

# Short-Term Action Plan

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Since a large proportion of transport within the region is domestic, even on regional transport routes, regional transport strategies cannot be seen in isolation from national transport planning. It is therefore important when considering resource allocation to ensure that regional transport developments are consistent with the national priorities. Actions have to be taken within the framework of existing physical and institutional constraints. In the case of rail transport, a major physical constraint is the difference in track gauges between the former Soviet Union countries and the other countries of the region including the PRC, Iran, and Mongolia.

The main constraint for roads in the next 5 years is removing nonphysical barriers to regional transport by harmonizing the legal framework, improving border controls, and improving the financing and maintenance of roads. Although road transport currently plays a relatively minor role, it can, however, be expected to increase, especially for transport within the region. While there is substantial scope for reducing nonphysical barriers, implementing improvements raises extremely

difficult, often seemingly intractable issues. Highest consideration should therefore be given to actions requiring only small steps that could have potentially large impacts.

In general, cooperation in regional transport can be pursued through multilateral agreements or bilateral agreements. These two approaches can be and frequently are complementary. With strong national interests at stake, it is often difficult to obtain broad support for establishing, modifying, or implementing multilateral agreements. Even so, significant success has been achieved in agreeing common technical standards for transport in the region. However, as demonstrated by the implementation of the Kazakstan-Kyrgyz Republic cross-border agreement, bilateral (or even trilateral) agreements allow parties with common interests to cooperate even further. Provided this is done within the broad framework of existing multilateral agreements, such bilateral agreements can be extended to other countries.

There are several existing regional transport agreements involving several CAR members that could provide a framework for cooperation. These include the Economic Cooperation Transit



Framework Agreement (1998), the Agreement on International Transport for Development of Europe-Caucasus-Asia Corridor (TRACECA, 1998), the CIS agreements, and the United Nations Economic Commission for Europe's agreements and conventions relating to the international road transport. However, neither the PRC nor the Russian Federation is a member of the Economic Cooperation Transit Framework Agreement. The PRC is also not a party to the relevant agreements of the CIS or the United Nations Economic Commission for Europe's agreements and concerned conventions.

ADB is supporting a technical assistance to help the Shanghai Cooperation Organization (SCO) countries (i.e., the PRC, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, and Uzbekistan) formulate an agreement on facilitation of international road transport, together with support from the United Nations Economic and Social Commission for Asia and the Pacific. Another agreement that could be useful to provide a

framework is the Tripartite Agreement on International Road Traffic between the PRC, Kyrgyz Republic, and Uzbekistan which does not include Tajikistan, although it attends meetings.

**Regional Rail Integration**

A good place to start establishing track-sharing agreements is where they are essential for establishing a basis for future development of core regional routes. The place where this perhaps applies most strongly is the Bekobod-Kanibadam line in northern Tajikistan. This line is along a highly trafficked route that connects the Fergana Valley of Uzbekistan with the rest of that country. It also provides east-west links between Kazakhstan and the rest of Central Asia and, in future, could form part of a central TAR between the Far East and Europe. One of the main issues over the use of this Tajik railway by Uzbekistan concerns the level of transit tariffs charged by Tajikistan. The Tajik position is that they use the MTT tariff that has been approved by Uzbekistan. They want to stick to it because it is very profitable for

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them. Tajiks dismiss the idea of Uzbeks carrying crude oil by trucks and the proclaimed Uzbek intention of building a new line across the Kamchik pass in Uzbek territory, but if the Tajiks do not show flexibility, this could become a reality.

An ADB-funded feasibility study showed that rehabilitation and electrification of the 106 km Bekobod-Kanibadam line is economically justified. If the traffic is kept at least at the present level, electrification could be envisaged. The problem is in undertaking a loan without a sufficient guarantee that the revenues generated would not be enough to pay the loan back. Without a long-term agreement between Tajikistan and Uzbekistan, the risks would be unacceptably high for the two countries and also for the bank providing the loan. The agreement should specify under which regime the line should be operated. The Uzbeks seem to have a preference for running their own locomotives across the Tajik stretch. This makes sense, but it assumes that the contiguous Uzbek sections are also electrified. Actually a number of options could be envisaged ranging from the status quo that seems to be favored by the Tajiks, to a full concession, or to an intermediate arrangement involving the operation of the line by a Tajik-Uzbek joint venture company. Ideally, the electrification of the whole Khavast-Kokand line including the Tajik section would have to be treated as a single undertaking. Reaching such an agreement on track sharing might be a major breakthrough because it could be used as a basis for similar arrangements in other parts of the region.

