6 STRATEGIC CHALLENGES

6.1 Market Challenges

6.1.1 National Trade: Exports and Imports

World Trande Partners

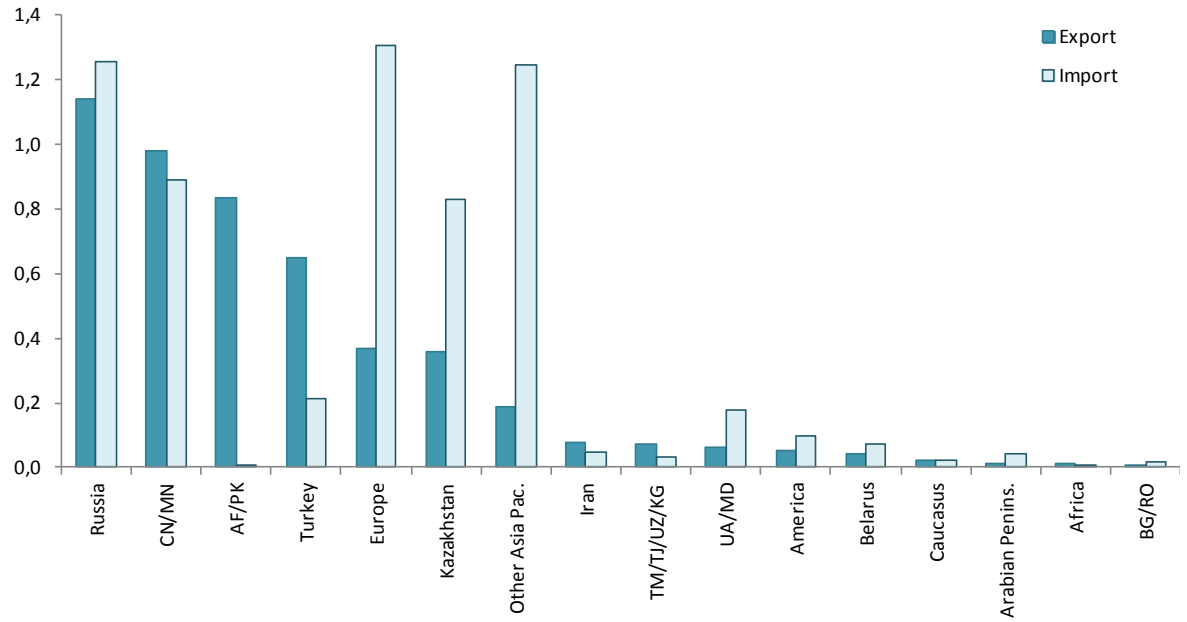
Uzbekistan is an important trading country in Central Asia. It trades with a number of partners in Asia, Europe, Pacific and Middle East. Besides, it holds a visible share in TRACECA trade.

For the purpose of this analysis, it was decided to use UN Comtrade and Eurostat as a reference source of data. As discovered, Uzbekistan does not report to UN Comtrade in a systematic way. Therefore, in this analysis the volumes of its exports and imports have been approximated based on “mirror data” obtained from trade partners of Uzbekistan.

As other landlocked countries of Central Asia, Uzbekistan trades a lot with its close neighbors: Russia (22%), Kazakhstan (11%) as well as China-Mongolia (17%), Europe (15%) and the Pacific region (13%). In 2010 the total trade exchange of Uzbekistan amounted to 11.1 bn euro; the volumes of its imports exceeded that of exports yielding a negative trade balance negative of 1.4 bn euro.

Imports to and exports from Uzbekistan differ in their origins and destinations (see Figures 2 and 3). In 2010 the majority of Uzbek exports (74%) were directed to the Russian, Chinese/Mongolian, Afghan/Pakistan and Turkish markets. At the same time, while the imports from Russia, China/Mongolia constituted about 34% of the total a considerable share of imports (54%) originated from Europe, Pacific region and Kazakhstan.

Figure 2: Uzbekistan Trade Partners, 2010, bn euros



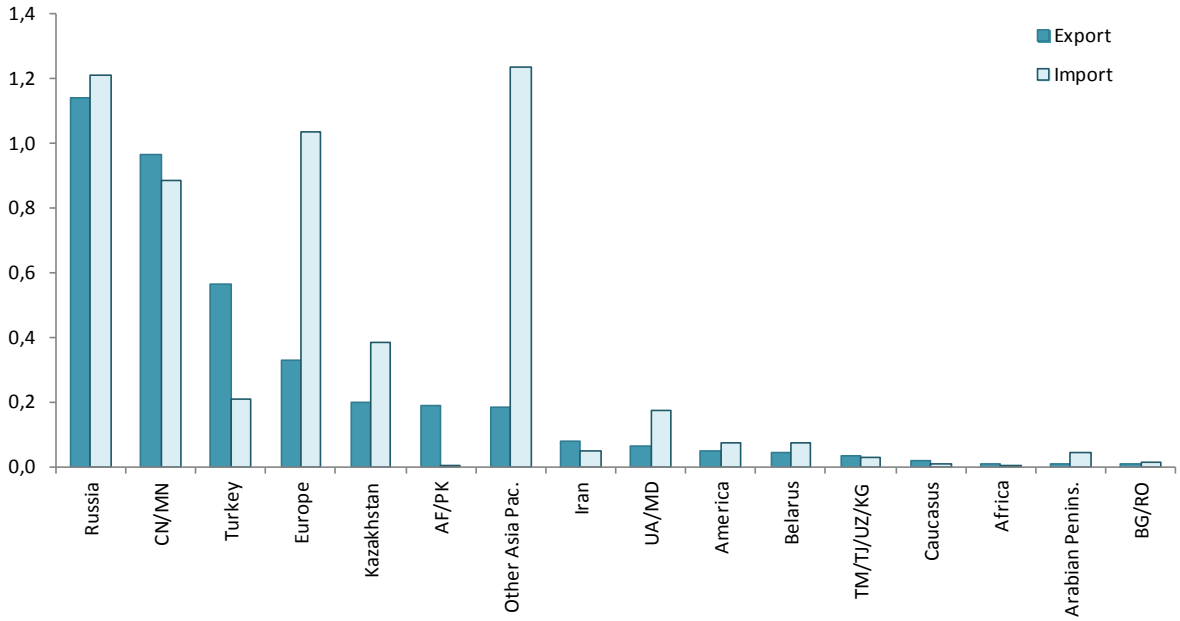
Source: Computation based on Eurostat and UN Comtrade databases

If to concentrate only on non-bulk commodity trade (Figure 3), one could conclude on the following perspectives for LOGMoS development in Uzbekistan:

- Uzbekistan extensively trades containerizable goods. Their share varies from about 80% to slightly above 86% in total Uzbek exports and imports, respectively;
- a considerable share of Uzbek trade in non-bulk goods is with Russia (25% of trade exchange), China/Mongolia (20%) and Pacific (15%). Although the trade with Russia and China/Mongolia is balanced both in exports and imports, the trade of Uzbekistan with Pacific region is mainly export oriented.

The trade of potentially containerizable goods along TRACECA amounts up to 26% of trade exchange and could serve as a core for LOGMOS project.

