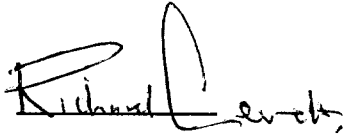


TRACECA: Trade Facilitation,
Customs Procedures & Freight
Forwarding Project - Uzbekistan
Cotton Extension

Completion Report

July 1997

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 : July 1997

Name of report: Uzbekistan Cotton
Completion Report

Reporting period : May 1997 - July 1997

Author of report : A Bayley & R Levett

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TACIS Bureau [task manager]	_____	_____	_____
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1. PROJECT SYNOPSIS

Wider Objectives: To promote a transport corridor between Europe and the Caucasus/Central Asia through greater regional harmonisation and integration with international transport & trade practices and to promote the movement of traffic along that corridor.

Specific Project Objectives: To provide technical assistance to the Government of Uzbekistan on the movement of cotton along the TRACECA corridor in respect of Presidential Decree No 194 of 31st May 1996 to ship cotton fibre through the Georgian ports. To provide technical assistance to promote the use of multi-modal transport systems for cotton traffic along the TRACECA corridor and to enhance logistical performance to make the route competitive. To monitor and promote the implementation of specific recommendations made during the Trade Facilitation, Customs Procedures and Freight Forwarding Project.

Outputs:

- the establishment of a Transport Commission for Cotton to facilitate the development of cotton logistics
- a European Market Survey identifying the existing cotton market from an international perspective
- an Uzbekistan Market Survey identifying current logistical systems used in connection with the export of cotton and market views from an Uzbek perspective
- the monitoring of logistics on cotton shipments routed via the TRACECA corridor
- an appraisal of potential investments to enhance movement of cotton along the TRACECA corridor
- a Technical Report on the potential containerisation of cotton
- a Cost Benefit Study on the use of conventional and unitised logistical systems for the shipment of cotton on each of the different routing options
- the formation of Freight Forwarding Associations
- information on implementation of Trade Facilitation Project recommendations

Target Group: The immediate target group for the cotton extension is the Transport Commission for Cotton and, through them, to the Governments of Uzbekistan and Georgia and those organisations involved in the movement of cotton from Uzbekistan. In respect of the Trade Facilitation, the target groups are the freight forwarders, State Customs and the Ministries of Transport.

Inputs: Technical assistance will include 3 man months of long term experts and 104 man days of short term experts in different specialities.

2. SUMMARY OF PROJECT PROGRESS

Following an exchange of letters with the TRACECA management and issuing of a draft Terms of Reference published in the Multi-Modal Project Progress Report, a technical assistance programme was agreed. The project was confirmed and commenced late October 1996. Phase 1 consisted of two key elements:

- **A Market Appraisal.** Two surveys were to be conducted in parallel, one in Europe studying the European market and its perspectives and the other in Uzbekistan studying the current market situation from an Uzbek perspective. The objective of the appraisal was to provide a clearer understanding of the current environment and to identify the specific needs of the technical assistance programme. These surveys were undertaken in November and December and the survey results were published in a report "Transportation of Uzbekistan Cotton - a Profile" which was published in January 1997 in English and Russian.
- **Establishment of a Transport Commission (or Shipment Task Force)-** to facilitate the development of cotton shipments along the TRACECA corridor. Following a formal approach through TACIS to the Government, the Commission to co-ordinate and develop this programme was agreed to be formed by the Cabinet of Ministers on 1st November 1996 and the membership was confirmed at the end of November with an inaugural meeting in December.

The Market Appraisal Report was initially intended to be produced by the Transport Commission but due to the lead time necessary to form the Commission, it was agreed that the Consultant would issue the report on behalf of the Commission to its members and other interested parties. The report was well received and widely circulated, especially in Uzbekistan, as it provided a comprehensive picture as to the existing market.

The report highlighted significant changes in the original perceptions as to the requirements of the technical assistance. It was clear that current selling methods were not conducive to the use of container shipments on a door-to-door basis and that there was limited demand for the development of such multi-modal systems by either buyers or sellers in the short term, using either the TRACECA corridor or alternative corridors. The report also indicated the constraints, both physical and psychological, in using the port of Poti and of difficulties in the cotton classification methodology.

The report recommended a re-focusing of the programme placing greater emphasis on improving existing transport systems and lowering the emphasis on containerisation. This change required the approval of the Transport Commission but final approval to proceed with Phases 2/3 of the programme was only agreed at the meeting of the Cotton Commission on the 12th May 1997.

The Project Specialists split into two teams, one covering the Caucasus and the other Uzbekistan. They concentrated on evaluating the changes that had taken place since the project had commenced and noted the improvements achieved, especially within Georgia. Visits were made to Poti in May and June to discuss port logistics and possible investment requirements to facilitate the cotton traffic. The other team concentrated on the logistics within Uzbekistan, especially on the systems and the containerisation of the Daewoo cotton and on the projected equipment investment in consolidation warehousing. A cost benefit appraisal was also undertaken on containerising the westbound shipments.

The Trade Facilitation project implementation programme concentrated on the formation of Freight Forwarding Associations. Visits were made with the President of FIATA to Georgia, Azerbaijan,

Kazakhstan, Kyrgyzstan and Uzbekistan, with Associations being formed in Georgia and Kazakhstan and Steering Committees in Azerbaijan and Kyrgyzstan. Uzbekistan already has an Association. In addition discussions were held with ex-members of the National Trade Task Forces (NTTF) to ascertain progress on implementation of the project recommendations.

