

**TRACECA: Unified Policy on
Transit Fees and Tariffs
Monthly Report
May - June 2002**

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UPTFT Monthly Report - May-June, 2002

1) TFTWG (Railways, Seaports and Shipping Companies)

The first meeting of the Transit Fees and Tariffs Working Group (TFTWG) for TRACECA Railways, Seaports and Shipping Companies was held on 19-20 June in Baku, Azerbaijan. This meeting was organised and funded by the UPTFT project. This working group has been formally established in accordance with the project TOR and will meet again in October 2002. The agenda for the first meeting and for subsequent meetings are shown at Appendix 1.

A copy of the protocol signed by the delegates at the first meeting is at Appendix 2.

Copies of working notes on rail and maritime tariffs, which were distributed to delegates prior to the first meeting, are shown at Appendix 3 and Appendix 4.

Presentations made by three EU experts are at Appendix 5.

A list of the delegates attending the first meeting is at Appendix 6.

The aims of this first meeting were ambitious, but were largely realised. Attendance was very satisfactory, with only Armenia and Tadjikistan failing to send delegates, and some countries sending up to four delegates. Representation was generally at the appropriate level. Delegates showed great interest in the issues under consideration, and there was lively debate. The delegates agreed on the objective of coordinating tariff policy among TRACECA members, the programme of future meetings and to their continued participation. It was agreed that the consultants should develop one rail tariff option in detail for further consideration at the next meeting; also that a range of possible cost-based ports and shipping tariff structures should be presented at the next meeting that took into account available surplus capacity and the current ratio of fixed to variable costs. Consideration would be given to the incorporation of tariffs for rail, ports and shipping into a single document.

It was agreed that the new tariff structure for rail transit traffic should be based on direct costs with a margin to cover indirect costs; that it should be developed by the consultants so that it permitted the separate identification of charges relating to movement and terminal activities; and that the tariff structure for rail, ports and shipping should be based on costs reflecting unified, technical norms.

It was further agreed that the consultants would propose for agreement at the next meeting a methodology, with example tariffs, for coordinated rates for containers and total through tariffs (rail, ports and shipping).

The delegates agreed to fully support the work of the consultants by providing all necessary data for monitoring the effects on traffic of reduced tariffs and for establishing a web-based user guide.

The delegates were unable to agree at this time with the consultants' recommendation relating to implementation of an experimental flat rate across all TRACECA countries for rail container tariffs for a one-year period commencing in October 2002 (with careful monitoring of the effects on traffic and revenues).

2) TFTWG (Roads)

The first meeting of the TFTWG for road transit fees will be held in October/November, and planning has commenced. The main work of the roads team in May/June has been the evaluation of information collected on country field visits (see 6 below).

3) Inception Report (IR) and Contract Addendum

The IR was produced and distributed in mid-April, in accordance with the TOR. It has now been approved by the Task Manager, European Commission.

Addendum No. 1 to the Contract No. 01-0181 has now been approved by the European Commission.

4) TRACECA Web-site

The Project TOR, the IR and a brief resume of the first meeting of the TFTWG have been published on the TRACECA web-site.

5) Other Meetings Attended

The Project Manager attended the Second Annual Meeting of the TRACECA Intergovernmental Commission in Tashkent in April. He also supported the TRACECA IGC Secretariat presentation at the Trans Caspian Exhibition in May in Baku.

The Project Manager also attended the IRU LC CIS meeting in Baku in April, where he presented the project and its data requirements to road transport operators (potential members of the TFTWG for roads), and elicited their support for its activities.

6) Country Visits

During May/June field visits were made by the modal experts to the authorities and operators in Turkey (roads), Romania (roads and maritime), Bulgaria (roads and maritime), Turkmenistan (maritime), Uzbekistan (roads and rail), Kyrgyzstan (roads), Kazakhstan (roads, maritime and rail), Georgia (roads, rail and maritime), Azerbaijan (roads, rail and maritime), Moldova (roads), and Armenia (roads). The objective was to obtain views on tariffs policy and to collect tariff, cost and traffic data.

The cooperation extended and the extent of information provided varied significantly between countries and between transport modes. An overall assessment will be presented in subsequent reports. In the meantime it is noted that Caspian Shipping Company and Uzbekistan Railways have been less than cooperative, and that operating costs for ports on the Black Sea and for Azerbaijan and Georgian railways are proving difficult to obtain.

7) IGC Cooperation and Support

The project has fully supported the network of national commissions and secretariats established by the TRACECA IGC General Secretariat. The project in turn has received full support from the IGC Secretariat. The first meeting of the TFTWG was chaired by the General Secretary IGC, Mr A Tagirov, as will future meetings.

8) Summary of Progress of Activities

Table 1 shows a summary of progress of activities as at end-June.

Table 1 Summary of Progress of Activities

SUB-ACTIVITY	ACTIVITY	PROGRESS
Task 1	WORKING GROUPS (RAIL, MARITIME, ROAD)	
1.1	Set up working groups	COMPLETE (for rail and maritime) ON-GOING (for roads)
1.2	Draw up agenda for working groups	COMPLETE (for rail and maritime) ON-GOING (for roads)
1.3	Appoint representatives in each country	COMPLETE (for rail and maritime) ON-GOING (for roads)
1.4	Work with national representatives	ON- GOING
Task 2	REVIEW OF PREVIOUS WORK	
2.1	Comments on previous work	COMPLETE
2.2	Consolidation of existing data on tariffs, revenues, expenditures, traffic and pricing policies.	COMPLETE
2.3	Identification of gaps in information	COMPLETE
Task 3	UNIFIED POLICY FOR ROAD TRANSIT FEES	
3.1	Obtain Transit Permit / Fee Information	ON- GOING
3.2	Road Transport Operator Survey	ON- GOING
3.3	Estimation of Reasonable Level of Fees	
3.4	Identification of Options and Development of Preferred Option	
Task 4	UNIFIED POLICY FOR RAIL TRANSIT TARIFFS	
4.1	Analysis of MTT and CIS Tariff Policy	COMPLETE
4.2	Development on variant tariff structures	ON- GOING
4.3	Proposal of Pilot scheme for selected rates	ON- GOING

4.4	Trader Access Survey	ON- GOING
4.5	Improved Tariff Setting Methodology	ON- GOING
Task 5	ANALYSIS AND RECOMMENDATIONS ON SHIPPING/PORT TARIFFS	
5.1	Review information from each TRACECA country	ON-GOING
5.2	Initial analysis of tariffs and policy	ON-GOING
5.3	Refinement, implementation of preferred Tariff Structure (including through tariffs)	
Task 6	USER GUIDE	ON-GOING
Task 7	Reports	
7.1	Inception Report	COMPLETED
7.2	Progress Report	
7.3	Draft Final Report	
7.4	Final Report	

APPENDICES

APPENDIX 1

AGENDA FOR THE TFTWG

UNIFIED POLICY ON TRANSIT FEES AND TARIFFS (UPTFT)

Transit Fees and Tariffs Working Group (TFTWG) for Rail, Ports and Shipping First Meeting

Date - 19 – 20 June 2002

Location – TRACECA IGC Secretariat, Baku, Azerbaijan

Modes – Railways, Ports and Shipping

Languages – Russian & English

Plenary Session - Chairman, IGC General Secretary (Mr A B Tagirov)

Workshops Leaders – Douglas Rasbash (Rail) & Ted Laing (Ports and Shipping)

Objectives:

1. To agree on the agenda of the TFTWG.
2. To agree programme for meetings and workshops.
3. To monitor variations in transit tariff coefficients and their effects on the flow of traffic in TRACECA countries (including posting on TRACECA web-site).
4. To examine methods of simplification and harmonization of tariffs.
5. In particular, to adopt an interim flat rate for the movement of international containers by rail, and a move to cost-based ports and shipping tariffs for promotion of all types of transit traffic – container and non-container.
6. To consider changes in tariff levels, tariff structures and tariff policies to participating organizations - in particular to examine three alternative rail tariff structures submitted by consultants to replace ITT and to propose one alternative for further elaboration by the study consultants.
7. To agree the questionnaire that will be used to gather information on 'Trader Access'
8. To provide information as determined necessary for the purposes of the TFTWG - in particular to support the trader access survey and the development of a TRACECA User Guide.
9. To propose future areas of interest for the project.

Expected outputs: signed protocol covering the above agreements, draft to be circulated by June 6th 2002

Participants

List of delegates to be available at the meeting but to include representatives of rail, ports and shipping from the 13 TRACECA countries, Secretariat officials, Consultants, guests.

Programme Structure:

Plenary Sessions - All participants present (Day 1 first 2 hours, and all Day 2)

Workshops - Separately for (a) Rail and (b) Ports and Shipping, parallel running - Day 1

Arrival Day, Tuesday 18 June 2002

Airport transfer to Hotel

Registration at IGC TRACECA Office

Day 1, Wednesday, 19 June 2002

Plenary Session Objectives:

Introduction of TFTWG members, project team leaders and experts;

To discuss TFTWG objectives and modus operandi; first meeting objectives and agenda.

Plenary Session Outputs: Agreement on TFTWG First Meeting Agenda

PLENARY SESSION			Leader
09:30		Registration and collection of final programme, papers etc	All delegates
10:00	1	Meeting opening; Introducing the members, Context	Chairman
10:15	2	EU Perspective; Terms of Reference	M. Graille
10:30	3	Progress towards reform – discounts and coefficients	V. Turdzeladze/ N. Erkinov
10:45	4	Progress and Inception Report – Project Manager	D. Roberts
11:00	5	Introduction, Objectives and Programme – Rail	D. Rasbash
11:15	6	Introduction, Objectives and Programme – Ports and Shipping	T. Laing
11:30	7	Discussion and agreement on overall programme of working group and agenda of first meeting	All delegates
11:45		Tea Break	

Rail Workshop Objectives:

Expected Outputs:

Workshop Rail			Leader
12:00	1	Cost Basis For Tariffs - General discussion and common understanding of basis for transport costs	General discussion.
12:30	2	Trends in TRACECA railways traffic and tariffs	N. Erkinov
12:45	3	Review ITT/CIS Policy – Presentation of paper circulated to delegates.	D. Rasbash
13:15	4	Need for change – Discussion	All delegates
13:30	5	Introduction to proposed alternative tariff policies (paper circulated)	D. Rasbash
14:00		Lunch	

**Ports & Shipping Workshop Objectives:
Expected Outputs:**

Workshop Ports & Shipping			
12:00	1	Traffic on TRACECA routes: Progress so far	T Laing
12:30	2	Potential for development of TRACECA traffic	T.Laing
13:00	3	Existing tariff policies and comparison of TRACECA with international tariffs	TLaing
13:30	4	Short analysis of maritime transport in TRACECA countries	N. Mamedov
13:40	5	Black Sea ports and shipping	A. Schoof
14:00		Lunch	

Workshop Rail			
15:30	6	Discussion on alternative tariff structures and selection of best for further development.	All delegates
16:00	7	Experimental / Pilot Flat Rates for Containers (proposal advanced for discussion)	Douglas Rasbash
16:30		Tea Break	
17:00	7	Agreement on experimental flat rate for containers	All delegates
17:30	8	Trader Access Questionnaire, Information Needs & Monitoring; User Guide.	D. Rasbash
18:30		Dinner	

Workshop Ports & Shipping			
15.30	1	Opportunities to utilise surplus capacity	T Laing
16.00	2	Ports and shipping tariff approaches elsewhere in the world	T Laing
16.30		Tea Break	
17.00	3	Cost – based tariffs and commercial pricing	T Laing
18.30		Dinner	

Day 2
Thursday, 20 June 2002 -

PLENARY SESSION

Objectives:

Expected outputs:

Protocol agreed; next meeting agreed

			Leader
10:00	1	Introduction from TRACECA	Chairman
10:10	2	Observations from Project Manager	Da. Roberts
10:20	3	Report of Rail Workshop	D. Rasbash
10:30	4	Report of Ports and Shipping Workshop	T. Laing
10:40	5	Introduction of Draft Protocol	Chairman
11:00		Tea Break	
11:30	6	Discussing the Protocol	Chairman Delegates
12:30		Lunch	
14:00	7	Discussing the Protocol	Chairman Delegates
15:30		Tea Break	
15:45	8	Future Programme – Rail	D. Rasbash
16:00	9	Future Programme – Ports and Shipping	T. Laing
16:15	10	Next meeting – Date, location, objectives, outputs	Chairman
17:15		Signing the Protocol	All delegates
		Farewell Dinner	

TRACECA TFTWG for Rail, Ports and Shipping
Proposed Meetings Schedule with Possible Subjects (Rail Tariffs)