To prevent a shift to other transport modes, radical improvements are needed in services with guaranteed delivery times. There are already some cases of guaranteed or nearly guaranteed delivery services. Passenger trains run on schedule and generally on time and include baggage vans that can take limited amounts of freight. Freight trains carrying mostly containers reportedly already operate between Tashkent-Akaltyn and Bandar-Abbas on the Persian Gulf and between Uzbekistan and Istanbul. They run according to a predetermined schedule and reach Bandar-Abbas in 5 days.

Such services require regional cooperation. Where they can be provided through multimodal transport operations there is a need to develop the legal framework that would recognize the position in law of the multimodal transport operator. It should also make provision for a combined bill of lading and enable multimodal transport to take place under a single contract rather than a series of contracts for each mode (allowing liabilities to be clearly defined in a uniform way instead of differing for each mode of transport).

## **Restructuring and Modernizing the Railways**

A way to improve regional services is to foster competition between operators freely using the infrastructure owned and maintained by national railways. The fact that railway people in the CARs have a common past history and a common language make this objective easier to achieve. Nevertheless, the obstacles are many and it may take time to overcome them.

The first step is the creation of independent operators in a single country. The Kazak experience shows, however, that it is not that easy to accomplish. Dividing the national company is not enough to generate viable companies, and new private operators tend to prefer market niches. In the first stage, the new operators would own and operate wagons, but they may later also feel the need for procuring locomotives.

The second step is to develop ties between operators in countries whose railways exchange a great deal of traffic. The most favorable case seems to be traffic between Kazakhstan and Russia. Russia already has a large number of private operators that could soon control half of the national market, and it is already implementing tariffs that separate wagon use, traction, and infrastructure charges. Furthermore, the same pricing codes are recognized on both sides of the border. At a later stage, it should be

possible to extend the experience to other countries that have already opened their markets to national independent operators, for instance Uzbekistan. The existence of different gauges will of course make it more difficult to apply the principles to neighboring railways, but associations between operators could be arranged.

Success in developing operators with regional coverage is dependent on a number of conditions that can be addressed both by governments and by the professional associations created by the operators.

- National laws and regulations should make it possible for national and foreign operators to use the national network.
- Free access to track on a fair basis should be guaranteed to independent operators.
- Operators need to be able to track their rolling stock with precision round the clock. Within the CIS this is technically

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possible by using a computer center in Moscow, but in practice there are many limitations.

- If wagons are used in third countries, the operator should have a way to retrieve them and prevent unauthorized use.
- Rental charges should be settled swiftly. This is even more important for new, private operators than it is for established, state-owned companies.
- A cargo information system should be established to facilitate the search for back loads.
- Fledgling operators should be protected against the risk of existing operators temporarily lowering tariffs in a specific market to kill competition.
- There should be a mechanism to prevent operators from forming cartels.
- There should be sources of financing enabling potential operators to buy new wagons or to rehabilitate existing ones.

Since there is a significant economy of scale in maintaining and repairing rolling stock, it would make sense for the CARs to pool their facilities. It is all the more justified because they all use similar equipment of mostly Russian and Ukrainian origin. Pooling already happens to some extent, e.g., Tajik railways send their locomotives to Tashkent for repair, but the present trend is rather for each railway to become more self-sufficient. Actually, the railways are under intense pressure from national and local authorities to keep or create as many jobs as possible. Some railway facilities are at the core of the local economy. Closing such facilities could be a disaster for the area and

could generate serious social disruptions. In any case, the trend is for more private repair enterprises that are likely to look for clients beyond the traditional ones. The Tashkent locomotive workshop, for instance, has the capacity to do twice as much as it does now. As long as Central Asian railways keep their nationalist outlooks, a true regional market for rolling stock may not develop.