3. PROJECT PROGRESS IN FINAL PROJECT PERIOD

PROJECT STRATEGY

The project strategy to be undertaken in the final reporting period for the Cotton Extension of the Trade Facilitation Project was to combine the principle activities relating to the development of the Cotton Extension outputs with the supplementary monitoring of the implementation of the Trade Facilitation recommendations. This enabled the best utilisation to be made of the resources and minimised the logistical problems.

It was also decided to undertake the Trade Facilitation follow-up work in co-ordination with the TRACECA Legal Framework Project. This was to be accomplished through joint visits and presentations in relation to recommendations on trade documentation and the formation of Freight Forwarding Associations.

The Cotton Extension project team was divided to undertake the key tasks:

- the **Team Leader concentrated on the logistics and infrastructure in the Caucasus;**
- the **Regional Co-ordinator concentrated on the logistics in the Central Asia;**
- the **Warehousing Specialist concentrated on the equipment investment requirements in Uzbekistan;**
and
- the **Transport Economist concentrated on the costings in and from Uzbekistan**

The inputs were to be co-ordinated such as to produce a combined output in the form of a final Cotton Report by mid August. The Regional Co-ordinator was also responsible for regular contact with the Cotton Commission. The intention was to make a presentation to the Commission in Tashkent on the 30th July, but it was subsequently agreed that this would be deferred until the Commission had had the opportunity to study the Final Report in detail.

In parallel, the strategy for the Trade Facilitation support work was for the Documentation Specialist to make a visit to each of the countries when the Legal Framework Project had seminars. This gave the opportunity to present our recommendations to a wider audience, as well as to ensure maximum co-ordination between the two TRACECA projects. Visits were made as follows:

- 14-24 May in the Caucasus
- 24 June - 2 July in Central Asia, excluding Turkmenistan

The Regional Co-ordinator made a separate visit to Turkmenistan in July.

The strategy for the formation of the Freight Forwarding Associations was to focus attention nationally on this aspect through the organising of an official visit by the President of FIATA, who was a project team member. The following visits were made:

- 14-21 June in Georgia and Azerbaijan, accompanied by the Team Leader
- 30 June - 8 July in Kazakhstan, Kyrgyzstan and Uzbekistan, accompanied by the Regional Co-ordinator

PROJECT ACTIVITIES

Monitoring of Logistics (Activity 4)

The monitoring of the logistics was undertaken on the basis of site visits in Uzbekistan and Georgia. Unfortunately, detailed information from the forwarding organisation responsible for cotton shipments - Uzvneshtrans - regarding the movement of cotton was not made available to the project team. It was assumed that this data was considered as commercially too sensitive.

Despite this adverse situation, the team were able to ascertain the current logistical situation starting from the harvesting of the cotton and its transportation to the ginneries through to the subsequent movement to the rail stations and delivery along the TRACECA corridor to Poti. This was achieved through discussions with the various parties involved in cotton logistics. Site visits were made in Uzbekistan to a selection of cotton loading points, including Sergeli station, and discussions were held with the Ministry of Foreign and Economic Relations who is responsible for the exportation of cotton. In Georgia, two visits were made to the Port of Poti and the associated warehousing complex to ascertain the current performance and discussions were held with the Ministry of Transport.

Investment Appraisals (Activity 5)

The investment appraisals have concentrated on the beginning and end of the primary logistics - within Uzbekistan and Georgia - rather than the middle. This is because other TRACECA and EBRD projects are appraising the investment needs of the railways and the Caspian ports. This project is concerned only with potential investments which will specifically assist the movement of cotton, particularly along the TRACECA corridor.

The investment aspects agreed with the TRACECA Management Team were to concentrate on the potential for:

- **equipment for the Consolidation Warehouse at Bukhara for the concentration of cotton at a single dispatching point for conventional or containerised onward movement by rail**
- **enhancements in the storage facilities at Poti**
- **possible improvements in Poti port, but only with respect to a dedicated cotton berth**

Specific visits were made by the Regional Co-ordinator and the Warehousing Specialist to the projected site at Bukhara and discussions were conducted with potential operators and users of a consolidation facility. Both the Team Leader and the Regional Co-ordinator made visits to Poti for meetings with the forwarding

organisation - GTE - responsible for handling Uzbekistan cotton and had meetings with the Ministry of Transport who are responsible for the port.

Containerisation (Activity 6)

The main emphasis with regard to containerisation has been to examine the technical aspects. This was undertaken by visiting sites where cotton is being loaded in containers under the Daewoo contract, such as Sergeli station. Although this traffic is destined for the Far East, the technical considerations are virtually identical to a container movement to Europe via TRACECA or another corridor. An examination was made of the handling systems, loading procedures and relevant documentation systems by both the Regional Co-ordinator and the Warehousing Specialist.

The Team Leader examined the container facilities at the port of Poti and the service levels on offer.

Cost Benefit Appraisal (Activity 7)

The Economist visited Uzbekistan in early July for detailed discussions on the costs associated with the movement of cotton. Whilst the emphasis was on the cost benefits of containerising cotton and the use of the different corridors, the opportunity was taken to review the cost of the overall logistics from point of production through the ginneries and the primary and secondary distribution.

