

UPTFT

A proposal for piloting the proposed “TTT” tariff policy structure

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Annex A Statements of Endorsement of Support of Pilot Project

Annex B Proposal submitted to Tacis

Introduction and Background

1.1 Rationale and Objective

The TTT (Traceca Transit Tariff Policy) has been progressively developed in the UPTFT project. This positive progression is manifested in 4 protocols that approves of the underlying costing methodology and structure. A good way of advancing the rail TRACECA Transit Tariff (TTT) policy is to carry out trails (or pilot studies) of TTT.

Although TTT has not been finally approved at this time within IGC TRACECA, there is nothing to stop undertaking an evaluation to compare TTT with exiting systems, provide a platform from which to refine TTT, develop a working agreement and understand better the requirements for later implementation of the policy.

It should be noted that TTT is not intended as a basis for offering low or discounted Tariffs but it based on the premise that a simplified tariff structure will be sufficient to attract new traffic to Traceca. The TTT, with its wagon based, non-commodity specific policy, provides this tariff structure.

Furthermore, its cotemporary economic basis is of wider interest to railways intent on reform.

The objective of this paper is to recommend to IGC TRACECA that they support a series of exercises to test the validity of TTT.

It is strongly commended that this be most effectively and efficiently carried out through an extension to contract.

1.2 Aspects to be tested and results expected

There are many aspects to consider when introducing a new railway tariff structure policy particularly when replacing a policy that has existed for over 50 years.

These can be broadly categorised into short term and medium term issues as follows:

1.2.1 Short Term

- Understanding the underlying principles and accepting them.
- Testing the assumptions contained in the normative costing model 'Railcost'
- Comparing the SRVC and LRVC with the actual tariffs now operating
- Testing the ease with which a new rate (tariff) can be established between the upper and lower limits of the TTT policy

- Establishing acceptable through tariffs.
- Establishing the marketing implications.
- Initial response from market place to new tariff policy.
- Testing willingness of Freight Forwarders to apply TTT
- Preparing a new TTT tariff agreement that will replace the CIS TTT for Traceca countries. (This to be signed with the satisfactory completion of the TTT pilots)

1.2.2 Medium Term

- Implications of the TTT towards harmonisation with the to EU including pre-accession countries
- Further refinements in the parameters chosen to establish TTT
- Raising traffic demand by incentive pricing within known SRVC
- Testing the '€' as the currency of account with shippers and forwarders.
- Providing information for preparing the TTT Agreement
- Providing information for the function of the TTT agency / authority

2. Description

2.1 TTT pilot partners

To obtain interesting, robust and geographically rational results a key group of TRACECA railways would be needed.

Consequently 6 countries have endorsed TTT trials.

Azerbaijan

Bulgaria

Georgia

Moldova

Romania

Turkey

The IGC Yerevan meeting which endorsed the principal of a council of heads of railways (or some such forum) and its outline work plan proposed by the July meeting of heads of rail ports and shipping, included the piloting of TTT.

It is proposed to invite Ukraine Railways to participate in the TTT Pilot.

Furthermore it has been proposed by Azeri Rail to also invite Turkmen Railways to also participate to provide a through route from the EU to Afghanistan and Iran.

In that context it is recommended to invite Afghan and Iranian Transport / Rail organisation to participate as observers in the experiment.

There is much to commend the participation of these particular countries. Ukraine for its size and interest in developing markets in Europe and the possibility of extending the TTT range through to Poland; Moldova for the probable speed and of application, the low base of traffic, connectivity with Romania and Ukraine; Georgia and Azerbaijan because of there significant transit volume, but low market share of non-oil traffic and container traffic as well there strong support of TTT.

Cooperation of the Black Sea Rail Ferries is also possible.

TTT will be piloted from within an expanded European Union in 2004 to the Caspian Sea. This would be in advance of a full TTT agreement involving all TRACECA countries later in 2005.

2.2 Selection of traffic type

As we know, TTT is a wagon-based structure so it is necessary to select at least one wagon type with which to pilot a TTT derived tariff.

There seems little doubt that the best wagon type to pilot would be platform wagons used for the transport of containers. There are two good reasons for choosing this wagon type as they are the main focus of interest is in attracting new traffic in containers and the current traffic base in railway container movement is quite small so any improvement would be easy to identify.

It must be emphasised that there are no risks to revenue at all, as all tariffs at this pilot stage would have been compared to the present system and only progressed if found to be compatible and acceptable.

Another option might be to apply TTT experimental rates to all dry freight traffic. This would certainly have a more positive impact on the market.

It will up to the participants to decide

2.3 Selection of TTT rates

As has been stated many times before, TTT upper(LRVC) and minimum(SRVC) rate levels are derived from the four-part TTT 4 part tariff structure,

Part 1 Movement

Part 2 Terminal services

Part 3 Infrastructure User Charge

Part 4 Commission and Handling.

Discussion with piloting partners will be necessary to select rates for each of the four parts that are within the TTT structure that will create a common structure that will be of interest to the market. Application of the TTT National Coefficient will enable each country to derive an acceptable tariff within the overall TTT structure.

2.4 Marketing

It is essential that TTT is well promoted to FF and shippers and thought needs to be given to this. Certainly all participants are expected to play a significant role as well as the Traceca Secretariat.

2.5 Performance Criteria and Monitoring

Based on the results expected in 1.2, a range of measurable criteria will be elaborated in cooperation with the Partners that can be used for monitoring and evaluation.

3. Organisation and management

3.1 Programme and phasing

Six months are required to establish a pilot scheme and to carry out initial evaluation. However, from evaluations done by the consultant and circulated previously (the Afghan evaluation) it may be possible for rail tariff departments to draw their own conclusions earlier.

It may take time for any real trends in traffic demand to be clearly seen.

A more precise work programme will be drawn up in an inception phase with the pilot partners. If initial contacts are made with the partners as soon as a decision is made to proceed, there is no reason why planning cannot start immediately afterwards.

3.2 Workshop

Planning the pilots will hinge on the first workshop to be held in February / March 2004, both active participants and observers to be invited.

3.3 Personnel and resourcing

It is assumed that there will be a need for:

Railway Team Leader – 58 days

Railway Specialist – 21 days

Coordinator – 19 days

Local railway specialists will also need to be included in the team.

3.4 Next Steps

1. Agree this outline with IGC TRACECA
2. There will be a need to extend / amend the UPTFT Contract to End of 2004
3. Hold TTT piloting workshop
4. Finalise plan
5. Agree tariffs
6. Set up local monitoring procedures and organisation.
7. Hold regular meetings to review progress
8. Prepare the TTT agreement.