

The World Bank
Trade Facilitation in the
Caucasus
Final Report

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Abbreviations and Acronyms

AGFF	-	Association of Georgian Freight Forwarders
ASYCUDA	-	Automated System of Customs Data and Management
AZAL	-	Azerbaijan Airlines
CIF	-	'Cost, Insurance & Freight'
DFID	-	Department for International Development
EBRD	-	European Bank for Reconstruction and Development
ECMT	-	European Council of Ministers of Transport
FIATA	-	Federation International des Associations de Transitaires et Assimilées
FOB	-	'Free on board'
FSU	-	Former Soviet Union
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
ISO	-	International Standards Organisation
SDRG	-	State Department of Roads of Georgia
SRCC	-	State Road Construction Company of Azerbaijan
TEU	-	Twenty Foot Equivalent Unit
TRACECA	-	Transport Corridor Europe Caucasus Asia
USD	-	United States Dollar
WTO	-	World Trade Organisation

1. Summary and Conclusions

From 15 May to 2 June 2000 COWI conducted a mission to the three Caucasian republics of Azerbaijan, Georgia and Armenia, spending about one week in each country. The mission established an initial overview of trade facilitation issues and conducted an outline Trade Facilitation Audit for the region. The purpose of the mission was to prepare for possible progress towards the re-opening of borders in the region, in the event that a peace agreement is reached in Nagorno-Karabakh.

This chapter commences by summarising some of the most interesting facts, relating to the movement of a generic consignment in the Caucasus region, which emerged from the discussions with stakeholders during the mission.

Section 1.2 addresses what can be considered the key issue of the study; namely, whether, in the event of peace, the region would realise the maximum potential benefit, given the current institutional and operational context. A subsidiary issue is whether all the constituent countries in the region would benefit, or whether some would suffer some initial dis-benefits.

The final section of this chapter provides a summary of the key regional and national recommendations, which have been identified to try and ensure that the potential benefits of any settlement are not dissipated in the current institutional and operational mire. A more detailed breakdown of the provisional recommendations, by component and sub-component, together with an estimate of the required inputs, is provided in Appendix B.

1.1 A Summary of Key Facts

The mission identified a range of problems, which hamper international trade in the region and revealed an urgent need for trade facilitation. This need may be illustrated by some of the striking facts, which emerged during the course of the study. The last four can be, loosely, categorised as being related to the conflict in the region:

1. The endemic bureaucracy of the public sector requires organisations in the region to expand staff numbers to deal with the concomitant problems, an increase of 100% in one case;

2. The movement of any export consignment from Azerbaijan requires an *ex ante* ‘facilitation payment’ of between 500 - 1500 USD per consignment compartment;
3. The port of Baku is currently only utilising 13% of its total capacity;
4. Shadow, or illegal, imports into Georgia are estimated to amount to somewhere between 30-70% of the total domestic demand for some commodities;
5. On average, less than 1 lorry per day currently passes the Georgian – Armenian border at Sadakhlo;
6. On average, only 8 - 10 lorries per day currently pass the Azerbaijan – Georgian border at the Red Bridge border crossing, of which approximately 60% are transit traffic;
7. The total number of vehicles, crossing the Azerbaijan – Georgian border, at the Red Bridge station, is 70% down on the volume of three months ago;
8. The movement of a generic consignment from Baku to China, via the ‘Silk Road’, costs 10 USD per ton more than an equivalent journey via Russia and Kazakhstan;
9. The movement of a container from Baku to Poti costs 2,200 USD and takes approximately 3 - 5 days by road. The movement of a container from Bandar Abbas to Baku takes 10 - 12 days by road, and costs 700 – 800 USD;
10. The use of a lorry with Armenian licence plates costs 700 USD more, in official and unofficial payments, than an equivalent lorry with Georgian licence plates, for a similar trip between Yerevan and Poti;
11. Trade is currently taking place between both Turkey and Armenia, and Armenia and Azerbaijan, via Georgian intermediate addresses;
12. The current closure of the Turkish border requires all Armenian consignments to traverse Georgia to reach the Black Sea and Turkey. The expectation was that the price of transport would decrease by between 30-50%, or 450-750 USD for one TEU on a Poti - Yerevan trip, when the borders open; and
13. The first 700 kilometres of the 2200 kilometres between Yerevan and Moscow, accounts for 80% of the total cost of moving a consignment the whole way.

1.2 The Potential Impact of Peace

1.2.1 The potential benefits of peace

Indications from stakeholders

This sub-section provides a brief review of the expected benefits of peace, as reported by stakeholders in the study. The intention is not to provide a complete list of the long term, or synergistic, benefits of peace in the region, but merely to repeat

those indications of immediate benefit, provided by stakeholders, and, from that, assess the likely distribution of benefits in the short to medium term.

The prospective cost savings The re-opening of the borders will provide existing consignment movements with a number of alternative options, in terms of route and port of embarkation. The container terminals at some of the Turkish ports are larger, better serviced, and benefit from better access roads, with the added benefit, hopefully, of no ‘facilitation payments’. This is likely to result in a considerable reduction in transport costs, with one estimate, mentioned earlier, suggesting that the price of transport to, or from, Armenia, could decrease by between 30-50%.

It is likely that similar savings would also be realised by any transit traffic to, or from, Azerbaijan, which switches from the TRACECA corridor, to transiting Armenia, to gain outlets on the coast of Turkey.

Oil and gas It was noted earlier that lifting of the economic embargo, and the sale of Azeri oil and gas products to Armenia on the same terms as they currently sell to other countries, would lead to a cost reduction of 25%. A ‘back of the envelope’ estimate of the prospective saving, based on the current annual volume of 150,000 tons, and a total cost of USD 225 per ton, is approximately USD 85 million.

Scenario analysis The Armenian Ministry of Industry and Trade has undertaken some scenario analysis, examining the lifting of the economic embargo. The analysis assesses the prospective benefits of a number of scenarios: One scenario predicated the re-opening of one transit railway line, and estimates that total exports from Armenia would increase by 25%. A second scenario predicated the reopening of all four transit railway lines, and estimates that exports would increase by 100%. This suggests a potential benefit in the range of between USD 75 million – USD 300 million.

One concrete example of a realisable increase in benefits, following the opening of the borders, was provided by the product analysis of the spirit sector in Armenia, which reported that Central Asian markets are currently closed to Armenian producers, due to the difficulty of traversing Azerbaijan.

1.2.2 Will the benefits of peace be realised?

The immediate benefits The previous sub-section noted that reopening of the borders was likely to generate immediate benefits for the three countries of Armenia, Azerbaijan and Turkey, in the form of lower transport costs, and the opening of new markets.

However, it would appear that some of this immediate benefit will be generated by the transit traffic, which is currently traversing Georgia, avoiding the current difficulties and taking the new alternative routes and outlets. The obverse to these benefits, is the immediate impact on the revenues, both official and unofficial, that are currently collected in Georgia.

Will the benefits be realised? In the long run, a peace settlement will only generate more widespread and sustainable benefits, if the institutional and physical milieu is sufficiently supportive. The realisation of these potential benefits appears highly unlikely, at present, as the cur-

rent institutional and physical milieu is anything but supportive, and offers few incentives for new development.

The following bullet points summarise the main impediments to trade:

- The condition of the road infrastructure, comprising the TRACECA highway, is, at present, generally poor, with the surface displaying considerable cracking in many places. There are a number of locations where the surface has failed completely, with the final 20-30 kilometres of the Tbilisi - Yerevan road, to the north of the Georgian – Armenian border, representing the most prominent example;
- The principle border crossing stations varied markedly in terms of both the number of staff and the available facilities. However, even the better furnished appear to have little additional physical capacity to deal with any future increases in traffic volume, and are likely to be the source of recurrent and substantial delay;
- The condition of the rail infrastructure is also generally poor, with widespread speed restrictions, antiquated rolling stock, a lack of reliable shunting stock and a lack of essential maintenance. Current performance is also hampered by widespread use of antiquated tariffs, little apparent integration and limited institutional capacity;
- There are a number of instances where the domestic privatisation processes have, paradoxically, either created, or contributed to, the establishment of a local monopoly. In some cases, the resulting position is being utilised to reduce competition and increase costs – Baku Bina airport being one of the most prominent examples;
- ‘Rent-seeking’ behaviour on the part of public officials is an endemic problem across the three countries, varying only in nature and intensity;
- The public sector in the region can be characterised as extremely bureaucratic, where the rules are perceived to be changed in an arbitrary rule, and where the interpretation and application is perceived as rigid, and, occasionally, pernicious;
- There appears to be limited formal consultation between the public and private sectors in the area of trade facilitation across the three countries. However, this general statement obscures significant national differences, with Armenia proving an exception in some instances;
- The private sector representative bodies, including the domestic Chamber of Commerce and the local branch of FIATA, vary markedly in terms of their institutional capacity and resource base, across the three countries;
- There is little formal integration, or formal communication, between the respective national Customs Services in the three countries;

- There is a general problem in respect of the cost of credit and the availability of export credit guarantees across the three countries;
- The frequent interruptions in the power supply in Georgia, and to a lesser extent in Azerbaijan, disrupt production in key export sectors, they also disrupt transportation by rail for both domestic and transit traffic and significantly reduce the lifting capacity at Poti;
- The current procedures operated on the Armenian border are cumbersome and time-consuming, and do little to facilitate trade development; and
- The introduction of pre-shipment inspection in Georgia does not appear to have been successful, with widespread condemnation both of the process, and of the concomitant delays. The initiative also appears to have made little progress towards attaining the explicit objectives of reducing contraband, and increasing state revenue.

1.3 A summary of the recommendations

Regional Co-operation

Trade facilitation can be regarded as form of ‘externality’, where the decisions, or actions, of a first country can have a significant influence on the welfare of a second country, and where the latter has little, or no influence, on the original decisions. This externality can be positive or negative, depending on the precise relationship between the countries, and the nature of their respective regulations towards transit consignments crossing their territory.

It would appear in the Caucasus at present, that the ‘externality’ is primarily negative, with Georgia, by virtue of its geographical position, imposing significant additional costs on consignments travelling to, or from, the neighbouring countries. The current economic embargo means that Armenia is particularly disadvantaged in this respect.

The need for a regional approach

However, the obverse to the present level of additional cost, is the potential benefit, that could be realised if a regional approach was adopted. There appears to be a number of areas, where regional initiatives could be pursued that would provide benefits for all, and significantly increase the relative attractiveness of the region to the international investor. An example of such an approach is the Regional Trade and Transport Facilitation Program, currently being pursued by the World Bank in Southeast Europe.

The next three sub-sections detail the specific recommendations, both regionally, and in each of the three countries. Further information on the specific components, and sub-components, together with an estimate of their respective input requirements, together with current or planned contributions from other agencies, where known, are provided in the three tables in Appendix B. The cost estimates in the tables in the Appendix are only intended to be indicative, with the objective of providing a ‘ball-park’ estimate of the cost of the national programmes.

1.3.1 The Regional Recommendations

1. The customs facilities and border stations should be upgraded, covering both the physical, institutional and electronic infrastructure, to cope with the projected increases in traffic volume. This should cover the provision of all technical equipment necessary to facilitate the work of the station. (The detailed recommendations in the tables in Appendix B summarise needs, together with 'ball-park' cost estimates for each of the visited stations);
2. There is a need to assess the potential benefits of introducing and integrating computerisation into the customs and border crossing facilities, on an extended basis in the three countries. (One of the TACIS projects, detailed in Appendix E, will cover the harmonisation of procedures) One key element of the approach would involve the extension of the ASYCUDA system, across the three countries. The extension of this would provide a comprehensive system for handling manifests and customs declarations, accounting procedures, warehousing and import and export licences in the whole region. It would also generate reliable trade statistics, raise government revenue and allow the monitoring of a number of different functions to assess the efficiency of the domestic services;
3. There is a need to strengthen formal co-operation between the different national, and international, authorities at the border stations. One approach would be to designate a limited number of 'joint pilot projects', where the immediate objective would be to strengthen the integration between the different national and international agencies, with an ultimate objective of establishing a single jointly manned post;
4. There is a need to assess the benefits of harmonising the tax codes across the three countries, to try and ensure that the current anomalies, and concomitant distortions, are removed (The World Bank is progressing such a project under the Peace Initiative);
5. There is a need to review the institutional strengthening of the three national railways, in the fields of international integration, joint tariffs and international slot availability, undertaken as part of the TRACECA programme. The comments of a number of respondents suggest that there are still problems in these areas;
6. There is a need to assess the significance of the current cost of credit across the three countries, as an impediment to the development of trade, and investigate the potential contribution of micro-credit facilities in the region; and
7. The World Bank's standard guidelines on Trade and Transport Facilitation Audits indicate that an integral part of the process is the arranging of an open seminar/workshop, where feedback from stakeholders could be gathered, and the detailed recommendations could be amended accordingly. Whilst not understating the physical difficulties of gathering the *ex post* views of all the stakeholders in this study, it would probably prove to be a valuable contribution to the definition of specific improvements.

1.3.2 Azerbaijan

1. An assessment is needed for the necessary institutional and physical measures, and the feasibility, in economic, social and environmental terms, of establishing a free trade zone in Azerbaijan;
2. There is an immediate need to improve the technical and institutional lines of communication between the different public agencies, involved in certification and customs clearance;
3. There is an immediate need to define the legal base for the establishment of a customs warehouses in Azerbaijan, or more specifically to confirm the mechanism for the release of the licence, to allow interested parties to establish such a facility;
4. There is an immediate need to define the legal base for the issue of a licence for a customs broker in Azerbaijan;
5. There is an immediate need for the publication of a legally established customs code in Azerbaijan, where prospective amendments could be publicised in advance to allow users to adapt to new requirements;
6. There is a need to establish a credible independent grievance procedure, or 'Ombudsman', in Azerbaijan, to act as a 'mediator' in disputes between private organisations and the different public authorities. This recommendation is made in the context of trade facilitation, so refers to the customs and taxation authorities primarily;
7. There is an immediate need for more substantive enforcement of the traffic regulations in Azerbaijan, to ensure that 'rogue hauliers' are precluded from plying for trade, and undercutting the legal hauliers. One way of denying trade to such operators would be to require all bills of lading to carry the number of a registered freight forwarder;
8. There is a requirement for technical assistance for the Ministry of Commerce to provide the agency with the necessary capabilities to meet the harmonisation and compliance requirements to facilitate the movement to full member status of the World Trade Organisation;
9. There is a need for institutional strengthening of the funding sources, and organisations responsible for commissioning and managing road construction and maintenance in Azerbaijan. This would need to clarify responsibilities, identify sustainable sources of user-charge based revenue, and establish a road fund, with an independent board, along standard lines, comprising representatives from the public and private sector;
10. There is a need for a road condition survey and maintenance strategy study, which would rank, on a firm economic basis, the maintenance requirements of the network, and ensure the most efficient utilisation of limited resources;

11. There is a need for institutional strengthening in the Azerbaijan Freight Railway Company to develop knowledge of its domestic market, and develop capabilities in the areas of market analysis, demand forecasting, pricing and economic and financial appraisal;
12. There is a need for institutional strengthening in the Azerbaijan Freight Railway Company to develop an action plan to address the environmental problems of the operation, of which one specific problem exists in respect of the refuelling points;
13. There is a need for institutional strengthening, restructuring, of the parastatal Caspian Shipping, with the objective of optimising the performance of the ferry fleet, and the inland shipping fleet on the Caspian Sea;
14. There is a need to prevent to prevent rent-seeking behaviour on the part of officials, and reform institutional structures that provide opportunities for such behaviour. One approach might involve a variation of the template, discussed in section 5.1.1 on rent-seeking, in selected offices or institutions; and
15. There is a need for a detailed study to assess the optimal institutional structure of AZAL, the scale and schedule of further privatisation, with the implicit objective of the vertical disintegration of the land and air operations.

1.3.3 Georgia

1. An assessment is needed for the necessary institutional and physical measures, and the feasibility, in economic, social and environmental terms, of establishing a free trade zone in Georgia;
2. The current requirement for transit traffic across Georgia to have an escort service should be rescinded;
3. There is an urgent need to review, with implicit objective of repealing, Article 64, paragraph D, of the Georgian Tax Code (see Section 5.3.1 for a fuller discussion of this issue);
4. There is an urgent need to review the limits on coverage and required equity contained in the Georgian Law on Insurance, to ensure that the limits do not impede the development of trade;
5. There is a need to investigate the feasibility of establishing a credible independent grievance procedure, or 'Ombudsman', to act as a type of mediator in disputes between private parties and the different public authorities. This recommendation is made in the context of trade facilitation, so refers to the customs and taxation authorities primarily;
6. There is a requirement for institutional strengthening of the Georgian road fund, specifically a clarification of the reporting lines and the establishment of an independent board, along standard lines, comprising representatives from the pub-

lic and private sector. (The World Bank is currently supporting a proposal for a project, to address these needs);

7. There is a need for a road condition survey and maintenance strategy study, which would rank, on a firm economic basis, the maintenance requirements of the network, and ensure the most efficient utilisation of limited resources. (The World Bank is currently supporting a proposal for a project, to address these needs);
8. There is a need for institutional strengthening to assist the Georgian State Railway Company to develop knowledge of its domestic market, and develop capabilities in the areas of market analysis, demand forecasting, pricing and economic and financial appraisal; and
9. There is a need to prevent rent-seeking behaviour on the part of officials, and reform institutional structures that provide opportunities for such behaviour. One approach might involve introducing a variation of the template, discussed in section 5.1.1 on rent-seeking, to selected offices or institutions.

1.3.4 Armenia

1. An assessment is needed for necessary institutional and physical measures, and the feasibility in economic, social and environmental terms, of establishing a free trade zone in Armenia;
2. There is an immediate need for the current procedures, employed by the Armenian Customs Service, at the border, in respect of inspection and resealing, to be streamlined, if not removed;
3. The current requirement for transit traffic to have an escort service to traverse Armenian should be rescinded;
4. There is a need to establish a credible independent grievance procedure, or 'Ombudsman', to act as a type of mediator in disputes between private parties and the different public authorities. This recommendation is made in the context of trade facilitation, so refers to the customs and taxation authorities primarily;
5. There is a need to optimise the performance of the new air cargo terminal at Zvartnots airport in Yerevan, and endeavour, if feasible, to facilitate the renegotiation of the EBRD loan, to allow the facility to lower its rates and generate greater turnover;
6. There is an immediate need to try and address the structural problem, pertaining to the availability and cost of aviation fuel at Zvartnots airport;
7. There is a need for a larger x-ray scanner at the air cargo terminal at Zvartnots airport, to allow scanning at consignment level, rather than at case level;

8. There is a need for institutional strengthening of the Armenian road fund, specifically clarification of the reporting lines and the establishment of an independent board, along standard lines, comprising representatives from the public and private sector. (The World Bank is currently supporting a proposal for a project, to address these needs);
9. There is a need for institutional strengthening of The State Railway Company of Armenia to help strengthen its institutional capacity and abilities in the area of market analysis, demand forecasting and economic and financial appraisal. (The World Bank is currently supporting a proposal for a project, to address these needs);
10. There appears a general need for institutional strengthening in the transport sector to optimise and delineate different responsibilities, and to ensure adequate capabilities to meet the specified objectives of each agency. These points are considered to be particularly pertinent in the management, either directly or under contract, of the requisite operations for road construction and maintenance. (The World Bank is currently supporting a proposal for a project, to address these needs);
11. There is a need to review to the legally supported incentive structure for taxation officials in Armenia, to try and prevent officials from concocting violations, particularly from foreign companies;
12. There is a need for a road condition survey and maintenance strategy study, which would rank, on a firm economic basis, the maintenance requirements of the network, and ensure the most efficient utilisation of limited resources. (The World Bank is currently supporting a proposal for a project, to address these needs); and
13. There is a need to prevent to prevent rent-seeking behaviour on the part of officials, and reform institutional structures that provide opportunities for such behaviour. One approach might involve the wider application of the template, discussed in section 5.1.1, for the establishment of the State Joint Stock Company, into selected offices or institutions. This body could also fulfil the role of a mediator discussed in point 2 above.

1.4 The Way Forward

Implementation

The previous section identifies a considerable number of prospective initiatives, delineated between those considered more suited to a regional approach, and those considered more suited to a national level approach. This delineation raises two main questions as to the appropriate strategy in any ‘implementation strategy’:

1. What should be the appropriate implementation strategy for international agencies? Or, more specifically, should the primary emphasis be placed at a national, or a regional level?

2. Secondly, what would be the appropriate implementation strategy, in a context of limited resources? Or, more specifically, how could one prioritise the various initiatives to ensure the optimal use of limited resources?

Regional or National

The question of whether the primary emphasis in implementation should be on a regional or national approach is, to a certain extent, misguided. The nature of trade facilitation, the dependent relationship between the countries, and the range of potential initiatives, as specified in the previous section, suggest that an either/or strategy would appear to be inappropriate. The most opportune strategy would appear to be a bi-directional one, which can be characterised as ‘top-down’ and ‘bottom-up’, assuming that capacities and resources permit.

Prioritisation

The issue of prioritisation is a little more complex, as ensuring that optimal use is made of limited resources necessitates that the prospective costs and benefits of all the competing alternatives be identified, quantified in commensurate terms, and compared. Those projects offering the best return, would be taken forward. This study, by its very nature, did not make any systematic attempt to identify all the costs and benefits of the proposed initiatives

However, this does not mean that some limited prioritisation is impossible. If one overlooks the potential impacts of a growth in traffic volume, engendered by either a prospective peace settlement or further economic growth, then one can focus on, what were reported to be, the most significant current impediments to trade in the region. These were, generally, institutional, reflecting poor or incomplete procedures, weak or ill-defined institutions and corruption. In the absence of a more rigorous assessment, it would seem appropriate to concentrate limited resources on institutional issues, broadly defined.

2. Introduction

2.1 Background

Geographical Area The geographical area of interest encompasses the Caucasus region of the former Soviet Union (FSU), and includes the three countries of Georgia, Armenia and Azerbaijan, together, to a lesser extent, with their regional trading partners.

Figure 2-1 The Caucasus Region



The three countries lie broadly on an east-west axis, framed by the High Caucasus Mountains to the north, which forms the border with Russia, and Turkey and Iran to the South. The most western of the three countries is Georgia, occupying the strategically important position with access to the Black Sea, whilst Azerbaijan benefits from its eastern position on the Caspian Sea, acting as a gateway to the Central Asian states. Armenia comprises the landlocked lower middle, between the two states.

The end of the Soviet Era The atomisation of the former Soviet Union, and the associated breakdown in the command economy, in the early 1990s, had a deleterious effect on the economic performance of all three countries. The level of real GDP in Azerbaijan and Armenia has fallen to approximately half the level attained at the end of the Soviet era, or one-third of the former level in the case of Georgia.

Structural weaknesses One impediment to economic development in the three countries is the inherited structural weaknesses in their domestic economies, either resulting from their former role in the command economy, or from their respective endowments of natural resources. However, the obverse to this problem is the potential benefits of greater regional co-operation between the three countries. This potential is underlined by the following summary of the respective national economies.

Georgia

The Georgian economy The Georgian economy has traditionally revolved around tourism and agriculture, with the output of the latter sector, mainly comprising citrus fruits, tea and grapes. However, the economy has been deficient in grain, dairy products and meat, and has required compensating imports of these products. Despite a significant fall in production following the break-up of the Soviet Union, the agricultural sector was responsible for nearly 28% of GDP in 1999.

Exports The country also has some limited extractive industries, primarily involving the mining of manganese and copper, together with a small industrial sector, producing wine, metals, machinery, chemicals and textiles. These three sectors together comprise the majority of Georgian exports.

