through Gumri to Bagratashen on the Georgian border. This is the key access route to the Georgian ports of Poti and Batumi. Rail is used mainly for fuel, humanitarian aid and wheat shipments.

The main road link is in the south through Meghri on the Iran border with lower volumes on the main northern crossing at Bagratashen into Georgia. Other minor crossings to Georgia are open but all Turkish and Azerbaijan crossings are closed for political reasons.

2.1.3 Main Operators

There is limited publicity regarding forwarders and their services but the following freight forwarding companies are significant operators:

- ABAR Co. Ltd
- Apaven Ltd
- Armenian International Shipping Co. Ltd
- ME Trans
- Transforwarding (Rail)
- Punj Co. Ltd

2.1.4 Constraints to Development

The main constraint to development of an active independent freight forwarding industry has been the relatively low level of international trade due to the difficult economic situation. Whilst there is some evidence to suggest that there will be some growth, this is unlikely to be of sufficient size to generate a rapid growth in the number of operators. There were no indications that there are any legal constraints in establishing a freight forwarding company.

The main bulk or semi-bulk movements such as fuel, humanitarian aid, wheat and scrap metals move mainly by rail and offer limited opportunities for the independent freight forwarder. The main areas of opportunity are considered to be consumer foods and food/beverages. These are currently moving in sufficient volumes to only support a relatively small number of operators.

A significant problem in the past has been the lack of customs brokerage services, which would normally be provided by a forwarder as part of his services. Importers and exporters have had to undertake the clearance transactions themselves and therefore effectively by-passed the forwarders. Major volumes of import traffics are still being arranged and processed by private individuals, rather than using the services of a professional forwarders.

The economic difficulties have tended to result in specific financial problems for the forwarding industry. The shortage of capital and limited banking services, when combined with the trend of individual imports, often results in the importer having insufficient finance to clear the goods and pay for the transportation prior to payment from the end-user. As a result some “bridging” or interim finance is required or clearance times are extended. The forwarder often has to provide

some financing on behalf of his client in order to release transport and thus has a high cash flow requirement. The cost of such finance is significant due to high interest rates.

The closure of the Turkish border is another constraint, in that Turkey is a key trader in the whole of the TRACECA region. Traffic for Armenia has to be conveyed either via Iran or Georgia. The Turkish freight forwarding industry is very active but has not established operations within Armenia due to the current adverse situation. The Iranian carriers and forwarders are active in the trade with Armenia but their services rarely extend into Armenia as most goods are trans-shipped to local transport at the border. Armenian forwarders tend to be more active on the lower volume route to the north via Georgia, especially related to general cargo movements routed through Poti.

2.2 Azerbaijan

2.2.1 Market Environment

Azerbaijan has also suffered a significant decrease in international trade, mainly as a result of the conflict with Armenia and the loss of traditional traffics to/from the old Soviet Union. Whilst the economic situation is better than in some of the other Republics in the Caucasus due to the development of its energy resources, there is still limited buying power for purchase of imports and supplies from outside the CIS.

Despite these negative factors, there is an active forwarding sector which has developed primarily on the oil activity. It is necessary to have a licence to operate a transport-related activity in Azerbaijan. However, it was indicated that there is no freight forwarder operating with such a licence at this time and that there is no organisation functioning with authority to issue such licences.

The main exports are oil products, chemicals, cotton, silk, agricultural products, salt, tobacco and light industrial goods, such as air conditioners. The main imports are oil pipes, oil-related supplies, consumer goods, grain, construction materials, food and drink, clothing and electrical goods.

2.2.2 Key Transport Routes

The main international rail route to/from Azerbaijan is through Bouk Kasek to Georgia. This line connects Baku to the Georgian ports of Poti and Batumi. The northern rail route to Russia is technically closed but is still offering a reduced service level. The southern rail link through Armenia is closed.

There are three main road links. The largest is through Qirmizi Korpu (Red Bridge) to the Georgian ports and Turkey. The main route to the south is through Astara to Iran. The road route through Belasvar into Iran is primarily a corridor for domestic traffics through to the enclave of Nakhichevan. The northern road route through Samur to Russia is technically closed but still handling low levels of traffic.

2.2.3 Main Operators

The exact numbers of freight forwarders is unknown due to the lack of an effective registration scheme. However, the following companies are known to be active in Azerbaijan:

- Gate East International
- Murphy International
- World Carriers (Baku) Ltd
- Bertling Caspian (UK)
- Cisars Ltd (representing P&O containers)
- JTJ Trading International Inc. (USA)
- Kepstowe Freight Services Ltd (UK)
- Magdenly (Turkish)
- Mülitzer & Munch International Forwarders (Germany)
- OBC Caspian Ltd (UK)
- Pentagon Freight (UK)
- Salamoghlu (Turkish)
- Transbeynak (Turkish)
- Urnak (Turkish).

Of these companies, the most active appear to be Gate East International and Murphy International, with Gate East developing a wide range of services and, through associated companies, are involved in many construction projects. They are also the main marketing agents for the TACIS container train initiative between Baku and Poti.

It can be seen that the majority of companies are subsidiaries of European forwarding or transport organisations. Many of these companies are known for their expertise in handling project cargoes, especially for the oil industry.

2.2.4 Constraints to Development

The Forwarding industry is more developed in Azerbaijan than in other countries in the Caucasus region. The growth in the oil industry has created many opportunities for freight forwarders to establish joint ventures with international companies, including freight forwarders. As in other CIS countries, the main forwarding opportunities appear to be related to the import business where routing control lies with the overseas shipper. The amount of exports from Azerbaijan is limited and much of the traffic is either bulk or semi-bulk goods sent by rail or by road to Russia. Such traffics offer little opportunity for a domestic forwarder to obtain adequate profit margins as the transportation is usually arranged direct with the railways or the road transporter.

Although there are many forwarding companies active in the market, the role of a forwarder is not generally well understood both at governmental level and amongst potential users. This is partly due to the emphasis on import traffics controlled overseas and partly due to lack of marketing. Some initial training has been provided through seminars.

2.3 Georgia

2.3.1 Introduction

The levels of international trade have been severely restricted by the difficult economic situation and the loss of traffic to and from the old Former Soviet Union. As a result the forwarding industry is relatively undeveloped, similar to the situation in Armenia.

In order that any transport-related activity can succeed in Georgia, it is usual to have some form of patronage from a government department. In the case of freight forwarding, it will soon be necessary to have a licence to operate from the Ministry of Transport, though the date of introduction has not yet been decided.

The main exports are agricultural goods, paper, timber and fertiliser. The main import goods are food, consumer goods, steel, construction material and machinery. There are significant quantities of transit traffics which pass through the Georgian ports on the way to/from Armenia, Azerbaijan and Central Asia or by road to/from Turkey to and from those areas.

2.3.2 Key Transport Routes

By rail, there is one main route from Gardabani, on the Azari border through to Samtredia in western Georgia where it branches to Poti and Batumi. There is also a rail link from Tbilisi to Bagratashen on the Armenian border.

By road, the main link is the “Magisterial” Highway from Red Bridge on the Azari border through Tbilisi to Samtredia from where there are direct routes to Poti and Batumi. There is one main road from Tbilisi to Bagratashen and two other minor roads to Armenia.

In logistical terms, there is therefore a single road rail corridor running east-west through the centre of the country, with a southern spur into Armenia.

2.3.3 Main Operators

There is currently no registration system, but it is known that there are relatively few operators. The following companies are active:

- Caucastransforwarder Ltd
- Georgian Trans Expedition Ltd (GTE)
- TNTK Georgia Ltd
- Nomad Express Ltd
- Mülitzer & Munch
- Transcargo

2.3.4 Constraints to Development

The main constraint to development is the lack of import cargoes of the type attractive to forwarders due to limited buying power within Georgia. There are also low volumes of exports which might require the services of locally-based forwarding organisations. Previous adverse perceptions of the economic and political situation have also constrained interest by overseas forwarders in investing within Georgia, though the situation is now more positive.

There is some limited potential in acting as a forwarder on transit cargoes, such as for Central Asian cotton. In this case local forwarders are acting as agents for overseas principals in the country of origin. This type of activity offers opportunities to only a small number of operators.

