

The European Union's Tacis - TRACECA Programme  
for Azerbaijan and Georgia

**Railway Transit Oil Logistical Centre**  
**for Azerbaijan and Georgia**

*Concept for the establishing and im-  
plementation of a Corridor Coordina-  
tion Centre to improve oil transporta-  
tion by rail along the trans-Caucasian  
TRACECA route*



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## 1 Introduction

The following concept for the establishing and implementation of a Corridor Coordination Centre is based on the presentations and discussions of the second "Round Table Meeting on Concepts for Improving the Baku-Batumi/Poti Corridor for Rail Transportation of Oil and Oil Products" held October 20<sup>th</sup> -21<sup>st</sup>, 2003 in Tbilisi under the framework of the EU TRACECA project Railway Transit Oil Logistical Centre.

Below elaborations reflect the comments and remarks made by the project partners and target groups of the project to a maximum possible extent, at the same time compromising diverging ideas.

## 2 Establishing of a Corridor Coordination Centre

### 2.1 Coordination Centre

#### Objective

Overall objective of the Centre to be established is to provide a joint platform for coordinating traffic operations and traffic planning of oil transports by rail across the Caucasus.

#### Pre-conditions

The following aspects need to be addressed when developing a concept:

- As many players as possible should be involved in establishing this entity or centre in order to secure broad based support for the objectives and activities of the new institution.
- Importance of transparency of activities cannot be overstated. The centre should be open to all transport operators and interest groups and act independently of single interests.
- Interference of the new centre's activities with the operational activities of participating companies should be restricted to a minimum in order not to disturb competition.
- It will be important for the centre to have access to existing information flows and sources (e.g. railway database, information exchanged between terminals) in order to avoid spending resources for establishing a parallel system.

#### Participants

The Coordination Centre should be established and supported on a voluntary base by the partners engaged in the operation and organisation of oil transports via the trans-Caucasian route, but act independent of the interest of any single company. At least, all major players should be members of this Centre, especially the railway companies, the oil terminal operators, and major transport chain operators, but also the port companies, and Caspian shipping companies.

#### Tasks

The Coordination Centre should concentrate on the following tasks:

- Coordinate and monitor actual traffic operations on the trans-Caucasian corridor.
- Introduce an intermediate planning horizon supplementing the existing two-day and monthly planning
- Increase transparency and coordination of the traffic planning process. All planning documents exchanged between participants of the transport chain should be sent in copy to the Centre. Possible upcoming problems can be detected at an early stage, thus helping to reduce corridor downtimes due to planning failures.



- Develop and implement standards for electronic data transmission between participants of the planning and monitoring system.
- Actively develop and implement standardised "emergency measures". The proposal shall be communicated to all participants of the system and upon their approval be implemented by the Coordination Centre. In case of foreseeable problems and congestion, the centre should propose adequate measures to avoid these problems.
- Develop a comprehensive demurrage system valid for all oil transport and handling operators along the corridor from the Caspian East Coast to the Georgian Black Sea Coast. All transport and handling operators should agree to this system. The demurrage system should be transparent for all customers of the transport chain. In addition the system must be leveled in the sense that demurrage per tonne should be the same for vessel, tank and RTC in order not to give economic incentives for customers to select a specific mode for extended periods of interim storage of cargo.
- Develop a database where all participants' information concerning oil transport is collected and monitored.

#### Location

The Coordination Centre should be located in Baku, since here most of the operators have their main office.

#### Financing

The Centre should be established as non-profit (non-governmental non-commercial) organization according to the Civil Code and Law of Azerbaijan Republic about registration of legal persons. As this organization will have no profits it will be exempted from all taxes. Application for registration will be filed with the Azerbaijan Ministry of Justice. Centre activities will be financed by membership fees of participating companies.

The fees shall be paid on a quarterly base. There will be five categories for membership fees determined by the number of company employees.

- Category 1: 1-10 employees
- Category 2: 11-40 employees
- Category 3: 41-100 employees
- Category 4: 101-500 employees
- Category 5: more than 500 employees

The higher the category the higher will be the membership fee. The concrete level of category membership fee will depend on the number of participants and the level of Coordination Centre cost and thus need to be determined at a later development stage.