Date	Submissions	Decisions required	Workshop
Meeting 1 June 02 Month 6	1. Draft paper on MTT and CIS tariff policy 2. Variants of proposed tariff structures 3. Proposals for selected rate changes for containers 4. Trader access survey requirements 5. Workshop programme	1. On changes in rates 2. On variant tariff structures to develop 3. Agreeing trader survey requirements 4. Information needs for monitoring transit traffic flows	Tariffs: Cost basis for tariffs; European tariffs; Commercial pricing
Meeting 2 October 02 Month 10	1. Presentation of proposed tariff structure 2. Review of effects of revised coefficients (ref protocol 14/15-2-2002) 3. Paper – Euro- Asian Freight Transit Market Elasticities 4. Progress report on trader access survey	1. Agreement on proposed tariff structure 2. Suggested actions to improve relations with traders	Factors affecting demand for freight transit: price, time, service levels
Meeting 3 February 03 Month 14	1. TRACECA User Guide on Web Site 2. Review of information flows 3. Draft report on improved access for traders 4. Draft code of practice for trader access to railways	1. Agree draft plan to improve access by traders 2. Agree modifications to User Guide 3. Agree improvements to information flows	1. Market needs 2. Price setting and negotiations using new tariff structure 3. Joint session with freight forwarders
Meeting 4 June 03 Month 18	1. Monitoring report on effects of new tariff structure 2. Final report on trader access	1. Modifications to new tariff structure 2. Agree final plan to improve trader access.	Market research and forecasting techniques
Meeting 5 October 03 Month 22	1. Final report on new tariffs 2. Draft final project report 3. User Guide	1. Comments on reports 2. Actions to sustain the User Guide	Future needs: Identification of future actions needed to improve TRACECA transit volumes

TRACECA TFTWG for Rail, Ports and Shipping
Proposed Meetings Schedule with Possible Subjects (Ports and Shipping)

Date	Submissions	Decisions required	Workshop
Meeting 1 June 02 Month 6	Initial findings on port and shipping traffic, particularly transit; current tariff policies; existing tariff structures; the strengths and weaknesses of the ports' and shipping lines' accounts; views of governments on pricing policies; and views of port users, port authorities and shipping lines. Outstanding problems after initial field work.	Measures to overcome problems emerging during initial field work	Cost based tariffs for ports and shipping; Port pricing elsewhere in the world. Commercial pricing
Meeting 2 October 02 Month 10	Presentation of proposed tariff structure	Agreement on proposed tariff structure	The proposed new tariff policy Factors affecting demand for freight transit: price, time, service levels
Meeting 3 February 03 Month 14	Review of comments on proposed tariff structure Review of progress in implementation of new tariffs TRACECA User Guide on Web Site Review of information flows	Decisions to overcome problems in implementation	Market needs Price setting and negotiations using new tariff structure Joint session with freight forwarders
Meeting 4 June 03 Month 18	Monitoring report on effects of new tariff structure	Decisions to overcome outstanding problems in implementation. Modifications to new tariff proposals	Progress review
Meeting 5 October 03 Month 22	Final report on new tariffs Draft final project report User Guide	Comments on reports Actions to sustain the User Guide	Future needs Identification of future actions needed to improve TRACECA transit volumes.

APPENDIX 2

PROTOCOL ON RESULTS OF WORKSHOP

PROTOCOL

ON RESULTS OF WORKSHOP OF PLENIPOTENTIARY RAILWAY, MARITIME ADMINISTRATION, SEAPORT AND SHIPPING COMPANY REPRESENTATIVES (EXPERTS) CONCERNING TARIFF POLICY FOR RAILWAY AND MARITIME TRANSIT SERVICES ON THE TRACECA TRANSPORT CORRIDOR

Baku, June 20, 2002

The plenipotentiary representatives of railway, maritime administration, seaport and shipping companies operating freight services on the TRACECA Transport Corridor, together with representatives of the PS IGC TRACECA, (list of signatories below) have discussed matters concerning transit traffic tariff policy on 19 - 20 June 2002 in Baku.

The workshop was chaired by the General Secretary, PS, Intergovernmental Commission, TRACECA, Abdurashid Tagirov.

This workshop was formed in accordance with Article 2 of the Protocol signed in Baku of 15 February, 2002 and the Decision on Development of Sea Transport signed in Tashkent on 25 April, 2002 (Article 3.2 and 5 of Final Resolution) to support the work of the TRACECA project Unified Policy on Transit Fees and Tariffs.

1. The representatives agreed that:

- a. the meeting was conducted in a cooperative spirit and a professional manner within the context of the 'Basic Multilateral Agreement', (article 3 pp. 1, 2, article 5, 6, 8, 9 pp.4) with the objective of coordinating tariff policy amongst TRACECA members;
 - b. the purpose of the workshop was to provide direction to those engaged in activities relating to setting of transit traffic tariffs in general, and to the particular objectives of the meeting agenda (attached);
 - c. Mr Abdurashid Tagirov was appointed Chairman for the workshops.
 - d. the programme for future meetings of the workshop should be as in attached document;
 - e. representatives will continue to participate in the workshops at dates to be advised, but approximately at four monthly intervals.
2. Discussions were held on improving the structure of tariffs for railways, ports and shipping for transit freight traffic in the TRACECA Corridor, and the following was agreed:
- f. Consideration having been given to a range of possible rail tariff structure options at this meeting, the project consultants were then requested to develop in detail one option for further consideration at the next meeting
 - g. The format of the proposed rail tariff structure should be clearly set out (including the limits of this jurisdiction in terms of network links, border stations and ports).
 - h. Existing rail tariff agreements should be taken into account and applied wherever possible so as to minimize the change that transport operators and customers face.
 - i. Proposals should be developed for an approach to port dues, cargo handling rates in ports, taking into account private operations in these types of services, for maritime freight that would reflect the costs of sea transportation and cargo handling as well as available surplus capacity and the existing ratio of fixed to variable costs at the present time.
 - j. A range of possible ports and shipping tariff structures will be presented by the Unified Policy on Transit Fees and Tariffs Project experts at the Workshop in October 2002 – both for the short and long term.
 - k. In view of the multi-modal nature of transport movements in the TRACECA Corridor consideration should be given to incorporation of tariffs for railways, ports and shipping into a single document within the framework of the Basic Multilateral Agreement.
 - l. The new rail tariff structure should be based on study of similar existing tariffs on alternative corridors and should be sensitive to types of cargo, distance, time and level of service.
 - m. The new tariff structure for rail transit traffic should (a) be based on the recovery of those costs that are directly associated with such traffic, including amortization of assets deployed to provide services to acceptable standards, and (b) provide sufficient margin for recovery of those costs that do not vary directly with traffic.
 - n. The different financial and economic policies of national railways, ports and shipping enterprises in the TRACECA Corridor are appreciated. For this reason the consultants were requested to develop any new tariff structure through the application of unified, normative technical and financial bases relating to the costs associated with providing transit services.



UNIFIED POLICY ON TRANSIT FEES AND TARIFFS

ЕДИНАЯ ПОЛИТИКА ПО ТРАНЗИТНЫМ РАСЦЕНКАМ И ТАРИФАМ



- p. The tariff structure option to be developed by the consultants should permit the identification of charges relating to movement, terminal and other activities provided in an efficient manner by railways.
- q. It is recommended to consider changing the currency from the Swiss Franc to the Euro.
3. In the interest of attracting more transit traffic to the TRACECA corridor, it was agreed that a new tariffs methodology with examples of tariffs should be proposed by the Consultants to the Working Group at the next planned meeting in October 2002, including the following:
- q. Coordinated rates for the movement of containers (TEU/kilometre) by rail.
- r. Appropriate charges for terminal operations.
- s. Appropriate ports and shipping rates.
- t. A total through tariff, including railways, ports and shipping rates.

Delegates are expected to be able to make a decision at the planned meeting in October 2002 and will be notified 1 month before the meeting with details of the new tariff strategy.

4. The Workshop appreciates the importance of collecting meaningful data for good commercial practice and for evaluating key management decisions, and to this end will fully support the following:
- u. the provision of data at subsequent meetings of the Workshop as specified by the TRACECA IGC Permanent Secretariat for monitoring the effects of reduced tariffs on commercial traffic as well as humanitarian aid traffic
- v. provision of data to assist in establishing a User Guide to railways, ports, shipping and road services, as specified by the consultants, and to be published on the TRACECA Web Site
- w. provision of data to determine the reaction of freight forwarders and shippers to services provided, using the draft questionnaire presented to the Workshop.
- x. promotion of all activities of the project carried out by the consultants as described in the Inception Report dated April 2002, including supplying information agreed by the Workshop. (A list of information requirements was discussed at the Workshop).
- y. The Workshop acknowledges that the following reports and other documents were received by them:
- An information pack containing the Workshop agenda, list of delegates including contact details, contact details of consultants
 - The Inception Report
 - Paper reviewing MTT and CIS Tariff Structures
 - Paper setting out possible alternative rail tariff structures
 - A draft outline of the User Guide
 - Draft questionnaire for trader access


5. Next Meeting of the Workshop to be 15 October 2002.

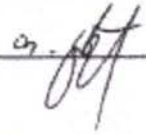
Chairman of Working Group transit fees and tariffs,
General Secretary PS IGC TRACECA Mr Abdurashid Tagirov

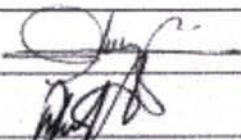
Project Manager "Unified Policy on Transit Fees and Tariffs" Mr David Roberts

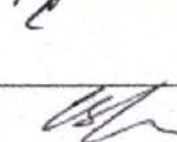
Азербайджанская Государственная Железная Дорога	Заместитель начальника службы Тарифы и Транспортный Сервис: И. А. ГУСЕЙНОВ
Азербайджанское Государственное Каспийское Пароходство	Заместитель начальника А. М. РАГИМОВ
Бакинский Международный Морской Порт	Зам. начальника финансовой службы - Начальник планово-организационного аналитического отдела Р. КАСИМОВА
Болгарская Государственная железная дорога	Руководитель сектора П. ПОПОВ
Грузинская железная дорога	Начальник экономической службы Т. ЦИХЕЛАШВИЛИ
Администрации Туркменских железных дорог	1-ый заместитель начальника службы перевозок и коммерческой работы Б.П. АННАЕВ
Администрация морских портов Турции	Главный Инженер Ф. К. ЯЗАН
Порт и судоходная компания	Специалист по морским перевозкам Х. БЕЙХАН
Узбекская железная дорога	Экономист отдела тарифной политики экономической службы Ф. Н. МАХБУБОВА
Судоходная компания «Укрферри»	Коммерческий Директор В.В. ЧЕРНИЕВСКИЙ
Государственная администрация железнодорожного транспорта Украины «Укрзалізниця»	Начальник управления маркетинга и технологий Главного коммерческого управления Т. П. ТАРАТАЙКО
Министерство транспорта и коммуникаций республики Казахстан	Начальник управления регулирования перевозочного процесса Департамента железнодорожного транспорта С.Р. ТАЛЬКО
Национальная морская судоходная компания «КАЗМОРТРАНСФЛОТ»	Директор Коммерческого Департамента С.Ю. ВОРОЖЕЙКИН
Кыргызская железная дорога	Инженер по тарифам отдела экономики и тарифов Управления Кыргызской ж.д. В.Г. ЧИГРИНА
Государственное предприятие «Железная дорога Молдовы»	Начальник отдела грузовых тарифов Н. ЗАЙЦЕВА
Турецкая Государственная железная дорога	Глава портового департамента Н. АРСЛАН
Национальное Общество Железнодорожных Грузовых Перевозок «УФР Нарфа»	Начальник службы тарифов, анализа и стоимости МЕДЕШАН И.Ф.
Морской Торговый Порт Констанца	Коммерческий Директор А. БАЗ
Ильичевский Морской Торговый Порт	Начальник отдела маркетинга Т.В. РИВИНА
Морской Торговый Порт Актау	Начальник отдела маркетинга Д.Б. КУТПАНБАЕВ
Морской Торговый Порт Туркменбаши	Оперативный Менеджер ТМП Н.Н. АТАЕВ
Морской Торговый Порт Батуми	Коммерческий и Финансовый Директор Р. НАКАШИДЗЕ
Морской Торговый Порт Варна	Директор эксплуатации А. СТАНКОВ
Управление «Туркмендемирйоллары»	Зам. Начальника транспортно-экспедиторского отдела финансовой службы О.ХУДАЙБЕРДЫЕВ
Администрация Морского транспорта	Зам. председателя АМТТ

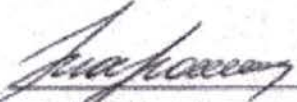


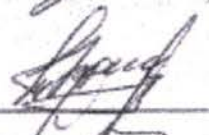


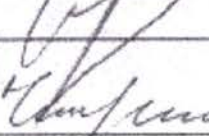


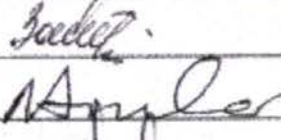


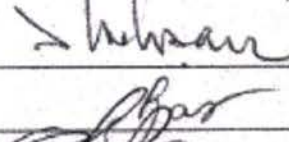




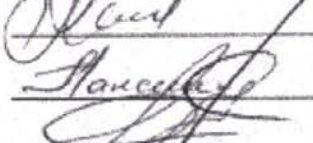


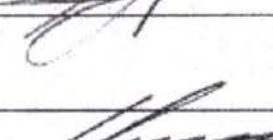


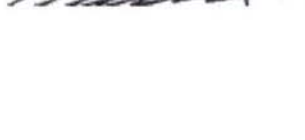












APPENDIX 3

TRACECA Railways Transit Tariff Policy – The Way Forward

**TRACECA – Unified Policy on Transit Fees and Tariffs
Working Paper for the TFTWG Meeting June 19-20, 2002
TRACECA Railways Transit Tariff Policy – The Way Forward**

(Note: A revised version of this Working Paper,
incorporating the results of the TFTWG meeting, is under preparation)

