

# **EUROPEAN UNION - TACIS**

Technical Assistance to the Southern Republics of the  
CIS and Georgia - TRACECA

## **TRADE AND TRANSPORT SECTORS**

Terms of Reference

for

**Railways**

-

**Inter-state Tariff and Timetable Structure**

Final Recipients:

TRACECA Region Ministries of Transport

## **Railways - Inter-state Tariff and Timetable Structure**

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## 1. Introduction and Background

1.1 During May 1993 a conference was held in Brussels organised by the Commission and attended by authorities of the eight Republics of the south of the former USSR:

Armenia,  
Azerbaijan,  
Georgia,  
Kazakstan,

Kyrgyzstan,  
Tadjikistan,  
Turkmenistan,  
Uzbekistan.

They are the Beneficiary States of this programme.

The objectives of the conference were :

- to stimulate co-operation among the participating Republics in all matters pertaining to the development and improvement of trade within the Region
- to promote the Central Asian - Trans Caucasian - Europe Transport Corridor
- to identify problems and deficiencies in the Region's trade and transport systems
- to define, in terms of contents and timing a Technical Assistance Programme to be financed by the European Union (EU).

TRACECA (Transport Corridor Europe Caucasus Asia) was thence created as a component of the TACIS interstate programme.

1.2 The "Brussels Declaration" issued at the conclusion of this conference recommended the European Union to address in the TACIS programme variously expressed needs for feasibility studies and technical assistance projects.

Regional sectoral Working Groups (trade, rail, road, maritime), composed of experts and officials from each TRACECA state and the EU, have been established as part of the TRACECA programme. They meet periodically in the Region. They have inaugurated specific projects including this present one, and will monitor results. Members are drawn from Ministries of Transport, Economy and Trade, who form the recipient partners of this project.

There is a declared will to foster trade flows, for which collaboration in the transport sector is a vital prerequisite.

1.3 National and Regional Technical Assistance projects carried out, approved or prioritised to date, are mostly aimed at halting a deterioration of the existing transport system due to maintenance difficulties, and obsolescence. Few consider reinforcing capacity. In fact transport demand has declined since the break up of the FSU.

1.4 Revenues of National rail operators have consequently declined causing severe cash flow difficulties and deferring maintenance. Under the circumstances there has been a reaction to raise tariffs, but this has the dually undesirable effect of discouraging traffic and trade while driving revenues still lower.

1.5 The Russian Ministry of Railways (MPS) is still influential in the scheduling of services. Railways in the Soviet Union operated under a pyramidal structure. Such a structure is ill adapted to develop customer or line of business orientations which is required in a market economy.

1.6 The present cost accounting system is based on input, aggregation and indexing which may not properly reflect real costs. It cannot serve as a the tool which is needed to make sensible commercial decisions.

1.7 With the break-up of the FSU the rail sector has been fragmented into national entities. Long distance traffic in the region, has attained a new “international” dimension with the creation of additional ‘national borders’, and each State now has its own national currency.

A customs union between Kazakhstan, Bielorussia, and Russia is being mounted. Other TRACECA States intend to join. The procedural mechanisms of this Union and their effectiveness will have to be taken into account by this project.

1.8 Hence, the current problem has several aspects; technical, financial and economical. These include: new customs clearance delays at these borders; a lack of detailed knowledge of the financial cost of the various railway services; a lack of meaningful management information on which to base decisions; rampant inflation (now attenuated) and currency inconvertibilities, a failure to control costs and to align services with new demands, together with increasing competition in the transport field from road operators who are perceived to be more flexible or responsive to customer requirements.

1.9 The TRACECA route has been defined as follows:  
Poti (Georgia) via Tbilisi to Baku, including the loop line via Armenia, and across the Caspian Sea by ferry to Krasnovodsk and Aktau; then onward by rail from Krasnovodsk through Ashkhabad to Dushanbe (Tadjikistan), Tashkent, Bishkek (Kyrgyzstan), Almaty and Druzhba; and also from the port at Aktau via Makat, Otkjabsk, Aralsk to Chimkent. (see Section 4.2.3).

2.0 This project has been conceived with the rail mode as the principal focus of attention. However the ports and shipping links in the Caspian are integral parts of the TRACECA route and are to be considered.