The category of membership will also determine the number of votes a company has in General Assembly decisions, e.g. it could be established that a company of category 5 will have 5 votes, a company of category 4 will have 4 votes etc. The membership can be terminated towards the end of a quarter with four weeks notice time.

#### Organization

The Coordination Centre should be designed as an independent unit. Responsible for the day-to-day management of the Coordination Centre's tasks and affairs shall be an Executing Body. For the beginning this Executing Body shall consist of a managing director and seven or eight specialists. The team of specialists will comprise one transport planning coordinator, and three or four rail traffic monitors organising a shift system for 24-hour corridor monitoring. Moreover, the team will have one forward planner and monitor, who will be responsible for checking and monitoring the situation for the coming days ahead by simulating the traffic on the corridor given the planning of the transport operators and information on the expected situation along

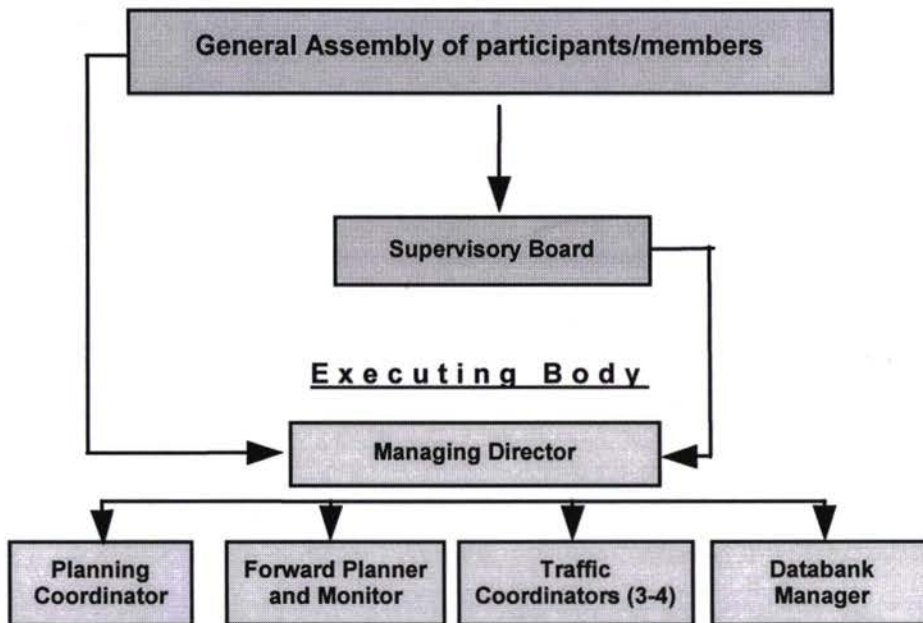
the corridor (e.g. whether all vessels are expected in time, or major construction work planned on main track, etc.). Last but not least the team will be completed by a databank specialist/IT expert.

A later extension of services and thus of personnel will be depending on the success of this Centre.

The ultimate decision making body concerning all questions related to responsibilities and degree of executing power of the Coordination Centre is the annual General Assembly. The General Assembly determines whether the activities of the Coordination Centre have been useful and according to the participants' expectations or not. Thus, only the General Assembly on their annual (or six-monthly) meetings can decide on extending or decreasing the scope of activities or terminating work once the Executing Body has been established. In the period between the General Assemblies a Supervisory Board annually or bi-annually elected from among the participating institutions will represent the will of the participants. The Supervisory Board should have 4-6 members, including one representative of each railway company. The Board supervises and monitors the Executing Body and meets regularly about three to four times a year with the managing director to discuss past activities and lessons learnt from the Centre's activities. Moreover, through the Board the participating companies can utter criticism and their ideas how to improve Centre operations.

The Coordination Centre as defined above should not serve as an executing agency in day-to-day operations, i.e. it shall not serve as transport operator and shall not have any direct contacts with the operators' customers. In this respect, the Coordination Centre is a purely "internal" organisation. It is not intended to serve as a contact point for cargo owners or traders in the sense of a one-stop-shop.

