



Traceca Intermodal Services
Draft Final Report
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REPORT COVER PAGE

Project Title	Traceca Intermodal Services – TA to the Southern Republics of the CIS-Trade and Transport Sectors	
Project Number	TNREG 9702	
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1 Project Synopsis

Project Title:	Traceca Intermodal Services – TA to the Southern Republics of the CIS-Trade and Transport Sectors
Project Number:	TNREG 9702
Countries:	Ukraine, Georgia, Armenia, Azerbaijan, Turkmenistan, Kazakhstan, Tadjhikistan, Kyrgistan, Uzbekistan
Project Starting Date:	16 June 1998 (effective date of contract)
Project Duration	18 months, plus an extension of 6 months

Wider Objectives

Traceca corridor is promoted for intermodal transport

Specific Project Objectives

Intermodal service from the EU to Central Asia is established

Assistance to the intermodal terminals of the ports of Poti, Baku, Turkmenbashi and Aktau, and the inland terminals in Yerevan, Bukhara and Almaty is given

Planned Outputs

Module A1, Phase 1

- An updated traffic forecast for rail transport on the Traceca route is available
- Information on target products and their volumes is compiled and evaluated

Module A1, Phase 2

- A legal framework for the pilot extension is drafted
- Standard transport contracts are elaborated
- A marketing plan for the pilot extension is developed
- A financial plan is established

Module A2, Phase 1

- A TCLE action plan to implement improved services is formulated and agreed upon

Module A2, Phase 2

- Traceca regional intermodal operating company is established
- Intermodal service is implemented
- Computer / communication equipment is provided
- A Traceca intermodal services information system, suitable for present needs, is existing

Module B1 - Training Interventions

- Training in container and intermodal cargo handling is conducted
- Tailor-made training courses are designed and conducted
- Operational plans for intermodal terminals are prepared
- Qualified staff of intermodal terminals are able to develop their intermodal transport business
- MIS for intermodal terminals recommended

- Marketing plans for intermodal terminals elaborated

Module B2 - Study tours

- Study tours to foster business development are executed

Planned Activities

Module A1, Phase 1 – Analysis

- Establish forecast for rail transport for the Traceca route;
- Appraise competition by contacting western shippers (clients, freight forwarders) in the main European export centres and analyse alternative routes and road transport;
- Determine capacities of Traceca ports, ferry services and intermodal rail terminals;
- Identify administrative bottlenecks on the Traceca route;
- Analyse State common law and transport regulations and identify related legal problems;
- Design a service product for cotton transport;
- Identify target clients, target products and target partners in the EU and internationally.

Module A1 – Phase 2: Design of Services and Operations

- Draft texts for agreements;
- Design customer-related intermodal service products;
- Develop realistic prices for the different products;
- Elaborate transport contracts and get them accepted in all Traceca states;
- Forecast an operations budget;
- Establish end to end costs for the intermodal service.

Module A2, Phase 1

- Audit all TCLE documents and analyse existing TCLE traffic;
- Elaborate business, marketing and financial plans;
- Formulate an action plan.

Module A2, Phase 2: Operations of the TCLE

- Implement intermodal services along the entire Traceca route;
- Design actual system, subcontracting and testing;
- Print an information system handbook.

Module B1: Training

- Develop and conduct training in modern Management Information Systems
- Conduct training courses in intermodal operations and container handling techniques and practices
- Design training for the varying potential future activities
- Conduct training in marketing
- Conduct training in design and placement of publicity material
- Conduct training measures to support the implementation of intermodal pilot extensions

Module B2: Study Tours

- Execute study tours to western Europe

2 Summary of Project Progress since the Start

Achievements:

Reduction in freight rates

Due to the competitive element introduced by the Silk Road Express project into the trans-Caucasian transport market the freight rates for containers (both by truck as well as by rail) dropped by about 30% – 40%; for instance between Poti and Baku from over US\$ 2,000 to US\$ 1,400 and between Poti and Yerevan from over US\$ 1,500 to US\$ 1,000. Once the Consultants' recommendations about empty container depots were implemented, the possibility of one-way rail transport of containers (instead of round trips full/empty by truck) was promoted that saved again between US\$ 250 to US\$ 400 per container.

Prompted by the continuous requests of the Consultants, shipping lines, shipping agencies, freight forwarders, trucking companies, ports and inland terminals reluctantly abandoned their previous fixed rate tariff system and adopted a more flexible rate structure that allowed for negotiations as well as for sliding scale tariffs and rebates. To achieve this, it was necessary (and successful) at times to introduce artificial completions for interim periods in order to break old monopolistic habits.

In September 1999, Silk Road Express quoted for a full/empty roundtrip Poti – Tbilisi for a 20' container US\$775 and for a 40' container US\$1,080; at present Silk Road Express' prices are US\$560 and US\$781 respectively; a reduction of 28% in a 10 months period.

The Consultants renegotiated rail charges for container transport from Poti port to inner-Georgian destinations for clients with their own railway siding. The new tariff (similar to transit tariff) enabled the Consultants to change inner-Georgian transport from road to rail at a price that is now US\$215 lower for a 20' container, US\$300 for a 40' container, both on a roundtrip basis.

Constant competitive negotiations with shipping lines serving Poti from western European ports resulted in a sharp drop of freight rates for Traceca cargo over time. While shipping lines quoted a freight rate of US\$2000 for a single voyage for a 20' container from the Antwerp-Hamburg range to Poti in 1998, quotations are now down to about US\$1,200.

In Central Asia, the railways organisations were very reluctant at first to grant any specific rate reductions, but suggested volume-.dependent rates to be negotiated for each shipment. After lengthy negotiations the railways of Kazakhstan, Kyrkystan and Uzbekistan agreed to a 50% rebate for containers via Aktau. In the end this rebate was also given to cotton traders for transports from Uzbekistan via Kazakhstan to the Russian border.

The Consultants persuaded block train operators in Germany to give Silk Road Express cargo the same preferential rates as their most favoured clients (even though Silk Road Express' total volume is rather small) and terminal companies in the Hamburg – Antwerp range to grant reduced rates and storage charges for Traceca transit cargo

The Silk Road Express invited local transport firms to participate jointly in international tenders for transport project which they were not able to do on their own because of linguistic, financial and legal constraints. Several interesting assignment were won already.

Improving transport time

The Consultants were successful in reducing transport time throughout most parts of the system; on the Poti – Baku route from 7 – 9 days to 4 – 5 days. This was mainly achieved by cutting idle time through the following measures:

- preparing all necessary paperwork in a standardised form by the project's local offices in Poti and Baku prior to shipments
- preparing customs procedures and railway bills of lading in a way that stopovers at local railway stations and at the borders are avoided
- giving information and advice to railway officials, based on a simulated "tracking and tracing" system, in order to control running time and location of wagons and trains; transferring cargo data prior to the arrival of cargo; ordering onward transport for door delivery in advance
- engaging only reliable subcontractors for the transfer of containers from one mode to another, resulting in one handling only and in just-in-time operations.

Facilitation of a round trip container service Armenia – Greece

The Consultants' investigations revealed that Armenia imported container loads of canned soft drinks from Greece on a regular basis. It also revealed that Armenia exported valuable sawn timber to Greece on a regular basis. The Consultants negotiated with the importers and exporters of both commodities as well as with the Armenian and Georgian railways with the aim to establish a full container round trip services with the associated reductions in freight, as empty container transport were no longer necessary. The price the Silk Road Express project came up with was undercut by a joint offer of the Armenian and Georgian railways (who allowed themselves a further rate reduction), who executed these transports in the end.

Assistance in establishing the Bukhara Cotton Centre as a cotton hub

The Bukhara Cotton Centre had been equipped with modern cargo and container handling equipment by Traceca at considerable expense, but no steps were taken by anybody to assure the Centre plays its intended role. Rather, it seemed that other cotton terminals opposed this role. The Consultants found the Centre empty, the equipment idle and neither strategies nor activities to change the situation. In intensive and lengthy discussions the Consultants could persuade a local transport entrepreneur to truck cotton from other locations to Bukhara and consolidate the cargo there. The Consultants could also persuade the Centre's management to offer commercially-sensible rates for storage and handling. Once a sufficient quantity of cotton bales was available in the Bukhara Centre, it became feasible to stuff containers on an efficient scale.

Facilitation of cotton transport in containers from Uzbekistan

Sufficient amounts of cotton at central locations had to be matched with the availability of empty 40' containers, which the Consultants located and made available for transport. Thus, cotton traders were now able to sell and ship on "door delivery" terms.

Facilitation of container transport through Aktau port

As the Turkmen railways were not prepared to offer a reasonable freight rate level for cotton transport along the Traceca route, the Consultants negotiated a competitive freight rate, that was offered jointly by Uzbek Rail and Kazakh Rail, for rail transport to the Port of Aktau. From Aktau, the Consultants negotiated onward sea carriage with Caspian Shipping Company on a small container vessel (rail ferry transport is not yet possible between Aktau and Baku). The final price for a block train from Uzbekistan via Aktau and Baku to Poti port was compatible.

Establishment of the export of fruit juice concentrates

It had been envisaged for some time before the commencement of this project to ship fruit juice concentrate from Georgia to Europe. When the Silk Road Express project offered reliable transport as well as transport, loading and documentation assistance on site, the export of fruit juice started not only from Georgia but also from Azerbaijan. The services Silk Road Express executed were the transport of empty, food-stuff approved

tank containers from Europe to the Caucasus, the clearance of all documentary procedures, the transport by truck of the containers from the nearest railway station to the factory, assistance in loading the tank containers, back transport to the railway station –taking into consideration that a 20' tank container filled with fruit juice concentrate has a gross weight of 29 tonnes, more than regular 20' chassis can carry-, and shipment of the container back to Europe.

Establishment of an Empty Container Depots

In order to avoid unnecessary and costly transport of empty containers the Consultants developed schemes to bring the unbalanced traffic (full containers into the region, empty containers out of the region) closer towards a more cost-effective "balanced" or "full/full" traffic. To promote the development of container services, it is absolutely necessary to make empty containers for clients' use readily available, as close as possible to the clients' locations. The Consultants persuaded the Port of Baku as well as the Kamir Blur Terminal in Armenia to establish an empty container depot with initial free storage and a very low-priced tariff for retrieval and handling. New agreements with shipping lines made it possible to keep empty containers, after stripping of cargo, for a certain period in areas where new export cargo could be generated. Some shipping lines refrained from levying detention charges while some terminals were prepared to grant storage free of charge during that period.

Establishment of additional services in Baku

Once the empty container depot in Baku was established the Consultants assisted the port in identifying and offering additional service to its container clients. At present, the port offers container cleaning and stuffing, stripping and storage services.

Enabling container ro-ro traffic on the Aktau – Baku ferry link

In the moment, rail wagon transport is not possible on the Aktau – Baku ferry link. In order to start container transport on the ferry, the Consultants assisted the two ports to negotiate an agreement, that allows the ports to exchange containers as ro-ro cargo by using the port of Baku's container chassis.

Developing trade opportunities for local manufacturers

Through their market research activities the Consultants identified market opportunities for Caucasian producers and exporters. They introduced services and products to European buyers and importers and thus made it possible that previously unknown markets could be tapped.

For instance, when working on the fruit juice project the Consultants learned from the manager of one of the private factories involved that the factory produces a whole range of preserves and canned fruit products for exports. Due to high transport costs, the products were not compatible on some of the envisaged markets, namely Turkey and Israel. The Silk Road Express project arranged reliable low cost transport and the manufacturer could establish his products on these markets. After finding a low-cost transport possibility for overseas markets, the Consultants encouraged the firm to market their products in the EU, Canada and the United States, too, with good success.

Other examples, where these activities resulted in new trade flows for the following commodities, are given in the table overleaf:

<i>Commodities</i>	<i>From</i>	<i>To</i>
Fruit juice, preserves, canned fruits, tomato paste	Germany, Poland, Israel, USA, Canada	Georgia and Azerbaijan –several factories-
Machinery and spare parts	Germany, Italy, Czechia	Georgia; Armenia
Power plant equipment, electrical outfitings	Germany, Turkey	Georgia: Tbilisi, Zestafini, Kutaisi Azerbaijan: Baku
Aluminium and aluminium scrap	Azerbaijan: Sumgait	UK, the Netherlands
Non-ferrous metals	Armenia: Vanadzor	Germany, Belgium
Tobacco	Greece	Azerbaijan: Baku
Copper	Armenia: Alaverdi	Germany, Netherlands
Timber	Armenia: different regions	Greece, United Arab Emirates
General foodstuff	Several countries incl. USA	All Caucasian destinations
Chemicals	Georgia	Ukraine
Hazelnuts	Georgia; Azerbaijan	Turkey, Switzerland, Germany
Used vehicles and forklifts	Germany, Scandinavia	Georgia: Poti Azerbaijan: Baku

Training for Ports and Terminals

In order to achieve higher productivity, to effect efficient utilisation of men, equipment and space and to respond to customers requests for "value added services" the ports and inland terminals established with the Consultants' assistance new and additional services, e.g.

- simultaneous loading / discharging operations with direct movements on all transport modes with gear and equipment on international standards
- stripping and stuffing of containers, lashing and securing cargo in containers
- unitising of cargo, marking and repairs
- designing Interchange Stations and stock yards
- optimising movements on the terminals / in the yards
- advising in equipment maintenance and repair
- establishing customers information systems; creating stock reports etc.

Combination of break-bulk and container business

In order to serve large world-wide operating enterprises that ship project cargo, transport organisations in the Caucasus were trained to deal with big, long term transportation chains. In order to get the contracts for transport of containers the SRE also had to realise the transportation of various kinds of cargo in containers as well as non-containerisable cargo (small quantities of consolidated cargo, normal containerised cargo and also oversized heavy-lifts). The result was a reliable and permanent frequency of new offers and orders from „Global Players“ (e.g. Siemens) with a good reputation for further transport management, including 60% of container transport, under the condition that the other categories of cargo were handled with the same efficiency as containers.

3 Project Progress in Final Project Period

Since the last reporting, the conditions on location along the Traceca route changed in the following way.

3.1 Caucasus

Georgia

In Georgia new railway tariffs came into force as per 01.01.2000. The rebates for the Traceca Route were for an intermediate period only 30% instead of 50% as in the past, on the other hand the basic tariffs were lowered by 17%. For container rail transportation the increase resulting from the new tariff structure was about 15 to 20 \$ per Container.

Negotiations with Georgian Rail for better conditions resulted in further rebates in a sliding scale, depending on the number of transportation orders within one year. In June 2000 the previous rebates of 50% were granted again.

Negotiations with Armenian Rail and AzerRail took place during May this year. However, they resulted only in a minimum tariff reduction of approximately 20 USD per container.

The Silk Road Express tariff table for customers on the Traceca-Route was changed and published according to the basic changes of the railway tariffs (tariff see Annex 1 to this report). Clients will be given advantages by special SRE offers if single Containers can be replaced by bigger allotments for same destinations. The Consultants were successful in researches to identify combined transport for different customers to build up railway-allotments on main routes. For example: single 20' Containers (full) cannot be transported on railway-platforms if it is not possible to find it a pair unless the client is willing to pay a very high price. The tariff scale for local railway stations shows progressive rates for single Containers. Reasonable prices start with allotments from 10 Containers or more (Georgian-Azeri transit to Baku). For comparison to the SRE tariff compare Annex 2 to this report. Here, an exemplary tariff a freight forwarders for container transport in the Caucasus is given. This freight forwarder, Georgian Shipping Line, realises the transport of the majority of all containers shipped by the Georgian railway.

The same effect can be observed with the transit declaration fees. One single Container will be charged by some 130 \$, but 10 Containers within one B/L have the same fee, resulting in 13 \$ per Container. Unfortunately, today it is not possible to combine different customers' orders for the same destinations, forming one B/L only. The Consultants negotiate in order to introduce West European Standards which allow to form Railway-B/L's all in one, if the same place of origin and the same place of destination for transit routes can be combined.

Project cargo for Georgian Rehabilitation and Power Transmission plants

The Consultants obtained a contract for the transport of project cargo to Georgia, as well as the provision of additional services. This project included the transport of containerised cargo, heavy lifts, consolidated cargo and some airfreight cargo. Export countries were Germany, Italy, Turkey and Ukraine. Most of the volume arrived by feeder vessels through the Port of Poti.

The Intermodal Office in Poti had to arrange all matters concerning customs clearance, onward-transportation, paperwork and additional services. This example shows that larger amounts of cargo can be obtained by offering more services than transport alone. Projects like this will continue to become available in this year in Armenia and Azerbaijan (Rehabilitation programme Caucasus). Canvassing of cargo includes Public Relations activities on the suppliers' side in Europe.

Armenia

The difficulties the Consultant had to face by starting container forwarding business to and from Armenia were negotiated permanently with the railways, terminals, forwarding agents and shipping lines. The lack of substantial progress results partly from following circumstances:

- Rules and regulations in customs matters are too complicated and are changed sometimes by individual procedures (not by legal acts)
- Artificial hurdles for documentation and paperwork
- Lack of knowledge in English language by all official parties, resulting in misunderstanding of transport documentation
- Terminal tariffs (e.g. for Container handling and depot charges) are far above international standards
- Even though the counterparts from the Armenian Railways promised the Consultants that the Railways would prepare a list of potential clients and their commodity structures suitable for intermodal transport as well as the current cargo flows, this information was never supplied
- Combination of Railway plus onward-transportation by truck could not compete against roundtrip trucking for the whole way
- Cargo supply from state-owned companies were still delivered by truck, even though the railways offer cheaper rates

A draft proposal for terminals and onward-trucking tariffs was prepared and negotiated in detail with the management. After lengthy discussions and counter-proposals the offered prices came closer to international standards, but, in particular, handling rates and onward-trucking rates were still higher than in other contracts (e.g. Baku or Aktau or Bukhara or Tashkent)

Investigations made together with Armenian Rail and agencies explored potential customers with special commodities which are useful to be containerised and fit for railway transportation. New offers will be delivered by using carrier-owned repositioning containers.