## 2. Objectives

The encouragement of trade, through Tariff and Timetable Co-ordination between the various railways of the TRACECA Region with a view to providing a cost effective rail network which is responsive to market requirements. Hence:

- to encourage the development of rail tariff coordination and approximation as well as common mechanisms for the collection and transfer of transit traffic tariffs
- the elimination of tariff discrimination throughout the region.

Important supporting objectives for the TRACECA route must be:

- the co-ordination of maritime tariffs and timetables, for traffic using the Ports of Baku, Krasnovodsk, and Aktau.
- the encouragement of trade by rationalising customs procedures at rail border crossings and ports, and the introduction of free trade zones at ports, or other favourable locations

## 3. Scope of Work

Before embarking on a rail tariff harmonisation exercise, the several railways must agree what parts of the overall transport market they can profitably serve. This implies that the railways must have a clear understanding of their existing cost and tariff structure, and what service is covered by the tariff, an understanding of how the costs of providing that service arise, and a view of the relative operating efficiencies of their divers activities.

The project is to encourage the setting of tariffs and timetables based on rational economic and financial criteria, divorced from external interference. The most recent European best practice and international criteria are to be referred to.

The perception of transport cost from the point of view of the customer has to be taken into account. Aspects such as speed, quality requirements, costs for storage of goods, insurance, transport safety and security, handling etc. must be considered. Therefore the establishment of National and Regional marketing collaboration is to be encouraged. This ideally should present a customer of a Regional service with a single clear tariff structure, payable at his point of demand, and providing a well defined seamless service.

The scope of work includes the establishment of a Secretariat or other formal co-ordinating mechanism, for achievement, continuity and sustainability of the project objectives. The tenderers proposals are to provide details of his intentions for this crucial aspect of the project. They are to include a preliminary action plan which the Consultant will refine and implement during the project.

The setting of tariffs for Caspian sea traffic is to be encompassed in these considerations, both technically and institutionally.

The establishment of free trade zones is to be investigated, in particular at the Caspian Ports.

### 3.A TIMETABLE CO-ORDINATION AND OPERATIONAL ASPECTS

3.A.1 Through the Secretariat or other appropriate organisation the Consultant is to design and promote adoption of passenger and freight timetables to meet the identified market requirements (see Section 3.B). The main emphasis is to be placed on freight traffic.

Best European and international practice may serve as a model.

The Consultant is to set up procedures to monitor 'actual performance' against plan for both punctuality and load factors.

3.A.2 Consider the effectiveness of the present wagon owning and allocation system; consider the scope for a Regional wagon pool under separate 'ownership' with each railway hiring their wagon requirements.

3.A.3 To explore the opportunity for direct freight train services through several States, providing guaranteed times of departure and arrival between high demand centres.

3.A.4 To explore, the development of railway freight marketing departments, the possibility of the profitable introduction of a container and intermodal service operating through designated terminals (which may be operated by 'freight forwarders')

3.A.5 Assist the Secretariat to identify and highlight any operating, infrastructure or safety constraints which may restrain the development of the rail network according to a marketing plan (see on), and highlight the cost and benefits of remedial action.

3.A.6 Provide technical training through study visits, seminars or training sessions for the economical scheduling of international trains to make optimal use of 'through running powers' and joint resources of manpower and rolling stock where available .

### 3.B. TARIFFS, COSTING, AND MARKETING

3.B.1. To carry out a case study in the first stage of the project to assess the commercial competitiveness of EU- TRACECA rail-maritime route cargo flows in both directions, in relation to the alternative routes to the North and South.

The aim of the study is to collect comprehensive basic data on the TRACECA and alternative routes at the outset of the project in order to pin-point the strong and weak points of the TRACECA route, so that this route can be made commercially attractive relative to the alternative routes and transport modes.

The contractor will use test shipping, desk research, interviews with shippers and end-users, previous studies, and real experience, or a combination thereof.

3.B.2 Review the existing rail tariff structures for international traffic, set out guidelines for a tariff policy between the railways of the Region with particular reference to interstate tariffs and assist in establishing a harmonised policy in the Regional countries. Develop a Tariff Model. Instruct local management in its application, and promote implementation of output.

Seek and highlight any present hidden discriminatory tariffs or other charges with distortionary effects on demand.

3.B.3 Examine the authorities and mechanisms for tariff reviews, and make recommendation for the streamlining of such mechanisms; including any state legislative revision requirements necessary to promote harmonisation of tariff policy

Propose a formal mechanism for the resolution of disputes between operating companies.