Imports Georgia is required to import the bulk of its energy requirements, as it has little domestic resources, with the exception of a small hydropower sector. Other Georgian imports include, *inter alia*, machinery and parts, and transport equipment.

Georgia



Armenia

The Armenian economy

was, formerly, dependent on large agro-industrial complexes, and a substantial, although now largely redundant, industrial sector. The products of the latter, which included machine tools, textiles and other manufactured goods, were often exchanged for raw materials and oil products, with other

In the agricultural sector, the Armenian authorities have, in recent years, endeavoured to switch agricultural production away from large complexes, towards smaller scale production. The main modality of this policy has been privatisation, although implementation has been slow. In addition, low levels of investment and a lack of modern technology have further hampered the potential contribution of the sector, although it amounted to 33% of GDP in 1998.

Exports

The majority of Armenian exports comprise some residue from these former industries, including electrical equipment, and some high value metal products, notably gold jewellery, and precious and semi-precious stones and related products. This trade includes the processing of uncut diamonds for the Belgian market, which takes advantage of the skilled labour available at low rates. Armenia also has a garment sector of increasing significance, a food processing and beverages industry, and also exports of energy to Georgia.

Imports

Armenia presently imports considerable quantities of foodstuffs and grains, together with fuel, other oil products and raw materials for the exporting sectors.

Azerbaijan

The Azerbaijani economy

Azerbaijan is the least developed of the three, in industrial terms, but it is endowed with significant natural resources, primarily in the form of oil and natural gas. The existence, and exploitation, of these resources has contributed to the development of a number of associated industries, including, *inter alia*, chemical and petrochemicals, and oilfield equipment. The output from these industries, together with textiles and cotton, comprise the majority of Azerbaijan's exports.

The country, in structural terms, probably more closely resembles one of the Central Asian states, with a predominantly Muslim population, high structural unemployment and a lower standard of living. Although, the recent rise in the price of oil is likely to have a beneficial impact on the domestic economy. Azerbaijan imports machinery, consumer durables, food products, textiles and, increasingly, water.

Recent Conflicts

The recovery of the respective national economies has been severely impeded by civil or political upheaval, ethnic difficulties and war. The conflict between the countries of Armenia and Azerbaijan, over the Armenian enclave of Nagorno-Karabakh, the 'mountainous black country', and the less publicised, and apparently externally incited, ethnic unrest in the Abkhazia and South Ossetia regions of Georgia, have all contributed to the lack of progress.

In addition, the concomitant to the former conflict, the imposition of an economic blockade by Turkey and Azerbaijan, has exacerbated the difficulties of stimulating economic recovery in Armenia. Whilst the latter difficulties continue to engender political tension and instability in Georgia, and the now practically autonomous regions of Abkhazia and South Ossetia, and impede the movement of trade between the region and its northern neighbours.

To assist in the attainment of these ends, the World Bank has established a Post-Conflict Resolution programme, encapsulating a number of discrete, but integrated, projects, with the objective of identifying all the key potential physical and institutional impediments to the facilitation of trade and passenger flows in the region.

Trade Facilitation Audit This study represents a modest contribution to the process, and involves an outline Trade Facilitation Audit across the three countries, using the bank's standard guidelines, as detailed in Raven (2000). This report represents the final report from this process and contains a summary of the responses from stakeholders, some general conclusions, more detailed recommendations, both in a national and in a regional context, and an indication of prospective input requirements.

The report is structured on thematic grounds, reflecting the main elements within the movement of a routine consignment. Each thematic section has been delineated, where feasible, to reflect the distinct national characteristic, and supplemented by a broad discussion of the issues that were considered generic across the region. The next section presents an overview of the approach employed in the study, followed by a summary of the general findings, prior to the more detailed discussion of the respective Customs Services, so often considered the 'villain' of trade facilitation, in Chapter 3.

2.2 The methodology of the study

The first stage The actual approach adopted by the study involved three discrete stages; an initial desk-based research stage, which involved, on the part of the *ex patriot* consultant, the identification, collection and collation of material that was considered relevant, *a priori*, to the mission.

Local Counterparts This stage also involved the identification of suitable local counterparts to provide assistance in each of the three countries. This process, and the subsequent *ex ante* contribution of those parties, in identifying and contacting relevant individuals and organisations, prior to the arrival of the *ex patriot* consultant greatly facilitated the subsequent stage of the study.

The second stage The second main stage of the study was the 'fact-finding' mission to the three countries, which took place over the period the 15th May to the 2nd June 2000. The mission spent the initial week in Azerbaijan, the subsequent week in Georgia, and the final week in Armenia. The manning was as specified in the proposal, with two members of the team in Azerbaijan, and one member of the team continuing on to Georgia and Armenia. The contact details of the local counterparts, used during the study, are provided in Appendix D.

The general approach adopted for this stage was a 'face-to-face' semi-structured interview, often with the assistance of a local translator, with relevant public and private parties in each of the three countries, as suggested in the introduction of the World Bank's standard guidelines. The implicit objective of such an approach was to conduct an outline audit, using the Bank's guidelines as a basis.

The selection of initial meetings was undertaken, *ex ante*, by the local counterparts, and supplemented by additional appointments, on an *ad hoc* basis. A full list of the individuals and organisations met in the three countries, during the course of the mission, is provided in Appendix F.

All travel within the three countries was undertaken exclusively by surface mode for two reasons: Firstly, to provide the opportunity for visual inspection of the physical infrastructure along some of the main trade routes. And secondly, to allow personal visits to each of the required borders specified in the scope of works (Azerbaijan – Georgia; Georgia – Armenia; Georgia – Black Sea, and Azerbaijan - Armenia). The discussion and analysis of the situation at each of the border crossings is presented in Chapter 6.

The final stage

The final stage of the study was undertaken in the home office, and included the subsequent analysis and reporting.

3. The Customs Service

3.1 Introduction

The reputation of the Customs Service

The Customs Service often acquires a rather dubious reputation in international trade facilitation in developing countries. The Service is often perceived as a major cause of delay and increased cost to participants, reflecting both its role in the customs clearance procedure, and the fact that it is, generally, the ultimate, and seemingly overarching, institution in the chain. In many cases, this reputation is not entirely undeserved, as the service is often bureaucratic, inefficient, and riddled with officials seeking to abuse their positions for their own ends.

Unjustly acquired...

However, the Customs Service can also be unjustly maligned for a number of reasons: Firstly, as the ultimate clearing institution, it receives the blame for the inefficiency of other national agencies involved in the process. Secondly, the Customs Service in many developing countries can be hampered by a lack of an explicit Customs Code, a defined legal basis for its role, or even sufficient information on international norms and standards. And finally, the Customs Service is often perceived to be an important source of funds for the state budget, which can result in the service being required to impose *ad hoc* rules designed to boost state revenue and being starved of funds for intrinsic development.

These reasons, together, diminish the efficiency and the reputation of the service in the eyes of users, and all were visible, to a greater or lesser extent in the respective national Customs Services in the three countries.

3.2 The Azerbaijan Customs Service

Availability

The Azerbaijan Customs Service is responsible for 15 main border crossings and inland terminals. The former are open 24 hours per day, although it was reported that some of the borders with Iran close occasionally, reflecting the domestic prerogatives of the latter country. Some stakeholders explicitly mentioned this issue as a source of occasional delay on this border.

The inland terminals are open for acceptance for 24 hours per day, but only clear consignments between the hours of 9.00 and 19.00. There were no reported delays attributable to these restricted hours.

Human Resources	<p>Staff turnover is considered to be acceptable, and there are apparently no problems in obtaining staff to man the smaller border crossings, despite the apparent hardship of working at one of these posts. It was reported that formal training is provided to new recruits, which consists of a period of 4 months in the national training centre, followed by a further period of probation <i>in situ</i>.</p> <p>There also appeared to be regular refresher courses for more experienced staff, a fact supported during the later discussion with the stakeholder at the Red Bridge border station.</p>
Procedures	<p>All vehicles bound for domestic destinations are inspected, either at the border, or more usually at the nearest inland terminal to the ultimate destination. The route between the point of entry and the ultimate inland terminal is defined by the Customs Service, and passed to the driver at the border. There appeared, on the basis of the small sample, to be no risk assessment procedures employed in respect of inspection, at either the border, or the inland terminals.</p>
ASYCUDA	<p>A vehicle entering the country, with a domestic destination, is registered, and the information is passed to the respective inland terminal. The procedure for the transmission of the data, in the context of the Red Bridge border station, is discussed in section 6.1.1. However, there is no national computer network that is comparable to ASYCUDA, but there was a nationally developed system, apparently based on this system, but only offering partial coverage.</p> <p>Some stakeholders reported that a lack of co-ordination between the arrival of the truck and the documentation at the inland terminal occasionally led to delay of one to two days in obtaining clearance.</p>
Customs clearance	<p>The process of clearing customs was regarded by the majority of stakeholders as difficult, but workable. However, some stakeholders suggested that clearance would not happen, without the necessary degree of financial lubrication. These issues are discussed in more detail in section 5.1.</p> <p>It was reported that the time for clearance, by mode used, normally fell within the following ranges:</p> <ul style="list-style-type: none"> • Rail 4 – 12 hours; • Road - 12 hours; and • Port – 12 hours. <p>There have been considerable difficulties at the airport, but the situation has improved recently, following pressure by a number of the diplomatic missions based in Baku, and the resulting intervention of the President. One stakeholder, rather cynically, pointed out that the improvement was likely to be temporary.</p>
Documentation	<p>The documentation required by importers, depending on the type of good, was reported to be the following:</p> <ul style="list-style-type: none"> • Cargo declaration;

- Commercial Invoice (some stakeholders noted that they were occasionally required to produce a detailed inventory);
- Certificate of Origin;
- Certificate of Quality; and
- Contract (sometimes).

The documentation required by exporters, again dependent on the type of goods, were reported to be the following:

- Cargo declaration;
- Respective transport document;
- A copy of a bank statement showing receipt of payment;
- Certificate of Origin (Some stakeholders reported that this was occasionally required for the raw materials, if imported);
- Certificate of Quality; and
- Contract (on occasion).

One stakeholder maintained that the sheer amount of the documentation acted as a significant impediment to the development of trade in the country. Another stakeholder noted that problems over the documentation, necessary for clearance, required him to increase his workforce by 100%.

Declaration forms	<p>The cargo declaration form is modelled on the European single administrative document, but it has been ‘nationalised’ by the Azerbaijan authorities – which means that often the forms cannot be read ‘automatically’ in other countries, which was asserted to lead to occasional short delay.</p> <p>The forms are obtained from a new private company that has been established by the Customs Service, and called AZER TERM COMPLEX. The declarant licences are obtained from the same company, and are reputedly ‘difficult to obtain’. They are asserted to save 48 hours from the clearance process.</p>
Road Fund	The Customs Service is also responsible for the collection of the road fund charges.
Communications	There is reputedly an established and effective communications system between the main stations. The communication links with the minor border crossings was noted as poor.
Electricity supply	The supply of electricity to the border stations was acknowledged to be an explicit problem. There is a problem of power cuts, primarily in the winter, and a shortage of power generators, both as back-up for some of the larger stations, and as the primary source of power for some of the smaller.

3.2.1 Other Reported Difficulties

Customs Broker	There are currently no licensed Customs Brokers in Azerbaijan, and this was felt to be significant problem by a number of stakeholders. The right to establish a Customs Broker service was established by the Customs code, published in 1997, but
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up to this point no individual, or organisation, has been granted a licence, despite numerous applications.

The official response was that the applicant needs to show that he employs a specialist, who is familiar with the practices of customs clearance. The precise definition of the term, and the issue of the rates that the broker will be allowed to charge, is awaiting clarification by the Cabinet of Ministers.

Customs warehouse The right to establish a customs warehouse under licence was defined by an Order of the Cabinet of Ministers in 1994, but no applicants have had subsequent success in obtaining the necessary licence, up to this point.

The official response was that although the decree was passed in 1994, there was still no legislative base for establishment. The required law was passed in 1997, but the mechanism for the release of the licence is now waiting confirmation by the Cabinet of Ministers.

The lack of free trade zone A number of the stakeholders commented that the lack of a free trade zone in Azerbaijan was an impediment to the development of their business. The port and the airport were mentioned specifically in this respect, together with potential of Azerbaijan as a regional hub serving Central Asia.

Seizure of TIR carnet One stakeholder asserted that Customs seize the TIR carnet from foreign hauliers approaching Baku, whenever there is a problem, despite the fact that this contravenes the 1975 convention. The driver is then required to travel to the designated customs office without the Carnet until the problem is addressed. This was asserted to lead to an occasional 1-2 day delay.

Transit insurance The insuring of transit cargoes is required by law, but one stakeholder asserted that the customs officials appear to be acting as agents of one insurance company, LONDONGATE, collecting their premiums.

Random changes in the law One stakeholder asserted that the laws on import duties appeared to be changed at random, quoting the example of the import of heavy lorries. In 1994, the use of an imported lorry was allowed for one year, without the imposition of import tax. However, this provision was changed without warning, and import tax is now due as soon as the lorry enters the country.

Lack of Recourse A related problem is that there is no established channel for an individual, who has a problem, or is concerned about a specific issue. The majority of problems appear to be resolved on an informal basis, drawing on established relationships. A lack of a defined and formalised mechanism of dispute resolution increases the potential for 'facilitation payments'.

3.3 The Georgian Customs Service

Availability The Georgian Customs Service is presently in a state of some flux, with an imminent reorganisation and change of management, to try and address poor performance. The service currently has 17 inland terminals, and these are to be re-

placed by three main regional terminals, one in each major district. The main border crossings are open 24 hours per day, and the inland terminals are open for the receipt of consignments for a similar period, but only open for clearance during the period 9.00 – 19.00.

The Georgian Customs service has no authority in the semi-autonomous regions of Abkhazia, and only limited authority in the South Ossetia and Adjara regions.

Human Resources Issues

The Customs Service had approximately 1500 employees in 1999. There is a training school, which runs courses 5 or 6 times per year, often provided by international customs experts. The US Customs Service was believed to be prominent in the provision of technical assistance.

A new recruit receives a period of formal training of three months upon the commencement of his employment, followed by an indeterminate period of probation. The staff viewed at the different stations and terminals did not appear to have a uniform, and occasionally appeared rather dishevelled. This observation should be partly qualified by the fact that on occasion, it was difficult to distinguish between staff and user of the facilities.

ASYCUDA

The ASYCUDA system has been operating in the inland terminal in Tbilisi for nearly six years, following significant support from the World Bank. Since this terminal presently handles nearly 50% of the total legal trade in Georgia, and assuming that it is all processed through the system, then the ASYCUDA system is already making a significant contribution.

There are tentative plans to extend this system, and the associated categorisation of consignments into the Green/Yellow/Red channels, to the other inland terminals, and, eventually, the border stations. However, the stated lack of resources suggests that this is unlikely to happen in the short to medium term.

This system increases the efficiency of clearance procedures in two main ways, firstly, all imported consignments have to pass through the ASYCUDA system, and are classified according to the Harmonised Coding System, the relevant duty is calculated and collected before the release of cargo. This makes the avoidance of duty much more difficult. The second advantage relates to the implicit categorisation of consignments into the three channels, depending, *inter alia*, on the type of commodity, or the reputation of the shipper. Only consignments in the red channel are inspected, saving valuable resources and time. The system also facilitates the production of accurate trade statistics, and its extended introduction to the region would provide a significant fillip to trade facilitation.

Procedures

All vehicles bound for domestic destinations are inspected, either at the border, or, more commonly, at the nearest inland terminal to the ultimate destination. The route between the point of entry and the ultimate inland terminal, is defined by the Customs Service, and passed to the driver. There appeared, on the basis of the small sample viewed, to be no risk assessment procedures on inspection operated at either the border, or the other inland terminals.

Transit	<p>Transit consignments crossing Georgian territory are required to obtain an internal transit paper, and are sometimes required to travel in convoy. Officially, the former is free, but one stakeholder alleged that an unofficial charge of 100 USD is levied on occasions.</p> <p>The latter procedure was introduced by order of the Customs Service, for the purposes of raising revenue. The levy for the service is 25 USD for the journey from Poti to the Azerbaijan border. There is some additional cost on the user, due to the time expended waiting for the formation of the convoy. A related problem engendered by the requirement to travel in convey, is that the waiting and travel times, force some drivers to violate international standards on the hours and conditions of work (Geneva convention, 1970).</p> <p>The total charge faced by transit consignments, including road charges, was asserted to be 700-800 USD. These charges are also, apparently, imposed on empty trucks. One Armenian stakeholder asserted that the total charge for traversing Georgian territory with an Armenian plated truck was 2000 USD per truck.</p>
Customs clearance	<p>The process of clearing customs appeared to be regarded by the majority of stakeholders as time consuming. Customs were reported to be bureaucratic, and its application of rules and regulations was asserted to be selective, with new rules being introduced on an <i>ad hoc</i> basis. The official charge for clearance was quoted at 300 Lari (or approximately 150 USD).</p> <p>It was reported that the time for clearance by mode normally fell within the following ranges:</p> <ul style="list-style-type: none"> • Rail 12 hours; • Road 12 hours; and • Port 8 hours. <p>These estimates exclude any occasional delay resulting from the requirements imposed by pre-shipment inspection. The imposition of this procedure was asserted to have led to substantial delay, on occasion, and the issue is discussed in more detail in section 4.2.3.</p>
Customs clearance at Poti	<p>The procedures of Customs clearance at Poti port occur when the ship arrives in the port. The ship is met, when tying up, at the quayside by a committee, which consists of an appropriate mix of representatives from the border guard service, Customs, Sanitary control, phyto-sanitary control, veterinary service and the shipping agent. This process was asserted to work reasonably well, and delays were minimised.</p> <p>However, one stakeholder reported that some of the services have ‘...a low sense of responsibility’, which occasionally led to delays in clearance. One user of the port suggested that the staffing for some of the services was low, and in the event of sickness, or unforeseen incident, certification was delayed, and the consignment delayed. This appeared to be an occasional, rather than a frequent occurrence.</p>

Service Tax	<p>There was some irritation on the part of stakeholders as to the precise rationale for the Customs Service tax of 0.15% of the value of the whole invoice. The source of stakeholder irritation was that since a user paid customs duty of 12% of the invoice value, together with a further 300 Lari fee for declaration, there appears to be little apparent basis for an additional charge.</p>
Documentation	<p>The documentation required by importers, depending on the type of good, was reported to be the following:</p> <ul style="list-style-type: none"> • Cargo declaration; • Commercial Invoice; • Certificate of Origin; • Certificate of Quality (if necessary); and • Certificate of Insurance. <p>One stakeholder reported an occasional request from the customs service at Poti, for a detailed packing list, or inventory, in addition to the other requirements. This engendered occasional delay.</p> <p>The documentation required by exporters, again dependent on the type of goods, were reported to be the following:</p> <ul style="list-style-type: none"> • Cargo declaration; • Bill of lading (or modal equivalent); • Commercial Invoice • Certificate of Origin; • Other certification (as necessary); and • A copy of the Exporters Licence. <p>There was some suggestion that if the necessary certification was lacking, then the provision of a facilitating payment (100 USD was the quoted figure), could rectify the situation, without the need for an actual test, and the concomitant delay. This was asserted to be particularly prevalent at Poti, however there was no confirmation of this practice.</p>
Responsibilities for Certification	<p>The following list details the different certificates that are necessary under certain circumstances, and the issuing organisation, or department:</p> <ul style="list-style-type: none"> • Certificate of origin – Chamber of Commerce; • Certificate of compatibility – State Standards Committee (required to confirm that the consignment meets Georgian standards); • Hygiene and sanitary control – Ministry of Health; • Veterinary Controls – Veterinary Department; and • Phyto-sanitary certificates – Ministry of Agriculture.
Lack of resources	<p>The Customs Service reported that they had limited resources for the purchase of essential equipment. Reported shortages include a lack of sniffer dogs to prevent the importation of narcotics, no Geiger counters, no weighing scales at the inland terminals and no x-ray equipment.</p>

3.3.1 Other Reported Difficulties

Minimum Prices	Customs also sets minimum prices for certain import commodities, and when a consignment arrives, the amount of duty owed is calculated on the higher of the minimum price, or the invoice total. The list of minimum prices is made available for interested parties.
Investigation Units	The Customs Service maintains a number of investigation units, whose official role is to investigate discrepancies in the import and export of consignments. One stakeholder asserted that the threat of investigation by one of these units, was used, by some officials, to extort money. However, this accusation was not confirmed, and the precise amounts involved were unreported.
Adjaria region	The partial autonomy of Adjaria region means that the majority (some 50%) of the revenue collected by the customs service within the region, is retained by the local authority. One apparent consequence of this unusual arrangement is that some hauliers are required to pay some of the charges twice, once in Adjaria and once in Georgia.
Lack of specific information	A number of customs officials mentioned that their work was impeded by the lack of clear guidance in certain situations, or circumstances. Specific <i>lacunae</i> mentioned related to the acceptability of certain types of container (e.g. a lack of knowledge of the different ISO categories), and the appropriate course of action when they were confronted with damage to the container, or consignment compartment.
Lack of Recourse	The general problem of an apparent lack of an established channel for any individual, who has a problem, or is concerned about a specific issue, also applies in the Georgian context. The majority of problems appear to be resolved on an informal basis, drawing on established relationships. A lack of a defined and formalised mechanism of dispute resolution increases the potential for ‘facilitation payments’.

3.4 The Armenian Customs Service

Institutional Structure	The Armenian Customs Service falls under the auspices of the department of Customs Legislation within the Ministry of State Revenue. This Ministry is responsible for methodological issues related to the collection of state revenue, and comprises six divisions, including, <i>inter alia</i> , a direct taxation division, property tax division, international co-ordination issues and the department of customs legislation. The latter is responsible for drafting and discussing legislation to facilitate the work of the customs service. The raising of excise or import duties is the ultimate responsibility of the Ministry of Finance.
Customs Directorate	The customs administration comprises the following departments: <ul style="list-style-type: none"> • The Customs Directorate; • 4 regional customs houses; and • 11 customs stations at points of entry.

	<p>The Directorate has overall operational and policy responsibility for the customs service in the country, and the 4 regional customs houses and 11 customs stations at points of entry.</p>
Availability	<p>The border crossing stations are open 24 hours per day. The inland terminals are open for acceptance for 24 hours per day, but only clear consignments between the hours of 9.00 and 19.00. There were no reported delays attributable to these restricted hours.</p>
Total Value	<p>The total value of consignments in the FY2000/2001 is forecast to be Armenian Drams 252 billion, (USD 500 million). In the same FY, customs duty is estimated to account for 6%, and value-added tax 45%, of total revenue.</p>
Human Resource Issues	<p>The number of staff employed by the domestic customs service totals approximately 700. There has been little or no staff turnover, and so the stakeholder appeared uncertain about the training of new recruits. It was reported that there was no formal training for new recruits, but there was a probationary period of 3 months <i>in situ</i>.</p>
ASYCUDA	<p>The ASYCUDA system was introduced to the Yerevan regional customs house, with extensive support from the World Bank, some four years ago. The system was extended to a number of additional regional offices, some two years later. A further extension of the system is now being considered by the United Kingdom Know How Fund, and a funding proposal was being prepared by an <i>ex patriot</i> technical advisor, during the course of this mission. The estimated cost of the planned extension was stated as approximately USD 1.5 million.</p>
Customs clearance	<p>The process of clearing customs appeared to be regarded by the majority of stakeholders as very difficult. Many stakeholders use licensed Customs Agents to overcome the clearance barrier, and noted explicitly that it would be even more difficult without them.</p> <p>It appeared from the comments of one stakeholder that customs clearance is possible in Armenia, without the provision of unofficial payments, but that it lengthened the period required from 3 - 4 hours to 8 - 12 hours. The unofficial payment appearing, in this context, to represent a premium payment that allows the payee to 'queue-jump', or to speed up the processes, rather than as a necessity to ensure clearance.</p> <p>It was reported that the time for clearance by mode normally fell within the following ranges:</p> <ul style="list-style-type: none"> • Rail - 24 - 48 hours; • Road – 12 - 24 hours with friends (or 48-72 hours without); and • Airport - 12 hours.
Border procedure	<p>The standard procedure at the borders consists of a request to inspect the relevant consignment documentation. The import submission is then retained, the consignment is given a preliminary inspection and the seal on the consignment is inspected.</p>

The Armenian Customs service then add an additional domestic seal, prior to the onward movement of the consignment to the inland terminal of the user's choice. The Armenian customs service requires the completion of a internal shipping document, which shows point of entry and destination terminal. Each lorry is charged 20 USD, or 100 USD for Georgian plated lorries, for a transit fee, despite the fact that the lorry will be terminating in Armenia.