**Figure 1: Organigram of proposed Corridor Coordination Centre**



#### Staff descriptions

The managing director should be a person of undisputed reputation with ample knowledge and experience in railway operations and freight forwarding. He should have well-established contacts with the major transport operators, especially the railways and larger transport chain organisers. The managing director should have the intellectual capacity to transfer the conceptual ideas and recommendations of the participating companies (e.g. the General Assembly) into workable measures and successfully implement them with the help of



his staff. In doing so, he needs to have the stamina and personality to resist single interest groups and focus on efficient operation along the whole corridor, not just single stretches and nodes.

The Coordination Centre should employ three to four traffic coordinators, who will be responsible for checking whether the actual rail traffic situation on the corridor is in line with the short-term planning of the operators. Deviations will be noted, major disturbances immediately pointed out to the respective companies and the forward planner (see below).

The traffic coordinators should be well familiar with the complex work of a railway dispatcher and willing to work in shifts. Moreover, they should be skilled in computer software applications, as coordination and monitoring shall be computer-based.

The planning coordinator should focus on the compliance of participating companies with the time schedule and procedures of the planning process. He would be responsible for claiming missing information, and report non-compliance with agreed planning procedures to the managing director. Also, the planning coordinator would use the Centre's database to analyse past deviations from planned traffic, identify possible reasons for deviations and elaborate proposals on measures suitable to avoid such deviations.

A candidate for this position should be a reliable, almost pedantic person with expertise and experience in developing railway time tables. He should also be well familiar with the requirements of transport chain operators and terminal operators concerning data quality, timing of information flows, and possible confidentiality of information, and have good contacts to the planning divisions/departments of the participating companies. Moreover, the candidate should have analytic skills.

The forward planner and monitor will check the feasibility of planned oil traffic in the light of information on corridor utilisation by other traffics, vessel schedules, assumed utilisation of storage capacities and other relevant information regarding the rail corridor. He will identify foreseeable disturbances in corridor operation and define and propose suitable counter-measures.

For this position a person with high analytic skills and considerable experience in rail traffic planning is required. He should be extremely well familiar with current and potential problems of transporting oil and oil products along the trans-Caucasian corridor. Moreover, the person should have the intellectual capacity to quickly develop feasible solutions how to possibly avoid upcoming congestion.

The databank manager/IT specialist will be responsible for developing a standardized data transfer system to facilitate the data exchange between the participants and the Centre. In addition, he should develop a specialized coordination, monitoring and planning tool for the Centre. Moreover, he will serve as network administrator and trouble shooter for all computer problems arising at the centre. Last but not least, he would support the planning coordinator in analysing past deviations from planned traffic, identifying possible reasons for deviations and elaborating proposals on measures suitable to avoid deviations.

In order to fulfill above tasks the databank manager should have a degree in computer sciences and experience in programming software tools with interfaces to the Internet. Moreover, he should be familiar with server administration.

The Executing Body will be supplemented by a Secretary/Office Manager who should also be responsible for the financial administration and book-keeping.

### Cost Estimate

#### *Setting up a headquarter office:*

- Renovation: Aside from usual repair, all electrical installations and telecom connections need to be adjusted to the needs of the Centre, and security systems installed. Estimated budget: USD 3,000.
- Furniture: Normal office furniture, desks, chairs, shelves, boards, table for meeting room, etc. Estimated budget: USD 4,000.
- Office machinery: All work places should be equipped with modern multi-media computers and connected to a main server. Moreover, the office should be equipped with colour as well as black and white printer, a modern telecommunication system, fax machine, scanner etc. Estimated budget: USD 13,000
- Software: The Centre should develop (or contract the development) of a special computer-based planning, coordinating and monitoring tool for the corridor with interfaces to the participating companies, especially the railways. If done locally, costs should be in the range of about USD 20-30,000.

#### *Office Running Cost:*

Running cost mainly comprise office rent, telecommunication, postage, and office consumables. It should be possible to run the office with a budget of around USD 2,500.

#### *Staff Cost:*

Salaries shall reflect the importance of the Coordination Centre for successful operations along the corridor. Thus, the consultants estimate a monthly budget of around USD 7,500 for staff (eight employees, including Managing Director).