3.B.4 In the first instance, investigate the Costing methodologies currently in use on the various railways, and review the adequacy of each to serve the management of a profit orientated rail system. Make recommendations for, promote and assist implementation of the improvement of gathering, processing and disseminating of valid cost accounting and statistical information, to support management decisions for demand-led service provision.

3.B.5 Establish a co-ordination structure and procedures between Finance and Economics managers to improve the quality of financial information and formulate cost accounting policy and practice, with particular reference to cross-border and joint operations and the resulting bi-lateral agreements for cost and revenue allocation to the various national systems. Suggest a monitoring framework, of performance against plan.

Hardware/software systems will be required to support the preceding activities. Tenderers' proposals should describe systems which they will supply.

3.B.6 Propose and promote cost and revenue sharing agreements and the systems to implement them for cross border and transit passenger and freight traffic. Establish systems for the documentation, 'audit-trail' and information exchange necessary for their satisfactory working, including mechanisms for settlement of disputes.

3.B.7 In conjunction with the various state authorities and user organisations, establish a regulatory authority to oversee the non discriminatory working of the interstate TRACECA rail network.

3.B.8 Investigate the attitude and intentions of major industries, freight forwarders and government agencies and promote active dialogue between the operating company marketing departments and major customers, actual or potential.

Using the costing studies above, determine the sectors of the market that can be economically served by rail, given realistic and effective actions to improve efficiency.

Examine the marketing strategy now in force across the various railways and make recommendation for the co-ordination of market intelligence throughout the rail network. Formulate a Marketing Plan, coherent with the other components of the project.

Provide advice on the treatment of uneconomic services, rationalisation of services, social obligations, etc.

3.B.9 Provide training for the railway management on a market economy approach to tariff setting and the commercial aspects of the capture of profitable passenger and freight business to rail. As considered appropriate, propose seminars, study visits and training sessions with railway management to introduce the concept of a market lead railway business in respect of 'products' produced (see Section 6.2).

### 3.C. FREE TRADE ZONES, CUSTOMS PROCEDURES

3.C.2. Introduce Beneficiary State authorities to the potential of free trade zones. Carry out a feasibility study for the establishment of a free trade zone in, for example, each of the three Caspian Sea Ports, Aktau, Baku, and Krasnovodsk, or recommend other locations and carry out such studies for them.

These studies are to cover the possible site or sites, the infrastructure investments, the institutional and legal aspects, the socio-economic and financial prospects, and possible financing options.

3.C.3. Recommend appropriate customs procedures for Regional rail/maritime traffic along the designated route. The objective must be to simplify procedures at border crossings, preferably without creation of additional infrastructure (see Section 5.2).

Best European and International practice is to serve as a guideline.

The development of the Customs Union with Russia, Bielorussia and Kazakhstan is to be considered. While the expansion of the Union is considered probable, the modality and effectiveness of its implementation is less certain. The Consultant is to make recommendations on customs procedures along the TRACECA route, and promote adoption of the most favourable customs environment to promote trade along that route.

### 3.D. GENERAL CONSIDERATIONS

3.D.1 Examine and comment upon the legal and financial relationship between each national railway and the State, and the direction of the day to day management of the



railway, and provision for deficit financing and investment, as well as tariff setting (see Section 5.2).

In particular, identify any legal constraints on the freedom to amend published railway tariffs or any freedom to negotiate deviations from published tariffs or enter into specific tariff related contracts with outside parties covering international traffic on an 'end-to-end' basis. Make recommendations for the co-ordination and legalising of such agreements throughout the Regional railway network

3.D.2 Identify any legal restraints in national railway or accounting law which may affect the railways in participating in cross-border railway co-ordination, entering into agreements for joint working or pooling arrangements, or for passing over full operating rights to an adjacent railway. Recommend changes to legal or institutional frameworks which could facilitate such beneficial arrangements.

This exercise in particular should be applied also to the Caspian maritime routes.

3.D.3 Consider the benefits and legislative changes which may be necessary for each of railways in the TRACECA region, as, if or when they become full participating members of the Union Internationale de Chemin de Fer, and adopt the regulatory framework of that organisation.

#### **4. OUTPUTS**

4.2.1 A main output of this project should be recommendations for and assistance in the implementation of the long-term inter-regional management structure for tariffs and timetable matters. The major effort is to be devoted to rail, but the Caspian maritime links must also be considered.