Certain consignments are also required to have an escort to the inland terminal, for which a charge is levied (20 – 25 USD was the quoted fee range).

There is no monitoring of the period between the first receipt of customs submission, and the clearance of the consignment, but there is a legally enforceable penalty (200 USD) if clearance does not take place within ten days.

There was some suggestion that this period was too short, as the imposition of certain testing procedures occasionally leads to clearance exceeding the allowed period. A better alternative would be to improve the efficiency of the organisations involved.

Documentation

The requisite documentation for importing, again depends on the specific type of good, but in general included the following:

- Cargo declaration;
- Commercial Invoice (a detailed packing list might also be required);
- Certificate of Origin;
- Certificate of Conformity;
- Certificate of Quality;
- A statement showing that you have no outstanding tax obligations;
- Appropriate transport consignment documentation; and
- A domestic shipping form is completed at the point of entry showing the final Customs Station.

The documentation required by exporters, again dependent on the type of goods, were reported to be the following:

- Cargo declaration;
- Appropriate transport consignment documentation.
- Certificate of Origin;
- Certificate of Conformity
- Certificate of Quality;
- A statement showing that you have no tax debts; and
- Contract (signed by an Armenian citizen or legal entity).

Some stakeholders asserted that obtaining the necessary national documentation could be very time consuming, and could lead to delays of 3-5 days, unless a 'facilitating payment' was provided. Specific bodies mentioned in this regard included the State Standards Authority, and the Department of Cultural Values.

Customs Code

The Department of Customs Legislation has been developing a new customs code, which passed its first reading in the legislative chamber late last year (1999). The

Department subsequently received several hundred recommendations for amendment, which have been incorporated into the latest draft. The plan is to complete this process by the middle of 2000, with a view that the code will be in force by January 1st, 2001.

VAT on Imported Goods

VAT on imported goods is levied at the point of importation by customs officials, for those goods, subject to customs duties, although the customer has 10 days to pay. The following represent those goods, *inter alia*, which are exempt from VAT:

- baby food;
- Agricultural produce; and
- Products and services imported to Armenia for humanitarian and charitable purposes.

Other studies and technical assistance

Trade facilitation in Armenia was not the virgin territory that it appeared to be in the other Caucasian countries, with a number of different organisations having invested resources in studies, or technical assistance, over the past few years. These organisations include the European Union, the International Finance Corporation, and the United Kingdom Department for International Development (DFID) and Know How Fund.

3.4.1 Other Reported Difficulties

Customs broker

Armenia has allowed the establishment of a customs brokerage service under licence. However, one stakeholder noted that gaining a decision on the renewal of the licence was proving rather difficult.

Minimum Prices

Customs also apparently sets minimum prices for certain import commodities, and when a consignment arrives, the amount of duty owed is calculated on the high of the minimum price, or the amount quoted on the invoice.

However, the implementation of these methods is apparently arbitrary, and invoices are routinely rejected and revalued. A number of stakeholders asserted that they have come to expect a routine increase of 10 percent of the value stated on the invoice.

This apparently leads some unscrupulous importers to ask for an invoice displaying a lower total. The response of the customs service is to check some invoices with the supplier abroad, despite the fact that they, presumably, must have been complicit in the initial provision of the false invoice.

Empty containers

Since the passage of a new law last year, an empty container is now classified as a good, for customs purposes. This requires the export of an empty container to undergo customs clearance, together with an official charge of 10 USD. Some stakeholders suggested that the total charge to ensure clearance, was closer to 30 USD. This process also engenders an indirect cost in the form of additional demurrage charges on the container.

A related problem is that the Customs Service also levies an environmental protection fee of 0.2% of the value of the container, on dirty, or unclean, containers, prior to clearance.

Value-added tax One stakeholder suggested that the differential coverage of value added tax (VAT) in the neighbouring countries was an impediment to the development of a domestic international haulage fleet in Armenia. The problem is that ‘means-of-transport’ in Georgia is taxed at a preferential rate, whereas in Armenia, there is no such allowance.

A related problem is if a domestic freight forwarder leases a new lorry, rather than buying it outright, the law states that 15% of each monthly leasing payment must be paid in tax. This was also held to be a significant disincentive to new investment.

Lack of TIR status The current lack of full TIR membership was asserted to be a further disincentive to the development of the domestic international haulage operators. The primary reason for the lack of accession to full membership was stated as a resource issue, although the current state of the domestic fleet and the lack of a suitable institution in the sector, form additional barriers.

Inflexibility A number of the stakeholders reported that Customs Officials were inflexible, and appeared to have little initiative, or discretion, in the application of the rules. This can lead to some interesting problems, as revealed in the following text box.

Overzealous application of the law

One investor imports corks for their business, and one shipment of corks contained a small amount of plastic. Under the old Standards legislation, all plastic materials imported into Armenia require testing and certification by the Department of Standardisation. In order to avoid this bureaucratic process, the investor reached an agreement with the supplier to return the corks.

However, Customs officials refused to allow “re-export” of the corks without inspection by an Armenian expert. The expert was informed that each of the three million corks must be physically inspected. It apparently took some considerable negotiation, before a solution involving a random sample of corks was agreed.

Lack of Recourse The general problem of a lack of an established channel for any individual with a grievance also applies in Armenia. Once again the majority of problems appear to be resolved on an informal basis, drawing on established relationships. A lack of a defined and formalised mechanism of dispute resolution increases the potential for ‘facilitation payments’.

3.5 Some comparative indicators

The following table offers a comparison of the respective national customs services, as reflected by a number of specific indicators:

Table 3-1 A comparison of specific indicators

Indicators	Azerbaijan	Georgia	Armenia
Total no. of import declarations (1998)	Not available	Not available	34210
Total no. of export declarations (1998)	Not available	Not available	7069
Total value of all consignments (1999)	Not available	810 million USD ¹	1034 million USD ²
Total % of government revenue represented by customs duties/taxes	Not available	Not available	6% duty 45 – 48% VAT
Total number of staff	1300 approx.	1500 approx.	700 approx.
Is international trade documentation aligned on UN standard system	Yes	Yes	Yes
Member of WCO	No	No	Yes
Full Member of TIR	Yes	Yes	No
Full Member of ATR	Yes	No ³	No

General note: non-availability means contact/contacts could not provide requested information

It is worth reiterating that the temporal constraints, and outline nature of this study, precluded the complete collection, and secondary validation, of all the necessary detail. This generally reflected the limited responsibilities of the contact person in the respective national Customs Services.

3.6 The Surrounding Countries

Difficulties

A number of the stakeholders, during the course of the mission, mentioned specific operational and institutional difficulties in neighbouring countries, through which their

¹ Ministry of Trade estimate

² Ministry of Industry and Trade estimate

³ The Chamber of Commerce reported that a working group was examining this issue, and identifying necessary legislative changes.

consignments passed. The following represent a selection of the most pertinent concerns, in respect of both the national customs services and other public authorities, in those countries. The issues relating to the physical infrastructure in these countries are discussed in section 7.4.

Transit container in
Russia

One stakeholder asserted that all containers coming from the north into the region are opened by the Russian authorities in Dagastan, and inspected. There is some associated loss in the contents from the consignments. This was not verified by another source.

Although, a similar problem occurs with containers carrying consignments bearing excise stamps, which are opened when they arrive on Russian territory, leading to a loss of 400 USD per consignment. The port of Novorussisk was mentioned explicitly in this respect. Additionally, the authorities sometimes close some of the ports to the transit of these types of cargoes.

Iranian Border

There are recurrent delays of between 1 and 2 days on the Iranian border, due to the limited opening hours of the Iranian border stations, and which appear to result from the domestic prerogatives of that country.

The problem is exacerbated by the difficulties with Iranian documentation, as the latter was asserted to be inconsistent with the international standards, and is only printed in Persian.

4. Other Institutions in the Sector

4.1 Azerbaijan

4.1.1 The Freight Forwarding Industry

The domestic sector

The freight forwarding industry appears more developed in Azerbaijan, than the other two countries in the region. This appears to result from the international contribution to the development of the oil industry in the Caspian region. This is reflected in the existence in the market of both International Joint-Venture companies, and indigenous freight forwarders.

However, much of the trade of the country is being conducted CIF for imports and FOB, or ex works, for exports. This makes it difficult for the domestic freight forwarders to break into the market and develop. This appeared to be a general problem across the three countries.

4.1.2 FIATA

Local branch

A local branch of FIATA has been established in Azerbaijan, but one stakeholder asserted that the membership is sporadic and poorly supported, with only two out of eight permanent members paying their annual subscriptions.

4.1.3 The State Vehicle Transport Authority

AZERAVTONAGLI
YYAT

This is the former state road transport authority, which used to be responsible for the management and operation of all cargo, people and municipal transport operations in Azerbaijan. The break-up of the former centralised system, and the concomitant plans for privatisation led to the dilution of the organisation's operational responsibilities.

Its only remaining responsible is transport policy for vehicle transportation. The organisation reports direct to the Cabinet of Ministers, and it is expected that it will become part of the new Ministry of Transport, which is to be established in September 2000, following the Presidential Decree of August 1998.

The organisation is also a participant in the ECMT conferences, The Black Sea Economic Union, and the Muslim Economic Union, together with, *inter alia*, Iran, Turkey and Pakistan.

The LISIM system	It also operates the LISIM, or permission, system, the system of bilateral permits that allows the international operation of hauliers. One stakeholder maintained that the required rate of 80-150 USD comprised both official and unofficial demands, and that this was often increased randomly by officials. This system is also in operation in Iran and Georgia, and the rates are often racked up in competition.
City Tolls	It also imposes a charge of 25 USD to enter each of the large cities in Azerbaijan. The precise purpose of this charge was unclear.
Vehicle licences	This agency also issues the licences for vehicles and collects the appropriate level of charges.

4.1.4 The Traffic Police

Rent-seeking	The traffic police were very visible both in urban areas and on the main highways, and appeared to be stopping vehicles regularly. On the latter they occupy a series of posts, together with a barrier, partially closing the road. Anecdotal evidence suggested that they usually stop vehicles, with little apparent justification, to extort relatively small sums of money from the driver.
Rogue hauliers	A number of stakeholders asserted that unlicensed foreign, or 'rogue', hauliers, are currently operating in the country. The extensive coverage of these transit points would appear to make this difficult without the complicity, at least in a passive sense, of the traffic police.

4.1.5 The Chamber of Commerce

Background	The Chamber of Commerce is an independent non-governmental organisation that was founded in 1922. It has been independent since 1993, and describes its role 'as supporting and assisting private industry.' The current voluntary membership is 250, who each pay an annual fee of 150 USD. It is a member of the International Chamber of Commerce, and the Black Sea Chamber of Commerce. It has also founded joint Chambers with Italy, France, Russia, Iran and Turkey.
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There are two subsidiary organisations:

AZEREXPO	which is involved in the organisations of exhibitions, the most prominent being the annual Oil and Gas Expo in Baku, held every June. This branch has 20 members of staff.
AZEREXPERTIZA	The second subsidiary is Azerexpertiza, which controls the quality and quantity of all imported and exported goods, and issues the national certificates of origin and quality. It has its own international standard laboratory to facilitate the testing of goods and has 20-30 members of staff. It charges 0.01% of the invoice price for the certificate and issues approximately 5000 <i>per annum</i> .

4.2 Georgia

4.2.1 The Freight Forwarding Sector

The Domestic Sector

International freight forwarding did apparently exist in the Soviet era, when their role was the transportation of products from international origins to the Soviet domestic market. The industry is still relatively young, but has developed quickly in the last few years.

The first privately owned company was a joint venture established in November 1991, which now acts as an agent for Maersk in Georgia. Since that time, the market has expanded to encompass nearly 100 companies in the field, of which 22/23 of the largest are members of FIATA.

It is interesting to note that TRACECA report on the Freight Forwarding Industry in Georgia⁴, notes that:

“...the freight forwarding industry is still relatively under-developed,...there are relatively few operators.”

There appears to have been considerable development in the last few years, although admittedly from a low base.

4.2.2 FIATA

Membership

The local branch of FIATA, the Association of Georgian Freight Forwarders (AGFF), was established in June 1997, and it now has 22/23 members, who together account for some 90%-95% of the freight-forwarding market.

The membership is entirely voluntary, and the organisation is actively lobbying the polity to try and improve the institutional framework for their members. They have recently produced a handbook, in Georgian and Russian, providing information on the requirements of international conventions for members, and highlighting issues in the domestic institutional framework.

4.2.3 ITS – The Pre-shipment Inspection Agency

PSI

Georgia introduced pre-shipment inspection, approximately one year ago, with the dual objectives of reducing the movement of contraband, and increasing the amount of revenue for the state budget. The contract was awarded to a British Company, ITS.

The requirement is that all import and export consignments into, and out of, Georgia, with an invoice value of least 5,000 USD, are required to undergo inspection. The cost of the service is 1.19% of the invoice value, with a minimum charge of 350

⁴ Scott Wilson Kirkpatrick, (1997) “TRACECA: Trade Facilitation, Customs Procedures and Freight Forwarding – An Overview of the Freight Forwarding Industry”, Basingstoke, U.K. A report for TACIS for the TRACECA Programme.

USD, plus VAT, where the value of the invoice must conform to the Customs minimum price lists.

Delays A number of stakeholders reported that this procedure has resulted in occasional substantial delay, which can range from 6-10 days. In addition, the service needs to be ordered one week in advance, to ensure inspection on a specified date.

Evasion In addition, the introduction of PSI has, according to some reports, increased the level of evasion, whilst the amount of money going to the state budget has declined. One stakeholder asserted that it was common knowledge that consignment splitting was being undertaken on the Turkish side of the border to reduce the value of each consignment to less than the 5000 USD threshold.

4.2.4 The Traffic Police

Rent-seeking There was considerable comment on the ‘rent-seeking’ practices of the traffic police, which, as in Azerbaijan, amounts to stopping vehicles for a real, or imaginary reason, and extorting small amounts of money from the driver.

A number of stakeholders suggested that a lorry displaying a foreign licence plate was a particular target for extortion.

4.2.5 The Chamber of Commerce

Membership Membership of the Georgian Chamber of Commerce is compulsory, and presently totals nearly 4000 organisations. The cost of membership varies depending on the status of the applicant, with Joint Venture Companies being charged 30 USD *per annum*, and domestic companies being charged 20 USD *per annum*.

Affiliations The Chamber is active internationally, being a member of the International Chamber of Commerce (ICC), the Black Sea Chamber of Commerce, and it has explicit agreements with a number of neighbouring countries and the Czech and Slovak Republics. It is not currently participating in the ATR carnet system, but it has established a working group to examine the issue, and the necessary legislative changes.

Services The Chamber offers advice in a number of areas to members, including, *inter alia*, marketing, the development of business plans and patent applications. The Chamber also arranges domestic and international exhibitions, for the benefit of local traders, and issues the Certificate of Origin. They issued 2,500 of the latter in the first six months of the year 2000.

4.3 Armenia

4.3.1 The Freight Forwarding Industry

The domestic sector The freight forwarding sector in Armenia seems the least developed of the three countries, despite the presence of a number of international JV companies, primarily serving the manufacturing sector, together with a number of large foreign investors.

This can be explained, at least partially, by the relatively low volume of international trade, due both to the difficult macro-economic context and the trade embargo of Turkey and Azerbaijan.

4.3.2 FIATA

No local FIATA

There are plans to establish a domestic branch of FIATA, but so far these plans have not come to fruition. One stakeholder suggested that one reason for the delay, is the apparent difference in perspective and expectation between the local freight forwarders *vis-à-vis* the international, or JV, freight forwarders.

4.3.3 The Traffic Police

Rent-seeking

There was considerable comment from stakeholders on the ‘rent-seeking’ practices of the traffic police, which, as in Azerbaijan and Georgia, amounts to stopping vehicles for a real, or imaginary reason, and extorting money from the driver. The amounts of money involved are believed to be relatively small.

4.3.4 The Chamber of Commerce

History

The Armenian Chamber of Commerce was first established in 1919, prior to subsequent closure in 1926. It reopened in 1959, and enjoyed a membership of 2000 members during the Soviet era, when membership was statutory. It currently employs 23 members of staff.

Membership

The current Chamber of Commerce has 100 voluntary members, who pay a differentiated fee for membership, based on their turnover. The fee scale ranges from USD 50 to USD 200.

Services

The Chamber of Commerce has four departments; an organisation department, an information department, an exhibitions department and a mediation department, to help solve commercial disputes. It operates a small training centre, together with the Russian Academy of Small Business, and this year started publishing a bulletin for members. It also helps foreign companies get their trademark in Armenia, hopes to publish a regional journal in the future.

It is also trying to establish an International Technology Association, to try and alleviate the difficulties that Armenia is currently facing in losing many of its most educated people to emigration.

ArmeniaExpertise

The Chamber of Commerce has also established a subsidiary company, called ArmeniaExpertise, which is responsible for the provision of the certificates of origin. This company employs 37 full-time members of staff.

International affiliation

The Chamber is a member of the International Chamber of Commerce (ICC), but has no other formal international ties due to a lack of available resources.

Regional offices

The Chamber of Commerce has plans to establish nine regional offices, and there is law which requires the regional governments to provide suitable premises. How-

ever, the offered buildings are usually in need of substantial renovation, and plans are on hold.

5. Other Institutional Issues

5.1 Some Generic Institutional Issues

5.1.1 Rent-seeking behaviour

Rent-Seeking

There was strong anecdotal evidence of ‘rent-seeking’ behaviour on the part of some public officials in all three countries, although a number of stakeholders did express some limited sympathy with the low salary levels. The problem appears to be more prevalent in the movement of consignments for export.

There are two sides to the problem: The first is that the scale and extent of rent-seeking behaviour is a significant impediment to the attraction of new foreign direct investment, and the development of international trade in a country, or region. The second side, for current users, is that it represents a necessary evil to ensure that an inefficient, bureaucratic and corrupt system works, in a manner that allows them to pursue their business.

The most appropriate analogy, in the latter case, would appear to be the provision of lubricating oil in an engine, albeit an old one. The system appeared to ‘work’ reasonably smoothly if, and only if, sufficient financial lubrication was provided by the users. However, this general analogy obscures significant differences in the nature and the intensity of the practice across the three countries

Azerbaijan

The problem appeared to be the most sophisticated and institutionalised in Azerbaijan, where information seemed to suggest that the movement of any consignment was impossible without the prior provision of a facilitation payment, of the same order of magnitude as the official payments, on each container, or trailer. Another assertion was that virtually any cargo could, potentially, go straight to the warehouse, bypassing the need for customs clearance, ‘...by prior arrangement’.

There were no stakeholders in Azerbaijan who reported explicitly that they did not make any facilitating payments.

Georgia

The problem in Georgia appeared to be a little different to that appertaining in Azerbaijan. In Georgia, the public bodies and the processes appeared to be a little less sophisticated, with the result that ‘rent-seeking behaviour’ appeared to be a little more random. One stakeholder articulated the distinction between the two countries as organised, or institutionalised, extortion in the case of Azerbaijan *vis-à-*

vis chaotic, or random, extortion in the case of Georgia. The latter country also appeared to have a greater degree of petty criminality.

There also appeared to be the suggestion that Georgian public officials were targeting foreign plated hauliers, with the objective of extorting larger sums of money. One stakeholder reported that traversing Georgia with an Armenian plated truck cost 2000 USD, approximately double the ‘standard rate’.

Armenia

The problems in Armenia, whilst still significant, seemed to be less prevalent than in the other two Caucasian countries. This assertion is evidenced by the fact that, for the first time, one freight forwarder was explicit in their refusal to countenance the payment of any form of facilitation payment, and despite this stance, they still managed to conduct their business successfully. The impression of the consultant was that such an explicit stance in Georgia, or especially Azerbaijan, was likely to make conducting business ‘difficult’, if not impossible.

Possible solutions

The identification of a suitable strategy to try and alleviate this form of behaviour is not straightforward, reflecting the many contributory factors. These include the low salary levels of the public officials, the lack of transparency in many dealings, the lack of an independent adjudicator, the lack of a legal basis, and the apparent lack of an adequate sanction.

One approach to counter the problem of rent seeking has been adopted in Armenia, with the establishment of the State Joint Stock Company, and this might form the template for a general approach, in the country and the region. The detail is provided in the following text box.

The establishment of the State Joint Stock Seal Company

After independence in 1991, Armenia continued the mandatory requirement that every legal entity have a company seal. The process of getting a seal was bureaucratic and cumbersome, involving several agencies and creating numerous opportunities for rent seeking behaviour on the part of public officials. The additional development of a parallel market, producing fraudulent seals, stimulated the Armenian authorities to develop a coherent policy solution. The key elements of the strategy include, *inter alia*, the following:

- Centralized processing –the payment of the required fee, the verification of the design, together with the other necessary formalities, have all been centralised in one new public agency;
- Transparency in procedures– The procedures for obtaining the seal, the processing time for each application and the appropriate fee, are all publicly displayed at the new establishment. The fee structure is clearly laid out in an official (and sealed) chart; and
- The agency staffing - The salaries of the State Joint Stock Seal Company personnel are apparently 2-3 times compared to public officials in other government agencies, reducing the scope for bribes and fraud.

5.1.2 The Financial Sector

Sector impediments	The impediments in the financial sector, inhibiting the development of international trade and the movement of a routine consignment, appeared to be similar in all three countries.
Cost of all credit	There were local branches of, or joint ventures involving, the Hong Kong and Shanghai Banking Corporation (HSBC) in all three countries. There are also some other institutions. The former institution is highly respected locally, but regards the provision of credit in the Caucasian context as risky, as it imposes a risk premium of 19% on lending in the three countries. This premium, together with their standard commercial margin of approximately 5%, means that the total cost of credit across the three countries falls in a range of 23-26%. A number of stakeholders felt that this was unnecessarily punitive, and represented a severe impediment to the development of their businesses.
Documentary credits	There appeared to be no problems in obtaining documentary credits in any of the three countries, depending on the credit worthiness of the applicant. There were few reported problems of delay, although they were perceived as expensive. The only reported problem involved the non-recognition of an Iranian bank by the HSBC.
A lack of ECGs	A number of stakeholders in all three countries suggested that the lack of export credit guarantees represented a significant impediment to the development of their business.