Formation of Freight Forwarding Associations (Activity 8)

Promotion of the Freight Forwarding Associations had continued through the work of ex-members of the Trade Facilitation National Trade Task Forces (NTTFs). However, it was considered necessary to implement an action plan to focus attention on this aspect. It was decided to use the presence of the President of FIATA on the project support team in a more positive manner by arranging official visits to the region. The timing was critical because:

- the project will be completed by mid August;
- holidays both in Europe and in region; and
- that in order to obtain national membership of FIATA at this years conference in Vienna, it was necessary to submit application papers by the end of July for the Board's meeting in North Africa which reviews applications.

The visits had to be arranged at short notice to fit in with existing FIATA commitments. The initial visit to the Caucasus took place 14-21 June. This commenced in Georgia where the NTTF team had managed to promote the formation of a national Association with the Consultant's assistance. This is now fully operational and the visit was used to assist in the formal application to FIATA for membership and to promote its role in the discussions with the Minister of Transport and relevant Parliamentary Committees. The visit to Azerbaijan was on an unofficial basis due to the absence of key Government personnel on overseas visits. However, a Seminar was arranged at short notice and all the main forwarders attended. Presentations were made on the benefits of a FFA and of FIATA and, following discussions, a Steering Committee was formed to establish a national Association.

The second visit was arranged for the 24 June to 4th July in Central Asia. This covered Kazakhstan where the project team had already established the legal framework for an Association but had been delayed pending further consideration within the Ministry of Transport. An Association was formed during the visit and discussions on the formal application to FIATA were held. In Kyrgyzstan, presentations were made on the benefits of an Association and a Steering Committee was formed with an ex-NTTF member as the Co-ordinator. The visit to Uzbekistan was for discussions on how their Association was developing and how it could be further expanded to represent potential non-state sectors of the forwarding market.

Monitoring implementation of Trade Facilitation Project (Activity 9)

A specific additional visit programme was arranged with the project Documentation Specialist, in conjunction with seminars being held by the TRACECA Legal Framework Project. His role was to contact all the members of the NTTF teams in order to ascertain what action had taken place with regard to the Almaty Declaration.

The first visit took place 14 - 24 May in the Caucasus and a second visit 24 June - 2 July in Central Asia. In addition, the Team Leader made visits to the Caucasus in May and June and to Central Asia in July and the Regional Co-ordinator made visits in the Caucasus in May and to Central Asia in May, June and July. All these visits were to promote the work of the Trade Facilitation programme and ensure that some activity is taking place. The results of the visits are described in Section 4 of this report.

DEVIATIONS FROM INCEPTION REPORT PLANS

Whilst there was no formal Inception Report for this extension, the "Profile of Transportation of Uzbekistan Cotton" effectively fulfilled that function and recommended changes in the emphasis of the project. With regard to the current situation, the only deviation was the delay in commencing Phases 2 and 3. This was due to the lack of authorisation to proceed from the recipient. This was resolved and the project will be completed by mid August 1997 as per the last Progress Report.

REPORT FORMS

Progress Report (Form 2.2), Resource Utilisation Form (Form 2.3) and Output Performance Report (Form 2.4) are included at the end of this section. Comments are as follows:

- The Progress Report confirms that all the activities have been completed except for 0.5 man allowance for compilation and presentation of the final Cotton Report
- The Resource Utilisation Report confirms the comments above.
- The Output Performance Report was as per the last Progress Report showing no further delays to those caused by the late authorisation to proceed from the Cotton Commission.

FORM 2.2: PROJECT PROGRESS REPORT

Project title: TRACECA: Trade Facilitation, Customs Procedures and Freight Forwarding - Cotton Extension		Project number: TNREG 9308		Countries: Uzbekistan		Page: 9							
Planning Period: May - August 1997		Prepared on: July 1997		EC Consultant: Scott Wilson Kirkpatrick									
Project objectives: To promote a transport corridor between Europe and the Caucasus / Central Asia through greater regional harmonisation and integration of international transport and trade practices and to promote the movement of traffic along that corridor.													
No	ACTIVITIES IMPLEMENTED	TIME FRAME 1997 months						INPUTS					
		May	June	July	Aug	Personnel EC Consultant		Personnel Counterpart		EQUIPMENT AND MATERIALS		OTHER	
						Planned	Utilised	Planned	Utilised	Planned	Utilised	Planned	Utilised
1	Establish Transport Commission					0.0	0.0						
2	European Market Survey					0.0	0.0						
3	Uzbekistan Market Survey					0.0	0.0						
4	Monitoring of Logistics	X	X	X		0.5	0.5						
5	Investment Appraisals	X	X	XX		1.0	1.0						
6	Containerisation		X	X		1.0	0.5						
7	Cost benefit Study		X	X		1.0	0.8						
8	Formation of Freight Forwarding Associations	X	X	X		0.8	1.0						
9	Monitoring Implementation Trade Facilitation	X	X	X		1.0	1.0						
				TOTAL		5.3*	4.8*						

* Includes balance man-months from Trade Facilitation Project (1.5 man months) as per Completion Report.