4.2.2. A particular means to achieve this goal is the establishment of, or the strengthening of existing regional co-ordinating initiatives, such as the setting up of linked Secretariats for strategy, and the different domains of application of that strategy (marketing, operations, revenue distribution,...).

The implementation methodology for such a structure is crucial. Existing proven international or pan-European models may be adopted. Tenderers should explain their intentions clearly in their Technical Propositions. A principal criteria for judging the value of Consultants proposals will be the credibility of their plan to actively assist the Beneficiary States in the implementation of their tariff and timetable recommendations.

4.2.3. Promoting, developing and marketing the rail corridor, including the production of a draft Marketing Plan, with financial prospects of inter-railway passenger and freight traffic for the next 3 years, over each of the significant sections of the designated routes. A similar exercise is to be performed for the designated maritime links.

Many project activities are purely “horizontal” and not route specific (eg.costing systems and the Tariff Model). For marketing activities the focus of attention may be the TRACECA corridor (see Section 1.9).

4.2.4. Ensuring rail tariff co-ordination among the participating railways and shipping companies, including production of a draft rail tariff agreement for international traffic on the designated routes

4.2.5. Promote and assist in the establishment a ‘clearing bureau ‘ for the settlement of inter railway debits and credits arising from the international traffic, in a cost effective manner. Establishing dispute resolution mechanisms.

4.2.6. Promote and assist in the establishment of Regional railway cost analysis and information systems to ensure compatibility of data in accordance with International / UIC standards to provide timely reporting for management decision making, business evaluation and tariff validation.

4.2.7. By co-operation and co-ordination of effort among the participating railways, and the adoption of objective performance indicators, promote the punctual, efficient and economic operation of the rail network along the TRACECA route, to meet market aspirations.

4.2.8 Ensure ‘know-how transfer’ of modern cost accounting systems, and their use as a tool in providing demand driven services, with tariff strategies to match..

4.2.9. Feasibility studies for the free trade zones at Ports, and recommendations on Customs procedures.

**5. Other Related Projects**

5.1 Several related technical assistance programmes precede this project.

They include:

Rail Management Restructuring Studies	Armenia, Turkmenistan, Azerbaijan	TACIS
Rail Sector Survey	Russia, Ukraine, Kazakhstan & Bielorussia	EBRD
Central Asia Outline Transport Strategy	Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan	EBRD/TACIS
Caspian and Black sea Port Studies	Georgia, Azerbaijan, Turkmenistan, Kazakstan	EBRD/TACIS/OTHERS
ESCAP Studies	Asia	UN
World Bank rail project	Kazakhstan.	WB

5.2 At the time of writing, the following projects, sharing certain domains of interest with this one, are at present commencing on-site activity:

Transport Legal Reform

TRACECA

Trade Facilitation, Customs Procedures, Freight Forwarding

TRACECA

Regional Traffic Forecasting Model, Review of Int'l Route Capacity,  
and a TRACECA Corridor Feasibility Study Europe - Asia

TRACECA

Forwarding - Multi-modal Transport Systems

TRACECA

Infrastructure Maintenance - Railways (Caucasus / Central Asia)

TRACECA

Rolling Stock Maintenance - Railways

TRACECA

Rail-Tracker Freight Monitoring System

TRACECA

Other related projects are or may be expected to commence within the timeframe of this present one.

The Trade Facilitation, Customs Procedures, Freight Forwarding project will provide among other components harmonised customs classifications and documentation, and recommendations on national systems. The Transport Legal Reform project will provide assistance for legislative changes necessary to align the Regional transport legal systems with International standards. Both projects foresee the establishment of National Task Forces to achieve their ends, and the Consultant appointed for this present project will need to liaise with them. Both projects are at present commencing, and no output from them is yet available.

The Rail Tracker Freight Monitoring System will implement the UN RailTracker wagon tracking system mainly for transit traffic in Uzbekistan and Turkmenistan.

Further details of the preceding projects will not be provided to Tenderers by the TACIS office, and enquiries should not be addressed to them.

5.3 The Consultants appointed to carry out this project are to co-ordinate fully their work with all other related projects and activities within the TRACECA region. .

The preceding listing of related projects must not be considered limitative.

## **6. Local Participation**

6.1 This aspect should be most carefully considered and prepared by tenderers. National consultants should be deeply involved in the project. All TRACECA countries have Institutions specialising in various aspects of transport planning. Exclusivity of collaboration agreements with local institutions is not a requirement for the tender.