The system should work as follows:

Full import, containers will be delivered to the recipient. After stripping, the empty containers will be kept for intermediate storage at the Terminal (like depot container). After a free of storage-period they will be redelivered to exporting clients in Armenia and go back with the same shipping lines what were used before.

Import commodities will be

- paper,
- raw textile material
- machinery
- foodstuff

Export cargo will be

- non ferrous metals
- minerals
- textiles
- tin products.

Azerbaijan

New agreements with the Port of Baku were concluded according to procedures with empty container depots for shipping lines as well as for lease companies and shippers own Containers. The container terminal will now serve as the interchange station for changing the transport modes from truck to rail and vice versa.

Additional services which the Terminal can offer were established, like

- Customs clearance on site
- Stripping and stuffing of containers
- Lashing and securing of cargo
- Bonded warehousing for consolidated cargo
- Interchange link between Container Terminal and Ferry Terminal

Two forwarding agencies took part in the new business for containerised cargo.

The re-established ferry connection via the Caspian Sea to the Port of Aktau cannot at present handle rail cars (until the rail ferry ramp in Aktau is rehabilitated), but it can be used for transporting containers as rolling material: The terminal chassis of the Port of Baku will be used to pick up containers on both sides for ferry transportation.

Ukraine

In order to get cheaper and competitive rates from the shipping company UKRFerry serving the route Ukraine, Illichevsk to Poti, Georgia several negotiations with managers from the ferry and railway departments took place.

However, the results were the same as already in the previous offers of UKRFerry (compare Annex 3). In their opinion, the utilisation of the ferries are still satisfying due to the exchange of tank wagons (oil, diesel and petrochemical products) between Azerbaijan, via Georgia, and the Ukraine. Also, UKRFerry is partner of the agreement between the railway organisations that stipulate free re-delivery of equipment. The freight rate UKRFerry charges has to include empty repositioning. The management of the shipping company allowed the project a 25% reduction for a limited time until the end of 2000, but this is not sufficient to construct a compatible total price from western Europe via the Ukraine to Poti. As a result, the ferry tariffs via the Black Sea from the Ukraine to Georgia are still prohibitive for container business.

3.2 Central Asia

3.2.1 The market for intermodal services

Clients reactions

At this stage there is no longer any doubt that there is a demand for intermodal services by Central Asian customers. The Consultant has visited tens of customers and most of them have expressed interest in the Traceca Intermodal Services.

A list of customers visited is available upon request.

Freight Forwarders' offers

Most companies operating in Central Asia offer full load containers. The only real problem they are facing is the unbalance of traffic.

Weekly Groupage services from western Europe are now starting for manufactured products and are a success in Kazakhstan. At the end of the line, in Almaty, such European Freight Forwarders as Panalpina, Danzas, as well as the ubiquitous M & M, offer this kind of service for small lots.

3.2.2 Transport of Cotton along the TRACECA line

The shipment of cotton in containers from Central Asia westwards on the Traceca corridor has received considerable attention in this project, in particular from people outside project execution. It was even been alleged that the success of the project is depended on these shipments.

It appears that there is a lack of information and conception surrounding this matter, leading to unrealistic conclusions.

Cotton exports from Central Asia

The export of cotton is a well managed, well organised and a closely controlled operation, having its own history and rules. It has been organised for years along the same pattern; which are roughly:

- Sales and transport contracts signed at the same time with companies related to one another (under the same Ministry)
- CIF conditions (meaning generally "Baltic ports")
- Wide use of conventional wagons and warehousing in the ports

This is no longer in line with clients' needs: all over the world, cotton is carried in containers and conditions are either "ex-works" or "delivered". But old habits are die hard and the old system is closely guarded. If the cotton is transported from the source by container to the final purchaser, the cotton would bypass the cotton warehouses on the way and the present operations would be severely hampered. It is obvious that a change in the transport mode is against the interests of some quarters of the cotton trade and will be resisted as far as possible.

In response to a request to open the transport market the Government of Uzbekistan has decreed that a certain amount of the cotton export (50,000 tonnes; less than 10% of the total) shall be carried on the Traceca route. That means that in the most favourable case 50,000 tonnes of cotton per year is available to all transport modes, rail, truck and container, not only to the project's Silk Road Express, and for all destinations. That is considerably less than the 600,000 to 800,000 tonnes that were repeatedly mentioned as potential cargo.

Cotton in containers from Uzbekistan westwards

It was argued that a multimodal transport product, i.e. a container block trains, would be feasible on the Traceca route, because cotton could be transported as a back load in containers. The argument continued that goods in containers are imported into the Central Asian countries, but as no typical container cargo is available as back load, the countries are swamped with empty containers.

The realities on site are rather different.

Part of the containers that come into these countries are old and in a bad technical condition. They were especially purchased for a one way voyage only and are meant to be abandoned once they are unloaded. These containers are often in an unsafe condition, have no valid certification and are entirely unsuitable for a back load of cotton.

Other containers, once they are unloaded, are immediately repositioned by their owners, mainly shipping lines or major international freight forwarders, to the nearest location (not always on the Traceca route) where there is a good chance of speedy reemployment. They normally go to Bandar Abbas, Turkish ports,

Russian locations or to Poti. The owners are not prepared to leave them in Central Asian countries, waiting for return cargo.

Of the empty containers that are available in Central Asian countries, the majority are 20' containers. Due to their unfavourable measurements, they can only be loaded inefficiently with cotton bales and are, therefore, too expensive to transport. Even 40' containers are less efficient than goods rail wagons, as goods rail wagons can carry more bales of cotton than a 40' container, but both being charged the same price for ferry crossings (ferries charge per meter wagon length).

Another obstacle is the absence of empty container depots in the region. Within this project it was necessary to physically look for empty containers everywhere, note their distinguishing marks, identify their owners, negotiate with the owners a possible use and persuade them to bring them to the Bukhara Cotton Centre or into the vicinity.

Efficient block train operations can only be conducted when all containers for a full train can be stuffed in a central location, placed on rail wagons and carried through to the final destination.

In Uzbekistan, there were no facilities of this kind.

There is the Bukhara Cotton Centre that has been equipped with modern cargo and container handling equipment by Traceca at considerable expense, but no steps had been taken by anybody to assure the Centre plays its intended role. Rather, it seemed that other cotton terminals opposed this role. The Consultants found the Centre empty, the equipment idle and neither strategies nor activities to change the situation.

In intensive and lengthy discussions the Consultants could persuade a local transport entrepreneur to truck cotton from other locations to Bukhara and consolidate the cargo there. The Consultants could also persuade the Centre's management to offer commercially-sensible rates for storage and handling.

Now, the pre-transportation costs from ginneries to warehouses like the Bukhara Cotton Centre will be covered by seller's side. The costs for stuffing and container movements will be shared between sellers and buyers. Empty containers can be stored at the Bukhara Cotton Centre under reasonable conditions.

Once the cotton started to assemble in Bukhara and the availability of containers had been ascertained by the Consultants, other transport operators, who had so far not participated in cotton transport, became very interested in the new transport opportunities. They took advantage of the improved situation created by the Silk Road Express project (accumulation of cotton in one central position, identification of empty containers, training of personnel, etc) and, by using rail transport on the northern route through Russia with considerably lower prices than the Traceca route, started to carry containerised cotton to Western Europe.

Thanks to the project's work, cotton traders ended up with much better conditions but, unfortunately, no container traffic on the Traceca route materialised so far.

A comparison between total costs of conventional transportation in covered railway wagons (via Tallinn and Riga), stuffing in Baltic Sea Ports and on-carriage by feeder vessels to the buyers at European and overseas destinations and the total costs of containerised transport from the local cotton centres to the buyers at the same destinations showed that the difference in price is not very large. But, it became apparent that the transport of goods from Central Asia to Europe along the Traceca route is for most origins and destinations price-wise less attractive than the transport along the Northern route through Russia, if the national railway organisations are not prepared to offer discounted freight rates on the same level than the Russian railways. The Traceca route is neither the shortest nor the cheapest way. (see below, alternative routes).

3.2.3 Latest Development of Container Traffic

Eastbound traffic (imports):

Here, the cargo consists mostly of manufactured products. The financial crisis (Rouble crisis with its consequences in Central Asia) has slowed down imports in 1999.

Westbound traffic:

This is the key to the problem; the only export traffic that could balance imports is the cotton traffic and container shipments are just beginning from Uzbekistan.

Hereunder are the latest available figures for Central Asia.

Kazakhstan

Overall container traffic of Kazakh Railways

The latest figures include both 20" and 40" containers; they have been compiled by the Railways of Kazakhstan for the Ministry of Transport ; figures are rounded (approximate).

Export Containers to (in TEU)	1998	1999	2000 (1st quarter)
<i>total</i>	6000	4800	2900
Russia	2520	2016	1050
China	1500	1228	751
Iran	420	336	175
Through Aktau Port		96	100
Other destinations	1560	1124	824

Source : Ministry of Transport / Kazakh Railways

Kazakh container traffic appears limited but, strangely enough, rather balanced. Unfortunately, these figures take into account all 20" containers, including standard railways 20" containers. ISO containers are much less numerous (though no figures are available at the national level). In any case, traffic to the west "Aktau Port" and part of "other destinations" is limited to a few hundred containers per year, but increasing sharply.

Import Containers from (in TEU)	1998	1999	2000 (1st quarter)
<i>total</i>	7380	5664	4075
Russia	3097	2379	1124
China	1512	1317	1237
Iran	296	225	107
Through Aktau Port		170	134
Other	2475	1573	1473

Source : Ministry of Transport / Kazakh Railways

Imports are also increasing from the same directions; the overall unbalance, posing a possibility for transportation via the Traceca route, is:

Exports : 100 (through Aktau)+ 824 (other destinations) = 924
Imports : 134 (through Aktau)+ 1473 (other destinations) = 1,607
i.e., about 80% more inbound containers.

ALMATY 1

The terminal of ALMATY 1 enjoys good facilities: new handling equipment, donated by the European Union Traceca Programme, and fairly good surface for stacking containers.

Here, exports of ISO containers account for about half of the inbound traffic; traffic looks fairly stable (4,000 imports per year and 2,000 exports)

ALMATY 1 : total number of containers handled since 1998

	1998			1999			2000 (4 months)		
	20 ft	40 ft	Total	20ft	40 ft	Total	20 ft	40 ft	Total
Imports			4324			3448	452	560	1011
Exports	1083	922	2005	1316	1191	2507	95	355	450
% exports			46%			72%			45%

ALMATY 1 : import routes, Year 2000, 4 months

	20 ft		40 ft	
	Quantity	%	quantity	%
St Petersburg	298	66%	179	32%
Drujba	75	17%	93	17%
Black Sea	8	2%	5	1%
Far East	45	10%	262	47%
Saraks	26	6%	21	4%
TOTAL	452	100%	560	100%

Clearly, imports through the Black Sea (via the Traceca route) are negligible at present. This does not reflect a lack of commitment from the local railways or importers. It means that, as long as the route through Turkmenistan is not competitive (in prices as well as in transport time) other means of transport or routes will be used. For instance the regular « groupage » services (DANZAS, Panalpina, DOLPHIN, etc.) between western Europe and Almaty use trucks or the North route through Russia.

Transit through the Port of Aktau might change the picture.

In order to have an idea of destinations, the Consultant has asked figures from Kedentransservice.

KEDENTRANSSERVICE is a new company set up in June 1999 and operating Railway Terminals open to international traffic; they also developed a freight forwarding activity and their year 2000 figures reflect the pattern of exports from Almaty.

KEDENTRANSSERVICE : number of containers processed in Almaty 1

Months	1		2		3		4		5		TOTAL
	20"	40"	20"	40"	20"	40"	20"	40"	20"	40"	
destinations											
NOVOROSSYISK	8										8

Months	1		2		3		4		5		TOTAL	
	20"	40"	20"	40"	20"	40"	20"	40"	20"	40"		
China			2		2				1	2	27	34
England					1					1		2
Finland		27	1	1								29
Germany (Hamburg)				1			1	1	1	1	1	5
Holland			1									1
Italy	4	1	10		5		2	1	2			25
Poland			1									1
Switzerland			6									6
total Europe	4	28	19	2	6	0	3	2	4	1	69	
Canada		1										1
USA								1				1
Namibia					1							1
TOTAL	12	29	21	2	9	0	3	4	6	28	114	

Kyrgyzstan :

In Kyrgyzstan, the container traffic is modest and stable as shown in the next table.

Alamedin Terminal (Bishkek) in TEU

	1998	1999	2000 (to April)
Imports (total)	2613	1413	509
Imports (through Russia)	924	558	177
	35%	39%	35%
Exports (total)	1636	1387	498
Exports (through Russia)	707	919	230
	43%	66%	46%

Unfortunately, traffic through the Traceca route is too small so far and the Kyrgyz railways cannot provide separate figures for this route.

The decrease in traffic from 1998 to 1999 reflects only the temporary difficulties faced due to the devaluation of the Rouble :

- 2000 figures should show an increase and regain lost traffic
- new handling equipment finally delivered by the end of the first quarter of 2000 should improve the competitiveness of Alamedin

Uzbekistan

This country is the major country for container business. Uzbekistan only, with its large cotton exports, can balance east and west bound container traffic.

Uzbekistan

UZBEKISTAN OVERALL CONTAINER TRAFFIC

ANALYSIS

1999

	units		Total RW	Tashkent	%	Kokand	%	Bukhara	%
1	2	3	4	5		6		7	
loading of cargo into 20" and 40" containers	tons	1998	72888	42263	58%	12830	18%	14390	20%
		plan 1999	78000	43700		21500		10400	
		results 1999	82571	45055	55%	23163	28%	11337	14%
		%of plan	105,8	103,1		107,7		109	
		%of 1998	113,3	106,6		180,5		78,8	
handling of 20" and 40" containers	nb. cont.	1998	6146	3556	58%	1028	17%	1245	20%
		plan 1999	5900	3400		1300		1100	
		results 1999	6507	3538	54%	1406	22%	1231	19%
		%of plan	110,3	104,1		108,2		111,9	
		%of 1998	105,9	99,5		136,8		98,9	
average weight of 20 and 40' container	kg	1998	11859	11885		12480		11558	
		plan 1999	13220	12853		16538		9455	
		results 1999	12690	12735		16474		9210	
		%of plan	-530	-118		-64		-245	
		%of 1998	831	850		3994		-2348	
handling of 20 and 40' containers average per day	nb. cont.	1998	17	10	59%	3	18%	4	24%
		plan 1999	16	9		4		3	
		results 1999	18	10	56%	4	22%	3	17%
		%of plan	110,3	104,1		108,2		111,9	
		%of 1998	105,9	100		136,8		98,9	

UZBEKISTAN

YEAR 2000

RW STATIONS		AVAILABLE		STATISTICS			
		Container Departures (Physical Units)	Average Weight of Containers (kg)	Container Departures (Physical Units)	Average Weight of Containers (kg)	Container Departures (Physical Units)	Average Weight of Containers (kg)
		JANUARY		FEBRUARY		MARCH	
Akaltin	728708	11	24 504	104	19606	71	16992
Akhan-Garan	727207	2	6 200				
Andijan-Sev	737406	10	10 219	13	10129	7	9180
Angren	726806	3	7 000				
Bukhara 2	740108	8	7 281	30	3311	14	11711
Chukurasay	725409	95	12 723				
Djizak	732205	2	8 200	1	7600	1	8200
Kakir	735909			2	8067	2	7775
Karshi	742003	2	6 000			4	14987
Katta-Kurgan	730604			3	20163		
Khavast	730002	5	8 000	10	7400	8	8000
Margilan	736206	37	16 554	60	18374	75	19924
Nukus	752904	1	5 000				
Raustan	734802	5	7 180	2	8000	2	8000
Sergeli	727601	77	20 669			134	18791
Termez	744109	4	4 300	5	2200	2	12000
Tinchlik	740409	7	3 457	5	400	2	4000
Toy-Tepa	727404	70	19 523				
Uch-Kuduk	741007	2	6 250	6	6000	4	5750
Ulugbek	731407	14	7 111	5	10200	13	9357
Yangi-Zaravshan	740803	6	7 416	22	4563	3	7400
TOTAL		361	15 374	268	15 734	342	15586

Balance of traffic

As cotton exports in containers have started to materialise, there is no longer any doubt that a balance in westbound and eastbound traffic of containers can be obtained. Coming up with a figure is, however, extremely risky. Figures of the overall traffic are hard to come by; when it comes to the Traceca route it is almost impossible. However, the Consultant would volunteer the following figures for a balanced traffic:

- Central Asia: around 10,000 TEU per year (150,000 tons). This figure includes all routes (Russia, Iran, China and Traceca).
- Traceca can expect roughly 25% of this traffic, if the line is competitive in prices and quality of service, i.e. : 2,500 TEU per year (40,000 tons) or 1 small train per week (20 flat beds) collecting containers from Kazakhstan (Almaty, Chimkent), Kyrgyzstan (Bishkek) and Uzbekistan. A "hub" like Bukhara could be considered.