Figure 3: Uzbekistan Trade Partners, Potential Trade, 2010, bn euros



Source: Computation based on Eurostat and UN Comtrade databases

Table 4: Distribution of Uzbekistan Potential Trade Partners, 2010, % in trade value

Zones	All products		Total all products	No min. fuel & ores		Total no min. fuel & ores
	Import	Export		Import	Export	
Afghanistan-Pakistan	17%	0%	8%	5%	0%	2%
Africa	0%	0%	0%	0%	0%	0%
America	1%	2%	1%	1%	1%	1%
Arabian Peninsula	0%	1%	0%	0%	1%	1%
Area Nes						
Belarus	1%	1%	1%	1%	1%	1%
Bulgaria-Romania	0%	0%	0%	0%	0%	0%
Caucasus	0%	0%	0%	1%	0%	0%
China-Mongolia	20%	14%	17%	25%	16%	20%
Europe	8%	21%	15%	8%	19%	15%
Iran	2%	1%	1%	2%	1%	1%
Kazakhstan	7%	13%	11%	5%	7%	6%
KY-TJ-TM	1%	0%	1%	1%	0%	1%
Other Asia Pacific	4%	20%	13%	5%	23%	15%
Russia	23%	20%	22%	29%	22%	25%

Syria-Iraq						
Turkey	13%	3%	8%	15%	4%	8%
Ukraine-Moldova	1%	3%	2%	2%	3%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Computation based on Eurostat and UN Comtrade databases

To complete this analysis, it is necessary to take into account the related tonnage of exported and imported goods from/to Uzbekistan (see Table 5 below). Figures show that:

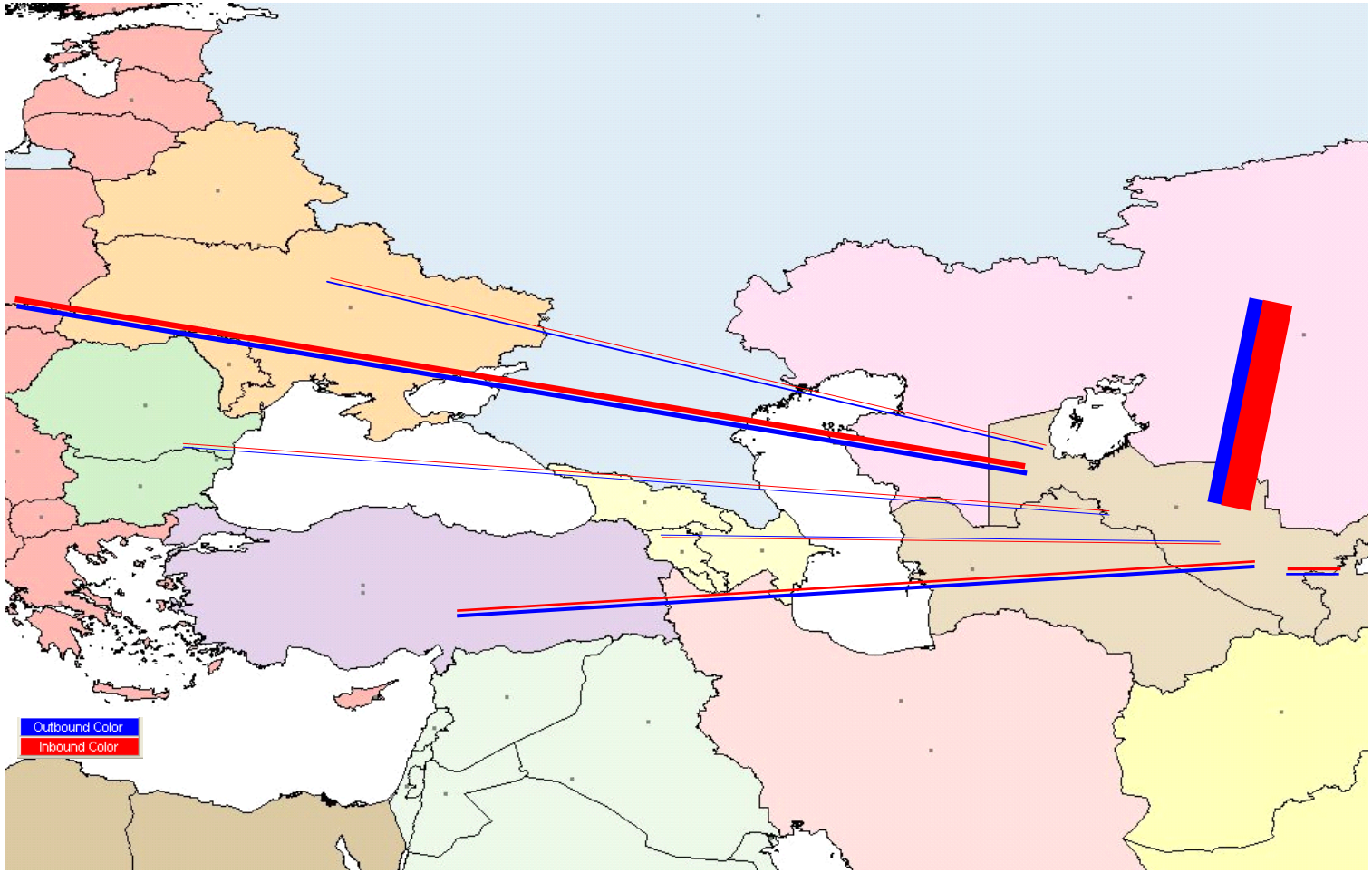
- the most significant trade exchange of Uzbekistan (more than 55% of exports and imports) is with Kazakhstan (see Figure 4). A considerable share of this trade, most probably, passes along a North-South corridor, which is outside of TRACECA;
- the trade with Europe and Turkey (20%) is quite balanced and could be considered as belonging to the core of the future LOGMOS network;
- trade exchange of Uzbekistan with Caucasus and West TRACECA (Bulgaria and Romania) is negligible, but has a potential to develop further.

Table 5: Uzbekistan Potential Trade with TRACECA Countries and Europe, 2010, in tons and %

Zones	Tonnage		Share in trade with TRACECA countries and Europe	
	Export	**Import**	**Export**	**Import**
Bulgaria-Romania	26 295,4	6 142,7	2%	0%
Caucasus	31 570,2	1 129,4	2%	0%
Europe	196 021,8	240 657,0	14%	12%
Kazakhstan	613 611,4	1 240 266,2	44%	63%
KY-TJ-TM	99 827,5	112 906,0	7%	6%
Turkey	147 628,1	100 445,3	10%	5%
Ukraine-Moldova	77 067,1	152 087,0	5%	8%
Total	**1 409 472,1**	**1 959 305,1**	**100%**	**100%**

Source: Computation based on Eurostat and UN Comtrade databases

Figure 4: Uzbekistan Potential Trade with TRACECA Countries and Europe, 2010, in tons



Source: Computation based on Eurostat and UN Comtrade databases

6.1.2 Regional TRACECA Trade

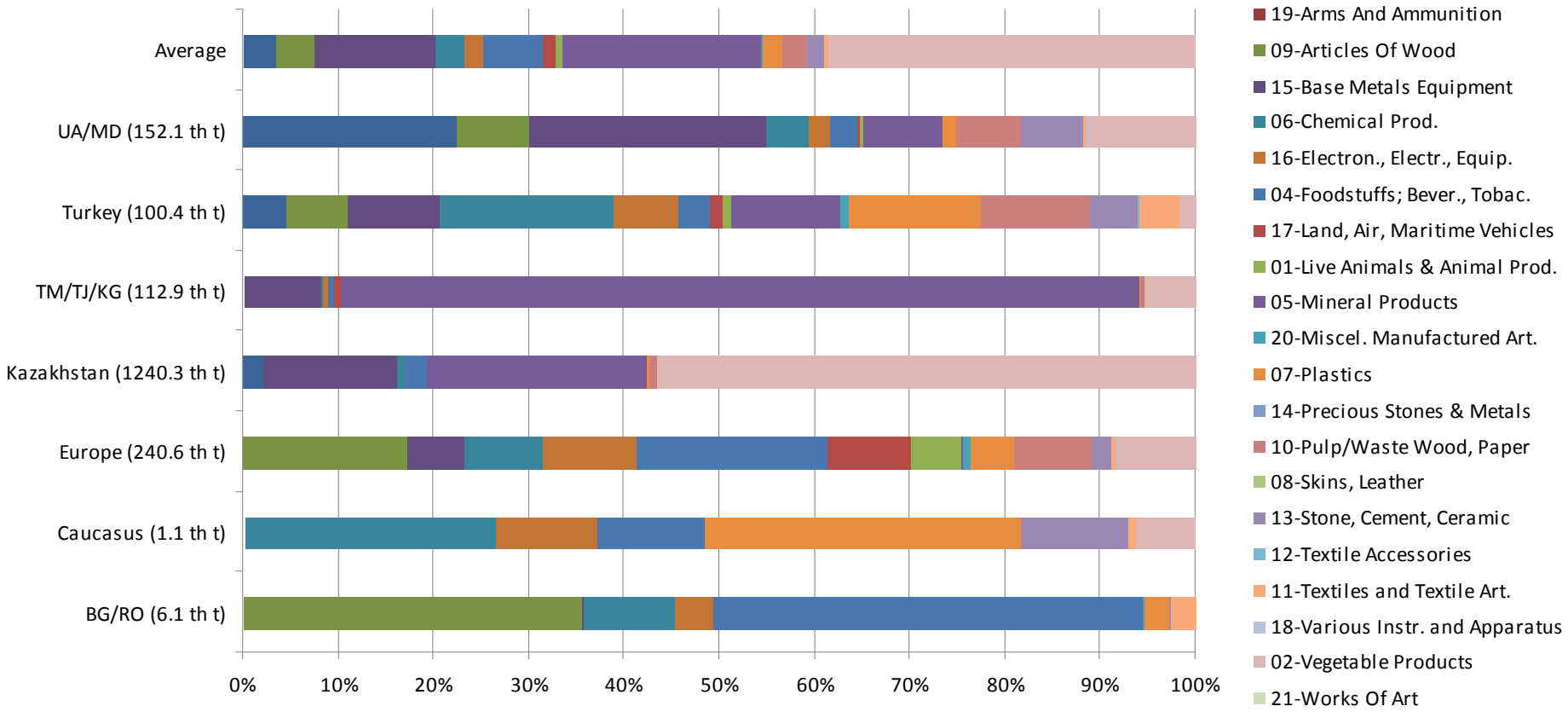
The trade of Uzbekistan with TRACECA countries in non-bulk goods is close to balance. Namely, according to project estimates, in 2010 Uzbek imports of completely and partially containerizable goods constituted up to 1.9 M tons (see Figure 5 and Table 6 below) and covered the following categories:

- vegetables (39%). This commodity group included malt, starch and milling products imported from Kazakhstan, but also cereals;
- various minerals (21%), which are imported mainly from Central Asian countries;
- base metals and equipment (13%) consisting in iron ore and products imported from Kazakhstan and Ukraine.

In 2010, Uzbek exports reached up to 1.2 M tons, which constituted about 40% of total trade exchange. The commodity structure of exports (see Figure 6 and Table 7 below) included four broad categories of goods:

- chemical products (36%) i.e. fertilizers to Europe, Ukraine and Central Asia;
- minerals (30%), in particular, salt, sulphur and other mineral products exported from Uzbekistan to Kazakhstan and other Central Asian countries;
- vegetables (14%), mainly cereals exported to Iran and Caucasus; and
- base metals and equipment (9%), which are important with respect to copper and copper articles meant for the Turkish market.

Figure 5: Potential Trade with TRACECA Region – Commodity Structure of Imports to Uzbekistan, 2010, in tons and %



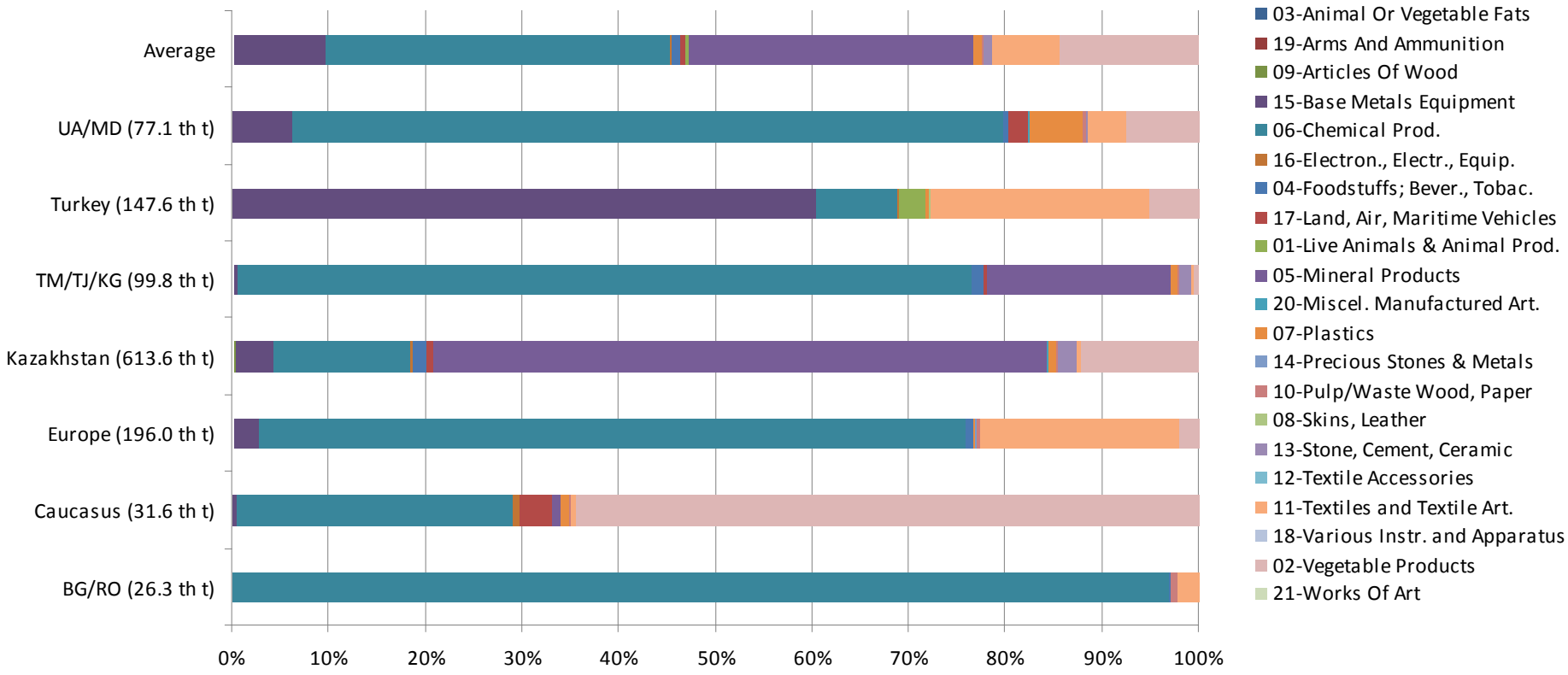
Source: Computation based on Eurostat and UN Comtrade databases

Table 6: Potential Trade with TRACECA Region – Commodity Structure of Imports to Uzbekistan, 2010, in tons

Commodity Groups	Bulgaria-Romania	Caucasus	Europe	Kazakhstan	KY-TJ-TM	Turkey	Ukraine-Moldova
Animal Or Vegetable Fats	0,1	n/a	190,0	26 307,7	0,2	4 569,9	34 128,1
Arms And Ammunition	n/a	n/a	0,1	n/a	n/a	1,2	n/a
Articles Of Wood	2 189,2	n/a	41 367,1	552,8	148,7	6 395,5	11 655,4
Base Metals Equipment	2,4	2,3	14 511,5	172 550,7	9 054,3	9 761,3	37 657,8
Chemical Prod.	589,4	297,8	19 580,0	10 538,3	222,1	18 307,9	6 981,6
Electron., Electr., Equip.	244,4	120,3	23 659,4	672,4	577,1	6 765,6	3 346,8
Foodstuffs; Bever., Tobac.	2 773,7	126,4	48 115,3	28 442,2	810,9	3 331,2	4 111,0
Land, Air, Maritime Vehicles	n/a	n/a	21 348,5	943,6	728,6	1 381,1	686,9
Live Animals & Animal Prod.	n/a	n/a	12 660,5	19,2	19,7	849,3	510,5
Mineral Products	n/a	n/a	405,4	285 808,9	94 689,1	11 565,4	12 597,7
Miscel. Manufactured Art.	13,3	0,0	2 089,3	20,1	34,5	953,1	86,8
Plastics	157,5	374,9	10 688,6	3 863,2	171,9	13 808,1	1 931,7
Precious Stones & Metals	n/a	n/a	2,7	n/a	n/a	3,8	n/a
Pulp/Waste Wood, Paper	0,5	2,4	19 668,5	7 526,7	85,2	11 645,0	10 414,0
Skins, Leather	n/a	n/a	46,4	0,6	4,7	22,5	0,1
Stone, Cement, Ceramic	7,9	124,1	5 184,9	1 569,7	235,2	5 052,2	10 076,3
Textile Accessories	n/a	0,0	29,9	0,0	7,5	68,0	37,3
Textiles and Textile Art.	163,0	10,4	1 051,4	493,0	198,0	4 289,3	516,2
Various Instr. and Apparatus	1,2	1,0	454,9	8,7	0,0	12,7	59,4
Vegetable Products	0,1	69,9	19 600,7	700 947,5	5 918,2	1 661,9	17 289,2
Works Of Art	n/a	n/a	1,9	0,8	n/a	n/a	n/a
Total imports	**6 142,7**	**1 129,4**	**240 657,0**	**1 240 266,2**	**112 906,0**	**100 445,3**	**152 087,0**

