

Logistics Processes and Motorways of the Sea II

LOGMOS Master Plan – Annex 9.1

Country Profile

AZERBAIJAN

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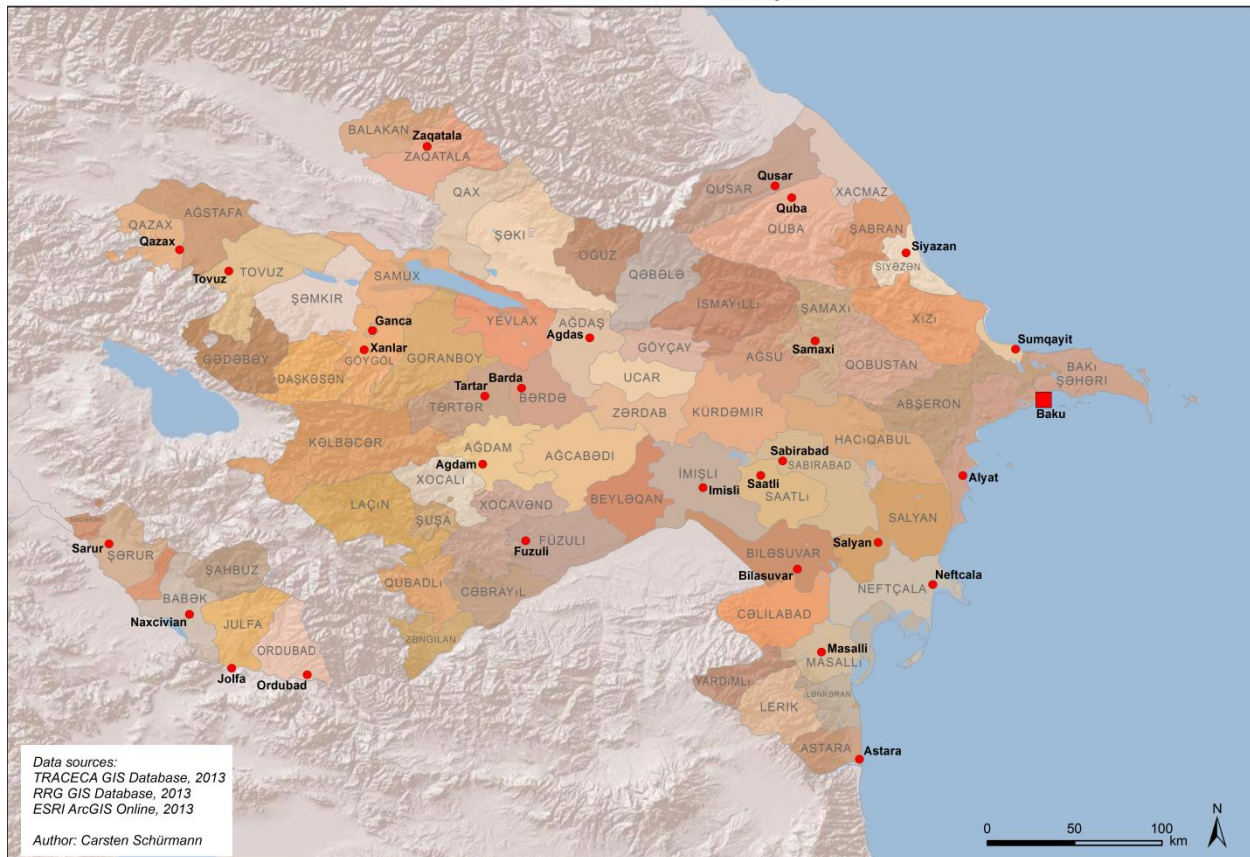
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Figure 1: General Map of Azerbaijan

Administrative division of Azerbaijan



Source: TRACECA (2013)



1 INTRODUCTION

Azerbaijan constitutes a bridge between Europe and Caucasus with Central Asia. It borders Russia in the North, Georgia and Armenia in the West, the Islamic Republic of Iran in the South and shares a common maritime border with Turkmenistan in the East. Azerbaijan therefore plays a key role in the development of international trade along the TRACECA corridor. It is also crossed by the North South corridor, which goes from Russia to Iran, and further to the Persian Gulf.

The transport network of Azerbaijan is composed of 2,929 km of rail and 24,981 km of roads. Baku, the capital city of Azerbaijan, is also the main airport and maritime hub of the country and of the Caspian Sea. In the near future, a new port will be operational at Alyat, 60 km South of Baku.

World trade and logistics performance indicators

In 2012, Azerbaijan was ranked 81st out of 132 countries in the Enabling Trade Index developed by the World Economic Forum (average score of 3.8/7). It occupied, in particular, the 57th position for access to market, the 107th position for border administration, the 69th position for transport and communications infrastructure and the 59th position for business environment.

In the World Bank logistics performance index of 2012, Azerbaijan was ranked 116th, compared to 89th in 2010.

TRACECA Framework

Azerbaijan has been an active member of TRACECA since the Brussels Conference in May 1993 where the TRACECA programme started.

The ten direct beneficiary countries under review by LOGMOS Project share a globally common legal and regulatory background for the transport sector, but also operate under different laws and rules from that reflect their respective contexts and policies.

International Conventions and regional or bilateral agreements complete the framework, and there are expected moves at both national and regional (TRACECA and other groups) levels.

Any legal issues related to the LOGMOS Project focus on transport laws and regulations as well as on the aforementioned national, international, regional and bilateral conventions and agreements that have a direct or indirect impact on surface transport modes, particularly maritime and intermodal transport¹.

The TRACECA programme started out as one of the components of the intergovernmental TACIS program. In September 1998, at the International Conference in Baku the Basic Multilateral Agreement (MLA) "TRACECA – Restoration of the Historic Silk Route" was signed. The agreement was the initiative of the European Commission, as well as the organisation and the active participation of Azerbaijan, as saw the development of the transport corridor Europe – Caucasus – Asia between the Head of State of 12 countries (Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkey, Ukraine and Uzbekistan).

After the Intergovernmental Committee and Permanent Secretariat of TRACECA were established in 2000, Azerbaijan set up a TRACECA National Commission headed by the deputy Prime Minister of the Government and the National Secretariat of TRACECA (Permanent Representative), headed by a national secretary.

¹ More detailed information can be found on the separate [legal report of the LOGMOS Master Plan](#)



Azerbaijani representatives take an active part in all conferences and working group's meetings organised by IGC TRACECA.



2 NATIONAL TRANSPORT POLICY

The National Strategy for the Development of Transport Sector in the Republic of Azerbaijan was defined in the mid-2000s with the assistance of ADB/CAREC. It is covering the period 2006-2015. The main priorities relevant to LOGMOS include:

- Legislative reforms aiming to:
 - separate the State regulatory function from operational activities,
 - transfer non-core transport activities to the competitive market/private operators,
 - enhance transport safety and address environmental issues through the implementation of world standards and introduction of new technologies.
- Construction and reconstruction of the network of highways linking different regions, cities and towns.
- Improvement of railway infrastructure and upgrading of handling equipment.
- Construction of a new sea port with increased capacity in handling liquid cargo and containers.

Azerbaijan National Transport Policy is also carried out through membership in several international organisations, such as:

- CIS Council on Railway Transport, since 1992
- Economic Cooperation Organization (ECO), since 1992
- United Nations Economic and Social Commission for Europe and Asia (UNESCAP), since 1992
- Organization for the Black Sea Economic Cooperation (BSEC), since 1992
- TRACECA Program, since 1993
- United Nations Economic Commission for Europe (UNECE), since 1993
- International Road Transport Union (IRU), since 1993
- Organization for Cooperation of Railways (OSJD), since 1993
- Permanent International Association of Road Congresses (PIARC)
- International Maritime Organization (IMO), since 1995
- International Union of Railways (UIT), since 1995
- Organization for Democracy and Economic Development (GUAM), since 1997
- The European Conference of Ministers of Transport (ECMT), since 1998

Azerbaijan is member of the CAREC program, an ADB supported initiative established in 1997, which strives to encourage economic development and cooperation between its members in the Central Asia Region. The CAREC program mainly focuses on 4 priority areas: energy, trade facilitation, trade policy and transport. The CAREC international transport corridors aim to connect Central Asian landlocked countries to the global market. The route of CAREC corridor 2, in particular, links the Mediterranean Sea to East Asia through Azerbaijan, following the same East-West axis of the TRACECA corridor.



3 LEGAL ENVIRONMENT IN THE FIELD OF TRANSPORT

In the Republic of Azerbaijan the legal framework for the transport industry is defined in the national Law “On Transport” (approved on June 11, 1999), which provides the main outline for the development of all modes of transport.

Separate legal instruments are covered respectively by the following Laws:

- Law “On Road Transport” (01.04.2008)
- Law “On Road Traffic” (03.07.1998)
- Law “On Automobile Roads” (22.12.1999)
- Trade Shipping Code (22.06.2001)
- Law “On Railway Transport Activity” (being drafted)

The draft law on railway proposes an EU type railway structure creating separate companies to manage railway infrastructure and operate freight and passenger services. This may pave the way for the participation of the private sector in railway operations.

Azerbaijan has also signed 15 of the 57 International UNECE transport agreements and conventions:

- The European Agreement on Main International Traffic Arteries (AGR), 1985, which provides the international and technical framework for the development of a coherent road network in the UNECE region.
- Convention on Road Traffic, 1968, which aims to facilitate international road traffic and increase road safety through the adoption of uniform road traffic rules.
- Convention on Road Signs and Signals.
- European Agreement supplementing the Convention on Road Signs and Signals.
- Protocol on Road Markings, in addition to the European Agreement supplementing the Convention on Road Signs and Signals.
- Agreement concerning the Adoption of Uniform Technical Prescriptions for Wheeled Vehicles, Equipment and Parts which can be fitted and/or be used on Wheeled Vehicles and the Conditions for Reciprocal Recognition of Approvals Granted on the Basis of These Prescriptions.
- Agreement concerning the Establishing of Global Technical Regulations for Wheeled Vehicles, Equipment and Parts which can be fitted and/or be used on Wheeled Vehicles.
- European Agreement concerning the Work of Crews of Vehicles Engaged in International Road Transport (AETR), 1970, which aims to prevent drivers and the crew of commercial vehicles weighing more than 3.5 tonnes or those transporting more than nine people, engaged in international road transport, from driving excessive hours, as this increases the risk of serious road accidents and may create disparities in competition conditions.
- Convention on the Contract for the International Carriage of Goods by Road (CMR), 1956, which facilitates international road transport by providing a common transport contract, including a common consignment note and harmonised liability limits.
- Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), (1975), which establishes a procedure that permits the



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international carriage of goods by road vehicles or in containers from one Customs office of departure to a Customs office of arrival, through as many countries as necessary, without intermediate inspection of the goods carried and without the deposit of a financial guarantee at each border.