5.1.3 Communications

Landlines	There were no real communication problems in any of the three countries, excepting the cost, reliability and availability of landlines, particularly in rural areas. There were some problems in obtaining a reliable connection between Azerbaijan and Armenia, but that appeared understandable in the circumstances.
GSM networks	All three countries have a developed GSM network, or networks, which varied in coverage, dependent on the country. These appeared to be widely utilised by the respective populations, and all appeared to have concluded agreements with some of the major western GSM providers.
E-mail	Computers appear to be widely available and in general use in a number of the private, and some public, organisations. There appears to be a number of reliable internet service providers (ISPs), offering internet access of a reasonable quality and at a reasonable price. One minor related point is that the download time appeared to be a little slow (9600 bps).

5.2 Azerbaijan

5.2.1 Legal

The following represent the specific issues, mentioned by stakeholders during the mission, in respect of the legal and institutional framework of Azerbaijan.

Customs Code	The Customs Code has no basis in the legal framework of Azerbaijan at present.
Russian laws	A further problem appears to result from an inappropriate application of Russian Laws to the Azeri context. This was asserted to be a general problem, although the stakeholder was primarily concerned with one specific case. This involves a law that taxes shippers for the movement of freight from Russia. This law appears to be a withholding tax on payments from Azerbaijan, but it is charged to the shipper at a level of 6% of the whole invoice, despite the fact that most shippers are working on a 2-3% profit margin.

5.2.2 Structural

The mission also revealed certain structural impediments in the market, which either inhibited the free working of the market, or restricted the size of the market for freight forwarders in Azerbaijan.

Protected commodities	It appears that providing transport services for a certain group of export and import commodities is denied to the majority of freight forwarders. These selected commodities were asserted to include the following:
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- Oil and oil products;
- cotton;
- imports of meat; and
- the export of nuts.

The reported reasons for these restrictions ranged from the influence of real or *de facto* monopolies on production and/or distribution, to more sinister suggestions about the apparent influence of certain criminal elements.

Use of Ships	A second structural impediment in the market appeared to relate to the use of domestic <i>vis-à-vis</i> other national fleets to move cargoes on the Caspian. The domestic fleet is owned and maintained by Caspian Shipping. This parastatal was created when the old state fleet was privatised, and they require users to obtain permission from them, before using Russian shipping in the port of Baku. This permission is apparently difficult to obtain, to try and encourage/coerce domestic users to choose their vessels.
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Taxed on non-existent profit	One stakeholder raised a concomitant problem to the disbursement of unofficial ‘facilitation payments’. This was that since these payments cannot be shown explicitly, they are passed onto the customer in the form of an increased margin on the invoice. Thus, the profits of the forwarder appear to be inflated, which requires a further facilitation payment to ensure that the company is not taxed on the ‘fictive profit’.
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5.2.3 International Compliance

Ministerial emphasis	The issues of trade facilitation and international compliance are the responsibility of the Foreign Trade and Co-operation departments at the Ministry of Commerce. These departments appeared to have a primarily macro emphasis, with little contact
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with the ‘grass roots’, and little assessment of current problems of exporters and importers.

WTO Status	Azerbaijan has been an observer at the WTO since 1997, and they have now established a working group to assess the requirements to facilitate to the move to full membership status. They are hoping to be a position to move to full member status within 2 years.
Tariff compliance	The main obstacle is the sheer number of changes that are required to ensure compliance with all the tariff rates to meet GATT requirements. The Azerbaijan authorities recognise that they have insufficient expertise to cover all the issues competently, and are seeking <i>ex patriot</i> technical assistance. They have not identified a funding source for the prospective assistance.
International conventions	<p>The following list represents a compiled summary, from various sources⁵, of the international conventions and agreements signed by Azerbaijan. A distinction is made, where known, where full membership has not yet been received:</p> <ul style="list-style-type: none"> • TIR convention (1975); • Treaty on the work of crews of vehicles in international road shipments (Geneva, 01.07.70); • Treaty on international highways (15.10.75); • Convention on the treaty on international road shipments (CMR) (Geneva, 19.05.56); • Convention on road traffic (15.09.68); • Convention on agreeing upon the conditions of carrying out cargo inspections at the border (Geneva, 21.10.82); • Convention on temporary import of commercial vehicles (Carnet de Passage, 1956); • European treaty on international road shipment of dangerous cargo and protocol on signature (Geneva, 30.09.1957); and • International customs convention regarding containers (Geneva, 02.12.1972).

5.3 Georgia

5.3.1 The Legal Framework

Lack of recognition for the sector	The main obstacle to the further development of a competitive freight-forwarding sector in Georgia is the current lack of domestic legal recognition for the industry. There is a current divergence between the international requirements of the industry, and the domestic legal framework, and whilst the relationships between the main parties in the sector have been defined in terms of their liabilities, they have yet to be enshrined in the legal framework.
Use of Russian laws	A further reported problem relates to the existence of certain anachronistic Russian laws in the institutional framework of Georgia. These were asserted to be inappropriate for a developing industry in a free market economy, and not all were relics of

⁵ Association of Georgian Freight Forwarders (1999), Scott Wilson Kirkpatrick, (1996) “Trade Documents & Customs Procedures Report”, A report for TACIS for the TRACECA Project, and collected data.

the old regime, as a number of new laws have been introduced recently, which have taken certain Russian laws as their basis.

Tobacco products A specific example of the way the current framework impedes the development of the sector is provided by decree numbers 90 and 91, of the Ministry of Finance, which were introduced in April 1998. These two decrees introduced a special scheme for the import and movement of tobacco products, requiring all shippers to acquire permission prior to the import, or unloading of tobacco products.

Tax code Article 64, paragraph D of the Georgian Tax Code, requires that 4% of the value of the whole invoice is to be levied on non-residents who provide transport international transport services to residents. This article is hardly conducive to encouraging international trade, and it was asserted that this law contributes no additional funds to the state budget.

Another Article, of the same code, that is also considered to be obstructive is Article 203, which imposes a tax on all vehicles exiting Georgia.

Insurance FIATA created an insurance association for freight forwarders and sea agents some 30 years ago (TT-CLUB: THROUGH TRANSPORT MUTUAL INSURANCE ASSOCIATION), to try and co-ordinate the availability and coverage of insurance. This trust represents over 6,000 freight forwarders, 1,725 ports, and 700 vessel owners in 80 countries of the world, and provides economical risk insurance for its members, on a non-profit basis.

However, the provision of insurance in Georgia is regulated by the Law on Insurance (no. 690 dated May 2nd 1997). Paragraph 1 and sub-paragraph “a” of Article 14 of this Law, requires both the insured party and the insurance broker to follow certain defined limits in terms of coverage and required equity. These requirements prevent any Georgian Freight forwarder from joining the above association, and other Georgian insurance companies are unlikely to take such high risks, ostensibly leaving the actors in the sector uninsured.

5.3.2 Other Structural Problems

Lack of Power The main structural problem in the Georgian context would appear to be the variable and intermittent electricity supply. This problem is particularly prevalent in the winter months, when the power can be cut for period of up to eight hours. This obviously has widespread implications for the operations of the business sector, but one specific problem is that it reduces the lifting capacity of the cranes at the port of Poti by nearly 90%.

5.3.3 International Compliance

Ministry of Trade The areas of trade facilitation and international compliance in Georgia fall under the auspices of differing departments within the Ministry of Trade. However, the current political changes in the country, were engendering some flux in the ministry at the time of the consultant’s visit. The responsibilities for external trade relations were being passed to the Ministry of Foreign Affairs.

WTO Status	Georgia is already a member of the WTO, having joined in July, 2000. The required adjustments, prior to full membership, included a reduction in tariffs on manufactured goods and an increase in tariffs on imported materials.
Other areas	The Ministry also monitors the scale of the ‘black economy’ in the country. One estimate, based on the difference between the respective national import and export data for Georgia and Armenia, suggests that the illegal trade between these two countries amounted to some 88.8 million USD in 1998.
Export promotion	<p>The European Union has, through the TACIS programme, supported the formation of a Georgian Export Promotion Agency (GEPA). This agency has been formed as part of a twenty-four month project, which is now approximately halfway. The project has been based on a successful initiative in one of the European regions.</p> <p>The explicit objective of the project is to increase exports, and make a concomitant contribution to the trade deficit. The Agency sees three key roles: training for prospective exporters, the provision of necessary information and export promotion, focusing on a number of key sectors; wines and spirits, foods, mineral waters, food processing, furniture, cement, stone facings and tiles and intellectual property. It has also, recently, formed an Association of Georgian Exporters.</p>
International conventions	<p>The following list represents a compiled summary, from various sources⁶, of the most important international conventions and agreements signed by Georgia:</p> <ul style="list-style-type: none"> • Geneva Convention of 1982 “Agreement on the conditions of the control of goods at borders”; • Barcelona “Convention and statute of free transit” dated April 21, 1921; • Convention “On the agreement of international road shipment of goods” (Geneva, 1956), CMR; • “Geneva international convention on safe containers” of 1972; • “International convention on road traffic” (Vienna, November 08, 1971); • “Customs convention on the international shipment of goods” (TIR) (1975); • “Vienna convention on the international purchase and sale of goods” (Vienna, 1980); • “International convention on sea shipment of cargo” (Hamburg rules, 1978); • “Agreement on the main transport arteries” (AGR) (1975); • “International convention on the liability of transport terminal operators”, 1994; and • International convention on ensuring readiness in cases of pollution by oil, fighting them, and co-operation (OPRC, 1990).

⁶ Association of Georgian Freight Forwarders (1999), Scott Wilson Kirkpatrick, (1996) “Trade Documents & Customs Procedures Report”, A report for TACIS for the TRACECA Project, and collected data.

5.4 Armenia

5.4.1 The Legal Framework

Customs Code

The present institutional framework of the Customs service is defined by The Customs Code of the Republic of Armenia (27 August, 1993). However, this code is now out of date, and requires replacement.

The Department of Customs Legislation has been developing a new customs code, which passed its first reading in the legislative chamber late last year (1999). The Department subsequently received several hundred recommendations for amendment, which have been incorporated into the latest draft. The plan is to complete this process by the middle of 2000, with a view that the code will be in force by January 1st, 2001. This code has been prepared with technical assistance from DFID, and was reported to represent a significant improvement.

5.4.2 Structural Issues

Scrap metal

There are a number of commodities in Armenia, whose export was previously restricted informally, to a limited number of parties. This restriction has been formalised by a new law, which forbids the export of certain commodities without prior permission. The official perspective is provided in the following text box.

Export Controls and Export Licences

The Armenian Customs Directorate controls the export of a number of products, to ensure that they are not exported from Armenia at prices lower than the minimum export prices set by the Ministry of Economy. These products can be exported at lower prices, if the exporter pays the difference to the state budget, or secures a special permit from the Armenian government, or if the exports are made according to international agreements entered by Armenia.

The controlled products include:

- Non-ferrous metals, including secondary ones; their alloys, powders, oxides, salts, semi-products; scrap and waste; products from non-ferrous metals (except for products manufactured in Armenia): code 74.01-74.14, 75, 76.01-76.14, 78, 80, and 81.01-81.13;
- Products made from ferrous metals (except for products manufactured in Armenia): code 72.00;
- Scrap and waste of ferrous metals (except for of products manufactured in Armenia): code 72.04.

Source: Armenian Customs Code

Aviation fuel	A further structural problem relates to the cost and availability of aviation fuel at Zvartnots airport in Yerevan. The problem is that sometimes the fuel is in short supply at the airport, and this availability is reflected in a rather volatile price.
The tax authorities	A common impediment to the development of the business community, and indirectly international trade, is the attitude of the taxation authorities towards foreign investors and the business community as a whole. Some members of the latter feel that they have a rather difficult relationship with tax officials.

One specific problem in the Armenian context relates to the existence of an incentive structure, supported by law, which grants tax inspectors a commission on fines collected from investors to replenish the State Budget. This encourages officials to concoct violations to gain the commissions, and foreign companies are a favoured target for this practice.

5.4.3 International Compliance

The areas of trade facilitation and international compliance in Armenia fall under the auspices of differing departments within the Ministry of Trade.

WTO Status	The Ministry of Trade is working towards achieving full membership, and approximately 2/3rds of the necessary changes have been made. One major stumbling block is the current monopoly status of the domestic telecom company in Armenia, Armintel.
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The Ministry is also currently active in a number of other areas; export promotion, the creation of an Armenian Development Agency, and the identification of factors that inhibit foreign direct investment. One element of the latter work is concerned with identifying, and alleviating, problems in the movement of import and export consignments.

International conventions	The following list represents a summary, compiled from various sources ⁷ , of the international conventions and agreements signed by Armenia. A distinction is made, where known, where full membership has not yet been received:
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- TIR convention (1975), (although not yet gained full member status);
- Convention “On the agreement of international road shipment of goods” (Geneva, 1956), CMR;
- Convention on agreeing upon the conditions of carrying out cargo inspections at the border (Geneva, 21.10.82); and
- Convention on the unification of some rules of international air shipments (Warsaw, 12.10.29).

⁷ Association of Georgian Freight Forwarders (1999), Scott Wilson Kirkpatrick, (1996) “Trade Documents & Customs Procedures Report”, A report for TACIS for the TRACECA Project, and collected data.

It should be underlined that this list has been compiled primarily from secondary sources, rather than primary data collected during the course of the mission, and should be read accordingly.

6. The Border Crossings and Inland Terminals

6.1 Azerbaijan

6.1.1 The Red Bridge Customs Station

Layout and condition	<p>The Red Bridge customs station lies on the Azeri side of the Azeri-Georgian border, and it was rebuilt in 1998, when the bridge, and new access road, were constructed with European Union assistance. The facilities comprise a substantial two-storey building to the side of the road, together with two canopy-covered areas in front to serve light vehicles and lorries, respectively, and separated by a single story office building. The covered inspection area has pits to permit under-vehicle inspection and the general condition of the facility appeared good.</p>
Staffing	<p>The Customs Service staff, at the station, totals 28 members, of whom 8 are on full-time duty at any one time. They each work an average shift of 12 hours, and total 168 hours per month. The staff on duty during the visit looked smartly attired, and appeared to be reasonably efficient in the, admittedly limited, transactions observed by the Consultant.</p> <p>The Customs staff are assisted by representatives of a number of other institutions; the sanitary services, the state transport authority, the border police, and the army. The stakeholder maintained that there were occasional difficulties in co-ordinating the work of the organisations, who all report to different domestic ministries. It was asserted that the service could be refined if the relationship between the agencies, together with their lines of communication, was clarified.</p> <p>The latter three authorities are physically located at a distance from the Customs House, necessitating a passing vehicle to stop on a number of other occasions. There appeared to be little additional parking space by these halts.</p>
Traffic volumes	<p>The total volume of lorry traffic approximates 250-300 per month, and comprises 120 trucks which are either originating or destined for Azerbaijan, together with a further 160 transit consignments. The total number of vehicles per day, including light vans and cars, approximates 200, a decline from 700 a few months ago, which was explained by the macro-economic conditions.</p>

However, the former figure is substantially beneath the figure quoted in the TRACECA Border post study, which quoted a figure of 17,500 trucks per annum. The discrepancy could not be explained.

Computer use The information collected by Customs is recorded manually and then entered into a spreadsheet based package, on the one computer, which was kept in a locked room. The information is input on a daily basis, by one of four trained individuals, and then passed to the regional terminal, 50 kilometres away, on floppy disc, prior to onward transmission to the Baku Headquarters by modem connection.

Delays There were no vehicles waiting on either side of the border, and this situation was normal, accordingly to the stakeholder. He also maintained that normal users would generally pass in twenty minutes, and only in the case of new users or in cases where there were grounds for suspicion, would there be any delay. The stakeholder believed that the situation was slightly worse on the Georgian side.

It is unlikely that the current lack of recurrent delay at this border crossing will continue, if traffic volumes grow to either their former, or forecast, level. This delay is likely to be a function of the reasons discussed above, although procedures and space are likely to be significant contributors.

The Georgian Side The Georgian Customs Station at Krasni Most was located some 4 kilometres the other side of the border, which is marked by the river. The area in between was effectively open, and there was a bustling ‘duty-free’ market on the Georgian side of the Red Bridge, whose participants presumably cross one or other of the borders.

The Consultant was unable to arrange an appointment, *ex ante*, with the Georgian Customs Station, and so only viewed the facilities externally. The facilities appeared to consist of a roofed area over the road, and a small insubstantial single storey building, which was apparently constructed in 1995⁸. There is no parking area, and there were a number of trucks parked at the side of the road.

The road conditions deteriorated markedly on the Georgian side of the border, with extensive cracking and a few cases of complete failure of the surface. A maintenance crew was viewed undertaking patching.

6.1.1.1 Additional sources of occasional delay

Lack of Recognition One source of occasional delay results from the lack of recognition, given by the Azeri authorities, to certain international certificates. One explicit example related to medical certificates, which are required for the carriage of medical supplies. In the event of such a consignment arriving at the border, it would be delayed until the national tests had been undertaken, and results obtained. This was asserted to take up to three days.

Quarantine Lists The Customs station receives a list from the Commission of Quarantine that details all those cargoes that have permission to cross the border, and enter Azerbaijan.

⁸ Scott Wilson Kirkpatrick, (1996) “Customs Border Report – Appendix 1”, Basingstoke, UK. A Report for TACIS for the TRACECA Programme.

However, this list is mailed to the station, and given the reliability of the domestic post, often arrives after the consignment. An alternative scenario involves the arrival of a consignment that is not on the list. These eventualities were asserted to lead to occasional delays of 1- 2 days.

6.1.1.2 Other physical issues

A lack of capacity

There was limited additional parking close to the Customs Station, and the station staff direct traffic, which is required to wait, to some distant parking areas. This could lead to substantial and frequent delay as traffic volumes increase.

A further point relates to the actual organisation of the station, and the apparent lack of co-ordination between the different organisations. This is likely to compound the above difficulties, as vehicles waiting for any of the services, are likely to block the main road, and hinder the operation of the other services.

Shortage of Power

The station experiences frequent power cuts in the winter, which hinder their work. There is a back up generator, but there are problems obtaining the necessary fuel.

Lack of computer facilities

The above section noted the computer facilities available at the station, which consisted of one relatively antiquated desk-top, kept in a locked room and only operated by four trained staff. There were no computer terminals available at the lanes, and information was recorded in long hand.

6.1.2 Sovarto - Baku Inland Terminal

Location

This facility is located some 5 kilometres outside Baku, in a valley to the east of the city. It comprises a large secure area, with a substantial two-storey office block, which has been recently refurbished. It has an adjacent covered workshop for heavy lorries, together with two pits, which also looked to be in good condition. The whole site covers some thirteen hectares, and has a stated capacity of 300 vehicles.

History

The facility was initially developed in the soviet era, to act as a depot for the domestic international road fleet. It maintained the fleet of trucks, many of which are still sitting on the forecourt.

A misnomer

However, the application of the term ‘inland terminal’ to this facility is currently something of a misnomer. The depot used to have a customs facility, but the current dearth of business led to the service being withdrawn. There are no current plans to reintroduce customs officers to the site.

Investment plans

There are current plans to extend the facility, and the management maintained that they are in discussion with a prospective partner from the United Kingdom, to invest in a large, refrigerated storage and packing facility, to store fruit and vegetables, prior to packing and export.

6.2 Georgia

6.2.1 Poti Border Station

Coverage The Customs Station in Poti covers the port of Poti on the Black Sea, together with the surrounding regions of Gori and Svanesti. The station is open for 24 hours per day. The regional headquarters building was a substantial two-storey office building, which appeared in reasonable condition. It was located at a distance of approximately 2 kilometres from the main cargo port.

Human Resources The total number of employees amounts to 120 customs officials, of which 60 cover the port of Poti, and the remainder cover the surrounding regions. The normal shift last for 24 hours.

Customs clearance Customs clearance is undertaken as soon as a ship berths in the port. It is met as it ties up at the quayside by a committee, which consists of an appropriate mix of representatives from the border guard service, Customs, Sanitary control, phytosanitary control, veterinary service and the shipping agent. This process was asserted to work reasonably well, and delays were minimised.

However, one stakeholder reported that some of the services have '*...a low sense of responsibility*', which occasionally led to delay in clearance. One user of the port suggested that the staffing for some of the services was low, and in the event of sickness, or unforeseen incident, certification was unobtainable, and the consignment delayed.

The process of clearance was reported to require four separate stamps, from different organisations: The first facilitates offloading, the second is for the declaration, and the third and fourth are to confirm that the tax and duties have been paid. Freight forwarders make 98% of all declarations, with the remaining 2% being made by shippers/agents.

Onward movement The modal split of the onward movement of consignments is approximately 70-30 in favour of rail, and the latter has been gaining ground recently against the road mode.

Communications The communications facilities were held to be reasonable efficient, allowing the transmission of necessary information to Tbilisi.

6.2.1.1 Other sources of occasional delay

Documentation Officials reported that there were documentation problems with approximately 25% of all consignments arriving at the port. This was either incomplete documentation, or reflected a lack of knowledge of the specific requirements of Georgian law. The Customs requirements were asserted to be clearly visible for all new arrivals.

Groupage Cargo There was an explicit problem with groupage cargo, which was mentioned by a number of stakeholders. Apparently, when one of the consignments has a problem, the whole group of consignments, together with the truck is held by Customs until the problem is solved. There are bonded warehouse facilities at the port.

Lack of appropriate equipment	<p>6.2.1.2 Other physical issues</p> <p>The lack of resources experienced by the Georgian Customs Service again manifests itself here, in the form of a lack of technical equipment to help facilitate the work of the service. Specific <i>lacunae</i> mentioned included a lack of x-ray equipment, requiring certain cargoes to be opened and visibly inspected, and a lack of metal detectors.</p>
Lead Seals on transit cargo	<p>A further, and rather specific, problem experienced by the Customs service in Poti, and presumably elsewhere, related to the lead seals used to seal transit consignments. These seals have a code, or symbol, reflecting their country of origin, and are checked by Customs on arrival to ensure that the original seal is still in place.</p> <p>However, when the original seal cannot be read, or has been replaced, the consignment is stopped, opened, inspected and resealed prior to onward movement. This process normally takes between 12-24 hours. It was reported that this happens with approximately 10% of the consignments that originate in a Western European country, whereas it occurs with 50% of the consignments that originate in Turkey.</p>

6.2.2 Lilo Inland Terminal

Location	<p>This facility is located to the east of the city of Tbilisi, and serves the local region. The facility consists of a large two-storey building, which serves as the regional customs office, together with a secure parking area for the consignments to the rear. There were also some additional buildings to the rear, whose purpose was unclear.</p> <p>One area on the ground floor of the building appeared to be the area where customs personnel dealt with the declarations. There was a large room with four desks, with a computer terminal provided at each location.</p>
ASYCUDA	<p>The AYCUDA system has been operating in Lilo inland terminal for nearly six years, following significant support from the World Bank. There are tentative plans to extend this system, and the associated risk assessment procedures, to the other inland terminals, and, eventually, the border stations.</p> <p>The complete extension of this system, together with integration into the neighbouring countries, would a comprehensive system for handling manifests and customs declarations, accounting procedures, warehousing and import and export licences in Georgia, and the region. It would also generate reliable trade statistics, and allow the monitoring of a number of different functions to assess the efficiency of the domestic services.</p> <p>More specifically, it both increases Government revenue, and improves the clearance procedures for international trade. The extended introduction of this system to the region would provide a significant fillip to trade facilitation.</p> <p>However, the lack of resources in the Georgian customs service means that they have little idea when the system will be introduced into the other terminals, or for more widespread training to use the new system, even within Lilo terminal. The</p>

result, according to one stakeholder, is that they are currently utilising only 20% of the full potential of the system.

