Uzbekistan: Trade Facilitation and Logistics Development Strategy Report

The Asian Development Bank has been supporting efforts to reduce poverty and improve livelihoods in the Central Asia Regional Economic Cooperation (CAREC) countries. A major focus of these efforts is improving the transport and trade sectors to spur economic growth and promote social and political cohesion within the region. Improving the efficiency of the CAREC transport corridors will allow these landlocked countries to take full advantage of being transit countries between the surging and dynamic economies of the East and the West. This report, one of a series of nine reports, highlights the substantial challenges that Uzbekistan needs to overcome and recommends measures to make its transport and trade sectors more efficient and cost-competitive.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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UZBEKISTAN: Trade Facilitation and Logistics Development Strategy Report

Andy Sze

Asian Development Bank
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## Abbreviations and Acronyms

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<tr>
<td>AADT</td>
<td>Average annual daily traffic</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>BCP</td>
<td>Border-crossing point</td>
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<td>CAREC</td>
<td>Central Asia Regional Economic Cooperation</td>
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<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<td>CKUR</td>
<td>People’s Republic of China–Kyrgyz Republic–Uzbekistan Railway</td>
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<tr>
<td>EurAsEC</td>
<td>Eurasian Economic Community</td>
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<tr>
<td>FIATA</td>
<td>Fédération Internationale des Associations de Transitaires et Assimilés (the International Federation of Freight Forwarders Associations)</td>
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<tr>
<td>FSU</td>
<td>Former Soviet Union</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>LPI</td>
<td>Logistics performance index</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<tr>
<td>SCO</td>
<td>Shanghai Cooperation Organization</td>
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<tr>
<td>TRACECA</td>
<td>Transport Corridor Europe–Caucasus–Asia</td>
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<tr>
<td>UIFA</td>
<td>Uzbek International Forwarders Association</td>
</tr>
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<td>UTY</td>
<td>Uzbekistan Temir Yo’llari (Uzbekistan Railways)</td>
</tr>
<tr>
<td>XUAR</td>
<td>Xinjiang Uygur Autonomous Region (PRC)</td>
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Foreword

The Asian Development Bank (ADB) is pleased to provide this report on the state of the transportation and logistics sectors in Uzbekistan. It covers key measures needed to make these sectors more efficient and cost-competitive. This volume will be useful for government policy makers, providers and users of transport and logistics services, and other stakeholders. Efficient and cost-competitive transportation and logistics sectors will enable Uzbekistan not only to spur economic activity and engender social and political cohesion within its borders, but also to take full advantage of its geographical position and serve as a transit corridor between the dynamic and growing economies in the East and West.

This report is part of a series of nine that cover the countries in the Central Asia Regional Economic Cooperation (CAREC) area: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, the People’s Republic of China (specifically its Inner Mongolia and Xinjiang Uyghur autonomous regions), Tajikistan, and Uzbekistan. This series is part ADB’s continuing support of CAREC and the region in an effort to further poverty alleviation and secure a better future for people. Support, provided under the ADB CAREC Program, has been focused on promoting more efficient and effective economic cooperation among CAREC countries in the areas of transport, trade policy, trade facilitation, and energy.

The reports highlight the substantial challenges CAREC countries need to overcome. Aside from being landlocked with varied terrain, these countries are challenged by inadequate infrastructure, unsupportive systems and policy environment, and lack of skills and management know-how. From the numerous measures recommended in these reports, a common theme has emerged: the compelling need for the members of CAREC to achieve unity in purpose and action. Across borders, customs procedures need to be harmonized, tariffs rationalized, and a common framework for achieving seamless movement of cargo agreed upon, Clearly, a general atmosphere of cooperation needs to be achieved if the whole region is to reap the full benefits of efficient and competitive transportation and logistics services.

ADB hopes that the publication of this report, as well as the eight others in the series, would inspire such spirit of cooperation and unity in the region.

The conduct of these trade logistics studies embodies ADB’s new strategy under its Strategy 2020 and its five core areas of operation, two of which are infrastructure and regional cooperation and integration. The publication of the reports, meanwhile, is in line with ADB’s new strategic direction of focusing on knowledge which is one of the five drivers of change. It is part of the efforts of the East Asia Region Department to develop knowledge products that will support ADB’s mission of reducing poverty in Asia and the Pacific.
ADB staff contributions from the Financial Sector, Public Management, and Regional Cooperation Division, East Asia Department, and the Department of External Relations are greatly acknowledged. We also acknowledge the efforts of consultants who conducted primary research in the field. These combined efforts have resulted in a timely and significant contribution to trade facilitation and logistics in the CAREC region.

Klaus Gerhaeusser
Director General
East Asia Department
Executive Summary

Introduction

Lying on the ancient trade routes between Asia and Europe, Uzbekistan has been the center of commerce and trade in Central Asia for many centuries. Its territory covers 447,400 square kilometers, the third largest among the five Central Asian republics with which it shares its borders: Kazakhstan, the Kyrgyz Republic, Tajikistan, and Turkmenistan, as well as Afghanistan. Its capital Tashkent, with 2.1 million residents, is the largest city in Central Asia. Uzbeks are hardworking and successful in business. They form the core of the legendary group of traders along the ancient Silk Road.

With a young and literate population in excess of 28 million, Uzbekistan enjoys a vibrant and fast-growing economy. Agriculture is its most important economic sector, accounting for nearly 29% of gross domestic product (GDP). Its other major exports include gold (its second largest export), natural gas, minerals, and fertilizer.

In 2007, its GDP grew by 9.5%. From 2006 to 2007, its trade surged by 27.4%, driven by a 40.7% increase in exports.

Assessment of the Transport and Logistics Sectors

Taking full advantage of its geographical position as a key transit country through which trade and people cross between Europe and Asia requires that Uzbekistan offer efficient and reliable transport and logistics services at reasonable costs. Unfortunately, its logistics performance index (LPI) rank is a disappointing 129th out of the 150 countries surveyed in the 2007 World Bank report: Connecting to Compete: Trade Logistics in the Global Economy. The LPI measures a country’s trade logistics performance using a number of parameters. Countries with high LPI scores have lower trade costs and are better connected to the global value chain.

Transport Sector

Transport Networks

At the heart of “The Great Silk Road”, Uzbekistan encompasses the shortest transport corridors between the west and east, and the north and south, connecting Europe to Asia. These routes are the Transport Corridor Europe–Caucasus–Asia (TRACECA) corridor and three of the six Central Asia Regional Economic Cooperation (CAREC) corridors. The three CAREC corridors are (i) Corridor 2-a, 2-b (Mediterranean–East Asia), (ii) Corridor 3-a, 3-b (Russian Federation–Middle East and South Asia), and (iii) Corridor 6-a, 6-b, 6-c (Europe–Middle East and South Asia).
Traffic Trends
Uzbekistan’s current traffic pattern is imbalanced, with substantially more traffic coming into the country than going out. This imbalance is partly caused by Uzbekistan’s import–export imbalance and partly by the import–export patterns of neighbors that route their goods through it. Most of Uzbekistan’s inbound traffic consists of high value goods, while its outbound traffic consists mostly of raw materials.

Road Transport
Uzbekistan’s road transport system moves 10% of the international cargo that passes through the country. It also moves 88% of Uzbekistan’s domestic passenger and short haul cargo traffic.

Uzbekistan’s 83,000-kilometer (km) highway system, about 90% of which is paved, is strategically important to its neighbors as transit routes for interregional and intra-regional transport. As an example, Uzbek roads provide a year-round linkage between northern and southern Tajikistan.

Most of the 1,500 km of highways the consultant traveled in are in fairly good condition and can be classified as Class 1 or Class 2 under Asian highway standards. However, roads in the country are constructed based on former Soviet Union (FSU) standards and thus may not be able to handle large amounts of heavy truck traffic. Many highway sections traversed regularly by heavy trucks have crumbled pavements and a substantial number of potholes. Also, arterial roads and city streets are generally in poor condition. This is mainly the result of insufficient maintenance work, with the budget for maintaining primary roads remaining inadequate.

The Uzbek trucking industry is underdeveloped. It is estimated that there are fewer than 2,000 Uzbek trucks, most consisting of old Russian equipment. Meanwhile, foreign-owned trucks, mostly those from Turkey, Iran, and the Russian Federation, are in much better condition. Large numbers of foreign competitors are taking business away from local trucking companies in Uzbekistan.

Rail Transport
Uzbekistan’s rail network has over 4,400 km of 1.52-meter broad-gauge tracks capable of handling 120 km/hour trains in most sections. It handles 65 million tons of cargo each year, transporting 20 million ton-km of goods. It transports 86% of international cargo and 66% of domestic freight in the country, mainly in wagons and containers that are old and in poor condition. Rail traffic in the country grew by 19% in 2007 and by around 15% per annum in recent years.

The country’s railways are run by the state-owned joint stock company, “Uzbekistan Temir Yo’llari” (Uzbekistan Railways), which, with a labor force of 33,500, is one of the largest of such companies in Central Asia.

Uzbekistan, along with the Russian Federation and Ukraine, are the only three FSU countries with wagon construction and rehabilitation capabilities. In 2007, Uzbekistan Railways began to repair passenger wagons for the railways of the Kyrgyz Republic, Kazakhstan, and Tajikistan.

Air Transport
Since Uzbekistan is a double-landlocked country, aviation plays an important role in its cargo transport sector, carrying about 4% of the international cargo that passes through it. The typical
cargo transported by air includes high-value fruits and vegetables to the Russian Federation, equipment and parts from Europe, and consumer goods from the People’s Republic of China (PRC), the Republic of Korea, and Japan.

Uzbekistan’s air network is among the best in Central Asia. Its state-owned airline, Uzbekistan Airways, formed in 1992 out of the Uzbekistan Division of Aeroflot, is a reliable airline with one of the best safety records in the region. With 15,000 employees, Uzbekistan Airways is a huge enterprise that also runs the country’s air sector. Its modern fleet includes Boeing 757-200, Boeing 767-300-ER, A310-300, and RJ85 planes. It operates scheduled international flights to cities in the United States, Europe, Middle East, Southeast Asia, Central Asia, and the Commonwealth of Independent States (CIS).

Uzbekistan is also well served by a significant number of foreign passenger and cargo carriers. The country’s network of airports is one of the best in the region. The Tashkent Airport has been certified by the International Civil Aviation Organization as an all-weather airport. The Navoi Airport is being upgraded into an international air hub that can serve as a stopover for long-distance intercontinental flights. An international logistics center is also planned for the airport.

Water Transport
As it is far from the ocean, with its closest access point to open sea being 2,950 km away, Uzbekistan has only a small volume of water traffic, mostly ferry traffic moving on its two major rivers: the Syr Darya and the Amu Darya. Over the long term, water transport in the country will decline as more bridges spanning these two rivers are built.

Multimodal Transport
Multimodal transport in Uzbekistan is not well-developed, as elsewhere in Central Asia. The country’s rail intermodal terminals are generally antiquated, inefficient, and handle a small amount of traffic. Container trains are short and single-stacked and frequently mixed with general wagon traffic, which leads to slower service and higher costs to the shipper. Moreover, Uzbekistan Railways carries containers in old box wagons that had been converted into flat wagons by stripping off the box. It also moves containers in whatever wagon can accommodate a container. Inappropriate loading of containers and the use of equipment not designed for container carriage can damage the container and its cargo, and the rail wagon. Almost all of the containers used for transporting goods in and out of Uzbekistan are owned by shippers, foreign railways, foreign freight forwarders, foreign logistics companies, and foreign container-leasing companies.