- Customs Convention on the Temporary Importation of Commercial Road Vehicles.
- Customs Convention on Containers (1972), which establishes standards for the construction of Containers, as well as an approval system, and provides a temporary import and repair for containers with minimum formalities.
- International Convention on the Harmonization of Frontier Controls of Goods (1982), which aims to facilitate border crossing in the international transport of goods through harmonisation and reduction in the number of requirements at border controls.
- European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR), Geneva.
- Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be Used for such Carriage (ATP).

Azerbaijan has established bilateral (see Table 1 below) and multilateral relations (see Table 2) with LOGMOS beneficiary countries in road, rail and maritime transport, and has also developed a strong cooperation in the Customs field.

Table 1: Bilateral Agreements with LOGMOS Beneficiary Countries

Countries	Transport issues				Customs
	Maritime	Road	Railway	General	
Armenia					
Bulgaria	On trading navigation 07.10.2004	On international road transport of passengers and goods 29.06.1995		On international combined cargo transport 07.10.2004	On cooperation in the field of customs 02.12.1999
Georgia	On trading navigation 08.03.1996	On international road transport 03.02.1993	On cooperation in the field of railway transport 14.06.2004		On general principles in the field of customs 03.02.1993
Kazakhstan	On trading navigation 10.06.1997	On international road transport 16.09.1996		On general principles of cooperation in the field of transport 24.02.1993	On cooperation on customs issues 03.02.1993
Kyrgyzstan				On general principles cooperation in the field of transport 25.02.1993	On cooperation and mutual assistance in customs issues 03.12.2004



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Moldova		On international road transport 27.11.1997			On cooperation and mutual assistance in customs issues 22.05.2006
Romania		On international road transport 27.03.1996			
Tajikistan		On international road transport 15.03.2007	On cooperation in the field of railway transport 15.03.2007		
Turkey	On maritime relations 16.12.2000	On international road transport 01.11.1992		On international combined transport 13.11.2013	
Turkmenistan	On trading navigation 18.03.1996	On international road transport 19.05.2008		On general principles of cooperation in the field of transport 16.10.1992 On international combined transport 19.05.2008	
Ukraine	On trading navigation 01.07.1999	On international road transport 01.07.1999	On cooperation in railway transport 24.03.1997	On international combined goods transport 07.09.2006	On cooperation on customs issues 24.03.1997
Uzbekistan		On international road transport 27.05.1996	On cooperation in the field of international railway communication 27.05.1996		On cooperation and mutual assistance in customs issues 27.05.1996

**Table 2: Multilateral Agreements with LOGMOS Beneficiary Countries**

Signatory countries	Title of the agreement	Place and date of signature
Azerbaijan, Georgia, Turkmenistan, Uzbekistan	On Coordination of the Activity of Railway Transport	Seraphs, 13.05.1996
Azerbaijan, Georgia, Turkmenistan, Uzbekistan	On Cooperation in the Area of Transit Transportation	Seraphs, 13.05.1996
Azerbaijan, Georgia, Turkey	On Coordination of the Activity for the realisation of the Railway Connection Baku – Tbilisi – Kars	Tbilisi, 07.02.2007
Azerbaijan, Georgia, Ukraine, Moldova	On International Multimodal Transport of Goods	Baku, 19.06.2007

Ferry connections are governed by a specific agreement between the Ministries of Transport of Azerbaijan and Turkmenistan that establishes the organisation of international rail ferry cargo transportation via ports of Baku and Turkmenbashi, exploitation of rolling stock and containers, and provides a record of volumes carried and estimation on their use (28.11.2008).

Ferry connections between Azerbaijan and Kazakhstan restarted in April 2009 with the signing of an intergovernmental agreement involving two important port authorities: CASPAR, and the national railway companies of both countries.

Under the assistance of the LOGMOS project, Azerbaijan, Georgia, Kazakhstan and Turkey signed a “Memorandum of Understanding on the principles of joint activity on the development of transport networks and organization of cargo transportation”, in Izmir on November 28th 2012.

The MoU paves the ground for the signature of an Intergovernmental Agreement on the “Silk-Wind block train project” and set the legal basis for its technical implementation.

The Silk Wind project aims to enhance the attractiveness and the transit function of the TRACECA transport corridor by creating a smooth and reliable route from Western China to Europe. Along the corridor it offers new infrastructure projects (construction of Beyneu - Zhezkazgan railway line in Kazakhstan, Baku – Tbilisi – Kars railway line, the New Port of Baku at Alyat and the Marmara railway tunnel in Istanbul) and simplified customs and border crossings through the preliminary information exchange system between customs authorities and railway operators².

² For a more detailed description of the Silk Wind Project, please refer to the [Annex 4 on MCA Project Fiches of the LOGMOS Progress Report III](#)



4 NATIONAL POLICY AND LEGISLATION IN TRADE AND TRANSIT

Customs issues are regulated by the new Customs Code approved by the Law of the Republic of Azerbaijan N°164 – IVQ (of 24.06.2011), which focuses on harmonisation with European Standards. It started operation on January 1st 2012. Customs issues are also regulated by the Law “On Customs Tariffs” N°1053 – 111 QD (of June 22th 2010), a number of orders from the President of Azerbaijan and decrees on taxes of export-import from the Cabinet of Ministries.

A framework document in the field of trade development and facilitation in Azerbaijan is the State Programme for the development of Customs System in the Republic of Azerbaijan over the period 2007-2011. The document outlines the application of automated measures in customs controls and clearance, approximation of international standards and widening the customs service infrastructure.

Azerbaijan is also a beneficiary country for the “South Caucasus Integrated Border Management” project funded by the European Union, which aims to introduce and enhance integrated border management systems in the three countries of the South Caucasus region – Armenia, Azerbaijan and Georgia. The total budget of the programme, launched in 2009 and completed at the end of 2012, amounted to EUR 6.3 M.

According to the project, Azerbaijan possesses functional operational customs procedures that are subject to effective ongoing revision and development under accepted international standards. Currently, the border control/check operational responsibilities in Azerbaijan are assumed by two main border management bodies: the State Border Service (SBS), a governmental law enforcement agency in charge of protecting the borders of the country, and the State Customs Committee (SCC), in charge of customs clearance for imports and exports, and regulation of all customs activities. The new Customs Code, which entered into force from the beginning of 2012, saw a revision of the SCC procedures.

President Decree “On the application of the “Single Window” principle during the inspection of goods and transport moving across the border points of the Republic of Azerbaijan” was approved on December 11th 2008. Azerbaijani Customs declare the system to be fully installed in both rail and road transport.

Customs have been applying new electronic features that considerably reduce the paperwork load and time loss. These features include bar-code assignment to each truck passing the Synyg Korpi/Red Bridge BCP. The introduction and compulsory use of Electronical/digital signature was signed in January 2013 according to one of the latest presidential decrees.

Azerbaijan is an observer to the WTO. The negotiations to obtain full-membership began in 1997 and have reached the last stage.



5 INVESTMENTS IN TRANSPORT AND LOGISTICS SECTOR IN AZERBAIJAN

The Country has been involved in 44 different TACIS technical assistance projects in the following fields: institutional, legal and administrative reform, private sector and economic development, development of infrastructure networks, changes in society, infrastructure networks, environment and rural economy.

European Commission investments for Azerbaijan in the framework of the TRACECA Program supported such projects as:

- Rehabilitation of the Caucasian Railways (1995-1996),
- Rehabilitation and construction of the Synyg Korpi/Red Bridge, which links the road networks of Georgia and Azerbaijan (1997-1998),
- Container Services Baku - Turkmenbashi (1998-1999),
- Cargo and Container Handling Equipment for the Cotton Export Logistics Centre Near Bukhara (Uzbekistan), and for the Seaports of Baku (Azerbaijan), Turkmenbashi (Turkmenistan), Poti (Georgia) and Ilyichevsk (Ukraine) (1998-2000),
- Rail Tank Wagon Cleaning Boilers in Baku (1999),
- Optical Cable System for Communication and Signalling for Railways of Azerbaijan and Georgia (2000-2002),
- Navigational aid equipment (2003),
- Oil tank wagons for Azerbaijan Railways (2002-2003).

Other investments in transport and logistics sector in Azerbaijan were possible thanks to the funding of IFIs such as the European Bank for Reconstruction and Development (EBRD), the European Union (EU) through the Neighbourhood Investment Facility (NIF), the World Bank (WB), the Asian Development bank (ADB) and the Islamic Development Bank (IsDB).

According to the WB, the objective of the USD 220 M Additional Financing (AF) for the Rail Trade and Transport Facilitation Project is to improve railway services in Azerbaijan, as well as the competitiveness, financial sustainability, operating and cost efficiency and capacity of the country's railways, particularly along the east-west transport corridor. The AF will finance expenditures associated with the increased cost of power conversion and signalling works along the East-West Main Line, together with additional activities under the institutional modernisation component. The AF will allow the government to cover a financing gap and complete the power conversion and installation of new signalling system at the East-West Main Line in support of track rehabilitation entirely financed by the government.

A new USD 500 M ADB credit facility to improve the roads in Azerbaijan is intended to finance: a) construction of a total of approximately 63 km of road sections on the new Masalli – Shorsulu road, comprising (i) an approximately 30 km section between the cities of Masalli and Jalilabad (Project 1) and (ii) an approximately 33 km section between the cities of Jalilabad and Shorsulu (Project 2); b) project implementation support for construction supervision and project management covering planning, procurement, project implementation, financial management and safeguard compliance; c) capacity development for MoT comprising support for improving the sustainable management of the road network.

The development of transport infrastructure is one of the key tasks for the government and sustaining GDP growth and promoting trade with neighbouring countries is vital. The poor condition of the national road network poses a challenge. Approximately 56% of the main road network is in a poor state and needs urgent repair, whilst the majority of lower category roads



are in an extremely poor condition. The Second Road Network Development Program will promote regional cooperation and integration, and widen access to social and economic opportunities via improved road infrastructure in Azerbaijan.

In addition, the bank is negotiating with the government a draft of a railway investment programme. This TA project will amount to USD 1 M.