Volumes The facility currently handles approximately 40 consignments per day, but the approximate value was not known. They all arrive by road, and comprise both imports and exports. The Customs Officials asserted that average dwell times for both import and export consignments was an efficient 1.5 – 2 hours.

However, the stakeholder did concede that this could lengthen considerably when there was a problem with the documentation, which occurs in approximately 10% of all cases. These problems were attributed to the user's lack of familiarity with the precise requirements.

Human Resources The total number of full-time staff employed at the facility is 95, and the facility is open for acceptance 24 hours per day. The office is open for clearance between 9.00 and 19.00. There were no reports of delay, attributable to these opening hours.

Lack of equipment This terminal is no different to the other Georgian customs offices, in that the lack of resources has limited its operational equipment, and its efficiency. The specific *lacuna* mentioned was a lack of lorry weighing scales.

6.2.3 The Sadakhlo Border Station

Layout and condition The Sadakhlo border station is located on the Georgian and Armenian border, approximately one kilometre north of the Debed river which forms the actual border. The station comprises one building, whose origin appears to have a shipping container. It is in a poor state of repair, with little heating apart from a solid fuel stove, whose flume passes out through a hole in the roof. There was an obvious lack of adequate weatherproofing for operation in inclement conditions.

The road passing the station is narrow and of poor quality, and there is no additional on-road parking close to the station. There are no other inspection facilities at the site.

Human Resources The station is open 24 hours per day, and the total number of staff is 61, although this rota actually covers this crossing, the neighbouring rail border crossing and station and two minor road stations. The staffing on any one shift, at this station, is four, and each shift is 24 hours.

Traffic volumes The number of vehicles that pass through the station is approximately 125-150 per month, and comprises 85% cars and light vehicles, and 15% lorries, of which the vast majority are transit consignments for Armenia.

The figure was acknowledged to have fallen significantly, but it is still markedly different from the 2,500 lorries per annum, quoted in the TRACECA report on border crossings⁹. The reason for this discrepancy was not discovered, but could be ex-

⁹ Scott Wilson Kirkpatrick, (1996) "Customs Border Post Report – Appendix 1", Basingstoke, A report

plained, at least partially, by diversion to other crossings due to the poor condition of the access roads, notably the Marnueli to Gugati road, a switch to rail and/or the general macro-economic situation.

Computerisation	The station has one old computer, which is utilised to record the statistics of passing traffic, and produce print outs, which are either carried to Tbilisi in hard copy, or transmitted by the use of the satellite phone link.
Electricity supply	<p>The electricity current to the station is variable, and the degree of variability can be illustrated by the fact that the current failed twice during the consultant's visit of 1.5 hours. The station is also plagued by the endemic Georgian problem of power cuts in the winter months, but the situation is a little better here than many places as the power supply is purchased from Armenia.</p> <p>The station also has a small back-up generator, but limited resources mean that there is insufficient fuel to allow its use, in the event of interruption to the mains supply.</p>
Customs Clearance	All consignments are stopped and inspected, with inspection for transit cargoes, being restricted to the seal. If any consignment needs certification, then the sample is drawn on the spot and sent to Tbilisi for testing. The results can take 24-48 hours to return, whilst the consignment is required to wait. This was asserted to happen rarely.
Delays	There were no vehicles waiting at the crossing, and normal users were asserted to pass through in 15-20 minutes. Delay was asserted to be an occasional phenomenon, engendered primarily as a result of documentation problem. This was asserted to happen in less than 10% of the cases.
The Armenian station	<p>The equivalent Armenian station, at Bagratashen, was located approximately one kilometre away, close to the east end of the bridge over the Debed river, which forms the actual border.</p> <p>The Consultant was unable to arrange an appointment <i>ex ante</i> with the Armenian Customs Station, and so only viewed the facilities externally. The facilities appeared to consist of a substantial two-storey building, which appeared to be in good decorative order. There was a small parking area, located to the right of the station, which looked as though it could hold 5-10 cars, although the road was a little wider on this side.</p> <p>The road conditions improved, partially, on the Armenian side of the border, but the road traversed mountainous terrain, and, it was understood that the weather conditions impede passage, on occasion, in the winter months. There was evidence of extensive cracking and potholing in the road surface.</p>

A lack of capacity	6.2.3.1 Other physical issues There was no off-road parking close to the Customs Station, and no substantial distant parking area. This could lead to frequent and substantial delay if, or when, traffic volumes return to former levels.
Lack of facilities	This station had no equipment, or facilities, to aid inspection. There were no external lights to facilitate inspection after dark, no weighing equipment, no mirrors and no pits.
Shortage of Power	The station experiences frequent power cuts in the winter, which hinder their work. There is a back up generator, but there were some problems with obtaining the necessary fuel.
Lack of computer facilities	The above section noted the computer facilities available at the station, which consisted of one relatively antiquated desk-top.

6.3 Armenia

6.3.1 Yerevan Inland Terminal

Role	The interpretation of an inland terminal appears a little different from the standard interpretation, in the Armenian context. The customs service has granted licenses to three private operators to establish and operate customs warehouses, with customs staff located on site. The presentation of the declaration is undertaken at the regional customs house. The user is entitled to choose which one of the three warehouses will be the terminus for his consignment, and the three now compete for business. This competitive element was introduced three months ago.
Facilities	The facilities include a secure parking area for the trucks, together with extensive covered warehousing space of approximately 2000 sq. metres, and a further bonded warehouse of a similar size. There was a substantial and well-furnished two-storey office building, and a smaller building that was being utilised as a 'rest-lounge' for waiting drivers. The majority of waiting drivers, at the time of the consultant's visit, were reported to be Iranian.
Volumes	This is the biggest inland terminal of this type, with a monthly turnover of 500-700 trailers.
Problems	There were no problems reported in respect of the operation of the facility, and it enjoyed good communications. There was evidence of extensive use of computers in the day-to-day operations of the site. However, it was reported that the time elapsed from arrival until departure was, on average, 3 - 4 days.

6.3.2 The Margara Border Station

Location	The border crossing at Margara, between Armenia and Turkey, lies some 50 kilometres to the south west of Yerevan, in the Araks valley. It was formerly one
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of the busiest crossings between the two countries, and the expectation is that it will regain its position when the borders reopen.

Facilities

The actual border is represented by a river, which is spanned by a single track metal bridge. This looked, from an admittedly poor perspective, to be in poor condition, and replacement would probably need to be considered, prior to the reopening of the border. However, it is unlikely to be able to accommodate the expected number of vehicles, even if the structure proves sound.

The old border station is a substantial two-storey building, which, not surprisingly, appeared to be in poor condition. It is likely that extensive refurbishment, if not reconstruction, will be necessary to allow this facility to recommence its operational functions. There also appeared to be little additional space on either side of the facility for parking.

The access road to the border was in a poor condition, with the last 5-10 kilometres being single track, with evidence of extensive cracking in the surface. It is likely that this road would need to be widened and improved, prior to the re-opening of the border.

The Turkish side

The existence, or condition, of a comparative border facility on the Turkish side could not be confirmed from the Armenian side. It seems likely that a corresponding refurbishment/investment programme would be necessary.

7. The Physical Transport Infrastructure

7.1 Azerbaijan

7.1.1 Roads

Conditions	The overall condition of the road infrastructure in Azerbaijan was reported to be poor, and this was supported by the consultant's observations. The majority of the roads traversed, displayed extensive cracking, potholes and failed patches. The surface had failed completely on a number of short sections and some of the structures appeared to be in a poor condition, with a number of the overpasses 'sagging' on their supports.
Road Maintenance	The responsibility for road maintenance has been endowed to the State Road Construction Company (SRCC). However, there is, currently, a lack of resources to fund routine or periodic maintenance in Azerbaijan. The road fund charges are collected by the Customs Service, and the Vehicle licence charges by Averavtonagliyyat. The excess revenues from both these organisations goes to the state budget.
Lack of supporting facilities	A number of stakeholders complained that there were insufficient facilities along the road side, along this was generally not supported by the consultant's observation on the TRACECA highway, although not all the facilities were close to western standards.

7.1.2 Railway

Volumes	<p>The volume of international freight transport by train dropped to less than 10% of its previous level, after independence. The total goods carried amounted to approximately 100 million tons in 1990. This figure had fallen to approximately 9 million tons in 1995. Since that time, a slow increase has been experienced, to the level of approximately 14 million tons in 1999.</p> <p>The main cargoes carried include, <i>inter alia</i>, crude oil, primarily from Kazakhstan and, more recently, from Uzbekistan, together with cotton, metals, food products (meat, butter etc.) and equipment, chemicals and materials for the oil industry.</p>
Network	The primary railway lines for international rail transport are the line to Tbilisi (80% of the rail transport now uses this route), the connection to the North to Russia, and

the connection along the southern border towards the Azeri-enclave of Nakhichevan. This distribution is expected to change following the opening of the Azeri-Armenian border.

Tariff policy

A flexible tariff system has been introduced, with tariffs varying according to type of commodity and the required type of rolling stock. The rail tariffs were asserted to be internationally accepted, and are, apparently, adjusted annually.

Environmental problems

The railway is facing serious environmental problems at refuelling points, following fuel spillage/leakage, and they are currently seeking international finance to develop an action plan, and appropriate measures, to address these problems.

7.1.3 Airport

De facto monopoly

Baku Bina International Airport is owned by AZAL, Azerbaijan Airlines, who have established a separate company, the AZER Ground Transport Company, to manage and operate the airport. This appears to be a vertically integrated *de facto* monopoly with little regulation, and a number of the stakeholders reported that they are currently abusing their position.

One quoted example related to the fact that landing charges for competitive airlines, both cargo and freight, were being increased to try and drive the competition out of the market. This assertion was not confirmed by another source.

7.1.4 Port

Baku port

The port of Baku is the largest port on the Caspian sea, with a potential capacity of 30 million tons *per annum*, comprising 10 million dry cargo and 20 million oil and oil products. It is operated by The International Seaport of Baku, and also includes a ferry terminal, serving Aktau and Turkmenbashi, together with a container terminal. However, there is no free trade zone in the port, a fact that was mentioned explicitly by a number of stakeholders.

Container Terminal

This terminal has recently been refurbished with investment from the European Union, but the annual turnover is presently only 500-1000 TEUs. The management appeared confident that this figure would increase shortly, due to the signing of a new contract with Kazakhstan, which will result in the movement of 500 containers per month.

An additional contract has, apparently, been signed with a Polish/German joint venture, to transport cotton from Uzbekistan, which will generate an additional 1000 containers per month.

These volumes, if they appear, will ensure that the turnover of the terminal will be close to the figure suggested by the demand forecast, undertaken to assess feasibility of the refurbishment. The forecast suggested that the terminal would be handling 17,000 TEUs per annum by the year 2000.

Few delays	There are currently few delays as the port is operating at a fraction (13%) of its potential capacity.
Competition	The port of Baku, and its counterparts on the opposite side of the Caspian Sea, face increased competition in future, as Turkmenistan is in the process of constructing a new railway line to the north of the Caspian. This suggests that the operating efficiency of the ports will need to improve considerably if they are going to obtain a significant share of transit freight movements.
Ferry service	A ferry service is provided once a week to Aktau, and once a day to Turkmenbashi, with a fleet of nine vessels, of which seven are currently operational. These vessels have a capacity of 55 small vehicles, or 40 trailers, or 28 containers, and 202 passengers per trip.
Operational policy	The operational practices of these ferries appears to be the cause of some occasional delay in the onward movement of consignments. The ferries, in common with many in developing countries, appear to be operating an implicit cost-minimisation policy. The ferries wait until they are full before departing, rather than trying to maintain a scheduled service. This was asserted to often lead to a delay ranging between two - five days in the movement of consignments across the Caspian Sea.
Caspian Shipping	<p>Caspian shipping, who run the ferries, tried to respond to their critics by introducing a reservation system, for which they imposed a charge. This, it is alleged, provided a new opportunity for ‘rent-seeking behaviour’, and individual consignments were moved up and down the queue accordingly. The situation was exacerbated by the priority accorded to humanitarian aid.</p> <p>Caspian Shipping is another parastatal, which was formed by the ‘privatisation’ policies of the Azeri authorities. It also appears to be a <i>de facto</i> monopoly, as it owns the entire Azeri shipping fleet on the Caspian Sea, and apparent restricts the access of domestic users to use ships of other nations.</p>
Aktau	The European Union is supporting a plan to rehabilitate the port of Aktau, and a study of the feasibility of the proposed improvements has just been undertaken. A copy of the TOR is provided in Appendix C.

7.2 Georgia

7.2.1 Roads

Conditions	The overall condition of the road infrastructure in Georgia appeared to be poor, to very poor. The majority of the roads traversed, appeared to be worse than in Azerbaijan, and displayed extensive cracking, potholes and some longer sections where the surface had failed completely.
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The worst section was the last twenty kilometres of the Tbilisi – Yerevan highway, prior to the Armenian border, where long sections of the surface have failed. In

addition, there was a general lack of signage, both on this route, and on the other stretches of the TRACECA corridor.

Road Maintenance The responsibility for the maintenance of the 21,600 kilometre road network in Georgia, has been endowed to the State Department of Roads of Georgia (SDRG). However, the reporting lines for this agency have, apparently, yet to be defined. A Road Fund was established in 1995, and 30% of the collected revenue is allocated to the SDRG. The fund is estimated to collect, from various sources, USD 26 million in FY 2000, but there is still an apparent lack of resources for maintenance and rehabilitation. In addition, there is no independent body overseeing the road fund in Georgia, with the Fund currently reporting to the Cabinet of Ministers.

7.2.2 Railway

The Georgian Railway Company was not visited, but it was mentioned by a number of stakeholders in relation to difficulties in their work.

Power Cuts The primary motive power on the Georgian system is electricity, and so the imposition of power cuts significantly impedes its operational efficiency. The problem is worse in the winter months, when the power supply can be interrupted for period of up to 8 hours on a regular basis.

Shunting stock A lack of resources has led to insufficient track renewal work, and the non-replacement of much of the old antiquated rolling stock. One particular problem for the movement of freight consignments, is the reported lack of reliable shunting locomotives at the freight terminals.

Railway tariffs The issue of the railway tariffs for the movement of freight consignments appeared to be a general problem across all three countries. The basis of the present charging systems appears to be the old Soviet system of charging a flat ton/km charge, irrespective of the cargo, or competition.

The problem is exacerbated by the apparent tendency of the railway authorities to regard its present traffic as a 'cash cow', which will bear an increase in rates whenever an increase in revenue is sought. This culture needs to be overturned, and replaced both with a charging system that reflects the demand characteristics of the movement, and an improvement in the quality of the overall product.

7.2.3 Port

Poti port The operational performance of the port at Poti seemed to be regarded in a fairly positive light by the majority of stakeholders. However, there were a limited number of specific criticisms:

1. One stakeholder asserted that there was a shortage of quay space, which could lead to some occasional delay in tying up, and unloading;

2. The cost of port services (wharf charges, stevedoring, warehousing etc.) was asserted to be very high, in comparison to some of the other ports on the Black Sea.

The stakeholder who made the latter point also indicated a preference for Poti, as some of the other ports had much higher levels of criminality.

7.3 Armenia

7.3.1 Roads

Road conditions The road conditions in Armenia, appeared to be slightly better than on the Georgian side of the border. However, there was still evidence of extensive cracking and potholing in the road surface, with small points of failure. The situation is exacerbated by the extreme climatic conditions experienced in Armenia, and the fact that much of the country lies above 1000 metres. It was understood that weather conditions occasionally impede passage, on certain routes.

Domestic hauliers The majority of the Armenian domestic haulage fleet comprises single operators, with old antiquated lorries, who have emerged from the old state owned transport company following privatisation.

There was general agreement among the stakeholders that the quality of the fleet was very poor, with low reliability and little knowledge of international norms and standards. A number of the larger freight forwarders had formal agreements with hauliers in Georgia, to ensure the provision of reliable road haulage for their clients. A further advantage of using trucks registered in Georgia, is that it avoids the additional charges imposed on Armenian plated trucks, by the Georgian authorities.

7.3.2 Railway

Sector reform The reorganisation of Armenian railways into three separate parastatals was initiated by Decree no 634 in October 1998. The result was the establishment of three publicly owned companies, or *de facto* monopolies, covering railway transportation, rolling stock and infrastructure, together with a supervisory administrative body in the Ministry of Transport. The 'full' privatisation of the railway transportation company is scheduled for 2001.

Capacity There is substantial spare capacity on the railway network, with current annual freight volumes comprising only 5% of total annual volume carried during the soviet era. However, the amount of this spare capacity that could be realised would appear to be limited, with extensive speed restrictions, 20 kilometres per hour, on much of the network. These restrictions have been imposed for safety reasons, due to the lack of maintenance and track renewal.

Volumes The current volumes carried on the network are 1.5 million tons of freight and approximately 1.5 million passengers. The former primarily comprises movements of consumer products, oil and construction materials.

Infrastructure costs	The cost of access to the infrastructure is calculated for the forthcoming year, based on the two companies estimates of usage.
Tariff	The Railway Transportation company charges a fixed tariff per ton kilometre for access to the network. The precise tariff is 0.024 USD per ton/km, irrespective of cargo, and is defined by Government Decree. Some discounting has been allowed, for limited periods, to try and attract new traffics.
User criticisms	<p>The users of the system mentioned a number of current difficulties that had experienced in their professional relationship with the Armenian Railway Transportation Company. These included the following:</p> <ul style="list-style-type: none"> • The lack of staff qualified in ‘market-based’ thinking; • The 0.024 USD per ton/km charge is applied irrespective of the cargo and distance; and • Those rates are artificially increased, and then discounted (up to 50%) for short periods, with no apparent reason.

7.3.3 Airport

Air cargo terminal	The air cargo terminal at Zvartnots airport was opened in 1997, and covers over 10,000 square metres. Its services include land transportation from plane to facility and processing, and there is a customs office on site. The terminal is also equipped with modern equipment, including a small x-ray machine. The latter was mentioned as a cause of recurrent delay in the movement of some consignments.
Capacity	The terminal has an annual capacity of between 80,000 and 100,000 tons, but current utilisation amounts to only a fraction of that total, at 15,000 tons in 1998, and 12,000 tons in 1999. This despite comments from a number of stakeholders, which suggested that they would make greater use of the facility if the fees were lower.
Tariffs	The current tariffs range from between 20 USD per ton for foodstuffs to 100 USD per ton for certain food products and beverages. The first three days warehousing is free, and after that point, the cost is 20 USD per day.
Financial performance	The terminal is currently operating at a loss, and has previously been cross-subsidised by the more profitable elements within the airport. However, this year the state budget will be picking up the deficit, as it provided the guarantee to the EBRD loan facility for construction.

One apparent problem appears to have been an overly ambitious demand forecast in the initial feasibility study, which appears to have assumed that the 1992 turnover of 80,000 tons, would be broadly maintained, after opening, despite the subsequent introduction of a high user charge.

These forecasts, together with the Government Guarantee, justified the provision of a USD 22.8 million loan, which was to be repaid by 2008. The airport authorities have apparently tried to re-negotiate the terms of the loan with the EBRD, but with little success.

Aviation fuel

The other problem mentioned in relation to the role of the airport, was the cost and availability of aviation fuel. The problem is that sometimes the fuel is in short supply at the airport, and this is reflected in a rather volatile price.

7.4 The Surrounding Countries

The following points represent a brief summary of the main physical problems with the transport infrastructure in the neighbouring countries.

- There are different gauges in operation either side of the Armenian and Turkish borders, which will all passengers and freight consignments to be transhipped. This is likely to form a significant impediment when the border is reopened, and trade volumes grow;
- The port of Turkmenbashi on the Caspian Sea has a lack of berths for the ferry boats, leading to delays berthing the ferries;
- The level of criminality in some of the Russian ports is considered high, and the port of Novorussisk is considered to be less efficiency than Poti;
- The Volga-Don canal route to the Caspian has both a draught restriction of 50,000 to 100,000 tons, and an institutional restriction on the use of the canal by the Azerbaijan fleet; and
- The strength of the quaysides along the canal was also mentioned as an impediment to the movement of heavy cargoes.

8. International Trade in the Region

8.1 Introduction

This chapter provides an overview of the current trading performance, by sector and major trading partners, for the three countries. The primary source of this information is the EIU Country Profiles, which has been supplemented by trend data collected during the mission. This information is provided in the following section.

Section 8.3 reviews those stakeholder comments, which provide an indication the likely diversion of transit flows in the region. The final section examines the current trading milieu for a limited number of key import/export sectors in the three countries, highlighting any additional specific problems experienced by these key sectors.

8.2 The Current Situation

The break-up of the command economy

The atomisation of the former Soviet Union had a deleterious impact on the economic performance of the three countries in the Caucasus region. The relatively defined role of each economy, in the centrally planned system, denied them the necessary flexibility to survive the breakdown of the command economy.

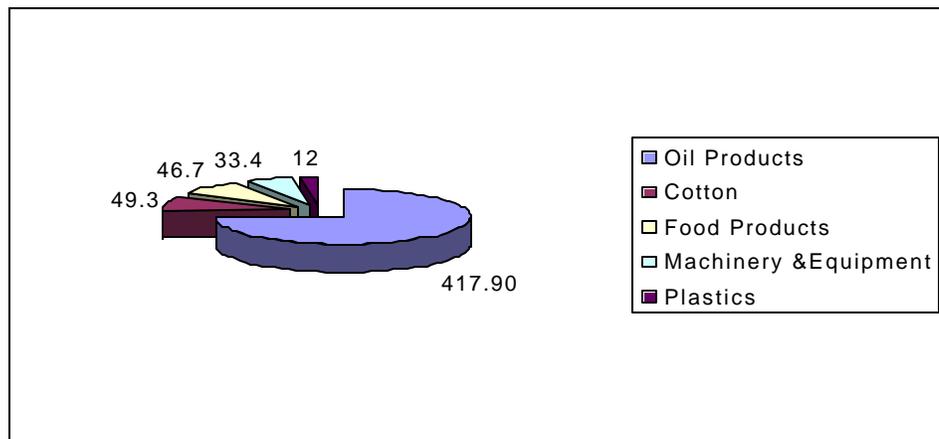
The concomitant disruption of trading relationships, and the lack of international competitiveness of the majority of domestic industrial production, contributed to a severe economic contraction. The level of real GDP in Azerbaijan and Armenia, fell to approximately half the level attained at the end of the Soviet era, whilst the comparable fall in Georgia was one-third of the former level.

8.2.1 Azerbaijan

The Azerbaijani economy

Azerbaijan is the least developed of the three Caucasus countries, in industrial terms, but it is endowed with significant natural resources, primarily in the form of oil and natural gas. The existence, and exploitation, of these resources has contributed to the development of a number of associated industries, including, *inter alia*, chemical and petro-chemicals, and oilfield equipment. The output from these industries, together with textiles, cotton and food products, comprise the majority of Azerbaijan's exports, as illustrated in the following figure.