#### *Additional cost per tonne:*

Total monthly running costs of the Coordination Centre are estimated at USD 10,000. Given average monthly handling and transport volumes along the corridor of close to 800,000 tonnes, this would amount to additional cost of about 1.25 US Cent per tonne for the services of the centre.

## **3 Implementation Plan**

### **3.1 Working Group**

In order to prepare the establishing of a Coordination Centre a Working Group should be implemented.

#### Objective and Tasks

Overall objective of the Working Group is to agree within two months after its establishing with all interested parties on remaining items of the proposed concept, which have not been fully agreed upon during the third Round Table Meeting.

#### Participants

The Working Group shall be established on a voluntary basis by the partners engaged in the operation and organization of oil transports via the trans-Caucasian route.

The decision-makers of the following organizations should be invited to participate in the Working Group

- Azerbaijan State Railways
- Georgian Railways
- Ports of Baku/Dubendi, Batumi and Poti



- Oil terminal operators in Baku, Dubendi, Batumi and Poti
- Transport Chain Operators, e.g. Azertrans, Kafkastrans, Silk Road Group, Baghlan Group
- Caspian Shipping Company
- Cargo owners, e.g. ChevronTexaco

Port and transport chain operators from Turkmenistan, Kazakhstan and Uzbekistan should be invited to the Working Group meetings as associated members to keep them involved and informed about the process.

#### Organization

For an efficient work organization it is proposed to install a permanent Core Group that will refine aspects of the prepared concept and clarify items, which have not been jointly agreed during the third Round Table Meeting. The prepared solutions will be presented at the monthly meeting of the Working Group where agreement between the participants should be reached and binding decisions on next steps be taken.

The Working Group will make the final decision on if and in what form the Coordination Centre will be established. After a positive decision the Working Group will call for the first General Assembly meeting during which the Coordination Centre will be officially founded. With the founding of the Coordination Centre the Working Group has achieved its objective and will be dissolved.

### **3.2 Core Group**

#### Objective

The objective of the Core Group is to refine aspects of the prepared concept and clarify items, which have not been jointly agreed during the third Round Table Meeting, and present their refinements and solutions to the Working Group for their decision.

#### Participants

The Core Group shall be composed of maximum 7 delegates of the following organizations:

- Azerbaijan State Railways
- Georgian Railways
- Alegratrans, Azertrans, Middle East Petrol, Silk Road Group
- Caspian Shipping Company

Delegates shall be regular employee of the a.m. organizations. To underline the importance of railway cooperation the group shall be headed by a high-ranking railway delegate.

#### Tasks of Core Group

The Core Group shall discuss and prepare information for decision by the Working Group. In detail the following questions may need to be discussed if not already agreed during the third Round Table Meeting:

- Definition of tasks of Coordination Centre

In addition to the tasks already defined in a.m. concept it is optional to also include a Strategic Planning Unit and a Promotion Unit in the Coordination Centre.

The *Strategic Planning Unit* shall execute market analysis and sector studies, analyzing and elaborating new trends in handling and transportation of oil and oil products that might be important for the further development of the Corridor. Competition analysis meaning observing and analyzing competing routes (with regard to price volumes, products) will be one of the main tasks of this unit.



The *Marketing Unit* shall develop marketing material, like brochures and presentations, promoting the trans-Caucasian corridor supported by the creation of a website informing about advantages of the corridor. They should organize joint appearances of all participants on fairs and exhibitions.

The Core Group shall prepare the decisions of the Working Group whether to include these or other tasks in the Coordination Centre or not.

- Organizational form of the Coordination Centre and administrative set-up procedures

It has to be discussed which legal and organizational setup the Coordination Centre should have.

*Profit making or non profit organization*

A non-profit organization can provide its services to the members at a lower fee than a profit-making organization as the calculation does not include taxes or profit margin.

If remunerated according to success a profit-making organization may have higher incentives to increase the traffic flow along the corridor than a non-profit organization.

*Independent open organization vs. department under the Ministry of Transport*

An option is to install the Coordination Centre as a department under the Ministry of Transport to guarantee its influence also on state-owned organizations. However this organizational setup might prevent private parties from becoming participants of the Coordination Centre as they may fear that the influence of the State could be very high.