Table 3: IFI Supported Projects in Azerbaijan

Title of project	Year of approval	Sub-sector	Total project cost	IFI funding
Rail Trade and Transport Facilitation Project Additional Financing	2012	Rail	USD 220 M	USD 220 M (WB)
Roads Reconstruction and Upgrading Project	2012	Road	USD 500 M	USD 500 M (ADB)
Roads Reconstruction and Upgrading Project	2012	Road	USD 900 M	USD 750 M (EBRD) USD 4.47 M (EU through the NIF)
Third Highway Project	2010	Road	USD 356.2 M	USD 241.6 M (WB)
Road Network Development Program, Project 2	2008	Road	USD 55.4 M	USD 55.4 M (ADB)
Rail Trade and Transport Facilitation Project	2008	Rail	USD 795 M	USD 450 M (WB)
Road Network Development Program, Project 1	2007	Road	USD 249 M	USD 200 M (ADB)
Second Highway Project (+ two additional financings)	2006	Road	USD 1028.1 M	USD 675 M (WB)
East-West Highway Improvement Project	2005	Road	USD 93.2 M	USD 52 M (ADB), USD 10.4 M (IsDB), USD 11 M (Saudi Fund)
Baku to Samur	2005	Road	USD 110 M	USD 100 M (EBRD)
Silk Road Project	2004	Road	USD 46.6 M	USD 41 M (EBRD)
Highway Project	2001	Road	USD 48 M	USD 40 M (WB), USD 1.5 M (EU-TACIS)
Trans-Caucasian Rail link	1998	Rail	USD 36.1 M	USD 20.2 M (EBRD), USD 8 M (EU-TACIS)
Baku Port Development	1997	Maritime	EUR 20 M	EUR 16.2 M (EBRD)

6 STRATEGIC CHALLENGES

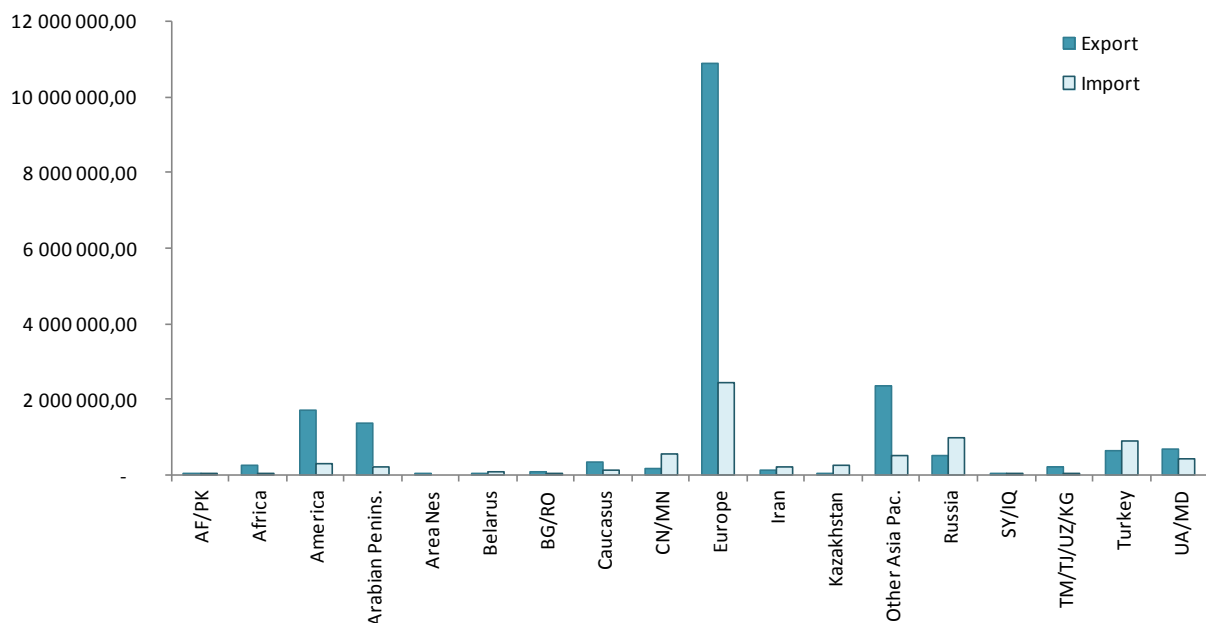
6.1 Market Challenges

6.1.1 National Trade: Exports and Imports

World Trade Partners

Azerbaijan generated roughly EUR 26 bn of international trade in 2010. However, the trade balance is extremely imbalanced in favour of exports. They amounted to EUR 19,407 bn, while imports reached EUR 7,024 bn, resulting in a commercial surplus of EUR 12,383 bn. Figure 2 shows that this unbalance is caused by exports of, almost exclusively, oil towards Europe (56% of global exports) but also, on a much minor scale, Asia (12.1%), America (8.9%) and the Arabian Peninsula (7%). In the reverse direction, Azerbaijan imports goods mainly from Europe (34.5%), Russia (14.3%) and Turkey (12.5%).

Figure 2: Azerbaijan Trade Partners, 2010, th EUR

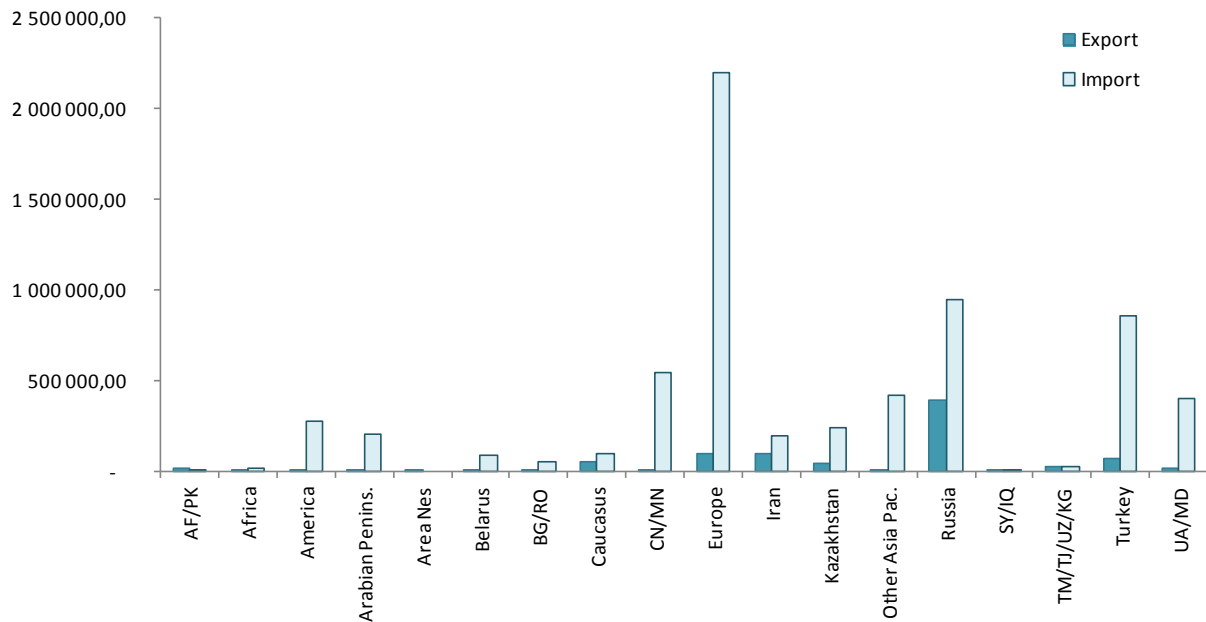


Source: Computation based on Eurostat and UN Comtrade databases

By analysing potential trade and focusing only on totally and partially containerizable goods, it appears that the reverse takes place and that imports dominate exports sevenfold. However, the financial value of trade is much lower: imports amount to EUR 6,551 M while exports are estimated to reach EUR 859 M. The influx of goods to Azerbaijan originates mostly from Europe (33.5%), Russia (14.5%), Turkey (13.1%) and China/Mongolia (8.3%). The share of potential trade with TRACECA countries is estimated at 25%, for both imports and exports.



Figure 3: Azerbaijan Trade Partners, Potential Trade, 2010, th EUR



Source: Computation based on Eurostat and UN Comtrade databases

Table 4: Distribution of Azerbaijan 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	0.26%	0.04%	0.20%	0.04%	1.44%	0.20%
Africa	1.30%	0.34%	1.04%	0.19%	0.48%	0.22%
America	8.92%	4.48%	7.74%	4.17%	0.46%	3.74%
Arabian Peninsula	7.02%	3.09%	5.98%	3.13%	1.34%	2.92%
Area Nes	0.00%	0.00%	0.00%	0.00%	0.04%	0.00%
Belarus	0.03%	1.33%	0.37%	1.35%	0.46%	1.25%
Bulgaria-Romania	0.41%	0.73%	0.49%	0.78%	0.49%	0.74%
Caucasus	1.70%	1.67%	1.69%	1.44%	5.92%	1.96%
China-Mongolia	0.83%	7.73%	2.67%	8.28%	1.23%	7.46%
Europe	56.04%	34.46%	50.30%	33.54%	11.10%	30.93%
Iran	0.58%	2.87%	1.18%	3.01%	11.24%	3.96%
Kazakhstan	0.29%	3.42%	1.12%	3.66%	5.22%	3.84%
KY-TJ-TM-UZ	1.05%	0.31%	0.85%	0.33%	3.46%	0.69%
Other Asia Pacific	12.10%	6.98%	10.74%	6.42%	0.39%	5.72%
Russia	2.60%	14.26%	5.69%	14.51%	45.93%	18.15%
Syria-Iraq	0.12%	0.01%	0.09%	0.01%	0.57%	0.08%
Turkey	3.20%	12.45%	5.66%	13.09%	7.99%	12.50%
Ukraine-Moldova	3.58%	5.85%	4.18%	6.07%	2.24%	5.62%
Total	100%	100%	100%	100%	100%	100%

Source: Computation based on Eurostat and UN Comtrade databases



In regards to the estimated tonnage of trade, the following points are noteworthy:

- Imports weigh about ten times more than exports, creating a very high imbalance in terms of containers loading.
- Origins of imports from TRACECA countries are almost equally west-bounded than east-bounded almost exclusively from Kazakhstan). Figure 4 below illustrates the repartition of these flows.
- Almost half the exports are directed towards Caucasus.