With the exception of the two main operators, Caucastransforwarder and Georgian Trans Expedition, forwarding is almost an unknown activity in Georgia. There are no major international freight forwarding companies with significant operations and therefore the market is developing almost in isolation of the international forwarding market. There has been an overall lack of understanding in both governmental and trade environments as to the function of a forwarders, although this situation has now been addressed.

2.4 Kazakhstan

2.4.1 Introduction

Whilst Kazakhstan has also suffered an economic downturn following independence, there are still substantial levels of international trade. The result is that the forwarding industry is more developed in Kazakhstan than in any of the other Republics along the TRACECA corridor. The high levels of imports of goods from Europe, in particular, creates a favourable environment for forwarders.

Many of the major western forwarders have established offices in Almaty to cover the Central Asian region as a whole, either in their own right or through links with local companies. The overall level of presence and industry exposure means that there is a correspondingly better understanding as to the functions of a forwarder, though these are still less than exists in the West.

In order that any freight forwarding activity can succeed in Kazakhstan, it is theoretically necessary to have a licence to operate. However, it is understood that there are no freight forwarding companies operating with a licence at this time as the law to establish the legal position of a freight forwarding company has not yet been fully ratified in Government.

The main exports are oil, ores, metals, wheat, cotton and agricultural goods. The main imports are consumer goods, foodstuffs, construction materials and chemicals.

2.4.2 Key Transport Routes

The railway system of about 12,600 km was operated as three regional networks but these are now integrated operationally to one with a view to streamlining the operation and encouraging new management practices and private investment. The rail network from Almaty goes in four main directions - to the Russian Federation to the north, to the Uzbekistan border at Tchengeldy towards Tashkent to the south, to China and the Far East through Druzbha to the east and to the Caspian Sea at Aktau in the west. The main rail routes are those through to Russia and China.

By road, the main links are in the same direction as rail and are generally in reasonable condition. This has helped in the development of the international road service sector which, due to its flexibility and competitive price structure, has started to replace rail for the movement of higher added value goods, leaving rail with the bulk raw materials and lower priced commodities. The main road routes are north through Russia towards north-west Europe or south into Uzbekistan through to Iran and Turkey. The southern road route tends to carry the highest volumes because it also includes traffics to Kyrgyzstan which transit through southern Kazakhstan.

2.4.3 Main Operators

The forwarding market is changing rapidly with new links being formed between local organisations and international forwarding companies. The main companies active in the Kazak forwarding market are as follows:

- Kazinterfraht (KIF)
- Militzer & Munch (M&M)
- Kazakhstan AG
- Almatyjeldorexpedetion
- Globalink
- Nakutrans
- Dolphin-C
- Kuehn & Nagel
- Weltz Group
- Kemloop
- Fritz
- TransIntra
- Silk Road International

It can be seen that there are a significant number of European and intercontinental operators active in Kazakhstan. As such, they have international credibility with clients and are able to offer more comprehensive services than can be found in other countries. This is not to suggest that Kazakhstan companies are not interested in developing their own market, but have tended to opt for joint ventures and partnerships because of the market constraints.

2.4.4 Constraints to Development

A similar situation exists as in other countries in the region that overall traffic volumes have declined significantly. However, Kazakhstan has significant activity in the minerals and energy sectors, both of which tend to result in increased forwarder activity. This is either in the form of movement of project cargoes and exploration supplies or as a result of the general increase in wealth associated with oil and mineral development. Many of the forwarders initial entry was due to such project cargoes but is now more general in terms of the movement of consumer goods and higher value foodstuffs and commodities.

Most of the import movements are on a CIF basis with routing control with the shipper, thus the selection of European forwarders for the movement. There are limited exports from Kazakhstan and most of these are sold on an FOB basis which also means that routing control lies in the country of destination. It is therefore difficult for Kazak companies to enter the forwarding market because of lack of cargo control.

The current uncertainty regarding the legal status of the freight forwarding market does not stop operations but makes operating companies nervous in that they cannot be sure of their legal position and feel that they may be subject to sudden or retrospective decrees of Government. Given these conditions it is understandable that Kazak companies are not making significant investments in forwarding and are opting for a more secure representation-type role with external operators.

Freight forwarders would normally be expected to act as customs brokers, thus offering a full door-to-door integrated service. Similar problems exist in that the legislation to approve the licencing of customs brokers has been passed, subject to meeting certain criteria as defined by the Customs. There have been delays in agreeing these criteria but they have now been submitted. However, the necessary legislation is still awaiting parliamentary approval. The forwarders are therefore not able to act as customs brokers.

Despite the fact that the country has the most active freight forwarding activity in the region, the industry is still at an early stage of development. This is in part due to the environment whereby forwarding is considered to be a new industry and there is still a poor understanding of what a

freight forwarder is and is partly due to the market uncertainties. Almost all forwarding activities are uni-modal.

2.5 Kyrghyzstan

2.5.1 Market Environment

As in other republics, there has been a substantial decline in international traffic due to adverse economic conditions. Most transport-related services in Kyrghyzstan are owned by the State, although there are now some private joint venture companies being formed in freight forwarding.

For a freight forwarder to operate there is no need to have a licence, but as there is no substantial manufacturing industry base there are few exports for a freight forwarding company to handle. They have expanded mostly on imports and are generally operating in conjunction with companies who are based in Kazakhstan.

The main exports are cotton, tobacco, agricultural goods, scrap metal, steel, alcohol and precious metals. The main imports, excluding fuel, are construction materials, food and drink, consumer goods, grain, and paper.

2.5.2 Key Transport Routes

By rail, the main route is the line from Bishkek linking into the Kazakhstan rail system. The other rail link connects Kok-langak (Osh) in the south to Andijan in Uzbekistan and along the Fergana valley. The main rail volumes are on the northern line into Bishkek.

By road the main links are the connections off the main Tashkent/Almaty road which passes through northern Kyrghyzstan, although most through-traffic uses a ring route which remains in Kazakhstan. The other road route is along the Fergana valley in the south. The road over the mountains between the north and the south is closed in winter and is not good for heavy road transport even in the summer. The main road volumes tend to be coming up through Tashkent on Iranian and Turkish trucks or from Almaty in Kazak or Kyrghz vehicles.

2.5.3 Main Operators

The Ministry of Transport provided a list of 31 named companies of which there are known to be 11 listed as freight forwarders. On investigation it was found that the State road freight company and only three private companies move the majority of goods beyond adjoining CIS countries.

The following companies appear to be the most active:

- Bishkek Road Transport 1
- Mülitzer & Munch (M&M)
- Westra-Kyrgyz
- Victoria Art

The State road company “Bishkek Road Transport 1” controls international freight to Moscow, Poland, Turkey and Western Europe. M&M only operate as a sub office of the office in Almaty but handle some cotton exports through to Vladivostok by rail. Westra-Kyrgyz and Victoria-Art are involved in a wide range of imported products but the volumes are low.

2.5.4 Constraints to Development

The main constraint to development is the size of the market in Kyrgyzstan. Whilst there has been a substantial reduction in the volumes of international trade, the population and profile of trade would suggest that it is too small to offer significant forwarding opportunities for more than a few operators.

As part of the Customs Union with Kazakhstan, Russia and Belarus, it is easy for traders to service the Kyrgyz market via Kazakhstan. This is partly reflected in the more developed state of the forwarding market in Kazakhstan. This situation limits the potential for local forwarders, though not for transporters who are providing collection and distribution services from Almaty. Significant quantities of traffic coming from Iran and Turkey are controlled by Iranian and Turkish traders resident in the Bishkek area and therefore are routed using the transport in the country of origin.

During the initial stages of market development, staff have been leaving established companies to start up their own enterprise with little knowledge and limited finance. This is leading to a proliferation of companies that call themselves “freight forwarders” but are unable to provide a service and this leads to a bad reputation of all freight forwarders. There are indications that some customers of the freight forwarders have not been able to pay the invoices submitted and have

either forfeited some assets or paid by barter. This is not an unusual situation in the CIS but does require the forwarder to have sufficient financial strength to fund the adverse cash flow.

2.6 Tadjikistan

2.6.1 Introduction

Tadjikistan has suffered the same downturn in international trade suffered by all of the other Republics. However, the situation has deteriorated further due to the civil conflict. This particularly effects the forwarding industry in that the market is dependant on volumes of higher value traffics, such as consumer goods, which are not moving in the current adverse economic climate.