1. INTRODUCTION

1. The terms of reference for the Unified Policy on Transit Fees and Tariffs (UPTFT) makes it clear that the output expected is a new tariff structure for TRACECA railways, ports and shipping and transit fees for road transportation. The overall goal being to increase the use of the TRACECA Corridor.
2. The Inception report published in April and approved by TRACECA sets out the approach to achieving these results. The main vehicle being the forum to which this paper is addressed, that is to say the Transit Fees and Tariffs Working Group (TFTWG). The working group programme makes it clear what decisions are expected at each of the five meetings planned to take place over the two-year life of the project.
3. At this first meeting decisions required are a) To support the objectives to change the tariff structure b) To provide a clear direction that these changes should take c) To determine a flat rate for containers to apply for a limited period d) The support and information requirements necessary to support the project including the publication of TRACECA User Guide.
4. A protocol, distributed to all delegates in advance of the meeting sets out the decisions expected of delegates.
5. This paper provides the background to the decisions that are expected to be discussed during the workshop sessions. The paper covers the following: a) notes on MTT and ETT b) Options for a new tariff structure c) Normative Cost Basis d) Comparison with ETT rates e) proposals for an experimental flat rate and f) information needed from delegates

2. ETT AND MTT

6. The ETT International Transit Tariff Agreement started in 1951 applied to Central Asian countries and to all USSR (all oblasts and administrations). Post USSR new agreements have entered into force with CIS countries as sovereign states in 1991. The cost basis, tariff structure and rules of application remain largely that of the ETT. The MTT started later in 1977 under the custodianship of Polish Railways to provide a more European Structure. The OSJD took over the running of MTT in 2000.
7. The main differences between ETT and MTT is that MTT rates are higher; for 1000 km MTT the rate is 350 SF and the ETT rate 200 SF. Tariffs are in 10 km steps with ETT and 5 km steps with MTT.
8. It is important to underline the fact that both MTT and ETT are considered to be cost-based tariff structures. Having said this, it has proven difficult to determine the basis for this cost. It is appropriate to be reminded that in 1951 and indeed 1977 when ETT and MTT were initiated, the approach to railway financing and management was considerably different.
9. Rail costs were considered in three parts, direct, conditionally fixed and profit. Direct costs included costs that varied with distance such as train crews, traction & rolling stock maintenance and fuel. Conditionally fixed¹ costs varied partly with time, including

¹ It is to be noted that the term conditionally fixed costs was encountered in Kazakhstan, but it may not be in general use in other TRACECA Countries. It is a term that is not used at all in the EU or elsewhere. Conditionally fixed covers all costs that do not change with distance, including time-based costs such as amortisation of assets as well as indirect costs such as rent and administration.

- infrastructure and buildings maintenance and general labour, and were set at 60% of direct costs. Profit was set at 15% of the total and was designed to cover management service costs.
10. Railways, ports and shipping had their own ministries in the past to oversee the financing of the mode and to develop it according to state planning criteria. What may not have been included were the costs of the ministries, and loan and interest repayments on investments provided by the state. It is also believed, though not certain, that the costs of associated social services, schools, health care etc were separately accounted for, and were not part of the railways operational costs recovered in tariffs. The costs of modernisation and upgrading are now included in the MTT (according to OSJD), although exactly which costs and how these costs are included was not explained. Such costs are definitely excluded from the ETT.
 11. OSJD confirmed that time was not considered as a basis for cost.
 12. The MTT and ETT tariff structure is wagon and distance based, that is x per wagon per km., and converted to tons based on the wagon carrying capacity. It is also adjusted for the empty running percentage, based on the wagon and commodity type. For example, tankers carrying oil are assumed to be 50% empty running, as it impossible to get a loaded return. Empty running is important in determining prices, and though indisputable for oil tankers becomes less so for general purpose and flat wagons, as the market and direction of traffic has changed.
 13. Terminal charges are built into the tariff structure, including at each end of the transit, border operations between sovereign countries and at intermediate stations. As they are combined, there is no clear understanding of what the rates separately for terminal and movement would be.
 14. The result of combining terminal with movement charges is a tapered tariff structure; the form being $P = md + ntk/d^{**2}$ (Price = movement rate x distance + (number of terminals x terminal rate / distance squared). k is a coefficient influencing the distance at which the curve flattens. For ETT the gradient of the taper flattens at about 2,500 km, indicating that terminal charges have been fully recovered at that distance. In the EU the taper flattens at 1000 km because distances are far shorter than CIS.
 15. It is clear that factors other than distance and load will influence the cost basis for tariffs. The topographical differences between geographical areas were recognised through knowledge of the limiting train length and load for each railway area. Georgian operations are considered to be 6 times more expensive that Kazak operations owing to the more mountainous terrain. It is considered to be time for these assumptions to be reviewed.
 16. Above all, MTT and ETT provide for determining how transit revenues collected by one country should be allocated to the others through which the transit services pass. The most voluminous part of the code is tabulations of point-to- point distances for this purpose. It is also the reason why ETT tariffs are quoted in Swiss Francs - to even out exchange rate problems.
 17. TRACECA preferential rates using special coefficients of up to -50% of the published ETT rates were established earlier this year. Special discounts for ports and shipping exist, and also for humanitarian goods for Afghanistan. The prevalence of coefficients is indicative of the difficulties of complying with ETT and at the same time, remaining competitive.
 18. Problems with the MTT and ETT:
 - a) partly because of the combination of movement and terminal charges, it is non-service specific, that is to say, there is no account taken of the individual characteristics of each service;
 - b) not time sensitive, that is to say that cost is deemed to vary only with distance; not with time. This is clearly not the case;
 - c) does not include the costs of investment - which for modern railways in non-centrally planned economies is clearly a problem;

- d) allocates fixed costs and overheads as a proportion of direct (or variable) costs, de facto making fixed costs variable;
- e) there is no possibility of making tariff changes based on efficiency or service improvements, as the costs of neither can be reflected – for those countries engaged in route improvements the inability to raise tariffs based on better performance is limiting;
- f) the main problem lies with the application of the taper. Originally set to flatten at 2,500 km in USSR, such distances are no longer attainable in any single country except Russia and Kazakhstan;
- g) services between pairs of cities in the USSR which were once considered domestic are now treated as either transit, import or export traffic. As such, the taper applies border-to-border rather than between origin and destination;
- h) as a result of g) there has been an increase in rates. Railways have come to rely on revenue from transit traffic to cross subsidise loss-making domestic and passenger rail services. In fact, because there should be no terminal charges, transit traffic should be the least costly and therefore lowest tariff service. Instead it is the most expensive.
- i) high priced transit affects the cost of trade and hence economic development.
- j) the other major problem about the tariff structure is that, being only sensitive to distance, there is no extra revenue to be gained from faster transit. This may be acceptable for low value primary commodities such as coal and oil, but for higher value goods it is a problem. Surveys show that customers are prepared to pay more for faster journey times.
- k) this leads on to reliability, which is very important in this age of multimodal transport and just-in-time logistics. Ships will not wait an extra day because the train is late arriving.
- l) the basis for discounting is not clear, e.g. for empty back hauls, advance notice, use of capacity off-peak or out-of-season etc.
- m) conditions of carriage may not be uniform between CIS or TRACECA states so that, for example, compensation for under-performance requires strengthening in any new revised tariff structure.
- n) for a shipper, possibly having to negotiate tariffs with 5 or more different railways is a disadvantage. Understanding the rationale behind the variations is hard to understand and accept. Other problems also have to taken into consideration, such as different documentation requirements, conditions of carriage, payment conditions, etc2.

² The proposed TRACECA User Guide is aimed at reducing some of these difficulties. TFTWG delegates are asked to support the Trader Access Survey in preparation for the User Guide and also to help improve price setting practices.

3 PROPOSED TARIFF STRUCTURE

1. **Choices for the New Tariff Structure:** There are several variants for the development of a new tariff structure. The tariff structure may be a flat rate for the movement, based on wagon type, plus fixed charges for terminal operations, goods handling etc plus other services rendered. Factors to be considered when selecting the tariff structure are included in the table below:

Proposed Transit Tariff Structure
Factors to be considered
<u>1. Cost basis</u>
<ul style="list-style-type: none"> ● Cost based tariff – using actual costs ● Cost based tariff – using normative costs
<u>2. Cost Factors</u>
<ul style="list-style-type: none"> ● Average system wide variable costs, plus fixed costs as a proportion of variable costs, plus overheads as a percentage of the total. ● Service based variable costs, a track user charge, plus fixed amount per train service.
<u>3. Explanatory variables</u>
<ul style="list-style-type: none"> ● Distance ● Load ● Time ● Level of service
<u>4. Structure</u>
<ul style="list-style-type: none"> ● A wagon based tariff structure ● A commodity based tariff structure
<u>5. Taper</u>
<ul style="list-style-type: none"> ● With – Inclusion of charges for 'end' services built in ● With – Separation of charges for the movement and end services.
<u>6. Rate</u>
<ul style="list-style-type: none"> ● Flat rate for all countries ● Flat rate for all countries indexed by coefficients related to network constraints. ● Independent rates for each country

<p><u>7. Relationships</u></p> <ul style="list-style-type: none"> ● Export and Import Tariff Structure ● Domestic Tariff Structure <p><u>8. Contribution to net revenue</u></p> <ul style="list-style-type: none"> ● Normal ● Cross subsidy to domestic and passenger service ● Low to attract traffic <p><u>9. Rules of Application</u></p> <ul style="list-style-type: none"> ● MTT and CIS ● Modified MTT and CIS ● Totally new <p><u>10. Area of application</u></p> <ul style="list-style-type: none"> ● TRACECA Countries ● Wider

The preferred way forward for the proposed tariff structure is in bold letters above.

2. **Normative Basis For Railway Costing** If an international tariff structure is to be cost based, then the basis for those costs requires to be determined. To achieve this, it is impractical to consider the financial status of each participating railway. Quite apart from the commercial confidentiality, each railway is at a different state of evolution, performance and is subject to different local fiscal policies. The most practical way forward is to consider the cost basis as being normative. That is to say the basic financial and technical norms that are required to achieve a sustainable level of service. To advance the process some norms are presented in the table below:

Table 1 Example of norms used for establishing service costs
Container Train Service

Rail Cost Model			
Main Input Assumptions			
Locomotive	Current Performance	Unit	Notes
2250 hp Electric	1	No.	Standard Main Line Locomotive
Current Replacement Cost	3,500,000	€	International Prices
Economic Life	30	Years	
Availability	85	%	
Annual Productive Output	120,000	Km	Locomotive train km per year – excluding light running.
Wagons			
Flat bed	2	TEU	
Capacity	60	Tons	
Current Replacement Cost	40,000	€	
Economic Life	30	Years	
Availability	90	%	
Utilisation	100,000	Km	
Track			
Concrete sleepers			
Rail	60	Kg	Alignment, age, condition
Timber sleepers			
Rail	45	Kg	
Fuel / Energy			
Main Line Locomotive Consumption	15	KW/1000 gtk	
Cost	0.05	KW hr	
Train			
Locomotive Power	1	Per train	Depending on gradient etc
Wagons per train	40	No.	Depending on limiting train length
Crew	3	Persons	Driver, Assistant, Guard
Monthly labour cost	500	€/month	Inc. allowances and social costs
Service standards			
Section speed	40	kph	Running time including yards
Waiting time at terminals, stations and borders	1	hr	For each commercial stop
Reliability	5	%	Deviation from time table
Financing			
Cost	10	% p a	
Repayment	30	Years	

3. As mentioned previously, neither ETT nor MTT took into account amortisation of assets, so were not sensitive to the deployment of assets over time. Clearly a new structure should include provision for investment and improvement of performance and be time- as well as distance-sensitive.
4. Movement costs that vary with load, distance and time include:
 - Locomotive and wagon maintenance and provision
 - Track maintenance
 - Fuel or energy
 - Shunting at borders and intermediate yards
 - Train crew costs
 - Security and accident costs
5. The most important feature of any new tariff structure is the clear separation of costs for movement and terminal operations. The following are reasons for this:
 - More commonly now, terminals are not owned by railways.
 - Railways terminal operations are generally confined to collecting and delivering train sets.
 - Cargos that require specific handling arrangements can be priced separately.
 - Transit operations rarely require terminal operations
 - Import and export traffic usually requires one terminal operation in the importing or exporting country
6. The charges for terminal operations that are included in ETT and MTT are not clear. For a 60-ton wagon, the price for terminal operations is believed to be \$2.5 per ton or around \$150 per wagon. This price may be for loading and unloading wagons as well as for shunting and train formation. If terminal services are to be separately priced, agreement needs to be reached as to what constitutes a legitimate terminal operation. It is proposed in this paper that only services requested and perceived by the customer can be separately priced. This means that intermediate shunting, border operations and so on are internal to any normal railway operations and should not be considered as terminal services.
7. Table 2 below provides cost information using the normative data from Table 1 above³. The costs show the effects of including amortisation (long run variable costs) and excluding amortisation (short run variable costs). The results also show the effects of speed on traffic costs, an aspect not presently incorporated in ETT or MTT. Movement cost allows for intermediate shunting, yard and border operations, including waiting time of 1 hour – a figure agreed by many countries as part of the AGCT

³ Costs derived using the *Railcost* Model, developed for the World Bank by D Rasbash in 1990, updated and applied to projects in South Africa, China, Indonesia, Russia, Zambia, Macedonia.

performance standards. In this example terminal operations are based on loading and unloading containers in a medium sized terminal.