It is a firm requirement that Organisation and Methodologies include local experts and Institutions to:

- make full use of local experience, antecedent projects and data bases
- promote the emergence of a financially viable local consulting sector
- ensure the effective transfer of know-how to the Beneficiary states
- ensure the enduring effect of project output

Consultants must make amply clear in their proposal the arrangements they have made to work with local entities. This should include the time allocated to locally hired staff (as distinct from Counterpart staff). CVs for local staff should be provided.

6.2 Consultants should base their activities largely in the TRACECA region, carrying out the project in collaboration with local technical organisations, and employing both senior and junior professional staff, from several TRACECA states.

For reasons based both on technical considerations and the equitable repartition of TRACECA site project offices across the Region, the Consultant for this project is to make Tashkent his base of operations, with a sub-office in Tblisi.

The Consultants Methodology should fully explain his training and transfer of know-how programme within the project. Seminars and study tours may be of some value, but presence on-site, and very close working contacts between expatriates, local staff and counterparts, are considered an irreplaceable component of know-how transfer for this particular project.

Draft Agreements between the operating companies must be formulated, from inception to completion, in close collaboration with all local interested parties, for consensus and acceptance. Also, the difficulty of translating complex texts into Russian should not be underestimated, and tenderers are reminded that the Russian versions of texts will be the Working Versions.

A balanced presence of the Consultants staff in the different TRACECA states, and a balanced input from each staff and counterparts from each of the States will be necessary.

Proposed interfaces with Counterparts should be indicated and explained.

## **7. Foreign Expertise**

This project is a challenging assignment requiring firm management skills, as well as technical knowledge of commercial rail and other transport mode operations. The Consultant is free to compose his expatriate team for the project as he sees fit, but the following domains of expertise should be visible in his proposed staff list:

Time allocated to each individual foreign team member should be clearly described in the Technical Proposal, as should the division between time in the Beneficiary States and time at home office (see Section 5.2).

To be avoided are:

- fragmented, discontinuous participations by a wide diversity of experts, revolving around a loose core team, or lone team leader.
- complex team management structures
- home office time without Beneficiary States contact

## 8. Logistics

The Consultant shall be responsible for arranging necessary living accommodation, transportation for expatriate and local staff, telecommunications, equipment, surveys, investigations, document reproduction, printing, secretarial services, office space and all other input required for the purposes of the work.

## 9. Time Table and Reporting

9.1 The project is to be completed within a period of eighteen months.

9.2 All reports are to be delivered in the numbers, languages and locations as follows:

	Bound		Loose-leaf		Diskette (Eng.+Rus)
	English	Russian	English	Russian	
TACIS Brussels	5	1	1	1	1
TRACECA CU (per state)	1	10	1	1	0

The word processing programme to be used will be agreed with TACIS.

For this project in particular, the importance of high quality Russian texts cannot be overemphasised.

9.3 Reporting is to be in accordance with standard TACIS Guidelines. These foresee:

### *Project inception report*

An Inception Report shall be issued within 2 months of the start of the project. It shall summarise initial findings and propose any modifications to the methodology and work plan. In particular it will adapt the work plan to the needs of each individual TRACECA state taking into account the parallel activities of other Technical Assistance programmes, avoiding duplication of effort, and addressing unfilled needs.

It will also confirm or modify institutes/organisations/consulting bodies to be directly involved in the implementation.

It will firm up or alter, if required, the arrangements planned for the training part of the work

### *Deliverables*

The tenderer is to compose and provide in his Technical Proposal a schedule of separate Deliverables appropriate to specific technical and implementational components of the project (eg. Feasibility Studies for Free Ports, Market Analysis, Timetables, Rail Tariffs Analysis, Model, and Recommendations, A Draft Rail Tariff Agreement, A Revenue Sharing Agreement, Functional Analysis Reports, Seminar Manuals,...)

The production of Deliverables is to be clearly co-ordinated with the project milestones and implementation proposals.

### *Project progress reports*

These reports will be submitted at the end of month 6 and month 12. They will cover progress to date.

### *Final Report*

The Draft Final Report will be submitted at month 15,5.

Any comments on the Draft Final Report will be issued by TACIS Brussels within six weeks of its receipt. The Final Report incorporating any modifications will be issued one month thereafter (2,5 months after issue of the Draft Final)

All Reports must include an Executive Summary.

## **10. Budget**

The budget for this project is 1,5 MECU.

All activities are to be complete within 18 months.

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