In order that any transport-related activity can succeed in Tadjikistan it is necessary to have patronage, preferably from a government department. The continuing civil unrest in the eastern and southern parts of the country is limiting the significant growth of any such transport-related business at this time.

The main exports are fresh fruit and vegetables, cotton, aluminium, dried fruit, leather and wool. The main imports, excluding fuel, are Humanitarian Aid, bauxite, grain, flour, food and drink, construction materials and clothing

2.6.2 Key Transport Routes

In this mountainous country the north/south route by road is only open in summer and easily closed by landslides and snow at other times. Access to the south is via Termez in Uzbekistan by road and rail and is open all year. Internal rail links to Dushambe from Kurgan-Tube are unreliable but the road system is adequate.

In the north the rail and road line is east/west to Uzbekistan along the Fergana valley.

Most traffic is being conveyed by rail with Russia as the main trading partner.

2.6.3 Main Operators

Four companies were identified as major road freight operators that offer limited freight forwarding services such as Tadjik Uzneshtrans, who are a subsidiary of the Uzbekistan company and Tadjik Khlopkoproms who work on cotton only.

2.6.4 Constraints to Development

The continuing civil unrest is limiting all commercial activities at present. However, it is clear that even if these are resolved the potential for forwarders may still be limited. This is because of the overall size of the market, the types of commodities and the dominant use of the rail mode. These factors tend to suggest that there is potential only for a small number of operators or, more likely, that it will be served from an adjacent developed market as is the situation in Kyrgyzstan. The forwarding market in Uzbekistan is partially developed and could serve Tadjikistan, as is evidenced by organisations such as Tadjik Uzvneshtans.

There is some evidence to suggest that the conditions for development of an independent freight forwarding sector are not yet present. The Government has significant influence on the transport sector and forwarding tends to operate to its optimum potential in relatively unregulated market environments. It is not clear how much the centralised control within the transport sector is related to the current civil situation or how much it relates to an extension of previous centralised control systems.

2.7 Turkmenistan

2.7.1 Introduction

Turkmenistan, in common with the other Republics, has experienced a significant loss in foreign trade since independence. Although the country has an important energy sector, this is not sufficiently large to support a developed forwarding sector based on exploration supplies and project cargoes.

In order that any transport related activity can succeed in Turkmenistan, it is necessary to have a license to operate. Although the cost of the licence was indicated as being a nominal fee, few companies are thought to have applied for such permits.

The main exports are cotton, natural gas and petroleum products with lower volumes of agricultural goods, carpets, fertiliser and wool. The main imports are grain, rice, chemicals, machinery and equipment.

2.7.2 Key Transport Routes

The principle route by both road and rail is the east-west corridor between Turkmenbashi and Farap (Chardzhou) passing through Ashgabat. The main benefit to Turkmenistan is that it generates transit revenue fees. The main routes used for their own imports and exports is southwards via Iran using one of the four road crossings. The new rail crossing at Sarakhs is expected to be used for both Turkmen and transit traffics because of its connection through to the port of Bandar Abbas.

2.7.3 Main Operators

The exact number of forwarders is unknown because of the lack of an effective registration system. It is known that there are relatively few forwarding organisations but these include the following:

- Turkmenvneshtrans
- Mülitzer & Munch
- Armadillo

Turkmenvnstrans is closely linked to the Foreign Economic Relations department of the Ministry of Transport. Armadillo concentrates on the energy sector and project cargoes.

2.7.4 Constraints to Development

The main constraint to development of the freight forwarding sector is the limited volume of overall trade, especially in higher values commodities. The main activity is north/south through Iran. These shipments are controlled by Iranian forwarders or transporters with some limited local representation or agency arrangements. Most of these vehicles return to Iran empty so the driver can undertake many of the necessary formalities himself. The east/west transit traffic passing along this section of the TRACECA corridor does not require significant work/revenue generation to support a resident forwarding activity.

The Government retains significant control over the transport sector, including routing control over certain traffics. Such a centrally controlled environment makes it more difficult for an independent freight forwarding sector to develop, though there is no evidence to indicate that this factor has specifically stopped forwarding organisations establishing in Turkmenistan at this stage.

2.8 Uzbekistan

2.8.1 Introduction

The levels of international trade have declined since independence due to the changing economic conditions within the CIS. However, Uzbekistan is still a major trading country and has a significant energy sector. As a result, the freight forwarding market has developed, although not to the size and range that is present in Kazakhstan.

In order that any transport-related activity can succeed in Uzbekistan, it is necessary to have patronage, preferably from a government department and, in the case of freight forwarding, a licence to operate which has to be requested from the Ministry of Foreign and Economic Relations and issued by the Cabinet of Ministers.

The main exports are cotton, motor vehicles, oil, natural gas, precious metals and agricultural goods. The main imports grain, flour, foodstuffs, consumer goods, construction materials and car parts.

2.8.2 Key Transport Routes

By rail, there are three main routes. The first is at Tchengyid in the north into Kazakhstan. This route is being used for the expanding trade through to China via Druzhba in connection with production parts coming in for the Daiwoo car factory and cotton being sent in return. The second is through to Khodchavlet on the border with Turkmenistan which is handling the cotton cargoes being sent along the TRACECA corridor to Poti. This line also connects with the Iranian rail system via the new Sarakhs link. The third is at Karakalpakia on the border with Kazakhstan and is a key route through to Russia and northern Europe.

By road, the main links are southward into Turkmenistan at Farap and northbound at Zvivek Zholy into Kazakhstan in the north. The southern route is more significant in terms of Uzbek trade, as opposed to transit traffic.

2.8.4 Main Operators

The freight forwarding market in Uzbekistan is dominated by:

- Uzveneshtrans
- Shoshtrans

Both of which are state owned organisations.

Uzvneshtrans controls the majority of export freight movements as the “national” freight forwarding organisation. Shoshtrans is a joint venture company with substantial ownership by the state railways and is tending to concentrate on the development of container traffic. Transturkiston, a joint stock company in transport and forwarding, with a major shareholding by Uzvneshtrans, is also active in warehousing and road transport.

A joint Swiss venture Cargotrans and another called Trans-Serval are also active and Mülitzer & Munch has an office in Tashkent. A further 100 companies are listed as “forwarders” but are probably better described as brokers or shipment agents to neighbouring countries by one mode of transport only.

2.8.4 Constraints to Development

Although the reduction in foreign trade following independence has affected the potential for forwarding, the main constraint is the level of independence in the freight forwarding market. The state is still dominant in both the transportation and, particularly, the forwarding sector. This situation makes it difficult for new entrants to enter the market.

A licence is required to operate a freight forwarding company and it has been suggested that this can or does act as a regulatory mechanism. The status of the non-state organisation engaged in freight forwarding is not clear and there was a reluctance amongst these operators to discuss their activities. What is clear is that the large international freight organisations are unable or feel reluctant to develop the Uzbek market, given the current levels of state intervention.

An additional factor is that traffic volumes have, or are expected, to reduce due to the current economic problems and currency restrictions. The currency regulations act as a deterrent to foreign organisations and make freight forwarding virtually impossible for non-Uzbek companies.

3. SUMMARY OF KEY PROBLEMS

The key problems which are constraining the development of an independent freight forwarding sector are as follows:

- volumes of trade
- types of traffic
- routing control
- restrictions on range of services
- state intervention
- low awareness levels

3.1 Volumes of Trade

Freight Forwarding requires substantial flows of international traffic to support an independent freight forwarding industry.

The changes from a command economy to a market economy have resulted in a major reduction in transport movements, including those involved in international trade. A major factor for this situation arising has been that the cost of transport has now to be recovered in the price of the product, whereas it was not considered relevant under the command economy. This has meant that significant sections of industry cannot produce their products at competitive world prices. This has particularly affected the manufacturing sector.

Combined with this was the break-up of the Soviet Union into independent republics. This resulted in considerable structural changes in the industrial sector, as component plants were spread over several countries. There has been a gradual trend towards centralisation of production leading to the closure of remote component plants and consequent loss of transport movements.