Figure 8-1 Main Exports by Value 1998 (Mill USD fob)

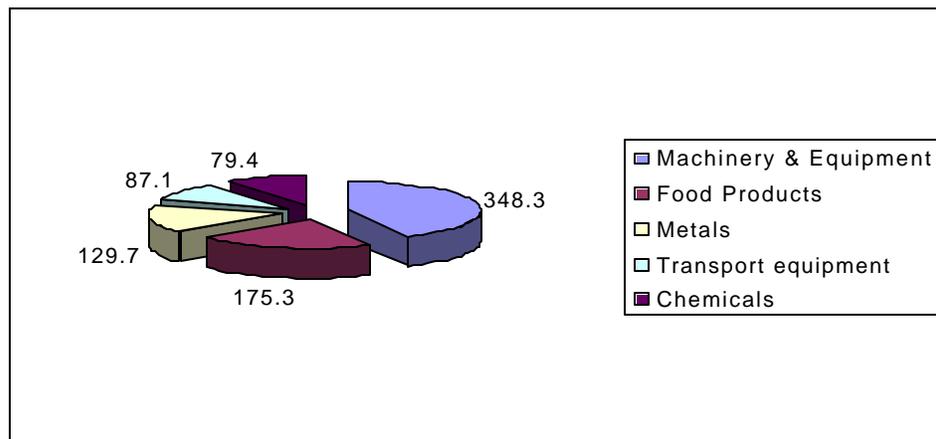


Source: EIU Country Profile 1999-2000

The country, in structural terms, probably more closely resembles one of the Central Asian states, with a predominantly Muslim population, high structural unemployment and a lower standard of living. Although, the recent rise in the price of oil is likely to have a beneficial impact on the domestic economy, it still appears overly reliant on one sector, with all the inherent dangers.

The following figure indicates that the main imports into Azerbaijan, are primarily machinery and equipment for the oil industry, food products, transport equipment and chemicals.

Figure 8-2 Main Imports by Value 1998 (Mill USD, fob)



Source: EIU Country Profile 1999-2000

Key Trading Partners The orientation of the Azeri economy changed markedly after the breakdown of the FSU, with a realignment towards western, or more specifically Turkish and European, markets, and away from former trading partners in the FSU.

The subsequent recovery in the economic performance of the latter countries, appears to have led to their re-emergence as important trading partners for Azerbaijan, with Russia now representing the most important trading partner. The other point of note is the apparent volatility of the trade volumes with some of the partners. For example, imports and exports to Turkey declined by 35% and 48% respectively, between 1998 and 1999.

Figure 8-3 Main Trading Partners by Export/Import Value (Mill USD, fob) and % of Total Value 1998-1999

Country	Import value (Mill USD) & % of Total				Export value (Mill USD) & % of Total			
	1998		1999		1998		1999	
Turkey	220.1	20%	142.4	14%	135.8	18%	69.0	7%
Russia	193.8	18%	225.8	22%	105.7	17%	83.0	9%
Georgia	25.2	2%	9.5	1%	76.9	12%	71.7	8%
Iran	42.5	4%	47.4	5%	44.4	7%	22.6	2%
Ukraine	92.9	9%	38.4	4%	12.0	2%	23.6	2%
United Kingdom	68.9	6%	67.0	6%	40.3	6%	10.8	1%
Germany	46.7	4%	46.0	4%	5.5	1%	7.6	1%
USA	39.7	3%	82.9	8%	13.8	2%	29.8	3%
Italy	9.0	1%	8.2	1%	45.0	7%	31.0	3%

Source: Azerbaijan Ministry of Commerce

8.2.2 Georgia

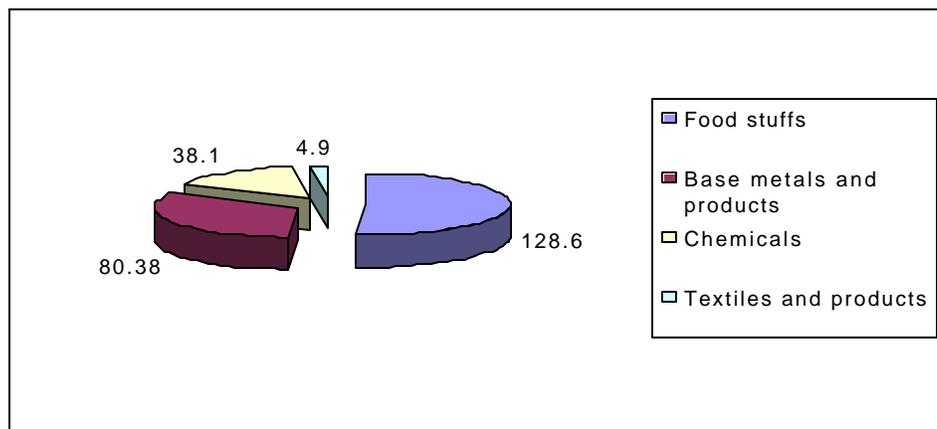
The Georgian economy has traditionally revolved around tourism and agriculture, with the output of the latter sector, mainly comprising citrus fruits, tea and grapes. However, the economy has been deficient in grain, dairy products and meat, and has required compensating imports of these products. Despite a significant fall in

production following the break-up of the Soviet Union, the agricultural sector was responsible for nearly 28% of GDP in 1999.

Exports

The country also has some limited extractive industries, primarily involving the mining of manganese and copper, together with a small industrial sector, producing wines and other beverages, metals, machinery, chemicals and textiles. These latter sectors comprise the majority of Georgian exports, as illustrated in the following figure.

Figure 8-4 Main Exports by Value 1997 (Mill USD fob)

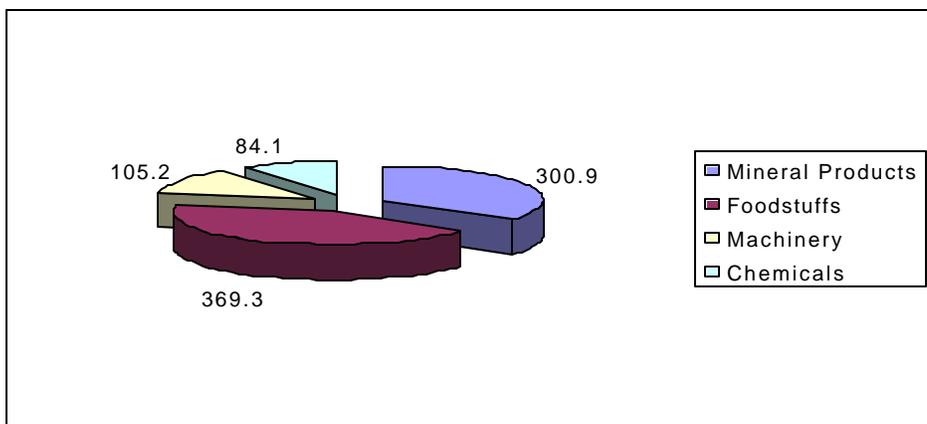


Source: EIU Country Profile 1999-2000

Imports

Georgia has to import the bulk of its energy requirements, as it has little domestic resources, with the exception of a small hydropower sector. Other important Georgian imports include, *inter alia*, foodstuffs, machinery and parts, and chemicals. The main imports in 1997, by value, are illustrated in the following figure.

Figure 8-5 Main Imports by Value 1997 (Mill USD fob)



Source: EIU Country Profile 1999-2000

Key Trading Partners

The orientation of the Georgian economy also changed after the breakdown of the FSU, with the relative share of exports and imports to/from the CIS countries falling from 77% and 69% in 1993, to 60% and 36% respectively in 1997. The following

table provides a breakdown of the major trading partners, by value, for the years 1997 and 1998.

Figure 8-6 Main Trading Partners by Export/Import Value (Mill USD, fob) & % of Total Value 1997 - 1998

Country	Import value (Mill USD) & % Total				Export value (Mill USD) & % Total			
	1997		1998		1997		1998	
Russia	50.4	5%	212.1	20%	67.8	29%	68.4	28%
Armenia	8.6	1%	10.5	1%	23.2	10%	22.8	9%
Azerbaijan	46.6	5%	129	12%	18.4	8%	23.1	9%
Turkey	82.6	9%	124	12%	19.9	8%	30.3	13%
EU	-	-	294	28%	-	-	45.3	19%

Source: EIU Country Profile 1999-2000 & Country Report

This table clearly illustrates the continued importance of the CIS markets to the Georgian economy, consuming approximately 45% of Georgian exports and providing nearly 40% of Georgia's imports over the specified period.

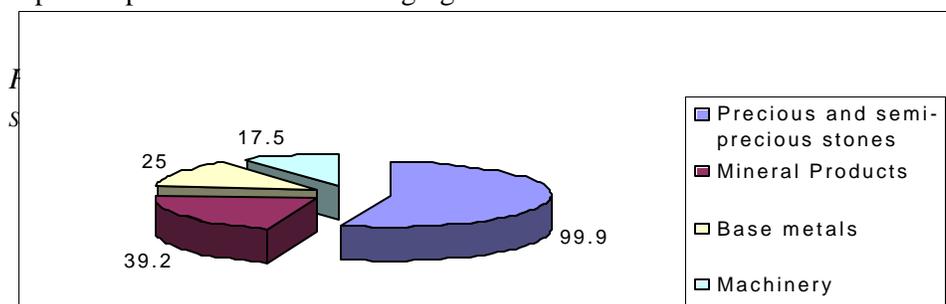
8.2.3 Armenia

The Armenian economy was, formerly, dependent on large agro-industrial complexes, and a substantial, although now largely redundant, industrial sector. The products of the latter, which included machine tools, textiles and other manufactured goods, were often exchanged for raw materials and oil products, with other areas of the Soviet Union.

In the agricultural sector, the Armenian authorities have, in recent years, endeavoured to switch agricultural production away from large complexes, towards smaller scale production. The main modality of this policy has been privatisation, although implementation has been slow. In addition, low levels of investment and a lack of modern technology have further hampered the potential contribution of the sector, although it still comprised 33% of GDP in 1998.

Exports

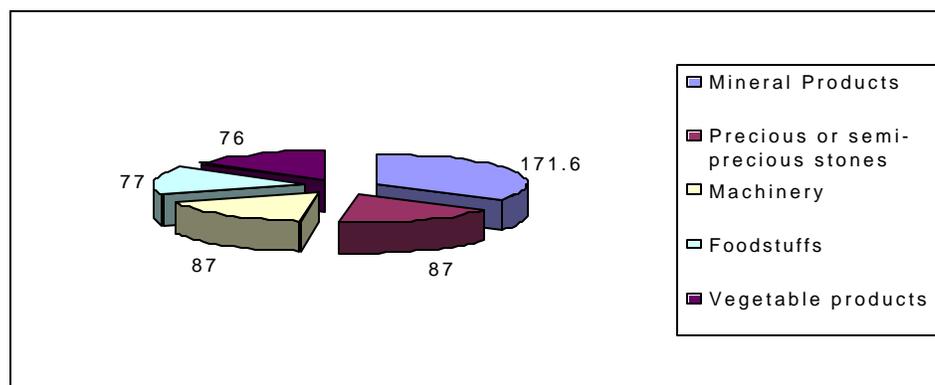
The majority of Armenian exports comprise some residue from these former industries, including electrical equipment, together with some high value metal products, notably gold jewellery, and precious and semi-precious stones and related products. This trade includes the processing of uncut diamonds for the Belgian market, which takes advantage of the skilled labour available at low rates. Armenia also has a garment sector of increasing significance, a food processing and beverages industry, and also exports of energy to Georgia. A breakdown of Armenian exports is provided in the following figure:



Imports

The major imported goods into Armenia presently consists of considerable quantities of foodstuffs and grains, together with fuel, other oil products and raw materials for the exporting sectors. The following figure provides a breakdown for 1999.

Figure 8-8 Main Imports by Value 1999 (Mill USD fob)



Source: Armenian Ministry of Industry and Trade

Key Trading Partners

The following table provides a breakdown of the major trading partners, by value, for the years 1997 - 1999. Any reorientation of the Armenian economy, in the same manner as the previous countries, back to towards the major CIS countries is not revealed in the figures. The figures suggest that Armenia is continuing to develop its trade links with non-CIS countries.

Figure 8-9 Main Trading Partners by Value (Mill USD, fob) & % of Total Value 1997 - 1999

Country	Import value (Mill USD) & % of Total						Export value (Mill USD) & % of Total					
	1997		1998		1999		1997		1998		1999	
Russia	215.9	24%	191.4	21%	138.3	17%	62.9	27%	40.0	18%	33.8	14%
USA	116.1	13%	96.3	11%	85.7	11%	7.1	3%	11.6	5%	16.2	7%
Belgium	49.7	6%	54.6	6%	85.2	11%	47.0	20%	49.8	23%	84.3	36%
Georgia	38.2	4%	26.8	3%	26.9	3%	10.7	5%	9.6	4%	11.2	5%
Iran	88.7	10%	63.9	7%	78.5	10%	42.6	18%	31.4	14%	34.2	15%
Turkey	7.2	1%	3.0	0.3%	1.1	0.1%	38.4	16%	56.8	26%	40.2	17%

Source: Armenian Ministry of Industry and Trade

Benefits of Peace

The table reveals the scale of current trade with Turkey, despite the continued imposition of the economic embargo. The Armenian Ministry of Industry and Trade has undertaken some analysis of the lifting of the economic embargo. The analysis examines the prospective benefits of a number of scenarios: One scenario predicates the reopening of one transit railway line, and estimates that total exports would increase by 25%. A second scenario predicates the reopening of all four transit railway lines, and estimates that exports would increase by 100%.

8.3 Some Influences on Transit Volumes

The Development of the ‘Silk Road’

A number of stakeholders asserted that they were offering transport services along the TRACECA corridor, but that the higher cost, and uncertain reliability, of this route, *vis-à-vis* the alternatives, was precluding the development of transit traffic. The following points buttress this interpretation:

- The movement of freight from Baku to China, via the ‘Silk Road’, was reported to cost 10 USD per ton more than an equivalent journey via Russia and Kazakhstan, and so this stakeholder chose to send any traffic, via the latter route;
- The movement of a container from Strasbourg to Turkmenbashi, via Baku, was reported to be considerably more expensive than via the northern route, using Russian Railways, although precise estimates of the extent of the cost saving and any diverted volumes, were not forthcoming;
- The movement of a container from Rotterdam to Tashkent was reported to be ‘significantly cheaper’ than the movement of the same container from Rotterdam to Baku;
- One stakeholder reported that the movement of refrigerated food from Riga to Uzbekistan, was USD 100 per tonne cheaper than an equivalent movement from Poti to Uzbekistan;
- The movement of a container from Baku to Poti costs 2,200 USD and takes approximately 3 -5 days by road. The movement of a container from Bandar Abbas to Baku takes 10 - 12 days by road, and costs 700 – 800 USD;
- One respondent in Azerbaijan stated explicitly that he prefers to use Iran than Poti, to avoid the heavy charges imposed on transit traffic on the latter route. There was no indication of the volume;

Reported cargo flows

A number of heavy cargoes were also moved on the routes to the north of the TRACECA corridor, primarily, in those cases, the Volga – Don canal. The specific cargoes included cement, grit and heavy equipment for Azerbaijan, and bulk cargo, technical and drilling equipment moving from Italy to Uzbekistan.

However, the selection of the northern route in these cases, appears to reflect the nature of the cargo, or a desire to realise significant economies of scale. This would suggest that the quantities that could be diverted, by a reduction in costs on the southern route, is likely to be small.

8.4 A product analysis

Issues facing the main Exporters and Importers

This section provides an overview of the major difficulties, and obstacles, impeding the major importers and exporters in the three countries. Whilst some repetition is inevitable, the general intention has been to avoid repeating earlier comment, and only report additional issues, specific to the selected sectors.

It is worth reiterating the general qualification, that the outline nature of this study, necessitated a rather broad interpretation, and the comments should be read accordingly.

8.4.1 Azerbaijan

Main sectors

The previous section noted the main export commodities for Azerbaijan as oil and natural gas, chemical and petro-chemicals, textiles, cotton and food products. The main import sectors were noted to include machinery and equipment for the oil industry, food products, transport equipment and chemicals.

Additional difficulties

These sectors reported few additional difficulties to those generic issues, mentioned earlier. One specific issue, which has already been mentioned in passing, related to movement of heavy and oversize equipment on the Volga-Don canal for the oil industry. This route is the only viable option for the movement of such cargoes, and the width of the canal and the strength of the quaysides, was reported to be a significant constraint for some movements.

A further specific difficulty, reported by a respondent involved in the movement of consignments of oil, related to an apparent lack of capacity in Batumi oil terminal. This was not validated by another source.

This apparent lack of additional difficulties seems to be attributable to the importance of these sectors in foreign currency terms, and the proactive involvement of the 'public sector' in production and distribution.

8.4.2 Georgia

Main sectors

The previous section noted the main export commodities for Georgia as wines and other beverages, base metals, machinery, chemicals and textiles. The main imports were noted as foodstuffs, machinery and parts, and chemicals.

Ferro-alloy metals

This sector exports ferro-alloy metals to markets in, *inter alia*, Europe, America, Russia and Kazakhstan. The main additional problems of the sector were reported as the following:

- A lack of available finance to invest in new technologies
- A lack of export credits guarantees; and
- The availability of electricity, for a production process that requires significant inputs of power.

One potential solution to the latter problem, which is currently being pursued by one stakeholder, is the construction of 'on-site' power generating capacity. A proposal has been developed, and suitable funding sources are being investigated currently.

A lack of legal base

Other reported problems appear to be manifestations of more general issues, relating to uncertainty and ambiguity in the application of the customs code, of which the example in the following text box provides a good illustration.

Would you build a house from absorbent bricks?

The production processes in the ferro-metal sector employ very high temperatures, and the processes are highly dependent on inputs of raw material, which, in theory, are exempt from duty. However, in practice, there is some confusion over the appropriate classification of some input. This means that some ‘means of production’ have duty and tax imposed, when they are imported into Georgia.

One specific example relates to magnetised bricks, which are used to line the furnace, and which are replaced on average, every three to four months. These bricks are a highly specialised item, as they absorb moisture, and assist in ensuring the purity of the final product.

However, these bricks are not currently exempt from duties, as Customs classify them as construction materials, despite the fact that they are totally unsuitable for construction. The importer is required to pay import duty of 70% and VAT at 20% of the value.

- Means of transport A similar general issue, reported by one stakeholder, related to the importation of ‘means of transport’. Currently, means of transport are allowed to be imported into Georgia tax free, but heavy lorries are not classified as means of transport, so any importer is required to pay taxes totalling 37%.
- Wines and Beverages This sector exports wines and other beverages to the following markets, *inter alia*, Russia, Ukraine, United Kingdom, United States, Kazakhstan, Armenia, and the Baltic States. There were few reported transport problems by stakeholders in the sector, and the sector appears to be rather sophisticated, selling CIF to some destinations.
- The sector imports bottles, labels, caps, primarily from Italy in the examined case, and the terms of trade on imports are also generally CIF. There were no reported problems obtaining the necessary domestic, or international, certification, but pre-shipment inspection was reported to be an inconvenience. The quoted problems reflected the need for the service to be booked in advance, and the occasional associated delay.
- Counterfeit products It is, presumably, a testament to the apparent success of this sector, that one reported problem is the appearance in some markets of counterfeit products.

8.4.3 Armenia

- Main sectors The previous section noted the main export commodities for Armenia comprise electrical machinery, high value metal products, notably gold jewellery and precious

and semi-precious stones, together with textiles, food processing and spirits and beverages.

The major imported goods into Armenia presently consists of foodstuffs and grains, together with fuel, other oil products and raw materials for the various exporting sectors.

The Machinery Sector	<p>This sector is a relic of Armenian industry in the Soviet era. However, on the admittedly limited evidence, the current producers in the sector appear to have adapted well to the demands of international markets, and are now both adding value to old designs, and developing new ones.</p> <p>The terms of the trade within the sector are primarily FOB for imports and exports, although CIF is not unknown in the latter case.</p>
Specific problems	<p>The problems that are currently afflicting this sector appear to be manifestations of general issues. For example, one relatively small firm utilises one employee exclusively as a <i>de facto</i> customs agent, to deal with the rigors of customs clearance.</p>
The spirits and beverages sector	<p>Armenia is a major producer of brandy, and enjoys an international reputation for the quality of the product. There has been substantial foreign investment in the sector, and one major domestic producer is now foreign-owned.</p> <p>The sector exports to, <i>inter alia</i>, the following destinations; Russia, Ukraine, Holland, United States, Georgia. It also imports dry goods for the sector, in the form of bottles, labels, stoppers from Italy, and Portugal respectively.</p>
Main problems	<p>The main problems of the sector were reported to be transport related, and come from two directions: The first relates to the general difficulty in moving any consignment under excise stamps, particularly in the CIS countries, with the majority of CIS roads closed to such consignments. One alternative, for those destinations, is to utilise containers, but the situation is still difficult, with the port of Novorussisk closing, randomly, to the passage of containers with excise stamped products. A related problem is that all containers are opened and inspected in the port, resulting in a normal ‘wastage’ rate, or theft, of 2/3 cases per container (at an approximate value of USD 400).</p> <p>The second issue relates to the difficulty of trading with the countries of Central Asia, due to the current economic embargo. The movement of one consignment to Kazakhstan, required nearly six months negotiations with the Russian authorities to gain permission for transit. This difficulty convinced one producer that the Central Asian markets were effectively closed, for the duration of the embargo.</p>
Preferred mode	<p>These difficulties mean that the preferred mode for the movement of the majority of consignments to the CIS countries, is air transport, with the attendant increase in transport costs. One producer moves approximately 50,000 bottles every ten days by air freight, but this is not problem free either. Every consignment has to be screened by the Armenian customs, prior to departure, with an x-ray scanner at the airport cargo terminal.</p>

Unfortunately, the size of the present scanner means that it is impossible to scan the whole consignment in one, as would be the norm in many Western countries. Thus, every case has to be scanned individually, which takes on average eight to twelve hours.

The oil and gas sector This sector involves the import of oil and gas products for the Armenian market, from origins to the west, such as Bulgaria, Rumania, and Italy. There are currently no imports from Russia, Kazakhstan or Azerbaijan, due to the poor transport connections, to the north and east, and the economic embargo.

The sector is currently experiencing two main problems: The first is the imposition of higher excise taxes on fuel, which has led to a fall in demand, and profit. The second problem relates to the transportation of the products through Georgia by rail. It was reported that Georgia imposes some unofficial taxes on the transportation of oil products, at a current level of 7-10 USD per ton.

Benefits of Peace It was estimated that the lifting of the economic embargo, and the sale of Azeri oil and gas products to Armenia on the same terms as enjoyed by other countries, would lead to a reduction in cost of 25%. A ‘back of the envelope’ estimate of the prospective saving, based on the current annual demand of 150,000 tons, and a quoted total cost of USD 225 per ton, would be approximately USD 85 million.

The textile sector The activities of this sector appeared to be primarily based on bilateral agreements, involving the importation of raw materials, and the subsequent export of the finished products, to one destination. The sector appears to have developed as a result of the availability of certain skills and the lower costs of production.

However, neither the value added by Armenian producers, nor the product, are unique, and many countries are trying to develop a textile sector, and offer lower labour costs, e.g. Bangladesh. Any increases in the cost of production are likely to undermine the competitiveness and sustainability of the sector, as exemplified by the decision of one stakeholder, who was investigating the movement of production to Russia to gain a cost advantage.

Main Problems The main problems of the sector, ignoring the above, were reported as being related to transportation and customs. All movements of imports and exports in the sector rely on containers, and so any changes in the customs code towards the treatment of containers has a concomitant impact on the sector. The following specific problems were mentioned earlier.

Empty containers Since the passage of a new law last year, an empty container is now classified as a good, for customs purposes. This requires the export of an empty container to undergo customs clearance, together with an official charge of 10 USD. Some stakeholders suggested that the total charge was closer to 30 USD to ensure clearance. This process also engenders an indirect cost in the form of additional demurrage charges on the container.

A related problem is that the Customs Service also levies an environmental protection fee of 0.2% of the value of the container, on dirty, or unclean, containers, prior to clearance.

9. Contributions by Other Agencies

9.1 Introduction

There appears to be a number of other agencies that are either active in the region currently, or have plans to become active shortly. This chapter provides a summary of the known agencies, and their current or prospective involvement.