3.2.4 Competition and Tariffs

MTT Tariffs

There is such a thing as a "Transit Tariff Policy" in OSJD Railways ("MTT"). Tariffs are based on a study that produced a "tariff book" many years ago; conditions of application are up-dated every 6 months during OSJD meetings where the "Tariff Policy" is set for the next 6 months.

Based on soviet style calculations, the MTT Tariff is far from reflecting actual costs.

Recently, each independent rail network has tried to add its own "rules" (regarding V.A.T. / exchange rates, specific rations, etc.). Moreover, everyday practice shows that all interested parties consider the MTT figures more as a reference in price negotiations than as an actually valid tariff. For instance, in its price negotiations the Consultants were confronted with unexpectedly substantial rebates from competing Russian railways at all times. These rebates could neither be attributed on any MTT "rule", nor could they be explained on sound economic grounds. Also, the Railways do not automatically apply the 50% discount, some even refuse to give discount at all.

The result is clearly that there is no stable practice and parties tend to negotiate transport prices at all times. Long term decisions are hard to make in this kind of volatile environment. However, the Consultant is publishing some tables (annex 3 MTT "Tariffs") that show that :

- the withdrawal of Turkmenistan from the "Saraks" agreement has made the route through Aktau and Kazakhstan cheaper for most destinations, compared with the route through Turkmenistan,
- the route through Aktau will stay competitive in any case,
- the price charged for crossing the Caspian Sea is uneconomical and endangers the whole Traceca route to Central Asia (see price examples below: Baku – Turkmenbashi, by Caspian Shipping Line, Baku – Aktau by RoRo vessel, and the alternative transport Baku – Aktau with feeder vessel)
- Crossing of the Caucasus is comparatively expensive and efforts to lower these rates must be made by the concerned operators. See also below, tariffs of Black Sea ports

Negotiated Rebates

Rebates (as well as surcharges!) are the key to this business. The Consultants have been unable to find a clear pattern in negotiations on rebates. As rebates might account for 50% in the price calculation, it seems difficult to set up a clear pricing strategy at this stage.

In last minute negotiations in early 2000, the Consultant was faced with unexpected offers from the Russian Railways at dumping prices. Cotton exports, handled with equipment donated by the European Union at a combined cost of millions of Euros in the area, were shipped to Baltic ports through Russia.

Competing Traceca Routes

From the main Kazakh as well as Uzbek export centres, two Traceca routes can be considered :

- through Turkmenistan : Bukhara / Ashkhabad / **Turkmenbashi** / Baku
- through Kazakhstan : Bukhara / Beineu / **Aktau** / Baku

The rail line Bukhara / Beineu, which crosses both Turkmen and Uzbek territory, has been in use for a long time. Now Uzbekistan is building a second line, totally inside Uzbek territory, which will improve the capacity of the rail link to Aktau. This new line will be put in operations as soon as completed i.e. between the end of 2000 and the end of 2001.

The distances from Aktau to the majority of Central Asian destinations are comparable to the distances from Turkmenbashi to these destinations as shown in the following table.

DISTANCES FROM CASPIAN SEA in km
TO CENTRAL ASIA

FROM	TO	Via TURKMENBASHI					via AKTAU			DIFF	Via AKTAU Through UZBEKISTAN					DIFF
		Turkm/ Chardjew	Chardjew destin. or Chengeldy	Chen- geldy destina- tion or Lugovaia	Lugovoi destin.	TOTAL	Aktau destin. or Lugov. or Chengeldy	Lugovaia or Chengeldy destin.	TOTAL		Aktau Beineou	Beineou dest. or Chengeldy	Chengeldy Lugovaia or destin.	Lugovaia destin.	TOTAL	
Caspian Sea	UZBEKISTAN															
	Bukhara 2	1163	111			1274	2524	702	3226	1952	422	739			1161	-113
	Tashkent	1163	708			1871	2524	79	2603	732	422	1349			1771	-100
	Fergana	1163	711			1874	2524	400	2924	1050	422	1461			1883	9
	KAZAKSTAN															
	Astana	1163	787	1614		3564	3984		3984	420	422	1428	1614		3464	-100
	Almaty 2	1163	787	911		2861	3281		3281	420	422	1428	911		2761	-100
	Chimkent	1163	787	156		2106	2526		2526	420	422	1428	156		2006	-100
	KYRGHIZSTAN															
	Lugovaia (border)	1163	787	476		2426	2846		2846	420	422	1428	476		2326	-100
Bishkek	1163	787	476	120	2546	2846	120	2966	420	422	1428	476	120	2446	-100	

As a result, the Kazakh Railways can offer a rail service competitive with the Turkmen Railways, more so if they apply "Saraks like" rebates at a time when the Turkmen have decided to suspend the application of the Saraks Agreement.

This kind of comparison appears in Annex "tariff"; the reader must be aware that tariffs are always "subject to last minute negotiations" (up or down). However, the table shows that the route through Aktau is basically competitive.

Competition

Silk Road Express operations in Central Asia suffer very much from the intensive competition of the Russian Railways who divert nearly all traffic between the Central Asian Traceca states and Europe northwards through Russia.

The following table shows transport price differences for containers from ports in the Hamburg – Antwerp range to locations in Central Asia (in US\$):

Destination	European carrier via Russian Railways		Silk Road Express	
	20'	40'	20'	40'
Baku	1480	2360	1846	3303
Tashkent	1800	2890	2650	4650
Almaty	1995	3050	2850	4850
Bishkek	2200	3430	3100	5180
Dushanbe	2460	3870	3350	5520
Ashgabat	2340	3690	2980	4930

On the Traceca route there are two ferry services. Their freight rates are rather high, compared with international conditions (in US\$):

From → to	Sea freight	THC out-port	THC in-port	Documentation	Total
Illychevsk – Poti UKRFerry 20'	400	55	125	100	US\$ 690
Baku - Turkmenbashi 1 wagon = 1*40' or 2*20' or 1*20'	620	60	60	included	US\$ 740
Kiel – Finland Ferry; 20' container	550	included	included	included	US\$ 550
Hamburg – Sweden Feeder; 20' container	650	included	included	included	US\$ 650
Hamburg - Singapore Container ship; 20' container	850	included	included	included	US\$ 850

3.2.5 Service Offers / Cotton Centres

Bukhara Cotton Centre

Bukhara Cotton Centre has been set up and renovated by a new company which is a subsidiary of Uzneshtrans.

Handling equipment worth 2 million Euros was donated by the European Union Traceca Programme and was still standing idle at the beginning of the present season; then, by the end of 1999, traffic started to pick up; this is due to a change in sales conditions requested by traders (with the support of Traceca projects) and accepted by the Uzbek parties. From this period, ginneries from the Bukhara region started to deliver cotton to the Centre. For western traders, shipments from Bukhara was quoted on the same basis as shipments from the gins. Besides, warehousing conditions quoted by the Centre appeared to be competitive when compared with average prices used in the west.

Traders, such as "Paul Reinhart AG", "Free Trade" and "Jensen Investment Holdings" became interested and traffic started to pick up. Some 14,000 tons of cotton were delivered from the Bukhara region to the Centre in late 1999 as compared to no cargo at all for the whole previous season.

By the end of 1999, shipments from the Bukhara Centre appear as follows :

Destinations :

Country	Port	Tonnage
Turkey	Mersin	2,000
South Korea	Pusan	1,500
Russia		1,000
Latvia		2,500
Belarus		500
Georgia	Poti	300
	TOTAL	7,800

Transport modes :

Mode	Tonnage
Standard wagons	5,000
Containers	1,500
Road	1,300
TOTAL	7,800

However, as shown in the above table, all efforts of EU experts, including experts from the present project, led more to a development of traffic through Russia than through the Traceca route.

The actions of the Consultant have proved positive for western traders as they enjoy much lower transport rates than in previous seasons but, sadly enough, it has not proved as successful for the Traceca line. The main reason is that the Russian Railways offered dumping prices. Long established freight forwarders such as Uzneshtrans made the most of these new conditions through Russia instead of supporting the Traceca route.

The position of these companies, in particular Uzvnezhtrans, subsidiaries of the Uzbek Ministry of Foreign Economic Relations, is extremely disappointing: they were happy to receive constant assistance including free equipment worth 2 million Euro but did not show much support to European projects when it came to organise their export traffic. If possible, future Traceca grants or projects should take this lack of response into account.

The success of Bukhara Cotton Centre, though recent, added to the success of the Ak Altyn joint venture, show that cotton shipping centres offering intermodal transport are the future of cotton exports. The Uzbek authorities consider setting up other centres in other cotton growing regions.

Therefore, service to the customers can only improve and export of cotton in containers will gradually pick up.

3.3 Alternative Routes

The following routes have to be considered as competitive alternatives for containerised transport:

- Far East destinations have found their best way via Iran (Bandar Abbas). This route is still unbeatable price-wise and time-wise.
- Cotton for north European and east European destinations found the cheapest way through Russian corridors. Only south European destinations like Italy and Spain can be served in a competitive way via Port of Poti with on-carriage by Feeder vessels.

In the Black Sea we have to face the following hurdles:

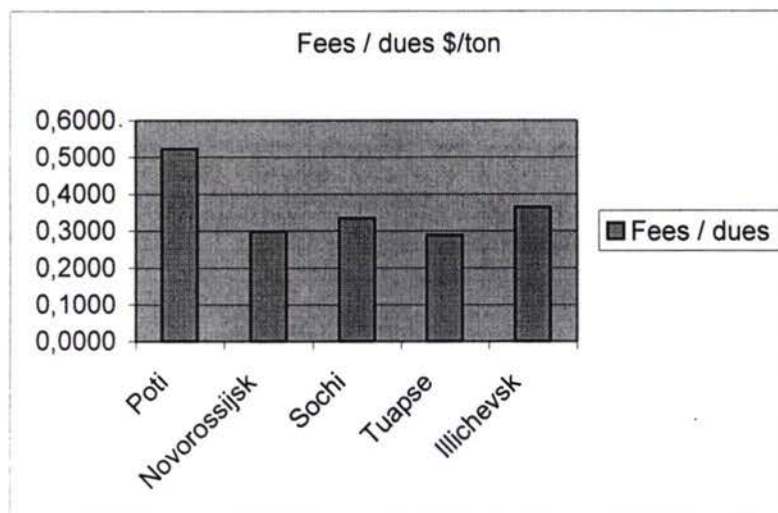
- Port operation costs in Poti are more expensive than in other Ports (see enclosed table)
- Shipping lines are trying to get their own containers (from imbalanced places of repositioning) back with cotton which should be stuffed e.g. in the Ports of Poti or Baku. Main shipping lines have no depots in Central Asia and they are not willing to subsidise empty container transportation.
- If the Consultant offers cotton stuffed in lease containers many shipping lines refuse to carry them in order to protect their own containers which they need to reposition.
- In these cases other shipping lines offer unbelievably high rates from Poti to Mediterranean destinations because of a double feeder procedure. An example highlights this experience: Sea freight rate on mother vessels from Bandar Abbas to Shanghai will be at a level of 750 \$, sea freight rate from Poti to Genoa on double feeder procedure will be at a level of 1,200 \$.
- By trying to use leased, but independently stored containers in Uzbekistan, the leasing tariff, including drop-off-charges at end destinations, amounts to about 250 \$, which is just the gap between the price the cotton traders accept for the conventional way and which the containerised way has to follow. Offers from cotton traders are still pending but could not be realised due to the fact that it is nearly impossible to find empty containers for reasonable conditions or priority for Traceca route.
- The Consultants have stored more than 120 empty containers at Bukhara Cotton Centre in option from a lease company. After several weeks of negotiations and bargaining with cotton traders they were all gone with cotton on the route via Russia and Poland to western Europe. The offers from competitors were at a level of \$400 to \$500 below the price of Traceca corridor.

Some 85 containers, belonging to Korean Shipping Line, have been transported via Bandar Abbas to South Korean Ports. The shipping line refused from using their containers for European destinations (means Traceca Route), because of own interests in back going cargo from Korea to Uzbekistan in the same containers again.

The transportation costs via Bandar Abbas to South East Asia against the route via Poti are appr. \$250 per container cheaper.

Black Sea Ports' Tariffs

Fees / dues USD per t	Georgia	Russia			Ukraine
	Poti	Novorossijsk	Sochi	Tuapse	Illichevsk
Vessel ton	0,3500	0,2700	0,2850	0,2500	0,2970
Light house	0,0200	0,0250	0,0250	0,0250	0,0250
Channel	0,1200			0,0090	0,0200
Berth	0,0200	0,0022	0,0220	0,0021	0,0220
Pilots	0,0130	0,0010	0,0028	0,0023	
Total	0,5230	0,2982	0,3348	0,2884	0,3640



One outcome of the project activities is that now repeatedly competitors take over the framework and ideas from the Intermodal project and find their own way to compete easily because of the lower freight level of the Russian railways. The Consultants have again started to investigate for empty containers from shippers to use them for cotton. But there is only a small number available in the areas where they are needed. These empty containers have to be collected from several areas and pre-transported to cotton warehouses, with a corresponding increase in costs.

It has been proven unfeasible to carry some single containers in a number far below 80 TEU (which is the minimum number of containers for a block train) for the following reasons:

- Single containers on single platform wagons have to be consolidated for each train in each country involved (meaning marshalling and shunting, calling several local railway stations),
 - ⇒ this results in higher transit time,
 - ⇒ fixes unreliable schedules,
 - ⇒ leads to a loss of equipment control and at least more costs for demurrage and local fees.

The saving in time of a block train against single wagons amounts to more than 50 %, cost savings for block trains are approximately 10 %.

The Consultants' proposal of \$1,750 per 40' Container (for a total number of 80 TEU) from Bukhara Cotton Centre (FOR) up to FOB Feeder vessel Poti Port was answered cotton traders with counter-proposals of \$1,600 for single containers only.

For details concerning the transport of containers and dry cargo via alternative routes, compare Annexes 1 and 2.

3.4 Agencies and joint operating partnerships

The Consultants decided to establish joint partnerships with local agencies in the Caucasus for several reasons:

- There are some 80 freight forwarding companies involved in the local transport sectors in each country, forcing competition against railways
- Some freight forwarders have joint agreements with other forwarders for balancing cargo flows on both ends of the transport chain
- Some agencies have their own container equipment and are enjoy a dual position as forwarder and as shipping agency
- Some forwarders use leased or owned second-hand-containers and are able to offer one-way traffic instead of roundtrips
- Some agencies established own facilities for warehousing, distribution, bonded warehouses, container depots, custom clearance offices, port agency offices

They all have container handling equipment, a trucking fleet, railway track connections and are able to handle conventional cargo as well as containerised cargo. They combine offers for several value added services on the whole transportation chain. Most of them have the choice to avoid expensive port facilities or local railway terminals. These companies have some possibilities by special relationships with local customs and official boards, which makes it easy for them to compete against the smaller staff of the Project Intermodal Operator, which is only an independent operator for container traffic on the Traceca route. Under normal circumstances, the Intermodal Operator has not the alternative choice to deal in the conventional field or to invest into own facilities, terminals, trucking fleet etc in order to keep bigger market shares than the a.m. agencies.

The logical conclusion of these facts was the decision to operate with strong partners which are already established in the whole Caucasus area and which fulfil the same operations in the transportation field as the competing agencies.

This joint partnership started to work 15 May 2000 and will keep the joint business for Georgia, Armenia and Azerbaijan.

A proposal for a possible legal set-up for long-term co-operations is given in Annex 5 to this report.

3.5 Conditions in the Intermodal Transport Market

The amount of containers being transported on the Traceca route have decreased considerably in total. Looking at the container handling statistic of the Port of Poti we find the following situation.

Containers handled in the Port of Poti

	1996	1997	1998	1999	2000 (7 months)
TEU	20,633	43,495	49,761	29,761	22,180

Reasons for the decrease of cargo are, among others, the breakdown of the Russian economy in autumn 1998, the stagnation of the economies in the Traceca region, a lower oil production in the Caspian Sea than anticipated. The latter reason resulted in a decrease or even an entire stop of activities of foreign companies in the region. This led to fewer imports of these companies and less available income of the local population. Another reason for the stagnation of activities is the partly unstable legal and economic framework in the Traceca states.

In this shrinking market more and more companies compete for the remaining cargoes. In addition to local freight forwarding companies and international ones or their agencies, some shipping agencies also offer these transport services. They offer and arrange intermodal transportation, by truck and also by rail. Unfortunately, it is impossible to gain insight into their statistics.

Among these shipping agencies are:

- Sesamtrans for Evergreen
- CMS for CMA and CMN
- Handico for Maersk
- Barvill for MSC

With the exception of CMS who have this year already made some bookings with the Silk Road Express, these companies handle their own containers and it is very difficult, if not impossible, to cooperate with them in the market.

3.6 The Silk Road Express Statistic

IV Quarter 1999 / I Quarter 2000

	Relation	Commodity	TEU
Georgia			
Export	West Europe	Juice concentrate	42
	West Europe	Chemicals	14
Import	West Europe	Machinery	24
	Germany	Electrical Material	71
Armenia			
Export	West Europe	Metal, textiles, tin products	21
Import	West Europe	Foodstuff, raw material for textile	26
Azerbaijan			
Export	West Europe, USA, Canada, Israel	Preserved fruits and vegetables, tomato paste, non-ferrous metals	18
Import	West Europe	Machinery	22
		Total	238

In addition to these container transports Silk Road Express transported a considerable amount of not-containerisable goods, as mentioned under point 2 of this report. This amounted in total to 1,500 t of cargo to Georgia and 500 t of equipment to Central Asia.