However, the main factor has been the overall contraction of the economy during the transition process. This has resulted in less trade and a decrease in average buying power at all levels - national, commercial and personal. This has led to a significant decrease in the total volumes of import traffics, though not necessarily in value terms.

Examples of the trade volume criteria are that the forwarding industry is most developed in the TRACECA region in those countries with most international trade, such as in Kazakhstan and Uzbekistan, and least developed in those with lower levels of trade, such as Armenia and Tajikistan.

3.2 Types of Traffic

Freight Forwarding requires a certain type of traffic mix to be able to support an independent freight forwarding industry.

As indicated in the Introduction section, a freight forwarder is an “arranger” who makes his profits out of “trading” in transportation and related resources. In order to obtain these trading margins, the product being handled must be able to support the cost of his services. Theoretically, the higher the unit value of the goods being handled the higher the potential margin. A forwarder would expect to make more profit from moving 5 tonnes of electrical goods than 100 tonnes of agricultural goods.

The changes in trade have resulted in a loss of higher value exports from the region and the predominance of lower value export goods moving in large volumes. Examples of this are cotton, steel, wheat, oil, mineral ores and agricultural products. These products have a relatively low unit value and therefore the scope for a forwarder to achieve attractive margins is limited. These goods tend to move in quantity, often using the rail system. They, therefore, represent an opportunity to a relatively small number of forwarders who can exist on low margins earned on large traffic flows. Because such traffics are either strategically important or move by rail, the forwarding is mainly channelled through state-controlled forwarding organisations. Exports, therefore, offer very limited potential for the independent sector.

The situation regarding imports has changed in recent years. Despite difficult economic conditions, there has been significant growth in the value, rather than the volume, of importation of higher value products such as consumer goods, electrical goods, machinery and equipment, luxury items and western produced food and drink. The development of the market economy has resulted in the movement of these items in quantity by road transport. This situation offers potential for forwarders to earn attractive profit margins on the movement of such traffics.

Development of the energy sector and mining also tends to attract forwarders. This is because the exploration companies expertise is in finding and extracting minerals, rather than in transport. They are therefore major users of freight forwarding organisations. They require large quantities of traffic moving within strict schedules and are prepared to pay for such service levels. It is noted that many of the established international forwarders who are present in the TRACECA

region initially came in connection with energy related work. The energy sector also tends to create wealth and, hence, greater disposable income and therefore importation of luxury and consumer goods. This enables forwarders to diversify into more general forwarding.

The major problem is that these higher value imports are not yet moving in sufficient quantity in most countries to support an independent freight forwarding sector of significant size. However these trends explain why Azerbaijan is the most developed in forwarding terms in the Caucasus and Kazakhstan in Central Asia, followed by Uzbekistan.

3.3 Routing Control

Another factor is that imports in the region are generally conducted on the basis of CIF or free-delivered terms of sale. This means that the foreign shipper is responsible for the delivery to the CIS importer. He will naturally tend to use his local freight forwarder, rather than attempting to use a forwarder in the country of destination, even if he knew of one.

Exports are normally sold on the basis of FOB or ex-works terms of trade. This means that the foreign importer is responsible for transportation from the seller to his own market. Again, he will tend to opt for a forwarder resident in his own country. The use of current terms of sale in all the countries tends to result in routing control being overseas, rather than within that Republic. This situation makes it difficult for locally based forwarders to break into the market.

3.4 Restrictions on the Range of Services

The role of a freight forwarder is to be able to offer his client an increasingly comprehensive service. In Europe, this takes the form of offering door-to-door services. In order to be able to provide such services, he has to have a developed market, whereby he can “arrange” to purchase in or sub-contract those services which he is unable to supply directly. Most major forwarders try to provide integrated services where they provide the complete movement using their own resources. This enables them to charge more competitive rates because they are earning profits on the total transaction, rather than providing profits to each of his sub-contractors undertaking activities on parts of the “logistics chain”.

The transport environment in the TRACECA region is not yet fully developed and retains many of the attitudes which were prevalent under the command economy. This is most noticeable in the form of role segregation. The “logistics chain” is broken into its specific links. A road transporter operates trucks, a customs broker clears cargo, a railway organises the movement of traffic by

rail. At this stage of development, there is a lack of integration to provide a comprehensive service or an environment in which it is easy for a freight forwarder to “arrange” that integration.

An examples of this is that most rail forwarding is arranged by the state railways, either directly or with their own forwarding organisations. It is difficult for an independent forwarder to use the rail network for movement of his traffic and obtain an adequate operating margin. This is one of the reasons for the lack of multi-modal transport services and that virtually all independent freight forwarding is uni-modal, using the road transport mode.

Another major problem is customs brokerage. In Europe, almost all forwarders are also customs brokers. This enables them to enter or clear goods on behalf of their clients. The other project reports have highlighted that Customs was the main trade facilitation problem within the region. Few forwarders in the region are also customs brokers and in some countries there are no brokerage organisations in existence. The result is that the forwarder does not control the “logistics chain” and must either sub-contract or omit this vital activity. Without forwarders being allowed to customs clearance work, they will be unable to develop international services to the standard seen in the West.

This lack of Customs/freight forwarder interface also acts as a constraint. In Europe this interface creates a basis of trust, each recognising the others role and their mutual interests. This situation does not exist in the CIS, partly due to the continuation of traditional attitudes and partly because the interface is not allowed to exist because forwarders are not customs brokers.

3.5 State Intervention

In a command economy with centralised control, all transport was undertaken by state organisations. In a market economy, transport is liberalised in order to provide a level of competition based on cost and service levels. Road transport, in particular, tends to flourish in a relatively deregulated environment, whereas it is accepted rail transport is difficult to move out of the state sector.

Forwarding is similar to road transport in that it operates most successfully in a competitive environment. This is partly because it is a trading-type activity involving the purchase and selling of transportation services to achieve a profit margin. This should not be interpreted as indicating that there should be no regulations on freight forwarding. However, they should be based on standards of service and professionalism rather than on ownership or nationality.

The old state forwarding organisations which were responsible for the arranging or transportation under the command economy still exist. In some countries their role has diminished and the work has been taken over by the private sector. However, in some Republics the state forwarding organisations still either control or have a dominant share of the freight forwarding market. Examples of this situation exist in Uzbekistan and Turkmenistan and to a lesser extent in the other Central Asian republics. Such conditions make it difficult for an independent sector to both establish and grow.

As indicated, there may be a need to register and even regulate the freight forwarding industry. The organisation usually entrusted with this task would be the Ministry of Transport, as the Government's representative. If that Ministry or the Government has a direct financial interest in one of the main operators, there is a potential conflict of interest. This can distort the market and limits competition to the detriment of the trader.

It is recognised that it is difficult to agree on how to register and regulate an industry which operates to its optimum in a liberalised environment. The determination as to the extent of the regulation is critical. Many countries have either set up or are establishing registration systems. However, the necessary legislation has not been approved to implement the concept. This leaves potential forwarders in a difficult position as they can be exposed to retrospective conditions which could be unfavourable. This creates an environment of uncertainty and restricts development by both international and national organisations. Such uncertainties exist in most of the countries in the region.

3.6 Low Awareness Levels

The freight forwarding industry is still at an early stage of development in the context of its role within a market economy as opposed to the old role with the command economy. It is clear that there is limited understanding as to what a forwarder actually does. This is apparent at both Government and trade levels.

This problem has been demonstrated by contacts made within the project and the requests for seminars to explain the role of forwarding. The difficulty in obtaining information on which forwarding organisations are operating in each country and the supply of lists, which included substantial numbers of companies who were not forwarders, confirmed the low awareness levels relating to the industry.

This is not solely an institutional problem. In discussions with forwarders, they also had difficulties in identifying their competitors. There is very limited publicity produced whereby traders know who the forwarders are and what services they offer to which destinations. It is also

difficult for overseas organisations to identify local forwarding organisations within the region. Until recently no countries were members of FIATA and there were few associate members who could have been identified as forwarders by entries in the FIATA handbook.

There has been a lack of understanding and marketing relating to the freight forwarding industry. This has constrained independent operators from entering the sector and limited traders in their use of professional forwarding services.