9.2 Current or Planned Contributions

European Union

The EU has had a long standing involvement in the area through the TRACECA programme, and there are a number of components that are currently proceeding, or have been agreed for the next stage. Those projects falling into the former category include the following:

- A project to provide implementation support to the signatories to the TRACECA multilateral agreement, in continuation of the TRACECA 1998 project;
- A feasibility study for the rehabilitation and reconstruction of the main road link between Baku, Tbilisi and Yerevan;
- The rehabilitation of the Rail Ferry Terminal at the Port of Aktau, Kazakhstan; and
- The provision of improvements to the Customs Facilities at Central Asian Road Border Crossings.

The individual Terms of Reference for each of these studies are provided in Appendix C.

Second Stage

The next tranche of projects under this programme, and the associated action plan, was agreed at a conference in Tbilisi in March, 2000. The following list represents a brief summary of those projects, which appear to be particularly pertinent for this study, and a more detailed table is provided in Appendix E.

- **Harmonisation of Border Crossing Procedures** - A previous TRACECA project entitled Trade Facilitation identified many inconsistencies in the border crossing procedures applied by TRACECA states. These concerned for example; the documents used, the control processes, the legal basis for the various documents in use, and the overall effectiveness of the controls applied. This project will concentrate on implementation of harmonised border crossing pro-

cedures commensurate with the IGJC recommendations;

- **Unified Policy on Transit Fees and Tariffs** - Transit fees of various types are imposed in all TRACECA states, and there is some justification for imposing a cost related user charge on transit traffic. However, the issue of transit fees is very contentious. This project will propose rational, transparent fee and tariff scales to improve TRACECA competitiveness from end to end;
- **Common Legal Basis for Transit Transportation** - The transport legal framework of the former Soviet Union had little correspondence with the systems that have developed both in the EU, and internationally. The objective of this project would be to provide guidance in the organisation of a common legal basis for transit traffic in each TRACECA state;
- **Road Transport Security** - the project aims to create a competitive system of communication providing assistance under the umbrella of one technical standard;
- **Rail Feasibility Study** - A study to investigate the re-opening of the Railway Link between Erevan-Nachitchevan-Baku;
- **Rail Feasibility Study** - A study to investigate the re-opening of the Railway Link between Samtredia-Suchumi;

DFID/The Know
How Fund

The United Kingdom Department for International Development, in collaboration with the Know How Fund, are currently providing technical assistance and advice to modernise the Armenian Customs Service. The original technical assistance was for a period of two years, and a proposal is currently being prepared to consider extending the assistance, and providing sufficient additional resources to extend the introduction of ASYCUDA to all Armenian customs stations.

US Customs

The United States Customs Service are currently providing some advice and assistance to the Georgian Customs Service. The precise nature and extent of this assistance was not made clear.

Kuwait Fund

The Kuwait Fund has been requested by the Georgian SDRG, to provide assistance to allow the rehabilitation of a section of the Georgia – Armenia highway.

Appendix A – Objectives and Scope of Works

Objectives of the study	<p>The following objectives have been identified for the study of this ‘broad’ nature:</p> <ul style="list-style-type: none"> • To undertake a broad review of current difficulties in the cross-border movement of a routine consignment, and its associated payment, across the three countries of Azerbaijan, Georgia and Armenia; • To examine and evaluate specific difficulties and obstacles in the cross border movement of a routine consignment, and its associated payment, in the three countries; • To examine and evaluate specific difficulties and obstacles in specified border crossings/inland clearance terminals, for the movement of the three main exports and imports for each country; and • To identify any prospective measures, both immediate and longer term, in the form of organisation, monitoring, design, training, infrastructure and equipment, to facilitate such movements.
Scope of works	<p>The following points represent an appropriate scope of works for an outline trade facilitation audit:</p> <ol style="list-style-type: none"> 1. Conduct an outline trade facilitation audit, using the standard World Bank audit report, across the three countries. The study should try, where possible, to consider the impact of conflict resolution on potential trade flows between the three countries, and with the regional neighbours, especially Turkey and Iran; 2. The consultant shall interview a sample of key public and private parties in each of the three countries, using the introduction of the standard audit as a basis for the selection. The purpose of the outline audit is to provide an indication of the difficulties and obstacles impeding a cross-frontier movement of a routine consignment and its associated payment. The resulting work will provide concrete recommendations, where feasible, to expedite trade, and vehicle flows, within the region, and where possible, with neighbouring countries; 3. The consultant shall visit four major border crossings in the region (Georgia - Black Sea, Georgia - Azerbaijan, Georgia - Armenia and Armenia -Azerbaijan), and one customs terminal in each of the three countries to review trade facilitation aspects. The consultant shall focus on border crossings/inland clearance terminals for the first three export and import commodities in each country; and 4. The consultant will review the main reasons for bottlenecks, delays and increased costs for the three main exports and imports or each country. They shall also establish, where feasible, the impact of the bottlenecks on traffic, and assess the needs in terms of organisation, monitoring, design, training, infrastructure and equipment, and the associated benefits.

Appendix B – Component Description and Cost Estimates

The following tables provide a detailed summary of the required services by regional and national component description, together with a ‘ball-park’ estimate of likely costs, where feasible. The first table presents the regional components, whilst the subsequent tables present the national components. These initiatives are additional to current, or planned, initiatives by other international agencies, as mentioned in Chapter 8. The existence of overlap, where known, has been indicated in the final column:

Table 9-1 Component Description, Prospective Timing and Cost Requirements

Component	Sub-component description	Estimated Costs (USD)	Current Assistance in area
REGIONAL INITIATIVES			
1. Institutional Strengthening of the national Customs Services	1.1 Modernise customs code and ensure regional and international harmonisation	75,000 per country	Proposed WB study under the Peace initiative DFID in Armenia
	1.2 Develop a comprehensive set of procedures	75,000 per country	DFID in Armenia
	1.3 Implementation and training on new procedures	150,000 per country	DFID in Armenia, US Customs in Georgia.
2. Upgrade customs stations	2.1 introduce ASYCUDA system to all stations, together with necessary training	1,500,000 per country	DFID in Armenia
	2.2 modernise customs facilities to provide necessary facilities for above	500,000	-
3. Develop the capacity of those border stations not visited	3.1 detailed assessment of the current capacity of border stations and the identification of precise requirements	175,000	-
	3.2 provide the physical improvements at the border	1,500,000 per	-

	stations to improve capacity	station	
	3.3 provide the necessary technical equipment, including computerisation, for each station	150,000 per station	
4. Develop pilot projects at border stations	4.1 establish pilot projects for greater integration between national and international agencies	500,000 per project	-
5. Institutional Strengthening at the three Freight Railway Transportation Companies	5.1 detailed market analysis, demand forecasts and pricing and strategy study	75,000 per country	-
	5.2 develop capacity in pricing and economic and financial appraisal techniques for decision making	250,000 per country	WB in Armenia
	5.3 Component of regional study to assess the feasibility of the introduction of freight freeways to the region	150,000	-
6. Tax harmonisation in the three countries	6.1 a national component of a regional study to identify and recommend necessary changes to harmonise the structure and level of the respective tax systems	150,000	Proposed WB study under the Peace initiative
	6.2 Support the introduction of proposed institutional changes		
7. Credit availability in the region	7.1 A study to assess the potential of the current cost of credit as an impediment, and assess the prospective contribution of micro-credit institutions	150,000	-
8. Upgrading the TRACECA Highway	8.1 A study to assess the economic, environmental and technical feasibility of upgrading the main road between Baku, Tibilisi, Yerevan and Poti	1,000,000	TRACECA
	8.2 Actual Rehabilitation Work		Potential Contributors: WB, EU and Kuwait Fund

Table 9-2 Component Description, Prospective Timing and Cost Requirements

Component	Sub-component description	Estimated Costs (USD)	Current Assistance in area
AZERBAIJAN			
1. Feasibility of establishing a free trade zone	1.1 assess the feasibility of establishing a free trade zone, and identify all the institutional, physical barriers to such a process	150,000	-
2. Establishment of an 'Ombudsman's' Office	2.1 assess the legal and institutional changes necessary to introduce such an office	50,000	-
	2.2 assess the feasibility of establishing such an office	50,000	-
	2.3 Establish such an office	-	-
3. Technical assistance to the Ministry of Commerce	3.1 the provision of technical assistance to the Ministry of Commerce to assist in meeting the requirements of WTO membership	150,000	-
4. Institutional strengthening in the road sector	4.1 Clarification of responsibilities and optimal structures	50,000	-
	4.2 identification of sustainable funding sources and establishment of an independent road fund board	150,000	-
	4.3 A Road Condition and Ranking Survey, based on HDM4	150,000	-
5. Institutional Strengthening at Caspian Shipping	5.1 a study to analyse the market, identify optimal structure and strategy	150,000	-
	5.2 Encourage the introduction of proposed institutional change	-	-
6. End rent-seeking practices by public officials	6.1 Assess possible institutional options, and feasibility, for the use of the template discussed in section 5.1.1.	75,000	-
	6.2 Establish a pilot study of the introduction of the template	-	-
7. Institutional Strengthening at AZAL Airlines and Baku Bina airport	7.1 a study to analyse the market, identify optimal structure and strategy	150,000	-

	7.2 Encourage the introduction of proposed institutional change	-	-
8. Develop capacity of Red Bridge border station	8.1 detailed assessment of the current capacity of the neighbouring stations, to identify precise requirements, and optimum institutional structure	65,000	-
	8.2 The provision of necessary technical equipment <ul style="list-style-type: none"> • Computerisation and training to allow lane side operation and transmission 	150,000	-
	8.3 Provide the physical changes, of necessary: <ul style="list-style-type: none"> • Enlarge the station's road layout and parking area; • Identification of optimal site and feasibility of establishing a joint station in future; 	250,000	
9. Institutional Strengthening at the Azeri Freight Railway Transportation Company	9.1 The Development of an Environmental Action Plan, to assist in drawing up a strategy to deal with the legacy of environmental problems	150,000	-

Table 9-3 Component Description, Prospective Timing and Cost Requirements

Component	Sub-component description	Estimated Costs (USD)	Current Assistance in area
GEORGIA			
1. Feasibility of establishing a free trade zone	1.1 assess the feasibility of establishing a free trade zone, and identify all the institutional, physical barriers to such a process	150,000	-
2. Establishment of an 'Ombudsman's' Office	2.1 assess the legal and institutional changes necessary to introduce such an office	60,000	-
	2.2 assess the feasibility of establishing such an office	60,000	-
	2.3 Establish such an office	-	-
3. Institutional strengthening in the road sector	3.1 Clarification of responsibilities and optimal structures	50,000	Forthcoming WB project
	3.2 identification of sustainable funding sources and establishment of an independent road fund board	150,000	Forthcoming WB project
	3.3 A Road Condition and Ranking Survey, based on HDM4	150,000	Forthcoming WB project
4. End rent-seeking practices by public officials	4.1 Assess possible institutional options, and feasibility, for the use of the template discussed in section 5.1.1.	75,000	-
	4.2 Establish a pilot study of the introduction of the template	-	-
5. Develop capacity of the Sadakhlo border station	5.1 detailed assessment of the current capacity of the neighbouring border stations to identify precise requirements, and optimum institutional structure	75,000	-
	5.2 Provide the necessary physical improvements at the border stations to improve capacity <ul style="list-style-type: none"> • The provision of a new station building, laid out for the purpose; • The provision of booth, canopy and pits • Paving and fencing; 	500,000 250,000 50,000	-

	<ul style="list-style-type: none"> Widening the access road to four lanes; Provision of necessary parking close to the station 	400,000 250,000	
	<p>5.3 provide the necessary technical equipment for station:</p> <ul style="list-style-type: none"> Provide necessary level of computerisation and training Reliable GSM based communication system Provision of an appropriate weigh scales Provision of external lighting 	150,000 10,000 - 15,000	
6. Develop capacity of the Krasni Most border station	6.1 a detailed assessment of current capacity of the station, to identify precise requirements, and optimum institutional structure	75,000	-
	<p>6.2 Provisional assessment of necessary physical improvements to improve capacity at the border station, in the event of increased traffic volumes:</p> <ul style="list-style-type: none"> Provision of new building Widening the access road to four lanes; and Provision of necessary parking close to the station. 	500,000 400,000 250,000	-
	6.3 provide any necessary technical equipment for station:	-	
7. Develop the capacity of the Poti border station	7.1 detailed assessment of the current capacity of border stations and identify precise requirements	75,000	-
	<p>7.2 provide the necessary technical equipment for the customs at Poti port:</p> <ul style="list-style-type: none"> Computerisation at lane, and in passenger station, at ferry terminal Suitable x-ray equipment Suitable metal detectors 	- - -	
8. Develop the capacity of the Lilo inland terminal	8.1 provide the necessary technical equipment for each station	100,000	-

	<ul style="list-style-type: none"> lack of weigh scales 		
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Table 9-4 Component Description, Prospective Timing and Cost Requirements

Component	Sub-component description	Estimated Costs (USD)	Current Assistance in area
ARMENIA			
1. Feasibility of establishing a free trade zone	1.1 assess the feasibility of establishing a free trade zone, and identify all the institutional, physical barriers to such a process	150,000	-
2. Establishment of an 'Ombudsman's' Office	2.1 assess the legal and institutional changes necessary to introduce such an office	50,000	-
	2.2 assess the feasibility of establishing such an office	50,000	-
	2.3 Establish such an office	-	-
3. Institutional assistance for Cargo terminal, Zvartnots Airport	3.1 a study to undertake a detailed market analysis, demand forecast, and pricing and strategy study for the cargo terminal	150,000	-
	3.2 Using the results from previous stage to re-negotiate loan facility with EBRD	-	-
	3.3 provide necessary technical equipment <ul style="list-style-type: none"> provision of large x-ray scanner 	500,000	-
4. Institutional strengthening in the road sector	4.1 Clarification of responsibilities and optimal structures	50,000	Forthcoming WB project
	4.2 identification of sustainable funding sources and establishment of an independent road fund board	150,000	Forthcoming WB project
	4.3 A Road Condition and Ranking Survey, based on HDM4	150,000	Forthcoming WB project
5. Develop capacity of the Margara border station	5.1 detailed assessment of the capacity of the station to identify precise requirements, optimum institutional struc-	175,000	-

	<p>ture and any necessary technical equipment</p> <p>This study would also need to assess the condition of the bridge.</p>		
	<p>5.2 This list forms a provision estimate of the physical improvements that are likely to be necessary at the border stations to ensure sufficient capacity</p> <ul style="list-style-type: none"> • The refurbishment of the station building; • Provision of booths, canopies and pits • Paving and fencing; • Widening the access road to four lanes; • Provision of necessary parking close to the station; and • Provision of lighting. 	<p>500,000</p> <p>250,000</p> <p>50,000</p> <p>400,000</p> <p>400,000</p> <p>15,000</p>	-
	<p>5.3 provide the necessary technical equipment for station:</p> <ul style="list-style-type: none"> • Provide appropriate level of computerisation and training; • Provide a reliable communication system; • A generator; and • The provision of an appropriate weigh scales. 	- - -	
6. End rent-seeking practices by public officials	6.1 Assess possible institutional options, and feasibility, for the use of the template discussed in section 5.1.1.	75,000	-
	6.2 Establish a pilot study of the introduction of the template	-	-

Appendix C – Terms of Reference for TRACECA Studies

INTER - GOVERNMENTAL COMMISSION FOR THE IMPLEMENTATION OF THE MULTI - LATERAL AGREEMENT ON TRANSPORT

Final Recipients: Signatory States to the TRACECA Multi-Lateral Agreement

Justification and Objectives:

At a Presidential Summit on the “Restoration of the Historic Silk Route” in Baku on September 7-8, 1998 a “Basic Multi-Lateral Agreement (MLA) on International Transport for the Development of the Transport Corridor Europe - Caucasus - Asia” was signed by the Heads of Delegations of Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tadjikistan, Turkey, Ukraine and Uzbekistan, as well as Technical Annexes to the Basic Agreement on:

- international rail transport;
- international road transport;
- international commercial maritime navigation;
- customs procedures and documentation handling.

The goals of the Basic Agreement and its Technical Annexes are as follows:

- development of economic relations, trade and transport communication in Europe, the Black Sea region, the Caucasus, the Caspian Sea region and Asia;
- ensuring access to the world market of road and rail transport, and commercial navigation;
- ensuring traffic security, cargo safety and environment protection;
- harmonisation of transport policy and legal structure in the field of transport;
- creation of equal conditions of competition for transport operations.

In order to administer and promote the Basic Agreement and its Technical Annexes, an Inter-Governmental Commission (IGC) was established, with technical assistance of Tacis. While the principal role of the IGC is to administer the MLA, it is increasingly serving as a regional consultative body for trade and transport issues. The opportunity was taken to create parallel National Facilitation Commissions (referred to below as "National Commissions") in each of the participating states to reinforce the work of the IGC at a local level and to facilitate local consultation. An administrative secretariat with representation in each participating state at a high level in government was created too. The Inter-Governmental Commission comprises the Main Committee and specialised Working Groups for the Technical Annexes on road, rail, maritime and customs issues.

The present project will continue the work done under the project with the same title, done under the TRACECA 1998/99 budget. The objective of the consulting

mission defined in this fiche is to continue supporting the activities of the IGC for another year, with emphasis on :

- continued attempts to make Turkmenistan adhere to the MLA;
- further implementation of the MLA, by elimination of persisting non-physical bottlenecks, such as harmonisation, and publication, of customs procedures and documentation handling at border crossings;
- preparation of the agenda of meetings of the IGC;
- assistance in the programming and follow-up of TRACECA projects, initiated by the Signatory States of the MLA and funded by Tacis;
- support of the Permanent Secretariat in Baku on a day-to-day basis.

Main components

In accordance with the MLA, the IGC shall :

- regulate all questions concerning implementation and application of the framework agreement and its technical annexes;
- regulate the conditions of access to the transport market for each mode of transport except air transport with particular emphasis on user charges;
- regulate conditions for carrying out specific categories of traffic such as dangerous goods and perishable goods movement;
- develop a data bank of information on national and international transport legislation and transport policy and management and make this information available to participating states;
- develop effective links with other international organisations such as the UN-ECE, the European Union, the IRU, FIATA etc.;
- promote the development of multi-modal transport infrastructure links and services in the region;
- promote the development of modern freight forwarding and transport insurance services in the region;
- attempt to implement common customs and documentation procedures in the region;
- attempt to co-ordinate the development of transport policy in the region;
- attempt to develop a common transport policy towards third countries not participating in the agreement;
- attempt to develop a common legislative framework for trade, Customs and transport in the region;
- attempt to co-ordinate the enforcement of laws in the region;
- attempt to co-ordinate the ratification of international trade, Customs and transport conventions and agreements in the region;
- provide a forum for regional consultation between government officials and Trade Association representatives of carriers, forwarders, transport insurers, banks and other relevant representatives

The role of the consultant for this project will be to provide continued organisational support to further develop the Inter-Governmental Commission, and to provide expert professional assistance in the domain, including programming and follow-up of

TRACECA projects, initiated by the Signatory States of the MLA and funded by Tacis.

Project Budget **1 000 000 EURO**

Implementation timetable 12 months

**CAUCASIAN ROAD SECTOR
FEASIBILITY STUDY FOR
THE REHABILITATION AND RECONSTRUCTION OF
THE ROAD LINK BETWEEN BAKU , TBILISI AND YEREVAN**

Final Recipients : The Ministries of Transport and Road Departments of the three Trans-Caucasian Republics

Justification and Objectives:

Since the independence of the Caucasian Republics from the former Soviet-Union, their national economies have declined and their road rehabilitation and maintenance has been neglected. At the same time, road traffic has increased dramatically (+40% per year during the last three years). Therefore, extensive road rehabilitation and improvement programmes are required throughout the region. Several International Financial Institutions (IFIs) and other donors are planning major investments in road works for the three Trans-Caucasian Republics. TRACECA has previously provided road maintenance management systems, support for institutional reform, economic analysis and technical studies, to facilitate the mobilisation of external investment. Against this background, the project aims to sustain the existing and planned World Bank programmes for financing and co-financing with other IFI(s) and investors, the reconstruction and rehabilitation of the road connection between the three capitals of the Trans-Caucasian Republics : Baku, Tbilisi and Yerevan.

Armenian Republic :

As a result of the political situation in the region the road connection Yerevan-Vanadzor-Ayrum-Sadakhlo-Marneuli-Tbilisi (280 km) has become the main road transport axis for Armenia. It is the main link with the Black Sea ports, which are of primary importance for the development of the Armenian economy, through TRACECA. Practically all Armenian transit traffic, as well as an important part of national traffic, utilises this route. At present the road sector Yerevan-Vanadzor (130 km) has been rehabilitated in the framework of the first World Bank loan. The remaining 150 km road section is in a dramatic condition : about 60% of the road surfacing is degraded, exhibiting severe cracking and pot-holes, symptomatic of a complete and irrecoverable loss of the physical structure of the road pavement. Given the economic importance of this road connection, the necessity for the urgent reconstruction and rehabilitation appears obvious. Detailed studies proposed in this project are expected to confirm this.

Azerbaijan Republic :

The Government of Azerbaijan has requested the World Bank to finance the rehabilitation, reinforcement, and upgrading where appropriate, of the 274 km road section Ujar-Georgian border of the TRACECA corridor in Azerbaijan. This corridor is an important transit transport link between the Central Asian countries and the Black Sea ports of Poti and Batumi. Adjoining links of the corridor within Azerbai-

jan will be rehabilitated with the assistance of investments planned by the EBRD, the Islamic Development Bank and the Kuwait Fund. In agreement with the Government of Azerbaijan and the World Bank, the TRACECA study will provide the technical assistance for the preparation of the Feasibility Study, Engineering Designs and Bidding Documentation for the project to be financed by a World Bank loan.

Georgia:

The road from Poti over Tbilisi to the Azeri border, branching off southwards to Yerevan in Tbilisi, is a principal Trans-Caucasian TRACECA road corridor, linking the Black Sea to the Caspian Sea. It continues the Armenian and Azeri road sections described above. Under the TRACECA programme, 2.5 million € were invested in the road border crossing between Georgia and Azerbaijan : rehabilitation of the historical Red Bridge, construction of a parallel road bridge and refurbishing of the Georgian and Azeri border posts. In the last few years, the World Bank has financed the rehabilitation of some priority sections of this road, and now negotiations between Georgia and the World Bank on the rehabilitation of the remaining sections are in an advanced stage, while other IFIs and investors have shown interest in co-financing.

In order to support this road rehabilitation project, the current TRACECA project will provide a complete feasibility study and detailed tender documents in bankable format.

The results expected are, firstly, the detailed bankable documents confirming the justification of the preparatory negotiations which have taken place between the World Bank, other IFIs and the beneficiary states. This will enable the World Bank loan authorisations and possibly attract co-financing by IFIs or investors. The designs and contract documents for the rehabilitation works to be contracted will also be delivered by the project.