The Core Group shall prepare detailed proposals on the organizational form of the Coordination Centre and present these to the Working Group for discussion and final decision. As soon as the Working Group has decided on the organizational form the Core Group shall identify the administrative procedures to formally set-up the Coordination Centre.

- Rights and Responsibilities of the Coordination Centre

The Core Group needs to prepare recommendations on the rights and responsibilities of the Coordination Centre. Specifically it needs to be identified in which areas the Coordination Centre shall only have recommending power and in which areas implementing power. For the majority of tasks the work of the Coordination Centre restricts to monitoring and proposing recommendations. However in case of emergency measures the recommendation of the Coordination Centre should have a mandatory character. Considering the proposed set-up including as many participants in the Coordination Centre as possible it seems to be very ambitious to get the agreement of all participants to accept a strong, direct influence of the Coordination Centre on the operational procedures of the various companies. In addition if the information of the Coordination Centre is defined as a recommendation this supports the statement that the existing competition between transport and terminal operators shall not be influenced by the information of the Coordination Centre.

- Operational Procedures of the Coordination Centre

In order to enable the Coordination Centre to execute the assigned tasks the operational procedures for its work have to be agreed on, e.g.

- For the definition of necessary data and identification of the respective data source for efficient traffic coordination the Core Group shall identify all existing information flows and data provided. The Core Group should prepare a proposal of the necessary data details and discuss this in the Working Group to define a data level suitable for all participants..
- For the development and enforcement of a comprehensive demurrage system the Core Group shall discuss and prepare a proposal pre-agreed with the major participants. This proposal has to be discussed in the Working Group and must be finally agreed by all participants.

- Estimates of set-up and running costs



Following the decisions of the Working Group on tasks and responsibilities of the Coordination Centre the Core Group will develop staff descriptions and detailed estimates for Centre set-up and monthly running cost. Moreover the Core Group will prepare a proposal of the membership fee system.

- **Decision mechanism**

The Core Group will prepare a proposal on a fair and transparent decision mechanism to be applied for all decisions to be taken by the General Assembly. The decision making system should be related to the membership fee system.

In addition to preparing documents for the Working Group meetings the Core Group will also secure support for their proposals in bilateral meetings with representatives of participating companies, institutions and interest groups.

Last but not least the Core Group will be responsible for organizing Working Group meetings inviting all interested parties and securing their participation at decision-making level.

#### Location

The Core Group should have an office in Baku, since here most of the operators have their main office. The office should have enough space to permanently accommodate all members of the Core Group during its existence.

#### Financing

Staff cost of delegates will be financed by the delegating company. Office operating cost will be equally shared by all members of the Working Group. Support for financing the office set-up cost will be sought from external sources e.g. the EU TRACECA Programme.

#### Core Group Staffing

The key figure on whose performance the success of the Core Group will be highly dependent is the Head of the Core Group. He should be a senior railway expert of decision-making level with ample experience and contacts in the oil business. He should be familiar with the problems of day-to-day operations of oil transports by rail (and vessel) as well as the needs of the operators' customers. The Head of the Core Group should discuss with and convince high ranking officials as well as managers of international companies of the joint benefit of the future Coordination Centre. At the same time he should respond sensitively to the needs of smaller companies.

He must thus be an honest, trustful and respected person. He should not only be able to smoothly integrate the different approaches and objectives of the stakeholders into joint positions but also to present these positions to political decision makers and cargo owners. He will together with the other members of the group develop adequate measures to transfer the strategies decided by the Working Group into practical steps.

All other experts delegated to the Core Group should be well familiar with the requirements and characteristics of their specific business activities in order to effectively reflect in the concept all different aspects of the transport chain.

#### Role of the Core Group in setting up the Corridor Coordination Centre

After the General Assembly has formally founded the Coordination Centre and appointed the Managing Director the Core Group will support the Managing Director in the physical set-up of the Coordination Centre. The office of the Core Group will be transformed into the headquarter of the Coordination Centre. After the physical establishing of the Centre has been completed and all staff selected, the Core Group will be dissolved, delegated representatives will return to their companies.



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