FORM 2.3: RESOURCE UTILISATION REPORT

Project title: TRACECA: Trade Facilitation, Customs Procedures and Freight Forwarding - Cotton Extension	Project number: TNREG9308	Countries: Uzbekistan	Page: 10		
Planning Period: May 1997 - August 1997	Prepared on: July 1997	EC Consultant: Scott Wilson Kirkpatrick			
Project objectives: To promote a transport corridor between Europe and the Caucasus / Central Asia through greater regional harmonisation and integration of international transport and trade practices and to promote the movement of traffic along that corridor.					
RESOURCES/INPUTS	TOTAL PLANNED	PERIOD PLANNED	PERIOD REALISED	TOTAL REALISED	AVAILABLE FOR REMAINDER
PERSONNEL					
ITTF staff	9.2 work months	5.3 work months	4.8 work months	8.7 work months	0.5 work months
Sub-total	9.2 work months	5.3 work months	4.8 work months	8.7 work months	0.5 work months
EQUIPMENT & MATERIAL					
TOTAL	9.2 work months	5.3 work months	4.8 work months	8.7 work months	0.5 work months

FORM 2.4: OUTPUT PERFORMANCE REPORT

Project title: TRACECA: Trade Facilitation, Customs Procedures and Freight Forwarding - Cotton Extension		Project number: TNREG 9308	Countries: Uzbekistan	Page: 11
Planning Period: May - August 1997		Prepared on: July 1997	EC Consultant: Scott Wilson Kirkpatrick	
Output results	Deviation original plan + or -	Reason for deviation	Comment on constraints & assumptions	
1) Establish Transport Commission	+10%	Delayed formation and Government approval required	Limited assistance	
2) European Market Survey	0%			
3) Uzbekistan Market Survey	0%			
4) Monitoring of Logistics	+75%	Delayed authorisation	Limited access to data	
5) Investment Appraisals	+100%	Delayed authorisation		
6) Containerisation	+100%	Delayed authorisation		
7) Cost Benefit Study	+75%	Delayed authorisation	Limited access to data	
8) Formation of Freight Forwarding Associations	0%		Problems of conflict of interests between state and private forwarders	
9) Monitoring Implementation Trade Facilitation	0%		Limited progress made in Customs environment	

4. OVERALL REPORT ON THE TOTAL PROJECT

PROJECT STRATEGY

The Cotton Extension was commissioned in October to assist the Government of Uzbekistan in developing the movement of cotton along the TRACECA corridor. This was also expected to have benefits to those countries on the route, particularly Georgia, and to clearly demonstrate the international importance of this transport corridor.

The original operational strategy for undertaking the Uzbekistan Cotton Project extension was to divide the initial tasks to be carried out by two specialist teams. The first team consisted of the Team Leader and Regional Co-ordinator, supported by local specialists along the TRACECA route. Their role was to create and participate in the Uzbek Transport Commission, who would be responsible for overseeing the shipment of cotton to Poti and the establishment of a monitoring system to record movements along the corridor. Shipment was expected to be mainly in conventional covered wagons in block trains. The second team from BCEOM, who undertook the TRACECA Multi-modal project, would examine new methods of shipment. This would commence with a European marketing study to identify purchasing systems, current use of containers in cotton importation and buyer preference factors.

The project was in phases with Phase 1 being to provide a profile of the market from both a European and an Uzbek perspective. This commenced with two parallel studies. The first was a market research study in Europe to identify the size and growth potential of the European market and to obtain the views of the major cotton buyers. The second was a market research programme in Uzbekistan to identify the current methods used in the transportation of cotton from Uzbekistan to its external customers and to obtain the views of those involved in the physical movement of cotton. The results of the two studies were combined into a "Profile of Transportation of Uzbekistan Cotton" report which was published in January 1997. In practical terms, this document served as an Interim Report.

Due to the uncertainties regarding the accuracy of the initial marketing data provided in connection with the original proposal, it was proposed that a review would be undertaken prior to commissioning Phases 2 & 3. This would ensure that the project was focused on the specific requirements of the beneficiaries and funding organisation. The report identified significant changes of emphasis and highlighted a number of critical issues. As a result, there was a modification of the strategy. This involved the Team Leader and Regional Co-ordinator concentrating on the logistics and infrastructure in the Caucasus and the BCEOM team on the infrastructure in Uzbekistan and on the economic aspects of containerisation.

In order to proceed, it was essential to obtain the authorisation of the recommended changes from the Transport Commission. Unfortunately, there was a significant delay in being able to obtain a positive response, mainly due to the time commitments and availability of the members of the Commission. This resulted in a delay to the project, but action was then taken to expedite Phases 2 and 3 to complete the project by mid August and to publish the projects conclusions and recommendations. The delays did not effect the validity of the results and there are some benefits in the delays in that there have been more shipments along the TRACECA route to evaluate and there has been a change of routing for traffic via Poti.

Due to the change of emphasis and perceived resulting reduction in input, The TRACECA management requested that the project team monitor and develop the implementation of the recommendations of the Trade Facilitation Project. The strategy used was to concentrate on the development of Freight Forwarding Associations and retain contact with the National Trade Task Forces used in the project to identify changes taking place in each country resulting from the Almaty Declaration of Intent.

PROJECT ACTIVITIES UNDERTAKEN AND IMPLEMENTATION INITIATIVES

Establishment of Transport Commission for Cotton (Activity 1)

In order that the Transport Commission for cotton would have an official status, a formal approach to the Government was made through the TACIS Co-ordination Unit and meetings were held with the Ministry of Foreign and Economic Relations. A Transport Commission to co-ordinate and develop this programme was agreed by the Cabinet of Ministers on 1st November 1996. The composition of the Commission was decided by the relevant organisations and was confirmed at the end of November by the Government.

Meetings were held with all members explaining the objectives and the inaugural Commission meeting was held on 12th December 1996. Subsequent meetings were held in January to present the "Profile" report and in May to obtain the approval to the recommended strategy for Phases 2 and 3 contained within that report.