4. POTENTIAL SOLUTIONS AND OPPORTUNITIES

The section addresses the problems described in Section 3 and indicates possible solutions and how opportunities make exist which will benefit both operator from the independent sector and traders.

4.1 Volumes of Trade

There is evidence to suggest that the reduction in trade volumes has finished and that traffic will increase again over the next few years. This will be dependant on the economic conditions in each country and the extent of restructuring in its industrial, agricultural and services sectors. In general, however, the expectation is that there will be economic growth which will lead to increased trade, thus requiring the services of freight forwarders.

It has to be acknowledged that the level of forwarding activity is likely to support more operators and greater competition in some markets than in others. This will mean that in some Republics there will probably be potential for only a limited number of forwarding organisations, whereas in others there will be many. This should be decided on the basis of free market competition, rather than distortion by state intervention.

It may be that some of the smaller markets will continue to be serviced by forwarding organisations based in neighbouring countries, as is currently happening in Kyrghyzstan and Tadjikistan. This is not an adverse situation since it enables levels of service to be offered which could not be justified on the basis of that market alone. The development of common trading areas may well increase the potential for adopting such forwarding strategies by operators. Similar conditions exist in Europe where forwarders do not necessarily have a presence in each country but supply through their organisations in the neighbouring state.

4.2 Types of Traffic

The projected improvement in economic conditions in the region is expected to result in increased buying power, thus generating flows of the types of traffic attracted to the forwarding industry. This will result in an increase in the higher unit value products on which forwarders can earn attractive operating margins. The majority of this traffic is expected to be carried by road transport, which is the modal sector where forwarders are most active.

Restructuring of the industrial sector is eventually expected to result in the production of higher quality products being manufactured within the region. Current examples of this are the clothing industry in Turkmenistan and car manufacture in Uzbekistan. This will provide traffic which will

require the service levels which a professional forwarder can give and are again likely to be attracted to the road, rather than the rail mode. The generation of higher value exports could provide an operating base for national forwarders, subject to the terms of sale.

4.3 Routing Control

The ability to consider altering the trading terms will be possible as the transport infrastructure develops and economic conditions improve. The development of a professional forwarding industry is critical to this process as the current terms of sale reflect the degree of risk attached to trading.

One of the reasons for FOB selling by CIS countries is the uncertainty of transport costs between the seller and a transport environment where the purchaser considers he has sufficient cost control to be able to calculate the final delivered cost. The purchaser offers a lower cost because he has the costs from FOB to his point of sale. However, if forwarders can provide fixed cost reliable services then the seller may have sufficient confidence to sell CIF or Free Delivered, thus earning extra sale value. Most export sales in developed countries are now CIF or Free Delivered. The presence of reliable international forwarders in the country of origin is a significant factor in the predominance of CIF as a selling terms for shipments into the region. This situation could apply in reverse if CIS exporters had access to a professional forwarding industry they would have the sufficient confidence to examine the use of more advantageous selling systems.

A professional independent freight forwarding industry can offer traders more flexibility in the way that they trade by being able to provide services which can be costed accurately, thus reducing the need to rely on more conservative terms to minimise risks. This would result in an increase in routing control within the CIS countries, thus creating more opportunities for locally-based forwarding organisations.

4.4 Restrictions on the Range of Services

The restrictions on the range of services fall into two categories. Firstly those which are not offered due to lack of expertise and those which are due to legislation or past practices.

National forwarding companies are currently limiting the range of services offered because of the current underdevelopment of the industry. Many forwarders only arrange the international transport and are therefore acting as a booking department for the road transporter. As the market develops, they will gain sufficient expertise and confidence to extend their responsibilities along more of the “logistics chain” to be able to offer their clients a more comprehensive service.

It is essential that international companies who already have that expertise are given the freedom to establish forwarding operations. Not only are they able to offer more comprehensive services initially than local companies but they act as the training area for local companies giving staff exposure to the international environment. It is well known that staff move from company to company and through this system the overall standard of the industry benefits. They can provide the competitive element and knowledge to ensure that local forwarders develop their range of services.

Given the current problems of routing control, the main opportunity for the national forwarders is to establish joint ventures with or act as representatives of the international forwarding organisations. The advantages of this are that it enables them to offer a wider range of services to clients in their own country than would be possible with their own limited resources. Forwarding is largely dependant on an effective agency network to process cargo on behalf of forwarders in other countries. In the short term, there are also cash flow problems due to traders have problems in immediate access to cash. In an environment based on cash rather than credit, forwarders are increasingly being forced to provide credit facilities. This can act as a deterrent to entry for the smaller organisations. Linkage with a larger overseas organisation can assist in alleviating this problem. It is important that the industry develops and whether this is initially through joint ventures or representation or local ownership is not important. The market is unlikely to develop and mature purely on the basis of local ownership because of the lack of expertise and resources.

It is recognised that the railways will continue to be dominated by the national state rail forwarding organisations. This is understandable based on their historical role and is aligned with the concept of being able to offer integrated services. The general trend towards the movement of higher unit value goods moving by road and the high volume low value goods moving by rail, as seen in Europe, is already taking place in the region. It is clear that the movement of such large volume rail traffics offers limited opportunities to the forwarding industry as a whole. However, it is important is that independent forwarders who mainly operate using the road sector are also able to consider the use the rail mode and earn some margin or commission. This is particularly important if multi-modal services are to be developed.

It is considered critical that forwarders are allowed to become licensed customs brokers. As indicated in previous reports, it is essential that the licensing system is agreed and implemented. The current system of direct Customs/trader interface results in cargo delays due to high documentation error rates and increases the potential risk of unofficial payments. It is considered that all the major forwarders should be allowed to act as brokers, though brokering should not be limited only to forwarders. This should include resident international forwarding organisations as well as locally owned companies - i.e. the allocation of licences should be non-discriminatory. This would be a significant move towards the ability of forwarders to be able to offer the door-to-door services preferred by many traders.

4.5 State Intervention

Legislation is required to formalise the status of the freight forwarding industry. The current uncertainty in many countries is acting as a deterrent to development. Foreign companies are unsure of their legal and financial position and local organisations are also nervous about investing in such an environment. The situation needs to be clarified in order to attract forwarders into the market.

It is generally accepted that there should probably be some form of licensing system, similar to customs brokering. However, this licensing should be based on quality issues such as competence, financial stability, facilities etc. and not be based on nationality or personal contacts i.e. non discriminatory. The TRACECA Legal Project will be preparing model draft legislation for the forwarding industry as part of their programme.

It is not considered that the dominance of the state forwarding industry is sustainable in the long term and in the best interests of the user. This is because it maintains the situation of state control over the forwarding environment and therefore limits competition and choice. As indicated, freight forwarding operates best in a competitive environment. Many of the state forwarding organisations have become more “customer-oriented” and have adapted significantly in response to the market environment. However, it is considered that they should be capable of operating in a free market situation based on the price and quality of services and should not require protection. This situation is particularly relevant to Central Asia. Both international forwarders and local entrepreneurs are only likely to invest in the region if a free market situation exists.

4.6 Low Awareness Levels

An independent freight forwarding industry needs to be able to market its services. It is clear that although operators market to their direct clients, there is limited knowledge as to the functions and services of the industry as a whole.

As part of this project, training seminars on forwarding have been provided in a number of countries. This has been directed at two main groups. The first is the Ministry of Transport (or its equivalent) to inform them of what forwarders do, how they do it and what are their future needs. This will enable them to have an outline understanding of the industry. This will be particularly important if they become the industry regulator. There is now a greater understanding of the industry at Government level than before the project. The second group was the local forwarding industry. In many cases, forwarding companies have been established to fulfil a specific requirement or “niche” market, such as project cargoes, oil equipment etc. Under such conditions they have developed an activity in isolation and have limited knowledge or exposure to the world

forwarding market and how the industry is developing internationally. The seminars have enabled them to gain an understanding of the wider opportunities, as well as meet with their competitors. Samples of the material used are shown in Appendix 1.

All freight forwarders should be trained in the skills of their profession. They may even be required to join a recognised association that requires such standards to be maintained in order to retain membership. Assistance in providing training based on a “train the trainer” concept could be provided through further TACIS programmes run in conjunction with FIATA.