3.7 "Silk Road Express" Web-Site

As stated in the previous report, a test site has been in operation for some time and is still open to the public; the address is as follows :

www.alienor.fr/sre

This test site has been set up by the Consultant's expert without any charge so far.

Three offers for setting up and hosting the definite site have been collected from Internet Service Providers and they fit in the budget of the present project. However, the Consultants have not made the decision to invest this kind of money without discussing the matter with the Commission mostly for the following reasons:

- A web site is certainly needed for such an international operation as "Intermodal Services" which links customers and operators in at least two continents and numerous countries. However, as long as the operations are not fully organised, reactions from unsatisfied third parties or customers might be counter-productive.
- The Commission might wish to integrate this site within the framework of the Traceca internet services ("Traceca website")
- The Consultant is ready to effectively set up the definite site at any time within an extremely short delay estimated at 3 weeks.

Here is a table showing the 3 offers received from Internet Service Providers. Complete offers have been made available.

Company	Budget
CITI	22.500 EUROS
ALIENOR	25.000 EUROS
ICOR	28.000 EUROS

3.8 Purchase of Computer Equipment

3.8.1 Caucasus

The Consultants have proposed to purchase the equipment for the different locations in several lots. This proposal was approved by the task manager. The purchase of equipment in different lots has some decisive advantages:

- The procurement procedure is facilitated and thus the equipment can be bought only when it will be necessary and when the proper use of the equipment can be ensured.
- By purchasing the computer equipment locally at the different locations, local support of the equipment and software can be ensured.

The following institutions receive computer equipment in the Caucasus:

Equipment	Tbilisi	Port of Poti Port of Baku Railway container terminal Yerevan	Total Units
Personal Computer with software	3	2 each	9
Laser Printer	2	1 each	5
Ink Jet Printer	1	1 each	4
Photocopier	1	1 each	4
Modem	2	1 each	5
Telephone equipment	1	1 each	4
Fax machine	1	1 each	4
UPS	3	2 each	9

3.8.2 Central Asia

In Central Asia the Consultant has taken into account :

- the pattern of container traffic
- the suggestions of beneficiaries.

Purchase has been de-centralised so that proper maintenance contracts and guarantees could be obtained from the suppliers: suppliers were approached in 3 locations, Tashkent, Almaty and Ashkhabad.

The Consultant has been allowed to make the selection of suppliers provided it respected the standard rules of the European Commission. After proposals (Pro-Forma invoices) have been collected, Forms EQ have been duly filled and provided to the Commission.

Kazakhstan:

The main centres involved in container traffic are:

- Inland terminals (Almaty and Chimkent)
- Port terminal: Aktau

The equipment has been dispatched to these Centres after a last meeting with the First Vice Minister of Transport, Mr. Karibjanov. The Consultant was instructed to arrange the delivery with Baurjan Baimukhanov, head of Kaztransservice, a subsidiary of the Railways of Kazakhstan.

The list has been agreed upon with Mr. Baimukhanov and delivery is organised through the Terminal of Almaty 1 which is in charge of further dispatching to the offices at the end of the line.

Kyrgyzstan :

Delivery of equipment regards the Centre of Alamedin, actually the only terminal open to the international traffic of 40' containers.

Tajikistan :

Tajikistan was never involved in the project and, as a result, no equipment is being provided to the Tajik terminals.

In fact:

- Tajikistan was "off limits" to European Consultants until very recently and there was no question to deliver any type of equipment during this period
- There is no container traffic to speak of to or from Tajikistan and none through the Traceca line.

Turkmenistan :

Turkmenistan is a specific case; this country has made unilateral decisions which put it gradually out of the project :

- It has decided not to apply any longer the "SARAKS" agreement and thus charge MTT tariffs without any rebate to speak of,
- All railway contracts must be signed with a "commercial" entity related to the Railways which is charging a commission for no effective action of any kind, thus rising Turkmen Railways prices for no benefit,
- No training action could be organised

As a result, Turkmenistan is no longer competitive with the northern leg of the Traceca line through the Kazakh port of Aktau.

The Consultant feels, however, that this situation might be temporary. Turkmen authorities might wish to gain back part of the traffic using the northern leg of the Traceca route through the Port of Aktau. As a result, the Consultant has arranged delivery of computer equipment to such centres as Ashkabad Railways Terminal and the Port of Turkmenbashi.

Uzbekistan :

Uzbekistan is the major exporter of cotton and, as a result, the main country involved in export of containers.

The major operations for Intermodal Services will undoubtedly be managed from Uzbekistan. As a result, Uzbekistan benefits from a list of equipment destined to the "Main office", plus the standard list of equipment for 3 "offices".

The Consultant has been actively working in Tashkent with the Railways and the major terminal operators as well as with the operator of the newly created Bukhara Cotton Centre. This is reflected in the attached table.

EQUIPMENT

CENTRAL ASIA

Place of purchase	Beneficiary offices			PC	Printer (laser)	Printer (Ink jet)	Modem	Copier	Fax	UPS
KAZAKSTAN										
Almaty	ALMATY	Almaty 1	office	2	1	1	2	1	1	2
	AKTAU	Aktau Port	office	2	1	1	2	1	1	2
	CHIMKENT	Chimkent Terminal	office	2	1	1	2	1	1	2
			<i>Total</i>	6	3	3	6	3	3	6
KIRGYZSTAN										
Almaty	BISHKEK	Railways (Alamedin Terminal)	office	2	1	1	2	1	1	2
			<i>Total</i>	2	1	1	2	1	1	2
TURKMENISTAN										
Ashkhabad	ASHKHABAD	Railways	office	2	1	1	1	1	1	2
	TURKMENBASHI	Port authority	office	2	1	1	1	1	1	2
			<i>Total</i>	4	2	2	2	2	2	4
UZBEKISTAN										
Tashkent	TASHKENT	Railways / Uzgeldorexpeditisia	Main office	3	2	1	2	1	1	3
	TASHKENT	Shosh trans / Shumilovo	office	2	1	1	1	1	1	2
	TASHKENT	Uzvneshtrans	office	2	1	1	1	1	1	2
	BUKHARA	Bukhara Cotton Centre	office	2	1	1	1	1	1	2
			<i>Total</i>	9	5	4	5	4	4	9
GRAND TOTAL FOR CENTRAL ASIA				21	11	10	15	10	10	21

4 Overall Report on the Total Project

4.1 Implementation of Intermodal Services

As the various actions and activities have been described in the various Project Progress Reports, here only a summarised account is given.

First phase:

The project started with a very optimistic view and ambitious objectives. At first the beneficiaries were quite interested in the project but when told that they were not to receive immediate benefits (material or equipment) some interest diminished rapidly. As long as the discussions remained on a more general and then conceptual level, many promises were made that failed to materialise thereafter.

According to the ToR, one of the foundation stones of the project was to be the TransCaucasian Logistics Express (TCLE), created during an earlier Traceca project. During the initial phase of the project it was found that there were no activities of the TCLE, despite assurances that the TCLE was still operational. Later the Consultants found out that not only the TCLE had ceased operations entirely but also that there were no remains of the TCLE system that could be built on. Therefore, instead of developing an existing system further, the Consultants had to start anew.

When negotiations for very specific contributions to the project, i.e. special discounts on rates and tariffs, were conducted with the railways, the ports and the terminals (initially in the Caucasus), many of the earlier promises were not honoured or, as the Consultants found out later, competitors were granted more favourable conditions than the project's Silk Road Express (SRE). When SRE published their first transport rates, which were considerably lower than the prevailing market rates, the market reacted almost immediately and undercut SRE's rates.

This necessitated intensive re-negotiation with the local partners (railways, ports, terminals) and only the third (reduced) rate publication could hold in the market. The resulting reduction in freight rates is documented above in this report.

Second phase:

In the second phase it was decided to take leave from the earlier grandiose idea to establish regular block train services across the Caucasus into Central Asia all at once and a more practical approach was chosen, with practical work on a smaller scale.

Two facts led to this change in approach:

- in the time interval between the demise of the TCLE and the commencement of the Silk Road Express, several international operators had used the published information on the TCLE project's activities and achievements to formulate their own market strategy and occupied some of the niches left by TCLE's withdrawal
- the container transport market in the region had collapsed; within the space of a few months container throughput in Poti port, the gateway of the Traceca corridor, reduced by half.

Nevertheless, the project's activities led to a considerable reduction in transport costs in the range of about 30% in the whole Caucasus.

By direct negotiations with clients, by the (limited) distribution of promotion material and by participating in a trade exhibition in Baku, the Consultants attempted to attract cargo from different companies. The set-up of a small team on location -permanent staff in Poti and Baku and people on a commission basis in Armenia (and Uzbekistan)- ensured close contacts with clients on location. Intensive marketing efforts by the European experts were directed to the European market, as the majority of routing decisions for inbound as well as outbound cargo for Traceca countries are made in Europe.

In the Caucasus, the project enabled some local producers to enter new international markets or enlarge their market penetration through reduced transport costs, favourable transport conditions (containerisation, freight station services, customs clearance and documentation assistance, door-to-door transport, etc.) and a service that can be relied on. Together with local operators the project participated in several international transport tenders and could secure some transport orders. Here, too, the existence of a reliable, all-inclusive transport service with compatible rates was highly appreciated by the international clients.

In Central Asia, a lot of effort was spent in establishing cotton export in containers. This work involved finding sufficient suitable containers, advising in the consolidation of enough cotton for block train operations in regional centres, persuading a local transport operator to truck cotton from the ginneries to the centres and negotiating with the Kazakh and Uzbek railways organisations, with the Port of Aktau and Caspian Shipping Company a lower priced transport alternative to the incompatibly-priced way through Turkmenistan.

In the end, cotton moved in containers, but not on the Traceca route, as the Russian Railway's very low tariff gave the northern route (through Russia) an unbeatable cost advantage.

The Port of Baku was persuaded to establish an empty container depot in the port and to offer very low charges for storage and handling, making empty containers easily available and, thus, promoting successfully the use of containers for export cargo. Lately, the Karmir Blur Terminal in Armenia followed Baku's example.

Next to these individual efforts, constant marketing and canvassing led to regular services in the Caucasus on a small scale for intermodal containers and for non-containerised project cargo. Unfortunately, volumes are not yet sufficient for block train operations.

Through the Consultants' work, there exists now within Europe a better knowledge of the existence of the Traceca route and potential users can make a better judgement of advantages and disadvantages of the Traceca route. There exist realistic price information leading to more realistic cost calculations of freight forwarders and others, there is are empty container depots in Baku and Yerevan, the Baku depot offering very favourable conditions, and a good co-operation with the port of Aktau has been established.

In the course of execution, the project met with many difficulties, some of them jeopardising the success of the project:

- individual states, shielding their independence, insist on the use of different transport documents and requirements in the individual states
- some of the transport partners, in particular the railways, proved to be inflexible at times
- some of the individual partners displayed a reluctance to co-operate and to grant favourable conditions for the intermodal services, i.e. the Port of Poti does not grant special advantages for Traceca

- some of the local partners and beneficiaries display a low own initiative
- the project had to battle with difficult customs procedures: there are no common procedures in the Traceca states, there are no unified documents, there is no flexibility in custom procedures and there are customs officers who expect special treatment
- despite several Traceca projects concerned with trade facilitation and despite the official agreement of the different states to co-operate in trade and transport, there are still many time and money consuming transport and transit procedures
- in some countries there are high transit and road fees
- one major problem is the tariff policy of the local shipping companies – UKRFerry in the Black Sea and Caspian Shipping Company in the Caspian Sea. They consider themselves to be monopolists and present their pricing policy accordingly. Thus, they hinder traffic development on the Traceca route, making it less competitive in comparison to alternative routs via Russia or the Iran, depending on the origin/destination of the cargo.

To sum up

The market is ready for a multimodal transport product i.e. container block trains. But to establish new services and to develop new business in co-operation with the beneficiaries takes considerable time, much more than expected. The local partners still suffer from Soviet mentality and tend to wait for results, cargoes, and actions of others, instead of actively pursuing their business.

The greatest hurdles to a successful block train operation in the Traceca states are the extremely low freight rate offerings of the Russian railways.

4.2 Training

As, according to the ToR, the "overall objective of the project is to promote the use of the Traceca corridor for intermodal transport" and "the overall objectives of this module (training) are integral with those of module A" the Consultants had prepared their offer and designed all training activities to support the promotion of intermodal transport on the Traceca corridor. A wider approach had been considered but then rejected in view of the limited budget available.

During project execution several changes and alterations to the original planning were effected, their features, reasons and effects have been elaborated in the training report and in subsequent communications. It has to be repeated again that, whatever the changes and alterations were, they were made entirely for the benefit of the project.

The following training activities were executed:

1. Marketing and Business Development Seminar in Georgia for Participants from Caucasian countries
2. Marketing and Business Development Seminar in Tashkent for Participants from Central Asian countries
3. On-site training in container port / terminal operations, organisation and business management in Baku (Azerbaijan), Poti (Georgia), Karmir Blur (Armenia), Aktau, Almaty and Chimkent (Kazakhstan), Toi Tepa and Sergeli (Tashkent, Uzbekistan) as well as Bishkek (Kyrgistan)
4. Study Tour to European ports and intermodal facilities for experts from ports, intermodal terminals, railways organisations and customs services from Caucasian countries

5. Study Tour to European ports and intermodal facilities for experts from ports, intermodal terminals, rail-ways organisations and customs services from Central Asian countries
6. Study Tour to European ports and intermodal facilities for ministerial experts from all Ministries of Transport of the Traceca countries

On-site training was also planned for the Bukhara Cotton Centre (Uzbekistan), but upon the trainers' arrival there, the director of the centre felt it inappropriate to conduct the training because of internal reasons.

On-site training as well as participation in the Marketing and Business Seminar and in the Study Tours (5 and 6) was also offered to the Port of Turkmenbashi and the Turkmen Ministry of Transport, who unfortunately did not take up any of the offers.

The results of the training interventions were as shown hereunder. Many of the activities necessary to reach the results of the training tasks had, in actual fact, be executed under Module A, because they were primarily of an operational and not of an instructual character. Also, the rather limited training budget did not allow an in-depth treatment of most tasks.

Attainment of Project Purpose

Requirements	Consultants' respective Actions									
	Armenia (Karmir Blur)	Azerbaijan (Baku Port)	Georgia (Poti Port)	Kazakhstan (Aktau; Almaty, Chimkent)	Mongolia	Kyrgystan (Bishkek)	Tajikistan	Turkmenistan	Uzbekistan (Toi Tepa; Ser- gili; Bukhara)	Ukraine
<p>ToR: "The project will provide to beneficiaries: "</p> <p>Training in the physical organisation of rapid intermodal transfer and temporary storage of containers</p>	<p>Practical training in Poti in the operation of reach stackers & heavy forklift trucks</p> <p>On-site practical training in yard operations and management according to Terminal Handbook</p>	<p>On-site practical training in the operation of reach stackers & heavy forklift trucks</p> <p>On-site practical training in yard operations and management according to Terminal Handbook</p>			<p>No training action required</p>	<p>On-site practical training in yard operations and management according to Terminal Handbook</p>	<p>No training action required</p>	<p>Unfortunately, Turkmenistan declined to participate in any of the training events</p>	<p><u>Toi Tepa & Sergili</u>: On-site practical training in the operation of reach stackers & heavy forklift trucks</p> <p>On-site practical training in yard operations and management according to Terminal Handbook</p>	<p>No training action required</p>
<p>Training in organisation of the containerisation of cargo (stuffing, partial loads, etc....)</p>	<p>Training and advise in stripping & stuffing in Poti for Armenian terminal staff</p>	<p>On-site training and advise in stripping & stuffing, container cleaning, warehousing & storage</p>	<p>On-site training and advise in stripping & stuffing, warehousing & storage</p>			<p>On-site training and advise in stripping & stuffing, warehousing & storage</p>		<p>On-site training and advise in stripping & stuffing, warehousing & storage</p> <p><u>Bukhara</u>: Advise on the establishment of an empty container depot</p>		
<p>Polzug - Axis - HPTI Consortium</p>	<p>Advise on the establishment of an empty container depot</p>	<p>Advise on the establishment of an empty container depot and distribution centre</p>								

Requirements	Consultants' respective Actions									
	Armenia (Karmir Blur)	Azerbaijan (Baku Port)	Georgia (Poti Port)	Kazakhstan (Aktau; Almaty, Chimkent)	Mongolia	Kyrgystan (Bishkek)	Tajikistan	Turkmenistan	Uzbekistan (Toi Tapa; Ser- gili; Bukhara)	Ukraine
ToR: "The project will provide to beneficiaries: "										
Training in the implementation of information systems for clients and management	Advise on the utilisation of the terminal management and MIS system (system not yet put into operation)	On-site training in the utilisation of the terminal management and MIS system		Advise on the requirements for and the specification of an MIS according to Terminal Handbook		Advise on the requirements for and the specification of an MIS according to Terminal Handbook			Advise on the requirements for and the specification of an MIS according to Terminal Handbook	
	Lectures on MIS applications during Marketing & Business Development seminar Coaching of individual managers during stays on location Practical introduction to information exchange systems during the Study Tours									
Assistance in negotiating collaboration between modes (rail, road, maritime, ...)	Assisting terminals, ports and railways in preparing multilateral actions by organising multimodal extensions of transport chain by forming integrated offers for door-delivery and empty container returns by combined transport modes rail/truck and by changing from empty repositioning to "next clients supply"									
	Facilitating the exchange of experience between other ports and terminals, railways and customs during Marketing & Business Development Seminar									
Assistance in establishment of door-to-door services	Facilitating the exchange of experience between other ports and terminals, railways and customs during Marketing & Business Development Seminar									
	Door-to-door services were developed and offered by the project's Silk Road Express service with the participation of local organisations Local organisations are not yet ready to offer such services as that involves the control of the entire transport chain, from EU, USA or Asia to the Traceca states. But the extension of international transport chains within the Traceca countries from port of entry to "door" of receiver (or vice versa) was established by some local organisations with the advise and help of the Consultants									