8. The Table separates movement and terminal costs for ton and wagon units, and then combines them to provide an example of a normative cost for a 40- wagon container block train service for varying distances.

Table 2 Normative Costs of a Container Block Train

Movement	Short Run Marginal Cost		Long Run Marginal Cost	
	Cents/ net ton km	Cents/wagon km	Cents/ net ton km	Cents / wagon km
40 kph	0.7	18.5	1.00	28.00
20 kph	0.6	17.5	1.28	36.00
Terminal	\$0.40 per ton	\$13.6perwagon	\$3.25 per ton	\$91 per wagon
Service (1)	\$ Per ton	\$ Per Wagon	\$ Per Ton	\$ Per Wagon
500 km	4.30	119.70	11.50	322.00
1000 km	7.80	215.20	16.50	462.00
2000 km	14.80	397.20	26.50	742.00
3000 km	21.80	582.20	36.50	1022.00

Note 1 Based on 40 kph, 40 tons per wagon and 30%

9. For comparison, ETT rates for 60-ton wagons for 500 km are 2.7 cents per ton km; for 1000 km 1.7 cents and for 2500 km 1.2 cents. Assuming a 40 ton load then these rates translate to \$540 for 500 km; \$680 for 1000 km and \$1200 for 2500 km. It can be seen that the current published rates are close to the long run marginal cost in Table 2.
10. Published tariff structures should be based on long run variable (marginal) costs - this is needed to provide and sustain the service in the long term. The short run costs (in Table 2 above) are useful for providing a basis for offering discounts. It is rarely advisable to charge a price that falls below short run costs - normally this will generate an immediate loss.
11. Recommendations for a new tariff structure are made as follows:
 - A new tariff structure should be cost-based, reflecting technical and financial norms that achieve and sustain a desirable level of service
 - The structure should be based on long run variable costs for movement and terminal operations, a track access charge and a fixed fee for indirect costs.
 - It is necessary to establish a basis for variations from these norms such as:
 - Ruling gradients
 - Maximum train length
 - Service standards, where proven to be better than the norm.
 - The new structure should separate tariffs for movement and terminal services.
 - The tariff structure should thus be flat (not tapered)
 - The tariff structure should continue to be wagon (not commodity) based

-
- Main explanatory variables are distance; load; time and level of service
 - The modified CIS tariff policy should utilise as far as possible the special terms and conditions currently in force.
 - The structure should not be artificially high to cross subsidise other railway operations.
 - It should apply to transit (and also to import and export) traffic.
 - Overall tariffs should include charges for ports and shipping services on the Black and Caspian Seas
 - The tariff structure should apply to TRACECA countries – precise distances for tariff calculations should be agreed.
 - The tariff structure should not replace ETT of MTT for transit in other non-TRACECA routes

4 EXPERIMENTAL FLAT RATES FOR CONTAINERS ON TRACECA CORRIDOR

1. While the new tariff structure is being developed, it will be useful to experiment with a uniform flat rate for all countries so that the results can be monitored and evaluated. Containers have been selected for the experiment because Railways' market share is very low, and the EU and partner countries have been supporting multi modal development in TRACECA for some years.
2. The rate proposed should be pitched above the short run marginal cost as direct operating costs need to be fully recovered, but below the long run marginal cost, as the rate is experimental and it is not necessary to recover in full amortisation, loan and interest repayments.
3. Most importantly, the rate needs to be competitive. The most competitive tariffs currently available through TRACECA are those for humanitarian goods to Afghanistan of \$1473 for 2390 km Batumi – Serhatabat, or \$0.62 per TEU km (including shipping and terminal charges). Via Russian Railways from Kaliningrad the rate is \$0.45 per TEU km. If ETT discount coefficients of 50% are applied to achieve the special TRACECA rate, then clearly Russian Railways are discounting at least by 65%. The most competitive rate regionally probably applies to the TRANSSIB corridor - \$1280 per TEU (around \$0.13 per TEU km for 9,500 km North Korea - Berlin). Assuming an average TEU load of 15 tons, the lowest rate is about 0.9 cents per ton km.

5. INFORMATION NEEDS, USER GUIDE AND TRADER ACCESS

1. Information needed to support the new tariff structure:
 - The agreed border-to-border distances and border-to-main city distances for tariff calculations
 - List of wagons in use, their net and tare weight
 - Limiting train length and weight on TRACECA railways for each country

If time permits this information should be brought to the TFTWG meeting
2. User Guide: It is appreciated that lower tariffs alone may not significantly increase traffic. The User Guide (see description in Inception Report) is intended to provide more information to users on all aspects of transport services on the TRACECA corridor, particularly concerning regulations and tariffs.
3. Trader Access: To understand better the relationship between customers and Railways, a survey will be conducted that will throw more light on the way that prices are negotiated. This will help the consultants to advise on price setting, using the proposed tariff structure. The draft questionnaire is available.

APPENDIX 4

PORTS AND SHIPPING DISCUSSION PAPER

UNIFIED POLICY ON TRANSIT FEES AND TARIFFS WORKSHOP 19-20 JUNE 2002

I INTRODUCTION AND OBJECTIVES: PORTS AND SHIPPING

Objectives

The fundamental task of the ports and shipping part of the Terms of Reference is to

"propose tariff modifications to introduce *realistic rates reflecting actual costs*" (Terms of Reference, page 12).

The main outputs will be:

- Proposals for realistic modifications to tariffs; and
- Recommendations on how to reduce costs/tariffs which are found to be too high in comparison with other countries, via cost reductions, improved efficiency or other approaches.

Our approach will include the following steps:

- Description of the current TRACECA country tariff systems and their underlying principles
- Calculation of cost-based tariffs, with particular emphasis on the marginal costs of providing port services for TRACECA transit cargoes
- Commercial considerations in pricing
- Recommendations on commercially rational tariffs which should increase profits
- Comparison of existing and proposed tariffs with international levels
- Proposals on how to reduce cost/tariffs where they are high by international standards
- Proposals for "all-in" rail-port-sea door to door tariffs for the TRACECA Corridor

Recent Developments which make the Project more Relevant

Since we started the project at the beginning of 2002 several factors suggest that the project is becoming increasingly relevant. They are:

- the rapid surge in oil exports, which is likely to accelerate in the near future, particularly from Kazakhstan and Azerbaijan. This will generate large increases in demand for imports of capital and eventually consumer goods into the TRACECA countries;
- the continued dependence of the region on routes via Russia for the transport of its international trade. One of the main advantages of the TRACECA routes is that they would provide alternatives to routes via Russia, where the transport authorities sometimes take advantage of monopoly powers, and can effectively influence trade volumes. In the late 1990s the Russians limited access to, and/or charged high tariffs for, the Druzhba pipelines, the Volga-Don Canal and the Russian gas pipelines; and since 2001 they have

been manipulating rail tariffs to divert traffic away from non-Russian transit ports and to protect their own ports-; and

- the large volume of aid cargoes which is likely to require transport to Afghanistan in the near future.

It was concluded that the need for alternatives to the transport routes controlled by the Russian authorities remains urgent.

The Scope for Promotional Ports and Shipping Tariffs on TRACECA Routes

Our view is that there should be considerable scope for reducing port and shipping tariffs to enhance the competitiveness of the TRACECA routes. The initial review of existing studies confirmed that only limited attempts had been made to base tariffs on *costs*, and that none had focused on the scope for cutting tariffs towards *marginal cost* levels to attract transit traffic

There are two key points which should allow significant reductions in *port* tariffs for transit cargo:

- First, there is a large amount of surplus capacity in the ports. Traffic levels are now far below those for which the ports were built in Soviet times.
- Secondly, the ports' costs are largely fixed. The largest costs are likely to be (i) wages/salaries for staff which are in excess of requirements, but which can be reduced only slowly over time and (ii) repayments of loans on recent investments. Neither of these costs is escapable. The marginal cost of handling additional transit cargo, however, is likely to be very low. There should therefore be little to lose by large reductions - at least temporarily, until traffic picks up and further investment and employment becomes necessary.

These circumstances should allow us to discount tariffs for transit and **still make a profit** on the traffic attracted. We would be unlikely to recommend any tariff changes which would not ADD TO PROFITS of the port concerned.

Our focus is on **transit** traffic. It is not our intention to propose reductions in tariffs for local imports and exports, although we hope that our work is to clarify the cost basis for tariffs.

The marginal costs of **shipping**, however, may well to be closer to average costs than is the case in ports. Initial impressions are that, unlike the ports industry, there is not so much little surplus capacity in the shipping industry. There are few ships lying idle; and, even if there were, they could be chartered out to third parties. On the other hand, the tariffs currently charged may be high by international standards, and there may be scope for lower promotional tariffs on TRACECA routes. This, however requires further investigation.

II TRAFFIC ON TRACECA ROUTES: PROGRESS SO FAR

This paper reviews the success of TRACECA in attracting transit traffic up to the present.

Positive Developments So Far

Some of the available cargoes **already** use TRACECA routes. They include

- ***About one third of the Caspian region's oil exports.*** This is an unexpected development. Until the late 1990s they had no alternatives to the Russian pipelines and the Volga -Don Canal. But by 2001 about 10 million tonnes were moving across the Caucasus by rail to Batumi; and further volumes are using the Supsa pipelines to the Georgian Black Sea coast.

Even larger volumes will soon be using the Tengiz-Novorossysk pipeline. Although this is not a TRACECA route - first, because it is partly (24%) owned by the Russian government, and, secondly, because it crosses Russian territory to load at a Russian port - it is likely to be free of the sort of obstructions which were imposed on foreign users of the Russian Druzhba pipeline system during the 1990s.

- ***Some of the containerised imports*** (there are very few containerised *exports*). The TRACECA route containers come by sea to Poti, from where they are transported to Baku by road or rail. However, despite interviews with several agents and forwarders, the overall picture has yet to emerge. Some agents stated that most of their containers came by sea via Poti, while other agents favoured rail via Russia; and others favoured road transport - especially from Turkey and Iran. It should also be emphasised that the volume of containers coming to the region is still very small compared with economies of similar sizes; and very few go further than Azerbaijan. Forwarding agents confirmed that it costs more to send a container on a trailer across the Caspian by ferry than it does to send a container from Hong Kong to Rotterdam in 2001. Only 1000 containers have used the new Baku container terminal since it was opened in 2000. It is important that container traffic finds reliable low cost routes. Despite the current low traffic volumes, experience elsewhere in the world suggests that containers will eventually come to dominate general cargo shipping in the TRACECA countries.

Cargoes Still to be Attracted

The main cargoes which are **not** yet using TRACECA routes include

- ***Imports for the oil and construction industries.*** Most of this cargo comes via the Volga Don canal in the summer. This is partly because of the awkward sizes and shapes of much of the material.
- ***Cotton exports*** from Uzbekistan, Turmenistan and other countries. This was the most high-profile of the prospective TRACECA cargoes, but it no longer uses the TRACECA corridor to any great extent. After an initial commitment to use the route via Baku and Poti it has diverted to the Iranian port of Bandar Abbas, where sea freight rates to world-wide destinations are very competitive. Part of the cotton goes on to Dubai, which is the shipping centre of the Middle East, and has the great advantage of extremely low sea freight rates to destinations throughout the world, as there is a vast surplus of empty containers leaving the area. Shipping

lines are willing to accept minimal freight rates as revenues on most outward containers are zero.

Other negative factors include the following:

- ***Routes via Russia from Europe via appear to be competing strongly with TRACECA routes.*** As stated previously, some shipping lines/agents confirm that much of their container traffic from Europe comes to the TRACECA region via Russian railways.
- ***Russia has publicly stated that it regards increasing western influence in the Caspian transport system as undesirable.*** To counter-act this influence, it is promoting a North-South "Nostrac" corridor, linking the Baltic to the Arabian Gulf (with low cost onward movement by sea). In particular, Russia has started a ferry service operating from the northern to southern Caspian, from the Russian port of Olya to the Iranian port of Anzali. Iran has also made some explicitly anti-TRACECA public statements.
- ***Trunk route shipping is becoming increasingly competitive.*** World-wide, shipping freight rates have fallen to extremely low levels since the world economy faltered in early 2001. This will further limit the already poor prospects from competing for Far East-Europe trunk route cargoes. Even the Trans-Siberian railway, which offers shorter transit times than shipping services as well as slightly lower tariffs, has attracted only about 3% (65,000 TEU in 2001) of potential north Pacific Rim-Europe cargo - despite being run by the world's most successful container shipping line, Maersk-Sealand, and also offering unrealistically low (dumping) tariffs on occasions. The dumping rates have been as low as US\$300 per TEU from Vladivostock to Finland (normal Trans-Siberian freight rates are around US\$1200 per TEU).
- ***The UN Economic and Social Commission for Asia and the Pacific (ESCAP) is also promoting its own east-west corridors.*** The routes it envisages would link the Far East with Europe via the railways of China, Kazakstan and Russia.

DISCUSSION: CAN DELEGATES ADD TO THIS PICTURE FROM THEIR OWN EXPERIENCE?

III POTENTIAL FOR DEVELOPMENT OF TRACECA ROUTE TRAFFIC

We have been able to build up a reasonably clear picture of **current** movements by sea in the TRACECA corridor in the Inception Phase of our Project. The main sources were port statistics, recent reports and initial interviews with shipping and forwarding agents.

Main Cargoes in the Region

By far the most important cargo in the TRACECA countries is **petroleum**. About 65 million tonnes are being produced and over 40 million tonnes are being exported from the Caspian region, according to the latest data available from the EIA.