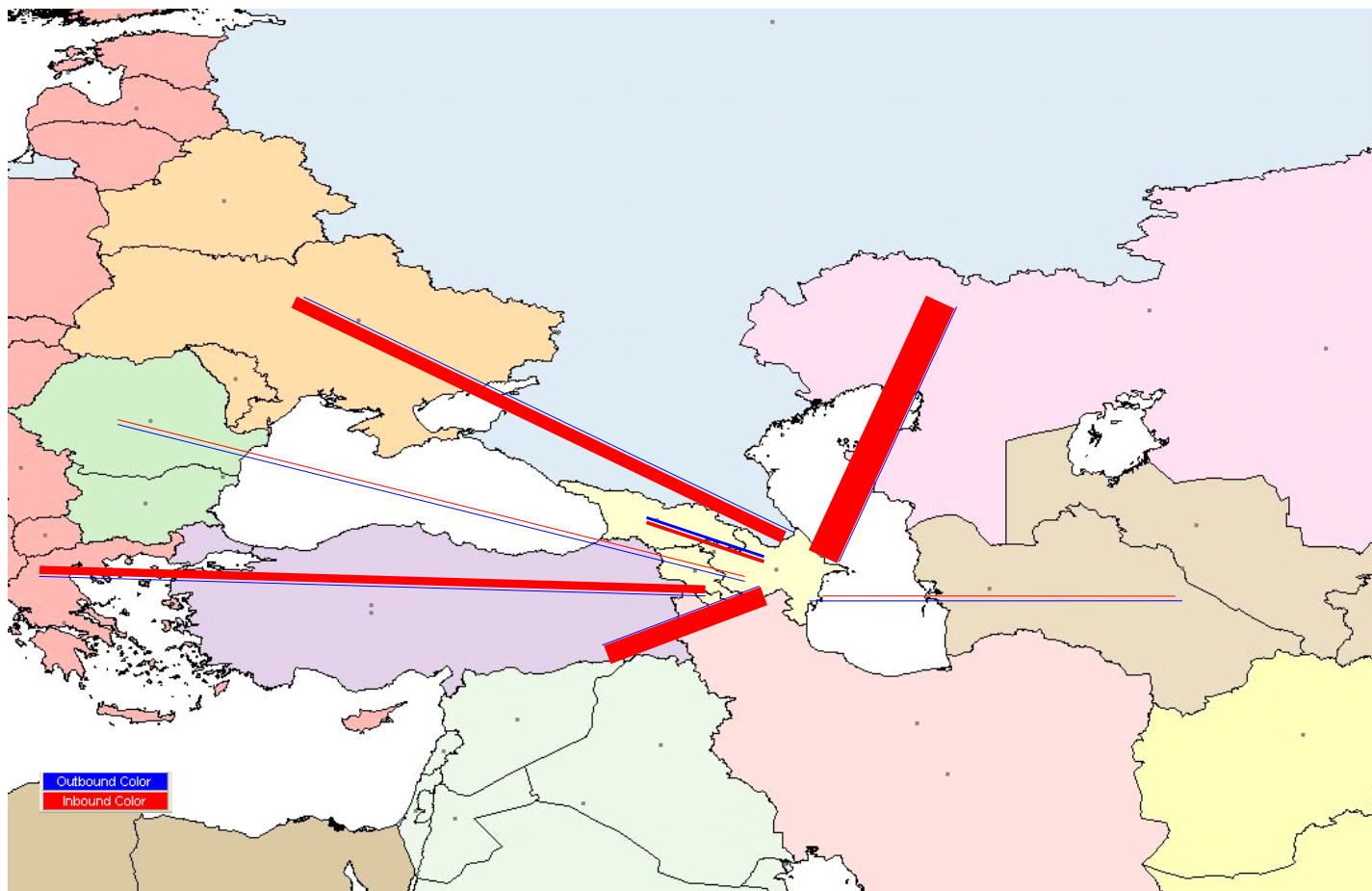
Table 5: Azerbaijan Potential Trade with TRACECA Countries and Europe, 2010, in tonnes and %

Zones	Tonnage		Share in trade with TRACECA countries and Europe	
	Export	Import	Export	Import
Bulgaria-Romania	3,024.6	22,664.7	1.21%	0.76%
Caucasus	114,321.3	136,176.1	45.69%	4.59%
Europe	19,657.6	318,211.1	7.86%	10.73%
Kazakhstan	32,296.3	1,224,357.1	12.91%	41.27%
KY-TJ-TM-UZ	38,047.7	22,100.5	15.21%	0.74%
Turkey	29,288.6	756,096.4	11.71%	25.48%
Ukraine-Moldova	13,569.3	487,317.7	5.42%	16.43%
Total	250,205.5	2,966,923.5	100%	100%

Source: Computation based on Eurostat and UN Comtrade databases



Figure 4: Azerbaijan Potential Trade with TRACECA Countries and Europe, 2010, in tonnes



Source: Computation based on Eurostat and UN Comtrade databases



6.1.2 Regional TRACECA Trade

Imports and exports of full or partly containerizable products from Azerbaijan with European and other TRACECA countries are presented in the following figures and tables.

The analysis of imported commodities from Europe and to the other TRACECA countries to Azerbaijan shows:

- The importance of mineral products imported from Turkey, Kazakhstan and Ukraine (mostly construction material), which could be partly containerised.
- The importance of base metal equipment imported from Ukraine and Turkey, mostly consisting of iron and steel (and articles thereof), which also could be partly containerised.
- The high proportion of vegetable products imported from Kazakhstan and Ukraine, in particular. Most of it consists of cereals, which could be partly containerised.
- The high variety of products imported from Europe, of which many have a high potential for containerisation.

The analysis of exported commodities from Azerbaijan to European and to the other TRACECA countries demonstrates:

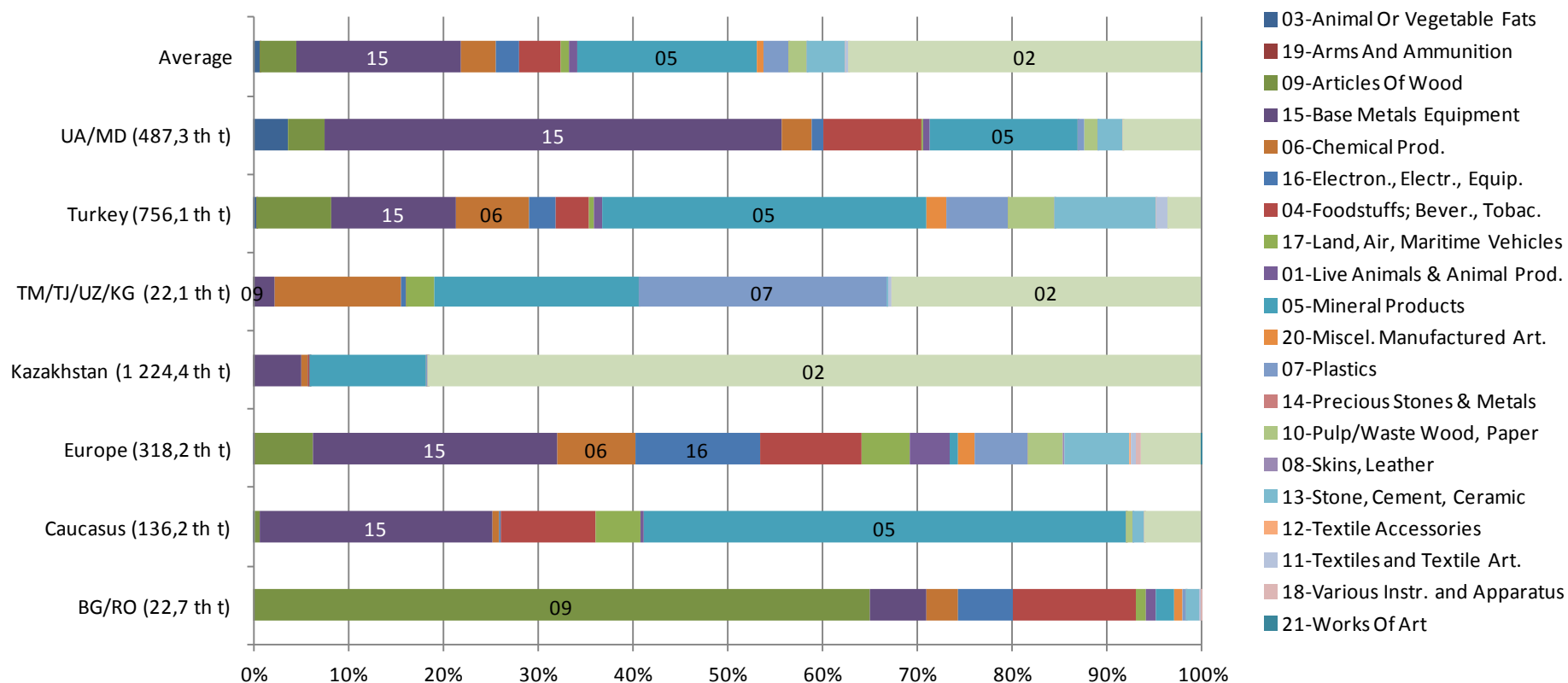
- The domination of "Foodstuff", consisting mostly of beverage, vegetable, fruits and tobacco, which represent a potential for containerisation, exported to South-East TRACECA countries, Caucasus and Kazakhstan.
- The proportionally high importance of mineral products destined to Caucasus, which is only very partly containerizable.

This analysis is shadowed by the lack of reported data for many commodities coming from West TRACECA (Romania and Bulgaria).