Main components

For the three road sections :

- Azerbaijan : Baku / Georgian border (Red Bridge)
- Georgia : Red Bridge / Tbilisi / Armenian border (Sadakhlo-Ayrum),
- Armenia : Yerevan / Georgian border (Ayrum-Sadakhlo),

the study will carry out an investigation and design of upgrading and appropriate pavement strengthening, improvement and rehabilitation works, needed to extend the useful life of the road for the most economic number of years, taking the existing and forecasted traffic loads into account. The consultant will perform:

- preliminary identification of the priority sections and the degree of improvement appropriate to the different road sub-sections, with respect to the present level of service, traffic volumes, and safety ;
- economic and technical studies for the remedial measures to be taken and the optimal allocation the planned investments on the road links ;
- detailed field investigations of soils and materials, of the residual strength of

- the pavements, of road geometry etc. ;
- surveys of structures including bridges, culverts, retaining walls, erosion protection works etc. ;
 - traffic surveys, including traffic counts at several locations and origin-destination surveys;
 - detailed engineering design of proposed upgrading, rehabilitation, reinforcement, realignments in accordance with the preliminary technical and economic indications for the allocation of the loan funds ;
 - preparation of drawings, bills of quantities and specifications, for the eventual execution of the works by international competitive bidding ;
 - cost estimates ;
 - environmental impact assessment ;
 - division of the proposed works into appropriate contractual packages and preparation of pre-qualification and bidding documents, in conformity with the procurement procedures of the financial institutions involved (led by the World Bank).

While carrying out the studies and preparing the deliverables required for the project, the appointed Consultant will be required to fully collaborate with local technical institutions or partners, to familiarise them with the methodology of such studies, Specific training components will be foreseen within the project to ensure a maximum practicable degree of know-how transfer.

Republic of Armenia 500 000 EURO	
Azerbaijan Republic	1 000 000 EURO
Georgia	<u>500 000 EURO</u>
TOTAL	2 000 000 EURO

Implementation Timetable 12 months

REHABILITATION OF THE RAIL FERRY TERMINAL AT AKTAU

Final Recipients :

Maritime Department, Ministry of Transport, Communications and Tourism (MOTCT) of Kazakhstan

Justification and Objectives :

The northern branch of the TRACECA corridor passes through the port of Aktau. It is the preferred routing by Kazakhs for their traffic, as obviously it increases revenues to the Kazakh railways and the port of Aktau, relative to the more southerly route passing through Uzbekistan and Turkmenistan.

The port of Aktau is recovering from a decline in traffic, thanks to its ideal position for servicing the Tenghiz oilfields, and an increase in general cargo between other origins and destinations especially since the Russian crisis two years ago when transit of goods via the Kazakh-Russian borders has become problematic.

Between 1986 and 1992 the port operated a ro-ro ferry service between other ports, principally Baku. Due to the conflicts in the Caucasus this service was halted. The condition of the ferry ramp in Aktau has deteriorated due to age and lack of attention, so that today it is not operable. The port of Aktau has negotiated a loan of 50 million € from the EBRD in 1997 for the rehabilitation of the general port facilities, this loan does not cover the ferry ramp.

A former TRACECA project, Traffic Forecasting-Caspian Sea (Interstate 1998, budget 1.500.000 EURO) investigated on:

- the demand for the ferry service including detailed origin-destination studies of existing traffic across the Caspian
- investment costs, operating costs and revenues.

The feasibility study of the economic and financial potential of the ferry terminal in Aktau and the relevant technical documentation provided by that project are the basis for this investment.

There is also a strategic utility of this ferry connection, in providing an alternative Caspian Sea crossing in competition to the existing ferry connecting between Baku and Turkmenbashi, which suffers from the ongoing disputes on transit tariffs between Turkmenistan and the other Traceca countries. Turkmenistan is not yet a signatory of the Multilateral Agreement on Transport. Thus the project will enhance the integration of Northwest Kazakhstan in the corridor and will strengthen the Caspian link in the Traceca corridor.

Furthermore, during the preparation of this project, on 1st June 1999, a memorandum of Understanding was signed between the Kazakh MOTCT and the Government of the Azerbaijan Republic, with regard to the rehabilitation of the

rail ferry terminal. The Azerbaijan Republic committed itself to placing a tugboat at the disposal of the Port of Aktau, whereas the Kazakh Ministry agreed to carry out the preliminary works on their own resources.

Main Components :

The project will be implemented according the detailed feasibility study, including the technical specifications for design and construction, done under the project ‘Traffic Forecasting and Feasibility Studies’ (TRACECA 1998).

The Contractor will be in charge of the engineering designs, conform to Kazakh and European standards, for and the execution of the remaining works, as well as the overall technical supervision of these designs and works during the entire implementation period :

1. Marine works and berthing

- renovate central pier (sheet wall protection, new pavement, concrete surfacing);
- renovate finger pier (new fender system, sheet wall protection, new pavement);
- renovate pier access road (underground piping, raising of land end, pavement);
- renovate ramp/tower supports (raising of concrete base, sheet wall protection).

2. Ferry ramp rehabilitation (structural, electrical, mechanical)

- renovate the 2 linkspans (new timber deck, review of structure, replacement of damaged parts, new surface protection, omission of railway switches);
- renovate machinery (spindles, wires, counterweights);
- procure and install a new control system for lifting operations;
- renovate tower superstructures (roofs, walls, surface protection).

Project Budget : 2 000 000 EURO

Implementation Timetable : 12 months

CUSTOMS FACILITIES AT CENTRAL ASIAN ROAD BORDER CROSSINGS

Final Recipients:

Ministries of Transport and Customs Authorities of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan

Justification and Objectives:

Presently delays at border crossings and inland clearance terminals for road freight transporters can be long. Such delays threaten to eliminate the time gains achieved by improved road infrastructure.

TRACECA has already completed projects and plans others to improve this situation. These initiatives include the completed Trade Facilitation project, and two soon to commence projects for the establishment of an Intergovernmental Joint Committee for the Implementation of the TRACECA Multi-Lateral Agreement, and to improve the workings of the TIR system with the International Road Union (IRU).

The Asian Development Bank (ADB) is equally concerned that non-physical barriers to trade, including inefficient customs systems, can stifle regional development. The ADB is presently developing a project for rehabilitation of the Almaty-Bishkek road, which is the busiest interstate link on the Central Asia section of the TRACECA route. The estimated project cost would be 112.4 MUSD in Kazakhstan, and 6.7 MUSD in Kyrgyzstan. The project would be supported by a cross-border agreement to be signed by the two countries in August 1999. For this project the ADB is insisting that the infrastructure investment project includes measures to reduce border crossing delays. Cognisant of the work that TRACECA has done in this domain, the ADB has suggested that TRACECA co-finance the border crossing facilities part of their project. This would reduce the loan burdens of the roads rehabilitation project on both countries concerned, would help ensure commercial co-financing and would ensure that the facilities were integrated into a more comprehensive regional movement for trade facilitation improvements. Such integration could be promoted at policy level through the Intergovernmental Commission for the Implementation of the TRACECA Multi-Lateral Agreement (IGCMLA), as well as "on the ground", through a regional grant/technical assistance project providing modern information technology, telecommunications systems and training in their use.

It would in fact be technically logical to extend the computerisation of the border crossing procedures as widely as possible. Software systems developed and implemented by certain EU member states, by UNCTAD, and by the IRU all allow integration.

In practice TRACECA road traffic enters Central Asia through the Port of Turkmenbashi. Most traffic is destined for the several economically active and populous cities of Southern Uzbekistan, Bishkek in Kyrgyzstan, and Chimkent, Taras and Almaty in Southern Kazakhstan. Some traffic deviates towards Khojent or Dushanbe in Tajikistan and Osh in Southern Kyrgyzstan.

An EBRD loan and technical assistance for the Port of Turkmenbashi foresees both physical and procedural improvements to traffic flows there. The important TRACECA road border crossings are Turkmenistan/Uzbekistan (Charzou), Uzbekistan/Kazakhstan (Tashkent), Kazakhstan/Kyrgyzstan, and Kyrgyzstan/Kazakhstan (Bishkek). An Uzbek/ Kyrgyz border crossing close to Osh, and the Uzbek/Tajik border crossing serving Khojent should also be considered.

Physical infrastructure at the border crossings is of varied quality. No such facilities were necessary before the break-up of the former Soviet Union, so that at most, though not all sites, the existing facilities have been adapted from other uses, or hastily constructed. The exception is Uzbekistan, where quite substantial works have been carried out to establish some border posts.

Telecommunications links at border crossings are in general weak, particularly for supporting data interchanges.

The overall objectives of the project are therefore to improve the conditions for road transport on the most heavily trafficked section of the TRACECA route in Central Asia, concentrating on border crossing facilities. This will be achieved by participating in the Asian Development Bank project for the rehabilitation of the Almaty-Bishkek road, and by extending the assistance provided there to other TRACECA road border crossings.

The inclusion by the ADB of the border crossing on the Almaty-Bishkek road highlights the need for improvements at these points as a condition for infrastructure investments to be made. Real improvements achieved by TRACECA at other border crossings would obviously facilitate further investment. TRACECA participation will furthermore ensure that the design and specification of the systems to be run by the equipment provided are part of a broader regional concept for freight clearance procedures at border crossings, or elsewhere.

The project is principally for the supply of border crossing equipment, but for completeness and integration, will include necessary design and training components associated with the facilities. For promotion of and conformity with a harmonious regional transport policy environment, the project will be linked to the IGCMLA.

Main Components

The principal activities of the project would be:

- to review the previous TRACECA work for border crossing systems improvement;
- to liaise with the IGCMLA;
- to inspect the present border crossing facilities, IT systems and telecommunications;
- to design modern integrated Border Crossing systems in collaboration with the national authorities concerned, and according to international standards;
- to design interfaces between the border crossings and other necessary centres (e.g. SAFETIR administration in Geneva, inland terminal clearance stations, national centres for statistics and monitoring); to design the remote terminals where necessary;
- to liaise with the Asian Development Bank and beneficiaries for the design of the Customs Facilities on the Almaty-Bishkek road, and in relationship to other ADB road investment projects under development (in Kyrgyzstan, Tajikistan, Uzbekistan and Kazakhstan);
- to liaise with the EBRD and beneficiaries concerning the customs facilities at the Port of Turkmenbashi, and eventually concerning possible EBRD road investments, presently on hold;
- to specify and procure the IT and telecommunications equipment necessary to equip the border crossings for modern procedures, according to TACIS rules on supply contracts;
- to install the equipment and to train the beneficiaries in its use.

Project Budget **2 000 000 EURO**

Equipment supply : 1 600 000 EURO

(six border crossings with connections to inland terminals as necessary; the six points would not require, or be provided with, identical facilities)

Design, installation, training 400 000 EURO

Total **2 000 000 EURO**

Implementation timetable

18 months

Appendix D – The Local Counterparts

Local Counterparts

This stage study relied heavily on the contribution of the selected local counterparts in each of the three countries, and the details of each national partner is provided in the following table.

The *ex ante* contribution of those parties, in identifying and contacting relevant individuals and organisations, prior to the arrival of the *ex patriot* consultant in each of the respective countries, greatly facilitated the work.

Table 9-5 Local Counterparts for the Mission

Country	Contact	Position	Organisation
Azerbaijan	Dr. Tofiq Kh <u>Hassanov</u>	Manager, Project Implementation Unit	State Committee on Ecology and Control of Natural Resources 31 Istiglaliyyat Str. Baku Tel. (99 412) 926863
Georgia	George <u>Pirskhalaishvili</u>	General Manager	Audit Consulting Corporation 74 Chavchavadze Ave. Tbilisi Tel. (995 32) 25 11 66
Armenia	Tigran <u>Ghazarian</u>	Project Manager	Development Programs Ltd 4, Deghatan Str. N12 Tel./Fax. (3742) 56 84 21

Appendix E – TRACECA Action Plan

Action Plan agreed at a conference in Tbilisi in March 2000

	Project name & description	Duration in months	Budget EC
1.	Harmonisation of Border Crossing Procedures - <i>A previous TRACECA project entitled Trade Facilitation identified many inconsistencies in the border crossing procedures applied by TRACECA states. These concerned for example; the documents used, the control processes, the legal basis for the various documents in use, and the overall effectiveness of the controls applied. This project will concentrate on implementation of harmonised border crossing procedures commensurate with the IGJC recommendations.</i>	24	30
2.	Unified Policy on Transit Fees and Tariffs – <i>Transit fees of various types are imposed in all TRACECA states, and there is some justification for imposing a cost related user charge on transit traffic. However, the issue of transit fees is very contentious. TRACECA rail transit tariffs are still set within by the so-called MTT methodology which is quite flexible, but in itself corresponds little with either cost-based tariffication or commercialisation of the TRACECA corridor. Port fees are reported to be among the highest in the world, and maritime shipping rates are likewise high. This project will propose rational, transparent fee and tariff scales to improve TRACECA competitiveness from end to end.</i>	12	20
3.	Common Legal Basis for Transit Transportation - <i>The transport legal framework of the former Soviet Union corresponded little with the systems that have developed in the EU, and internationally. The objective of this project would be to provide guidance in the organisation of a common legal basis for transit traffic in each TRACECA state. Common technical standards for road vehicles would be a particular detailed case to be considered within the project. The TRACECA states need to agree on common standards (including weights, dimensions, safety, environmental, and operating regulations) for road vehicles. The sub-objective of this project will be to introduce modern technical standards conforming with those of the EU, for road vehicle characteristics and operations</i>	24	20
4.	Road Transport Security - <i>the project aims to create a competitive system of communication providing assistance under the umbrella of one technical standard. In order to represent the functioning of the system – after the implementation of all technical, operational and communication standards – the project foresees the installation of a pilot/ test dispatch centres initially along TRACECA.</i>	18	20

5.	TRACECA Information and Training Centre – <i>The project will deal with the two themes of know-how transfer, and communications. The objectives will be to provide training on specific topics, to establish a centre for other TRACECA projects to hold their seminars, to maintain a training library, to handle the general dissemination of TRACECA information, including a magazine, the web site and the traffic database.</i>	24	20
6.	Feasibility studies for re-opening the: Railway Link Erevan-Nachitchevan-Baku Feasibility studies for re-opening the: Railway Link Samtredia-Suchumi <i>Technical feasibility study of the rail link for immediate rehabilitation and pre-investment study to establish a detailed plan for investments required to guarantee railway operations.</i>	10	20
7.	Feasibility study for the improvement of the road and rail border crossings between Moldova and Ukraine And for the upgrading of the railway container terminal in Chisinau (Moldova). <i>The project will provide a broad analysis of the situation at Moldova’s road and rail border crossings with Ukraine and feasibility study for the improvement of these border crossings.</i>	10	20
8.	Feasibility Study of a New Rail Link between the Ferghana Valley, Bishkek and Kashgar in China – <i>Feasibility study of development of a rail link between Bishkek, Osh/Djalala-Bad and Kashgar, with focus on technical, economic, environmental and social implications of the project. To satisfy a specific request by Kazakhstan, a feasibility study of the road Bejneu-Kulsary is added to the project.</i>	10	10
9.	Central Asia Railways Telecommunications - <i>There is much scope and need for external support to modernise railway communications on a regional basis. TRACECA has been highly active and successful in promoting modernisation of the Caucasus rail communications system. The objective of this project would be to carry out a detailed feasibility study for similar improvements in Central Asia.</i>	10	20
	GRAND TOTAL		200

Appendix F - Organisations and Individuals Met

Table 9-6 Individuals met in Azerbaijan over the period 15th – 21st May 2000

Date	Name	Position	Company/Organisation, Address and Contact Details	Business
16 th May	M.R.E Gulamov	General Manager	Azertrans 31, Istiglaliyyat Str. Baku Tel. (99 412) 92 69 41	Freight forwarders
16 th May	E. Yilderim	Operation Manager	Barwil baku Azadlig Av. No. 3 Baku 370000 Tel. (99 412) 93 55 59	Freight forwarders
17 th May	U. Neidel	General Manager	Bertling Caspian Mardanov Gardashlary Str. 13 Baku 370000 Tel. (99 412) 98 40 61	Freight forwarders
17 th May	Angus M. Hay Ruud Mamedov	Regional Director Operations Manager	Murphy Shipping Rasil-Rza Str. 8, 15/26 Baku Tel. (99 412) 98 01 51	Freight forwarders
17 th May	Fuad Abbasov Namik Gadirov	General Director Deputy Director	Kron Shipping 133, Nizami Str. Baku 370010 Tel. (99 412) 98 12 60	Shippers, Ship brokers and consultants
17 th May	T. Yaprak E.V. Poliakoff Farid A. Mamedov	Resident Visiting Economist Operations Officer	World Bank Mission, Baku	
18 th May	Rauf Vezirov	First vice-president	Chamber of Commerce 31/33 Istiglaliyyat Str. Baku 370001 Tel. (99 412) 92 79 98	
18 th May	Dr. A. Mammadov	President	Azerbaijan Entrepreneurs Confederation 85 Salatin Askerova Str. Baku	

			Tel. (99 412) 92 07 05	
18 th May	R. F. Aliyev	Head of Division of Intl Co-operation	Ministry of Commerce 23 Niyazi str. Baku 370066 Tel. (99 412) 92 92 97	
18 th May	S. N. Mamedov	Foreign Trade Specialist	Ministry of Commerce 23 Niyazi str. Baku 370066 Tel. (99 412) 92 92 39	
18 th May	E. M. Alizade	Chief, Dept of Intl Transport Relations	Azeravtonagliyat Tbilisi Av., Blok 1054 Baku 37062 Tel. (99 412) 31 05 16	
19 th May	S. Kazimov R. Akhundov	General Director Deputy Head	International Sea Port of Baku Uz. Hajibeyov Str. 72 Baku 370010 Tel. (99 412) 93 40 97	
19 th May	M.Panahov	Deputy Chief	Azer. State Railway	
19 th May	A.D Huseynove	General Director	Azerexpertiza 31/33 Istiglalliyat Str. Baku 370001 Tel. (99 412) 92 78 24	
20 th May	A.H. Akhmedov	Gen. Manager	Sovavtu-Baku Terminal Baku 370063 Tel. (99 412) 42 68 25	
20 th May	S Bagirov	Head of Dept. of Management Control	State Customs Authority	
22nd May	N. Mahmudali	Chief, Red Bridge Customs Post	State Customs Authority	

Table 9-7 Individuals met in Georgia over the period 22nd – 28th May 2000

Date	Name	Position	Company/Organisation	Business
23 rd May	A. Danelia Z. Shengelia	Secretary General Secretary Executive	Association of Freight Forwarders of Georgia 12 Al. Kazbegi Av. Tbilisi Tel. (995 32) 94 08 27	
23 rd May	G. Skhirtladze	General Director	Caucastransforwarder 12 A. Kasbegi Av. Tbilisi Tel. (995 32) 33 02 97	Freight forwarders
23 rd May	T. Gogelia	Tech. Assistance Mgr.	Transport Reform & Rehabilitation Centre 12 Kasbegi Ave. Tbilisi Tel. (995 32) 99 04 61	
23 rd May	D. Paataashvili	Dep. Dir.	Transport Consulting & Training Centre	Consultants
23 rd May	G. Gaganidze P. A. Galbraith	Director Project Director	Georgian Export Promotion Project 42 A. Kasbegi Av. Tbilisi (995 32) 25 08 41	TACIS
23 rd May	S. Makatsaria	First vice-president	Georgian Chamber of Commerce & Industry 11 Chavchavadze Av. Tbilisi Tel. (995 32) 22 25 52	
23 rd May	P. Trapaidze	Chairman	Georgian Trans Expedition Ltd 24 Chikobava Str. Tbilisi Tel. (995 32) 95 91 32	Freight Forwarders
24 th May	K. Gurgenidse	Dept Head	Dept of External Relations, State Customs Authority	
24 th May	N. Ambokadze	Gen. Director	JSC Zestafoni 12 Dariali Lane, Tbilisi Tel. (995 32) 25 26 22	Ferro-metal exporters
24 th May	N. Cholobarghia	Finance Director	Georgian Wines and Spirits 2 Sarajishvili Av. Tbilisi Tel. (995 32) 93 44 83	Exporter
24 th May	M Chelidze	Representative	Willi Betz Tel. (995 32) 25 18 84	Intl Hauliers
24 th May	F. O. Asly	President	Am. Cham of Commerce 24 Chavchavadze Av. Tbilisi	

			Tel. (995 32) 25 04 95	
25 th May	G. Bokuchava	Head Coastal Service	Ministry of Trade	
25 th May	V Kakabadze	Head Foreign Relations	Ministry of Trade	
25 th May	V. Arveladze	Deputy Chief	Tbilisi Regional Customs 14, Iumashev Str. Lilo – 1, Tbilisi Tel. (995 32) 76 97 78	
26 th May	G. Khizanishvili	Head	Poti Regional Customs Tel. (293) 2 01 50	
28 th May	M. Tavartkiladze	Chief – Customs Post	Sadakhlo border crossing	

Table 9-8 Individuals met in Armenia over the period 29th May – 3rd June 2000

Date	Name	Position	Company/Organisation	Business
29 th May	M. Sumbatyan	Chairman	Armentransforwarder Ltd Lane of Tigran Metsi Av. 5, Yerevan Tel. (3742) 57 80 32	Freight forwarders
29 th May	S. Melikyan	Director	Meltrans 10 Hanrapetutyun Str., Yerevan Tel. (3742) 56 24 72	Freight forwarders
29 th May	E. Troyan	Operations Mgr	Seaborne International 8 Hanrapetoutian Str. Yerevan Tel. (3742) 56 66 69	Freight Forwarders
29 th May	M. Yukhanaev	Director	UMAKS 36 Demirchian Str. 1A, Yerevan Tel. (3742) 58 66 88	DHL Agents
30 th May	A. Kazakhetsyan	Project Officer	The World Bank	
30 th May	A. Matikyan	General Manager	Alfatrans Suite 15, 116 Nalbandian Str., Yerevan Tel. (3742) 58 57 68	Freight Forwarders
30 th May	A. Sarukhanian	Director	TransService 43 Shiraki Str. Yerevan Tel. (3742) 44 95 44	Customs warehouse
30 th May	S. Samvel K. Aleksandrian	President Vice-president	Chamber of Commerce 29/1 Sayat-Nova, Yerevan Tel. (3742) 56 54 38	
30 th May	A. Davtian	Executive Director	Railway Transport of Armenia Tigran Metsi Av. 50, Yerevan Tel. (3742) 57 32 34	Freight railway co.
31 st May	A. Nurijanyan	Vice-president	Mshak JSC 3 H.Hagopian Str. Yerevan Tel. (3742) 27 77 34	Exporter
31 st May	S. Der-Sahaguian	Commercial Dir.	Yerevan Brandy Company 2 Isakov Av. Yerevan	Exporter

			Tel. (3742) 50 68 08	
31 st May	M. Bagdasarov	President	MIKA Armenia Tel. (8851) 40 24 86	Importer
31 st May	Mrs N. Melkonyan	Executive Director	Amer. Cham. Commerce	
1 st June	A.L. Tamazyan	Head of Dept. of	Ministry of State Revenues 7 Khorenatsy St. Yerevan (3742) 53 35 91	
1 st June	T. Sargsyan	Customs Advisor	Ministry of State Revenues 7 Khorenatsy St. Yerevan (3742) 53 35 91	
1 st June	A. Karapetyan	General Director	Amerex Grigor Lusavorich Str. 3, Yerevan Tel. (3742) 52 02 90	Exporter/Importer
1 st June	S. Tadevossian	Financial Director	APAVEN P.O. Box 22, Yerevan Tel. (3742) 35 03 60	Freight forwarder
1 st June	V. Ter-Nikoghosyan	Head of Principle Directorate on Investment	Ministry of Indst & Trade 5 Hanrapetoutian, Yerevan Tel. (3742) 56 16 09	
1 st June	T. Darotyan	Head of Investment	Ministry of Indst & Trade 5 Hanrapetoutian, Yerevan Tel. (3742) 56 16 09	
2 nd June	V. Haroutjunyan	General Director	Zvartnots International Airport, Yerevan Tel. (3742) 28 26 41	