Requirements	Consultants' respective Actions									
	Armenia (Karmir Blur)	Azerbaijan (Baku Port)	Georgia (Poti Port)	Kazakhstan (Aktau; Almaty, Chimkent)	Mongolia	Kyrgystan (Bishkek)	Tajikistan	Turkmenistan	Uzbekistan (Toi Tapa; Ser- gili; Bukhara)	Ukraine
ToR: "The project will provide to beneficiaries: "										
Assistance in establishing and participating in regional development initiatives (terminals and ports with their local chamber of commerce, to develop traffic by local synergy)	No regional development initiatives could be identified			Facilitating the cooperation between Kazakh and Uzbek railways to design a joint railways tariff that made transports via Aktau competitive No regional development initiatives could be identified					Facilitating the cooperation of small cotton ginneries to consolidate sufficient cargo in regional centres to make container transport viable Facilitating the cooperation between Kazakh and Uzbek railways to design a joint railways tariff that made transports via Aktau viable No regional development initiatives could be identified	
Contacts with complementary services providers in the EU and elsewhere (eg Intercontainer, ports, forwarders, ...to develop traffic)	Visits to and discussions with intermodal facilities and operators during European Study Tours								Visits to and discussions with intermodal facilities and operators during European Study Tours	
Collaboration for complementary service provision between Caspian		Facilitating negotiations with Aktau on the exchange		Facilitating negotiations with Baku on the exchange						



Requirements	Consultants' respective Actions									
ToR: "The project will provide to beneficiaries: "	Armenia (Karmir Blur)	Azerbaijan (Baku Port)	Georgia (Poti Port)	Kazakhstan (Aktau; Almaty, Chimkent)	Mongolia	Kyrgystan (Bishkek)	Tajikistan	Turkmenistan	Uzbekistan (Toi Tapa; Sergili; Bukhara)	Ukraine
Sea ports		of chassis to assist in faster ferry turn-around Agreement with Caspian Shipping about an extra vessel on the Aktau-Baku run for container shipments (when required)		of chassis to assist in faster ferry turn-around						
Operational support for the TCLE	Once the project started the TCLE was not in operations any longer									
	No training action required by the ToR									

Planning of Container Traffic Handling

<i>Task according to ToR</i>	<i>Task executed</i>
<ul style="list-style-type: none"> • survey the existing and potential operations • examine in detail the equipment, new and existing, at each site • formulate operational plan for container traffic in close collaboration with operators' management and staff • include training activities for operators' management and staff • develop benefits and costs of proposed organisational plan • tailor plan to potential services that could be profitably offered • examine existing arrangements between facility operators, their modal operators, habitual forwarders, customs services and clients • define the most advantageous operational practices for each 	<p>Respective surveys were performed by the experts working on Module A. In order to fulfil the tasks of the ToR as efficient as possible within the limited training budget, a Container Terminal Handbook was prepared. This Handbook addressed most aspects -operational, organisational and managerial- of container handling in ports and inland terminals. This Handbook was to be adapted to the individual requirements of each terminal during the practical on-site training.</p> <p>Based on the Handbook training activities for equipment operators and management staff were designed and executed</p> <p>The Handbook contained a section on organisational planning that was introduced during training and the associated benefits were discussed. In Baku, the Container Yard section was staffed according to the joint planning</p> <p>The terminal operations training contained identification of and discussion about additional services that could be offered. As a result, in Baku, Karmir Blur and Bukhara empty container depots were established. Baku also developed and offered container cleaning and freight station services as well as stuffing and stripping</p> <p>It was found that the cooperation between the different local actors in the transport chain was far from efficient. This was due to a lack of actual joint work and a large ignorance about the other party's operations and intentions. Therefore, the participants for the local Marketing and Business Development seminars as well as for the Study Tours to Europe were selected from ports, terminals, railways, road transport, customs and shipping line. The operational benefits necessary to bring an intermodal transport operation to success were identified and discussed. Joint meetings were arranged and monitored by the Consultants with the objectives of introducing all possible services of the facility operators and finding solutions for a better cooperation between all parties involved in the following matters:</p> <ul style="list-style-type: none"> Identify key customers for export and import cargo Identify break bulk cargo suitable for containerisation calculate individual tariffs and rebate systems (sliding scale for bigger allotments) introduce additional services for customers clear and simplify paper work for customs procedures <p>These meetings were arranged with: ports with ports; ports with forwarders; forwarders with railways; terminals with railways and customs; ports with shipping lines and agencies and forwarders</p>

<ul style="list-style-type: none"> define performance targets for each service in consultation with management consider management structures and staffing levels 	<p>Operational performance targets were developed during the on-site training with each facility's staff. Performance targets were evaluated and negotiated with management. Department managers were nominated to devise ways to attain the performance targets. In consultation with management, individual processes were changed where better procedures were recommended</p> <p>Proposals on management structures and staffing levels were described in the Handbook and discussed during training.</p>
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Information Systems

<i>Tasks according to ToR</i>	<i>Tasks executed</i>
<ul style="list-style-type: none"> examine existing MIS recommend best adaptation to the needs of modern container traffic, incl. costing, inventory control, tracking of consignments, provision of information to clients on tariffs and delivery times 	<p>Only in the ports of Baku and Poti existed MIS systems, recently supplied by Traceca, for container operations. The Kamin Blur terminal and port of Illychevsk were waiting for the installation of a new systems (also Traceca-supplied). In all other locations no MIS systems, not even in rudimentary form, could be found.</p> <p>During the Marketing and Business Development seminar, during the on-site training and during individual coaching sessions the need for and requirement of MIS and its individual components were introduced to management and discussed at length. During the Study Tour the participants were introduced to MIS in use in the EU. The Handbook contains a specification of a Container Terminal Information System, as a basis for a full-fledged MIS. As computer-based MIS are prohibitively expensive for the present throughput of most of the sites, manual MIS were also discussed.</p>

Marketing

<i>Tasks according to ToR</i>	<i>Tasks executed</i>
<ul style="list-style-type: none"> formulate marketing plans in collaboration with the beneficiaries 	<p>Marketing in a market-economic sense was a very alien concept to most managements as they were used to captive markets and captive cargoes. To vow customers was an about-face from earlier behaviour and only extremely reluctantly accepted. Major efforts were required to persuade and convince decision makers of the necessity of active marketing. During the Marketing and Business Development seminar marketing planning was introduced and outlines of marketing plans were drafted. During the on-site training and during individual coaching sessions the individual sites' plans were discussed. For the ports of Baku and Poti as well as for Karmir Blur terminal advice and assistance in developing marketing plans was given. The Bukhara Cotton Centre was advised in local marketing measures, to establish itself as a regional cotton consolidation centre.</p>

<ul style="list-style-type: none"> implement marketing plans 	<p>The major marketing activities involved active marketing for the project's Silk Road Express, e.g. canvassing cargo mainly in Europe. During individual coaching sessions the Consultants informed the marketing experts of the beneficiaries as much as was possible about these activities.</p> <p>As long as decision makers and marketing experts speak no or very little English, as long as international travel for acquisitory purposes is not freely possible but needs to be authorised from higher authority, as long as no funds for marketing are available and as long as communication lines are unreliable and managed in a formalistic manner, proper international marketing will not be possible.</p>
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Publicity

<i>Tasks according to ToR</i>	<i>Tasks executed</i>
<ul style="list-style-type: none"> prepare publicity material diffuse publicity material in the EU and beneficiary states 	<p>In the beginning of the project it was not clear for a long time which local partner will at all and with what input participate in the project. Therefore, it was not possible to prepare publicity material, then. Also, most of the prospective clients of the Silk Road Express do not respond to public announcements or advertisements, but must be won through individual trade contacts. No special publicity material was prepared.</p> <p>Nevertheless, the Silk Road Express was mentioned and promoted in the publication material and on the web site of the lead consultant POLZUG. Also, some advertisements were placed in trade journals in the Caucasus.</p> <p>The Silk Road Express introduced itself also to the professional public, jointly with the Port of Baku, at the XXX Conference in Baku in 19XX.</p> <p>The Silk Road Express was heavily publicised through personal professional presentations at existing, but in particular at prospective clients both in Europe and in the beneficiary states. The Port of Hamburg Marketing Association agreed to publicise the Silk Road Express through their world-wide representations.</p>

Regional Development

<i>Tasks according to ToR</i>	<i>Tasks executed</i>
<ul style="list-style-type: none"> promote the close involvement of the sites in regional development initiatives by local or international agencies, local industries and commerce, international investors 	<p>The Consultants were not able to identify any regional development initiatives of the kind mentioned in the ToR, that were in such state of realisation that active participation appeared fruitful.</p>

<ul style="list-style-type: none"> • promote involvement in export free zone development 	<p>In Kazakhstan and Uzbekistan a joint effort between the two national railways services was facilitated, resulting in a joint freight rate offer that made shipments from Uzbekistan via the Port of Aktau commercially feasible.</p> <p>In the Caucasus, the Georgian and Armenian railways were brought together to obtain a contract for a full/full round trip container transports between Armenia and Greece.</p> <p>In the Caucasus, local private manufacturers were assisted in changing their transport system, enabling them to gain access to international markets and successfully sell their products in the Middle East, Europe and North America.</p> <p>The project's activities concerning cotton transport in containers from Uzbekistan resulted in substantial tonnage of cotton being shipped in containers for the first time.</p> <p>The creation of a free zone in Baku port had been proposed in an earlier Traceca project and all relevant documentation had been prepared. These documents are still with the concerned governmental authorities and no decision has been taken, yet. In Kazakhstan, there was a notion to establish a free zone at Aktau port, but planning was too preliminary to warrant involvement of the project. Other free zone development initiative could not be ascertained.</p>
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5 Lessons Learnt and Recommendations

5.1 Conclusions

As far as operations are concerned, this project proved a limited success for the Traceca route and for the Consultant team but a great success for traders as transport prices were pushed down by several points through both the Traceca route and the competing North route. Besides, clients started to benefit from improved services in intermodal operations; this is due to the installation of E.U. sponsored equipment in inland container terminals and to the training programme in terminal operations that was delivered at about the same time.

Here are some comments on how to make the most of the present situation and continue modernising transport conditions, improving transport and transit procedures and, in the end, easing trade between the Caucasus and Central Asia on one hand and the rest of the western world on the other.

5.2 Lessons Learnt

- Railways are still very powerful bodies; they still enjoy great freedom from their governments; their policy is not necessarily in line with government policies;
- Along the Traceca route there is no "end to end" strategy shared by all operators; each link (Railways, Port authorities, Shipping lines, Terminals, ...) tries to maximise its own profits without taking into account the advantages and draw backs of its own decisions for the whole route.
- The Caucasus is typically a transit zone; the Consultant could not ascertain if the policy of Caucasian operators is clearly to develop transit traffic in the long run and offer the competitive and stable conditions or prices expected by customers (as Switzerland or Austria have been doing in western Europe for example); in some instances, objectives were clearly short term;
- Transit rules and practices tend to be unpredictable and some shipments were blocked when transit rules changed unexpectedly during the voyage; this trend does not seem to be put to an end;
- Customs Committees are newly created bodies; they are inclined to apply their new power in a restrictive way, far away from international practice; bottlenecks have been artificially generated when new procedures altered day to day operations and made them more difficult or unfair;
- When it comes to marketing and sales strategy there is almost no sense of a "Traceca" partnership;
- Local operators consider the "North" route (through Russia) and the Traceca route as competing routes instead of alternate routes; sales people are not used to offer both solutions to traders.
- Some Russian businesses still control a large share of the traffic to/from Central Asia; though they have expressed their interest in the Traceca route they do not seem to use it as much as they could;
- The renovation of Aktau Port and the building of the Uzbek Railways line to the western Kazakh border opens a full range of possibilities : (i) the capacity of the railways network to service Central Asian centres is doubled, (ii) direct access to the Kazakh network improves rail competitiveness and (iii) the safety of the Traceca route is improved as two legs are available between Baku and the farthest central Asian destinations – if one route is blocked or becomes non competitive, traffic can be re-routed the other way -;
- The Transit Tariff Policy (M.T.T.) is not (or loosely) related to cost; the resulting tariff cannot be considered as a yardstick to measure profitability of rail transport operations; this uncertainty deprives Railways of a sound economic basis for negotiation with customers;
- Transit Tariff Policy regulations (MTT) are extremely "flexible"; as a result there is no such thing as an indisputable "transit" tariff system effectively in use;

- Application of the Transit Tariff Policy regulations (MTT) is even more “flexible” : even though there are bi-annual meetings of OSJD Railways, each network decides which rule will be applicable or not and when – exchange rates, VAT tax, “import” ratios, etc... -
- Specific agreements are subject to change or cancellation without proper advance notice or clearly established reasons; Turkmenistan even decided to suspend the application of the “SARAKS Agreement” of which it is the depository;
- The resulting tariff system is basically unfair : there is so much room for “rebates” – up to 50% ! – that transport prices result more from face to face negotiations than from the application of a pricing policy; comparable customers with comparable traffic end up with different transport prices; more so, conditions can be changed at any time with little or no advance notice;
- Big local operators (often subsidiaries of Railway networks) are imposed upon traders when they sign sales contracts with state controlled export combines; as a result these big operators dominate the export market though they are unable to offer the end to end services from/to western countries requested by present day customers; traders must cope with outmoded CIF conditions which make no sense in intermodal transport;
- Conditions and prices encountered on the maritime leg of the voyage (between western markets and the ports servicing Central Asia in Georgia, Russia, Baltic States, or Iran) are as important as “local” Traceca conditions as they account for at least one third of the end to end transport price
- For Traceca, improving operations and prices from/to Poti-Batumi across the Black Sea or the Mediterranean is one major key to the problem; tariffs and conditions offered at present by shipping lines calling Georgian ports remain a roadblock to the development of this route;
- General Cargo is generating a small portion only of the money earned by Railways; oil and raw materials are still the major commodities; as a result, Railways show little motivation for General Cargo however vital it can be for the economy (and employment) of Traceca countries;
- eastbound container traffic consists of manufactured products and foodstuff; it is well established; 2000 figures show that it is recovering after a slow down due to the Russian Ruble crisis;
- westbound container traffic can only consist of cotton bales; past government decisions to export cotton in containers had only a limited impact; during the project, western traders and the Consultant combined their efforts in order to request effective measures from the highest authorities; starting during the 1999-2000 campaign governments and ministries enforced their decision to export cotton in containers with success;
- the present trend in east and west bound container traffic show that the necessary balance between import and export of containers can now be obtained;

5.3 – Recommendations for Future Actions

Lessons learnt by the Consultant led to the following recommendations; obviously some of them are already being put into effect; they were listed nevertheless for new readers.

5.3.1 Institutions

Traceca states need stronger institutions to govern transport, transit and trade issues :

- at the national level, the set up of Ministries of Transport would be welcome so that the governments can make the final decisions regarding transport rules and regulations; as a result, policies of such large bodies as the Railways, Port authorities or Terminal Operators would stay in line with the overall government policy and the interest of the nations;
- at the international level, the Intergovernmental Commission will study, prepare and propose decisions to the participating governments in order to harmonisation rules, regulations and procedures; it

should also study the possible frameworks for the set up of Traceca agreements in transport operations;

- Transit plays a greater role than ever; differing transit taxation policies (or procedures) might become the main issue in the near future; an International Institution such as the Intergovernmental Commission must guarantee freedom of access to landlocked countries;
- Transport and transit Institutions must be opened to all interested parties; no country should be kept out of the international agreements even if it can be by-passed; the presence of Turkmenistan in Traceca related Institutions should be actively promoted;

5.3.2 Towards Market Economy

Fair practices would improve the efficiency of the transport system. Among a few simple decisions to be made the Consultant promotes the following :

- Traders should be free to select their freight forwarder; clearly, this means that sales contracts should not be conditioned to the signature of parallel transport contracts with "recommended" freight forwarding companies; freedom of selection – and the resulting responsibility for traders – should become the rule;
- instead of preserving local monopolies, state authorities should support efficient partnerships with western operators;
- within the framework of the Traceca programme, state authorities should be encouraged to set up a new international tariff system for Railways; the Consultant does not mean to revive monopolies but to put some order and sound reasoning into the present system which has no real economic basis any longer; rules concerning fair practices could be incorporated into this new tariff;

5.3.3 Co-operation between Operators

The main drawback of the Traceca route is the great number of operators involved; therefore, co-operation is the key word.

- An aggressive marketing policy seems to be impossible to develop within such a large group of operators; as a result, the concept of a "common operator" has not died out in their minds; within the framework of the IGC-TRACECA it could be revived and applied to specific "test routes", "test traffics" or "test services";
- Co-operation with Russian operators should be studied and encouraged with some clear objectives such as : (i) to preserve the independence of the smaller operators and free them from any possible pressure of big Russian interests, (ii) to make the Traceca route profitable to Russian operators, (iii) to make sure that Traceca related institutions will stay under the unchallenged control of Traceca states,
- Co-operation with shipping lines calling Georgian ports through the Mediterranean and the Black Sea in order to make the maritime leg more competitive;
- Co-operation with container owners and operators in order to establish container dépôts;

5.4 Principles for New Projects in Intermodal Operations

There is always a confrontation between the priorities of beneficiaries and the priorities highlighted by western Consultants; beneficiaries expect more money to spend on equipment; western Consultants insist on the conduct of day to day operations that must be improved until world practice is applied.