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



Source: Computation based on Eurostat and UN Comtrade databases



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

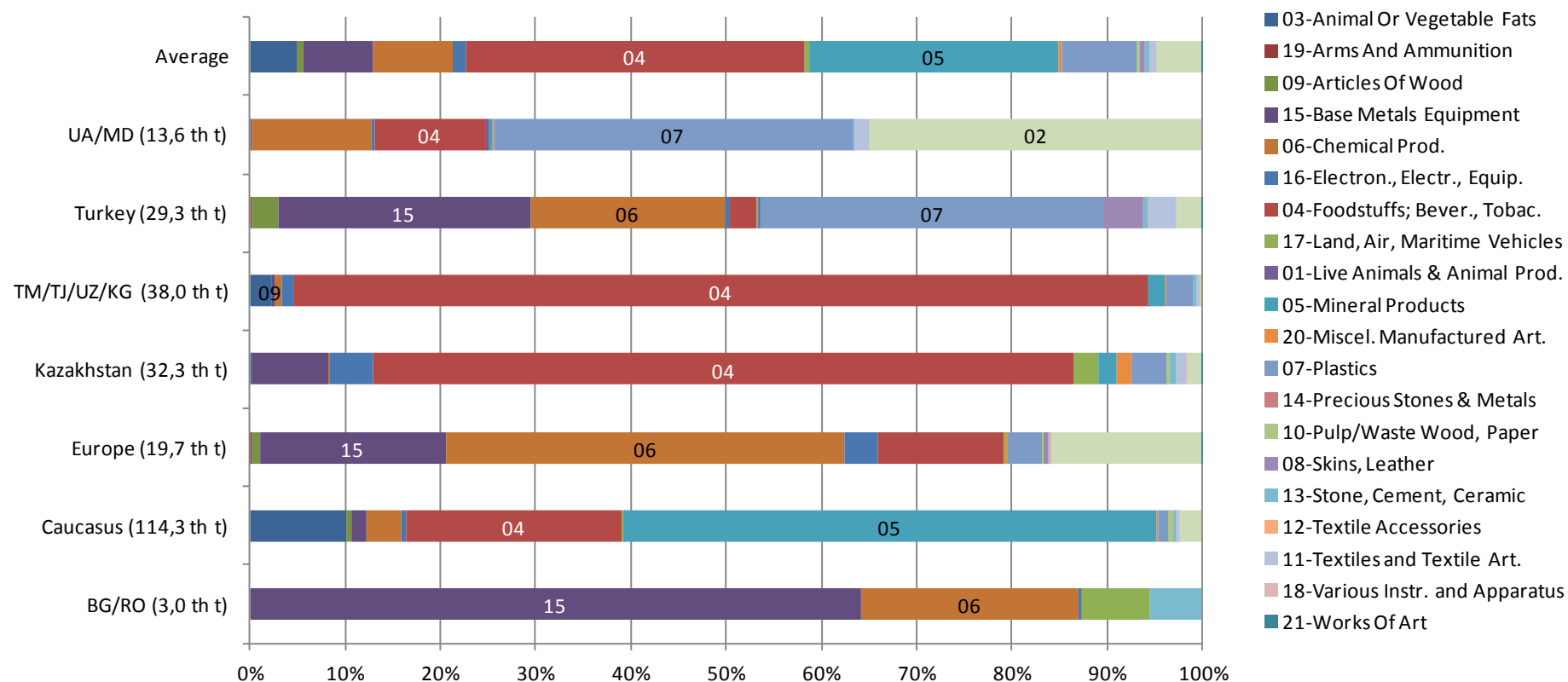
Commodity Groups	Bulgaria-Romania	Caucasus	Europe	Kazakhstan	KY-TJ-TM-UZ	Turkey	Ukraine-Moldova
Animal Or Vegetable Fats	n/a	39.62	307.50	n/a	n/a	2,646.37	17,477.57
Arms And Ammunition	n/a	n/a	6.00	n/a	n/a	36.52	n/a
Articles Of Wood	14,742.30	953.42	19,793.91	155.10	0.93	59,637.99	19,299.36
Base Metals Equipment	1,328.90	33,297.06	81,913.70	61,116.48	472.41	99,426.04	235,129.31
Chemical Prod.	776.80	946.15	26,340.53	9,261.11	2,980.92	57,591.61	14,889.61
Electron., Electr., Equip.	1,288.20	202.24	41,419.85	314.70	91.61	21,669.07	5,999.82
Foodstuffs; Bever., Tobac.	2,967.90	13,689.06	34,163.58	1,128.35	7.90	25,913.40	50,173.73
Land, Air, Maritime Vehicles	240.60	6,394.88	16,432.10	83.81	663.94	4,310.21	1,175.78
Live Animals & Animal Prod.	236.30	639.57	13,318.16	274.99	n/a	6,873.32	3,562.22
Mineral Products	412.60	69,092.99	2,878.70	151,149.68	4,749.13	259,120.11	75,656.89
Miscel. Manufactured Art.	199.40	44.83	5,549.18	33.07	2.48	14,833.97	718.77
Plastics	77.50	93.75	17,979.92	698.13	5,799.35	49,528.44	3,154.74
Precious Stones & Metals	n/a	0.01	9.60	0.01	n/a	11.65	0.00
Pulp/Waste Wood, Paper	0.90	919.71	11,776.96	4.54	1.83	36,840.11	6,495.55
Skins, Leather	0.30	1.92	69.40	1.16	0.03	16.02	0.33
Stone, Cement, Ceramic	344.20	1,536.83	22,256.37	23.11	15.27	81,672.76	12,993.40
Textile Accessories	0.30	3.53	177.46	8.31	n/a	156.25	9.95
Textiles and Textile Art.	31.00	35.07	1,909.50	21.28	69.47	8,162.30	243.58
Various Instr. and Apparatus	17.50	10.81	1,674.45	29.18	0.66	301.61	53.32
Vegetable Products	n/a	8,274.68	20,230.68	1,000,054.11	7,244.56	27,348.60	40,283.74
Works Of Art	0.00	n/a	3.50	0.00	n/a	0.02	n/a
Total imports	22,664.70	136,176.12	318,211.06	1,224,357.13	22,100.48	756,096.37	487,317.68

Source: Computation based on Eurostat and UN Comtrade databases



Logistics Processes and Motorways of the Sea II

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



Source: Computation based on Eurostat and UN Comtrade databases



Logistics Processes and Motorways of the Sea II

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

Commodity Groups	Bulgaria-Romania	Caucasus	Europe	Kazakhstan	KY-TJ-TM-UZ	Turkey	Ukraine-Moldova
Animal Or Vegetable Fats	n/a	11,503.86	5.80	53.36	834.19	n/a	n/a
Arms And Ammunition	n/a	n/a	22.00	n/a	n/a	30.22	n/a
Articles Of Wood	n/a	691.66	168.20	6.29	10.77	820.99	n/a
Base Metals Equipment	1,941.30	1,757.38	3,860.50	2,614.20	163.63	7,781.39	32.35
Chemical Prod.	690.30	4,271.24	8,227.01	21.35	233.28	5,988.54	1,702.47
Electron., Electr., Equip.	8.90	554.19	670.03	1,499.73	491.96	126.79	45.37
Foodstuffs; Bever., Tobac.	n/a	25,935.95	2,621.50	23,758.74	34,167.50	835.49	1,579.76
Land, Air, Maritime Vehicles	217.10	88.65	12.14	816.53	10.35	56.78	11.09
Live Animals & Animal Prod.	n/a	4.59	n/a	n/a	2.37	57.36	30.36
Mineral Products	n/a	64,008.33	15.90	649.13	649.21	49.17	65.94
Miscel. Manufactured Art.	n/a	283.85	18.00	491.80	65.23	4.09	1.53
Plastics	n/a	1,193.26	720.79	1,161.26	1,074.76	10,490.28	5,120.93
Precious Stones & Metals	n/a	0.03	2.70	n/a	0.00	0.69	n/a
Pulp/Waste Wood, Paper	n/a	566.45	31.90	138.31	2.41	7.03	0.68
Skins, Leather	n/a	16.00	110.30	0.00	n/a	1,224.87	0.10
Stone, Cement, Ceramic	167.00	418.39	1.90	232.85	97.72	144.16	12.00
Textile Accessories	n/a	28.69	0.00	0.00	0.06	0.04	n/a
Textiles and Textile Art.	n/a	346.39	2.62	340.97	145.97	898.34	230.38
Various Instr. and Apparatus	0,00	6.77	62.60	22.21	2.89	2.75	0.74
Vegetable Products	n/a	2,645.61	3,103.32	489.58	95.37	769.52	4,735.66
Works Of Art	n/a	0.00	0.40	0.01	0.00	0.12	n/a
Total exports	3,024.60	114,321.30	19,657.60	32,296.32	38,047.70	29,288.62	13,569.35

Source: Computation based on Eurostat and UN Comtrade databases



6.2 Intermodal Maritime Based Transport Challenges

LOGMOS aims to develop seamless door-to-door intermodal services, where 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 Links³

The Baku International Sea Trade Port (BISTP) is the major commercial sea port of Azerbaijan, with the new non-oil and gas dry cargo port on the Baku Bay (opened on March 16th 2010).

Other ports in the Baku area are mostly oil and gas terminals such as Sangachal and Dubendi.

The port is located downtown Baku in a land plot appointed to become a high-standing residential area. It should be replaced by a marina in the future.

BISTP consists of:

- 6 general/dry cargo berths at a depth of 7m, also used for container handling operations. A 1,600sqm open area facilitates the handling of up to 15,000 TEUs yearly. There are also 24,000sqm of open air storages and 10,000sqm of warehouses. The railway branch line is linked to the national railway network ensuring a full inter-modality of container transport through BISTP. The shore-handling of containers is performed with modern equipment such as Kalmar container forklifts and reachstackers provided under a previous TRACECA investment project and mafi-trailers.
- A Ro-Ro quay for ¾ stern ramp vessels.
- A double-bridge rail-ferry terminal. The second ferry bridge was rehabilitated in 2010, enhancing the handling capacity of the port for rail-ferried cargo from 5.5 Mt to 8 Mt per annum.

There is a railway freight station 2 km from the port which serves 5-9 pairs of trains per day (the design capacity was for 17-18 pairs of trains a day) or about 400 railcars per day. At present, the daily rail traffic at the port is about 150 railcars, well below the capacity of the port railway station. The 8 km long rail track to the port crosses one of Baku's main road arteries, thus trains are hauled back and forth only during the night.

The road access to Baku's port is in a good shape. However, a restriction is in force on the exit/entrance of trucks from/to the port in daylight hours during week and there is a complete ban over the weekend.

Table 8: Throughput of BISTP

	2008	2009	2010	2011	2012
Containers (number of units)		3,103	9,626	5,744	na
Containers (TEU)		3,172	16,521	9,233	8,491

³ More information and data concerning the national port system (including port maps and technical descriptions as well as the regular maritime services operated can be found in the separate [maritime report of the LOGMOS Master Plan](#).



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Wagons (number of units)	31,826	38,370	46,677	58,186	63,559
Rail-ferry MT	2.088	2.296	2.932	3.836	3.795
Dry and Ro-Ro cargo, MT	0.78	0.29	0.833	1.128	1.176

AZN 542 M were allocated initially for the construction of the new BISTP, at Alyat, 65 km to the south of Baku, which started in November 2010. The budget was revised in 2011 to AZN 750 M. An area of 400 ha has been reserved for this new hub, out of which 100 ha have been set aside for an International Logistics Centre. The port should be built in three phases and was initially planned to be completed by 2015-2016. The first phase of the project involves the construction of two ferry bridges, four cargo berths for receiving container vessels and general cargo/bulk carriers, one berth for Ro-Ro. It appears that the first phase will be operational by the end of 2015. The second phase of the project includes construction of four cargo and two ferry berths, the third, the construction of five additional cargo and two ferry berths. The port will be designed for vessels with tonnage of 13,500 tonnes, which is optimal for the Caspian Sea. Capacity will be 25 M tonnes and 1 M TEU. In March 2013 van Oord BV has completed the dredging work.

Recently, CASPAR, the historic Azerbaijan State Shipping Company recently established as a joint stock company "Azerbaijan Caspian Shipping Company", took the initiative to transfer its Ro-Ro operations at Zyk, a port located to the north of Baku sea port, which is under its control and which was officially commissioned in early 2012. The shipyards were also transferred from the city centre to this new facility.

There are several berths and a customs office available at Zyk. This port operates as the permanent maintenance and Ro-Ro operation base for CASPAR until Alyat starts operating.