The Russian monopoly of outlets to international petroleum consumer areas, which was almost 100% in the later 1990s, is now weakening. About 10 million tonnes moving by rail over the Caucasus from Azerbaijan to Batumi in 2001, and further volumes of so-called "early oil" moving via the Supsa pipelines to Georgia since 1999. Between them these TRACECA routes have already attracted about *one third* of Caspian region oil exports, with about two thirds still going out via Russian territory - in particular Russia's Druzhba pipeline network and CPC's new Tengiz-Novorossysk pipeline. The latter route, moreover, although it moves over Russian territory and involves shipment via the Russian port of Novorossysk, is controlled mainly by non-Russians. The Russian government has only a minority interest of 24%. The routing of about a third of the region's exports within a short period can be considered good achievement, given that much of the Kazak oil is located relatively close to the Russian Druzhba pipeline system which is its obvious outlet, as it was in Soviet times.

Outside the oil sector, metals dominate the **dry cargo** traffic at TRACECA ports. All long-distance TRACECA transit cargo has to pass over the Black Sea; and almost all of it has to pass through Baku (which owns the Dubendi oil port). *Baku is therefore the key to the picture*. In 2000, the main cargoes moving out of Baku were limited, consisting mainly of aluminium oxide, frozen poultry and limited volumes of construction materials (see Table1). The main inward cargo at Baku was cotton, shipped from Turkmenbashi. Potential additional westbound cargoes consist mainly of metals from Aktau to Baku - followed by cement, timber, grain, cotton, chemicals. These cargoes originate in Kazakstan, Uzbekistan and Kyrgyzstan. There is also scope for shipments of sulphur extracted from Tengiz's high sulphur crude to Baku to use in the chemical industry, or to other countries for fertiliser production

Volumes Handled at The Caspian Ports - Baku, Aktau and Turkmenbashi. The actual cargo volumes handled at the three crucial ports are summarised in Table 1. The statistics for the ports of Aktau and Turkmenbashi confirm the impression of very limited dry cargoes on TRACECA routes. For example, although Aktau handled over 1 million tonnes of dry cargo in 2001, almost all of it consisted of metals shipped to Iran.

It can easily be inferred from Table 1 that the majority of the potential cargoes are bypassing the ports, and therefore moving on non-TRACECA routes. A TRACECA journey from Europe via Poti to, e.g., Ashkabad, crosses 4 borders and is handled 3 times, incurring unofficial payments as well as official tariffs, plus delays. The negative consequences can be illustrated by the following:

- The Aktau- Baku ferry was carrying only about 5-6 trucks per voyage in normal months at the end of 2000.
- The new container facilities at Baku have handled only 592 TEU in 2001.
- The cotton exports which were the subject of an inter-governmental agreement to use the TRACECA corridor have diverted to other routes. In 2001 Baku's reported cotton traffic was only 39,000 tonnes. This is a small fraction of the total, which is well over a million tonnes, mostly produced in Uzbekistan. Most Uzbek cotton used to go via the port of Riga in Latvia in Soviet times. The second port in those days was Illychevsk in Ukraine. The TRACECA port of Poti, however, has proved problematic. It is perceived to have problems of security, restrictive practices and poor shipping services. It was not even used by Azerbaijan's own cotton exports. Today much of the cotton is exported via the port of Bandar Abbas in Iran.

Non - TRACECA Routes Used by Transit Cargoes

The main routes currently by the other potential TRACECA corridor cargoes include:

- **The Volga-Don Canal.** This route is favoured particularly by the oil and construction industries, which bring in large volumes of equipment, pipes, machinery, etc. The canal suffers from several serious handicaps. First, its use is ruled out by ice for at least four months per year, and the users regard the effective season as even shorter. Secondly, its draft limits ships' loads to around 3000 DWT, which imposes serious diseconomies of size. Thirdly, the transit duties imposed on non-Russian ships are extremely high. Fourthly, the Russian authorities require non-Russian vessels to apply for permits on a case by case basis. And fifthly, even the non-Russian shipping services in the Caspian suffer from limited competition, being dominated by the Caspian state shipping line. But despite these handicaps a large part of the supplies for the key oil and construction industries appear to be using this route. (Some cotton also goes out via the Volga-Don canal)
- **Via Turkey and Iran by road.** This route is favoured particularly by importers of construction materials and capital goods who place a premium on deliveries on time. Despite poor roads, building materials and other goods use this route where the sort of delays which occur in Baku and Turkmenbashi, especially in building sites at Ashkabad..
- **Via Russia by rail.** For example, about 95% of Kazakhs imports and exports are reportedly transported by rail. They include 600,000 tonnes of ferrochrome which goes out via Baltic (and also Black Sea) ports from Aktybinsk and Pavlodar. And even for imports from Northern Europe some TRACECA country transport companies find the direct rail route via Russia more reliable and cheaper than TRACECA routes.
- **Routes from the Middle East, via Iran.** The UAE is increasingly important as a source of supplies and a major trading partner for Azerbaijan and Turkmenistan. This will reduce trade with Europe.

Conclusions

It is concluded that a reasonably clear picture of current movements by sea in the TRACECA corridor has been assembled. A general impression of the role of other modes in the carriage of the total pool of potential cargo is also starting to emerge. But the volumes moving by alternative modes - by road (especially from Turkey, Iran and Europe), by rail (especially via Russia), by ship through the Volga-Don Canal during the summer months, and by various pipelines are not yet known.

Baku Port Traffic

(000 tonnes)

	2000	2001
Export		
Alumina oxide and alumina	251	111
Others	44	63
Total exports	295	174
Imports		
Salt	42	24
Others	85	77
Total imports	127	101
Transit		
Oil	3,571	3,246
Soybean	107	86
Cotton	122	36
Alumina	34	128
Others	222	545
Total transit	4,056	4,041
TOTAL	4,478	4,316

Aktau Port Traffic

(000 tonnes)

	2000	2001
Crude oil and products(a)	3385	4357
Steel, metals	702	1060
Grain	15	84
Ferry	8	158
Total	4110	5659
of which...		
Transit		
Oil	2241	2621
Dry Cargo	145	312
Total	2386	2933

(a) almost all crude oil

(b) Mainly Russian steel to Iran, not Traceca cargo

* Almost all this cargo goes to Iran, not to Traceca route ports

TURKMENBASHI

(000 tonnes) 2000 2001

Oil (a) 4117 5113

Ferry (b) 1246 1662

- of which

chemicals 254

oil 237

textiles 80

metals 50

others 625

Dry Cargo 229 204

- of which

salt 41 17

metals 69 24

chemicals 31 119

machinery 62 25

Total 5592 6979

- of which

Transit

Minimal. Possibly some textile exports; some alumina materials to Takikistan and outgoing aluminium products; and some oil from Uzbehkisatn

IV COMPARISON OF TRACECA TARIFFS WITH INTERNATIONAL TARIFFS

A Ports

Tariffs at TRACECA Ports

Detailed information on tariffs is already available for most of the TRACECA ports.

The TRACECA Secretariat has already drawn up comparisons on the basis of typical ships used in the Caspian. They are summarised and expanded for **dry cargoes** in the table on the next page, and compared with typical tariffs at international ports. As shown, there are two main types of dues - those on ships and those for cargo handling. Those on cargo usually dominate in Caspian Black Sea ports - as well as elsewhere in the world.

The initial conclusions are that TRACECA country port tariffs:

- consist of tariff items which are **fairly standard throughout the world**. The main tariffs internationally are port entry dues, pilotage, tugs, berth occupancy, cargo handling and storage. These tariff items are used in most TRACECA ports. The only significant difference is that some ports still use vessel capacity in cubic metres (Loa x beam x draft) rather than the more conventional GRT for calculating vessel dues; and
- **are reasonably well in line with international tariffs**. The few *exceptions* include the port dues applied to ships at Black Sea ports. But although they are high, they are relatively insignificant when compared with cargo handling tariffs, which are generally higher. The total dues paid by ships range from US\$0.4 to US\$3.0 per tonne of cargo handled (see last column in Table 1 below).

These comparisons include only official tariffs. In practice, however, underhand payments are also necessary to expedite movement at some of the ports; and these increase the total cost of using the ports. Information on this subject will be assembled via interviews with port users and agents in each country.

Port tariffs for **oil**, the main TRACECA route cargo, are generally low. At Baku the tariff is only 36 US cents per tonne, and at Turkmenbashi it is only 13 cents. Only at Aktau, where they charge US\$ 1.5 per tonne is the tariff at international level.

Port tariffs for handling rail wagons on the Baku-Turkmenbashi/Aktau **ferries** are reported to be \$36 per 18 metre wagon at Baku and \$60 per 18 metre wagon at Turkmenbashi (BCEOM August 2001). It is difficult to make international comparisons in this case, because there are relatively few rail ferries in industrialised countries (where road transport dominates and the ferries carry trucks and trailers: the few exceptions include Klaipeda, Kiel and some Swedish ports). But on the basis that an 18 metre truck would typically carry two TEU (three is possible, but unusual in practice), these tariffs are not high relative to lift-on-lift-off container tariffs elsewhere in the world.

Table 1
COMPARISON OF PORT TARIFFS ON DRY CARGOES
IN TRACECA AND OTHER COUNTRIES

	CARGO HANDLING TARIFFS			PORT DUES	
	Bagged Cargo	Bulk Cargo	Containers		
	(a) \$/tonne	(b) \$/tonne	(c) \$/20'	(d) \$/tonne	
Varna	7.4	3.0	54.0	0.9	
Bourgas	8.0	6.5	27.0	0.9	
Constanza	7.5	3.1	64.0	0.6	
Illychevsk	5.2	2.2	104.0	2.9	
Odessa	5.2	2.2	104.0	3.0	
Poti/Batumi	6.0	3.5	50.0	2.1	
Baku	3.5	3.2	36.0	0.4	
Aktau	8.0	8.0	80.0	1.5	
Turkmenbashi	10.0	2-3	40-50	1.1	
Typical international Tariffs	..(e)	5.0	100.0	(f)	0.7 (g)

(a) In 50 kg bags

(b) Grains

(c) The tariff shown is for loaded containers. Typical loads are about 12 tonnes (maximum 21 tonnes)

(d) Including port or tonnage dues, light dues, anchorage dues, channel dues, berth dues, quarantine dues, sanitary dues, pilotage, towage, mooring/unmooring and administration fees. The cost per tonne assumes a 75% load factor on the typical 3000 tonne vessel on which the port dues are calculated

(e) Few bags are handled by conventional methods in the ports of industrialised countries. The cargoes previously handled in bags now move by container or RoRo services.

(f) This rate is an approximate overall average. There are, of course, wide variations: examples of recent rates at major ports are as follows:

	US\$/TEU
Rotterdam	68
Felixstowe	100
Shanghai	107
Singapore	106
Hong Kong	142
Port Kelang, Malaysia	53
Jakarta	53
Karacahi	69
Yantian	100

(g) This rate is an approximate overall average. There are, of course, wide variations: examples of recent rates at major ports are as follows (please note that the consignment sizes over which the port dues are incurred are much greater outside the Caspian):

	US\$/ton
Tallinn	0.7
Riga	0.8
Klaipeda	0.7
St Petersburg	1.6
Ventspils	1.3
Singapore	0.4
Colombo	0.3
Bombay	0.8
Nhava Sheva	1.0
Dubai	0.1

Source of Caspian and Black Sea port rates: TRACECA Secretariat, Baku, September 2001
Source of international tariffs, various:

B Shipping

Shipping freight rates in the Caspian are, in general, rather high. This is partly explained by the relatively small vessels used, and the consequent diseconomies of size. There are several reasons for the small vessel size - i.e. short distances, shallow drafts in the main ports and severe limits on drafts in the Volga-Don canal.

However, the shipping tariffs on the Caspian appear higher than would be expected even for such small ships. .

The dominant cargo is oil, and the typical tariffs are reported to be around \$6.5-8.0 per tonne for shipment across the Caspian. This rate is high by international standards partly because the ships sizes used are far below those used in other countries.

Shipping tariffs for (i) the ferries, (ii) dry cargo and (iii) containers on conventional vessels are summarised on the next page. In all cases, they are above tariffs for similar services elsewhere in the world.

The next stage of the study will investigate the costs of running the services, and the scope for introducing promotional rates.