Intermodal Services is no exception.

At this point, the much needed investments in inland terminals seem to have been completed.

The Consultant feels that the points to be stressed are :

- Implementation of a good co-operation framework : as local operators will never be in a position to conduct an effective marketing policy in western Europe or in America on their own, they need to be united in a stable and profitable partnership.
- Set up of Training Centres : co-operating with western firms means mastering all sides of world practice at all levels; besides good people, once trained, tend to leave the big operators (Railways, Terminal Operators,...) and enter private business; as a result, there is a need for permanent professional training.

Beneficiaries also express the need for clearly defined projects which lead to practical (day to day) results. In this respect the following projects are recommended; though they should be applied to all modes of transport, it would be easier to start implementing them in the transport and transit of containers; extension to the other modes could take place later on :

- Design of a new international rail tariff system (at least for container shipments)
- Design of an international agreement on transit taxes, rules and procedures (with a priority to the transit of containers)

6 Form 2.3: RESOURCE UTILISATION REPORT

Project Title: Traceca Intermodal Services		Project Number: TNREG 9702		Country : Ukraine, Georgia, Armenia, Azerbaijan, Turkmenistan, Kazakhstan, Tadjhikistan, Kyrgistan, Uzbekistan				Page: 2.3 / 1		
Period: December 1999 – August 2000		Prepared on : 1 September 2000		EC Consultant : Polzug - Axis - HPTI Consortium						
Project Objectives:										
RESOURCES/INPUTS	TOTAL PLANNED		LAST PERIOD PLANNED		LAST PERIOD REALISED		TOTAL REALISED		AVAILABLE FOR REMAINDER	
	CIS	EU	CIS	EU	CIS	EU	CIS	EU	CIS	EU
Business Development Expert 1	65 days	42 days	0 days	14 days	0 days	14 days	56 days	22 days	9 days	20 days
Business Development Expert 2	100 days	15 days	9 days	20 days	50 days	32 days	327 days	76 days	-227 days	-61 days
Rail Operations Expert	59 days	8 days	0 days	0 days	0 days	3 days	26 days	17 days	33 days	-9 days
Railway Expert	46 days	10 days	0 days	0 days	0 days	0 days	46 days	10 days	0 days	0 days
Freight Forwarding Expert	25 days	17 days	0 days	10 days	0 days	8 days	0 days	17 days	25 days	0 days
Intermodal Operations Expert	22 days	2 days	days	days	31 days	0 days	days	days	days	days
Marketing Expert	84 days	10 days	days	days	days	days	days	days	days	days
Railway Marketing + Finance Ex	20 days	4 days	days	days	days	days	days	days	days	days
Tariffs Expert	24 days	2 days	days	days	days	days	days	days	days	days
Legal Expert	69 days	10 days	days	days	days	days	days	days	days	days
Market Analyst	30 days	12 days	days	days	days	days	days	days	days	days
Exp. MIS + Cost Accounting	45 days	5 days	days	days	days	days	days	days	days	days
Financial Expert	25 days	9 days	days	days	days	days	days	days	days	days
Project Database Expert	20 days	0 days	days	days	days	days	days	days	days	days
Transport Economist	24 days	0 days	0 days	0 days	0 days	0 days	20 days	0 days	4 days	0 days
Project Co-ordinator	150 days	28 days	10 days	10 days	0 days	24 days	40 days	63 days	110 days	-35 days
Project Director + Backstopper	44 days	21 days	5 days	0 days	5 days	10 days	38 days	47 days	6 days	-26 days
Project Co-director	130 days	76 days	days	days	days	days	days	days	days	days
Lecturer / Training	202 days	90 days	20 days	00 days	31 days	0 days	227 days	90 days	-25 days	0 days
Sub-total	1148 days	351 days	274 days	145 days	269 days	165 days	694 days	259 days	21 days	-6 days
Local Experts	1500 days		days		350 days		1786 days		-286 days	
Sub total	1500 days		days		350 days		1786 days		-286 days	
Interpreter	815 days		0 days		162 days		696 days		119 days	
Interpreter (Conference)	60		60		13 days		42		18 days	
Sub-total	875 days		360 days		325 days		738 days		137 days	
TOTAL	3559 days		days		days		days		days	

7 Form 1.6. PLAN OF OPERATIONS FOR THE NEXT PERIOD (Work programme)

Project title : Traceca Intermodal Services				Project number : TNLREG 9702				Country : Ukraine, Georgia, Armenia, Azerbaijan, Turkmenistan, Kazakhstan, Tadjikistan, Kyrgistan, Uzbekistan				Page :			
Planning period : July 1999 – June 2000				Prepared on : 31 December 1999				EC Consultant : Polzug – Axis – HPTI Consortium.							
Project objectives :															
		TIME FRAME											INPUTS		
		1999 (months)					2000 (months)						EC Consultant	OTHER	
No	ACTIVITIES	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June		Flights
A1, 2	Draft texts for agreements														
1															
2	Design customer-related intermodal service products													4 weeks	
3	Develop realistic prices for the different products					xxxx								6 weeks	
4	Elaborate transport contracts														
5	Forecast an operations budget						xxxx							4 weeks	
6	Establish end to end costs for the intermodal service														
A2, 1	Elaborate business, marketing and financial plans					xxxx	xxxx	xxxx						3 weeks	
A2, 2	Implement intermodal services along the entire Traceca route	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	64 weeks	
1															
2	Design actual system, subcontracting and testing (MIS)					xxxx	xxxx	xx	xxx					8 weeks	
3	Print an information system handbook								xxxx						
B1, 1	Develop and conduct training in modern Management Information Systems				xxxx	xxxx	xxxx								
2	Design training for the varying potential future activities			xx	xxxx	xxxx								
3	Conduct training in marketing				xxxx	xxxx	xx								



No	ACTIVITIES	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June		EC Consultant	
4	Conduct training in design and placement of publicity material						xxxx		xxxx	xxxx	xxxx				22 weeks	
5	Conduct training measures to support the implementation of intermodal pilot extensions				xx	xxxx	xx	xxxx	xx	xxxx	xxxx					
B2	Execute study tours to western Europe			xxxx	xxxx	xxxx									17 weeks	48 Flights
													TOTAL	128 weeks		

Annex 1

Silk Road Express Tariff

Silk Road Express - Tariffs

A service operated by Polzug in cooperation with Tacis-Traceca

All prices offered are in US-Dollars. Prices include terminal costs at end destinations and transit declaration fee in Poti. Storage in Poti is 3 days free of charge

Ex Sea Port Poti/Georgia or v.v.						
Terminal	One-way, empty		One-way full		Roundtrip full / empty	
	20'	40'	20'	40'	20'	40'
1. Baku, Azerbaijan Container Terminal Commercial Sea Port of Baku Onward transport Baku - area (roundtrip)	316,00	484,00	716,00	1.043,00	1.032,00 105,00	1.527,00 125,00
2. Yerevan, Armenia Container Terminal Karmir Blur Onward transport Yerevan-area (roundtrip)	286,00	454,00	695,00	1.050,00	981,00 105,00	1.494,00 125,00
3. Tbilisi, Georgia Receiver's destination (roundtrip) incl. Road B/L, VAT and customs clearance					560,00	781,00
4. Gori, Georgia Receiver's destination (roundtrip) incl. Road B/L, VAT and customs clearance					480,00	635,00

Rates are valid until 31.12.2000

Special services are available on request

This tariff is applied to all general cargo.

For non-ferrous metals and dangerous goods the coefficient is 2

For cargo in tank Containers the coefficient is 1,4

For cargo in reefer Containers the coefficient is 1,35

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Annex 2

Exemplary Tariff of a Freight Forwarder – Caucasus

Railway Tariff for Transport of Containers in the Caucasus from Georgian Shipping Line

Prices in USD

Route	20' Container		40' Container	
	full	empty	full	empty
Poti – Gardabani	150	75	260	130
Gardabani – Poti	140	70	240	120
Poti – Baku	450	225	760	380
Baku – Poti	440	220	730	365
Poti – Sadakhlo	240	120	420	210
Sadakhlo – Poti	230	115	400	200
Poti – Tbilisi Tbilisi – Poti	160	80	280	140

Remarks:

This tariff is valid for all containers with general cargo

For non-ferrous metals and dangerous cargo the coefficient 2 will be applied

For cargo in tank containers the coefficient 1.4 will be applied

For cargo in refer containers the coefficient 1.35 will be applied

Annex 3

Official Railway Tariffs (Turkmenistan, Kazakhstan)

MTT / SARAKS AGREEMENT

TRANSIT TARRIFF FOR CONTAINERS VIA TURKMENISTAN for 20" containers

(checked in December 1999 with Kazakh, Uzbek and Azeri experts)

TRANSIT COUNTRY	GEORGIA	AZERBAIJAN	TURKMENISTAN	UZBEKISTAN
distance	360	502	1163	787 km
tariff per container	621	884	1788	1374 CHF
ratio based on distance	0,4	0,5	0,25	0,25
<i>resulting tariff</i>	248,4	442	447	343,5 CHF
conversion CHF / US\$	1,38	1,48	1,48	1,48
<i>tariff in US\$</i>	180,0	298,6	302,0	232,1 US \$
VAT rate	0%	20%	20%	0%
<i>tariff including VAT</i>	180,0	358,4	362,4	232,1 US \$
"import" ratio	1,2	1,0	1,0	1,0
<i>resulting tariff</i>	216,0	358,4	362,4	232,1 US \$
"SARAKS" rebate	50%	50%	0%	50%
<i>transport price</i>	108,0	179,2	362,4	116,0 US \$

In reality, Turkmenistan does not apply the SARAKS Agreement any more. Further, they are charging a 3.5% commission on all international transport contracts.

OVERALL TRANSIT PRICE, in USD incl. all expenses for transit (Poti-Batumi / Kazakh border-Chengeldy)	20"		40" 1,8 conversion rate	
	detail	added up	detail	added up
Poti / Terminal charges	74	74	88	88
Transit declaration fee (per B/L) - Georgia, incl. local RW stations	140	214	140	228
Azerbaijan, incl. local RW stations	114	328	194	422
Bakou / terminal charges (3,20"/wagon)	330	658	530	952
Crossing of the Caspian Sea	18	676	36	988
Turkmenbashi / terminal charges (3,20"/wagon)	279	955	558	1546
Turkmenistan	30	985	60	1606
Uzbekistan	362	1347	652	2258
	116	1463	209	2467
Total transit price per container		1463		2467 U.S. \$ / cont.
<i>price per ton of cotton (23.5 t/cont.)</i>				<i>105 U.S. \$ / ton</i>

KAZAKHSTAN

Table 2 : Kazakhstan / MTT-Transit tariffs / negotiated rebates

								MTT Tariffs			Rebates	Actual tariffs		
From	To	km	base 20"	ratio based on distance	exchange rate \$/CHF	ratio private cont.	TVA Europe	TARIFF 20" \$	ratio 40" /20"	TARIFF 40" \$		TARIFF 20" \$	ratio 40" /20"	TARIFF 40" \$
CHENGELDY	DRUJBA	1771	1899	0,25	1,48	0,85	0%	273	1,8	491	35%	177	1,8	319
	LUGOVAIA	476	831	0,35	1,48	0,85	0%	167	1,8	301	50%	84	1,8	150
AKTAU	BEINIEOU	422	744	0,25	1,48	0,85	0%	107	1,8	192	50%	53	1,8	96
	CHENGELDY	2524	2038	0,35	1,48	0,85	0%	410	1,8	737	35%	266	1,8	479
	DRUJBA	4141	2334	0,4	1,48	0,85	0%	536	1,8	965	35%	349	1,8	627
	LUGOVAIA	2846	2093	0,35	1,48	0,85	0%	421	1,8	757	35%	273	1,8	492
											empty return :		50%	

TELEGRAMS RECEIVED FROM RAILWAYS
MTT TARIFF POLICY
(changes in exchange rates)

Tajikistan

The rate of exchange of Swiss Francs to USD has been changed (telegram 29/05/2000)
For this reason Tajik Railway since September 20, 2000 imposes higher coefficient (1,18) for tariff policy rates.

Uzbekistan

The rate of exchange of Swiss Francs to USD has been changed (telegram 29/05/2000)
For this reason, since September 10, 2000 Uzbekistan Railways impose higher coefficient (1,15) for the rates of Uzbek Railway tariff policy in 2000

Turkmenistan

The rate of exchange of Swiss Francs to USD has been changed (telegram 29/05/2000)
For this reason, since September 20, 2000 Turkmen Railways impose higher coefficient (1,15) for the rates of Union of Independent Countries tariff policy in 2000.

Annex 4

UKRFerry

Translation of offer of UKRFerry dated 5 June 2000 by the commercial director of the shipping company UKRFerry

Container tariff Illichevsk Poti and v.v.

20' containers and tank containers (conventional cargo, no hazardous goods)

Seafreight Illichevsk – Poti	400.-- USD per container
Terminal costs Illichevsk	55.-- USD per container
Terminal costs Poti	270.-- USD per platform
(if 2 x 20' containers on one wagon)	135.-- USD per container)

40' containers (conventional cargo, no hazardous goods)

Seafreight Illichevsk – Poti	800.-- USD per container
Terminal costs Illichevsk	85.-- USD per container
Terminal costs Poti	270.-- USD per platform

Shunting, marshalling of platform wagons onto the ferry according to the stowage plan, fees for customs pre-checking is included in the railway tariffs and paid by forwarders.

Transit fees are according to UZ tariff policy of the "Freight Year 2000"

The same items are included in the THC on the Poti side.

The weekly schedule for the ferry is as follows:

Wednesday from Illichevsk

Sunday from Poti

Annex 5 Legal Aspects

- 5.1 Proposals for Long-term Co-operation
- 5.2 Status of an Uzbek Company

Annex 5.1

Proposals for Long-term Co-operations

1 Introduction

Any long term proposal would consider setting up a legal entity. In the present chapter the Consultant has reviewed 2 possibilities:

1. Founding a local operating company (for instance in Uzbekistan)
2. Founding a "EEIG" or "European Economic Interest Grouping" (called GEIE / Groupement Européen d'Intérêt Economique in French speaking countries) in Belgium or Luxembourg.

The procedure, from a legal point of view, is to establish the following type of company:

- Aim: to serve the interests of the partners it unites by providing for the marketing of a mixed transport-shipping system along the Asia-Europe-Asia route that transects one or several of the member-nations of the TRACECA project.
- Partners: public or private agencies, legal entities or individuals from the countries of Central Asia, the Caucuses or the European Union, directly or indirectly dealing with matters concerning international transport and shipping/
- Type of legal entity: a commercial share-holding company.
- Name: Since the company does not, as of yet, have a name, we will refer to it as the *Joint Endeavour*.
- Location: this company must have the possibility of functioning in all of the countries belonging to TRACECA. At the same time, as a legal entity the company will have one main office. The partners themselves will decide in which country it is to be. Consequently, the laws of the chosen country will regulate it.
- Profit: making a profit for itself is not a primary goal for such a company. Rather, its activities should stimulate the economic development of its partners, thereby helping them to make a profit by means of this company.

In this context, it is of primary importance to choose a suitable legal system to regulate the activities of this company: either a European system, or that of one of the member-countries of TRACECA.

In any case, the company must be able to operate in all of the countries participating in this project. It would be possible for the company to operate in one of the four following ways:

- On the basis of a simple written agreement between the partners in the TRACECA country where it will be operating;
- Through a representative office, which would, however, have certain legal limitations;
- By establishing a local branch of the company;
- By establishing an affiliated company with a local partner.

In the particular case of our company we would recommend one of the two following possibilities:

- Establishing it under Uzbek law, as an Uzbek commercial company (UCC);
- Establishing it under international European law, as a European Economic Interest Grouping (EEIG).

2 I. An Uzbek Shipping and Transport Company

2.1 Legal status

Since the aim of this company is to develop business ties between the partners in the area of international shipping and will be operating in several countries, the only possible legal status for it is that of a commercial share-holding company.

Because the company would unite many associates of different nationalities, because both public and private agencies, legal entities and individuals would participate, the company has to combine the characteristics of various types of enterprises.

Taking into account everyone's interests, which are all of equal importance, we come to the conclusion that the company should be a private commercial company.

2.2 Aim

The aim of an international shipping company can be stated as follows:

The organisation and the realisation of the actual shipping by various means of transport between Europe and Asia. To achieve this aim the company proposes to do the following from Uzbekistan:

- Promote and publicise its various shipping and transport services;
- Find and follow up on clients at both the shipping and receiving ends of its operations;
- Load and deliver merchandise;
- Work with agents, i.e., with the actual trucking, rail freight, air freight, sea shipping and water-way transport companies involved.
- Deal with customs and transit formalities;
- Provide stock and storage areas for loading and deliveries;
- Lease transport, packing and loading equipment.

And also to handle all of the registration, commercial and financial procedures and everything related to property and real estate when performing the operations listed above.

The paragraph above is an integral part of the statutes (article 3), appendix #1.

2.3 Partners

The partners can be either individuals or legal entities, of a public or private nature, Uzbek nationals or foreigners—there are no restrictions, but one of the partners must be an Uzbek national.

Conditions: the minimum amount of capital that a partner must have.