Logistics Sector
Uzbekistan’s logistics sector is composed of a diverse group of freight forwarders and logistics companies, including local firms and those from the Russian Federation, Kazakhstan, Iran, the United Arab Emirates, Germany, Switzerland, the Republic of Korea, and the PRC. These companies offer mostly traditional forwarding and warehousing services. Supply chain management and third-party logistics services are still at an embryonic stage of development in the country.
Forecasts of Future Traffic Growth

Domestic Traffic
Uzbekistan’s domestic road freight and passenger traffic will grow at a rate faster than that of its GDP, with this growth resulting from increases in per capita personal income, improvement in roadways, favorable government policies, and the replacement of old cars by newer ones. Rail traffic is also expected to grow, but much of this growth depends on its fleet and tracks being upgraded. Air traffic will also increase as demand for domestic air travel rises with upturns in per capita personal income.

Transit Traffic
How Uzbekistan’s transit traffic will progress will be determined by the level of competitiveness achieved by the country’s transit routes and the level of competition posed by alternate transit routes in terms of cost, speed, service, and reliability.

Challenges and Opportunities

Challenges
Uzbekistan faces a number of challenges in the areas of trade and finance, customs administration and border control, and transport and logistics that must be addressed if it is to realize the full potential of its trade logistics sector.

Trade and Finance
Of the challenges it must confront in the trade and finance area, the most important are

- the lack of an integrated transport and trade facilitation strategy;
- complex trade control systems and regulations;
- high import tariffs and excise tax;
- an underdeveloped banking system; and
- complex, cumbersome, and restrictive laws and regulations on foreign exchange.

Customs Administration and Border Control
The customs administration and border control areas that need attention are

- the lack of transparency and uniformity in the interpretation of customs laws and regulations,
- a protracted customs examination process,
- the requirement for customs convoys,
- sporadic border closures, and
- unsynchronized operating hours in border crossing points.

Transport and Logistics
The constraints that relate to transport and logistics include
the large number of militia checkpoints, 
the limited availability of quality fuel, 
insufficient trained professionals, and 
high logistics costs.

**Opportunities**

The convergence of the Asian and European production networks in the region presents significant opportunities for CAREC countries in linking both regional production networks to form a pan-Eurasian production network.

**Special Strengths and Geographic Advantage of the CAREC Region**

The potential opportunities for any CAREC country, including Uzbekistan, from the linkage of the Asian and European production networks include:

- growing a strong transport industry to carry goods from one regional production network to another,
- developing a strong logistics industry to meet the needs of regional production networks,
- providing transit services for people and goods traveling from one region to another, and
- supplying the inputs required by both regional production networks.

**Uzbekistan as Center of Aviation Services**

Uzbekistan’s geographical location and well-developed aviation industry position it for the following opportunities:

- as the main air cargo hub in the region,
- as a desirable stop for intercontinental flights,
- as a maintenance and repair center, and
- as the locale of a pilot training center for the CAREC region.

**Uzbekistan as Center for Rail Wagon Construction**

The Russian Federation, Ukraine, and Uzbekistan are the only CIS countries with the capability to construct and rebuild rail wagons. Uzbekistan has therefore the unique opportunity to supply new and rebuilt rail wagons for the rest of the CIS countries which are all investing heavily in developing their respective rail systems.

**Free Economic Zones**

The creation of free zones where taxes on income, property, and consumption are light and where goods can be stored, packaged, processed, and transformed duty-free has resulted in impressive trade growth rates and economic development. For Uzbekistan, the potential locations for such zones include Navoi, Andijan, Keles, Termiz, and Alat.
Recommendations

Improving Transport Infrastructure

General Measures

1. Designation of a limited number of routes within the CAREC corridors as priority strategic routes, and the focusing of resources and attention on developing them.
2. Conduct of a comprehensive transport infrastructure needs assessment study. Based on the results of such an assessment, the formulation and implementation of a plan that will ensure that the highest return on investment is achieved, the amount of investment in various types of infrastructure is balanced, and the air/truck/rail modal integration is seamless.
3. Institution of additional road-use payment systems to ensure the adequate and sustained maintenance and development of the road system.
4. Provision of incentives to encourage private investment in public projects.
5. Development of free economic zones (FEZs), multimodal cargo hubs, logistics centers, and cold storage facilities.
6. Rationalization of the operations and financial structure of the Uzbekistan Railway.
7. Establishment of a pilot corridor with FEZs, multimodal cargo facilities, logistics centers, cold storage facilities, and modern border-crossing points (BCPs).
8. Coordination of its infrastructure planning under its membership in the Eurasian Economic Community and CAREC.

On the People’s Republic of China–Kyrgyz Republic–Uzbekistan Railway

The PRC–Kyrgyz Republic–Uzbekistan Railway can provide Uzbekistan with an efficient link with the PRC, especially between the Fergana Valley and the western region of the Xinjiang Uygur Autonomous Region of the PRC, as well as to the other East Asia economies. To make this railway a reality in the form that is most ideal for the PRC, the Kyrgyz Republic, and Uzbekistan, as well as to the whole CAREC region, Uzbekistan should

• favor the original Irkeshtam–Osh–Andijan route;
• assist the Kyrgyz Republic in seeking a viable financing scheme for its section of the route;
• promote the building of an all-standard gauge track from Kashi to Andijan, to preclude avoidable gauge change at the high elevated and mountainous PRC–Kyrgyz border;
• support the development of Osh as a multimodal transport center;
• develop Andijan as a trade logistics hub; and
• support the establishment of Kara Suu as a wholesale trade center.

On the Navoi Airport Project

To ensure the success of this project, the Uzbek government should benchmark successful airports and study the design, finance, marketing, and operations of these facilities. Moreover, before embarking on Phase 2 of the project, it should formulate a comprehensive master plan that addresses, among other issues, the challenges relating to developing the airport and its facilities into a multimodal hub, as well as to increasing the use of, and investments in, the same.
On the Construction of a New Chardjou Bridge
The Chardjou Bridge over the Amu Darya River in Turkmenistan is a vital link between Uzbekistan and Iran, used by an average of 40,000 trucks a year. It is also critical to the viability of CAREC Corridor 2-b and CAREC Corridor 3-a, as well as the TRACECA corridor. This heavily used bridge, however, is in very poor condition. Uzbekistan should therefore mobilize support within CAREC and TRACECA member countries, as well as multilateral aid agencies, for the replacement of this old floating bridge with a modern fixed bridge.

Improving Customs Administration and Border Control
To improve the flow of traffic across its borders, Uzbekistan should

- simplify its customs laws and regulations;
- increase transparency in the formulation of rules and regulations, and ensure transparency and uniformity in their enforcement;
- promote the harmonization of border crossing procedures;
- formulate and implement a customs risk management system;
- maximize cooperation among all the agencies involved in border control;
- establish joint border crossing facilities with its neighbors;
- ensure the consistency of the opening hours of its BCPs with traffic flows and the synchronization of the same with those of its neighbors’ BCPs;
- automate procedures of border control agencies to improve control and facilitate data exchange;
- reduce entry burden on importers and exporters;
- exchange cross border information with neighboring countries;
- institute single window processing;
- provide the trader with a choice of clearance facilities to clear imported goods;
- minimize the required use of convoys; and
- create public/private stakeholders groups to facilitate import and export.

Improving Trade Logistics
To enable its trade logistics industry to better achieve its full potential and thus play a crucial role in its economic development and progress, Uzbekistan should ensure the development of efficient and effective transport and trade corridors in the region, create a network of trade logistics centers, and establish a more efficient and dynamic multimodal transport system.

On the Development of Efficient and Effective Transport and Trade Corridors
To fully develop the potential of intra-regional transport and trade corridors, Uzbekistan must mobilize support for intercountry coordination and cooperation, most especially within the ambit of regional organizations where the interests of member countries are linked to the vitality of the corridors. Moreover, it must work to ensure that the number of transport corridors is narrowed down to a selected high-potential few on where resources and effort will be concentrated.

On the Creation of a Network of Trade Logistics Centers
A well-placed network of logistics centers is critical in advancing trade and economic development in Uzbekistan. Uzbekistan will benefit from establishing logistics centers and cold storage facilities that are situated in or near network nodes, border ports of entry, major industrial
and agricultural centers, major consumption centers, and points with easy access to multiple transport modes. These centers should be capable of facilitating exportation and importation; consolidation, distribution, and cross-docking; value-added processing; cold chain logistics; and agricultural production.

On the Promotion of Multimodal Transport
To promote the growth of multimodal transport in Uzbekistan and Central Asia, Uzbekistan Railways and other interline railways must

- invest in better intermodal facilities, container-handling equipment, and wagons;
- introduce best practices in empty container and container chassis management;
- adopt standardized interchange agreements;
- build up a system of sharing and exchanging information;
- promote common standards and communication protocol;
- create electronic portals for rate quotation, booking, and track and trace;
- consider privatizing state-owned enterprises; and
- foster competition and market discipline to forge an effective and efficient transport system.

Other Measures

On Developing the Industry and Commerce Sectors
Among other results, developing Uzbekistan’s industrial and commercial sectors would lead to greater demand for logistics services as increased economic activity generates more traffic in goods and people. The Uzbek government should, therefore,

- improve the competitiveness of Uzbek businesses;
- solicit foreign investments that are coupled with technology transfer;
- support the growth of its road transport industry;
- assist Uzbekistan Railways in securing favorable multi-year, through-rate, and through-route agreements with connecting railways along the New Silk Road;
- diversify agricultural production and assist farmers in selling perishable products; and
- strengthen public–private dialogue and cooperation through trade associations and chambers of commerce.

On Ensuring the Sustainability of the Transport and Trade Facilitation Sectors
Uzbekistan’s efforts to develop its transport and trade sectors must be sustained. Private investment, especially foreign direct investment, must be encouraged in sufficient amounts to supplement government resources. This can be achieved mainly by resolving issues related to foreign exchange controls and by offering strong protection for property rights. Likewise, the human resource pool ought to be built up to levels sufficient to support the growth in investment. This can be done by offering appropriate courses and training, establishing a center for transport and logistics research, and instituting a professional certification system.

On Lessening the Adverse Impact of the Transport and Trade Facilitation Sectors on the Environment
To mitigate their impact on the environment, old, poorly maintained, and underpowered trucks must be replaced by trucks meeting at least EURO 3 standards. Uzbekistan’s trucks should also
have cab fairings and roof-mounted air deflectors to reduce aerodynamic drag and increase fuel efficiency. The Uzbek government should consider offering incentives to truckers for installing these devices.

**On Establishing a Performance Measurement and Monitoring System**

The ability of Uzbekistan to react appropriately to changing conditions in its transport and trade logistics sectors would be enhanced if an appropriate performance management and monitoring system is established and executed.

**Concluding Remarks**

Uzbekistan occupies an important geographical position that straddles the New Silk Road between Asia and Europe.

Its transit potential is huge, but Uzbekistan must compete with the rest of Central Asia for it to secure the prosperity of a key transit country in the region. To succeed, Uzbekistan must ensure that the transit routes that traverse its territory are as, if not more, cost-competitive, efficient, and reliable as those that traverse other Central Asian countries.

This study has recommended a pathway for Uzbekistan to move toward this end. It is its hope that Uzbekistan will give it due consideration and then act with decisive speed and resolve to fully develop its vast trade logistics potential.
Introduction and Background

Objective and Benefits of the Study

The purpose of this study is to leverage trade logistics development in the transformation of Central Asia and the Xinjiang Uygur Autonomous Region (XUAR) of the People’s Republic of China (PRC) into efficient and effective “landbridges” connecting Asia with Europe.

Developing trade logistics capabilities along this modern “silk road” will bring immense economic and social benefits, ultimately elevating the standards of living across the Central Asia Regional Economic Cooperation (CAREC) region. These benefits include

- reduced time and cost for trade between Europe and Asia,
- increased capacity and diversity of trade routes,
- substantial intra-CAREC and global trade growth, and
- increased global competitiveness of the CAREC region.

Ultimately, these improvements will strengthen the economies of, and enhance prosperity in, CAREC member countries.

Scope

The study is part of the CAREC Trade Facilitation Program to promote intra-regional and inter-regional trade through regional cooperation and effective logistics practices. It involved the consultant spending 17 workdays in the field: 13 in Uzbekistan and 4 in the PRC, traveling 1,500 kilometers (km) on Uzbekistan roads, and crossing 23 militia, customs, and border guard checkpoints. Below is a shortened list of the organizations and sites the consultant visited in Uzbekistan:

- Customs Committee
- Ministry of Foreign Economic Relations, Investments and Trade
- Ministry of Health
- Uzavtoyul
- Agency for Road and River Transport
- O’zbekiston Havo Yo‘llari (Uzbekistan Airways)
- Uzbekistan Temir Yo‘llari (Uzbekistan Railways)
- Shoshtrans
- Uzbekistan International Forwarders Association (UIFA)
- Chamber of Commerce in Tashkent
- Chamber of Commerce in Fergana
• freight forwarders, logistics companies, expeditors, investors, traders, import–export companies, farmers, recruiter, university, and an insurer
• four border-crossing points (BCPs)
• three multimodal terminals
• two rail stations
• Tashkent Airport cargo center
• Akaltin Cotton Terminal
• UzDaewoo Factory in Asaka City

Appendix A provides the complete list of these organizations and sites.

The consultant hopes the information collected in his field study will add to the body of knowledge in the field of logistics and present a logistics practitioner’s perspective toward improving Uzbekistan’s trade logistics.

Approach

This study draws on the consultant’s knowledge and expertise as a seasoned logistics industry executive. Unlike prior works, it analyzes Uzbekistan’s trade logistics from the point of view of a logistics industry practitioner.

The consultant devoted a large portion of his efforts interviewing transport and trade professionals, as well as making observations from road trips and site visits. He focused on looking for practical solutions that can be implemented within a reasonable time frame.
Country Profile

Although double-landlocked, Uzbekistan is the economic, cultural, and geographic heart of Central Asia. Lying on the ancient trade routes between Asia and Europe, it has been a key transit country for many centuries. With a population in excess of 28 million, it is second only to Afghanistan, which has 32.7 million, as the most populous Central Asia Regional Economic Cooperation (CAREC) member country. Its people are young and literate, with a long heritage as traders and entrepreneurs. Its territory covers 447,400 square kilometers, the third largest among the five Central Asian republics with which it shares its borders: Kazakhstan, the Kyrgyz Republic, Tajikistan, and Turkmenistan, as well as Afghanistan. Its capital Tashkent, with 2.1 million residents, is the largest city in Central Asia.

The climate in Uzbekistan varies from being temperate in the eastern areas to being dry and arid in the western areas. The region around Tashkent and the Fergana Valley are centers of agriculture, producing high-quality fruits, vegetables, and dairy products. The harsh and arid western region is rich in both minerals and natural gas.

Uzbekistan has a vibrant economy. In 2007, its gross domestic product (GDP) grew by 9.5%. From 2006 to 2007, its trade surged by 27.4%, driven by a 40.7% increase in exports.

Agriculture is the most important sector of Uzbekistan’s economy, accounting for nearly 29% of the country’s GDP. Uzbekistan’s largest export product is cotton, it being the world’s fifth-largest producer and the second-largest exporter of this commodity. The country exports around 1.1 million tons of cotton a year, 340,000 tons of which is moved through Bandar Abbas and 75,000 tons of which is shipped directly to the People’s Republic of China. Appendix B details the system of cotton production and marketing in Uzbekistan. Uzbekistan’s other major exports include gold, which is its second largest export, as well as natural gas, minerals, and fertilizer.

Uzbekistan is a member of the Commonwealth of Independent States (CIS), Organization of the Islamic Conferences, the World Bank, the European Bank of Reconstruction and Development, the Asian Development Bank (ADB), and the International Monetary Fund. It is also a member of CAREC, Transport Corridor Europe–Caucasus–Asia (TRACECA), the United Nations Special Programme for the Economies of Central Asia, Organization for Security and Co-operation in Europe, and Shanghai Cooperation Organization (SCO).

Uzbekistan is also a member of the Eurasian Economic Community (EurAsEC), which is currently launching its own planning exercise. Since a large number of CAREC corridors are the same as EurAsEC corridors, it would be beneficial for EurAsEC and CAREC to coordinate their activities. CAREC might consider sending a representative to participate in EurAsEC’s planning meetings.
Assessment of the Transport and Logistics Sectors

To take full advantage of its geographical position as a key transit country through which trade and people cross between Europe and Asia, Uzbekistan must offer efficient and reliable transport and logistics services. Unfortunately, its logistics performance index (LPI)\(^1\) rank is a disappointing 129th out of the 150 countries surveyed in the 2007 World Bank report, *Connecting to Compete: Trade Logistics in the Global Economy* (Table 1). The LPI measures a country’s trade logistics performance using a number of parameters. Countries with high LPI scores have lower trade costs and are better connected to the global value chain.

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Republic of China</td>
<td>30</td>
<td>3.32</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>103</td>
<td>2.35</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>111</td>
<td>2.29</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>129</td>
<td>2.16</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>133</td>
<td>2.12</td>
</tr>
<tr>
<td>Mongolia</td>
<td>136</td>
<td>2.08</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>146</td>
<td>1.93</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>150</td>
<td>1.21</td>
</tr>
</tbody>
</table>


The World Bank study points out particular weaknesses in Uzbekistan’s transport and logistics sectors. That the country’s rank of 136 in the area of “Customs”, (seven notches lower than its composite rank) highlights the need to improve efficiency and effectiveness of its customs and other border procedures. Its rank of 133 in the area of “International Shipment” reflects the challenges encountered in arranging international shipments to and from the country (Table 2).

\(^1\) The LPI is based on a survey of operators on the ground worldwide (global freight forwarders and express carriers), providing feedback on the logistics “friendliness” of the countries in which they operate and those with which they trade. They combine in-depth knowledge of the countries in which they operate with informed perceptions of other countries with which they trade, and experience of global logistics environment. Feedback from operators is supplemented with objective data on the performance of key components of the logistics chain. The LPI consists therefore of both perception and objective measures, and helps build profiles of logistics friendliness for these countries.
Table 2: Uzbekistan’s Logistics Performance Index Sub-Scores

<table>
<thead>
<tr>
<th>Overall LPI</th>
<th>Customs</th>
<th>Infrastructure</th>
<th>International Logistics</th>
<th>Track &amp; Trace</th>
<th>Domestics Logistics</th>
<th>Timeliness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>129</td>
<td>136</td>
<td>124</td>
<td>133</td>
<td>118</td>
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<tr>
<td>Score</td>
<td>2.16</td>
<td>1.94</td>
<td>2.00</td>
<td>2.07</td>
<td>2.15</td>
<td>2.08</td>
</tr>
</tbody>
</table>


The succeeding sections detail the state of the country’s transport and logistics sectors, paying particular attention to the deficiencies and inefficiencies that challenge these sectors.

**Transport Sector**

**Transport Networks**

The transport infrastructure of Central Asia was built mainly in the 1960s–1980s as part of the integrated former Soviet Union (FSU) transport system that was designed to funnel goods toward the Russian Federation (hereafter Russia). It deteriorated rapidly in the early 1990s because of civil conflict, economic difficulties, and natural disasters. After the disintegration of the Soviet Union, the transport system of the CAREC region became fragmented as national borders were realigned. Because of the lack of integrated planning and modal coordination, the region’s roads, rail, and air networks are not configured to provide the most efficient transportation system possible.

With strong support from ADB and other multilateral organizations, the transport system of Central Asia is gradually improving.

Uzbekistan aspires to be an important transit country and a key player in regional trade logistics. This ambition is well supported by its central geographic location, a better road and rail network than most of its neighbors, and one of the strongest national airlines in the region.

At the heart of the “New Silk Road,” Uzbekistan encompasses the shortest transport corridors between the west and east, and the north and south, connecting Europe to Asia. The Transport Corridor Europe–Caucasus–Asia (TRACECA) corridor and three of the six CAREC corridors pass through the country. The three CAREC corridors are:

- Corridor 2-a, 2-b (Mediterranean–East Asia)
- Corridor 3-a, 3-b (Russian Federation–Middle East and South Asia)
- Corridor 6-a, 6-b, 6-c (Europe–Middle East and South Asia)

The development of its road, rail, and air networks as well as border crossing facilities are essential to fulfill Uzbekistan’s aim of becoming an important transit country and the key link in the New Silk Road. However, this is no easy task. Since the opening of sea routes between Asia and Europe, sea transport has essentially replaced land transport.

This situation reflects the advantages offered by sea transport over traditional landbridge transport, where sea transport:
• is more reliable and cheaper;
• has a well-developed complex web of services associated with it;
• has a legal framework that is clear, court tested, and enforceable; and
• is capable of transporting large volumes of freight.

In contrast, landbridge transport

• involves too many parties, each seeking to maximize its own self-interest;
• involves travels through too many borders, with each crossing representing potential delays and added costs;
• has not been able to effectively address empty container management (e.g., repositioning, storage, and return) and chassis management; and
• involves traffic that is more difficult to balance (e.g., import of high-value equipment and consumer goods that are controlled by foreign shippers and export of raw materials like cotton, that are controlled by the Uzbek government).

Fulfilling Uzbekistan’s potential as the hub of the New Silk Road will take time, determination and a strong commitment by its government to facilitate trade and transport.

Traffic Trends

Uzbekistan’s current traffic pattern is imbalanced, with substantially more traffic coming into the country than going out. This imbalance is partly caused by Uzbekistan’s import–export imbalance and partly by Uzbekistan’s role as a transit country for its neighbors. Its traffic pattern is thus affected by the import–export patterns of neighbors that route their goods through its territory. When its neighbors’ imports exceed exports, especially when more imports than exports are transited through Uzbekistan, a large number of trucks, containers, and wagons leave Uzbekistan empty.

Most of Uzbekistan’s inbound traffic consists of high-value machinery, capital equipment, electronics, and consumer goods, with the routing of these goods being generally controlled by the foreign shippers. Most of its outbound traffic is raw materials (e.g., cotton), with routing generally controlled by the government. The separation of import and export traffic routing control is another cause for empty equipment movements.

Road Transport

Uzbekistan’s road transport system moves 10% of the international cargo that passes through the country. It also moves 88% of Uzbekistan’s domestic passenger and short-haul cargo traffic.