Table 2
Ferry Freight Rates on the Caspian

1 CARGO ON RAIL WAGONS (18 metre)

	\$ per lane-metre	\$ PER 18 m RAIL WAGON		Distance (km)	\$ per tonne-km
		Single Journey	Including Return Empty		
Baku-Aktau	42	771	1541	468	0.033
Baku-Turkm'i	36	661	1321	305	0.043

2. RAIL WAGONS CARRYING CONTAINERS (2 per 18 metre wagon)

	\$ per lane-metre	\$ PER 20' CONTAINER (2 per wagon)			\$ per tonne-km
		Single Journey	Including Return Empty	Distance (km)	
Baku-Aktau	42	385	771	468	0.069
Baku-Turkm'i	36	330	661	305	0.090

(a) Assuming a load of 50 tonnes

(b) Assuming load of 12 tonnes per 20' container

Source: BCEOM/Uniconsult (July 2001)

Table 3
Shipping Freight Rates for Dry Cargo on the Caspian

	\$/ tonne	Distance (km)	\$/ tonne-km
General Cargo			
Baku-Aktau	11	468	0.023
Baku-Turkmenbashi	7	305	0.023
Bulks			
Baku-Aktau	12	468	0.026
Baku-Turkmenbashi	7	305	0.023

Source: BCEOM/Uniconsult (July 2001)

Table 4
Shipping Freight Rates for Containers on Multi-Purpose Ships (with empty return)

	20' Round Trip (full out, empty back)	Distance (km)	\$ per Tonne Km
	US\$		(a)
Baku-Aktau	400	468	0.071
Baku-Turkmenbashi	400	305	0.109

Source: BCEOM/Uniconsult (July 2001)

V OPPORTUNITIES TO UTILISE SURPLUS CAPACITY

Topics to be Discussed by the Delegates

- **Capacity of your port when it was originally built**
- **Peak traffic. Which year?**
- **Throughput today**
- **Change in the type of cargo handled during the 1990s**
- **Current berth utilisation/occupancy at the different types of berths in your port**
- **Estimate of surplus capacity, in terms of:**
 - **Berth occupancy (%)**
 - **Cargo capacity**
- **Potential TRACECA cargoes at your port**
- **Division of port costs into fixed and variable**
- **Additional costs of handling additional TRACECA cargoes**
- **Minimum tariffs which would be necessary to make a profit.**

VI PORTS AND SHIPPING TARIFFS ELSEWHERE IN THE WORLD

Tariff approaches to be discussed at the Workshop:

➤ Free Market Tariffs:

Also known as demand-based, laissez faire, "what the market will bear", commercial or negotiated tariffs.

Appropriate where:

- There is competition in the ports industry - either inter-port or intra-port competition. "Competition is the best regulator". Pricing is one of the main devices making markets work. NB. Most port operations are now private sector in the industrialised world
- There are very limited elements of monopoly

Countries where free markets exist in port tariffs:

US, UK, Netherlands, Germany, Belgium; almost all industrialised countries.

➤ Regulated Tariffs

Common where:

- There are monopoly powers in the industry: i.e. a limited number of ports or operators in each port
- The economy is "planned"
- Developing countries

Countries where port tariffs are regulated: India, China, Singapore, Malaysia, and Philippines

➤ Cost Based Tariffs

Cost - based tariffs are consistent with either of the above approaches. They are more or less essential for running a port in disciplined manner. Their advantages will be discussed at the workshop. They include:

- clarifying the profitability of each individual services offered (cargo handling, tugs, pilotage, storage, etc.) and the need for changes, such as staff reductions and efficiency improvements, to retain or increase business;
- the discipline of the need to cover costs;
- giving signals for investment and disinvestment; and
- the fundamental equity of a system whereby the user pays what the service costs.

But in practice the process of introducing cost-based tariffs often uncovers more deep-seated problems, to be discussed at the Workshop.

VII COST BASED TARIFFS AND COMMERCIAL PRICING

1 COST BASED TARIFFS

Cost based tariffs can be done the hard way or the easy way.

It is possible to spend a lot of time on very detailed analysis of costs; but it is often unnecessary.

Most ports have only about 5 main "profit centres" - i.e. services on which they earn revenues. They are:

Service	Relevant Port Tariff
Provision of port infrastructure	Port Dues applied to ships
Tugs	Towage
Pilots	Pilotage
Cargo handling, etc.	Cargo handling*
Storage	Storage
Others	Miscellaneous

Of these, only one is usually variable. That is cargo handling which varies by cargo

For each of these profit centre there are usually only about 5 dominant costs: i.e.

:

- Wages and salaries
- Depreciation
- Maintenance and repair
- Loan interest and repayments
- Others

It is a relatively straightforward exercise to allocate these costs to the 5-6 profit centre listed above - to derive cost Based Tariffs

2 complications:

1 what to do with the costs of the non-revenue earning departments - administration, personnel, accounts, etc.?

This is arbitrary, but a standard approach is to allocate them to the five profit centres in proportion to the revenues of each centre

2 What is the purpose of a depreciation fund for port infrastructure which usually lasts a long time, and is really replaced?

Of particular interest for this project are the questions:

- What % of the total costs for each service **are fixed**?
- What, in very broad terms, would it cost the port to handle an ADDITIONAL, say, 100,000 tonnes of cargo ?
- How much surplus capacity do you have?
- At what tariff level could you add to total profits by attracting additional cargo

-
- At what traffic level would additional (a) investment and (b) staff costs be required?

2 COMMERCIAL PRICING

To be discussed: how far cost-based tariffs should be amended in the light of commercial considerations.

APPENDIX 5

PRESENTATIONS MADE BY THREE EU EXPERTS AT TFTWG

Maritime presentation I

1 INTRODUCTION AND OBJECTIVES: PORTS AND SHIPPING

The **fundamental task** of the project for ports and shipping is:

"to propose tariff modifications to introduce **realistic rates reflecting actual costs**".

Main outputs:

- Proposals for realistic modifications to tariffs; and
- Recommendations on how to reduce costs/tariffs which are too high in comparison with other countries - via cost reductions, improved efficiency or other approaches.

Our approach includes the following steps:

- Description of the **current TRACECA tariff systems** and their **underlying principles**
- **Calculation of cost-based tariffs**, with emphasis on the **marginal costs** for transit cargoes
- **Commercial considerations** in pricing
- Recommendations on **commercially rational tariffs**
- **Comparison** of existing and proposed tariffs with **international levels**
- Proposals on **how to reduce cost/tariffs where they are high by international standards**

Recent Developments, which make the Project more Relevant

- **rapid surge in oil exports**, particularly from Kazakhstan and Azerbaijan.
- the **continued dependence on routes via Russia**; and
- **large volumes of aid cargoes**.

Conclusion....

The need for alternatives to Russian transport routes **remains urgent**.

The Scope for Promotional Port Tariffs on TRACECA Routes

□ **Two key points** which should make reductions in **port** tariffs for **transit cargo** possible:

- (i) **Surplus capacity** in the ports.
- (ii) **The most of ports' costs are largely fixed.**

The largest costs are:

- **wages/salaries** which can be reduced only slowly over time and
- **repayments of loans** on recent investments.

Neither of these costs is escapable.

- The **marginal** costs for additional transit cargo, however, will usually be low.
- There should be **little to lose by large reductions**
- The **lower rates** should nevertheless be **profitable**.

SHIPPING

- The **marginal costs of shipping** may be **higher** than in ports.
- There may be **less surplus capacity** in the shipping industry.
- But some existing tariffs may be **high by international standards**
- Also **minimal capital costs may allow tariff discounts**

II TRAFFIC ON TRACECA ROUTES: PROGRESS SO FAR

Positive Developments So Far

- Some cargoes **already** use TRACECA routes. They include
 - About **one third** of the Caspian region's **oil exports**.
 - Some of the **containerised imports**

Cargoes Still to be Attracted

- The main cargoes which are **not** yet using TRACECA routes include
 - **Imports for the oil and construction industries**.
 - **Cotton exports** from Uzbekistan, Turkmenistan and other countries.

Other negative factors:

- **Routes via Russia** from Europe appear to be competing strongly with TRACECA routes.
- **Russia** regards **increasing western influence** in Caspian transport as **undesirable**.
- **Trunk route shipping is increasingly competitive**.
- **The UN's ESCAP is also promoting its own east-west corridors**.

III POTENTIAL FOR DEVELOPMENT OF TRACECA ROUTE TRAFFIC

The most important cargo in TRACECA countries is **petroleum**.

- **Production** is about 65 million tonnes. **Exports**, over 40 million tonnes
- The **Russian monopoly** of international petroleum transport is now weakening.
- TRACECA routes already handle **one third** of Caspian region oil exports

Outside the oil sector, metals dominate **dry cargo** traffic at TRACECA ports.

- **But most goes to Iran**, not via TRACECA countries.
- The main inward at Baku cargo was **cotton**, shipped from Turkmenbashi.

Volumes Handled at The Caspian Ports

- Baku, Aktau and Turkmenbashi.

- Cargo volumes handled at the three crucial ports are summarised in Table 1
- The dry cargoes on TRACECA routes are very low.
- Aktau handled 1 million tonnes of metals in 2001, but almost all went to Iran.
- Turkmenbashi handled little transit traffic - only small volumes of textiles, oil and soybeans
- Baku handled 3.2 million tonnes of oil transit and 0.8 million tonnes of dry cargo transit in 2001. Total transit cargo in 2001 amounted to about 10 million tonnes of oil and 0.8 million tonnes of dry cargo

Conclusion: Almost all potential transit cargoes are bypassing the ports, and therefore moving on non-TRACECA routes.

Reasons for Low TRACECA Transit Traffic.

- A TRACECA journey from Europe via Poti to, e.g., Ashkabad, crosses 4 borders and is handled 3 times, incurring unofficial payments as well as official tariffs, plus delays.
- The negative consequences can be illustrated by the following:
 - The Aktau-Baku ferry was carrying only 5-6 trucks per voyage in normal months at the end of 2000. And now?
 - The new container facilities at Baku handled only 300 TEU between opening in 2000 and March 2002.
 - The cotton exports have diverted to other routes.

Non TRACECA Routes Used by Transit Cargoes

The main routes currently by the other potential TRACECA corridor cargoes include:

- **The Volga-Don Canal.**
- Via **Turkey and Iran** by road.
- Via **Russia by rail.**
- Routes from **the Middle East, via Iran.**

Conclusions

We have a reasonably full picture of movements by sea in the TRACECA corridor.

But the volumes moving by alternative modes are not yet known.

IV COMPARISON OF TRACECA TARIFFS WITH INTERNATIONAL TARIFFS

A PORTS

The TRACECA countries' port tariffs are:

- Based on charges which are consistent with standard international practice.***
- reasonably well in line with international tariffs.***

Are ***underhand*** payments important?

Oil tariffs vary from low to mid-range

Rail wagons: \$36 per 18 metre wagon at Baku and \$60 per 18 metre wagon at Turkmenbashi.

B SHIPPING

- Shipping freight rates in the Caspian are often ***high***.
- Reasons? ***Small*** vessels used, and consequent ***diseconomies of size***.
- But, some shipping tariffs seem ***higher than would be expected for small ships*** .
- E g. for oil, tariffs reportedly around \$6.5-8 per tonne for shipment across the Caspian.
- Tariffs for (i) the ferries, (ii) dry cargo and (iii) containers on conventional vessels are also, in general, high.

V OPPORTUNITIES TO UTILISE SURPLUS CAPACITY

- **Capacity of your port when it was originally built**
 - **Peak traffic. Which year?**
 - **Throughput today**
 - **Change in the type of cargo handled during the 1990s**
 - **Current berth utilisation/occupancy at the different types of berths**
 - **Estimate of surplus capacity, in terms of:**
 - **Berth occupancy (%)**
 - **Cargo capacity**
-
- **Potential TRACECA cargoes at your port**
 - **Division of port costs into fixed and variable**
 - **Additional costs of handling additional TRACECA cargoes**
 - **Minimum tariffs which would be necessary to make a profit.**

VI PORTS AND SHIPPING TARIFFS ELSEWHERE IN THE WORLD

➤ Free Market Tariffs:

Also known as

- demand-based,
- laissez faire,
- "what the market will bear",
- commercial or
- negotiated tariffs.

Appropriate where: there is competition in the ports industry

Countries with free market port tariffs: US, UK, Netherlands, Germany, Belgium; almost all industrialised countries.

➤ Regulated Tariffs

Common where:

- There are monopoly powers in the industry: i.e. only one, or a limited number, of ports or operators in each port
- The economy is "planned"
- Developing countries

Countries where port tariffs are regulated: India, China, Singapore, Malaysia, and Philippines

➤ **Cost Based Tariffs**

Cost -based tariffs are ***consistent with either of the above approaches.***

Revenue/ cost comparisons are ***crucial for running a port in disciplined manner.***

It is the same ***whether tariffs are regulated or free market***

Advantages:

- clarifying the profitability*** of each individual service
- the discipline of the need to cover costs; and ***identifying waste***
- pinpointing the need for changes necessary to retain or increase business;
- giving signals for investment and disinvestment; and
- the fundamental equity of a system whereby the user pays what the service costs.

Cost based tariffs are relatively straightforward. ***in theory.***

But ***in practice*** they often ***uncover deep-seated problems.*** In particular:

- the port's costs are often too high -
because of ***over-staffing and inefficient working*** practices.
- if the tariffs were to be based on what the costs ***should be - not what they are***
this raises the problems of radical reforms as a precondition
- the ability to charge reasonable tariffs can be undermined by sharp falls in traffic since the collapse of the FSU.
- joint costs usually account for a large part of the total costs.
- the most important port tariff is that of cargo handling, and modern trends are towards private cargo handling companies competing freely in the market, using price flexibility as a crucial tool.

VII COST BASED TARIFFS AND COMMERCIAL PRICING

1 COST BASED TARIFFS

Cost based tariffs can be done the hard way or the easy way.

Most ports have only *about 5 main "profit centres"*

For each of these profit centres there are usually *only about 5 dominant costs*.

It is a relatively *straightforward* exercise to allocate approximately 5 costs to the 5 profit centres.

But there are *complications*: for example:

- what to do with the costs of the non-revenue earning departments - administration, personnel, accounts, etc.?
- The justification for a depreciation fund for port infrastructure - which is *rarely replaced*.