- Individual foreign partners must open a bank account in Uzbekistan and present a copy of their passport. The bank account must have a balance of at least \$10, but it does not have to be in constant use.
- Foreign partners who are not individuals but legal entities, and not from CIS countries must present proof of registration in their home country and copies of their statutes in Russian and Uzbek translation. All of these documents must be notarised and authenticated at the Uzbek consulate in

their home country. Bank statements demonstrating their ability to meet payments must likewise be notarised and authenticated.

- Partners that are legal entities from CIS countries: they need only present proof of registration in their home country and a notarised copy of their statutes.

2.4 Capital

- Private companies: for private companies of a combined nature, the minimum amount of capital that they must invest is fixed at \$150.00, of which 30% must be available immediately, and the remaining 70% within the following 12 months.
- Foreign partners: the minimum amount of capital that a foreign partner must invest is fixed at 30%.
- Public agencies: A public agency must present proof of permission to invest its capital.

2.5 Procedure of Establishing a Company

There are three steps in establishing a company:

- A) A declaration is made that a company is to be established.
- B) The minutes of the meeting that establishes the company are drawn up.
- C) The company applies for registration.

A) A declaration is made that a company is to be established

A declaration establishing a company is a brief document in which the partners declare their intention to establish a company and state the main purpose and aim of their company.

This document is, in effect, a brief summary of the company's statutes, and should therefore be drawn up before the actual establishment of the company.

B) The minutes of the meeting that establishes the company are drawn up

A general meeting of all of the founding partners must be held, which makes the actual decision to establish a company. This general meeting should:

- Adopt the statutes;
- Nominate an administrative body;
- Nominate an auditing committee;
- Decide to open a bank account.
- The minutes of this meeting, once approved, become the official document establishing the company.

C) The company applies for registration

Registration takes place at the proper office at the Ministry of Justice. There is a registration fee, which is paid in two parts:

- The first part-- \$500.00;

- The second part-- an amount equal to three minimum wages, i.e. 3 x 1,750 Uzbek soum (the monetary unit of Uzbekistan).

A company with a head office in the Tashkent region must be registered in Tashkent. There are branch offices of the Ministry of Justice in other regions.

The company must also be registered at the municipality in which its head office is located.

2.6 Licensing

Since the company will be operating in a sphere regulated by law, it must obtain a license. In order to operate internationally from Uzbekistan it is necessary to obtain a so-called *large license*. A *small license* is required to operate within Uzbekistan.

An application for a large license must be addressed to the Prime Minister and sent via the “Uzbek Agency of Motor and River Transport”. An application form must be completed and sent in along with the following documents:

- A copy of the statutes and proof of registration (from the Ministry of Justice);
- A copy of registration by the Ministry of Foreign Affairs;
- A notarized copy of the declaration that established the company;
- Proof of competence (such as diplomas from an accredited educational or technical training institution).

A special commission of the “Uzbek Agency of Motor and River Transport” meets once a month to review applications for *large licenses*. If the application is approved, the committee sends on its recommendation for approval to the Cabinet of the Prime Minister, for his final approval.

All together, the procedure to obtain a *large license* usually takes from 35 to 45 days and costs \$50.00, of which 50% goes to the Railroad Department, 20% to the Ministry of Automobile Transport, and 30% to the government.

The procedure to obtain a *small license* is the same, also takes from 35 to 45 days, but costs only 10,000 soum.

3 II. A European Economic Interest Grouping (EEIG)

Until the European Union develops more detailed and complete regulations for commercial share-holding companies, the only legal basis for establishing such a company is that of a European Economic Interest Grouping. EEIGs serve to provide a framework for the economic development and growth of their members, allowing them to improve and enlarge their profits.

The regulations that govern the establishment of a EEIG are identical for all of the member nations of the European Union. Based upon applicable European law, the regulations for establishing a EEIG have three fundamental characteristics:

- They are directly applicable in all of the member states;
- They function in all of the member states in the same way as national laws;

- They supersede the local laws of the member states.

Appendix #2 contains an example of the statutes of a EEC, written up on the basis of applicable European Union regulations.

3.1 The aim of a European Economic Interest Grouping corresponds to the aim of the Uzbek Shipping Company that is to be established.

Article 1, paragraph 3 of the regulations for an EEIG states: "... Economic Groups serve to provide a framework for the economic development and growth of their members, allowing them to improve and enlarge their profits; the aim of an EEIG is not to make a profit for itself."

This very clearly indicates that an EEIG is comprised of several partners joining their material and technical resources for the common good, and that an EEIG cannot serve as the legal basis for pursuing its own separate interests, independently from its members.

In other words, the EEIG (or *Joint Endeavour*) is not established as a separate brokerage or shipping company, with its own clientele. It merely performs some of the commercial and operating tasks of the partners, which are to be determined by the partners themselves.

Each of the partners of the EEIG (*Joint Endeavour*) profit directly, proportionately to their use of the EEIG's services. The percentage that the *Joint Endeavour* adds to the cost of its services will cover administrative costs and provide for the future investment necessary to expand the activities of the EEIG, as the needs of its members increase.

Because of this, there are 2 points to be considered regarding taxation and legal responsibility for the EEIG:

- In terms of taxation, the results and profits achieved are easily determined and quite clear, and therefore each partner must pay his share of the taxes;
- From a legal point of view, all of the members of the EEIG share equal responsibility for any debts acquired by the group. While the EEIG is not meant to be a profit-making enterprise, neither should it accrue debt.

3.2 Many possibilities for drawing up contracts and other agreements.

The legislation of the European Union defining the status of EEIGs provides the members of such a group with a great deal of possibilities for drawing up contracts and other agreements within its legal framework. A viable solution can be worked out for each specific situation, and the interests and concerns of all of the member-nations of the TRACECA project can be addressed.

For example:

- The amount or type of capital can be changed (while setting aside a set minimum amount);
- There can be two types of shareholders: railroad companies (category A, holding the greater amount of shares) and the other partners (category B, holding the lesser amount of shares);
- Decision-making or the amount of votes can be proportionate to the amount of capital (percentage of shares) a partner has invested;
- Auditing can be supervised;
- Discipline can be guaranteed.

It should be noted that this greater freedom in defining the regulations and legal framework of an EEIG consequently calls for more input and greater responsibility on the part of the members. This comparative legal freedom is what differentiates an EEIG from a privately owned commercial company, which as a rule, must conform to very strict regulations. This greatly limits an EEIG in working out specific regulations for the establishment and functioning of certain structures. But the possibility of an individualised approach is very important for railroad companies.

On the other hand, in setting up an Economic Group it is necessary to meet certain requirements as regards the aim of the group, the status of the members and the location of the head office:

- The aim must correspond to the definition of an EEIG, in other words, it must serve the economic development of the partners of the group;
- The members of the group, both individuals and legal entities, and public and private agencies, must actively be involved in some sort of commercial activity. At least two of them must be citizens of one of the countries of the European Union.
- The head office of the EEIG must be located in one of the countries of the European Union, but the EEIG has the right to set up branches anywhere in the world.

3.3 Personal responsibility of the members of the EEIG.

While the advantages in choosing the legal status of a EEIG in setting up the *Joint Endeavour* are obvious, the fact that all of the members of the EEIG share equal responsibility for debt accrued is usually considered as the main argument against this choice. However, such responsibility should not "scare" one away from this choice, especially if the frequent irresponsibility demonstrated by members of commercial share-holding companies is taken into account. This factor should not "outweigh" all of the advantages of an EEIG, especially in the case of the project of establishing a *Joint Endeavour* for TRACECA .

In effect, while an EEIG does not work towards making a profit off of its activity, neither should it accrue debt. In the case of the TRACECA project, debt could accrue only on the side of the Economic Group as regards its partners (for example, payment for a shipment by rail).

On the other hand, in the case of a specific contract, an EEIG creditor does not necessarily have to take into account the individual responsibility of each and every member.

This approach can be applied in defining the relationship between the EEIG and its network of operators.

Annex 5.2

Status of an Uzbek Company

“REGISTERED”

Khokimiiat _____

Proof of registration

dated “_” _____ 200_

“APPROVED”

By the General Assembly
of shareholders
Protocol # _____
dated
“_” _____ 200_

Statutes of the
“ _____ ”
Private Shareholding Company

Tashkent
200_

Article 1.
General statement.

- 1.1 "_____", a private share-holding company, henceforth referred to as "the company", was organized by the Government Committee in charge of property rights in the Republic of Uzbekistan on the basis of _____, and was registered by decree # _____, dated _____.
- 1.2 The full name of the company is:
"_____" Private Share-holding Company.
The abbreviated name of the company is:
"_____" Company (in Russian)
"_____" Aktsiadorlik Zhamiati (in Uzbek)
- 1.3 The location of the company is : _____.
- 1.4 There is no time limit on the activity of the company.

Article 2.
Legal status.

- 2.1 The company is a legal entity and owns specific property, which is taken into consideration in calculating the company's worth. The company can purchase property, has the right of ownership and other legal rights, can be held legally responsible for its actions and can be either the plaintive or defendant in a court.
- 2.2 The company acquires all the rights of a legal entity on the day that the government registers it by due process of the law. The laws of the Republic of Uzbekistan, its Statutes, regulate the company's actions.
- 2.3 The company is responsible for all its actions and for its property. In the event of liquidation, which is to be carried out according to the procedure determined by law, the company is responsible for salvaging and repaying at least the minimum amounts invested by its shareholders.
- 2.4 Shareholders cannot be held responsible for the company's liabilities and can accrue loss only on the shares that they own.
- 2.5 Shareholders that have not paid for their shares in full are financially responsible for the liabilities of the company for the total value of their unpaid shares.
- 2.6 The company is not responsible for the liabilities of its shareholders.
- 2.7 The government and its agencies are not responsible for the liabilities of the agency, nor is the company responsible for the government's liabilities or those of its agencies.
- 2.8 The company has an official stamp, a letterhead and a logo.
- 2.9 The company has the right to set up businesses that are separately incorporated legal entities, including affiliated and dependent companies. It can also set up branches and open up representative offices. Branches and representative offices receive their property from the establishing company and function on the basis of statutes approved by the establishing company. The head officer of the branch or representative office is appointed by the company and functions on the basis of the written warrant given him by the company.

Article 3.
The aim of the company and its functions.

- 3.1 The basic aim of the company is to make a profit, which is to be invested in the interest of the shareholders, so as to further develop the business and improve the welfare of all of the employees of the company.
- 3.2 The main functions of the company are:
- Marketing a mixed transport-shipping enterprise as a service industry;
 - Developing clients amongst export and import companies;
 - Loading and delivering freight through various shippers and transport companies;

- Working with companies representing specific means of transportation, i.e. trucking, railroad, air freight and sea shipping organizations and companies;
- managing transit and customs procedures;
- providing stock and storage areas for loading and delivery work;
- leasing transportation, packaging and loading equipment.

The company likewise performs all of the registration, commercial and financial operations necessary for the work mentioned above, as well as for all of the property involved in this work.

3.3 The company will not perform any function prior to obtaining the necessary government authorization (license).

Article 4.

The original funds and shares of the company.

- 4.1 The original funds of the company are comprised of the set price of the shares, bought by the shareholders.
- 4.2 The original capital of the company is _____ thousand soum (the monetary unit of Uzbekistan), which equals _____ shares, at the set price of 100 soum per share. These shares are divided up amongst the employees.
- 4.3 A share cannot be divided.
- 4.4 The amount of the original funds can be increased by means of increasing the price of a share or by increasing the number of shares. The amount of the original funds can be decreased by decreasing the price of a share or by decreasing the total amount of shares, including by means of the company itself purchasing shares and canceling them. The decision to increase or decrease the amount of the original funds must be made by a general assembly of all the shareholders.
- 4.5 The company must inform its creditors of a decision to increase or decrease its original funds in written form within 30 days.
- 4.6 The company has the right to buy up the shares held by the shareholders, so as to be able to resell them, distribute them amongst its employees or cancel them. The shares must be realized within a year. During this period dividends are paid out and voting is conducted and a quorum determined without taking into account the shares purchased by the company itself. The company buys its own shares according to due process of the law.
- 4.7 A shareholder must buy out his shares within a year after the company is registered. Once the year is up the company has the right to realize the shares on its own.

Article 5.

Funds and profit earned by the company.

- 5.1 The company creates the following funds out of its pure profit:
- a reserve fund equaling 15% of the amount in the original fund;
 - a development fund to be used for manufacture, research and technology;
 - a social welfare fund to be used to help raise the standard of living.
- The amount, the type of capital, the exact purpose and the means of distribution of each fund are determined by the chief administrative body of the company according to due process of the law.
- 5.2 The company has the right to set up additional types of funds, necessary to its work. They are to be completely under the control of the company.
- 5.3 The total net value of the company's assets is determined by the accounting department in the usual manner.

Article 6.
Marketing (sales) and distribution of shares.

- 6.1 Marketing (sales) of the company's own shares are carried out according to due process of the law.
- 6.2 The company's shares can be distributed only amongst the establishing body of the company or another previously designated group.
- 6.3 A shareholder wishing to share his shares must first offer them to the other shareholders at the established price. If the shareholders do not wish to take advantage of their priority in purchasing shares, the company has the priority to buy its own shares.
- 6.4 The right of priority in buying shares must be exercised within 30 days after a share is offered for sale.

Article 7.
The registry of shareholders and safekeeping shares.

- 7.1 The registry of shareholders contains information on each person registered (shareholder), the amount and type of shares owned by each registered person, and other information required by law.
- 7.2 The company guarantees that the registry of shareholders will be established and brought up to date within a month after the government registers the company.
- 7.3 Shareholders can keep their shares in safe deposit boxes, banks, credit unions or wherever they see fit.

Article 8.
Dividends.

- 8.1 The company is obliged to pay out the dividends from shares.
- 8.2 The general assembly of shareholders will determine whether the dividends are to be paid out in cash or by other means.
- 8.3 Dividends are distributed between the shareholders in accordance with the amount and type of shares that they hold.
- 8.4 The company has the right to determine the payment of dividends on either a quarterly, semi-annual or annual basis.
- 8.5 The decisions to pay out dividends periodically (quarterly or semi-annually), the amount of the dividend and how it will be paid out per share are made by an advisory committee of the company.
The decisions to pay out dividends annually, the amount of the dividend and how it will be paid out per share are made by a general assembly of the shareholders and by an advisory committee of the company.
- 8.6 Dividends are paid out of the company's pure profit from the year to date. The date of payment of annual dividends is determined at the general meeting of shareholders which decides upon annual payments of dividends. The dates of periodic payments of dividends are determined by the advisory committee of the company when it meets to decide on the periodic payment of dividends, but cannot be fixed before 30 days after such a decision has been made.
- 8.7 In the event that the dividends are not paid out within the period of time determined by the general assembly of shareholders, penalties are paid on the dividends according to the rates fixed by the Central Bank.
- 8.8 The company does not have the right to decide to pay out dividends on shares:
 - Before the original funds of the company are in place;
 - If at the time of payment of dividends it is on the verge of bankruptcy or if the payment of dividends will bring it to bankruptcy;
 - If the total value the company's assets is less than the amount of its original and reserve funds.
- 8.9 The company announces the amount of dividends before taxation.

Article 9.
Rights and responsibilities of shareholders.

9.1 Shareholders have the right:

- To be included in the registry of the company's shareholders;
- To receive a copy of the information recorded about them in the registry of shareholders, though this document has no value.
- To a portion of the profits in the form of dividends;
- To a portion of the company's property in the case of liquidation, in proportion to the amount of shares he owns;
- To participate in the administration of the company;
- To complete and trustworthy information about the finances and the management of the company;
- To dispose of his dividends as he sees fit;
- To defend his rights before the government agencies that regulate and coordinate the stock market and also in court;
- To receive compensation in the event that losses are caused by incompetent or dishonest actions taken by investment institutions;
- To form an association in the interests of representing or defending the rights of shareholders;
- To insure oneself against the possible risk of deficits or loss of profit when shares are bought or sold.

9.2 Shareholders are responsible for:

- Obeying these statutes;
- Accepting the decisions of the administrative bodies of the company, made in accordance with the present statutes.
- Not publicizing confidential information.

Article 10.
The administrative bodies of the company.

10.1 The administrative bodies of the shareholding company are:

- The general assembly of shareholders;
- An advisory committee of the company;
- The management of the company.

10.2 The chief administrative body is the general assembly of shareholders.

10.3 A council and a chairman are elected by the general assembly of shareholders for a term of one year. The chairman of the company's advisory committee is automatically a member of the council of the general assembly of shareholders.

10.4 The chairman of the general assembly of shareholders heads the council of the general assembly, conducts the meeting of the general assembly and is endowed with all the powers necessary to properly perform his functions.

10.5 The chairman of the general assembly conducts and chairs the meeting, coordinates the committees reporting to the general assembly, determines the order that questions will be discussed in, limits the time allotted to speakers, explains voting and meeting procedures, keeps order in the hall.