Uzbekistan’s 83,000-kilometer (km) highway system, about 90% of which is paved, is strategically important to its neighbors as transit routes for interregional and intra-regional transport. As an example, Uzbek roads provide a year-round linkage between northern and southern Tajikistan. The average annual daily traffic (AADT) map below (Figure 1) clearly shows the importance of Uzbekistan’s road network to transit traffic. Transport corridors with AADTs of from 5,000 to 10,000 pass through the country.
Also generally in poor condition. Crumbled pavements, and a substantial number of potholes. Arterial roads and city streets are government. Moreover, many highway sections traversed regularly by heavy trucks have limit of trucks and requires all overweight vehicles to obtain a single-use permit from the (FSU) standards and may not be strong enough to handle large amounts of heavy truck traffic. In excess of 110 km/hour. However, roads are constructed based on former Soviet Union can be classified as Class 1 or Class 2 under Asian highway standards. With the exception of Most of the 1,500 km of highways the consultant traveled in are in fairly good condition and a 91 km stretch in the Khazarsp District, both in the Republic of Karakalpakstan. From the Kazakh border in Uzbekistan’s north toward Afghanistan and onward to Turkmenistan. It will provide Uzbekistan a $75.3 million loan to upgrade a key highway that is an integral part of CAREC Corridors 2 and 6. The move comes a month after eight CAREC member countries agreed to an $18 billion investment plan to develop transport corridors through the region, which will serve as vital transit routes for trade between Europe and Asia. The new loan will be used to upgrade two sections of the A-380 highway, a 1,204 km road that runs from the Kazakh border in Uzbekistan’s north toward Afghanistan and onward to Turkmenistan. The first road section to be reconstructed is a 40km stretch in Kungrad District, and the second, a 91 km stretch in the Khazarsp District, both in the Republic of Karakalpakstan. Most of the 1,500 km of highways the consultant traveled in are in fairly good condition and can be classified as Class 1 or Class 2 under Asian highway standards. With the exception of certain sections, the road surface is generally smooth, allowing vehicles to travel at speeds in excess of 110 km/hour. However, roads are constructed based on former Soviet Union (FSU) standards and may not be strong enough to handle large amounts of heavy truck traffic. The average weight of commercial vehicles is around 25 tons. Uzbekistan has a 10 ton/axle limit of trucks and requires all overweight vehicles to obtain a single-use permit from the government. Moreover, many highway sections traversed regularly by heavy trucks have crumbled pavements, and a substantial number of potholes. Arterial roads and city streets are also generally in poor condition.

**Figure 1: Average Annual Daily Traffic in CAREC Transport Corridors**

CAREC = Central Asia Regional Economic Cooperation.


In recognition of the country’s critical transit role, ADB announced on December of 2007 that it will provide Uzbekistan a $75.3 million loan to upgrade a key highway that is an integral part of CAREC Corridors 2 and 6. The move comes a month after eight CAREC member countries agreed to an $18 billion investment plan to develop transport corridors through the region, which will serve as vital transit routes for trade between Europe and Asia.
Insufficient maintenance in the past has led to the present state of deterioration in Uzbekistan’s roads. While the government has made progress in addressing the problem, the budget for maintaining primary roads remains insufficient. Road construction and maintenance are financed by a gas tax collected at the pump, a road tax of about 2% on corporate profit, and assistance from multilateral organizations. There are no toll roads, nor are there special user fees or tax levied on Uzbek motor transport companies. However, each transit truck is weighed at the BCP and required to pay a transit fee based on the distance to be traveled on Uzbek roads in accordance with its designated transit route through the country.

“Uzavtoyul,” the state-owned highway construction company charged with road construction and maintenance, has a modest $350 million annual budget and employs a staff of 15,000. It aims to be self-reliant in future road construction and is seeking funds to build factories and acquire equipment for producing cement, asphalt, and road construction machinery.

With traffic growth being anticipated, the government should consider instituting a unified payment system for road usage to supplement its current gas tax and road tax regime, and thus more adequately provide for the maintenance and development of Uzbekistan’s roads.

Car ownership level is low in Uzbekistan—about 42 per thousand people. About half of the cars are less than 10 years old, mostly UzDaewoo brand made in Asaka City in the Fergana Valley. The rest are very old Russian-made vehicles like Lada.

Trucks carry most of the domestic cargo and a significant amount of Uzbekistan’s international cargo, which pass mainly through the Tashkent–Bandar–Abbas, Tashkent–Moscow, and Tashkent–Almaty routes. The high imbalance of traffic is reflected in the cargo rates. As an example, the rate for transporting a container from the Port of Bandar Abbas to Tashkent is $4,500, while that for transporting a container from Tashkent back to Bandar Abbas is only $1,600, about a third of the inbound charge.

The Uzbek trucking industry is underdeveloped. It is estimated the total number of Uzbek trucks is fewer than 2,000, with a good majority of these consisting of old Russian equipment, mostly made by Kamaz, that do not meet EURO 3 standards and therefore cannot be used to carry cargo to Western Europe. This underdevelopment is the result mostly of the huge investments needed to enter the trucking business or re-fleet existing units. Due to the high customs duty and excise tax imposed on truck imports, the estimated cost for acquiring a European made truck in Uzbekistan (e.g., Volvo, MAN) is about Euro 160,000 per unit.

Meanwhile, foreign-owned trucks, mostly those from Turkey, Iran, and Russia, are in better condition and in large numbers.

The Uzbek International Forwarders Association (UIFA) has successfully lobbied the Uzbek government to reduce customs duties to 30% for new trucks and 10% for used trucks. This lowers the investment barrier for entering the trucking business and for re-fleeting. The government is taking additional steps to encourage investment in the trucking industry.

**Rail Transport**

Uzbekistan’s rail network comprises the greater part of the former Soviet Railways’ Central Asian Railway. With the completion of the 342 km main line linking Navoi, Uchkuduk, and Sultanoizdag
Nukus, and the 233 km main line linking Guzar, Baisun, and Kumkurgan, this network would have over 4,400 km of 1.52-meter broad gauge tracks, 600 km of which are electrified. These tracks are capable of handling 120 km/hour trains in most sections, with some sections capable of accommodating 160 km/hour trains.

The rail network handles 65 million tons of cargo each year, transporting 20 million ton-km of goods. Since rail traffic encounters far fewer delays at borders, it is the preferred mode of transporting international cargo in Uzbekistan and thus transports 86% of such cargo. It also accounts for 66% of freight turnover in the country.

Rail cargo is shipped in both wagons and containers, many of which are old and in poor condition. Several major shippers disclosed that they regularly reject up to a half of the wagons offered because of poor condition, even though wagon supply is tight.

To foster competition and encourage investment, a presidential decree was issued in March 2001 converting Uzbekistan’s railway into a state-owned joint stock company. With a labor force of 33,500, the state-owned rail company, “Uzbekistan Temir Yo’llari” (Uzbekistan Railways or UTY) is one of the largest in Central Asia. It is divided into five regional administrations: Tashkent, Kokand, Bukhara, Kungrad, and Karshi–Termez. Its terminal operator, “Uztemityolkonteyner,” runs 25 rail yards, 13 of which are equipped with container lifting capability, including the Chukusay container terminal in Tashkent.

Based on its 2010–2015 plans, UTY will electrify high-traffic density sections of the rail network to increase capacity and reduce operating costs. These sections include the Samarkand–Karshi–Tash Guzar–Baisun–Kum Kurgan, Samarkand–Navoi–Uchkuduk–Urgench–Nukus, and Navoi–Bukhara routes.

The Uzbek government is also contemplating constructing a 140 km rail line linking Tashkent and Andijan that will avoid passage through Tajikistan. Because of difficult terrain, several tunnels, the longest of which measures as much as 19 km, need to be constructed. This increases the project cost to an estimated $2 billion. Plans also include the building of a 5 km spur to link its main line to the Novoi International Airport.

Uzbekistan, along with Russia and Ukraine, are the only three FSU countries with wagon construction and rehabilitation capabilities. In 2007, UTY began to repair passenger wagons for the railways of the Kyrgyz Republic, Kazakhstan, and Tajikistan.

UTY has received several funding assistance to upgrade its fleet and improve its lines. To support its robust traffic growth (19% in 2007 and around 15% in recent years), additional investments are required for Uzbekistan to be self-sufficient in constructing and maintaining its rolling stocks and in upgrading its tracks. To attract rail transit traffic, the Uzbek government should assist UTY in securing favorable long-term, through-rate, and through-route agreements with interline railways.

**Air Transport**

Uzbekistan’s air network is among the best in Central Asia. The country’s state-owned airline, “O’zbekiston Havo Yo’llari” (Uzbekistan Airways), formed in 1992 out of the Uzbekistan Division of Aeroflot, is reliable and has one of the best safety records in the region. With 15,000 employees, it is a huge enterprise that also runs the country’s air sector.
Since Uzbekistan is double-landlocked,\(^2\) aviation plays an important role in cargo transport. Currently, about 4% of the international cargo that passes through the country is transported by air. Uzbekistan Airways carries 5–7 tons of cargo in its planes per flight. Its cargo routes include Europe–Uzbekistan, Turkey–Uzbekistan–Japan, Thailand–Uzbekistan–Russian Federation, and the People’s Republic of China (PRC)–Uzbekistan. The cargo it transports typically consists of fruits and vegetables to the Russian Federation, equipment and parts from Europe, and consumer goods from the PRC.

Tashkent Airport was certified by the International Civil Aviation Organization as an all-weather airport. Thus, it is not accidental that several leading airlines have chosen it as an intermediate stop for long-haul flights between Europe and Asia. The entry of one of the largest airfreight companies of the world, Cargolux, serves to illustrate Tashkent’s desirability.

Uzbekistan Airways is building a large airport in Navoi. This project was announced in 2000, with the goal of developing this centrally located airport as an international air hub that can serve as stopover for long-distance intercontinental flights. The airport will have direct access to the M37 highway and be connected to UTY through a 5 km rail spur. Convenient road and rail connections will enable it to be a super air hub with integrated multimodal capabilities, while allowing aviation fuel to be brought in economically by rail.

In the heart of CAREC corridors traversing through the Uzbekistan, as well as the Termez–Karakalpakya axis and Andijan–Tashkent–Alat axis, Navoi Airport is well situated for handling transit air cargo going to western Kazakhstan, Turkmenistan, Afghanistan, and Tajikistan. Closer to Samarkand, Bukhara, Khiva, and many other Uzbek cities than Tashkent Airport, it is also a good location for serving tourists visiting, those cities.

The first phase of the Navoi Airport development project was finished recently, with a 4 km runway (long enough to land a 747 with disabled engines) completed, and navigation system installed. The Phase 2 expansion will include infrastructure for parking, hotel, catering, aircraft de-icing, fueling, luggage systems, restaurants, and ground support. Its starting date, however, has not been determined yet. The funding for Phase 2 is anticipated to come from internal sources (30% from Uzbekistan Airways, 70% from the Uzbekistan Reconstruction and Development Fund). However, the Uzbek government is also looking for external funding.

Uzbekistan Airways and Korean Air have agreed to jointly participate in constructing an international logistics center in the Navoi International Airport. Korean Air will provide technical, operations and sales support for the logistics center. Uzbekistan Airways, in turn, will help obtain the approvals and funds for development. This approach is a good model for future development of logistics centers, dry ports, multimodal cargo hubs, and refrigerated warehouses in Uzbekistan.

The government is pouring in large amounts of resources into developing the Navoi International Airport. Its plans include massive infrastructure developments and designating the area around

\(^2\) In a double-landlocked country, one has to go through two countries to reach a seaport.
the airport as a special economic zone. The approach is to make the land in the special economic zone “fully entitled” and ready for immediate development before launching a marketing campaign.

With a modern fleet that includes Boeing 757-200, Boeing 767-300-ER, A 310-300, and RJ85 planes, Uzbekistan Airways operates scheduled international flights to more than 40 cities in the United States (US), Europe, Middle East, Southeast Asia, Central Asia, and the Commonwealth of Independent States (CIS). Instead of service expansion, Uzbekistan Airways is currently focusing on increasing the density and yield of its routes.

Its current services include

- flights to 11 domestic cities,
- flights to 21 CIS cities,
- flights to 20 international airports,
- air dispatch and navigation,
- airport management,
- aircraft services and maintenance, and
- food catering.

### Table 3: Uzbekistan Airways Route Network

<table>
<thead>
<tr>
<th>Domestic</th>
<th>CIS</th>
<th>International</th>
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</thead>
<tbody>
<tr>
<td>Andijan</td>
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<td>Amritsar</td>
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<tr>
<td>Bukhara</td>
<td>Astana</td>
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<td></td>
<td>Tyumen</td>
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</tr>
</tbody>
</table>

CIS = Commonwealth of Independent States.

Source: Author.
Uzbekistan is also well served by a significant number of foreign carriers. Table 4 lists selected carriers that currently serve Uzbekistan.

Table 4: Selected Foreign Carriers Serving Uzbekistan

<table>
<thead>
<tr>
<th>Passenger Carrier</th>
<th>Cargo Carrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aeroflot</td>
<td>CargoLux</td>
</tr>
<tr>
<td>Aeroflot Don</td>
<td>DHL</td>
</tr>
<tr>
<td>Air France (starting September 2008)</td>
<td>Korean Air</td>
</tr>
<tr>
<td>Asiana Airlines</td>
<td>Lufthansa</td>
</tr>
<tr>
<td>British Airways</td>
<td>Mas Kargo</td>
</tr>
<tr>
<td>China Southern</td>
<td></td>
</tr>
<tr>
<td>Domodedova Airlines</td>
<td></td>
</tr>
<tr>
<td>Grumov Air</td>
<td></td>
</tr>
<tr>
<td>IM Air</td>
<td></td>
</tr>
<tr>
<td>Iran Air</td>
<td></td>
</tr>
<tr>
<td>Pulkova</td>
<td></td>
</tr>
<tr>
<td>S 7</td>
<td></td>
</tr>
<tr>
<td>Samara Airlines</td>
<td></td>
</tr>
<tr>
<td>TransAero</td>
<td></td>
</tr>
<tr>
<td>Turkish Airlines</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author.

**Water Transport**

Uzbekistan does not have deep and wide rivers like the Volga, the Rhine, or the Yangtze. Only a miniscule amount of traffic is moved in Uzbekistan’s waterways. Virtually all of Uzbekistan’s water traffic moves on its two major rivers: the Syr Darya and the Amu Darya. Both rivers are not large enough for carrying high volumes of traffic. Because of seasonal water flow variations, a large part of the river system can only support small vessels.

The vast majority of water movements are ferry services between two banks of a river. Water transport in Uzbekistan will thus decline as more bridges are built.

**Multimodal Transport**

Intermodal transport is the movement of cargo and people using more than one mode of transport in a continuous, seamless journey. An example is the movement of goods in a cargo container across multiple transport modes (motor, rail, water, and air) without any handling of the goods inside after the container is loaded at the beginning of the journey.

The concept of intermodal transport has been honed by the freight industry for many years. Today, intermodal transport is the fastest growing transport segment worldwide. A typical intermodal movement comprises of the following steps:

- Freight is first collected by truck from the shipper and consolidated at a terminal into an appropriate piece of linehaul intermodal equipment. This can be a trailer or a container.
The quantity and dimension of cargo determine the exact size of the equipment that would be used (e.g., 20 feet [ft], 40 ft, 45 ft, 48 ft, and 53 ft). Because of the versatility of trucking in providing door-to-door services, the dominant mode for the consolidation of freight is road transport. Value-added activities, such as packaging, crating, and warehousing, are also included in the consolidation process.

- The equipment containing the cargo is then delivered to an intermodal hub (rail intermodal facility, seaport or airport) operated by the linehaul carrier and placed on the linehaul transport vehicle (a rail wagon, the deck of a ship, or the belly of a plane). The linehaul carrier will take the linehaul vehicle to a terminal close to the cargo’s final destination, where the intermodal equipment is unloaded and trucked to a deconsolidation terminal.
- At the deconsolidation terminal, the cargo is unloaded and delivered by local truck to the door of the receiver.

North America is generally recognized as most advanced in perfecting intermodal transport. On average, a third of Canadian and US rail cargo revenue is derived from intermodal transport. BNSF, the leading US intermodal railroad, derives over 40% of its revenue from intermodal traffic.

Cargo containerization is an excellent way to resolve both nonphysical transit obstacles and physical transport problems. More specifically, it overcomes nonphysical transit barriers in the following manner:

- When cargo is moved in containers transported by rail, there are no problems with driver visas, transit permits, usage fees, customs escorts, police checkpoints, and unofficial payments.
- Moving containerized cargo by rail overcomes cross-border vehicle weight regulation and technical standard problems.
- Rail containers encounter fewer delays at borders. Few border officials want to hold up a whole train.
- Containerization facilitates customs-risk management and post-entry audit.

Containerization overcomes physical transportation problems in the following manner:

- It unites air, road, rail, and water transport networks and provides a way to weave these together into a connected and coherent network. As an example, rail–truck–rail container transport is an excellent method of connecting the disjointed rail network segments in the CAREC region to form a unified integrated rail system. The efficiency of using trucks as a link between rail networks has already been proven in the US. For decades, thousands of containers and trailers have been shuttled between US railroads every week to speed up traffic interchange, even when their rail tracks are connected.
- It overcomes the problem of transloading freight from wagons of one gauge to wagons of another gauge, which is very labor- and time-intensive, and increases the risk of loss of, and damage to, goods. It speeds up cargo transfer at “break of gauge” locations (such as Sarakhs and Alashankou) since containers can be efficiently transferred from one gauge system to another simply by lifting the containers from one flat wagon of a given gauge to a parallel flat wagon of another gauge.
• It is effective and efficient in connecting region to global markets (e.g., the US and Japan). With containerization, goods are ready to be placed on board ships with no extra handling being required at port.
• It is an excellent method of estimating real traffic potential before the construction of new rail lines, e.g., testing the realizable traffic between the PRC, the Kyrgyz Republic, and Uzbekistan before investing over $2 billion in the construction of the PRC–Kyrgyz Republic–Uzbekistan Railway.
• It reduces cargo handling, hides the cargo from view, and secures the cargo inside a locked box. Less handling, a stronger locking mechanism, and stealth mean less loss and damage.
• Multimodal transport is more energy efficient and lessens adverse environmental impact.

Despite numerous obvious benefits, multimodal transport is not well developed in Uzbekistan and elsewhere in the CAREC region.

The rail intermodal terminals in Uzbekistan are generally small and inefficient, and handle a very light amount of traffic. Unlike US intermodal terminals that handle hundreds of containers as well as trailers a day, few Uzbek intermodal terminals handle more than a few dozens of containers a day (Table 5).

<table>
<thead>
<tr>
<th>Stations</th>
<th>Maximum container storage capacity</th>
<th>Average number of containers handled each workday</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andijan</td>
<td>180</td>
<td>18–30</td>
</tr>
<tr>
<td>Bukhara</td>
<td>260</td>
<td>20–22</td>
</tr>
<tr>
<td>Chukusay</td>
<td>600</td>
<td>40–50</td>
</tr>
<tr>
<td>Karshi</td>
<td>120</td>
<td>18–30</td>
</tr>
<tr>
<td>Nukus</td>
<td>117</td>
<td>10–12</td>
</tr>
<tr>
<td>Raustan</td>
<td>385</td>
<td>20–25</td>
</tr>
<tr>
<td>Sergeli</td>
<td>592</td>
<td>40–45</td>
</tr>
<tr>
<td>Tashkent–Tovarniy</td>
<td>250</td>
<td>35–40</td>
</tr>
<tr>
<td>Termez</td>
<td>200</td>
<td>10–20</td>
</tr>
<tr>
<td>Tinchlik</td>
<td>132</td>
<td>10–12</td>
</tr>
<tr>
<td>Urgench</td>
<td>145</td>
<td>10–18</td>
</tr>
</tbody>
</table>


Compared to North America and Western Europe, Uzbekistan is at an early stage in the development of multimodal transport. US railroads run scheduled, dedicated, double-stack container trains generally over 1,500 meters long (with some trains over 2,000 meters long). In contrast, container trains in Uzbekistan (and generally in most of Central Asia) are short and single-stacked, and frequently mixed with general wagon traffic. This leads to a lower level of service and higher cost to the shipper.

UTY carries containers in old box wagons that had been converted into flat wagons by stripping off the box. It also moves containers in whatever wagon that can accommodate a container,
including rail wagons designed for carrying lumber and tree logs. Inappropriate loading of containers into equipment not designed for container carriage can damage the container and its cargo, and the rail wagon.

The railway company owns very few containers. Almost all of the containers used for transporting goods in and out of Uzbekistan are owned by shippers or by foreign railways, foreign freight forwarders, foreign logistics companies, and foreign container–leasing companies.

UTY has direct agreements with eight major freight forwarders to buy and resell transport codes (for payment of rail moves). One such freight company is Shoshtrans, which is a joint-venture company with Russian and Swiss transport companies. As one of the largest intermodal freight companies in Uzbekistan, Shoshtrans moved 35,000 intermodal containers in 2007, with 80% of its business connected to the PRC and the remaining 20% connected to the CIS and Europe. Sinotrans, Woojin Global Logistics, and Pantos Logistics are also major users of the Shoshtrans Terminal.

Shoshtrans management considers competition to be intense. It regularly has to bid against a large number of competitors for loads. To win business, it promotes the following competitive advantages:

- It is both the owner and operator of the large Shoshtrans Terminal in Tashkent.
- It has two modern Boss container stackers and the brand new Kalmar container stacker at the Shoshtrans Terminal that are far more reliable in getting containers in and out of trains than the ancient 27-year old overhead gantry cranes used in Chukusay Terminal.
- It provides door-to-door pickup and delivery services with its own trucks.
- It offers comprehensive cargo services, including customs clearance and load rearrangement.

Azia Terminal, which is operated by a Russian transport company, along with Shoshtrans and other freight companies, also operates six container yards. However, these facilities are either traditional rail stations with container lifting capability or traditional cargo container yards. None of them is designed from the ground up as a modern multimodal cargo facility that integrates road and rail transport networks.

The PRC government promotes the use of the Port of Lianyungang for cargo traveling by rail to Central Asia. Therefore, Uzbekistan-bound cargo must be shipped to the Port of Lianyungang. Uzbek-bound containers are carried on short sea vessels to Lianyungang from various Asian and PRC ports. The transit times to Lianyungang are as follows:

<table>
<thead>
<tr>
<th>From</th>
<th>Transit Time to Lianyungang</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>2 weeks</td>
</tr>
<tr>
<td>South China; Hong Kong, China</td>
<td>5 days to 1 week</td>
</tr>
<tr>
<td>Shanghai</td>
<td>3 days</td>
</tr>
<tr>
<td>Pushan</td>
<td>5 days</td>
</tr>
</tbody>
</table>

Sinotrans runs a weekly container block train from Lianyungang to Uzbekistan through Alashankou/Dostik, arriving in Tashkent, generally on Saturdays.
The transit time from Lianyungang to Alashankou is only 7 days. Because of heavy congestion at Dostik, the total transit time from Lianyungang to Tashkent averages around 14 to 15 days, but it could be substantially longer (up to 30 days). Therefore, for a freight-handling company, it is critical to have a capable agent in Dostik/Alashankou to speed up the interchange and secure flat wagon allocation from Kazakhstan Railways at Dostik to move the containers out.

Freight forwarders generally use a combination of their own containers and pool containers that can be rented in Lianyungang at $10–$20 per day. However, China Rail containers and Sinotrans containers are also used. For instance, even though DB Schenker—a large global logistics company—owns 11,000 containers in the PRC, its Uzbek agent, Schenker–Delta Bar, sometimes experiences difficulty in securing a container in the PRC for Tashkent-bound cargo and is thus forced to use pool containers.

**Logistics Sector**

Uzbekistan is well-served by a diverse group of freight forwarders and logistics companies (Appendix C). In addition to homegrown enterprises, this group also includes companies from the Russian Federation, Kazakhstan, Iran, the United Arab Emirates, Germany, Switzerland, the Republic of Korea, and the PRC.

Most of the services these companies provide are traditional forwarding and warehousing services. Some augment their offerings with valued-added services, but third party logistics and supply chain management services are still at an embryonic stage in Uzbekistan.

Forwarders in Uzbekistan are represented by the UIFA, a member of the Fédération Internationale des Associations de Translantes et Assimilées (FIATA, or the International Federation of Freight Forwarders Associations). UIFA provides a number of valuable services to its members, including:

- implementation of measures to develop the Uzbekistan forwarding industry;
- issuance of international unified commodity–transport and transport-forwarding documents and forms of FIATA;
- training and education;
- lobbying for government incentives and better laws and regulations; and
- promotion of business cooperation with foreign transport, forwarding, insurance, and shipper organizations.

**Forecast of Future Traffic Growth**

**Domestic Traffic**

Uzbekistan’s domestic road freight and passenger traffic are expected to grow at a rate faster than that of its gross domestic product (GDP). This growth will result from:

- increase in per capita personal income;
- improvement in roadways, as the government is increasing resources earmarked for road construction and maintenance;
Assessment of the Transport and Logistics Sectors

- favorable government policies such as the reduction in customs duties for truck importations; and
- replacement of old cars by newer ones that can go longer distances.

Rail traffic is also expected to grow, but much of this growth depends on the quality of the fleet and the tracks being improved.

The annual number of domestic, round-trip air flights, which currently is low at about six per thousand people, will likewise rise as demand for domestic air travel increases with upturns in per capita personal income.

**Transit Traffic**

The future trend of Uzbekistan’s transit traffic will be determined by the users of trade routes linking the east to the west, and the north to the south. More specifically, it will depend on the level of competitiveness of Uzbekistan’s transit routes and the level of competition posed by alternate transit routes in terms of cost, service, and reliability. It will also be impacted by the construction of roads, rail lines, and the creation of border-crossing points (BCPs)3 by neighboring countries to avoid transit through Uzbekistan.

Kazakhstan will soon have two rail links with the PRC: Alashankou and Horgas. The PRC–Kazakhstan–Russian Federation route that will link Asia and Europe is much less complicated than the route going through Uzbekistan. It has fewer borders to cross and fewer railroads to deal with in moving cargo. With fewer border formalities, fewer transfers from one rail system to another, more reliable transit, and potentially lower rates, it is a strong competitor for the transit traffic Uzbekistan wants to attract.

In January 2008, China United International Rail Containers Corporation (a joint-venture company with China Rail Container Transport Corporation, Deutsche Bahn, CMA-CGM, Zim Lines, NWS Holdings, the China International Marine Container Corporation, and Promisky as shareholders) and the Port of Dalian have initiated a new Eurasian container block train from Dalian Port, connecting with the Trans-Siberian Railway at Manzhouli. This train will handle traffic not just from the northeastern PRC provinces, but also from PRC provinces south of the Yangtze River (e.g., Yiwu in Zhejiang). This new route will increase the intensity of competition faced by UTY.

Further competition is forthcoming from Turkey, which has set aside sizable resources toward the development of its railway system. Turkey has also launched an international sales pitch to attract more freight from the PRC and East Asia to its rail network (Figure 2). Turkish officials are lobbying members of the International Union of Railways that Turkey should be a major hub for rail freight between Asia and Europe. The country already has a large, vibrant trucking industry hauling a large percentage of cargo between Central Asia and Europe. It is also constructing logistics hubs on key nodes to support freight traffic growth. With strong support from its government, Turkey will be a major transit country influencing the direction of the New Silk Road linking Asia and Europe.

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3 Tajikistan is pushing for a year-round BCP with the PRC to avoid transit through Uzbekistan.
With so many potential transit routes and so many countries aspiring to be key transit links, the competition for transit traffic will be intense. To assure that it gets a sizable share of the transit traffic in the region, Uzbekistan must increase the competitiveness of its transit system in terms of cost, speed, reliability, efficiency, and transparency. Both Singapore and Hong Kong, China are excellent candidates for Uzbekistan to benchmark and emulate.
Challenges and Opportunities

Challenges

Uzbekistan faces a number of challenges in the areas of trade and finance, customs administration, and border control, as well as transport and logistics. These challenges must be successfully addressed for Uzbekistan to realize the full potential of its trade logistics sector.

Trade and Finance Issues

(i) **Lack of an integrated trade facilitation strategy.** Uzbekistan does not have an integrated trade facilitation strategy. This results mostly from the fact that there is no institution mandated to formulate and implement comprehensive, integrated policies, programs, and projects that would promote the development of trade logistics in the country.

(ii) **Complex trade control systems and regulations.** Trade is subjected to a wide variety of government controls and regulations. Foreign exchange control, in particular, is a major impediment to trade. So is the requirement that all import and export contracts must be filed with, and approved by, the Ministry of Foreign Economic Relations, Investments and Trade.

(iii) **High import tariffs and excise tax.** Uzbekistan subjects most imports from countries with the most-favored-nation status to customs duties of up to 30%. With some exceptions, it also generally imposes a 20% excise tax on imports. Automobiles are taxed at 90%. These taxes are high and thus discourage both regional and international trade in the country.

(iv) **An underdeveloped banking system.** The banking system in Uzbekistan is not well developed. The Uzbek government regulates the banking industry tightly and discourages foreign investments in the sector. There are, thus, only two foreign banks in Uzbekistan, ABN-AMRO and Korean Development Bank. Recent attempts by Kazakh banks to acquire Uzbek banks were all rejected by the Uzbek government. This level of regulation severely constrains the availability of financing, which is vital in engendering trade.

(v) **Complex, cumbersome, and restrictive laws and regulations on foreign exchange.** The Uzbek currency, the sum, is not convertible and letters of credit issued by Uzbek banks are generally not accepted outside the country. To compound the situation, the Uzbek government imposes tight currency control through bank ownership and a restrictive conversion regime. Half of hard currencies remitted into Uzbekistan must be promptly exchanged into sum, limiting the amount of hard currency that is available for importing goods, and for paying vendors and employees who prefer payments in hard currencies.
To import, an Uzbek company must apply through its bank for foreign exchange. This is a long, cumbersome, costly, and uncertain process.

Foreign investors face another problem in remitting profits. Even if the government approved the remittance, sums tendered to banks for exchange into hard currencies are subjected to a 5% government charge, plus a 1% bank fee, for a total of 6% in “transaction tax” just to repatriate profits.

**Customs Administration and Border Control Issues**

(i) **Lack of transparency and uniformity in the interpretation of customs laws and regulations.** Traders and forwarders reported the non-uniform interpretation of customs laws and regulations across different customs posts, perhaps because of the complexity of the Uzbek customs laws and regulations. Some customs posts issue their own internal decrees that are quite different from the law. In such cases, the trader or forwarder often accepts the customs post’s demands to get the goods out, and then litigates the customs decision in court.

(ii) **A protracted customs examination process.** Uzbekistan apparently does not have a risk assessment and management system against the unlawful entry of goods. This has forced Uzbek customs to examine 100% of the cargo entering Uzbekistan. In addition to charging a 0.2% fee for processing of entries, Uzbek customs also charges a ₴5-per-hour fee on weekdays and a ₴20-per-hour fee on weekends or after business hours for cargo examination. A minimum 1-hour fee is levied for the customs officer to examine the cargo. These factors have caused undue delays and increased costs in importing goods into Uzbekistan.

(iii) **The requirement for customs convoys.** Uzbek customs administrators mandate the assembly of convoys when import cargo is destined for a point more than 300 kilometers (km) from the border-crossing point (BCP). Air cargo forwarders reported long waits for Uzbek customs to assemble a convoy, then a long road trip as the cargo zigzags from customs post to customs post (not in accordance with the shortest and most direct route) before reaching final destination.

(iv) **Border closures.** Uzbek borders are sporadically closed with no advance notice. This presents a problem for importers and exporters, as well as forwarders and carriers.

(v) **Unsynchronized BCP operating hours.** The operating hours of Uzbek BCPs are not always synchronized with those of its neighbors’ BCPs, thereby further shortening the actual hours of operation when people and cargo can cross.

**Transport and Logistics Issues**

(i) **Militia checkpoints.** Militia highway checkpoints are ubiquitous in Uzbekistan. They are located in borders separating administrative districts and at important road intersections. In addition, there are special highway checkpoints staffed by customs officers, border guards, and special police near the frontier. These checkpoints slow down traffic movement and add to the uncertainty of transit time.

(ii) **Limited availability of quality fuel.** Getting quality diesel and gasoline is not always easy in Uzbekistan. Drivers have often encountered substandard fuels that severely damage vehicle engines. Most will only purchase fuel from Uz Gaz even if they
have to drive out of the way to get to one of its stations. This results in unnecessary and unproductive use of roadways and higher transport costs.

(iii) **High logistics costs.** There are no official calculations of Uzbekistan’s logistics costs as a percentage of gross domestic product (GDP), which in developed countries like Japan, Singapore, the United States, and Western Europe are at 8% to 12% of GDP, and in the People’s Republic of China (PRC) at 18% of GDP. Nonetheless, Uzbekistan’s logistics costs are generally thought to be quite high because of the lack of sea access, inadequate infrastructure, nonphysical barriers, inefficient supply chain practices, and very high cost of capital.

(iv) **Shortage of trained logistics professionals.** Interviews with recruiting firms, logistics companies, and multinational corporations all pointed to a shortage of trained logistics professionals in Uzbekistan. Uzbek universities do not have adequate faculty and resources to teach modern logistics theory and practices.

**Opportunities**

**Special Strengths and Geographic Advantage of the CAREC Region**

The convergence of the Asian and European production networks in the region presents significant opportunities for the countries of the Central Asia Regional Economic Cooperation (CAREC) region in linking both regional production networks to form a Eurasian production network. The potential opportunities for CAREC countries arising out of this linkage of networks include

- growing a strong transport industry to carry goods from one regional production network to another, like what Turkey has accomplished;
- developing a strong logistics industry to meet the needs of both regional production networks;
- providing transit services for people and goods traveling from one region to another; and
- supplying the inputs required by both regional production networks.

Located in the heart of the CAREC region, Uzbekistan can play a leading role in facilitating the Eurasian land bridge, similar to the prominent role it played in the “Great Silk Road”. To exploit these opportunities, the Uzbek government and Uzbek enterprises must understand the concept of “global value chain” and target carefully chosen niches that are suitable for the region. For example, Uzbekistan can seize the opportunity of providing aviation-related services, like pilot and mechanic training, aircraft maintenance and repair, and engine rebuilding. Airplanes can be flown into Tashkent or Navoi just as easily as being flown into a location right by the sea, like Singapore. Other niches Uzbekistan could consider are the construction of refineries, polymer manufacturing plants, and fertilizer plants to take advantage of the region’s ample supply of crude oil and natural gas.

Uzbekistan has excellent neighbors to benchmark: the PRC in the proper mix of socialism and capitalism, Japan and the Republic of Korea in manufacturing excellence, and Singapore and Hong Kong, China in trade logistics. Importing their best practices and learning how they moved up the value chain will assist Uzbekistan greatly in accelerating development.
Uzbekistan should also study how Switzerland transformed itself from a landlocked country to become the crossroad of Europe and a global center of trade and finance.

**Uzbekistan as Center of Aviation Services**

Uzbekistan’s geographical location and well-developed aviation industry position it for the following opportunities:

(i) **As the main air cargo hub in the region.** Uzbekistan has the unique advantage of sharing borders with four Central Asian countries: Kazakhstan, the Kyrgyz Republic, Tajikistan, and Turkmenistan, as well as Afghanistan. This positions Tashkent and Navoi as the air cargo hub for serving its five neighbors, especially the Kyrgyz Republic, Tajikistan, Turkmenistan, and Afghanistan that suffer from inadequate air cargo service.

(ii) **As a stop for intercontinental flights.** Uzbekistan lies at the path of intercontinental flight routes. Developing Tashkent Airport or Navoi Airport as air cargo hubs will increase their appeal as a stopover point for intercontinental flights. This will open up a wide range of opportunities, from refueling, catering to aircraft servicing. Selling aviation fuel to international airlines means Uzbek oil can be refined and sold for top prices at home, incurring minimum logistics cost.

(iii) **As a maintenance and repair center.** Tashkent has a large pool of trained aviation technicians from its days as a center of the Soviet aviation industry. The consultant was advised by an American avionics expert that these mechanics are as good as those from developed countries. Naturally, their wages are much lower than the prevailing wages in Western Europe and more developed countries, positioning Uzbekistan as an attractive location for aircraft maintenance and repair.

(iv) **As the locale of a pilot training center for the CAREC region.** There is a shortage of qualified pilots in the CAREC region. Uzbekistan can take advantage of this need by establishing a regional pilot training center that will create pools of well-trained pilots to support the growth of air services in the region. It can engage in a joint venture with the PRC, which has the strongest and fastest growing airlines in the CAREC region. The PRC can provide the capital to invest in expensive flight simulators and Uzbekistan can provide flight instructors for actual flying lessons. This will allow CAREC member airlines to train their pilots within the region, saving a substantial amount of training cost.

**Uzbekistan as Center for Rail Wagon Construction**

Aside from the Russian Federation and Ukraine, Uzbekistan is the only country of the Commonwealth of Independent States (CIS) capable of constructing and rebuilding rail wagons. Since virtually all of the CIS countries are investing in rail infrastructure development and acquiring additional rolling stocks, Uzbekistan has an excellent opportunity to become a prime supplier of new and rebuilt rail wagons.
Free Economic Zones

Uzbek law on free economic areas covers the creation of free economic zones. The customs code provides for the creation of free customs areas and warehousing facilities. The creation of free zones where government income, property, and consumption taxes are light and where goods can be stored, packaged, processed, and transformed duty free is widely adopted all around the world, generating impressive results in trade growth and economic development.

A huge free zone development straddling the PRC–Kazakhstan border at Horgas is currently underway. Similar developments in Uzbekistan’s border should be encouraged. Potential locations for free economic zones include Navoi, Andijan, Keles, Termez, and Alat.
Recommendations

On Improving the Transport Infrastructure

General Measures

The potential of Uzbekistan’s infrastructure system to contribute to the development of the country’s trade logistics can be better optimized if Uzbekistan:

(i) Designates, as strategic traffic corridors, a limited number of high-traffic and high-potential rail and highway routes within the corridors framework of the Central Asia Regional Economic Cooperation (CAREC). The Uzbek government should concentrate investment and maintenance funds, as well as management attention on those key rail and road routes;

(ii) Conducts a comprehensive transport infrastructure needs assessment study. Then, based on such assessment, formulate and implement a plan, that will ensure that the
- highest return on investment is achieved,
- amount of investment in various types of infrastructure is balanced, and
- air/truck/rail modal integration is seamless;

(iii) Institutes additional road-use payment systems to supplement the current tax regime, thereby sustaining adequate maintenance and development of its road system;

(iv) Gives incentives to encourage private sector investment in public projects;

(v) Develops special economic zones, multimodal cargo hubs, logistics centers, and cold storage facilities. The country should establish a pilot corridor with all these facilities, together with modern border-crossing points (BCPs) as a demonstration corridor to showcase possible improvements;

(vi) Conducts a detailed analysis of the Uzbekistan Temir Yo’llari’s (Uzbekistan Railways or UTY) equipment needs; sells off old, surplus equipment to generate cash; and focuses on supporting a smaller amount of modern, well-maintained equipment;

(vii) Coordinates infrastructure planning under Uzbekistan’s membership in the Eurasian Economic Community (EurAsEC) and CAREC.

On the People’s Republic of China–Kyrgyz Republic–Uzbekistan Railway

The People’s Republic of China (PRC)–Kyrgyz Republic–Uzbekistan Railway (CKUR) is very important in enhancing Uzbekistan’s attractiveness as a transit country and in the development of the densely populated Fergana Valley. It will provide a fast and efficient link with the PRC, especially between the Fergana Valley and the western region of the Xinjiang Uygur Autonomous Region (XUAR) of the PRC, as well as to other East Asia economies. For instance, containers
carrying PRC and Korean auto parts can be shipped cheaper and faster to the UzDaewoo plant in Asaka City in Uzbekistan, and then returned with cotton loads for the textile mills of the PRC and the Republic of Korea.

To make this railway a reality in the form that is most ideal for the PRC, the Kyrgyz Republic, and Uzbekistan, as well as to the whole CAREC region, Uzbekistan must support the original Irkeshtam–Osh–Andijan route as the one for the CKUR. Since the CKUR was conceived over a decade ago, four different routes have been considered. These are

(i) Irkeshtam–Osh–Andijan, which was the route originally contemplated and supported by the European Union, Uzbekistan, and other parties;

(ii) Torugart–Osh–Andijan, which enters the Kyrgyz Republic at Torugart, and then branches off through the Arpa valley and the Fergana mountains on the way to Osh, before finally reaching Andijan. Because of mountainous terrain, this route involves the construction of 10 tunnels and 20 bridges;

(iii) Torugart–Naryn–Bishkek, which is heavily promoted by the Kyrgyz government since it also provides a link between north and south Kyrgyz Republic; and

(iv) Torugart–Naryn–Jalalabad, which will help the economic development of the Naryn region and the shipping of coal extracted from that region.

Even though there are merits to the Torugart–Osh–Andijan, Torugart–Naryn–Bishkek, and Torugart–Naryn–Jalalabad routes, the consultant believes that the Irkeshtam–Osh–Andijan route is the best for the region and for Uzbekistan. The reasons are as follows:

(i) The terrain is easier on the Irkeshtam–Osh–Andijan route, resulting in substantially lower construction costs compared to the two other routes. The Torugart–Naryn–Bishkek route, which passes through very difficult mountainous terrain, will cost well over $2 billion to build. Cost considerations are important in constructing the CKUR, since a substantial portion of the railway would have to be built in the Kyrgyz Republic, the most indebted of the three countries having a stake in the route. It has over $2 billion in foreign debt and currently does not have available funds for constructing the CKUR.

(ii) A good highway will be completed soon along the Irkeshtam–Osh–Andijan route. This will facilitate the delivery of materials required for the construction of the CKUR at much lower transport costs, thus increasing the odds that the CKUR can be successfully built.

(iii) The Irkeshtam–Osh–Andijan route terminates at the Fergana Valley. The location is excellent for serving Uzbekistan, the Kyrgyz Republic, and Tajikistan, whereas the Torugart–Naryn–Bishkek route will benefit mostly the Kyrgyz Republic.

(iv) The freight market potential is much higher for the Irkeshtam–Osh–Andijan route.

(v) The Torugart–Naryn–Bishkek route passes through ecologically sensitive areas. Hazardous material spills from train accidents can cause irreversible environmental damage.

The choice of the route being Irkeshtam–Osh–Andijan should be promptly made. If China Railways builds the PRC section of the route so that it ends in Torugart, the Irkeshtam–Osh–Andijan route would be moot.
Should the choice be the Irkeshtam–Osh–Andijan route, the following ought to be done:

(i) **Adopt public sector build, own, operate, transfer (BOOT) financing for the Kyrgyz Republic section of this route.** The PRC’s Ministry of Railways has provided for the construction of the PRC section of the CKUR (between Kashi and Torugart) in its 11th Five-Year Plan. Recent news from the XUAR reported that China Railways will likely begin construction of the Kashi–Torugart segment in 2009. In contrast to the relative ease with which the construction of this section is proceeding, the construction of the Kyrgyz section faces serious challenges. Running over difficult terrain, the Kyrgyz section will be costly to construct. This high construction cost, coupled with the Kyrgyz Republic’s high level of indebtedness, has discouraged financing for the Kyrgyz section of the railway route. Potential environmental problems and projections of light traffic along the route, at least in the near-term, also compound the difficulty of obtaining private financing.

To address these huge financing difficulties, the consultant proposes that the Kyrgyz government works with the PRC government to develop a scheme for the joint development of mining operations in areas not far from the path of the Kyrgyz section of the line. Under this scheme, PRC investors will be granted long-term mineral extraction concessions in return for take-or-pay traffic guarantees. China Railways will then build the Kyrgyz section of CKUR as a public-sector BOOT project, with financing from the PRC government. Then, after the Kyrgyz section of CKUR had been operated by China Railways for an agreed period of time, its ownership will be transferred to the Kyrgyz government.

During the concessionary period, China Railways will be able to exercise wide discretion in train operations, scheduling, service design and pricing in all rail stations in the PRC to Kara Suu route. This will eliminate all the difficulties the existing carriers currently experience in coordinating traffic interchange, train scheduling, marketing, and pricing to serve Uzbekistan, the Kyrgyz Republic, and Tajikistan. Unshackled from all the impediments, China Railways could use its enormous marketing power and reach to build up traffic on the CKUR and ultimately turn over a busy, profitable railroad to the Kyrgyz government at the end of the concessionary period.

Many countries around the world have mutually beneficial concession arrangements with foreign rail operators. The concessionary arrangements the Mexican government concluded with Kansas City Southern and Union Pacific have dramatically improved rail services in Mexico, bringing about a quantum leap in the development of multimodal transport and facilitating the rapid growth of Mexico’s economy. Genesee & Wyoming and the government of Bolivia have achieved equally impressive results with their concessionary arrangement.

(ii) **Build an all-standard gauge track from Kashi to Osh to preclude gauge change at the PRC–Kyrgyz Republic border.** The Kyrgyz section of CKUR should be built as a standard gauge to eliminate transfer costs and delays due to gauge change.
Doing so will also eliminate the substantial construction and operating costs of a standard-gauge-to-broad-gauge transfer yard in the Kyrgyz Republic.

Extending the standard-gauge railway beyond the Kyrgyz Republic–PRC border point to Osh is easily justified by the fact that the mountainous terrain in the PRC–Kyrgyz Republic border is not conducive to the construction of a gauge-change yard. After the standard gauge track scales the mountain, it might as well be extended for just a short distance to Osh, where a gauge-change yard can be built to connect to UTY’s broad-gauge tracks.

Having standard-gauge tracks avoids the need for cargo and passengers to be off-loaded and then reloaded from one track to another differently gauged track, thus reducing both travel time and cost. It is estimated by the consultant that for passengers, an all standard-gauge line between Osh and Kashi would save 5 to 8 hours of travel time. The reduction in transit time for cargo would even be more—mostly likely to be over a day. Moreover, an all standard-gauge line between Osh and Kashi would result in a 10% to 20% savings in freight cost, depending on whether or not the cargo is containerized, and a 5% to 10% savings in passenger transport cost.