Regular Shipping Services Calling at Baku

CASPAR is the sole TRACECA operator of regular shipping lines in the Caspian Sea. It provides non-scheduled but frequent daily journeys to/from Aktau and Turkmenbashi deploying a fleet of 7 X 28 wagons plus 4 x 52 wagon rail-ferries (which may alternatively accommodate 58 x 16 m trailers (and up to 200 pax if no IMO/oil products on board) and (also rather old and technically out-dated) 2 x 33 trailer capacity Ro-Ro). Today the 28 wagon vessel type is proving technically and commercially outdated as the traffic has dramatically increased; especially between Baku and Aktau (the tonnage carried on this route reportedly grew by 400% from January 2011 till July 2012 compared with the same period of 2010-2011). CASPAR, with the support of the State Budget and ADB, has therefore been placing orders with its long-standing partner, the Croatian Uljanik Shipyard, for 54-wagon rail-ferries under a "2+3" scheme. The 2 firm orders of 5,000 tonnes deadweight "Barda" and "Balaken" were delivered in September 2012. In the meantime the company is actively looking for additional tonnage available on the market.

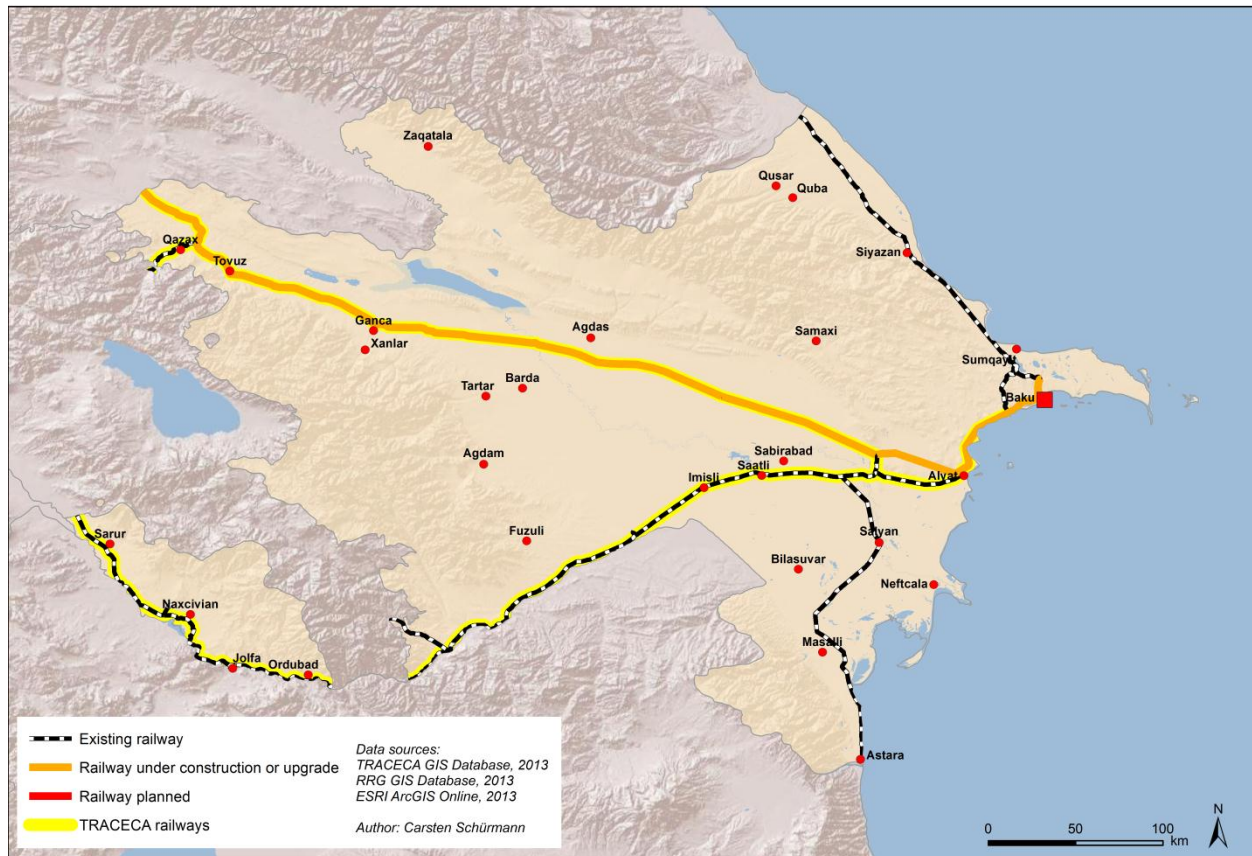
In addition, CASPAR provides journeys by non-specialised general cargo vessels from Baku to Aktau (and now Turkmenbashi) for the carriage of NATO humanitarian cargo moving in containers to Afghanistan. The withdrawal of NATO troops and materials from Afghanistan has now been announced by the US Government. Although the route to transport this cargo flow is still pending, the Azerbaijani authorities announced they could handle the transit of about 130,000 TEU.

The Ro-Ro traffic, for which there is a considerable market potential and a pressing market demand, is another challenge for CASPAR if it is to maintain its leading position in the Caspian Sea.

6.2.2 Inland Transport Mode: Railways⁴

Figure 7: Azerbaijan Railway Map

Railway network of Azerbaijan
(main railway lines and TRACECA routes)



Source: TRACECA (2013)

Azerbaijan is situated on the crossroad of major international traffic routes. Azerbaijan's geographical position makes it an important link between East and West and North and South between the Black and Caspian Seas (TRACECA regional Baku-Alyat-Ganja-Kazakhstan-Georgian Border corridor) and between Russia and Iran (North-South corridor via Baku).

"Azerbaijani Railways" (ADY) Ltd. comprises three operational divisions based in Baku, Ganja and Nakhichevan, overseen by ADY's general management in Baku. ADY, the sole main line rail operator in Azerbaijan is a closed joint-stock company (51% of the actions belong to the State), that operates under the direction of the Ministry of Transport. Separation of operations and infrastructure is under discussion (but not completed).

The total route length is 2,929.4 km built to the Russian standard gauge of 1520 mm gauge. 2,068 km form the current common carrier network, the remainder being industrial lines. 804.7 km are double tracked and 1,271.4 km are electrified on the overhead system at 3 kV DC.

⁴ More detailed information on the railway sector of Azerbaijan, figures and state of projects can be found in the separate [railway report of the LOGMOS Master Plan](#)



Table 9: Main Features of the Azerbaijani Railway Network

Total route length (km)	Gauge (mm)
2,929.4	1,520
Electrified lines (km)	Electrification system
1,271.4	3 kV DC

There are two main lines (both double-track and electrified) extending from Baku: the northern runs along the Caspian coast to Makhachkala in Russia, the other heads to Alyat before turning in land to serve Kurdamir, Yevlax and Agstafa before reaching Tbilisi in Georgia. From Baku, there are connections to train ferries operating to Aktau in Kazakhstan and Turkmenbashi in Turkmenistan.

A third line, only partially electrified, follows the Iranian border to Nakhichevan, from where there is a link to Iran at Julfa. This line is currently used only for passenger transportation.

A fourth line, part of the North-South corridor, reaches the Iranian border at Astara where it ends. A Russian-Iranian-Azerbaijani declaration was signed in Tehran in 2004 on the construction of the Qazvin-Rasht-Astara(Iran)-Astara(Azerbaijan) railway line, which aims to link Russia to Bandar Abbas and the Persian Gulf by rail through Azerbaijan. The line is currently under construction but the expected completion date, although uncertain, could be the end of 2015.

In addition, there are a number of small branch lines radiating from the main routes and an intensive rail network in the Apsheron peninsula surrounding Baku.

All ADY's main lines were designed to be operated at 80 km/h for freight and 100km/h for passenger services.

1,512 km of the railway routes are equipped with full automatic block signalling giving high route capacity on single and double line sections, while 479 km of the rest is equipped with semi-automatic block control by a centralised dispatcher with no intermediate signalling between passing loops. The railway has 176 stations, 2 of which, Bilajari and Shirvan, are big automated sorting stations.

12 stations have container depots with the necessary handling equipment for 20' containers, 3 stations – Keshle, Gandja and Khirdalan – can handle 40' containers.

Much of the ADY network has suffered from deferred investment. The railway network is over 30 years old and around 40% of the track length needs to be rehabilitated.

The locomotive fleet has been heavily used and is technically obsolete: about two thirds of the fleet requires replacement and modernisation. In general, the main railway assets are about 60% life-expired. ADY now plans to buy 100 new passenger carriages as well as 50 locomotives for cargo transport. A tender for supply of 12 multi-system electric locomotives for passenger transport was placed in August 2013. As Azerbaijan lacks maintenance facilities, rail cars are sent for refurbishment abroad. As of September 2013 ADY had received back 52 out of the 76 cars sent for overhaul to Ukraine and Russia.

In 2006, some 30% of the east-west corridor to Georgia was reported as in need of improvement. World Bank studies resulted in funding proposals that would give priority to the modernisation of this route, along with investments in traction fleet modernisation. The objective is to lower this percentage to 5% by the end of 2013. In June 2013, 250 km of rail lines had already been rehabilitated.

Freight Volume Handled by ADY in 2003 – 2012 is shown below:



Table 10: Freight Volume Carried by ADY from 2005 to 2012, in tonnes per annum

	2005	2006	2007	2008	2009	2010	2011	2012
Internal	7,333.5	n/a	n/a	n/a	n/a	3,600	4,251	5,517
Import	5,755.7	n/a	n/a	n/a	n/a	5,700	6,075	6,007
Export	6,104.7	n/a	n/a	n/a	n/a	4,870	5,987	5,899
Transit	7,327.7	n/a	n/a	n/a	n/a	8,200	7,607	7,533
Total	26,201.6	29,687.0	28,007.3	27,391.6	20,700	22,300	23,920	24,956

Much of the volume of the rail traffic is represented by crude oil and petroleum products, for which the rail remains the most significant transportation mode (11.4 M tonnes in 2011). However the transportation of other goods by rail started to increase and oil traffic which represented 75% of all traffic in 2007 accounted for only 57% in 2011⁵.

The growth in transport of steel products, cement, foodstuffs and chemicals in particular has had a major impact on the overall carryings. Much of this cargo is imported into Azerbaijan by rail from Georgia and Russia.

The following tables show the total railway daily traffics in 2009 from and towards the country.