Potential support for the development of regional corridors exists in several cases including the following:

- the central TAR which provides transit opportunities between Europe and Asia, access between the southern CARs and the PRC, and between the CARs and Europe via Iran and Turkey (development of a road link between the railheads of Kashgar in the PRC and Andijan in Uzbekistan would promote this new potential east-west link over the short term);
- the northern TAR through Kazakhstan along which Kazakhstan wishes to attract more traffic and which is important for the PRC;
- the north-south corridor east of the Caspian Sea which could be developed in future to allow access between Russia and the Persian Gulf via Kazakhstan and Turkmenistan;
- the north-south corridor between South Asia and Russia via Kazakhstan, Uzbekistan, and Afghanistan.

The most promising areas for development are the central and northern TARs because there are excellent prospects for growth in

trade along these lines (transit and regional transport), the infrastructure is already in place<sup>4</sup> although it needs rehabilitation, and there is strong political support within the PRC, Kyrgyz Republic, and Uzbekistan for the central TAR and within the PRC and Kazakhstan for the northern TAR. To help plan and market these corridors, it is recommended that assistance be given in marketing/planning/modeling studies which would determine the potential hinterland of the corridors in the PRC and assess the extent to which strong development centers such as Sichuan (and especially Chongqing) influence traffic.

**Regional Road Integration**

The key areas where improvement in regulation of regional road transport can be made are the following:

(i) *Vehicle Size and Weight Regulations:* Most CARs have signed the CIS Minsk Agreement (1999) which defines detailed maximum limits on road vehicle size and weight; however, in most countries the provisions of this agreement have yet to be incorporated into domestic legislation. This is an area in which many organizations are actively trying to harmonize regulations within the CARs including the Euro-Asian Economic Committee (EAEC), CIS, ESCAP and TRACECA, but these organizations lack leverage in implementing international agreements. Apart

from giving them general support, ADB could complement their efforts by focusing on harmonizing size and weight limits for traffic between the PRC and Central Asia.

(ii) *Regulations of Drivers' Hours:* Only Kazakhstan and Uzbekistan have signed the European convention (the AETR) that governs the conditions for driving in international traffic, sets limits on working hours in order to reduce the risk of accidents due to fatigue, and defines measures such as tachographs to enforce the limits. Although this is not one of the seven core conventions identified by SPECA, its requirements will increasingly become obstacles to nonsignatories. In the short term, therefore, all Central Asian countries should start to develop plans to enable their international operators to meet these requirements.

(iii) *International Operator Licensing:* Most TRACECA countries are planning to introduce the latest international certificate of professional competence that

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<sup>4</sup> Although, in the case of the central TAR, this requires transshipment between road and rail at Kashgar in the PRC and Andijan in Uzbekistan/Kyrgyz Republic. In the longer term a new rail connection could be provided.





has been introduced in the EU. This provides a sound basis for defining a common minimum standard for good repute, financial standing, and professional competence in the road haulage industry. Implementing these provisions requires training and better enforcement.

It is unrealistic to expect complete removal of existing permit controls in the short term; however, much can be done to allow road transport to take place more smoothly without the serious constraints imposed by permit quotas and restrictive permit conditions. A first practical step is to improve monitoring of the system by the joint committees set up on a bilateral basis to manage road transport agreements. Efforts can also be made to remove financial and regulatory obstacles in the regional market to encourage

competition and to reduce political pressure to protect national industries. Privatizing the remaining regional road transport operators would help in this regard.

International organizations are actively trying to reduce permit controls in parts of the region, and is giving assistance to help develop the road transport industries of Central Asia in order that they can compete on more equal terms with foreign operations. ADB is also providing assistance to encourage competition initially through setting up monitoring systems under cross-border agreements and ensuring that the views of road users are adequately represented to the joint committees. In the case of transport between the PRC and the CARs, ADB is working with ESCAP and SCO in developing cross-border agreements by helping to define overall policies on road transport permits to ensure that the benefits of road investment are not unduly restricted by permit controls.

None of the CARs has yet implemented a system of road-user charges that relates them to the costs incurred. Consequently many road users, including most heavy vehicles, do not pay their fair shares of road-use costs. This is partly due to concerns about the effects of raising fuel and vehicle taxes on the costs of transport and on inflation. Although this is an issue that has to be addressed at the national rather than regional level, based on the costs of road provision in each country, cooperation between countries to develop a common approach can help to promote a level playing-field between national operators on international routes by unifying as far as possible the basis of road vehicle taxation and

unifying fuel taxation to minimize the risk of smuggling.

Regional discussions will not be easy since there is no common approach to setting road-user charges. Therefore, only limited progress towards regional harmonization is expected in the next 5 years. The first step is to promote debate within each country involving all the major players—key government organizations and representatives of road users—in order to build support for reform. The implications of specific proposals can then be debated regionally, aimed initially at reaching agreement on the aim and scope of policies on charges for road use leaving issues about the structure and level of charges for later discussion.

ADB and other international financing agencies could assist in two ways. First, it could help the CARs to develop rational systems of road-use charges (mainly fuel and vehicle charges but also tolls and transit fees) to tackle the fundamental problem of lack of sustainable financing for road maintenance and development. Second, it can promote discussion about alternative options during the preparation of cross-border projects in order to reduce major differences in charges paid by regional operators from different countries and to raise financing from road users to pay for regional road maintenance and improvements.

Foreign transporters are easy targets for enforcement officers, and regional road transport is particularly badly affected by problems such as excessive numbers of roadside checks and the lack of clear rules and

regulations which allows discretion in enforcement. In the short term, unjustified roadside check points can be removed (possibly replacing them with mobile patrols), the number of agencies involved in enforcement activities can be reduced, better enforcement equipment like proper scales can be provided, and programs that focus enforcement more on road safety can be developed. ADB and other agencies can assist by developing cross-border agreements that include enforcement strategies and by financing equipment. Assistance can also be given in developing road safety programs based on international best practice.

A well-functioning TIR system is a vital condition for efficient long haul regional road transport. The system works well under normal circumstances and much has been done to establish it in Central Asia. Apart from extending the system to cover the PRC, short-term priorities include implementing the provisions of the convention in accordance with international law, improving monitoring for example through the SafeTIR computer system, identifying where problems may be occurring, and developing appropriate measures to tackle practical problems. This is an area where both road transport operators (through their national associations under the IRU) and customs organizations have a responsibility to abide strictly by TIR conventions. Development agencies can give support through training and by acting as honest brokers when problems arise.

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carried out at local authority borders that are not consistent with international practice and agreements and can incorporate an appropriate strategy for removing all such unjustifiable checks in bilateral and cross-border agreements. ADB and other financing agencies can work with SPECA and other agencies by acting as honest brokers in developing such agreements. ADB can also assist SPECA by helping to define appropriate policies to remove time-consuming procedures for issuing visas to drivers as part of its assistance to develop efficient regional transport routes.

The rules and procedures for convoys vary between countries and are often not clear to transporters. They are not applied in a uniform way and sometimes charges are levied even though no convoy service is provided. Since this creates a significant and unpredictable cost to regional road transport, there is a need in the short term to introduce new rules and procedures based on international best practices, to base convoy charges on the costs of the services rendered by the customs service, and to improve monitoring of convoy services to identify areas for further improvement. Assistance can be given through appropriate trade and transport facilitation projects, especially through preparation of cross-border agreements that define improvements in customs controls.

The deteriorating condition of regional roads calls for urgent action in the next 5 years. The need for such actions was identified several years ago and much effort has been spent on improving the financing and maintenance of not only

regional roads but also other main roads and important secondary, urban, or rural roads. ADB and other development agencies have supported such efforts.

Roads in Central Asia are mainly used for domestic rather than international traffic, and it is appropriate for overall strategies for sustainable road development to be set at the national level based on national priorities. Nevertheless there are cooperative actions that can be taken between countries to meet the needs of regional transport. All the Central Asian countries need to increase cost recovery from road users. The proposals described earlier for cooperating in implementing unified road-user charges could be supported in the medium and long term through multilateral or bilateral agreements on increasing charges, especially fuel and annual vehicle taxes. ADB can offer technical assistance on cross-border projects aimed at studying alternative financing options for roads used significantly by international traffic.

There is an underlying need when considering future road rehabilitation projects to strengthen the economic planning capability of the CAR highway authorities so that investment priorities can be assessed more meaningfully. This requires better planning tools such as the Highway Design and Maintenance model used in conjunction with more reliable road asset management databases. This would allow alternative options to be compared in terms of economic costs and benefits and would also allow the types and timing of interventions to be assessed more rationally.

All the identified investments have support from governments and have potentially significant domestic impacts, but some are not without risks.