It is regretted that since the inaugural meeting that attendance has been poor, not exceeding 4 members. It should be noted that there were significant changes between the proposed participants of the Commission in the original Terms of Reference and those actually assigned by the Government at a later stage. The Consultant's Regional Co-ordinator has acted as an external secretariat to the Commission in arranging the meetings.

Following meetings with the regional TRACECA Management Team, it was proposed that the Consultants should adopt a change in role in that they should provide information to the Transport Commission to assist it in "facilitating the development of cotton shipments along the TRACECA corridor", rather than the initial proposal of whereby the Commission obtained the information with the assistance of the Consultant. This change did not effect the scope of input to the Commission or the results of the study.

The project team in co-operation with both the TRACECA Management Team and the TACIS CU have attempted to mobilise the Commission to undertake its initially perceived role. It is regretted that this has not been achieved and there is, therefore, concern that the original concept had not been fully agreed with the recipient. It has been agreed that the Cabinet of Ministers will have responsibility for the Commission in its future responsibilities.

European Market Survey (Activity 2)

The European Market Appraisal was undertaken in November 1996 with further analysis in December. It commenced with a review of the world cotton market and indicated trends. This was followed by visits to all the major European buyers. The cotton buyers trade in an international market and therefore, although they are based in Europe, they represent a world-wide rather than a purely European perspective.

The survey showed world consumption is falling, stocks are rising and that exports to Europe are in decline, except to southern Europe. Cotton is sold on FOB (Free-on-Board) terms. The seller is responsible for the primary distribution from the point of origin through to the port of shipment with the buyer being responsible for the movement from the port of shipment through to the end user. The price of cotton is mainly dependant on quality or grade but also on subjective factors such as image and market factors, such as increased stock levels. Cotton from Uzbekistan currently sells at lower prices than other cottons. Grading reliability is a significant factor in lower pricing.

Most Uzbek cotton has traditionally been routed via Riga in Latvia. This is the preferred location of most buyers because of good facilities. Problems were being incurred due to lack of storage capacity, organised crime and increased rail charges. Ilyechovsk was used mainly for shipments to the Mediterranean area as secondary distribution costs for such destinations are lower than using Riga. Bandar Abbas was perceived as the new opportunity with the rail link and good shipping services to the Far East, but suffers from operational and procedural difficulties.

The cotton buyers use containers extensively for secondary distribution to the end users. The Central Asian bales are considered to be the most suitable for containerisation given their higher load factor. However, it will be necessary to consider changes in shipping terms if containerisation is to take place at source as use of CIF and free delivered terms are essential to the economic use of containers.

The cotton buyers did not yet consider Poti to be an attractive port of shipment. They had concerns relating to security, restrictive practices and lack of shipping services. Although some concerns may not have been fully justified, it was clear that there was a credibility problem which would need to be addressed, even though performance has since improved.

It was evident from this research that a change of focus was necessary. Given the predominance of FOB selling and the role of the cotton buyers, it is clear that early containerisation would be difficult to achieve. More emphasis was therefore required on how to enhance the movements of conventional cotton shipments via Poti, rather than using Riga or Ilyechovsk. Containerisation will become a factor at a later stage and therefore some preparatory work will be necessary, though not on a high priority basis.

The results of the survey were incorporated within the "Profile" Report (Chapters 2 & 3) which acted as an Interim Report for the Uzbekistan Cotton Extension and was published in January 1997. This was circulated to the Transport Commission, representatives of the Uzbek and Georgian Governments and various embassies, on request. The results were considered to be useful by all the receiving parties as it clearly identified the nature of the cotton market and its associated logistics. The report was analysed by the Commission with no significant changes required.

Uzbekistan Market Survey (Activity 3)

The Uzbekistan Market Survey was commenced in October and completed in December 1996. The purpose of the Survey was to examine the situation in Uzbekistan and along the TRACECA corridor and also to act as a cross reference to the European Survey.

The report described the methods of sale by the Government and the purchasing systems used by the cotton buyers, including terms of sale, classification and pricing. It also examined the logistics of the TRACECA route with particular emphasis on the provision of facilities in Poti, as this had been cited as a major constraint.

The results confirmed the need for a change of emphasis towards enhancing conventional movements with containerisation as a secondary issue. It highlighted the need to look at the provision of specialist warehousing in both Uzbekistan and also at Poti. The findings were presented in the “Profile” Report (Chapter 4).

Monitoring of Logistics (Activity 4)

Due to the delay in authorisation of the recommended strategy in the “Profile” or Interim Report, it was decided to limit the amount of monitoring work. This would mean that as more shipments were moved along the corridor, it would be possible to obtain more accurate data on performance. Usvneshttrans are the preferred forwarder for export of cotton shipments and have a monopoly, though theoretically other organisations could move cotton provided they meet certain criteria. They have data on all movements along the TRACECA corridor and have established a basic monitoring procedure. Unfortunately, this data was not made available to either the Consultants or the Commission, possibly because of perceived commercial sensitivities.

The Consultants concentrated on examining the processes in Uzbekistan from the farm to the ginneries through to the despatch along the TRACECA corridor by rail. This was to establish a clear logistics chain for Uzbek cotton whilst still within the country. This was followed by an appraisal of the logistics within Georgia, particularly within the storage complex and at the port.