The project has also promoted the development of Freight Forwarding Associations (FFA). This is discussed in detail in the Trade Facilitation Institutions report. It is considered essential that the industry has an association which promotes the interests of the industry as a whole. The marketing of the industry to raise awareness levels on a national basis is a key function of such an association. Some FFA have already been established (Uzbekistan) and others are in the process of formation (Azerbaijan, Georgia, Kazakhstan). Membership of international organisations such as FIATA will increase the international status of the national forwarding sector and assist in establishing the international contacts which are so vital to increasing the range of services a forwarder can offer.

The programme of training seminars, formation of Freight Forwarding Associations and assistance on entry to FIATA will continue through 1997.

Appendix

1

Services of a Freight Forwarder

SERVICES OF A FREIGHT FORWARDER

WHAT IS A FREIGHT FORWARDER?

In simple terms:

A freight forwarder is a company involved in the international movement of goods on behalf of another company or person.

This definition is not enough on its own as a freight forwarder's business is difficult to define accurately without further expansion.

WHAT DOES A FREIGHT FORWARDER DO?

The freight forwarder provides services in two main fields.

- Moving goods out of a country on behalf of exporters or shippers. In such cases a forwarder may also be referred to as an Export Freight Agent.
- Bringing goods into the country on behalf of importers. Forwarders may then be referred to as Import Freight Agents, Customs Clearance Agents or Customs Brokers.

A freight forwarder therefore may be employed by an importer or exporter to act on his behalf to move goods into and out of the country, and he will receive payment for this service. In the past freight forwarders (particularly in the UK) were known as Shipping and Forwarding Agents.

This resulted from the fact that some were originally ship's agents who, in addition, provided forwarding service. A ship's agent acts on behalf of a shipping company obtaining freight for a particular ship or voyage. Some forwarders still provide this service.

In addition, some companies operating principally as ships' agents provide a forwarding service. The word "agent" has also become outmoded because many freight forwarders now offer their own international road and container groupage services to overseas destinations.

The freight forwarder also provides a consultative service. Today, in Europe, there is a tendency for trading companies to concentrate their efforts on their core business function while subcontracting ancillary services to others. Whenever goods move there is a need for transport expertise. In the past this had tended to be fragmented with different companies providing the various elements of an international movement. This can create weaknesses in the supply chain, undermining the overall quality of the product from seller to buyer.

Many freight forwarders have been able to identify this on behalf of their customers and most offer a total logistics or distribution facility from production line to consumer, including “just in time” techniques, packaging, warehousing, stock control, delivery and re-ordering.

The term freight forwarder is still applied to the majority of companies including shipping lines, international road haulage companies, airlines and integrated carriers. These are all businesses offering differing services related to forwarding. What these services consist of will vary considerably and for clarity, it will be necessary to consider the import and export functions separately.

EXPORT

The freight forwarders’ services will include, but not necessarily be limited to, the following:

- **EXPERT ADVICE:** The forwarder’s experience will qualify him to provide advice to the exporter on the best routing (cheapest, quickest, safest) according to his requirements. This will include consideration of the best mode of transport (air, sea, rail or road). Coupled with this will be the type of packaging required for the mode of transport used. In addition, the freight forwarder will have specialist knowledge of the regulations which apply in the country of destination, their own country and any country they transit.

The forwarder will be able to make price comparisons of services over a particular route and advise the exporter of the options available for the shipment of his goods. In short, the forwarder has to ensure that he has all the information he needs to quote successfully for the enquiry he receives based on his assessment of the optimum combination of speed and cost and to be able to give an exporter all the necessary advice to enable him to document his consignment correctly.

- **ARRANGE TRANSPORTATION:** The freight forwarder is the link between the exporter and the buyer. He may be contracted to work for either and his key function will be to arrange for the movement of the goods between the two. He will book space on the ship, aircraft or other transport unit, call forward the goods at the appropriate time or collect them himself. He will liaise with his agent overseas to co-ordinate delivery to the buyer. His actions may be governed by the method of transportation chosen.
- **DOCUMENTATION:** In all international trade there are documents to be prepared. A freight forwarder involved in either preparing these himself or giving advice to the exporter on those documents which he must prepare. The current trend is to reduce the number of documents required. In Europe, with the development of a frontier free Europe, trade between the EU states should become much simpler with the abolition of customs borders. In addition, the growth of Electronic Data Interchange (EDI) further reduces the need to prepare documents. Instead, information will be transmitted down telephone lines and via satellite. In the UK, BIFA has developed and launched a dedicated EDI service for the forwarding industry.

- **HM CUSTOMS AND EXCISE:** In the UK under the provisions of the Customs and Excise Management Act 1979 as amended by the Finance Acts of 1981 and 1984 and European Community legislation, exporters have a legal responsibility to declare and record all goods which are exported. This is referred to as ‘making an entry’.

The preparation of export (and import) entries represents an important part of the forwarder’s function. Since 1st January 1993 this function is not required for goods moving to and from the EU, although there are other procedures which may require the forwarder’s involvement, for example, the collection, preparation and submission of statistical information.

Goods exported to Third Countries (all countries outside the EU) are still subject to Customs controls although systems are being simplified.

- **PAYMENT OF FREIGHT AND OTHER CHARGES:** When a normal trading relationship has been established between the forwarder and exporter the forwarder will accept all charges on behalf of his client. Thus an exporter requiring the services of airlines, shipping companies and numerous other transportation and handling organisations *will only receive one invoice via his forwarder*. In addition, the forwarder may pass on credit facilities which the client might otherwise not command. The forwarder may also be able to arrange for Cash on Delivery terms through his overseas agents.
- **PACKING AND WAREHOUSING:** The packing of goods for export is a precise science taking into consideration the requirement for the protection of the products together with the risks involved in the handling of goods and the methods of transportation being used. Included in this equation would be the climates of the countries through which the consignments will be travelling and the terrain. Too much heavy packing could be costly for goods travelling by air for example. On the other hand, too little packing might be false economy. Many forwarders provide a packing service for their clients and their expertise can save a client a good deal of money. Warehousing and allied functions, such as stock control, can often be of value to the exporter who has limited space of his own. Whether temporary or longer term, the forwarder will normally be able to provide this facility for his client.
- **ARRANGE INSURANCE:** Insurance plays an important part in international trade. Goods in transit are exposed to many risks and hazards. The prudent exporter will always make sure his consignments are insured against these risks. Professional risk takers, known as underwriters, accept possible financial losses involved on payment of a premium, subject to certain terms and conditions. Cargo insurance can be complex and the forwarder will have expert knowledge on this subject, relieving the exporter of the burden of acquiring this knowledge himself. A trader will be able to get advice on the risks involved and the type of policy he will require. Many forwarders have excellent insurance terms and offer the facility of ‘open policy’, that is to say, cover for all exports rather than on an individual consignment basis. In the event of a loss or damage, the forwarder is able to assist with the claim reports, communications with insurance companies and the various parties, thus expediting settlement.

- **CONSOLIDATION, GROUPAGE AND SPECIAL SERVICES:** One of the main advantages in using a freight forwarder lies in his ability to group together consignments from several exporters and present them to a shipping company or airline as a single large consignment. In this way the forwarder can obtain a much cheaper rate than an individual exporter and be able to offer his client a competitive tariff for a small consignment. The principle of consolidation also enables the forwarder to offer added value to his service. For example, a forwarder consolidating cargo in one country will despatch his full load to his agent in the destination country. The destination agent will de-consolidate, customs clear and deliver to the final consignee. In addition to providing a complete door to door service.
- **PAYMENT OF FREIGHT AND OTHER CHARGES:** When a normal trading relationship has been established between the forwarder and the exporter, the forwarder will accept all charges, the forwarder may be able to hold consignments at destination prior to delivery to await payment from the importer. This gives an element of security to the exporter, whilst minimising delay in delivery. Consolidation is a term normally applied to air freight whilst for surface freight the system is known as groupage. The forwarder could be acting on behalf of an importer or exporter. In the former case, the buyer at destination may use the forwarder to collect goods from many different suppliers in the country of export, thus avoiding the need to employ a purchasing agency for this purpose.