Of particular interest for this project are the questions:

- What % of the total costs for each service **are fixed**?
- What, in broad terms, would it cost the port to handle an ADDITIONAL, say, 100,000 tonnes of cargo ?
- How much surplus capacity do you have?
- At what tariff level could you add to total profits by attracting additional cargo
- At what traffic level would additional (a) investment and (b) staff costs be required?

Maritime presentation II

Preliminary findings of visits to Black Sea ports in Bulgaria and Romania

Contents of Presentation

- Visits undertaken so far + planning
- Institutional framework of ports
- Tariff structures and tariff types
- Basis for tariff settings
- Conclusions
- Recommendations

Visits + planning

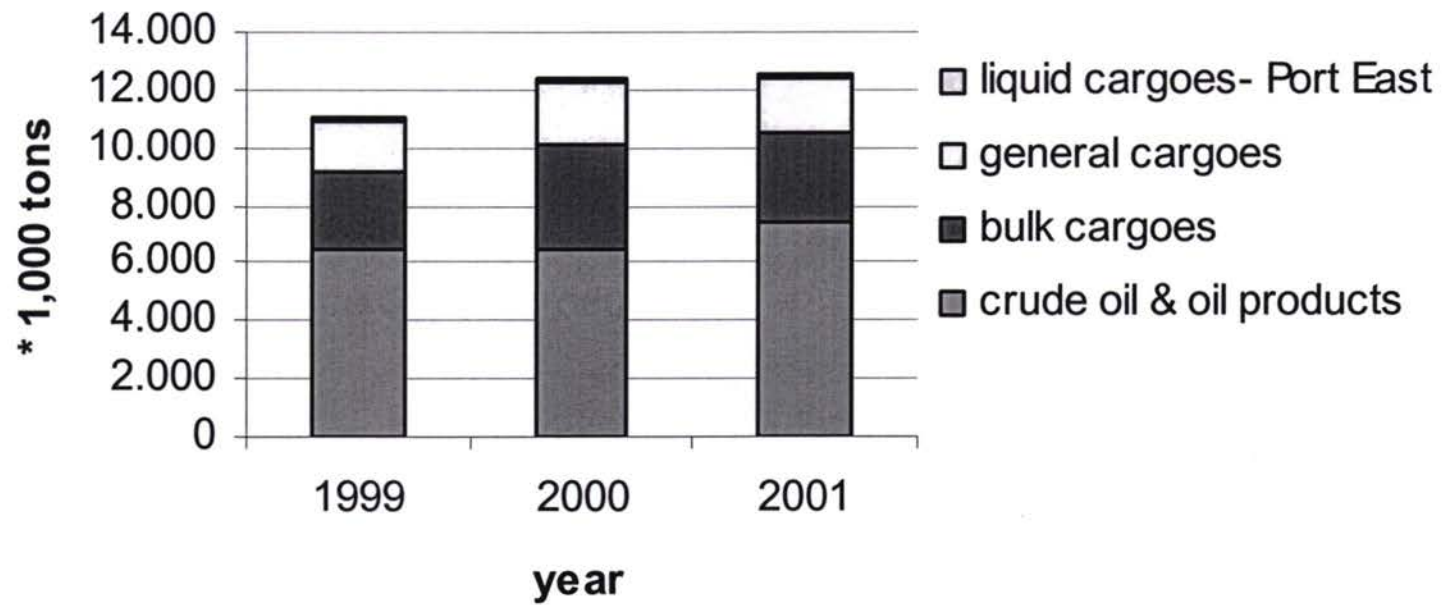
Visits have been undertaken to:

- Bulgaria (Varna + Burgas) – end of May
- Romania (Constantza) – end of May

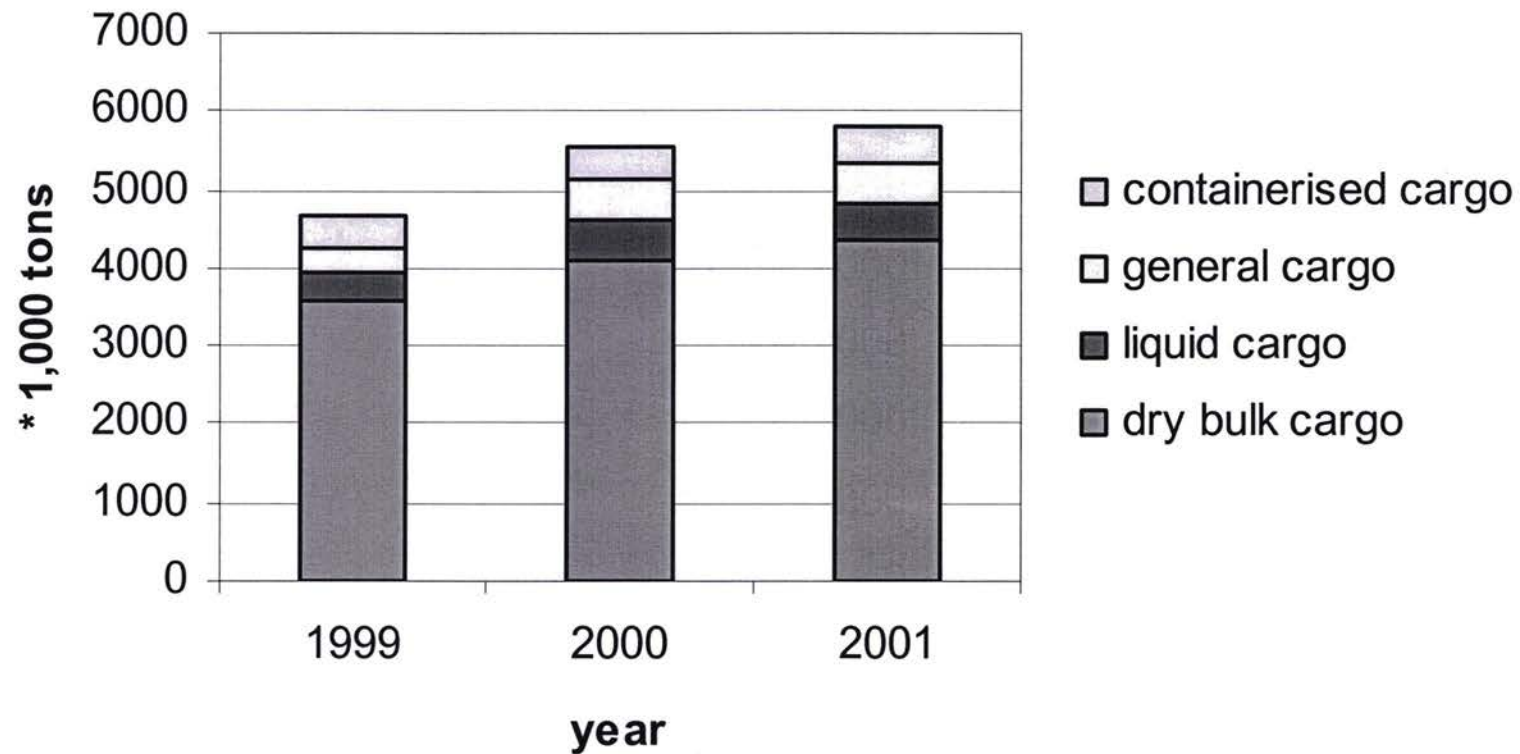
Visits in progress to:

- Ukraine (Odessa + Illichevsk) – mid-June
- Georgia (Poti + Batumi) – end of June

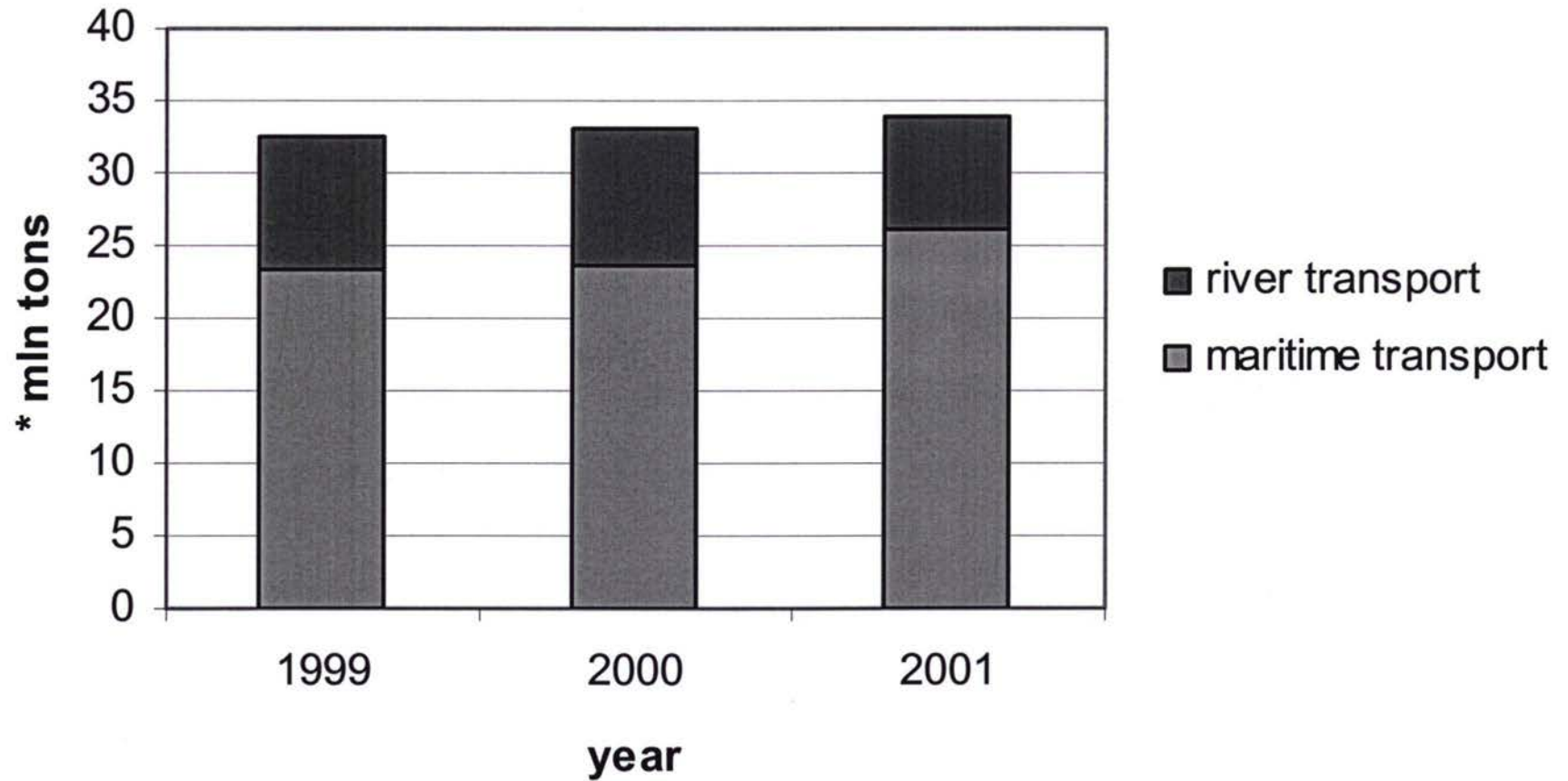
Cargo throughput Burgas



Cargo throughput Varna



Cargo throughput Constantza



Institutional framework of ports

Situation around the Black Sea:

- Public and private functions still mixed
- Private stevedoring still an exemption (except Constantza)
- Large influence of State bodies in port dues' tariff setting
- Privatisation plans, but not planned yet
- Pilotage and towage often privatised

Summary of tariffs

Tariff Type	Port of Burgas	Port of Varna	Port of Constantza
Port dues	collected by State	collected by State	collected by State
Cargo dues	collected by stevedoring company which is a 100 % government-owned entity	collected by stevedoring company, which is a 100 % government-owned entity	fully private
Pilots	private	private	private
Tugs	private	still part of Port of Varna, however in process of privatisation	private
Agency fees & services	private	Regional Association of Shipbrokers & Agents (Rasbar) has determined minimum tariffs to avoid competition based on pricing	private
Harbour master tariffs	not applied	not applied	applicable

Tariff structures and tariff types

Bulgaria distinguishes following tariffs:

- Port dues (defined by State), like
 - ✓Canal charges (GT-based)
 - ✓Light charges (GT-based)
 - ✓Tonnage charges (GT-based)
 - ✓Quay charges (LOA-based)
- Cargo handling dues (defined by 'privatised' stevedoring companies)
- Pilotage dues (defined by private cy's)
- Towage dues (defined by private cy's)
- Agency fees (defined by private cy's)

Tariff structures and tariff types

Constantza levies following tariffs:

Set by MPA Constantza:

- ✓Port acces dues (GT-based)
- ✓Quay dues (LOA- and GT-based)
- ✓Basin dues (LOA- and GT-based)
- ✓Lease of equipment, vessels, etc.

Set by private companies:

- ✓ Cargo handling tariffs

Basis tariff setting Bulgaria + Romania

- Port dues mainly based on recovering variable costs (labour, fuels, repair & maintenance) and less on amortisation & reservation for new investments
- Cargo handling fees the same, except for Romania (due to privatisation of stevedoring and thus different business approach as compared to State-owned entities?)