During the project there has been a major improvement in performance in Georgia. This is mainly due to more experience in handling the cotton traffic, rather than provision of any new facilities. There are now significant volumes of Uzbek cotton moving along the TRACECA corridor and through Poti, estimated at approximately 50,000 tonnes. However, these are bulk shipments, mainly through to Mersin for FOB sale or to Trieste. There have been no container shipments to date. It should be noted that Azeri cotton has now been diverted from Iran to Poti, though problems in Iran are cited as the main reason. Average rail times from Uzbekistan are currently indicated as around 12 days.

The major residual logistical problem is the lack of planning and co-ordination of the rail movements. It would appear that the individual ginneries tend to dispatch traffic when it suits their requirements, rather than when it is required in Poti. This results in uneven movement patterns resulting in storage problems and extra costs. There is a need to develop a planned logistics system using simple JIT(Just-in-Time) principles.

Investment Appraisals (Activity 5)

The emphasis in this activity was towards potential investments by TACIS which could have a positive impact on the transportation of cotton, particularly along the TRACECA corridor.

In Uzbekistan, the proposal was to provide financial assistance for the development of a consolidation warehouse at Bukhara. As indicated above, the current logistical systems result in extra costs because of its unplanned nature. The provision of a consolidation facility where block trains were to be loaded would create a logistics discipline to improve planning. It is clear that the relatively high transportation costs from the ginneries to the consolidation point means that the catchment area for such a facility may be limited to the Bukara area which produces 110-120,000 tonnes per annum - 10-15% of the exports. It is also evident that the scope for containerisation is limited in the short term (see Activities 6/7). An additional complication would be the ownership/operational responsibility for the facility. Currently Uzvneshtrans have a monopoly on the transportation of cotton and therefore would be the logical operator. It is unlikely that any recommendations for equipment investment by TACIS could be sanctioned without throughput guarantees to ensure that such a facility is actively used to improve the logistics of cotton, rather than becoming a general warehouse.

In Georgia, there is a clear need for additional storage facilities, even if the logistics were improved to give a more even storage pattern. It is understood that an approach has been made to EBRD for a loan of up to \$ 6m for a new warehousing complex. However, this is not expected to result in additional storage in the short term. TACIS could consider a smaller investment in up-grading the existing tea warehouses and installing computer-based storage management systems. There is also a requirement for improving the port facilities, particularly the cranes, power supply and fork trucks. However, it is considered that any such investment should be conditional on the provision of a dedicated cotton berth, probably Berth 9. Without this conditionality, there is a potential conflict with EBRD proposals in Poti port and that the investment will be used for non-cotton traffics and therefore not benefit cotton exports from Uzbekistan.

Cost Benefits of Containerisation (Activity 7)

A cost benefit study was taken to examine the potential benefits of containerisation. The estimated cost of moving cotton from the ginneries to the various FOB points were as follows:

- To Poti - \$ 76 per tonne
- To Riga - \$ 114 per tonne
- To Illyechovsk - \$ 122 per tonne
- To Brest - \$ 115 per tonne
- To Chop - \$ 122 per tonne

This clearly demonstrates the benefits of using the shorter distance route to Poti. The on-carrying costs to western Europe are approximately \$100 per tonne for each FOB port.

The estimated cost of a door-to-door container from Bukhara to Western Europe using the different routings is as follows:

- Via Poti - \$ 191 per tonne
- Via Riga - \$252 per tonne
- Via Brest - \$ 271 per tonne

This shows that there is no real cost benefits in containerising cotton in terms of the overall transport costs as opposed to the current system of bulk movements to the port. However, containerisation would save

damage costs, port storage charges and funding of goods in transit, all of which are for sellers account. If more eastbound traffic could be generated giving a more balanced traffic flow, then the resulting lower westbound container rates could start to make containerisation a more attractive option. A more detailed description is contained in the Cotton Report.

Formation of Freight Forwarding Associations (Activity 8)

In conjunction with the Legal Framework Project, it was decided to target certain countries where it was considered that conditions were most favourable towards the formation of an Association. The main criteria was the presence of a significant number of forwarders operating in both the public and private sectors and requests for assistance. The initial target countries selected were Azerbaijan, Georgia, Kazakhstan and Kyrgyzstan. Uzbekistan already has an Association, although there are concerns over how representative this is of the industry as a whole and that it excludes foreign owned and private operators. Armenia, Turkmenistan and Tadjikistan have low numbers of independent operators and are scheduled for action later, though it is known that Turkmenistan is now interested in forming such an association.

Significant problems have arisen in attempting to form such associations. This is due to the differing perspectives between the Government and the state transport sector and the private operators. An association should be independent and represent the interests of all its members and therefore have non-governmental status (NGO). However, in some countries the association is being promoted as a government organisation, led by the Ministry of Transport or its equivalent, and is perceived by the private sector as being a government regulatory body and therefore not independent. It is recognised that in order to be effective it will need official status and that in itself will require support from a Ministry. It is clear that a compromise will be required which recognises both the independence of the organisation to attract the private operators and the authority which can only be provided by Government support.

As a result of the programme organised during this extension, Freight Forwarding Associations have now been formed in Georgia and Kazakhstan. Applications have been submitted to FIATA for national membership for approval at the Annual Conference of FIATA in Vienna in October and they have presidential support. In Azerbaijan and Kyrgyzstan, Steering Committees have been formed and draft Articles of Association supplied. It is hoped that these will be formed by the autumn with applications for membership of FIATA in 1998. This will be progressed through the Legal Framework Project, as will additional visits to Armenia and Turkmenistan to attempt to form associations. Initial discussions have already taken place and prospects are reasonable.

Implementation of Trade Facilitation Project (Activity 9)

The project team have been maintaining contact with the National Trade Task Forces in each country to promote the implementation of the recommendations. It is recognised that the Declaration signed in Almaty was a notice of intent to promote to their respective Governments the adoption of the recommendations, rather than official acceptance. It was envisaged that many of the proposals could take some years to implement, especially those regarding customs procedures which may require changes in legislation.

The results of our visits to the region were as follows:

- **Armenia:** has signed the UN Convention on harmonisation of border controls (the only TRACECA country so far), has ASYCUDA fully operational throughout the country, has taken over ownership of the system and the Armenian Customs are using the project documents as part of their training materials for modernisation of procedures.
- **Azerbaijan:** has obtained funding to install the ASYCUDA, thus giving a common Customs system throughout the Caucasus. A working party has been established with a programme underway for the pilot scheme.
- **Georgia:** has established a Government Commission to progress implementation of the project proposals with heads of Department representing taxation, Social Affairs, Customs, Internal Affairs, communications, Border Guard, transport and Finance. The ASYCUDA system is operative at the airport and will be on-line at the T'bilisi Central Customs by end of 1997. The World Bank are funding a project on risk assessment techniques in Customs examination.
- **Kazakhstan:** has commenced Customs computerisation with funding from a French Bank. It is assumed that this is a variant of the Sophix system and will be installed in phases. Unfortunately Kazakhstan has introduced a convoy system which has had a negative effect and is contrary to the Declaration. It is hoped that this and the introduction of risk assessments will be reviewed.
- **Kyrgyzstan:** has recognised the need to develop the proposals but currently has Customs difficulties with Kazakhstan regarding convoys. This is leading to a diversion of traffic towards the TRACECA routing.
- **Tadjikistan:** has made limited progress in view of the continued civil problems. In addition there are access problems with Uzbekistan which are still not resolved.
- **Turkmenistan:** has a positive attitude to the proposals but sees limited progress unless other countries make changes. They are interested in the ASYCUDA system but lack appropriate funding.
- **Uzbekistan:** has installed the SOPHIX system and has on-line connections to some of the national forwarding organisations.

Meetings have also been held with EBRD regarding trade facilitation requirements in connection with developments at the Caspian Sea ports and possible loan conditionalities to improve facilitation..

Form 3.2: PROJECT COMPLETION REPORT

Project title : TRACECA Project: Trade Facilitation, Customs Procedures and Freight Forwarding - Cotton Extension Planning period : May - August 1997	Project number : TNREG 9308 Prepared on : July 1997	Countries : Uzbekistan EC Consultant : Scott Wilson Kirkpatrick	Page : 19
Project objectives : To promote a transport corridor between Europe and the Caucasus / Central Asia through greater regional harmonisation and integration of international trade and transport practices and to promote the movement of traffic along that corridor.			
REPORTING PERIOD	MAIN ACTIVITIES UNDERTAKEN	EC CONSULTANT	INPUTS UTILISED
November 1996 - May 1997 November 1996 - May 1997 November 1996 - May 1997 November 1996 - July 1997 May 1997 - July 1997 May 1997 - July 1997 May 1997 - July 1997 November 1996 - July 1997 May 1997 - July 1997 May 1997 - July 1997 May 1997 - August 1997	1) Establish Transport Commission 2) European Market Survey 3) Uzbekistan Market Survey 4) Monitoring of Logistics 5) Investment Appraisals 6) Containerisation 7) Cost Benefit Study 8) Formation of Freight Forwarding Associations 9) Monitor Implementation of Trade Facilitation 10) Compilation of Final Report	0.5 man months 1.0 man months 1.5 man months 1.0 man months 1.0 man months 0.5 man months 0.8 man months 1.4 man months 1.0 man months 0.5 man months	MATERIALS & EQUIPMENT OTHER
TOTAL			9.2 man months

FORM 3.3: OUTPUT PERFORMANCE SUMMARY

Project title: TRACECA: Trade Facilitation, Customs Procedures and Freight Forwarding - Cotton Extension		Project number: TNREG 9308	Countries: Uzbekistan	Page: 20
Planning Period: May - August 1997		Prepared on: July 1997	EC Consultant: Scott Wilson Kirkpatrick	
Output results	Deviation original plan + or -	Reason for deviation	Comment on constraints & assumptions	
1) Establish Transport Commission	+10%	Delayed formation and Government approval required	Limited assistance	
2) European Market Survey	0%			
3) Uzbekistan Market Survey	0%			
4) Monitoring of Logistics	+75%	Delayed authorisation	Limited access to data	
5) Investment Appraisals	+100%	Delayed authorisation	Restricted to potential TACIS investment potential	
6) Containerisation	+100%	Delayed authorisation		
7) Cost Benefit Study	+75%	Delayed authorisation	Limited access to confidential cost data	
8) Formation of Freight Forwarding Associations	0%		Problems of conflict of interests between state and private forwarders	
9) Monitoring Implementation Trade Facilitation	0%		Limited progress made in Customs environment	

5. LESSONS LEARNED AND RECOMMENDATIONS

This section presents an evaluation of the project from the perspective of project management and indicates where it is considered that lessons may have been learned.