Table 11: Railway Daily Traffic in Azerbaijan

To Azerbaijan	Trains/day	Wagons/day	Load wagons/day	Empty wagons/day
Russia	6	322	270	52
Georgia	13	653	210	443
Turkey	-	-	-	3
Total	19	975	480	495

From Azerbaijan	Trains/day	Wagons/day	Load wagons/day	Empty wagons/day
Russia	4	232	27	205
Georgia	20	675	665	10
Turkey	1	28	26	2
Total	25	935	718	217

Source: ADY, for a normal day

The east-west line between Baku and Tbilisi carries most of the traffic (about 35 train pairs per day), with the line north from Baku to the Russian border carrying the second highest (about 10 trains per day).

According to the Azerbaijani Ministry of Transport, AZN 163.8 M were invested into the development of railway transport in 2012. The main ongoing or planned transport projects in Azerbaijan connected to the railway system are the following was:

⁵ Source: Implementation Status and Results of World Bank Project "Rail Trade and Transport Facilitation".

- The relocation of Baku Port in Alyat and the construction of a logistics centre in the Station of Alyat.

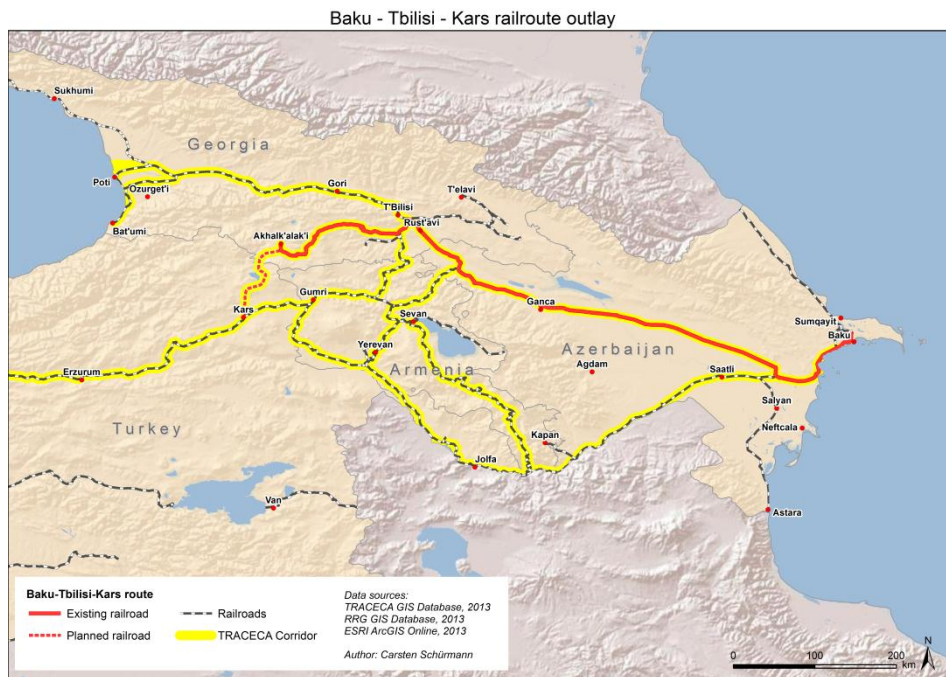
Alyat is 65 km south of Baku, on the Caspian Sea where TRACECA and North-South corridor intersect the main railway to Georgia and the railway from Russia to Iran via Baku, Lenkoran and Astara, which cross at Alyat Station. The distance from the port to the main railway network will be less than 5 km. The new port will help improve the intermodality of container transport on the TRACECA corridor and will also contribute to the development of new logistics services, which will increase the attractiveness of the TRACECA route and reduce travel time and costs.

Ongoing and planned rail projects

- The Baku-Tbilisi-Kars Railway Project.

In total 105 kilometres of new line is being built between Kars and Akhalkalaki, with 75 within Turkey and 30 km in Georgia. The existing line from Akhalkalaki to Tbilisi and Baku is being modernised.

Figure 8: Baku-Tbilisi-Kars Railway Project



A multi-lateral accord to build the link was signed by the three countries in February 2007.

For the construction of the railroad on Georgian territory, Azerbaijan is providing a USD 775 M loan including a first tranche of USD 200 M repayable in 25 years, with an annual interest rate of only 1%. The completion of the construction is expected by the end of 2013/beginning of 2014.

- State Programme for the railway transport system 2010 – 2014.

The Government of Azerbaijan has set up a plan under the Presidential decree of July 6, 2010 for the “State Programme for the Development of the Railway Transport System 2010-2014”. The overall budget is USD 1.5 bn, out of which the World Bank approved a USD 450 M financing in 2008 under an IBRD loan with a 23-year maturity including an eight year grace period. This became effective in March, 2010. In 2011 an additional EUR 215 M loan was provided by the Czech Republic Export Credit agency for the purchase of railway equipment from Czech manufactures. In 2013, the WB approved a USD 220 M additional loan to cover the



increased financing need for power conversion and signalling contracts and also extended the project closing date to the end of 2017.

The WB's main component of the project is the rehabilitation of the East-West Main Line Baku-Boyuk Kesik on about 240 km out of the 317 km of line in the government programme. Rehabilitation works were achieved in June 2013.

The characteristics of the line are the following:

1. It is about 503 km long and double track (with the exception of 1 bridge with single track in Poylu), electrified and equipped with an automatic block system.
2. The maximum speed is 80 km/h.
3. Maximum axle load 23 t.
4. In the stations there are electrical switches with the exception of 3 stations with manual switches.
5. The length of section between stations (station – to – station block) can vary from 8.6 km up to 14.2 km
6. Present capacity of the line is 45 pairs of trains / day
7. Present traffic :
 - 20 pairs/day international freight train (out of which only 3-10 wagons come from Russia).
 - 1 pair/day international passenger train.
 - 10-12 pairs day local freight train.
 - 5 pairs/day local passenger train.

The State programme, within the WB Project, foresees the rehabilitation of the line to increase speed and capacity.

Tracks and bridges will be reconstructed, the electrification system will be converted from 3.3 kV DC to 25 kV AC and the signalling equipment will be upgraded. The speed will be 160 km/h and the travel time from Baku to the border will be reduced by half (7-8 hours from the present 14-16 hours). After the rehabilitation a capacity of 60 pairs of trains is expected.

The project includes the rehabilitation/renewal of critical assets (track, locomotives, catenary, power supply, signalling).

Technically, it encompasses:

- The conversion of the corridor power supply from 3.3 kV Direct Current to 25 kV 50 Hertz Alternating Current (AC). The conversion of power supply from 3.3 kV DC to 25 kV AC will take place under a turnkey design, supply and installation contract,
- The modification and upgrading of the signalling system, through the purchase of necessary parts will occur through International Competitive Bidding (ICB) and installation by ADY.
- The purchase of about 50 locomotives.
- The purchase of 200 new container platforms and the refurbishment of another 90.
- The tender for Technical assistance to ADY for project services related to power supply conversion, signalling upgrading along Baku-Boyuk-Kesik corridor and procurement of electric locomotives is ongoing.

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The modernisation component includes transforming ADY into a financially self-sustainable operation covering all its costs (including infrastructure maintenance and traction) from revenues, while improving its operational efficiency, improving the transparency of the railway sector by introducing International Financial Reporting Standards and profit centres (passenger/freight) and by separating on an accounting basis passenger service that could be self-sustained from others. The transformation of ADY is currently being implemented at a very satisfactory level.

One of the main goals of the project is to enable ADY to attract growing transit business through Azerbaijan, including for oil and oil products from neighbouring countries.

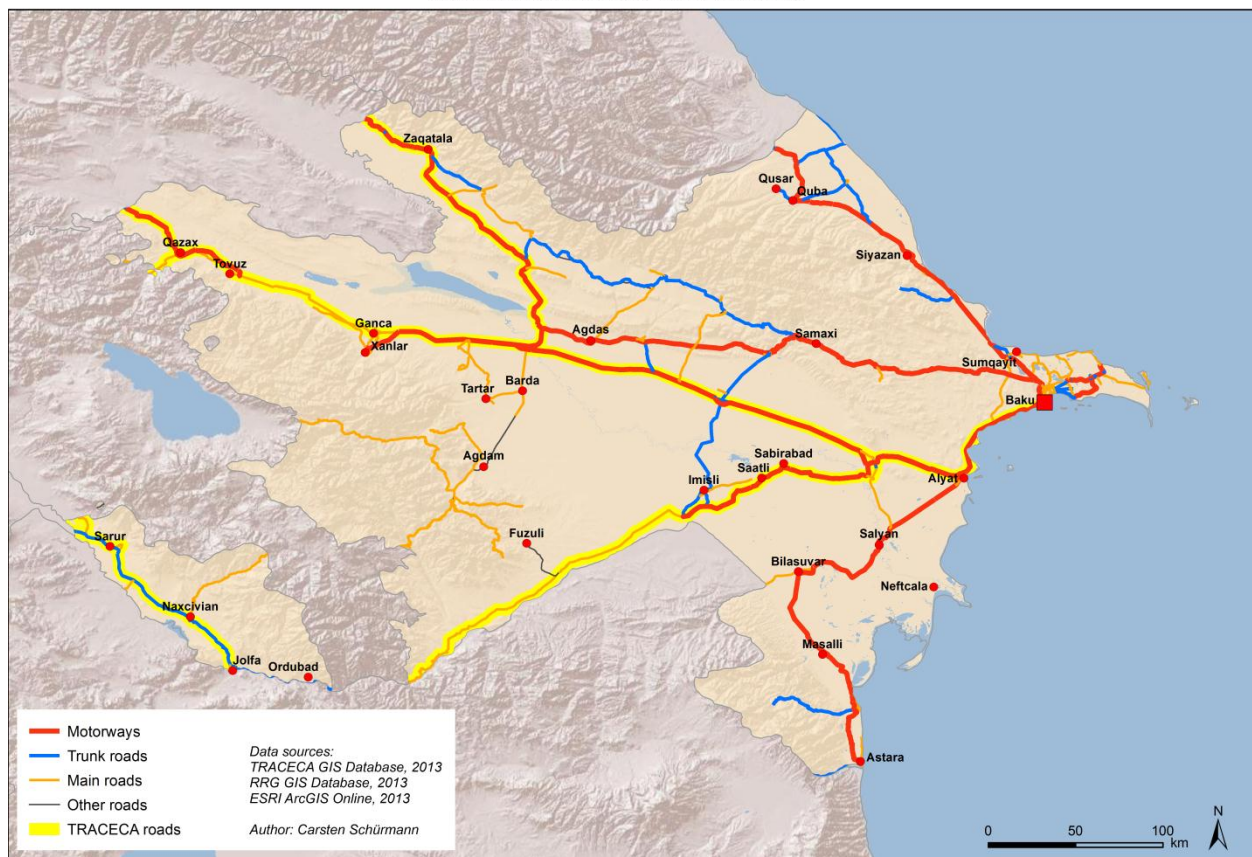
Lastly, it should reduce accidents and environmental hazards by improving track conditions and upgrading ADY's oil spill prevention and response capabilities.