10.6 The general assembly of shareholders has the sole right to:

- Append or change the company's Statutes or accept a new edition of the Statutes;
- Reorganize the company;
- Liquidate the company, appoint a liquidation committee, and determine the exact balance at the time the decision is made to liquidate the company and when the liquidation is completed.
- Determine how many members there will be in the company's advisory committee, to elect them and to dismiss them before the completion of their term if necessary;
- Determine the maximum value of a share;
- Increase or decrease the amount in the original fund of the company;
- Buy up the company's shares;
- Confirm the appointment of the Chief Executive Officer to manage the company by the company's advisory committee;

- Elect and dismiss members of an auditing committee of the company;
- Confirm an auditing officer of the company;
- Accept annual reports, financial statements, statements of profit and/or loss, distribute the company's profits or losses;
- Grant permission for company expenditure in compliance with the company's overall plan for development;
- Confirm the agenda and order of procedure at the general assembly;
- Split or consolidate shares;
- Conclude important business deals, such as a settlement or several connected settlements concerning direct or indirect purchase or sale of property by the company. In such an event the value of the property will not exceed 25% of the total value of the company's holdings at the time that the settlement is to be made. Exempted from this are deals and settlements concluded in the course of the day to day management and functioning of the company.
- Approve settlements that are in the direct interest of a member of the advisory committee of the company, a member of the management or other administrative body of the company, a shareholder or group of shareholders that together with any affiliated bodies or persons hold 20% or more of the company's voting shares, in the event that such persons, their spouses, parents, children, brothers, sisters or other affiliated persons are:
 - 1) one of the sides in such a settlement or deal and participate as a representative or a go-between;
 - 2) hold 20% or more of the shares of the legal entity which is one of the proposed partners in a settlement or business deals and participates as a representative or go-between.
 - 3) are employed in the administration of the legal entity which is one of the proposed partners in a settlement or business deals and participates as a representative or go-between. In such a case, the decision to settle or conclude a business deal must be approved by a majority vote at a general assembly of the shareholders holding voting shares and not profiting directly from such a deal or settlement if:
 - a) if the amount to be settled for or the value of the property concerned exceeds 5% of the total value of the company's holdings;
 - b) if the settlement or related settlements concern voting shares of the company or other stocks that can be converted to voting shares of a value that exceeds 5% of the value of previously distributed voting shares;
 - c) if the settlement or deal concerns other matters regulated by the company's Statutes.

10.7 The following decisions must be passed by at least 75% of those present at the general assembly of the company's shareholders:

Decisions concerning the number of members on the company's advisory committee, the election, appointment and dismissal of members of the committee, an increase or decrease of the amount of the company's original fund, the confirmation of the appointment of the chairman of the company's managing body (the chief executive officer) by the advisory committee, annual reports, financial statements, balance sheets, statements of profit and loss of the company, distribution of profits and losses, the granting of permission for expenditures and their coordination with the overall business plan of the company, development of the company, the conclusion of important business deals such as:

- a settlement or several connected settlements concerning direct or indirect purchase or sale of property by the company. In such an event the value of the property will not exceed 25% of the total value of the company's holdings at the time that the settlement is to be made. Exempted from this are deals and settlements concluded in the course of the day to day management and functioning of the company.
- settlements that are in the direct interest of a member of the advisory committee of the company, a member of the management or other administrative body of the company, a shareholder or group of shareholders that together with any affiliated bodies or persons hold 20% or more of the company's voting shares, in the event that such persons, their spouses, parents, children, brothers, sisters or other affiliated persons are:
 - 1) one of the sides in such a settlement or deal and participate as a representative or a go-between;
 - 2) hold 20% or more of the shares of the legal entity which is one of the proposed partners in a settlement or business deals and participates as a representative or go-between.
 - 3) are employed in the administration of the legal entity which is one of the proposed partners in a settlement or business deals and participates as a representative or go-between. In such a case, the decision to settle or conclude a business deal must be

approved by a majority vote at a general assembly of the shareholders holding voting shares and not profiting directly from such a deal or settlement if:

- a) if the amount to be settled for or the value of the property concerned exceeds 5% of the total value of the company's holdings;
- b) if the settlement or related settlements concern voting shares of the company or other stocks that can be converted to voting shares of a value that exceeds 5% of the value of previously distributed voting shares.

- 10.8 The list of shareholders that have the right to participate in the general assembly is compiled from the registry of shareholders on a date determined by the company's advisory committee.
- 10.9 A proxy can represent a shareholder at the general assembly. The person representing him must have a legal warrant transferring the shareholder's rights.
- 10.10 The advisory committee prepares for the general assembly of shareholders, determining:
- the date, time and location of the general assembly of shareholders;
 - the agenda and questions to be discussed at the general assembly;
 - the date that the list of shareholders with a right to participate in the meeting will be compiled;
 - how the shareholders will be notified about the meeting;
 - the type of ballots and the text to be printed on them in the event of voting.
- 10.11 Shareholders are to be informed that a general assembly is to be convened in writing, by registered post, and an announcement of the meeting is to appear in the press.
- 10.12 Shareholders are to be informed that a general assembly is to be convened at least 30 days in advance.
- 10.13 An extraordinary general assembly of shareholders can be convened by the company's advisory committee on the basis of:
- Its own initiative;
 - A request of the auditing committee or the company's auditing officer;
 - A request of a shareholder (or group of shareholders) holding at least 10% of the voting shares on the date that the request is made.
- 10.14 The company's advisory committee must convene an extraordinary general assembly of shareholders within 45 days after a request for such a meeting has been made.
- 10.15 The company's advisory committee must pass a decision to convene or not convene an extraordinary general assembly of shareholders within 10 days after such a request has been made by the auditing committee or the company's auditing officer or a shareholder (or group of shareholders) holding at least 10% of the voting shares.
- 10.16 In the event that the advisory committee of the company does not convene an extraordinary general assembly of shareholders within 45 days or passes a decision not to convene an extraordinary general assembly of shareholders for legally acceptable reasons, an extraordinary general assembly can be convened by those that requested it.
- 10.17 The general assembly has a quorum and its decisions are valid if, when registration for the meeting is completed, the shareholders (or their representatives) registered hold at least 60% of all of the company's voting shares in all areas to be discussed at the meeting.
- 10.18 Voting at the general assembly of shareholders is determined according to the principle that "one voting share = one vote" (with the exception of cumulative voting in the election of members of the advisory committee or other cases, regulated by law).
- 10.19 The company's advisory committee directs the company, except in matters that must be decided by the general assembly of shareholders.
- 10.20 The advisory committee of the company has the right to:
- Determine the company's business priorities;
 - Convene annual and extraordinary general assemblies of shareholders;
 - Determine the agenda of the general assembly of shareholders;
 - Determine the date that the list of shareholders having the right to participate in the general assembly of shareholders is to be compiled;
 - Make a motion to change or append or approve a new edition of the company's statutes at the general assembly of shareholders;

- Confirm the appointment of the auditing officer of the company;
- Determine the market value of the company's property;
- Appoint the Managing Chairman and other members of the managing body of the company;
- Hire and designate a salary for the Managing Chairman;
- Determine the bonuses and compensation to be paid out to the management;
- Recommend the amount to be paid out to members of the auditing committee in the form of bonuses or compensation and to determine how much an auditing officer is to be paid;
- Recommend a set value of a dividend on a share and how it is to be paid out;
- Make use of the reserve fund and other company funds;
- Accept and confirm documents that regulate the functions of the company's administration;
- Set up affiliated companies and open branch offices;
- To sponsor new companies and to set up dependent companies;
- To conclude business deals and settlements concerning the functions of the advisory committee as determined by the company's statutes.

The management cannot interfere in decisions concerning matters that are regulated by the company's advisory committee.

10.21 The general assembly of shareholders elects the five members of the advisory committee from amongst the company's shareholders for a term of 5 years.

10.22 Members of the management cannot be elected to the advisory committee.

10.23 The Chairman of the advisory committee is elected from amongst the members of the advisory committee by themselves by a majority vote.

10.24 The Chairman of the advisory committee organizes the work of the committee, calls and chairs the committee's meetings, sees that the minutes of the meeting are recorded, opens the general assembly of shareholders and is a member of the council, hires the Managing Chairman in the name of the company's shareholders.

10.25 At least 75% of the members of the advisory committee have to be present if a meeting is to be considered valid.

10.26 Decisions of the advisory committee are passed by a simple majority vote. Each member of the advisory committee has a single vote.

10.27 The Management runs the company on a day-to-day basis, with the exception of matters that are the sole responsibility of the advisory committee or the general assembly of shareholders.

10.28 The Management is comprised of 5 members, appointed by the advisory committee for a term of 5 years.

10.29 The Managing chairman is appointed by the advisory committee and confirmed by the general assembly of shareholders.

10.30 The Managing Chairman alone makes decisions concerning the company's activities, except for matters that are the responsibility of the general assembly of shareholders or the advisory committee. The Managing Chairman has the right to:

- Act in the name of the company without a written warrant and to represent its interests in dealing with other organizations and agencies;
- Use the company's property and funds within the framework determined by the company's statutes and other legal documents;
- Conclude business deals and sign contracts, including employment contracts;
- Sign warrants for representatives of the company;
- Open savings, checking and other bank accounts;
- Issue orders and directives that must be obeyed by the company's employees;
- Set up an office and hire the necessary employees;

Responsibilities of the Managing chairman:

- The effective day-to-day direction of the company, except in matters that are the responsibility of the general assembly of shareholders or the advisory committee, providing for efficient and effective management;
- Implementing the decisions of the general assembly of shareholders and of the advisory committee of the company;
- Coordinating the activities of individuals and company structures;
- Seeing that the company abides by its contracts;

- Channeling enough of the company's profit into development and the company's social welfare fund;
- Directing the development of the company's programs and overall business plan, implementing them and analyzing the results;
- Making sure that the company is aware of and abides by the laws regulating business;
- Organizing, directing and seeing to the accuracy of the bookkeeping and accounting of the company, presenting annual reports and other financial statements on time and to the necessary agencies, as well as the financial statements issued to shareholders, creditors, and other persons with a right to such information;
- Presenting reports on the company's finances and management to the advisory committee, the auditing committee of the company or the company's auditing officer whenever required;
- Providing all of the information required by government statistical agencies on time;
- Not revealing confidential information on the company's business policies, except when required to pass that information to a third party within the company. What the company decides to keep confidential is to be determined by the advisory committee;
- Making sure that the company's employees do not reveal confidential information;
- Organizing meetings of the management of the company, signing documents in the company's name and signing the minutes of the management meetings;
- Searching for and hiring qualified employees for the company, implementing their knowledge, qualifications, experience and abilities in the best interests of the company;
- Keeping discipline in the workplace;
- Making sure that the rights of the employees are respected and that they receive the employee benefits due them;
- Assuring that the management participates in employee meetings and in discussions with employees. Acting as the employer when contracts and settlements with employees are signed. Assuring that employees' contracts are abided by.
- Making reports on the company's affairs to the extent that they concern him to the general assembly of shareholders and the company's advisory committee when requested and on time;
- Assuring that all of the rights guaranteed by law of the shareholders to information on the company's activities are respected, participating in the general assembly of shareholders, in calculation of and payment of dividends;
- Keeping in order all of the documents, legal papers, registrations, etc. necessary for the company's activities.

10.31 The management of the company meets when necessary, and at least once a month.

10.32 The members of the management are legally responsible to the extent determined by law and these statutes for their actions.

Article 11.
Accounts and accounting of the company.

11.1 The company keeps proper, accurate financial records and presents financial statements as required by law.

11.2 The annual financial statement and report of the company is approved by the advisory committee at least 30 days before the annual general assembly of shareholders.

Article 12.
The auditing committee.

12.1 An auditing committee checks on the financial management of the company.

12.2 The auditing committee is comprised of 5 members, elected by the general assembly of shareholders to a 5 year term.

12.3 The procedure to be followed by the auditing committee is determined by regulations approved by the general assembly of shareholders.

Article 13.
The auditing officer.

- 13.1 The company can hire an auditor (a private individual or someone from an auditing company) to check the bookkeeping and the financial management of the company.
- 13.2 The general assembly of shareholders confirms the appointment of an auditing officer. The salary of the auditing officer is determined by the company's advisory committee.

Article 14.
Cessation of the company's activities.

- 14.1 The company's activities can be halted:
- By a decision of the general assembly of shareholders;
 - By a court action;
 - By other types of legal action.
- 14.2 The functioning of the company can cease if it is reorganized (by means of a merger, partnership, splitting up into several companies, reorganizing into another type of company) or if it is liquidated.
- 14.3 The company can be reorganized by the bodies that established it or by an agency authorized to do so.
- 14.4 the company must inform its creditors of a decision to reorganize within 30 days.
- 14.5 Upon reorganization of the company the rights and obligations of the company are transferred to those that take over its property and functions.
- 14.6 Those that make the decision to liquidate the company must inform the government agency that registered the company as a legal entity in writing and in due time, so that the agency can register the company as being in the process of liquidation.
- 14.7 The company itself can decide to liquidate at a general assembly of shareholders, which will approve the decision and appoint a liquidation committee consisting of 5 members.
- 14.8 If the company is liquidated by a court action the liquidation committee is appointed as stipulated by law.
- 14.9 Once a liquidation committee is appointed, it begins to act in the name of the company. The liquidation committee represents the company in court.
- 14.10 The liquidation must publish an announcement of the company's liquidation, informing its creditors of the procedures and time limits to request payment or compensation.
- 14.11 The liquidation committee attempts to define all of the company's creditors and tries to assure payment of debt, it also informs the creditors in writing of the company's liquidation, and determines the company's balance at the time of the decision to liquidate and when the actual liquidation takes place, which are confirmed by the general meeting of shareholders in conjunction with the government agency that registered the company.
- 14.12 All of the property remaining after the company's creditors have been paid is distributed amongst the shareholders by the liquidating committee.
- 14.13 Liquidation of the company is completed and the company is considered to have ceased to exist as soon as the government agency that originally registered the company registers its liquidation in the government registry of legal entities.

Article 15.
The statutes become legally binding.

- 15.1 The present statutes become legally binding as of the date that they are registered by the government as required by law.
- 15.2 Changes and additions to the statutes are recorded as required by law and become legally binding as soon as they are registered.

Annex 6

Costs of Container Transportation via Alternative Transport Corridors

Container Transportation via Alternative Transport Corridors

Destination Tashkent			
Route	Total distance in km	Total Costs in USD	Duration in days
Poti - Tashkent	3043	1209	16
Novorossisk - Tashkent	3710	825	13
Brest - Tashkent	4369	924	15
Kaliningrad - Tashkent	4559	1000	16
Banderabas - Tashkent	3617	1028	18
Riga Tashkent	4606	984	16
Vladivostok Tashkent	8548	1277	29

Destination Almaty			
Route	Total distance in km	Total Costs in USD	Duration in days
Poti - Almaty	4753	1265	27
Poti - Almaty (via Traceca Route)	4025	1403	29
Novorossisk - Almaty	4379	712	15
Brest - Almaty	5030	877	17
Banderabas - Almaty	4598	1199	23

Destination Ashgabat			
Route	Total distance in km	Total Costs in USD	Duration in days
Poti - Ashgabat	1787	860	10
Novarossijsk - Ashgabat	3601	1016	12
Banderabas - Ashgabat	3835	943	19

Destination Baku			
Route	Total distance in km	Total Costs in USD	Duration in days
Poti - Baku	866	364	6
Novorossiysk - Baku	2128	452	7
Banderabas - Baku	3392	1320	17

Annex 7

Transportation of Equipment

Shipments of EC / Tacis Equipment

The Silk Road Express as the Intermodal Operator in the Traceca Corridor and the intermodal offices of Poti and Baku took part in a tender for the transportation of Terminal Equipment Supply for the terminals of Poti, Erivan, Aktau, Chimkent and Bishkek.

Several companies were asked to submit a proposal for these shipments in a free competition bid by five different suppliers. From the Bidders it was required that they had knowledge about all procedures in the beneficiaries' countries; about customs procedures for the crossing of up to four borders. Further, the prices had to be competitive, the safety of the shipments during transportation, for pre-transportation and handling operations had to be ensured.

The equipment could not be containerised due to its size, or transported in rail wagons due to safety reasons. But it was a challenge to demonstrate knowledge in forwarding and procedures in the conventional transport in the Traceca corridor for the Consultant's staff.

The Silk Road Express won the tender and organised the whole transportation chain from the suppliers' factories to the end destinations. The difficulties experienced during the whole process were the same as encountered during intermodal transportation along the Traceca route.

Places of suppliers' factories were the following:

- Southern Germany (4 Iveco Trucks, two with the destination Erivan, two with destination Chimkent)
- Southern Germany (1 shunting vehicle for the port of Aktau)
- Western Germany (1 shunting locomotive for the port of Poti)
- Northern Germany (2 container spreaders for Erivan)
- Southern Turkey (20 Road chassis, 10 with destination Chimkent, 4 with destination Bishkek and 6 for Erivan)

In addition, spare parts and EDP equipment had to be delivered from the same suppliers.

The Consultants chartered two vessels, one from Hamburg and one from Mersin, Turkey, and accompanied the equipment at the main hubs during the handling operations, he ordered subcontractors and prepared the necessary documentation and paperwork. The port operations in the port of Poti during the discharging were supervised by the intermodal staff in Poti and by the Consultant.

Conclusions / results

- Transport and shipments from Germany: no difficulties
- Shipments from Turkey: expensive, and some minor difficulties with the lashing and securing charges in the Port of Mersin
- Discharging in the Port of Poti:
 - Lack of stevedoring equipment
 - Lack of experience in handling procedures
 - Low level of productivity
 - But at least reasonable results in discharging procedures and everything was received in good condition
- Georgian trucking companies for onward transportation: flexible and careful operations and reasonable prices

- Customs procedures:
 - Armenian border: inflexible, long procedures (three days) and extra-payments
 - Georgian / Azerbaijan border:
 - Azerbaijan border in Baku:
- Onward transportation:
 - Via Turkmenistan: impossible due to new visa requirements for truck drivers. Turkmenistan did not issue any visa during the time the transport had to be realised
 - Via Kazakhstan: