



Summary of Proceedings

Seventh Meeting of the CAREC Railway Working Group 22–23 May 2023, Tbilisi, Georgia

Introduction

1. At the 15th CAREC Ministerial Conference in Islamabad in October 2016, the CAREC member countries endorsed the CAREC Railway Strategy, titled “*Unlocking the Potential of Railways: A Railway Strategy for CAREC 2017–2030*” (the Strategy). The Strategy was developed to serve as a guiding document for the long-term development of CAREC railways. The CAREC strategic vision for rail transport is “*to be a mode of choice for trade: quick, efficient, accessible for customers, and easy to use throughout the region by 2030*”.

2. The Strategy was formulated by the Railway Working Group (RWG), which was set up by the decision of the 14th Transport Sector Coordinating Committee (TSCC) in Ulaanbaatar in April 2015. The RWG consists of representatives of railway agencies from CAREC member countries, supported by expert organizations such as the Organization for Cooperation of Railways (OSJD) and International Union Railways (UIC), as well as CAREC development partners. The RWG has met six times—in Tokyo in November 2015, in Bangkok in April 2016, in Tbilisi in May 2017, in Tashkent in April 2019, in Bangkok in December 2019 and in Almaty in October 2022.

3. CAREC member countries are now working to implement the Strategy, for which ADB has mobilized a technical assistance (TA) project with the generous financial support of the People’s Republic of China Poverty Reduction and Regional Cooperation Fund (PRCF), the United Kingdom Fund for Asia Regional Trade and Connectivity (ARTCF) and the Asian Development Bank (ADB). TA activities commenced in May 2019.

Meeting Objectives

4. The Seventh Meeting of the RWG (the meeting) was held in Tbilisi, Georgia on 22–23 May 2023 to report on progress achieved in TA implementation, share knowledge and experience, and agree next steps. The meeting agenda and list of participants are in Appendices 1 and 2.

Opening remarks

5. The meeting was opened by the chairman of Georgian Railway, highlighting key developments in railway freight in the region, including infrastructure improvements connecting Azerbaijan and Georgia with Turkey and Black Sea ports, and the impact these may have on the Trans-Caspian International Transport Route. Georgia is emerging as a Eurasian trade hub, being the only country in the region with a Free Trade Agreement with members of the Commonwealth of Independent Countries, the European Union, Turkey and the People’s Republic of China. The further development of railway freight transport will be critical for promoting trade and economic growth in Central Asia.

Session 1: Update on TA activities and work plan

6. RWG participants were informed about the progress made in various TA activities as agreed at earlier RWG meetings, and the assignments that are planned to be undertaken within 2023, in particular two prefeasibility studies: (i) the establishment of Uzbekistan–Turkmenbashi Block Trains and Ferry Services, and (ii) the development of the Uzbekistan Northwestern International Freight Corridor. Work on these studies, including country visits, is due to start in September 2023. ADB requested the RWG members from Turkmenistan and Uzbekistan to assist in ensuring their railways are informed about the studies and ready to receive the country visits.

Session 2: Beyond corridors – Enabling successful corridor development?

7. This session examined the key requirements to develop a financially sustainable long-distance railway corridor and explained how investments, transport quality, and overall corridor performance can impact upon the economic prosperity of countries along the corridor. Long-distance cross-border railway corridors involve roles by many different parties which results in greater complexity than use of sea shipping. Due to high levels of competition for long-distance freight, each element of railway transport and logistics along the corridor needs to be carefully planned, monitored and coordinated, and all components of journey cost need to be controlled to enable railways to be price competitive.

Workshop 1: Infrastructure maintenance management

8. Since infrastructure is the core asset of railways, this session examined the requirements for infrastructure maintenance and the options for improvement, focusing on budget, equipment, skills and planning. Few railways generate enough revenue to cover their full infrastructure maintenance needs, so annual maintenance expenditures are often well below the levels needed to sustain the infrastructure assets. Railways need to be able to convince the government to make up the infrastructure maintenance financing gap in return for railways maintaining the infrastructure at an agreed level of quality. This may depend on the government having made a policy commitment to develop and maintain the railway sector and the railway having demonstrated that it can be relied to use of additional budgetary financing prudently. The workshop was complemented by Workshop 2 on Railway Asset Management.

Session 3: Marketing and sales in railway freight organizations

9. This interactive session took inventory of the current sales and marketing functions of CAREC railways, and discussed good practices needed for sales and marketing to be effective, including having regular contact with customers to understand their freight needs and adapting railway services to meet these needs. In a commercial railway, sales and marketing plays a critical role in determining railway traffic levels and financial performance, and therefore features prominently in the railway organization structure. Based on the discussion, options for providing related TA advisory support were identified to be further elaborated by the TA team e.g. regional workshops and advisory support.

Session 4: Rolling stock financing

10. Most CAREC railways are in urgent need to replace aged rolling stock. This session examined approaches and impediments for attracting rolling stock financing from the private sector. European experience of rolling stock leasing was discussed, including the financial, regulatory and technical prerequisites for private sector involvement, and the need to mitigate

risks for investors and the railway. It was noted that for rolling stock leasing to be attractive, private investors need to be confident that high levels of asset utilization can be achieved. Since many countries in Central Asia use the same railway gauge and technical standards, leasing companies could potentially serve customers in multiple countries. In most CAREC countries, private leasing has yet to be introduced. Kazakhstan has made significant progress in attracting private wagon leasing companies and now plans to expand private leasing of locomotives. This session also considered the advantages and risks of dry leasing versus wet leasing (wet leasing is more common in Europe and USA). In conclusion, it was agreed that rolling stock financing is a crucial subject for CAREC railways and should be a key focus of further support through the TA.

Session 5: Implementing a strategy. Lessons learned from Azerbaijan Railways

11. With support from ADB, Azerbaijan Railways (ADY) has been implementing reforms and commercialization measures to improve its efficiency, customer-orientation, competitiveness and financial performance. The session discussed how ADY developed and implemented its change strategy and how the strategy has evolved on the basis of implementation experience. Insights were provided on how to define and implement a corporate strategy in a changing internal and external environment, and how to translate corporate level strategic directions into a tangible set of activities across the railway, each driven by clear targets. After implementing a comprehensive reform program, in 2023 ADY revisited its strategic thinking, focusing on targets to be embedded in its corporate strategy for the next decade, including an ambitious investment plan.

Workshop 2: Railway Asset Management

12. This workshop introduced two frameworks for railway asset management, i.e. the International Asset Management Standards (IAMS) and the Railway Asset Management Framework developed by UIC. The workshop also elaborated on the implementation of Strategic Asset Management Planning (SAMP) and asset investment decision-making based on examples from Austria and Spain. These tools are needed if the railway is to seek additional financing for maintenance from the government (as discussed in Workshop1).

Session 6: Selection of TA prefeasibility and knowledge support

13. RWG member countries and the TA team confirmed the present commitments to carry out prefeasibility and knowledge projects through the TA during 2023. This included the traffic study of the China–Kyrgyz Republic–Uzbekistan railway; prefeasibility studies of the Northwestern International Freight Corridor and Uzbekistan–Turkmenbashi block train services; the ongoing knowledge support to Kyrgyz Republic and Tajikistan on developing a commercialization, reform and investment program, and knowledge support on rolling stock financing.

14. It was noted that further new commitments to finance prefeasibility studies and knowledge support will depend on timely replenishment of TA funds.

Other

15. Several participants made short presentations to the RWG meeting. Georgian Railway presented details on introduction of digital radio systems. UIC presented its research project list for 2023 and inventory of project ideas for 2024 for the Asia Pacific region. The Uzbekistan representative briefed participants on the investment activities of Uzbekistan Railways, including major railway infrastructure investments and the digital transformation. Past and planned ADB support for railway investment in Uzbekistan was also discussed. Pakistan highlighted the

ongoing projects and investment plans and importance of Uzbekistan-Afghanistan-Pakistan railway project was highlighted in the context of regional connectivity.

Conclusion and Appreciation

16. Participants expressed satisfaction with the RWG meeting and endorsed the TA planning for 2023 and beyond as described above. Thanks were expressed to all who had contributed to the meeting program and to the CAREC Secretariat for organizing the event.

17. The next RWG meeting is tentatively planned for December 2023.