Source: Computation based on Eurostat and UN Comtrade databases

Figure 6: Potential Trade with TRACECA Region – Commodity Structure of Exports from Uzbekistan, 2010, in tons and %



Source: Computation based on Eurostat and UN Comtrade databases

Table 7: Potential Trade with TRACECA Region – Commodity Structure of Exports from Uzbekistan, 2010, in tons

Commodity Groups	Bulgaria-Romania	Caucasus	Europe	Kazakhstan	KY-TJ-TM	Turkey	Ukraine-Moldova
Animal Or Vegetable Fats	n/a	n/a	n/a	1 478,5	8,7	n/a	n/a
Arms And Ammunition	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Articles Of Wood	n/a	0,1	179,4	562,1	141,5	88,9	0,7
Base Metals Equipment	n/a	169,4	5 081,2	24 291,8	383,3	89 109,3	4 731,1
Chemical Prod.	25 470,6	8 969,3	143 423,4	86 761,6	75 836,5	12 441,4	56 672,4
Electron., Electr., Equip.	0,0	208,4	58,5	1 367,0	40,2	132,2	32,5
Foodstuffs; Bever., Tobac.	76,5	8,4	1 605,3	8 819,8	1 235,8	8,6	404,0
Land, Air, Maritime Vehicles	0,4	1 105,4	14,5	3 920,9	331,6	n/a	1 658,8
Live Animals & Animal Prod.	2,0	n/a	1,5	104,8	n/a	3 945,6	10,1
Mineral Products	n/a	257,8	78,0	389 823,2	18 976,0	n/a	n/a
Miscel. Manufactured Art.	n/a	9,4	1,1	297,6	26,1	n/a	12,3
Plastics	n/a	269,2	349,6	6 154,1	635,9	522,6	4 241,5
Precious Stones & Metals	n/a	0,0	82,9	n/a	n/a	n/a	n/a
Pulp/Waste Wood, Paper	147,2	52,4	814,5	714,3	204,1	19,4	342,5
Skins, Leather	n/a	0,0	18,2	1,2	0,1	315,4	0,0
Stone, Cement, Ceramic	n/a	21,0	54,1	11 386,6	1 070,9	n/a	108,0
Textile Accessories	n/a	0,0	0,0	51,3	45,2	0,0	n/a
Textiles and Textile Art.	598,7	146,3	40 367,8	2 722,1	439,2	33 373,6	2 990,7
Various Instr. and Apparatus	n/a	0,7	3,6	0,1	0,0	0,0	0,0
Vegetable Products	n/a	20 352,7	3 888,3	75 154,4	452,3	7 671,0	5 862,4
Works Of Art	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports	**26 295,4**	**31 570,2**	**196 021,8**	**613 611,4**	**99 827,5**	**147 628,1**	**77 067,1**

Source: Computation based on Eurostat and UN Comtrade databases

Based on above observations, it can be assumed that:

- Uzbekistan is an important value-added generator in Central Asia. A considerable share of Uzbek trade (over 80%) is in non-bulk commodities;
- key trade partners of Uzbekistan – Russia, China and Mongolia, Pacific region – are partly outside of TRACECA. In the TRACECA region Kazakhstan is one of the most significant trade partners (about 10% in total trade exchange), but this trade, most probably, flows along a North-South corridor;
- Uzbek trade with European and TRACECA countries represents up to 26% of the country total trade. Most of these goods are partially or completely containerizable and can serve as a basis for future LOGMOS projects in the region;
- potential trade of Uzbekistan with Europe and TRACECA is close to balance. In 2010 exports exceeded 668 th tons and imports almost reached 685 th tons (excluding Kazakhstan, for which bulk goods dominated the trade).

6.2 Intermodal Maritime Based Transport Challenges

LOGMOS aiming at developing seamless door-to-door intermodal services, all components of the transport chain may be considered as possible segments of LOGMOS projects, depending on their relevance for potential LOGMOS trade flows.

Port interfaces for operations, services, procedures etc. between land and sea are among the most critical points.

6.2.1 Port System and Maritime Links

Free Industrial Economic Zone and Multimodal Hub "Navoi"

It was created on December 2, 2008.

The FIEZ "Navoi" is located in an area of 564 hectares near the city of Navoi, one the main industrial cities of Uzbekistan and about 100 and 175 km far from Samarkand and Bukhara respectively, both big cities and industrial centers of Uzbekistan.

A special legal statute is governing the territory of FIEZ, covering taxes and currency matters and Customs regime, simplified order of entry , stay and leavingof physical persons and legal entities, licensing for business activity for non-residents. Widely preferential tariffs are applied for taxes, Customs and other compulsory payments. All measures are implemented for a period of 30 years with a right for prolongation.

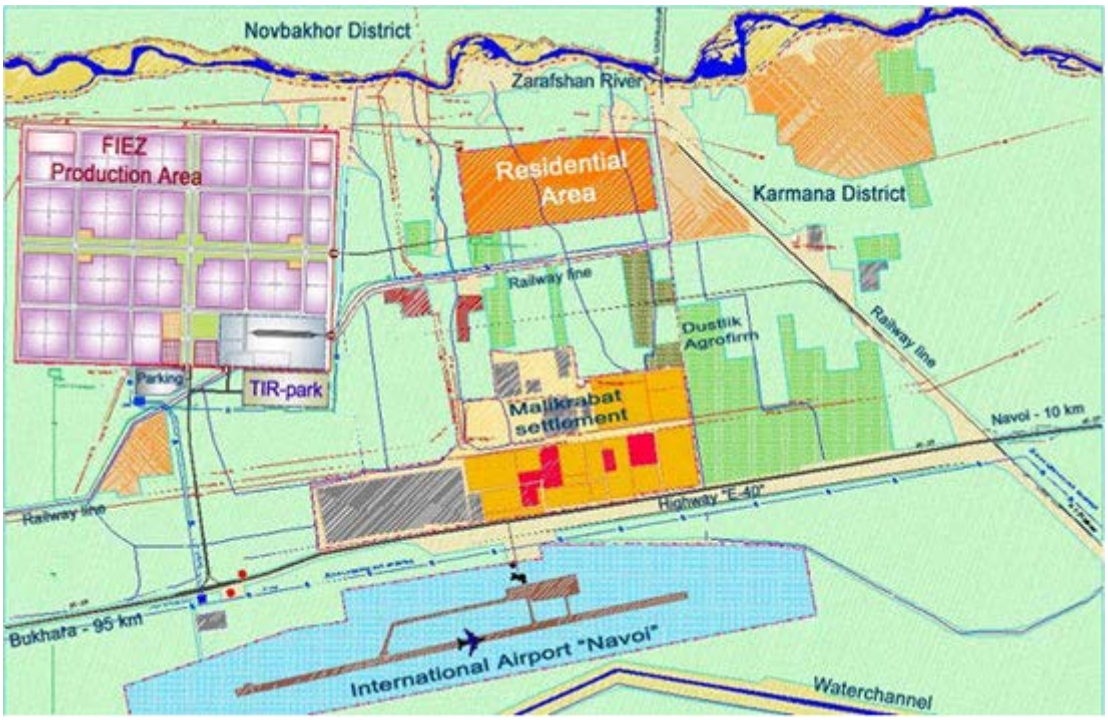
Land plots are leased free or at minimal renting charges against investment obligations.

Though the industrial priorities are identified in respective governmental decisions (high-tech, electronics, pharmacy, etc.) it remains unclear which type of goods and services are actually manufactured/produced inside the zone and the identity of the investors and manufacturers is equally unclear. It looks more like a regular step taken within the frame of the country's overall import substitution policy.

To ensure a maximal access to multimodal transport, the Navoi FIEZ is located just near an international airport, the E-40 Motorway and an important railway line.

The geographical location of Navoi, just in the middle of the Eurasian Continent favors the effective use of air transport corridors. The distance between South East Asia and Europe via Navoi is 1000 km less than via Dubai (UAE), the flying time is 1.5 hours shorter and the economy of the fuel is 15 tons for a cargo Jumo B-747.

Figure 7: Navoi ILC

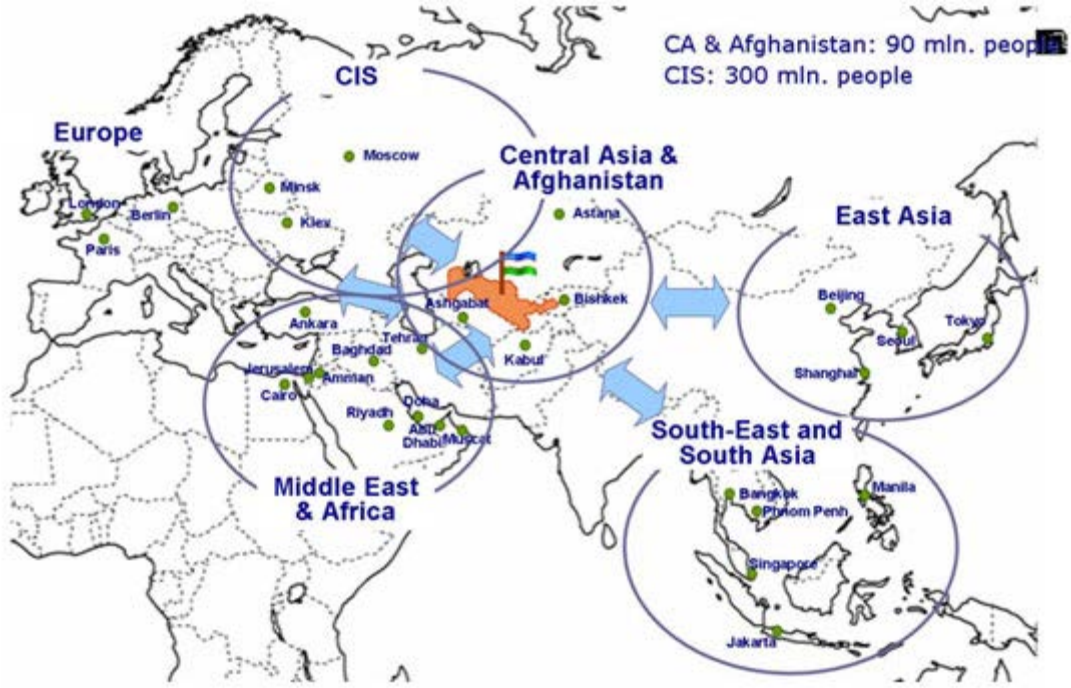


These facts constituted the reasons for the long term agreement between Uzbekistan and Korean Air to create an international transport hub at Navoi Airport.

The E-40 Motorway is close to the FIEZ. This is the shortest road way between Europe and China. This motorway between China and Europe is 1000 km shorter than the one running through the Chinese – Russian border and the driving/travelling expenses are 800 $ less per truck.

The railway gives the opportunity to reach the markets of Central Asia, CIS States, Europe, Middle East and Persian Gulf.

Figure 8: Main regional markets reachable from Navoi ILC



Container trains move from Tashkent to Teheran in 7 days and from Tashkent via Teheran to Istanbul in 10 days. All regional rail tracks leading to ports of Turkey and Iran in the South and to ports of Black and Baltic Seas in the North pass through Navoi. The shortest railway connection between China and Europe also runs through Navoi. The Guzar – Baysun - Kumkurgan railway line (9.8 km of the railway line "Termez-Khairaton" were built with a 2 M Euros grant of the EU) allows the shortest transit to Afghanistan, Pakistan and India.

The FIEZ is connected to E-40 Motorway by dual-dual road (2 km) and international railway (4.7 km). There are 26 km of roads inside the FIEZ providing a direct access to the manufacturing facilities is available. Two 5 hectares TIR parking are available alongside the road of the cargo terminal.

380 hectares are reserved for industrial enterprises and 14 hectares for administration, Customs clearing, certificates of conformance, country of origin, banking and other services.

The logistics of the FIEZ is mainly provided by the international intermodal cargo hub of the Navoi Airport. Since August 2008 Korean Air is flying Seoul - Navoi – Milan weekly and Uzbekistan Airways (jointly with Russian Moscovia air company) Navoi – Tashkent – Moscow.

The land transit potential is also prospective. The railway represents the most efficient / safest solution for NATO's Northern Distribution Network and the E-40 Motorway holds a great potential for the cargo flow between Europe and China via the border-crossing point at Dostyk (Druzhba), Kazakhstan.

Figure 9: Location of Navoi ILC at the centre of international railways corridor

International Logistic Centre of Tashkent

The logistics services providing company “Uzvneshtrans” is in charge of the construction of the logistic center in Tashkent that is due for completion at the beginning of 2012.

The ILC Tashkent will provide full range of services for handling, storage, Customs clearance and transportation including on “door-to-door” terms.

The general parameters of the Project are:

- A total area of 184000 sq m on which the following infrastructure will be located:
- 4 closed warehouses
- 2 container areas
- 3 parking places for cars and 4 parking places for trucks
- A fire station
- A storage place for handling equipment
- Water pump and energy stations
- Railway connections

The ILC is situated in the Sergeli district of Tashkent City which is considered optimal as beside availability of transport communications, the potential of the district itself is significant as it is well positioned for serving both Tashkent city and Tashkent region.

In the surroundings there is an industrial zone where big enterprises are actively involved into export and import operations.

Free areas are available for establishment of new enterprises and construction of new buildings.

The ILC is well connected: the railway station Serglei is only 2 km away the Tashkent main ring road is 3 km far, Tashkent International Airport is at 7 km and the railway station Keles on the Northern border with Kazakhstan is distant by only 43 km.

The main facilities available at the ILC Tashkent are:

- 10,8000 sq m consumer goods warehouse for storage on pallets,
- 7,200 sq m refrigerator with different chambers (from +10 to -40°C) for goods requiring temperature controlled storage (food, medicines, etc),
- a 10,800 sq m cotton warehouse for cotton products including yarn and other products in bales,
- a 10,800 sq m canopy warehouse with electric traveling crane of 10 tons capacity for long-length/oversized metal products, timber, special equipment, hard constructions and assemblies,
- a 11,200 sq m container area for handling and storage of full and empty containers of any type

The idea of building this ILC is not new. Uzvneshtrans was working on the project since 1997. At that time Dornier Consulting (Germany) was preparing a feasibility study. However at the conference of investors held in 2000, foreign and local companies did not display sufficient interest to pursue and invest into the project. Since that time the location has been changed, and the parameters of the new ILC Project are adequately smaller.

Logistics Center of Angren

It was created in 2009 and up to now is the biggest hub in Uzbekistan. Shareholders are “Uzavtosanoat” (Uzbekistan Auto Industry Company), “Uzbekistan Temir Yullari” (State Railway Company), “Uzbekneftegas” (Uzbekistan Oil & Gas National Company), “Uzkimesanoat” (Uzbekistan State Company of Chemical Industry), “Uzpromstroymaterialy” (Uzbekistan Construction Materials Company) and Association of Food and Butter-Oil Industry, each possessing 16.66% of the shares.

Operations at LC Angren started in 2010 relying on railway services provided by the railway station “Ablyk”. The main business carried out at the LC is handling and delivery of any type of cargo to/from Fergana Valley (enclave part of Uzbekistan) by trucks. 4.1 M tons of cargo were transported in 2010, mainly components for cars and and cars of General Motors Uzbekistan, oil products of Fergana Oil Refinery and chemical products from the factories located in the region.

The main reason for the creation of LC Angren is that the railway track between Fergana, Namangan and Andizhan regions and central parts of Uzbekistan passes the territory of Tajikistan where delays often occur.

Currently LC Angren has warehouses, switching area, combine terminal, Customs zone, a motel and all the related infrastructure. The total transit area of the cargo terminal spans over 8.6 hectares. It is equipped for handling up to 22 containers at the same time, storing of up to 60 containers and processing of up to 1500 tons at the warehouses.

During 2011 – 2012 30 M $ will be invested into enhancing the capacity of the LC. In the first stage 4.3 M $ will be invested into container facilities on 7.2 hectares to increase capacity of handling up to 51 thousand containers annually.

This is linked with the increase in car component deliveries to GM Uzbekistan. Under a contract with German - Uzbek JV MAN Auto – Uzbekistan, LC Angren is buying 440 container-carrying trucks.

In 2005 KFW Bank (Germany) and Kuwait Fund of Arab Economic Development invested 79.395 M $ in electrification of Tashkent – Angren railway. Uzbekistan Railway Administration quotes 50% discount to tariffs from any point of the country to “Ablyk” railway station.

Plans to construct a railway track Angren – Pap (Namangan region of Fergana Valley) face serious difficulties:

- Mountains divide Angren from the Fergana Valley so the investments will be considerable (about 2 bn $)
- Though ADB expressed readiness to look over investing into the project, the policy of Kyrgyzstan regarding the construction of the railway line that will connect Fergana Valley with China (Kashgar) remains unclear (China already completed its part of the works).

In all cases the import flow of containers (GM Uzbekistan imports) and presence of export containerizable cargo (yarn, cotton, dry fruits etc.) make LC Angren prospective as a container terminal for export and transit.

Termez River Port

The only international river port in Central Asia on the Amudarya river, Termez, provides access by river to Afghanistan.

Under special arrangements with UN structures (World Food Program) it has been used when the border between Uzbekistan and Afghanistan was closed.

In 2001 Uzbekistan allowed to ship non-military cargo through the port while the single rail bridge over Amudarya, also located in Termez, was still closed.

According to the US Department of Defense 98% of cargo for North Distribution Network to Afghanistan (NDN) passes Uzbekistan.

Monthly 16 th tons go by barges from Termez to Hayraton (Afghanistan) and the port infrastructure plays the role of a distribution center for railways shipments as well.

NDN gives good opportunities to TRACECA countries to increase trade with Afghanistan. The Agreement for Transit Trade concluded between Afghanistan and Pakistan in 2011 may open new corridor between TRACECA countries and South Asia.

Cotton Terminals

There are over 20 cotton terminals in Uzbekistan.

Their activity includes acceptance of cotton from gins[2], quantity and quality control, storage and shipment in accordance with seller/buyer's order depending upon the terms of contract.

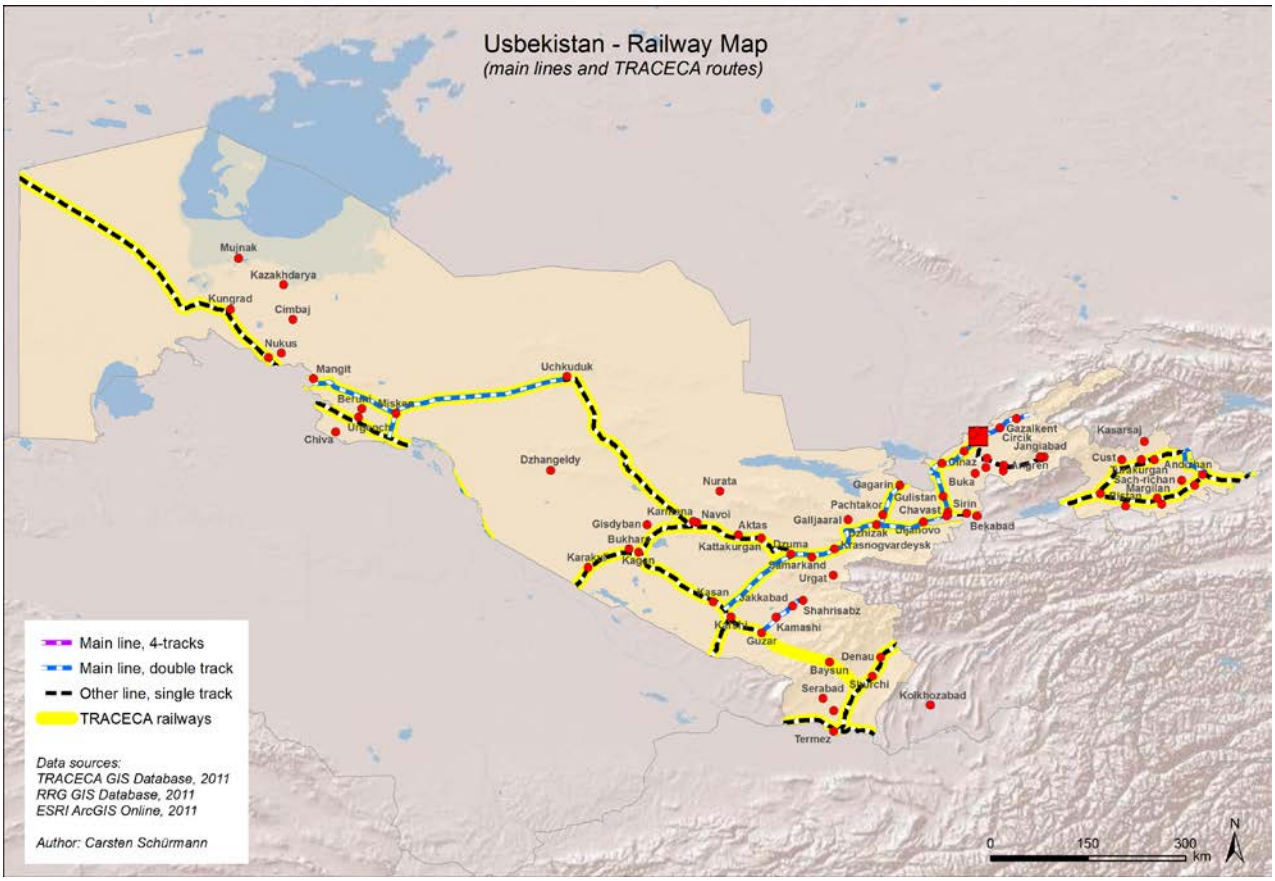
Though one of these terminals – Bukhara Transit Terminal - received grant from TRACECA equivalent to 2 M euros back in 1998 for acquiring handling equipment (including a Kalmar heavy forklift), the potential of these terminals for LOGMOS Project is poor (the grant was allocated under a general program of containerization of Uzbekistan exports and imports).

This is not related only with the limited area of each cotton terminal but also with the fact that shipping cotton in bulk in wagons remains still cheaper than in containers. And even when the buyer distinctly knows the destination of the cotton he would rather use trucks because of timing.

[2] A cotton gin (short for cotton engine) is a machine that quickly and easily separates cotton fibers from their seeds.

6.2.2 Inland Transport Mode: Railways

Figure 10: Uzbekistan Railway Map



Source: TRACECA (2011)

The State Joint Stock Railway Company “Uzbekistan Temir Yullari” (UTY) was founded in 1994 on the basis of the Central Asian Railways that was located on the territory of Uzbekistan. Local or foreign private rail freight forwarders are working only via appropriate divisions of UTY specializing in the transportation of all kinds of bulk (solid and liquid) or packed cargoes including containers.

UTY is subordinated to the Cabinet of Ministers of Uzbekistan and its general director is appointed by the President of the Country. It is headquartered in Tashkent and employs 55,000 people.

Since 1993 UTY is a member of OSJD. The company has close relations with the International Union of railways, ESCAP, TACIS, CAREC and is actively involved in all TRACECA programs.

There is no separation between freight and passenger transport operations and management of infrastructure, a step long ago requested by Donors.

Political considerations have led to an unclear priority setting and the involvement of UTY in the financing and implementation of public non-railway-related projects over the past years not always and fully conducted based on commercial prospects. This largely erased the benefits of substantial structural changes.

Freight transportation is still able to cross-subsidize the passenger traffic (tariffs are regulated by the government), while the maintenance of the network including its seldom used segments brings about a serious financial burden depriving UTY of flexibility in their tariff-policy.

However during the last 5 years growth reached 45% (38% for cargo and 52% for transit). 76.5 M tons of cargo were transported in 2010.

Continuous transit problems with Turkmenistan resulted in construction of Toshguzar – Boysun – Kumkurgon railway bypassing Turkmen territory (cost 2 bn $). The same issue with Tajikistan led to the creation of the Logistics Center in Angren with the purpose of decreasing the rail transit via Tajikistan to minimum and finally to stop it at all.

A legal framework for privatization is still under elaboration and in general as a state-owned company UTY has been exempted from privatization.

UTY intends to purchase 28 units of mainline electric, passenger and yard locomotives. Orders have been placed for the acquisition of 7 locomotives by the end of 2011, then for 3 - 9 units annually. Besides, 259 locomotives will be modernized and rehabilitated.

The total length of the 1520 mm Russian-gauge railway network is 6,020 km[3] and main railway lines represent 3,645 km. Railways have a share of 90% in the total cargo transportation of the country.

All Uzbekistan's 5 neighbors also have 1520 mm gauge lines. At cross-borders points, freight is transshipped to standard (1435mm) gauge when it passes to and from Belarus (Brest) and Ukraine (Chop) to Poland and Hungary, and to and from Sarakhs (Turkmenistan) to Iran as well as at Druzhba (Kazakhstan) to and from China.

640 km of new railway tracks were laid during the last 10 years, including Navoi, Uchkuduk, Nukus and Toshguzar, Boysun,Kumkurgon (37 bridges and tunnels). The tracks between Tashkent and Samarkand, Tashkent and Hodjikent and Tukimachi and Angren are electrified.

Railway density (length of the railway infrastructure in meters per 1,000 inhabitants) of Uzbekistan is the highest in Central Asia, one of the highest among other CIS countries and is close to Portugal or Turkey.

The goods transported today are mainly bulk commodities: cotton, yarn, wheat, construction materials. There is also a seizable volume of liquids (mainly oil and oil products), cars and auto components. Containers constitute less than 5% of transit volume.

Currently the importance of Uzbekistan railways is increasing due to the construction of the Hayraton – Mazari Sharif (Afghanistan) branch line. A 3-year contract was signed between UTY and the Afghan administration for its operation. This corridor is actively used by the US Department of Defense (North Distribution Network). There are about 150,000 containers entering Afghanistan annually: it may be a challenge for TRACECA/LOGMOS to figure out the logistics approach for returning them back.

The development of the railway system is regulated by the 5- year Program of "Speed-up of development of infrastructure, transport and communication construction in 2011 – 2015" and "Integrated program of development and modernization of railway industry in 2009 – 2013".

The renewal of an ageing and diminishing fleet of waggons and locos is one of UTY main challenges, especially container platforms (for which there is a big shortage).

2,550 cargo wagons will be produced and 7,110 wagons will be rehabilitated in 2011 – 2015. The wagon service life will be extended. All the construction and rehabiltration works are carried outby local plants and factories belonging to UTY.

Priorities of the development are:

- Construction of new railway;

[3] Out of which 600 km are electrified.

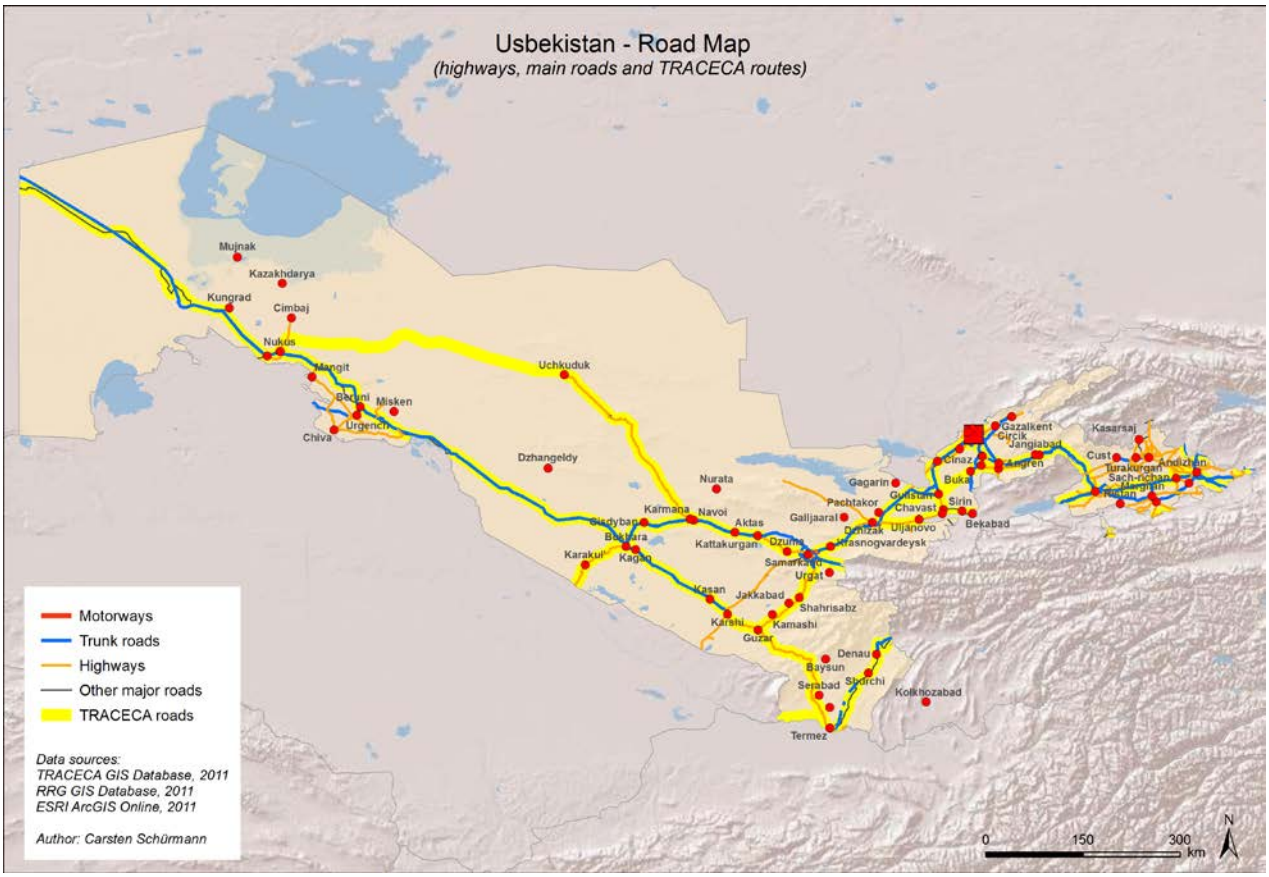
- Speed-up of cargo movement;
- Rehabilitation of 1,030 km of tracks until 2015, reconstruction of stations and junctions;
- Acquisition of 10 new electric locomotives (for freight trains) and rolling stock and modernization of current stock;
- Electrification of the network (in February 2012 ADB signed a 100 mln USD loan for the 140.8 km section from Marakand to Karshi4 and JICA a 30-year development assistance loan providing 221 M $ for the 325 km section from Karshi to Termez);
- Improvement of communication channels by fiber optic lines;
- Enhancement of containerized transportation;
- Overhaul of the railways, manufacture of the elements of crest structure, components, spare parts.

1.73 bn $ are to be invested into further development of the railway system until 2015. If and when Kyrgyzstan will adopt a clear and transparent position regarding the construction of the line that will connect Western China (Kashgar) with Fergana Valley (Osh in Kyrgyzstan and Andizhan in Uzbekistan) the rail traffic will be significantly simplified. The next step will be the construction of Angren – Pap track when the railway map of Uzbekistan will be logically finished and complete.

[4] ADB already granted 2 loans of 70 mln USD each for a Railway Rehabilitation Project in 1998-2000.

6.2.3 Inland Transport Mode: Roads

Figure 11: Uzbekistan Road Map



Source: TRACECA (2011)

Since 1993 the State Joint Stock Company “Uzavtodor” is responsible for the maintenance and development of auto roads in Uzbekistan and until 2003 the Republican Road Fund was a department of Uzavtodor. All other numerous road funds have been liquidated.

The company works under the Uzbek Government decree “Regulations of auto roads design, construction, maintain and reconstruction”. It has specialized road repair and maintenance enterprises as well as enterprises for bridge support.

Since October 3, 2007 the law of “Auto Roads” entered into force. Beside road classification and provisions for financing of construction, maintenance and rehabilitation of the roads depending to its class, it includes the legal regulation for turnpikes.

The network is composed of 3,626 km of international roads, 16,909 km of state roads and 21,995 km of local roads. There are 3,626 km of international roads, 16,909 km of state roads and 21,995 km of local roads. International roads are those that connect the capitals of the sovereign countries and those that are included into international road network under transnational agreements.

Table 8: List of International Motorways Passing through Uzbekistan

Number of the Motorway	Route	Distance (km)
M-34	Tashkent – Dushanbe (Tajikistan)	160
M-37	Samarkand – Ashgabat – Turkmenbashi (Turkmenistan)	365
M-39	Almaty (Kazakhstan) – Bishkek (Kyrgyzstan) – Tashkent – Termez	628
	Exit to Hayraton (Afghanistan)	30
	Total	658
M-41	Bishkek (Kyrgyzstan) – Dushanbe (Tajikistan) - Termez	191
A-373	Tashkent – Osh (Kyrgyzstan)	399
	Exit to Sirjali Airport	5
	Total	404
A-376	Kokand via Tajikistan to Jizzah	168
A-377	Samarkand – Ayniy (Tajikistan)	37
A-378	Samarkand – Karshi	138
A-379	Navoi – Uchkuduk	289
A-380	Guzar – Nukus – Beyneu (Kazakhstan)	1,204
A-381	Hujayli – Tashauz (Turkmenistan)	12
	Total of International Motorways	**3,626**

The 5-year Programme of “Speed-up of development of infrastructure, transport and communication construction in 2011 – 2015” has been adopted on December 21, 2010.

It contains provisions concerning not only the development of Uzbek National Motorway (such as 648 km of dual-dual carriage bituminous concrete roads) but also combinations with rail and air transport aiming at the creation of a united communication system.

In 2011 – 2015 the Programme foresees the construction and revamping of 2,306 km of motorways (1,410 dual-dual and 288 km dual carriage). 1,910 m of bridges and overpasses will be constructed at 7 points.

The Beyneu (Kazakhstan) – Kungrad – Bukhara – Navoi – Samarkand – Tashkent – Andizhan should be the most important axis for TRACECA as it will result in an effective road connection between Uzbekistan and Kyrgyzstan and further to Western China.

At whole 1008 km of this motorway will be constructed and reconstructed including all necessary modern road interchanges (2 bridges over Syrdarya River, overpasses, etc). 548 km of the motorway will be upgraded to 13 tons axle load (10 tons only now). The 190 km motorway Bukhara – Karshi – Guzar – Termez will not only improve road connections between

Kazakhstan, Kyrgyzstan and Uzbekistan as it is part of Almaty – Bishkek –Tashkent – Termez motorway, it will also create an effective road communication with Afghanistan.

Other projects include:

- 73 km of Samarkand – Guzar motorway;
- 100 km of Tashkent – Osh (Kyrgyzstan) motorway reconstruction; as it goes through Kamchik Pass two tunnels will be modernized.
- 22 km of Tashkent Ring Road;
- 16 km motorway and bridge over Amudarya River on Guzar – Bukhara – Nukus – Beyneu motorway.

The reasons for all these measures are as follows:

- The extremely rough continental climate with annual fluctuations in temperature of up to 80°C requires bituminous concrete paving;
- The continuous growth of national auto production (GM Uzbekistan passenger cars, Sam Auto (Isuzu) compact buses, JV MAN Auto – Uzbekistan trucks) and comparatively cheap fuel;
- The growth of the demand of neighboring countries in transit capacity of Uzbekistan in both directions, i.e. North - South to/from Persian Gulf and Afghanistan and East – West from/to Europe – Far East.

6.3 Trade and Transit Facilitation

6.3.1 General Presentation

- **Procedures and formalities** are among the **main barriers** that are hampering the development of Motorways of the Sea:
  - several **border points** must be crossed, mostly in ports but also on land routes e.g. along the central land corridors: minimum 2 points in a single / one sea service, up to 5 points in inter-seas services linking western Black Sea Countries and Eastern Caspian Sea Countries, and possibly more in the case of longer multicountry transit and transshipments trades;
  - several physical mode transfers, handling movements and intermediate storage are taking place along the sea based transport chains: commonly 3 transfers and minimum 6 handling plus 2 storage in the case of a single sea leg, and several more handling operations in the inter-seas services;
  - previous and ongoing experiences of Motorways of the Sea in other regions as well as the global worldwide transport system of containers have demonstrated that the resolution of difficulties in this field is an essential success factor.
- The procedural process in ports and at other border crossing point are **dominantly related to Trade Laws and Regulations**, but actors of the transport and transit chain are responsible for their fulfillment. A significant part of their activities is to deal with these complex issues and they are drawing the corresponding revenues out of their capacities.
  Relationships between institutions on one side, - Customs first, but also other Ministries and inspection bodies - operators and users on the other side, are affected by these functions which are mixing with the physical transit and transport operations.

- The **impacts of administrative and regulatory barriers** are generally more important when there is a sea leg since:
  - maritime transport and port transits require more formalities than land transport modes, including specific exchange of information, paper documentation etc. which are rightly perceived as a factor of complexity
  - this adds to the weakness of intermodal sea based transport, particularly when compared to the most simple unimodal road transport
  - transit times are increased if and when formalities and operations are mismatching, e.g. when the transport means of one mode is not coordinated with those of the next mode, which is a frequent situation between the maritime and railways legs in the TRACECA Region
  - costs are not only direct but also indirect, and not only formal but also informal, and unofficial transit levies and other transaction costs are adding to the sum of official tariffs, taxes and dues.
- **Common Weaknesses / barriers** have been identified in all LOGMOS project Countries to various extents and at different degrees. This diagnosis has been shared under the key word "Facilitation" by Country stakeholders and at bilateral and regional levels. Barriers in this field are referred to in the "W" (Weaknesses) list of the various SWOT analyses summarized in the following project documents:
  - Country profiles, as synthesized hereafter
  - Presentations for workshops and meetings
- Among the **solutions** discussed in the diagnosis phase, the following is a series of common **recommendations and targets** that are partly implemented, planned, or contemplated for the future LOGMOS projects and more generally for the development of intermodal transport including port / border crossing points:
  - I.T. systems and solutions electronic solutions / EDI for:
    - information (for users and operators)
    - declarations
    - pre-alert (for Customs and other)
    - duties, taxes and fees
  - One stop shop scheme and extension to Single Window System (SWS)
  - Risk management system and methods
  - IT interchange solutions between MoS port / communities
  - Tracking and Tracing (in coordination with operators)
  - Upgrading / redesigning border points layouts
  - Training (management, IT organization…)

6.3.2 SWOT Analysis

The following table summarizes key-findings for national SWOT analysis in trade and transit facilitation procedures that have been adopted in Uzbekistan.

Table 9: SWOT Analysis in Trade and Transit Facilitation Procedures

STRENGHTS	• A great amount of international corridors pass through the territory of Uzbekistan; • Clearly demonstrated political will for accelerated

	development and harmonization of the transport system and funding availability; • Proven experience in transportation alongside TRACECA corridor as during previous years million tons of cargo have been moved from and to Uzbeistan through the Caspian Sea and via the Caucasus to/from Poti, Batumi (Georgia) as well as through Turkmenistan and from and to the port of Lyan Yung Gan,China (formerly selected by car-manufacturer Daewoo) via Kazakhstan to Uzbekistan; • Border crossing points are comparatively well designed for high volume traffic flows, which may facilitate selectivity based on risk management by Customs and other border crossing agencies; • An USAID project for trade facilitation in Central Asia is going on; • Several Technical and Financial Assistance programs support the Government's policy: TACIS, American Chamber of Commerce, JICA.
WEAKNESSES (BARRIERS)	• Not WTO member (unclear perspectives of joining); • Continuous import substitution policy; • Absence of hard currency exchange (multiple exchange rates); • Prohibitive import duties; • Perceived uncertainties with commitment to Customs and trade facilitation reform and modernization; • Mistrust between Customs and trade facilitation agencies on one hand and private industry on the other hand because of integrity issues and lack of complete Customs and trade facilitation procedures; • Lack of electronic pre alert import and export declaration; • Lack of a facilitation "Producer-Responsibility-Organization".
OPPORTUNITIES	• Law on Transit under preparation; • Proposal to Afghan Government to join TRACECA agreements; • Joining the following conventions will bring the national norms and regulations in line with the international ones: o On temporary import regime from 26th June 1990 o On simplification and harmonization of Customs procedures from 18 May, 1973 o On simplification of formalities in trading goods from 25t March, 2003 o On joint transit procedure from 20 May, 1987. • Continue negotiating to join WTO, free imports; • Introduce Customs electronic import and transit pre-arrival notification; • Initiate "One Stop Shop" system at border crossing points reducing procedure delays;

	• Start developing a trade facilitation strategy; • Need for a Customs policy to reduce time to get goods to market and number of documents with: o Pilot electronic Single Window System (SWS) o Pilot integrated border management / combined border management projects o Pilot Customs low risk due diligence program.
THREATS	• Change of political balance in Afghanistan and further expansion of extremism in Central Asia; • Continued delays and costs owing to inconsistent Customs and other border crossing agency decisions and integrity issues; • Delays in implementation of transit / transshipment procedural improvements.