IMPORT:

Before an import takes place a forwarder may well be asked for advice on routing and modes of transport. However, the main function is to obtain clearance of the goods through Customs and to deliver them to the importer. Because of this deep involvement with Customs, the freight forwarder is often referred to as a Customs Agent or Broker. Naturally, some of the functions are similar to those carried out at export, but in reverse order. Those set out below are not necessarily in the order in which they occur, but are intended to give an insight into the forwarder's involvement.

- **NOTIFICATION OF ARRIVAL:** Notification of the arrival of goods will initially be given by the carrier. That is to say the airline, shipping line or transport operator. The notification will be given to the addressee on the consignment note which may be the importer himself or the forwarder. The latter will certainly be the case with groupage traffic. In this instance the forwarder's immediate responsibility is to advise the importer and request instructions. Those instructions may ask the forwarder to pass the documents to the importer's own agent or he may ask the forwarder to clear the goods himself. In either case, the forwarder will request certain information and documents in order to proceed.
- **CUSTOMS CLEARANCER:** As with exports where goods leaving the country must be recorded, so there is a legal requirement for all goods entering the country to be declared in full detail, on the correct form, to a Customs Officer. In the UK, in most cases, the entry to Customs will be on the SAD (Single Administrative Document) but there are occasions when

another document will be required and the forwarder will advise the use of the correct form accordingly. With effect from 1.1.93, goods emanating from European Community countries are subject to new, simpler procedures following the elimination of internal frontiers. UK Customs have the responsibility to the British Parliament for collecting import duties and other charges in accordance with the law.

The rates of duty are fixed according to the item involved, its origin and intended use. A full list of goods, with their various rates are included and itemised in an official publication known as the Customs Tariff. UK Customs clearance is now almost entirely electronically controlled via direct links by computer through a DTI (Direct Trader Input) facility connected to the central Customs computer and most forwarders can access a DTI link on their own in-house computer system.

- **PAYMENT OF VAT, DUTY, FREIGHT AND OTHER CHARGES:** One of the major benefits for a trader using a forwarder is the forwarder's ability to co-ordinate the payment of the various elements involved at the time of importation. *This may avoid a trader having to organise his own bank guarantees for payments* or establish separate accounts with carriers, ports and clearance depots. This will certainly avoid delays in the clearance and delivery procedure. Such delays can be costly not only in terms of saving on items such as quay rent or container hire, but also in ensuring that urgent goods reach the production line or consumer with the minimum of delay.
- **DELIVERY TO THE IMPORTER:** Once goods are cleared and available for delivery, the forwarder will arrange collection from the port, airport or ICD (Inland Clearance Depot) and deliver as instructed by his client. The forwarder is likely to be doing this on behalf of many firms so this is going to be far more economical for the importer who may only have one consignment to collect.
- **BREAKING BULK AND DISTRIBUTION:** At importation a forwarder may not necessarily handle all the goods which arrive in his name as part of a groupage load or an air consolidation. His responsibility may end when he has notified importers or other agents that the goods have arrived, although he may well have to collect freight or other charges on behalf of the shipper. Distribution is another value added service offered by many forwarders to importers, including warehousing, storage, stock control and breaking bulk loads down for individual delivery.

In the UK during 1996 HMC will begin introducing audit based customs clearance procedures. Currently all customs clearance is transaction based, i.e. an individual entry for each consignment. In the future, it is intended that a trader or his agent will be able to submit a monthly return detailing all imports and paying the correct amount of duty and taxes.

By way of introduction to the scheme, some forwarders have been granted Enhanced Remote Transit Shed (ERTS) status. This enables them to transfer goods from the port of entry immediately on arrival to their own private facility where the function of customs clearance will take place.

It is important to appreciate that there are numerous functions and variations of those quoted so far which the forwarder can undertake both at import or export. The outline of these functions included here are simply examples to show the type of services offered and the involvement of the freight forwarder operating from the UK.

FREIGHT FORWARDING SERVICES

So far the main activities of freight forwarders have been examined but for clarity the key aspects of air and surface transportation modes, documentation, consolidation and groupage services and import/export Customs operations will be examined in more detail.

AIR TRANSPORTATION: Freight is carried by the world's airlines in a number of different ways:-

- (a) **Scheduled passenger aircraft** - Most passenger aircraft will have a freight capacity, although in the event of competition for space, the passenger will receive priority.
- (b) **Combi's** - The modern generation of jets are designed to allow a more flexible use of space combining freight and passengers to market demands.
- (c) **Freighters** - Many of the world's major airlines offer all cargo flights.
- (d) **Chartered aircraft** - Specially dedicated flights for specific cargo requirements.
- (e) **Road Transport** - Largely used on European routes where the speed and efficiency of road transport improves on scheduled flight times. In such cases, airlines will issue flight numbers and airwaybills as for flown cargo.

SURFACE TRANSPORTATION: Although most goods leaving the UK have to negotiate a sea leg, the freight forwarder's expertise has developed through transport involving a combination of different transport modes.

- (a) **Conventional Shipping** - Otherwise known as break-bulk shipping, simply involves the loading of cargo into the ship's hold for shipment to a foreign port.
- (b) **Containers** - Large metal containers ranging from 20-40 feet in length, normally loaded at the shipper's premises inland, sealed and delivered by road or rail to the ship. Often this will be a purpose built container vessel designed to carry many hundreds of containers for delivery to a foreign port where they will be discharged to an inland location before unloading.
- (c) **Road Transport** - The introduction of cross channel ferries enabled the development of road transport as a means of delivering goods overseas. Driving on and off the ferries, vehicles fully loaded with cargo can deliver to any road connected destination. International agreements for approved vehicles allow frontier crossing without detailed examination of goods.

(d) **Rail** - Able to carry containers as well as moving cargo in rail freight wagons, the railways can move cargo effectively over long distances. Transferry services across the English channel, link with the European networks to provide through services where track gauges are compatible. Having declined as a mode of transport in recent years, rail is likely to become more popular again with the opening of the Channel Tunnel between England and France.

(e) **Specialist Equipment** - In all modes of transport, provision is made for specialist equipment requirements. This may be for refrigerated cargoes, bulk liquids or abnormal load sizes.

DOCUMENTATION: All international trade involves the completion of documentation and the freight forwarder is able, in the majority of cases, to shoulder this burden on behalf of the importer and exporter. Entire books have been written on this subject alone, but they can be categorised under three main headings:

(a) **Documents supporting the movement of the cargo.** These include bills of lading for goods moving by sea, the airwaybill for aircargo, the CMR for road and the rail consignment note. In addition to these there are various shipping notes, certificates of shipment, notices of arrival and specialist documents for the carriage of hazardous or high value goods.

(b) **Commercial documents.** These will include certificates of origin, consular documentation, insurance certificates, packing lists etc.

(c) **Customs documentation.** His detailed knowledge of Customs and the required documentation makes the freight forwarder an indispensable asset to the importer and exporter. As previously stated, the legal requirements involved make it vital that the relevant paperwork is correctly completed.

CONSOLIDATION: Also known as groupage, this aspect of the forwarder's service can result in considerable savings for the trader and is offered for most methods of transportation.

(a) **Air Consolidation:** The forwarder will present to the airline a single consignment covered by a Master Airwaybill (MAWB). This consignment will likely be made up of a number of small shipments from individual traders to whom the forwarder will issue his own House Airwaybills (HAWB). The forwarder will pay a rate per kilo to the airline based on the complete consignment. The exporter will benefit from the reduced weight rate even though his individual consignment may be quite small. Air containers known as unit load devices (ULD) are often used for this purpose.

(b) **Surface Groupage** is the equivalent to consolidation by air. It can be offered for containers, road and rail freight as well as for conventional shipping. The principle is the same as for air with forwarder's bills of lading or forwarder's certificates acting as the key documents.

CUSTOMS BROKING: There are two quite distinct Customs activities involving the separate requirements for goods being imported and those being exported.

1. Export: The preparation of Customs documentation at export (and import) is known as “making an entry”. The entry prepared by the forwarder is presented to HM Customs in the UK and has two functions. Firstly it is an examination and control documents and secondly a statistical record. The basic document used for this declaration is the Single Administrative Document (SAD).

- (a) Pre-entry. The normal system is to present consignment details on the SAD before goods are despatched.
- (b) Post-entry. If the forwarder is registered for what is known as the Simplified Clearance Procedure (SCP) a post entry can be made for the majority of goods.
- (c) Forwarders Local Export Control (FLEC). Until recently goods and Customs documents had to be made available to Customs at the port of export. A limited number of forwarders now have approval from HM Customs to present at their own premises.