Level of dues Bulgaria/Romania

- Port dues at high end in Bulgaria and moderate in Romania
- Cargo handling fees in Bulgaria moderate and at high end in Romania

Conclusions Bulgaria & Romania

- Just a little bit transit in Bulgaria and Romania
- TRACECA is 'hot' in Caucasus and partly in Ukraine
- Cargo handling fees often based on 'normatives' from former SU period
- Absence of door-to-door / 'all-in' approach for tariff setting
- For Bulgaria and Romania no serious complaints about extreme height of tariffs
- But price/quality level below market standards (i.o.w.: low productivity)

Recommendations

- Speed up privatisation process to generate clear distinction between public & private functions and generate more cost-driven tariffs
- Replace normative-based fee structures by annual budget-based fee structures
- Include clear 'profit' cost items for capital investments / reconstruction

Strongest recommendation

We suggest to start a pilot project in which:

- a certain TRACECA route is selected
- a (group of) commodities is selected and
- the major players (ports, shipping and railway companies) combine their efforts to balance their respective tariffs and fees and create 'all-in' tariffs for the Clients

Railway presentation

- Reminder of our common goal
- Ensure the existence of viable alternative trade routes supporting economic development of countries in the Transport Corridor
- Through implementation of the articles of the TRACECA 'Basic Multilateral Agreement'
- For Railways this means:
- Simplification of tariffs for goods in transit
- Transparency and reductions in hidden charges and commissions
- Consistency in tariff negotiations and price setting
- Railway Components from our Terms of Reference are:
- Establish a Transit Freight Tariffs Working Group
- Review of ITT / MTT policy
- Recommendations for improved / new tariff structure
- Recommendations for price setting
- Recommendations for improving trader access and also a ...
- Produce a User Guide
- What is the role of the TFTWG ?
- Established in TRACECA Protocol of February 14th & 15th 2002
- The TFTWG – Achieving good results through participation
- Outline programme of 5 meetings – Inception Report
- Decisions for this meeting - listed in our Agenda / detailed in the Protocol
- Steering the work of consultants
- Producing concrete results
- Tasks of the Railway Workshop - besides those printed are to
- Establish a common language and understanding
- Discuss issues
- Appreciate concepts
- Agreement for progressing tasks

Session 1

Cost Basis For Tariffs

Cost Basis for Railway Tariffs

- Definitions
- Rationale as basis for tariffs
- Coefficients, negotiation, deviations

Definitions:

- Direct / variable (financial) or marginal costs (economic) -
- Fixed costs
- Also conditionally fixed costs

Direct Costs (1):

- 40% of total cost:
- Varies according to unit of output - and time.
- Separately for movement and terminal operation
- In short, medium and long term

Direct Costs (2):

- Short term - avoidable if service not run
- Long Terms MT + ammortisation loan interest
- Medium Term ST + labour
- Long Terms MT + ammortisation loan interest

Direct Costs (3):

LOCO PROVISION
LOCO MAINTENANCE
WAGON PROVISION
WAGON MAINTENANCE
FREIGHT TERMINAL
TRACK MAINTENANCE
TRAIN CREW
FUEL COSTS
ACCIDENT COSTS
SHUNTING COSTS

Fixed Costs (1)

- 60% of total cost - very high
- Can be less following restructuring
- Allocated to type of service freight, passenger, suburban
- Should not be allocated as % of direct costs

Session 3 Review of ITT / MTT

- Review of ITT / MTT
- Evolution over 50 years
- Cost basis?
- Suitability for the future
- What's wrong with the ITT?
- Tapering – combining terminal and movement cost prices.
- Not variable with time or level of service
- Cannot reflect investment in improvements

What's wrong with the ITT ? (2)

- Too high for short distances for transit
- Complicated for customers- many extra charges
- Most tariffs are individually negotiated now.

Towards reform of tariffs

- TRACECA Coefficients
- CIS Economic Council Resolution 1996 to simplify rail tariffs
- OEJD committed to reform.
- Use of flat rates in 2002 for TEU and
- Proposed experimental flat rate for containers TRACECA

Session 5 Proposed Alternative Tariff Policies

Proposed Alternative Tariff Policy

- Is any published tariff needed at all?
- Should it be cost based?
- If regional – which railways costs should be used?
- Is the present cost-base of any TRACECA Railways optimal?
- Over capacity, over staffed, under-invested, in transformation,

Proposed Alternative Tariff Policy (2)

- Normative basis for costs
- What the cost should be for a given level of service
- Decide technical and financial norms
- Variation to norms acceptable to TFTWG
- Such as limiting train length and weight

Proposed Alternative Tariff Policy (3)

- Cost basis to be normative
- Long run variable cost
- + plus track user charge
- + fixed charge per service for non-variable items

Proposed Alternative Tariff Policy (4)

- Distance, Load, Time, Level of service
- Wagon Based
- Separate tariffs for movement and terminal services
- Flat rates applied to all countries
- Adjusted by variation coefficients on agreed factors

Proposed Alternative Tariff Policy (5)

- Applies to Transit, Import and Export
- Using CIS/ITT conditions as much as possible
- Within TRACECA Network

Movement	Short Run Marginal Cost		Long Run Marginal Cost	
	Cents/ net ton km	Cents/wagon km	Cents/ net ton km	Cents / wagon km
40 kph	0.7	18.5	1.00	28.00
20 kph	0.6	17.5	1.28	36.00
Terminal	\$0.40 per ton	\$13.6perwagon	\$3.25 per ton	\$91 per wagon
Service (1)	\$ Per ton	\$ Per Wagon	\$ Per Ton	\$ Per Wagon
500 km	4.30	119.70	11.50	322.00
1000 km	7.80	215.20	16.50	462.00
2000 km	14.80	397.20	26.50	742.00
3000 km	21.80	582.20	36.50	1022.00

Other issues:

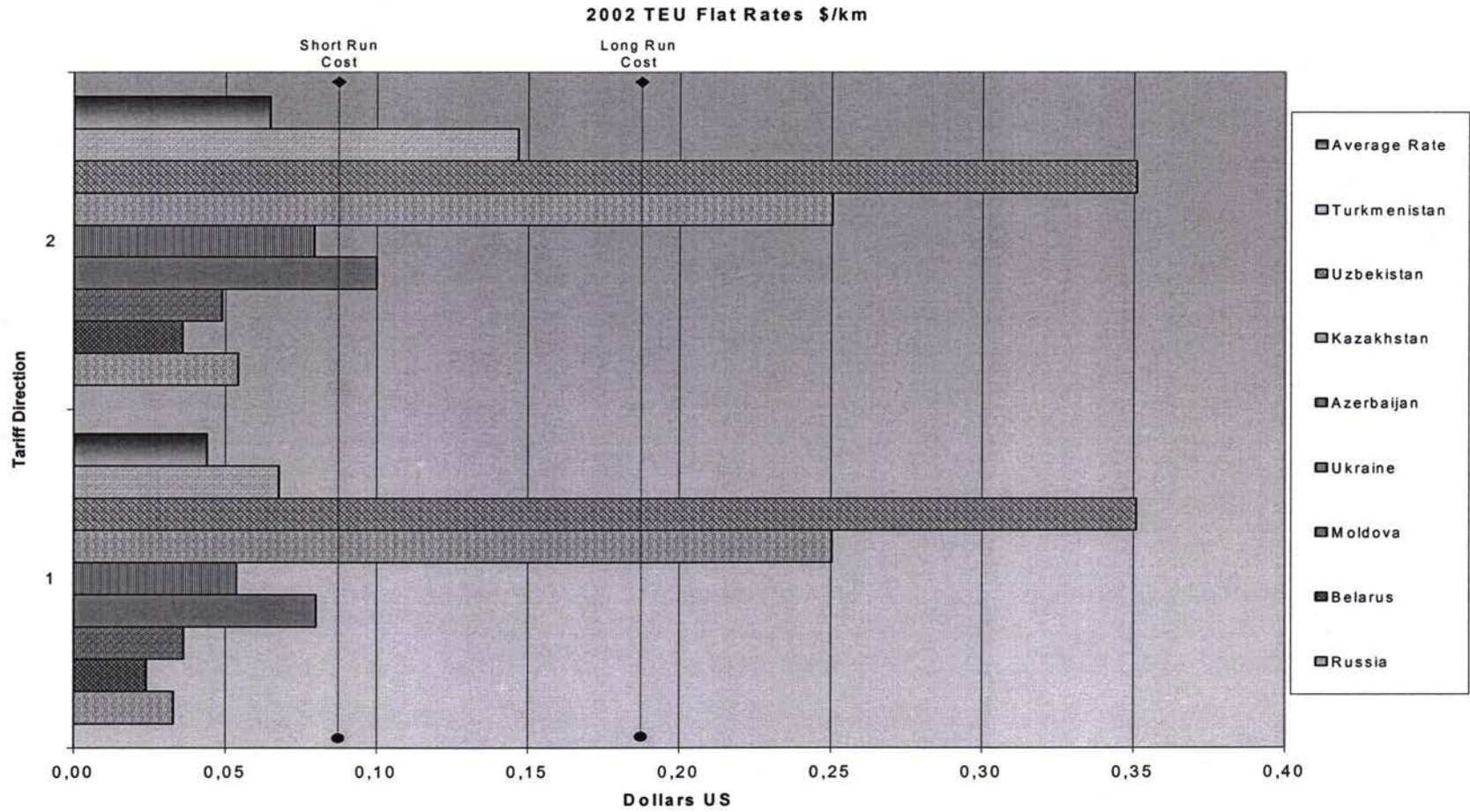
- High transit tariffs in one country damage the economic development of another
- Transit revenue – for funding local passengers
- New tariff policy to include ports and shipping
- TT/ MTT will continue to apply for an agreed period in TRACECA
- Your direction is needed to take next steps

Experimental Flat Rates for Containers

- The timing is right
- Russian railways have rate of only 2.2 cents per teu km
- TRACECA railways have very little container traffic
- Though demand is growing

Experimental Flat Rates for Containers (2)

- The 2002 ITT tariff covering 9 countries
- The average rate is 4.2 cents per teu km into Russia and 5. 4 cents out of Russia
- The lowest rate is Russian and the highest Uzbekistan



Experimental Flat Rates (4) Costs

- Using normative costs, assuming 20 kph etc
- The short run marginal costs 9 cents per teu km
- The long run marginal costs 19 cents per teu km

Experimental Flat Rates (5)

- Two part tariff - movement and terminal
- In the protocol 10 cents per teu km for movement –
- 30 usd per teu for each terminal operation – normally at Ports
- For market entry – initially 30% less than road
- Market entry – 30% less than road

Protocol decisions

- What tariff policy option?
- What flat rate?
- Remember the TRACECA Multilateral Agreement

APPENDIX 6

LIST OF DELEGATES ATTENDING FIRST MEETING OF TFTWG

COUNTRY	AREAS	NAME OF DELEGATE	POSITION
Azerbaijan	rail	Mr. Guseynov I. N.	Chief Tariffs and Transport Service
	shipping	Mr. Ragimov A. M.	Deputy Chief, Fleet Operations, Azerbaijan State Caspian Shipping Company
	port	Mrs. Kasimova R.A.	Deputy Chief, Economic Department, Baku International Sea Port
Bulgaria	rail	Mr. Popov P.	Head expert indirection Freight Transports (BDZ)
	port	Mr. Stankov A.	Director of Operation, Varna Port
Georgia	rail	Mr. Tsikhelashvili T.	Head of Economic Service Georgian Railways
	port	Mr. Nakashidze R.	Financial and Commercial Director, Batumi Port
	port and shipping	Mr. Imnaishvili V.	Deputy Chairman of Maritime Transport Administration
Romania	rail	Mr. Medesan I. F.	Head of Tariffs, Analyses, Costs CFR-Marfa- National Company of Freight Railway Transport
	rail	Mr. Boiciuc A.	Representative in Caucasus (Baku) of CFR- Marfa National Company of Freight Railway Transport
	port	Mrs. Baz A.	Marketing Manager Constanza Port
Kazakhstan	port	Mr. Vorozheykin Y. S.	Representative Kazmortransfleet
	port	Mr. Kutbanbayev D. B.	Head of Marketing Department
	port	Mr. Isayev A. A.	Chief of financial-plan Department
	rail	Mr. Talko S. R.	Head transportation Department
Kyrgyzstan	rail	Mrs. Chigrina V. G.	Engineer, Tariff and economic Department
Moldova	rail	Mrs. Zaytseva N.	Head of Tariffs Department Moldovian railways
Turkmenistan	rail	Mr. Annayev B.	Deputy Manager of transportation services "Turkmemdemiryollary"
	rail	Mr. Hudayberdiyev O.	Deputy Manager of economics Department "Turkmemdemiryollary"
	port and shipping	Mr. Atayev N.	Operational Manager of TML
	port and shipping	Mrs. Haydarova E.	PIU Manager, Assistant to TML President
Turkey	port	Mr. Yazan K.	Maritime Engineer
	port	Mr. Beyhan H.	Maritime Expert
	port and shipping	Mr. Arslan N.	Head of Ports Department
Ukraine	rail	Mrs. Taratayko T. P.	Head of Marketing and Technology, Department of Commercial management, Ukrzaliznytzya
	shipping	Mr. Cherniyevski V.V.	Sales Director of SC "Ukrferri"
	port	Mrs. Rivina T. V.	Head of Department of Prices and Tariffs, Ilyichevsk port
	port	Mrs. Bartoschik N. V.	Economist, Ilyichevsk port
Uzbekistan	rail	Mrs. Makhbubova F. N.	Economist Tariff Policy Department