Aside from the World Bank, Azerbaijan is also seeking to develop rail transport with ADB fundings. A new partnership strategy for the period 2013-2017 is to be signed between both parties in October 2013 and will include the financing of the transport sector (comprising the modernisation of railway transport, reconstruction of rail stations) through a Multi-tranche Financing Facility.

6.2.3 Inland Transport Mode: Roads⁶

Figure 9: Azerbaijan Road Map

Road network of Azerbaijan
(highways, main roads and TRACECA routes)



⁶ More detailed information on the road sector of Azerbaijan, figures and state of projects can be found in the separate [road report of the LOGMOS Master Plan](#).



Source: TRACECA (2013)

The road network is composed of 25,160 km of public roads, out of which 1,900 km are international roads. The network is sufficient to meet the needs of the country in terms of domestic (roads carry 28% of the total cargo traffic) and international transport (due to the geographical location of the country, 60% of the trucks crossing the border with Georgia are in transit). It spreads:

- from East to West: the 503 km section of the E60 road, Baku – Alat – Ganja – Kazakh – Gazakh/Georgian border, is the key artery between the Black and Caspian Seas along the TRACECA corridor,
- from North to South: the 521 km of E119 road, Russian (Daghestan) border/Guba – Baku – Astara /Iranian border,
- 631 km of E002 road runs Baku – Ali – Bayramly – Goris – Mindzhevan – Megri – Ordubad – Nakhichevan – Sadarak – Turkish border. However a 43 km section located on the territory of Armenia is closed so most traffic between both regions moves by air or by road via Iran.

The structure of public roads in Azerbaijan according to the road category is as follows:

- category I (4-lane roads with 15m carriageway) – 333 km,
- category II (7.5m carriageway) – 1,379 km,
- category III (7 m carriageway) – 5,958 km,
- category IV (6 m carriageway) – 16,071 km.

In Azerbaijan the highways total only to 1,900 km with some 333 km being four lane roads.

Driving hazards such as open manholes, debris, sinkholes, and potholes are common. Many roads are unlighted at night. A lot of drivers do not pay attention to traffic regulations, signals, lane markings (although they are often missing), pedestrians, or other drivers and often travel at very high speeds, whereby accidents are frequent and often serious (though decreasing, the fatality ratio is still 5 to 10 times higher than in Western European countries). Annual losses from road accidents are deemed to cost the country some USA 1.2 bn per year

The regulation for oversized and overweight transport is in line with the provisions of the international Agreement “On the vehicle weights and dimensions for international road transport in CIS countries”. The vehicle dimensions should not exceed 4m in height, 2.55m in width, 20m in length and the vehicle should not weigh more than 44 t. In other cases a 1-trip only special vehicle authorization is needed. An escort becomes compulsory in case the width, length and weight of the vehicle exceed 3.5 m, 30 m and 80 t. Vehicle axle load varies from 10 t for single-axle vehicles to 22 t for triple-axle vehicles. However enforcement of this regulation is weak and the limit is often exceeded. This entails damages to the pavement and a quick dilapidation of bridges.

After years of stagnation, the government addressed the issue and investments to improve the road infrastructure picked up, amounting to USD 3.8 bn from 2005 till 2009 only. ADB granted technical assistance and a multi-tranche loan which reached USD 1 bn in total in 2012. For the period 2012-2014 and 2013-2015, the annual allocation of ADB to Azerbaijan will be USD 155 M. This, however, came late and proves insufficient to cope with the rapid and very strong growth in the traffic (the road freight traffic has been multiplied by 2.2 from 2000 to 2008. It amounted 11,000 tonne-km in 2011 and is expected to reach 13,000 tonne-km in 2015). According to the Transport Development program for 2006-2015, 3,578 km of republican roads and 5,928 km of local roads should be constructed or re-constructed. The government's has declared its intention is to have all highways meeting international standards by 2018-2020.



Reconstruction of the sections of the E60 TRACECA road Alat – Gadzhygabul –Kiurdamir, Udzhar –Evlakh and Giandzha – Gazakh sections are ongoing. Work has already begun on the Baku – Guba/Russian (Dagestan) border (118 km) section of the E119 as well as on the Byliasuvar –Iranian border segments while the construction of the Baku road by-pass (21.5 km) and Alat –Astara road section (243 km) is ongoing.

In June 2013, AZN 3 M from the President Alyev Reserve Fund was announced to be allocated to the construction of several highway sections in the Guba region around the city of Rustov.

Funding of Roads projects comes mainly from ADB “Road Reconstruction and Upgrading Project under the framework that was approved in 2012. This provided financing for the construction of a 4-lane highway on the sections Marsalli – Shorsulu (30 km) and, later in a second phase, Shorsulu – Jalilabad (33 km).

Other plans and projects include the construction of a bridge across Baku Bay (length 14 km) scheduled for 2014-2015. At present the feasibility study for the project has been concluded. The bridge should become a significant element of Baku’s ring road and will help to reduce traffic intensity in the centre of the capital. Many road infrastructure projects are also expected to appear in the Baku region as the city is preparing itself to host the inaugural edition of the European Olympic Games in 2015.

Through the Regional Roads Reconstruction Project, the EU is also supporting the rehabilitation of key regional roads which serve either as feeding routes to the key corridors or lead directly to key border crossing points with Georgia and Iran. The total cost of the project amounts EUR 681 M, including EUR 570 M from the EBRD and EUR 3.4 M from the EU through the NIF. The first tranche of loans out of three will be used to finance relevant sections of the R18 road, the Mingachevir-Bahramtapa road⁷.

Road engineering from design to maintenance is still based on technical and economic principles dating back to Soviet times. These are no longer adapted to meet the needs and requirements of a modern, free-market economy.

Although a considerable number of international agreements have been ratified and laws and regulations passed with respect to road transport, the implementation remains a weak point and control procedures still have to be worked out. As in many other TRACECA countries, the Azerbaijani Government needs to address simultaneously the issues of the economic status and vocational education of the responsible staff.

Until recently road transport users reported numerous and bureaucratic issues and obstacles created by public or recently privatised agencies contributing to the creation of local, rent-seeking monopolies, reducing competitiveness, increasing transit costs and extending delivery times. Ex ante “facilitation payments” used to represent over 50% of the total transport cost. It seems, however, this situation has been changing dramatically in the right direction since the beginning of 2011.

Road traffic to Central Asia is extremely limited due to pending administrative issues (the visa regime with Turkmenistan for instance) and the poor quality of the maritime services from Baku to both Aktau and Turkmenbashi. It seems political will lacks in Kazakhstan as well as in Turkmenistan to tackle the operational difficulties faced by CASPAR, playing the lines, in the above-mentioned ports.

⁷ http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/documents/reduced_nif_five_year_report_for_web_en.pdf



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 storages 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 fulfilment. A significant part of their activities is to deal with these complex issues and ensure 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 add 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 summarised in the following project documents:
 - Country profiles, as synthesised 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 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 point layouts
 - Training (management, IT organisation...)

6.3.2 SWOT Analysis

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

Table 12: SWOT Analysis in Trade and Transit Facilitation Procedures

STRENGTHS	<ul style="list-style-type: none"> • Official Customs policy targeting best practices • One-Stop-Shop operating at some customs crossing points • ADB CAREC programme 2008-2017 Action Plan includes reducing border crossing times by 50% by 2012 and an extra 30% by 2017 compared with 2007
WEAKNESSES (BARRIERS)	<ul style="list-style-type: none"> • No trade facilitation strategy • Lack of uniform, consistent and clear application of customs and other border crossing laws and rules • Rail freight train delays on average 8 hours at border crossing points⁸ • Formalities for truck drivers' visas at border crossing points, bilateral truck quotas, Customs escorts, road checkpoints and unofficial payments • Number of controls and rules used for different economic regimes and Authorities • Lack of electronic Single Window System for export, import and transit using direct trader entry (DTE)

⁸ ADB Transport and Trade Logistics Azerbaijan, 2009, Table 3 Wagon Cycle Analysis for the Baku-Batumi Oil and Oil Products Services (July 2006), p.14.



OPPORTUNITIES	<ul style="list-style-type: none"> • New Customs Code, integrating EU norms, replacing the one adopted in 1997, already in force • Implementation of simplified and harmonised border crossing procedures transferring to the Customs Committee the responsibility of monitoring other agencies' duties (veterinary, phyto-sanitary, ecological, etc.) • Set-up of new procedures at the border (truck bar-code, risk-management based inspection) reducing truck crossing time from 108' to 15-20' • Set-up of fixed time spans for performing customs clearance at final destination • Enhanced use of IT for pre-and final export and import declarations • Planned introduction of digital signature and payments reducing paperwork and physical contact therefore bringing a significant decrease in corruption • Development of Single Window Systems using international good practice methods • Binding tariff agreements with regular and reliable Customs users • Customs low risk due diligence programme with compliant traders and intermediaries • Ongoing road infrastructure improvements (multiple versatile lanes, separated truck parking area) at main border crossing point (Synyg-Kerpyu) • Government's will join the Viking Train agreement
THREATS	<ul style="list-style-type: none"> • Delays in implementing transit improvements on TRACECA central corridor countries • Slow or late developments of consistent and coordinated (with other countries) facilitation measures • Lack of legal instruments enabling international Customs EDI with neighbouring countries



7 PILOT PROJECTS SELECTED FOR MOS I AND ILC PROJECTS

To address the existing challenges for MOS and ILC promotion, two TRACECA projects ran a pre-screening for potential pilot projects. The pre-screening was based on the multi criteria analysis of the proposed pilot, which helped to narrow down the pilot projects list.

The list of retained pilot included the following projects:

Table 13: Selected Pilot Projects in Azerbaijan

Pilot project	Service proposed	Countries involved directly	Concerned TRACECA project
CS1 Baku – Aktau	Improving existing rail / Ro-Ro / container intermodal transport	Azerbaijan Kazakhstan	MOS project
CS2 Baku – Turkmenbashi.	Improving existing rail / Ro-Ro / container intermodal transport	Azerbaijan Turkmenistan	MOS project
ILC at the Baku International Sea Trade Port, Alyat	Cargo Facilities, warehousing, customs terminal and other logistics related investment	Azerbaijan	ILC project
Container block train Poti - Tbilisi - Baku	New container rail transport services	Georgia Azerbaijan	MOS project

As a result of the first phase of MOS I and ILC implementation, for the 4 above mentioned pilot projects, feasibility studies were elaborated. Short summaries of these projects can be found [here](#).