2. Import: Customs clearance at import is far more complex than for export. HM Customs in the UK have a responsibility to the British Parliament for collecting Customs duties and other charges.

Rates of duty are fixed according to commodity, origin and use. A listing of goods with their rates is included and itemised in an official publication known as the Customs Tariff. This is a three volume document based on the Harmonised System (HS) containing almost 15,000 headings. The HS headings are recognised in most of the countries of the world through Customs Tariff Code Numbers. The real expertise of the forwarder is displayed in his reading and interpretation of the tariff. By questioning the importer and examining invoices and other documents the forwarder will be able to decide on the correct tariff heading. At the same time he must establish the reason for importation which may include

- * Home Use
- * Re-imports
- * Temporary importation
- * Goods in transit

As with exports, import entries are mostly made on the Single Administrative Document (SAD). It is vital that a correct declaration is made in accordance with the Customs Procedure Code (CPC). Failure to make the correct entry could result in fines from Customs and it is in this area that the forwarder’s expertise is so highly valued.

(a) Import Duty: Not every item which is imported is liable to duty. Certain goods are classified “Free of Duty”. Where duty is payable the forwarder generally pays this to HM Customs on the importer’s behalf. Customs are not prepared to accept cheques from importers or

other traders without formal bank guarantees. The forwarder will normally provide this service on his own guarantee on the understanding that he is paid immediately.

(b) VAT: VAT is payable at the time of importation although traders registered for VAT can obtain deferment against guarantee. Most forwarders have their own guarantee and this is often offered to importers as an added service or for expediency to speed up the clearance process.

(c) Enhanced Remote Transit Sheds (ERTS): Traditionally Customs clearance has taken place at a frontier port or airport or an Inland Clearance Depot (ICD) designated by HMC. In 1993 the ERTS concept was introduced to allow forwarders to transfer goods arriving at UK ports and airports to their own premises from where a customs entry was lodged with the local Entry Processing Unit (EPU). Consignments requiring examination by Customs staff will be held at the ERTS for this purpose prior to release by HMC. This facility considerably speeds up the customs clearance process.

In Europe the 1990's has seen the introduction of the Single European Market (SEM). A frontier free trading block aimed at reducing the burdens on business and the encouragement of trade. HM Customs (HMC) has come to realise that they can maintain an acceptable level of control of goods leaving or entering the UK without hindering commercial activity. The need to speed the movement of goods between seller and buyer means inventing new systems and ways of doing things.

CHIEF (Customs Handling of Import/Export Freight) is HMC's new central computer which handles customs entry presentation among other tasks. This is carried out electronically ensuring the minimum intervention in the transport chain.

Later in the decade, following a study known as the Customs Freight Business Review (CFBR), customs clearance will be available on an audit basis. That is to say instead of submitting a customs entry for every consignment at it arrives at the frontier, a trader or his agent will be able to lodge a monthly return. The key to this facilitation *is the ability to communicate with Customs by electronic means and only those who have the technology to achieve this* are able to benefit from the Simplified Procedures.

WHO ARE THE FREIGHT FORWARDERS?

There are probably over two thousand companies operating as freight forwarders in the UK. They will vary considerably in size and composition as well as providing a very diverse range of services. The British International Freight Association (BIFA) has in excess of 1,000 members accounting for over 85% of all business handled by freight forwarders in the UK.

The types of company can be roughly divided into three:

Local Companies - These are small single office firms which tend to deal with clients in their immediate local area or operate at a sea or airport concentrating on particular types of traffic.

National Companies - Many forwarders have offices in the major ports and airports throughout the country as well as in the largest industrial towns. They may also have warehousing or handling depots from where they operate their own services. Such companies will often have agents or correspondents overseas in the markets with which they trade.

International Companies - The truly international company will have its own offices overseas and offer a wide range of world-wide services.

There are no hard and fast rules about the way in which a particular company is organised and there will be considerable overlap between the types. Neither should size be considered as a criterion for measuring the standard of service. The industry is made up of many specialisations and those interested in using a freight forwarder or working in the forwarding profession will find that there is an enormous range of firms to choose from. The business of choosing a freight forwarder is covered in a later section.

There is no such thing as a typical freight forwarding company. Each company provides services in accordance with the needs of its clients and as with any business these will change with the demands of the market.

WHAT DOES A FREIGHT FORWARDER OFFER?

Freight forwarding is a service industry and all services have to be paid for. A large part of the forwarder's income derives from the provision of services to importers and exporters. This may be in the form of an agency fee, plus specific charges for individual tasks, such as the preparation of documentation. In some cases a commission may be earned from a carrier as a result of benefits carriers enjoy from the forwarder's business.

In the UK it is not compulsory for importers and exporters to utilise a forwarder. It is possible to deal with carriers and HM Customs. The fact that most do use a forwarder's services in some form or other is indicative of the high value placed on the role played by forwarders in international trade.

Experience in this context is a very valuable commodity and the potential for expensive mistakes on the part of the trader is substantial, compared with the cost of a forwarder's services.

Add to this the savings to be gained through the use of consolidation services and better utilisation of a trader's own resources and it can be seen that very often the overall cost of using a forwarder is less than the cost of doing it oneself.

There are other benefits perhaps more difficult to quantify but important nonetheless. For the exporter there is, through the medium of a single contract, a complete choice of transport modes

and ancillary services with up-to-date information on the best rates, routes and services available. The ability to transfer cargo from one mode of transport to another during a journey can also offer savings and knowledge of local conditions in different countries is invaluable in such cases.

The forwarder, through his network of contacts, has this information available at all times. This would be extremely difficult for an individual exporter to duplicate and, even if he did, it would be very time consuming. *The forwarder's services enable the exporter to concentrate on the task he is best at, i.e. the manufacture and sale of his product.*

For the importers, goods arriving sometimes unannounced or improperly documented can be a nightmare and potentially involve substantial financial obligation for Customs duty, VAT and storage charges. Cargo movement does not respect the office hours of individual companies so it is vital that someone is on hand at the port of entry or other location to ensure that any errors are put right with the minimum of delay.

This often involves personal contact between individual Customs officers and forwarders, as well as detailed knowledge not available to the importer. The ability to react quickly and to pay out moneys due on behalf of an importer can save many hours and avoid unnecessary additional costs.

It is not only the trader who benefits from using a freight forwarder. There are also advantages for the carriers. For example, if there were no freight forwarders at all, each carrier would have to deal with thousands of individual shippers, many with very little experience. Directing their publicity to all these firms would be a mammoth task. Instead a carrier can deal with perhaps a few hundred forwarders, have consignments delivered to him in bulk, correctly documented, labelled and ready for shipment.

The forwarder's activities and networks are designed to provide just this type of service, whereas the carrier, whether air or surface, simply does not have the resources to cope with this. It can be seen, therefore, that there are both marketing and operational advantages to the carrier when dealing with the forwarders.

In the UK, HM Customs and Excise also derives some advantage from the intervention of the freight forwarder. A special relationship exists between the forwarder and HMC involving a mutual trust and understanding of each others problems. There is a continuous consultation process which is beneficial to both Customs and the forwarding community, allowing as it does for better communication and dissemination of information.

CHOOSING THE RIGHT FREIGHT FORWARDER

It has been identified that there are a very wide range of freight forwarders in terms of size, services offered and geographical territories covered. Finding the right company may not be an easy task. It is very much a question of matching needs with that which is on offer. Fortunately, where a Professional Freight Forwarders Association exists the choice is made much easier as it

will have set out certain criteria for its members and laid down a code of conduct by which it expects them to operate.

Traders need to know **whom they can trust** with their freight. The answer, in the UK, is to look for the forwarder's registered number. This means that the company is a member of the Association. It means reliability, financial stability and professionalism. The Association demands that its members adopt **its Standard Trading Conditions** designed to protect forwarders and their customers in a contractual relationship. It requires them to have adequate liability insurance cover, to employ an appropriate number of professionally qualified staff, to adopt the Code of Conduct and to comply with the legal requirements of the British Registrar of Companies.