Terms of Reference

This extension evolved from the proposals by the TRACECA Multi-Modal project for an extension to that programme. Due to funding difficulties within TACIS, the project proposal was transferred to the Trade Facilitation project. This presented the Consultant with two problems:

- the extension was initially specifically directed towards the use of multi-modal systems in line with that programme
- the Consultants Logistics Experts were concerned that the proposed container logistical system was too complex to be implementable

The Consultants therefore adopted a more flexible approach which examined both the conventional and multi-modal options. In retrospect, the Consultant's concerns were proved correct and a major change of emphasis had to be implemented, though this could be achieved within the original proposal from the Consultant.

It has been a major concern throughout the project that the Terms of Reference were based on an initial survey which was factually suspect. This meant that it was difficult to comply with the requirements of the project as originally conceived. These concerns were expressed to the TRACECA Management Team, who have given their guidance and support throughout the extension as problems have arisen and agreed the change of emphasis.

Transport Commission

The original proposal as suggested in the Multi-Modal project Terms of Reference was that the Transport Commission should facilitate the development of cotton logistics, with particular relevance to Presidential Decree No 194. The Consultants were to provide technical assistance based on information being provided by the Commission. The composition of the Commission was indicated by that project team.

On commencement of the extension, it became clear that there had been no official proposals for such a Commission. As a result, the Consultant had to make a special application to the Cabinet of Ministers through TACIS for such a Commission to be formed. When the Commission was finally approved and formed it contained none of the original proposed members, though each of the organisations was represented. This raised concerns regarding the "ownership" of the project and is reflected in the poor attendance record of the Commission.

In the Consultant's view the proposal for a new organisation for combined transport in Uzbekistan failed to appreciate the current monopolistic situation in the movement and control of transportation of cotton. The Commission would only have had the appropriate authority provided it had the full support of the Cabinet of Ministers and the membership consisted only of senior personnel from the Ministries or operating companies. In addition, it was clear that there were conflicts of interests between the membership which could not be resolved within the Committee.

It is recommended that TACIS confirm the recipient's organisation structure to confirm that the point of contact exists and what is its official role and status. This project has lacked a clearly defined recipient with authority.

Market Profile

The initial focus of the project was on containerisation of cotton, particularly to Western Europe. This emphasis was based on the pre-feasibility report which appeared suspect. Firstly, in transport there are usually good reasons why changes in operating methodology has not been instigated, even on a minor basis. It immediately suggests that there is some factor present which makes it an unattractive option. Secondly, the contraction of the cotton in Western Europe was also known and that the growth market were in the east. This profile resulted in the concerns over the accuracy of the pre-feasibility study and was the initial reason for adjusting the proposal to reflect these concerns.

Cotton is a "commodity" traded on the world market by a relatively small number of brokers. This is not a standard export movement from the producer to the import user. It is, therefore, a very complex and commercially sensitive trading environment with a variety of organisations with differing interests. Given this situation it is recognised that it is difficult, if not impossible, to instigate realistic change because it is not an isolated market. The proposals were therefore in reality about changing the world market for cotton, rather than just the Uzbek market. It is also clear that any changes will have a negative effect on one party, though it may be positive to others. It was noted that there was not a clearly stated desire for radical change expressed by any of the parties. It is assumed, therefore, that the current trading environment that has evolved suits the majority of those parties.

The focus of the project had to be changed towards adjusting and enhancing existing systems, rather than proposing the introduction of radical new concepts which stood little chance of implementation.

It is considered important that TACIS cross-check the accuracy of any pre-feasibility work to ensure that the logic for the project is sound and has the full support of the recipient.

Conditionality

The Consultant considers that with the move towards capital investments in relation to TRACECA that an increasing element of conditionality should be adopted. This is required to ensure that the interest free loan or grant achieves the purpose for which it is intended. This is particularly important in respect of facilities such as warehousing whereby a throughput commitment is essential, similar to a standard commercial development. It is noted that each of the proposed investment proposals could have alternative uses other than for enhancing the movement of cotton along the TRACECA corridor. It is critical that any supplementary use provides benefit to the objective of more efficient or lower cost movement of cotton, rather than being an end in itself.

It is recommended that TACIS attach conditionality clauses to infrastructure investment in this type of situation where there is a multi-purpose option for use for the facility.

Overview

The movement of cotton along the TRACECA corridor has significantly increased over the project period from trial shipments to 50,000 tonnes this year and clearly demonstrates the potential of this corridor. This has been due to a combination of factors including:

- increased Russian rail charges
- improved handling performance at Poti
- problems in Iran
- the routing of traffic through Poti for sale FOB Mersin
- the increasing buyers interest in evaluating viable alternative routes

The project cannot take credit for these changes, though it has focused attention on the route and marketed the potential of using Poti. It has clarified the situation with regard to containerisation and avoided potential investment in expensive handling facilities which are not currently required. The major benefits are expected to be generated as a result of the investments made by TACIS and for which this study has provided the appropriate feasibility reports to justify potential investment.

The project has generated a clearer understanding of both the international and Central Asian cotton markets and their associated logistics. The information has and is being used by a number of external organisations in focusing their proposals in respect of the industry and possible investments in the region.

Additional Technical Assistance

The need for further assistance is contained in the Cotton Report. This is of a relatively minor nature and would all be in Georgia:

- the outline planning and design of the re-furbishment to the tea warehouses in Poti
- the inspection of 4 cranes at Poti port
- training on an automated warehouse management system at the tea warehouses

The overall budget for this work would be around 200,000 ECU and should be included within the proposed budget for the development of the warehouse and the port.

