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Afghanistan Trade Logistics Study

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## Introduction

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The Islamic Republic of Afghanistan<sup>1</sup> is the poorest nation in South Asia. After nearly a quarter century of civil conflict, Afghanistan is trying to recover. International support helps Afghanistan with a state building programme including infrastructure rehabilitation, institutional reform and human resource training and capacity building.

The Afghanistan Compact, adopted at the London Conference early 2006 gives a binding agreement to help with the nations development during the next 5 years. The Compact based on the Paris Declaration on Aid Effectiveness and the Afghanistan Government's National Development Strategy (ANDS) aims to consolidate institutions. Additionally the Compact and the Paris Declaration and ANDS aims to curb insecurity, control the illegal narcotics trade, stimulate the economy, enforce laws, raise basic services, and protect human rights. Afghanistan receives development aid from the ADB, The World Bank, IMF, USAID, EuropeAid, GTZ, DFID, JICA and many others.

During 2007<sup>2</sup> and part of 2008 during worsening security and an increased opium economy, nondrug GDP growth increased because off post drought recovery in agricultural production. The Government continues to face severe human and institutional constraints as well as a narrow formal economy, weak governance and low government implementation capacity. Challenges include strengthening security, reducing the opium economy, improving policy management and aid effectiveness, rehabilitating infrastructure and fostering the private sector. Improving the absorptive capacity of line ministries remains a problem.

### Afghanistan Economic Indicators 2002 – 2006

Economic Indicator	2002	2003	2004	2005	2006	2007
GDP growth % change each year	28.6	15.7	8.0	14.0	8.0	13.9
Export growth % change each year	82.1	46.7	-13.3	-2.6	7.9	
Import growth 5 change each year	52.5	50.9	2.3	9.0	10.1	

Economic performance over the medium term depends on combating corruption, overcoming infrastructure bottlenecks, and completing further reforms. The reforms need to stimulate private industry investment. Continued high growth rates will be attainable only if structural reforms are implemented decisively and public investment is targeted at key areas of infrastructure, notably transport and electricity.

Private industry growth is needed for any economic resurgence, yet this is hampered by intermittent power supplies, poor land titling, corruption, and limited access to finance. These structural issues will take years to solve. A possible short-term solution is to increase the investment in industrial parks on an enclave basis.

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<sup>1</sup> Afghanistan 2007 Fact Sheet, [www.adb.org/afghanistan](http://www.adb.org/afghanistan)

<sup>2</sup> Outlook 2008, ADB, [www.adb.org/Documents/Books/ADO/2008/AFG.asp](http://www.adb.org/Documents/Books/ADO/2008/AFG.asp)

It is not surprising because of the years of civil conflict and the difficulties rebuilding the state that institutional effectiveness is weak in the line Ministries with trade logistics roles for example Afghanistan Customs Department of the Ministry of Finance, Ministry of Commerce & Industry, Ministry of Transport, Ministry of the Interior, Ministry of Agriculture and Ministry of Health.

Responding to the request from the Ministry of Finance the structure of the Executive Summary and the final report allows line ministries to up date the Afghanistan trade logistics study.

#### Afghanistan Exports 2006 - 2007<sup>3</sup>

<i>Export commodity</i>	<i>Value US\$ million</i>	<i>Export percentage</i>
Cotton	2.63	0.60
Wool	4.47	1.10
Hides furs excluding Karakul	23.44	5.60
Cassage skin for making sausages	0.40	0.10
Oil seeds and medicinal herbs	18.47	4.40.
Dry and fresh fruit	165.15	39.70
Carpets	186.53	44.80
Other exports	15.43	3.70
Total	416.52	100

Collecting export statistics is a challenge because figures manually entered into a computer. ASYCUDA will help collect more reliable export statistics when ASYCUDA working at all border crossing points and when all ASYCUDA modules fulfilled.

Carpets are Afghanistan's largest export according to the above figures. However, when using figures from Afghan customs border crossing points using ASYCUDA, carpet export drop to number 4 in export earnings. Edible fruits and nuts are Afghanistan's largest export revenue earner followed by vegetables. These export commodities need modern handling equipment and a modern supply chain to get product to market.

#### Intraregional Trade

About one-half of Afghanistan's trade is with neighbouring countries for example Iran, Pakistan, Tajikistan, Turkmenistan and Uzbekistan<sup>4</sup>. Pakistan is Afghanistan's main trading partner accounting for 98 per cent and 44 per cent respectively of intraregional exports and imports. Intraregional trade represents only 4 per cent of total trade during 2004-2005. Afghanistan has the largest intraregional trade deficit and Iran had the largest trade surplus during 2004-2005. The Iran trade export surplus impacts on truckloads resulting in most Iranian trucks returning to port empty. The same disparity affects with Tajikistan, Turkmenistan and Uzbekistan. While Pakistan exports more to

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<sup>3</sup> Study of Afghanistan's External Trade to Identify Measures for Export Facilitation, Sujit Kumar Sinha, ADB TA 4906, June 2008, p.9

<sup>4</sup> Islamic Republic of Afghanistan Ministry of Public Works ADB Cross Border Trade and Transport Facilitation (ADB TA 4536-AFG), Final Report Executive Summary June 2006, p.11

Afghanistan than Afghanistan exports to Pakistan not all trucks return to Peshawar empty.

CAREC transport corridors crossing and truck traffic at Afghanistan BCPs

<i>Border crossing point (BCP)</i>	<i>CAREC transport corridor</i>	<i>UNCTAD 2007 estimate average truck numbers crossing each day</i>	<i>ADB 2005 estimate average truck numbers crossing each day</i>	<i>Estimated truck time clearing BCP and getting to Kabul 2008<sup>5</sup></i>
Torkham	6c and 5	450 – 550	Import: 589 Export: 512	1 – 2 days
Hairatan	6a, 6b and 3b	10 – 60 wagons and 2 ferries each week	Import: 190 Export: 190	3 – 4 days
Islam Qala	6a, 6b and 3b	180 - 200	Import: 206 Export: 216	1 week
Shirkhan Banda	6c and 5	1 - 10	Import: 31 Export: 31	3 – 4 days

ADB and UNCTAD carried out driver surveys at several Afghan border-crossing points but the figures do not include drivers perhaps spending one to three days visiting relatives and resting before entering a border crossing point and registering with Customs and starting entry procedures.

Transit and Trade Initiatives

Central Asia Region Economic Cooperation (CAREC)

The CAREC Senior Officials' Meeting 24-25 April 2008 Baku Azerbaijan agreed a Draft Transport and Trade Facilitation Strategy (TTFS). The TTFS took a corridor approach to target interventions along six transport corridors. The meeting concluded that a reliable and cost-effective transport and logistics system could not get achieved using infrastructure as a method solving problems. The TTFS aims to get infrastructure, technology and management operating efficiently reducing costs and delays. The TTFS action plan includes three goals: (1) creating competitive transport corridors across the CAREC region; (2) helping get efficient border crossing; (3) developing sustainable, safe and user-friendly transport and trade networks balancing infrastructure, technology and management investment and methods. The action plan includes TTFS goals, constraints, Government tasks, indicators, timelines, and listing projects during 2009-2018. The TTFS action plan estimates investment and better management methods might improve corridor performance by 25 per cent during 5 years and a 50 per cent improvement within 10 years.

<sup>5</sup> Estimates based on interviews with Afghanistan freight forwarding companies

### Economic Cooperation Organisation (ECO)

Created in 1979 with seven member states including Afghanistan. National Workshop on Multi Modal Transport held in Kabul July 2008. The First meeting of the Transit Trade Committee scheduled in Kabul during 2008. The Second Meeting of the Railway Committee scheduled in Kabul during 2008.

### United Nations Conference for Trade and Development (UNCTAD) and The World Bank

The World Bank funds the Afghanistan Emergency Customs Reform and Trade Facilitation Project. The Ministry of Commerce & Industries has a team of experts advising on trade facilitation, transit, transit agreements, staffing structure and training. Customs advisers helped install ASYCUDA at Torkham, Islam Qala, Hairatan and other Afghan border crossing points. Other transport and transit initiatives include Almaty Programme for Landlocked Countries, UNDP and USAID.

#### **Afghanistan 'paper' reform**

Afghanistan was the top reformer for starting a business according to The World Bank 'Doing Business Indicators 2006' because it reduced number of procedures from 28 to 1, and reduced the time to register from 90 to 7 days.

## Challenges

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### Afghanistan Logistics Performance Indicators<sup>6</sup>

Country	Rank	Score
Peoples Republic of China	30	3.32
Kyrgyz Republic	103	2.35
Azerbaijan	111	2.29
Uzbekistan	129	2.16
Kazakhstan	133	2.12
Mongolia	136	2.08
Tajikistan	146	1.93
<b>Afghanistan</b>	<b>150</b>	<b>1.21</b>
Iran	78	2.51
Pakistan	68	2.62

While Afghanistan the least logistics-performing nation, some neighbouring countries with transport corridors linking with Afghanistan also score low logistics performance indicators. Improving transport corridor performance and improving logistics performance is a national as well as a regional task.

Current Afghanistan low logistics performance indicators are challenging to solve. However, reforming and improving trade logistics is possible using infrastructure and management best practice and using parts of relevant trade logistics models from other countries for example Singapore and the Peoples Republic of China.

Afghanistan logistics performance indicators:

- Customs ranking 150
- Infrastructure ranking 150
- International shipments 150
- Logistics competence 150
- Tracking and tracing 150
- Domestic logistics costs 40
- Timeliness 150
- Rate of physical inspection 100%
- Customs clearance days 3.8
- Lead time export days 14
- Lead time import days 20.7
- Number of export agencies 2.3
- Number of import agencies 3.3
- Review procedure chance 33%

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<sup>6</sup> Connect to Compete – Trade Logistics in the Global Economy, Logistics Performance Indicators, The World Bank, 2007

- Typical charge for a 40' foot export container US\$1,260
- Typical charge for a 40' foot import container US\$1,817

Typical charges for export and import container figures differ from those obtained by this study from Afghanistan freight forwarding companies and from the Afghanistan Association of Freight Forwarding Companies (AAFFCO):

- Typical Afghanistan charge for 40' foot export container US\$3,000 to US\$6,000
- Typical Afghanistan charge for a 40' foot import container US\$3,200 to US\$6,200

### Regional Trade, Transport and Transit Challenges

According to a study<sup>7</sup>, there is a significant imbalance in trade flow against Afghanistan. In 2004 – 2005 Afghanistan's total recorded merchandise, trade amounted to US\$2,482 million, imports US\$2.177 million (88%) and exports US\$305 million (12%). Almost all of it using road transport. Re-exports of over a billion US dollars are not included in figures. According to the International Monetary Fund<sup>8</sup> (IMF), the total trade including re-exports in 2005 was US\$5.4 billion. This is lower than the figure of US\$6.5 billion extrapolated from truck survey data collected at eight Afghan border-crossing points. According to the ADB TA 4536 study the difference caused by transaction leakages across the border. ADB TA 4536 study identified informal transit not listed in Afghan Customs recording books. Furthermore, there is transit control failure because some imports 'disappear' into the domestic market without paying customs duties and fees.

Two types of transit identified<sup>9</sup>, (1) transit through Afghanistan to third countries, (2) transit through Turkmenistan to Afghanistan. Interviewing the Afghanistan First Consul in Almaty revealed approximately 40 Kazakhstan trucks originating each month in Almaty transiting to the Uzbekistan border with Afghanistan. According to international freight forwarding companies in Kabul truckloads deliberately transhipped because truck owners do not want their 'modern' trucks travelling into Afghanistan.

Key constraints expanding cross border trade between Central and South Asian neighbours include:

- Complementary and competitiveness of mutual economies
- Customs issues
- Trade policies
- Preferential trading arrangements

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<sup>7</sup> Islamic Republic of Afghanistan Ministry of Public Works, Asian Development Bank, Cross Border Trade and Transport Facilitation (ADB TA 4536), Final Report Executive Summary, June 2006, p.8

<sup>8</sup> International Monetary Fund, Islamic Republic of Afghanistan, Selected Issues and Statistical Appendix, February 2006, Box 1.1

<sup>9</sup> ADB TA 4536 Executive Summary, p.9

- Cargo transshipping at border crossing points
- Truck transit permits
- Truck standards and truck axle differences in each country
- Visa regulations (for truck drivers)
- Metrology testing and quality standards
- Transit Trade agreements, bilateral and multi lateral, poorly enforced or not used
- Seaport and border crossing point warehousing and multi modal equipment inadequate for maintaining goods quality and security
- Poor roads connecting Afghanistan 'ring-road' with medium and small border crossing points
- Formal check point along roads
- Lack of truck service support along roads
- Long time spent waiting at border crossing points

Other transport and transit challenges:

- Distance from seaports and markets
- Landlocked challenge
- Aging truck fleets
- Slow transition to market economy
- Weak private industry
- Weak institution management
- Slow development of banking, bonded warehousing and standards certification

According to the IMF Afghanistan has a liberal trade regime, average tariff at about 4% and reduced tariff bands from 25 to 6 in 2004 and to 4 in 2006 compared with neighbouring trading partners. However, the IMF is on record in 2006 'Administrative barriers, and ad hoc fees levied by local governments and cumbersome import and customs clearing procedures, weak standards and regulations, the absence of transparent competition policies, and limited progress on computerisation continue to affect adversely the expansion of private sector activity. In addition, traders are faced with a lack of trade finance, cold storage facilities and insurance'.

#### Afghanistan Customs Department of the Ministry of Finance

Customs revenue collection increased 38 per cent<sup>10</sup> during two years owing to higher trading volumes and improved Afghan Customs Administration (ACD) management. ACD staffs managed more than 50,000 extra declarations last year compared with previous year. However, Afghanistan customs collection is below potential considering Afghanistan's legitimate and illegitimate trading. Increasing revenue collection is a complex challenge in a war-ravaged country.

Afghan Customs Administration needs modern international standard buildings and border crossing points designed to help speed truck movements while allowing customs to fulfil their revenue collecting role and helping improve supply chain security.

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<sup>10</sup> Afghanistan Customs Department Five Year Strategy



Increasing supply chain security<sup>11</sup> needs expensive container X-Ray equipment using coherent X-Ray scatter system<sup>12</sup>, mobile X-Ray equipment, and backscatter-scanning machines for passengers and drivers, luggage-scanning machines, enhanced metal detectors and radioactive detectors. Additional scanning equipment must detect traces of chemicals, narcotics, explosives, biological substances and other substances and liquids. Future supply chain security management plans might include using truck tracking (GPS) and radio frequency identification (RFID). Combining GPS and RFID Jordan Customs successfully completed a customs supply chain security programme using low risk due diligence with 32 Jordan private companies<sup>13</sup>.

Each export and import lane needs vehicle registration number plate scanner. Each border crossing vehicle number plate scanner needs IT linking with MoT, MoI and with Afghan Police.

Afghan Customs Administration needs improving passenger and truck control and flow at border crossing points<sup>14</sup>. Recommended solution-segregating passengers from truck movements. Segregating enables customs officers to manage more trucks each hour and reduce the chaotic movement of people all over the border customs zone. Afghan Customs Administration role is not segregating but border police and other agencies are not fulfilling their border crossing point responsibilities.

ASYCUDA is not installed at all main Afghan border crossing points. Customs brokers enter consignment and manifest information-using computers installed at Torkham, Hairatan, Turghundi and Islam Qala producing a T1 allowing trucks to move to an Afghan internal customs depot (ICD). ASYCUDA management team plans to start piloting T2 at some border crossing point's summer 2008. ASYCUDA is an important Afghan customs computer modernising initiative and when completely installed will seriously improve Afghan Customs Administration management abilities. ASYCUDA needed at Jalalabad ICD. Freight forwarding staffs travel from Kabul to Jalalabad adding cost to each shipment.

About nine different line ministries and agencies have responsibilities at Afghan border crossing points. Some times line ministries create border truck delays while each gets fees from truck drivers. Recommended solution is one stop one payment. Furthermore, Government needs to consider using a one face at the border method. This solution not easily fulfilled at Afghan border crossing points because Afghan line ministries want to keep their border role. Recommended solution, Afghan Customs Administration becomes the Afghan one face at the border. When a customs officer finds or suspects infringement hands over the 'case' to the appropriate Afghan line ministry or agency.

Afghan Customs Administration started a national customs performance indicator using The World Bank guidelines. Afghanistan national customs performance indicators include:

- Revenue collected compared with customs staff numbers
- Total customs costs compared with revenue

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<sup>11</sup> See Border Crossing Point Security Equipment Technical Specification Annex to the Afghanistan Trade Logistics Final Report

<sup>12</sup> Modern container X-Ray scanners can process between 25 and 80 trucks each hour

<sup>13</sup> See Jordan Custom's web site. Jan Tomczyk, FCILT completed the low risk due diligence pilot project

<sup>14</sup> The expert visited Torkham, Turghundi and Islam Qala border crossing points

- Salaries compared with revenue
- Trade amount compared with staff number
- Yearly declarations compared with staff number

However, each border crossing point performance indicator not made. Helping the Deputy Minister of Finance for Revenue & Customs and the Director General of Afghan Customs Administration improve border crossing point management each border must have quantity and eventually service quality management performance indicators.

Ideally, each border crossing point needs dedicated lanes for container trucks. Container trucks gives customs officials less problems compared with open top trucks. If, space available Afghan customs can designate a container truck lane for imports and exports.

CAREC member states need to agree common container seals enabling different customs administrations to process containers without the need for 100 per cent physical inspection both sides of each border and without transshipping container content.

Transshipping open truck content and container content is an expensive non-physical trade barrier and adds several days getting goods to market. Transshipping truck contents carried out at Islam Qala, Hairatan and Shirkhan Banda border crossing points. Consumers in each CAREC member state pay for transshipping goods at border crossing points because transshipping cost added to the goods retail-selling price in kiosks, shops and bazaars.

Afghan Customs Administration wants to pilot introducing bonded carrier method along the 'ring-road' route from Hairatan border crossing point to Torkham border crossing point. Simultaneously, Afghan Customs Administration plans to start piloting customs brokers using ASYCUDA T2 forms.

Afghan Customs Administration lists handling equipment needs at ICDs and border crossing points in the 5-year strategy. Handling equipment best given by freight forwarding companies and private warehouse management charging clients transparent goods handling fees.

Afghan Customs Administration reduced customs clearing steps from 27 to 5.

Afghan Customs Administration needs considering opening border crossing points longer hours each day. Torkham opens from 6am to 9pm. However, border police close Shirkhan Banda at 4pm each day. Need for a bridge working hours agreement with Tajikistan.

Afghan Customs Administration plans to move regional customs office from Kunduz to Shirkhan Banda border crossing point and Mazar-e-Sharif customs office to Hairatan. Need for 2.5-kilometre approach road from ICD to Shirkhan Banda.

Afghan Customs Administration plans introducing ASYCUDA at Jalalabad ICD and automating the declaration process system (DPS). Chilled storage and bonded warehouses needed at Jalalabad ICD. Bonded warehouse procedures need preparing and fulfilling.

Afghan Customs Administration 5-year strategy first step modernising Afghan customs includes:

- Bonded carrier method
- Sealing procedures at border crossing points
- Automating BCPs and ICDs
- Supply chain security

Afghan Customs Administration 5-year strategy second step modernising Afghan customs includes:

- Warehousing
- Logistics centres

MoC&I have storage buildings at five BCPs but no customs officials work inside them.

Time-release part of 5-year strategy. The World Bank carried out a study at Torkham border crossing point. International experts and donor finance needed. Afghan time-release plan includes indicators:

- Time clearing border crossing point
- Transit time
- Time clearing ICD
- Control results

Feasibility study needed for small border crossing points at Zaranj, Paktya and Paktika. Modernising investment estimated at US\$1 million to US\$1.5 million each.

The Customs Reform Unit (CURE) estimates the Spin Boldak international standard railway station and customs ICD cost US\$5 million.

Afghan Customs Administration 5-year strategy includes Customs Training Academy estimated cost US\$5 million including building and technical assistance.

Afghan Customs Administration believes the OECD might fund new Customs Laboratories.

### Ministry of Commerce & Industries (MoC&I)

Trade and transit facilitation responsibility with MoC&I and while progress made in a difficult environment several trade and transit obstacles remain.

MoC&I used to issue truck transit permits. Transit permits easily managed using ASYCUDA T2.

Helping MoC&I minister, deputy ministers and department heads make decisions needs trade and transit information. Policies are difficult to change if decision makers do not know what is happening documenting exports, processing exports at border crossing points and how many days it takes for Afghan goods to get to market. Some MoC&I

staffs trained by UNCTAD and ADB initiatives with driver surveys. MoC&I staffs need training<sup>15</sup> carrying out trade facilitation audits and benchmarking Afghan trade facilitation. The World Bank produced a trade facilitation audit and benchmarking guide.

MoC&I should prepare and complete an Afghanistan Trade Facilitation and Trade Logistics Strategy. The Afghanistan 'PRO' Committee (AFPRO) must help MoC&I prepare the Afghanistan Trade Facilitation and Trade Logistics Strategy. Part of the trade logistics strategy should include collating each year Afghanistan logistics performance indicators (LPI). The MoC&I with USAID help prepared the draft Afghanistan Trade & Tariff Policy.

MoC&I needs an experienced and qualified Head of the General Directorate of Trade and Transit Facilitation to lead trade and transit policy changes, lead staff training and recruit graduates and start a graduate fast track management training programme. The graduate training programme must include visits to Afghanistan and international border crossing points and spend time seconded to trade and industry ministries in other countries.

MoC&I Trade and Transit Facilitation Department responsible drafting and fulfilling trade and transit agreements. Afghanistan has thirty-three trade and transit agreements with neighbouring countries. The Afghanistan Pakistan Trade and Transit Agreement (APTTA) give the greatest fulfilling challenge. Agreed in 1965 the APTTA is not working. MoC&I prepared with UNCTAD help a new draft APTTA. The draft submitted to the Afghanistan Ministry of Foreign Affairs is ready for discussing at the next Economic Cooperation Council meeting between Afghanistan and Pakistan.

MoC&I transit trade responsibility and MoC&I started a TIR<sup>16</sup> working group in 2006 and UNCTAD helped prepare an Afghanistan TIR action plan.

MoC&I started AFPRO in 2006, UNCTAD helped start an AFPRO Secretariat, and new Chief Executive Officer was appointed in 2008. Private industry chairs AFPRO and line ministries with trade, transit and border crossing point responsibilities take deputy chair positions. AFPRO serves as the main Afghanistan trade facilitation, transit and trade logistics lobby forum and will in time prepare working group reports to Government recommending improving trade facilitation, transit and trade logistics changes lowering costs and reducing delays.

MoC&I signed an agreement with Iran allowing Afghanistan traders using Chabarhar seaport to get handling and warehousing fee discounts. Chabarhar is an alternative seaport to Bandar Abbas and Afghanistan road transport access is through the Afghan border crossing points at Islam Qala and less distance using Zaranj. There is no rail connection at Chabarhar.

MoC&I with other line ministries need to solve the lack of traffic at Shirkhan Banda border crossing point. Reports describe trucks waiting up to one week at Shirkhan Banda 2 to 3 days on each side of the border.

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<sup>15</sup> For Afghanistan training information please see Afghanistan Trade Logistics Study Final Report

<sup>16</sup> TIR: Transport Internationaux Routiers, managed by UN in Geneva complying with CMR Convention rules

MoC&I signed an agreement with Iran using Chabarhar seaport. The road journey is between 400 to 500 kilometres shorter compared with Bandar Abbas.

MoC&I aware need to agree truck-crossing agreement for the Shirkhan Banda Bridge with Tajikistan.

MoC&I stated Tajikistan wants to build new railway ending 60-kilometres from Afghanistan border. The railway might help move Central Asian wheat to Afghanistan.

### Ministry of Transport

Ministry of Transport (MoT) responsible for road transport, passenger and air cargo civil aviation. MoT has several road and air cargo challenges.

MoT issues road permits for neighbouring country trucks. Recommend MoT study Greater Mekong Region (GMR) truck transit management methods.

MoT needs to agree with neighbouring countries truck axle weights along transport corridors eliminating the need to tranship cargos to different axle weight trucks at each border crossing point:

- Afghanistan truck axle weight 7-ton
- Uzbekistan 7-ton
- Pakistan 12-ton each truck axle

Afghanistan plans introducing 10-ton axle weight limits and later 12-ton axle weight. Road construction cost will increase each kilometre.

MoT needs to agree with neighbouring countries truck right hand drive eliminating prohibiting right hand drive trucks crossing borders. About 70 per cent of trucks in Afghanistan are right hand drive. Unlikely, Uzbekistan and Tajikistan will agree to right hand drive trucks entering.

MoT needs an action plan with infrastructure and technical assistance needs fulfilling TIR truck testing and certification, TIR truck centres and mechanic and manager TIR training. MoT needs to prepare international driving licensing method.

MoT needs to plan multi modal transport terminals combining them with ICDs and logistics centres. MoT and MoPW plan creating a rail and road multi modal terminal 6 kilometres north of Kabul. There are no rail and road multi modal terminals in Afghanistan. Afghan Customs Department plans to move regional customs office and ICD from Mazar-e-Sharif to the Shirkhan Banda border crossing point and this might give an opportunity for Afghan private industry investing in a small logistics centre.

During a joint Afghan CAREC meeting in Kabul early August 2008 participants agreed a transport corridor survey needs carrying out. Participants agreed Afghanistan line ministries should prepare a management plan how to use the new CAREC transport corridors. The survey must identify road transport services, equipment and bottlenecks causing delays and extra costs.

MoT needs installing calibrated truck weighbridges at each border crossing point. Some BCPs do not yet have new truck weighbridges. International calibrated weighbridges meet International Convention needs allowing one weighbridge certificate eliminating weight at each border crossing point. Reportedly, 200 trucks stopped each day because over weight.

MoT needs improving management controlling over weight trucks. Stopping over weight trucks will help reduce road damage and reduce Afghanistan's need to spend unnecessary extra money and resources maintaining new transport corridors.

Japanese funding helping build new Kabul airport passenger terminal. There are no plans to design and build a new Kabul International Airport air cargo centre.

Meetings with Afghanistan freight forwarding companies and with AAFFCO revealed need for a new international standard air cargo centre at Kabul International Airport, Discussions with MoT reveal possibility of the International Support to Afghanistan (ISAF) moving to new buildings across the other side of the Kabul airport runway leaving space perhaps for a new air cargo centre.

Current Kabul airport air cargo:

- Between 7 and 12 air cargo flights each day not including air cargo moved by Arianna and other scheduled airlines
- Mainly military and humanitarian air cargo
- Cargo airlines include KAM AIR, SkyLink, Flying Carpet and others. Arianna and other scheduled airlines provide aircraft 'belly' cargo space
- Estimated 300 to 500 tons air cargo each day
- Main air cargo exports include dried and fresh fruit and vegetables, for example dry fruits to New Delhi airport
- Poor quality surface: winter muddy and summer rutted, dusty and bumpy for fork lifts and trucks
- Lack of commercial air cargo type fork lift equipment
- Aircraft unloading and loading delays
- Security and special favour issues
- Poor quality customs warehouse
- Lack of aircraft apron parking space
- Lack of high lifter equipment
- Pilferage from containers
- One 40' foot reefer container

New Kabul air cargo centre feasibility study might include:

- Modern air cargo centre design, built to international standard using quality materials
- Needs international best practice management methods
- Needs adequate aircraft apron space for existing flight traffic and space for future traffic numbers

- Needs international best practice ground handling equipment owned and used by private air cargo handling companies eliminating existing airline monopoly
- Needs improved supply chain security
- Needs new air cargo approach road
- Estimated 30 per cent<sup>17</sup> air cargo increase after new air cargo centre starts working. Increasing exports to the Middle East getting higher profit margins compared with trading with India and other countries
- Feasibility study might include need for Herat international airport with an air cargo centre for grape exports and other fruit exports
- Air cargo demand analysis including added value logistics services
- Financial business plan including investment rate of return (IRR)
- Can ADB help negotiate land for the air cargo centre
- Need generating power

The new Minister for Transport Mr. Qadeeri is a transport and freight-forwarding expert and might understand need for transport reform and modernising infrastructure and management methods.

#### Ministry of Foreign Affairs

Ministry of Foreign Affairs (MoFA) needs to fulfil and get neighbouring countries fulfilling the provisions and responsibilities of international trade and transit agreements.

MoFA gives truck driver visas at Consulates for six months multi entry. MoFA should consider 'jump starting' truck driver visa by giving one-year multi entry visas. MoFA could approach neighbouring countries seeking reciprocal Afghan truck driver visas. Ideally, truck multi entry one-year driver visas need giving at each border crossing point. Completing a truck driver visa initiative at BCPs need reliable electricity supply and modern communications links between BCPs and MoFA, Ministry of Interior and Afghan Police.

#### Ministry of the Interior

Need for improved supply chain security at Afghan border crossing points and at ICDs.

#### Ministry of Public Works

##### Roads

Ministry of Public Works (MoPW) reports 550-kilometre transport corridor 6c and 5 between Shirkhan Banda and Torkham completed and ready for use. A 200-kilometre stretch of the Afghanistan northern 'ring-road' needs re-tendering before construction starts. Security on the 'ring-road' south of Kabul became an issue after several fuel tankers were set ablaze.

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<sup>17</sup> From interviews with Afghan freight forwarding companies, AAFFCO and air cargo airline management using Kabul International airport

MoPW plans to rebuild the road from Kabul to Jalalabad as a dual carriageway. MoPW road status:

- 75 per cent regular highways paved
- Most of Afghanistan CAREC transport rehabilitated by 2009

#### Rail

- Pakistan agreed to build railway from Torkham border crossing point to Jalalabad
- Iran building 124-kilometre railway to Herat completing in 2-years with option for extra 62-kilometres
- Iran – Tajikistan – Peoples Republic of China 630-kilometre railway study estimates US\$2 billion cost. Railway crosses Tajikistan border at Shirkhan Banda
- Chaman to Spin Boldak to Kandahar railway contract with Pakistan signed
- Five railway station study along route Islam Qala to Hairatan
- Railway route feasibility study needed calculating tonnages from Karachi and Banda Abbas and transiting to other countries
- Chinese will fund Kabul to Torkham railway
- Feasibility study finding committed for:
  - Hairatan – Mazar-e-Sharif – Kabul
  - Herat – Turghundi

Chinese mineral company won the Aynak<sup>18</sup> copper mine tender. Getting copper to market and to the Peoples Republic of China for smelting needs new railways. The mineral company committed to building new railways as part of the tender conditions.

MoPW plans railway multi modal terminal 6-kilometres north of Kabul at Dehsabs.

#### Export Promotion Agency of Afghanistan

The Export Promotion Agency of Afghanistan (EPAA) under MoC&I responsible promoting Afghan exports using trade shows and other measures.

EPAA successfully started one stop shop at Kabul airport. The Afghan Chamber of Commerce (ACCI) after electing new officials expected to join one stop shop. All other line ministries and agencies have representatives. Afghanistan Customs Administration, Afghan Carpet Export Association and Afghan fruit export representative part of the one stop shop at Kabul International Airport.

EPAA completed trade document flow 'road mapping' and analysis. Reduced number of trade document steps from twelve to one. EPAA up dated the OTF trade document 'road mapping' and flow charts<sup>19</sup>.

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<sup>18</sup> Located south of Kabul

<sup>19</sup> The Afghanistan trade logistics study expert helped OTF prepare trade document 'road mapping' and flow charts



EPAA completed Afghan carpet industry export analysis identifying measures solving bottlenecks and therefore increasing exports.

EPAA plans to computerise management and client service. Client software develop and needs implementing during September 2008.

EPAA developed an Afghan export document template.

EPAA plans to prepare and complete an Afghanistan single windows system (SWS).

#### Association of Afghanistan Freight Forwarding Companies (AAFFCO)

AAFFCO with help from UNCTAD and FIATA prepared 96-hour and now preparing a 200-hour freight forwarding training programme using FIATA training materials. Iranian freight forwarding training expert compiling 200-hour training materials and 2008-2009 training programme. Training programme delivery planned in Kabul, Herat and Mazar-e-Sharif. However, there is a serious lack of Afghan freight forwarding capacity and getting Afghan trained and skilled freight forwarding staffs remains a challenge.

No AAFFCO member company has a logistics centre or warehousing. Most cargo delivered by truck from an ICD to destination.

One AAFFCO member company is involved with negotiating using warehouse and handling equipment at Chabarhar seaport free zone. In 2006, OTF calculated containers travelling to Bandar Abbas cost less but take more time to reach port from Kabul compared with using Karachi seaport. When the 200-kilometre gap in the northern Afghanistan 'ring-road' gets completed freight forwarding companies might calculate using Bandar Abbas and Chabarhar seaports for some cargos.

#### Afghanistan Truck Owners Association (ATOA)

Reports state 30,000 trucks in Afghanistan. Large truck fleets owned for generations by families on the Afghanistan – Pakistan border and by families in Kandahar.

Truck fleets are mainly open top, old and need replacing with newer tractor and trailer equipment. Owners financially challenged. Small and Medium Enterprise financing might help but SME initiatives need business plans and guarantees not easily obtainable in a war-ravaged country.

A trucking cartel does not allow a free truck market. Users must use a truck given by ATOA members. Afghan users need freedom to enter into contract for trucking services.

Truck owners belong to ATOA created during the Soviet occupation. ATOA part of Afghan state Private Road Transport Department Ministry of Transport. Ideally, ATOA needs becoming a private trucking association with responsibilities guiding safe truck standards and using TIR Carnet method for international transit. Ideally, ATOA with AAFFCO should carry out driver surveys at each Afghan border crossing point.

ATOA needs to plan starting transport training and certifying transport fleet managers.

### Afghanistan Chamber of Commerce and Industries (ACCI)

ACCI has an important trade and transit role but needs time and help getting transit experience and skills. Ideally, ACCI has a TIR Carnet and CMR Convention role. ACCI needs a TIR Department and need International Road Union (IRU) training.

### Afghanistan 'PRO' Committee (AFPRO)

Created during 2006 AFPRO has office space in the ACCI building. Mr. Hamidullah Tarzi is the Chief Executive Officer with five Vice Chairs, three from public sector and two from private sector. Executive salaries paid.

### Implementing Afghanistan Trade Logistics Strategy

The ADB Transport and Trade Facilitation Strategy Study<sup>20</sup> (TTFS) made some trade logistics proposals.

#### **CAREC Trade Logistics Proposals**

1. Facilitating development of a regional logistics industry
2. Creating a forum harmonising and planning trade logistics development
3. Supporting national trade logistics assessments
4. Helping and financing key investments

Extra trade logistics studies or annual national trade logistics assessments needs delivering training to MoC&I, AAFFCO, ACCI staffs and others giving line ministry and trader association staffs study writing and analysis skills. UNCTAD and ADB carried out driver survey skill transfer for MoC&I staffs.

Donor agencies need funding trade logistics infrastructure feasibility studies. Senior Afghanistan Government officials must commit to making changes improving trade facilitation, trade transit agreements and trade logistics. Government must show willingness to make changes by taking decisions and filling policy gaps.

Afghan Inter-Ministry CAREC meetings might help create increased project coordination between some donors and Afghan line ministries and agencies.

Showing and explaining trade logistics international best practice methods not enough getting Afghanistan line ministries and agencies integrating trade logistics strategy. Afghan Government needs vision creating an inter-ministry body overcoming decision-making delays.

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<sup>20</sup> Completed by TERA International, Inc

An Afghan trade logistics strategy needs integrating with other plans and modernising initiatives. The integrating goal is creating a comprehensive trade facilitation and trade logistics strategy. However, current Afghanistan line ministry decision-making practice hinders integrating trade logistics strategy. Trade facilitation and trade logistics responsibilities split between several Afghan line ministries. Compared with the leading role played by customs administrations in other countries, Afghan Customs Administration does not have a trade facilitation and trade logistics-leading role. For example, HM customs and revenue administration (UK) created a 'blueprint' for change, coordinating customs, and trade facilitation and trade logistics issues with line ministries and with SITPRO, the UK equivalent of the Afghan AFPRO. The goal of the 'blueprint' is increasing UK trade competitiveness. AFPRO needs becoming a member of all Government committees responsible for trade facilitation, trade and transit agreements and trade logistics.

#### Promoting Afghanistan Private Investment

- Afghan companies need access to finance
- SME finance and business planning
- Ensuring Government procurement and tender transparency
- Afghan line ministries might build some logistics infrastructure instead of waiting for Afghan private industry to mature and invest
- Afghan line ministries might consider pilot build, operate and transfer project (BOT) such as ICDs, multi modal terminal, logistics centres and an air cargo centre
- Training Afghan line ministry staffs and Afghan private company staffs about BOT
- Getting Afghan private companies participating in projects a difficult challenge. No Afghan companies involved with road building because they do not have experience and skills.

#### Strengthening Afghanistan Public Private Partnership

- Allowing AFPRO access to trade facilitation, trade and transit agreement and trade logistics meetings. AFPRO is the leading Afghan private industry lobby group for trade facilitation, trade and transit issues and trade logistics matters.
- Develop BOT as an infrastructure financing and building option.
- Create an Afghan Customs Consultative Council.
- Further, develop the Afghan banking sector and improve trade finance.
- Further, develop the Afghan insurance sector and prepare future customs insurance guarantee methods.
- Line ministries should help private companies get land and utility approvals.
- Make public private partnership (PPP) meaningful.

### **Preliminary Infrastructure and Technical Assistance Ideas**

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- Logistics centre feasibility study for Kabul followed by feasibility studies for Torkham, Hairatan and Islam Qala border crossing points. If traffic levels increase at Shirkhan Banda and when Chabarhar seaport traffic justifies a feasibility study at Zaranj border crossing point
- Multi modal and joint ICD and logistics centre feasibility study at the future Kabul railway goods yard
- New Kabul International Airport Air Cargo Centre feasibility study. Feasibility study includes ambient, chilled temperature and frozen warehousing
- Help preparing and completing an Afghan single window system (SWS)
- Help redesign some Afghan border crossing points introducing segregated traffic lanes, container truck lanes and supply chain security equipment
- Help with transport, warehousing and truck technical inspection skills. Afghanistan needs a vocational education and training (VET) solution to training making transport and trade logistics skill transfer part of Afghan education curricula
- Help creating a new railway transport department in an Afghan line ministry