A standard-gauge rail line between Kashi and Osh will be the most efficient and speedy link between XUAR on the one hand, and the Kyrgyz Republic, Tajikistan, and Uzbekistan on the other. It will greatly assist the development of all three countries, especially the Fergana Valley region.

(ii) **Maximize the overall efficiency and effectiveness of the Irkeshtam–Osh–Andijan route by:**

- **Developing Osh as a multimodal transport center.** With a standard-gauge rail line having been constructed between Kashi and Osh, it is logical to develop Osh as a multimodal transport center to serve the Kyrgyz Republic and Tajikistan. With Osh as a multimodal transport center, train arrivals and departures will not be affected by any Uzbek border closure. In addition, the Osh multimodal transport center will facilitate the economic development of the entire Fergana Valley, as well as Tajikistan, furthering the Asian Development Bank’s (ADB) vision of a CAREC region without poverty.

- **Propelling Andijan as a trade logistics hub.** The existing rail tracks will connect Osh through Kara Suu into Andijan, where it will meet the broad gauge tracks of UTY. A gauge change/cargo transfer facility with container-handling capability should be constructed at Andijan—the major transport and trade center of Uzbekistan’s Fergana Valley. UTY already has an intermodal facility there. The ease of moving cargo to and from the PRC will propel Andijan as a trade logistics hub.

- **Developing Kara Suu as a wholesale trade center.** Since the Kyrgyz Republic is a member of the World Trade Organization and has thus more open borders, Kara Suu is an excellent location for CAREC region merchants to develop a wholesale market similar to the Yiwu market in Zhejiang Province and Wuai
market in Liaoning Province, both in the PRC, where traders from all over the world come to transact business. The successful development of the Kara Suu wholesale market will generate more traffic for CKUR, assuring its long-term viability.

Down the road, both the Uzbek and Kyrgyz governments should consider creating a free economic zone encompassing both Uzbek and Kyrgyz Kara Suu (similar to Horgas which straddles the PRC–Kazakh border). This will bring further impetus to economic development and poverty reduction of Fergana Valley.

**On the Navoi Airport Project**

To ensure the success of the Navoi Airport Development Project, the Uzbek government should benchmark successful landlocked airports like Frankfurt, Atlanta, and Chicago, as well as study the design, finance, marketing, and operations of integrated multimodal all-cargo airports like the Alliance Airport in Texas. Moreover, before embarking on Phase 2 of the project, it should formulate a comprehensive master plan that addresses the following issues:

- Incentives to attract foreign investment in the planned free economic zone and the area around Navoi airport;
- Economic and financial sustainability of the Navoi Airport;
- Impact of new economic activities on the infrastructure of Navoi;
- Impact of Navoi Airport on the utilization of the Tashkent Airport;
- Impact of Navoi Airport on the frequency of Tashkent’s air services, since a lot of cargo is carried in the belly of passenger airplanes;
- Impact of Navoi Airport on the aircraft repair and maintenance base in Tashkent; and
- Most efficient and effective way of
  - integrating the rail, road, and air systems to form a super multimodal hub in Navoi to serve the CAREC region using the new airport as the engine of economic growth for Uzbekistan,
  - mobilizing support and contributions from large existing Navoi businesses, like Navoi Mining and Metallurgy Combinat, Navoi Azot, and Qizilqum Cement,
  - marketing Navoi airport to new airlines and air service companies,
  - attracting current users of Tashkent to relocate to Navoi or set up new operations in Navoi,
  - provisioning aircraft repair and maintenance support in Navoi, and
  - recruiting and training the necessary staff to run the new Navoi Airport.

**On the Construction of a New Chardjou Bridge**

The Chardjou Bridge is a 30-year-old 700-meter floating bridge over the Amu Darya River in Turkmenistan. In spite of a limited load carrying capacity, it is used heavily by trucks, numbering an average of 40,000 a year, which travel between Uzbekistan and Iran carrying imports and export cargo transited at the Port of Bandar Abbas. It is thus critical to the viability of CAREC Corridors 2-b and 3-a, as well as the corridor of Transport Corridor Europe–Caucasus–Asia (TRACECA).

Because of the harsh winter of 2007, this bridge was damaged by ice and then closed. Its closure stranded trucks for 2-½ months on both sides of the river, causing severe delays in truck
traffic. During this closure, the only transit alternative between Uzbekistan and Iran was by rail, crossing the Amu Darya River over an even older rail bridge in Chardjou that was built in 1903. This bridge is also in very bad condition and requires prompt rehabilitation.

Because of the vital importance of the Chardjou Bridge in ensuring the unimpeded flow of transit traffic to Iran, Uzbekistan ought to mobilize support within both the CAREC and TRACECA members and among multilateral aid agencies, for the replacement of the old Chardjou Bridge with a new fixed one with the appropriate load carrying capacity.

**On Improving Customs Administration and Border Control**

To improve the flow of traffic across its borders, Uzbekistan should

- simplify its customs laws and regulations;
- increase transparency in the formulation of rules and regulations, and ensure transparency and uniformity in their enforcement;
- promote the harmonization of border-crossing procedures;
- formulate and implement a customs risk management system;
- maximize cooperation among all the agencies involved in border control;
- establish joint border-crossing facilities with its neighbors;
- ensure the consistency of the opening hours of its BCPs with traffic flows, and the synchronization of the same with those of its neighbors’ BCPs;
- automate procedures of border control agencies to improve control and facilitate data exchange;
- reduce the entry burden on importers and exporters;
- exchange cross border information with neighboring countries;
- institute single-window processing;
- provide the trader a choice of clearance facilities to clear imported goods;
- minimize the required use of convoys by clearing import cargos at the first port of entry, with the few shipments for which cargo owners specify that clearance should be at destination being convoyed or transported by a licensed, bonded carrier; and
- create public/private stakeholders groups to facilitate import and export.

**On Improving Trade Logistics**

To enable its trade logistics industry to better achieve its full potential and thus play a crucial role in its economic development and progress, Uzbekistan should ensure the development of efficient and effective transport and trade corridors in the region, create a network of trade logistics centers, and establish a more efficient and dynamic multimodal transport system.

**On the Development of Efficient and Effective Transport and Trade Corridors**

For trade and transport corridors to function efficiently and effectively, intercountry coordination and cooperation are crucial. Regional organizations consisting of countries, whose economic interests lie in the corridors, can be of substantial help in bringing about this cooperation and coordination.
Since traffic density is the key to success in developing corridors, the regional organizations could, and should, focus on developing fewer but denser corridors that ultimately will become major transport and trade corridors. Overlapping regional organizations must work together to narrow the transport corridors to a selected few and concentrate their resources to make these successful. ADB is achieving good success in assisting CAREC countries to prioritize the development of transport and trade corridors. For instance, on 3 November 2007, the 6th annual CAREC Ministerial Conference in Dushanbe approved a joint transport and trade facilitation strategy along six corridors linking countries within the CAREC region and with Europe and Asia. Along these corridors, the conference identified more than 100 investment and technical assistance projects totaling about $18 billion over the next 10 years. The ministers also supported increased cooperation with other regional organizations, especially EurAsEC and the Shanghai Cooperation Organization (SCO), and with other development partners.

The six corridors listed below represent major trade origin and destination areas around the CAREC region, with some overlaps with TRACECA and EurAsEC corridors (Figure 3).
**Corridor 1:** Europe–East Asia  
**Corridor 2:** Mediterranean–East Asia  
**Corridor 3:** Russian Federation–Middle East and South Asia  
**Corridor 4:** Russian Federation–XUAR  
**Corridor 5:** East Asia–Middle East and South Asia  
**Corridor 6:** Europe–Middle East and South Asia

On 4 October 2007, in the first meeting of the Secretariats of EurAsEC, SCO, CAREC, and the United Nations Special Programme for the Economies of Central Asia, an agreement was reached to exchange information and develop relations at the technical level to avoid duplication of effort and ensure consistency of programs.

Uzbekistan must be a very active participant in these and other such organizations and help minimize inefficiencies in the establishment and maintenance of transport and trade corridors in the region.

**On the Creation of a Network of Trade Logistics Centers**

**Logistics Centers**
Logistics centers, ubiquitous in the United States (US), Japan, Australia, and Western Europe, are lacking in Uzbekistan.

A well-placed network of logistics centers is critical in advancing trade and economic development of Uzbekistan. These centers should be capable of facilitating the following functions:

- export/import,
- consolidation/distribution/cross-dock,
- value-added processing,
- cold chain logistics, and
- agricultural production.

The proper selection of locations for logistics centers is very important. The decision maker should carefully review long-term traffic pattern projections. Ideally, a logistics center should be situated in or near

- network nodes,
- border ports of entry,
- major industrial or agricultural centers,
- major consumption centers, and
- points with easy access to multiple transport modes.

Table 6 has a list of potential logistics center locations in Uzbekistan and the reasons for their selection.
### Table 6: Potential Logistics Center Locations

<table>
<thead>
<tr>
<th>Location</th>
<th>Reasons for Selection</th>
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| Alat     | On Uzbekistan’s shortest route to the sea  
|          | Area for the consolidation of export cargo to Bandar Abbas  
|          | Area for the distribution of import cargo from Bandar Abbas  
|          | Trade with Turkmenistan |
| Andijan  | A major center for automotive and agricultural goods  
|          | The People’s Republic of China (PRC) and the Kyrgyz Republic trade |
| Bukhara  | A major production area for cotton and textile |
| Keles    | Trade with Kazakhstan  
|          | Potential for special economic zone development similar to the success of Horgas, which was created by special initiatives from the Presidents of Kazakhstan and the PRC |
| Navoi    | Centralized location  
|          | Major air hub under construction  
|          | Integrated multimodal linkage under development |
| Nukus    | Trade with Kazakhstan  
|          | Center for serving the energy and mining industry in western Uzbekistan |
| Tashkent | Capital and population center  
|          | Air cargo and multimodal cargo hub  
|          | Big logistics center under development in the Sergeli District of Tashkent. This development is near the highway bypass, 1 kilometer (km) from the rail line and 3 km from Tashkent Airport |
| Termez   | Gateway to Afghanistan, an alternate route to the sea  
|          | Trade with Afghanistan (Madat, an Uzbek company already operates a logistics center in Termez) |

Source: Author.

Demand for logistics centers is increasing as more multinational corporations (e.g., Nestlé, General Motors) come to Uzbekistan, as it assumes the role of a regional transport hub. However, the initial investment in starting a logistics center is very high. To attract logistics center investment, the Uzbek government must mitigate risk and provide adequate incentives to encourage private investments.

**Cold Storage**

Cold storage and temperature-controlled storage facilities are important for a large number of products, including fruits and vegetables, flowers, frozen or chilled food, pharmaceutical products, wine, and chemicals. However, as with logistics centers, cold storage and temperature-controlled storage facilities are absent in Uzbekistan.

The initial investment in starting a cold storage and temperature-controlled storage facility is even higher than that required for putting up a conventional logistics center. Its fixed and operating costs are likewise higher. Cold storage facilities are therefore not likely to be built until the Uzbek government mitigates investment risks and increases investment returns.

**Cotton Terminals**

With cotton playing such a vital role in its economy, Uzbekistan should develop its cotton terminals and integrate these into its logistics system.
Most of the existing cotton terminals were constructed during the Soviet era. They are quite antiquated and should be replaced over time by modern terminals that are better situated within the new transport network.

**On the Promotion of Multimodal Transport**

Despite obvious benefits, multimodal transport is not well developed in Uzbekistan and elsewhere in the CAREC region. To foster the growth of this transport mode, UTY and other interline railroads must take the following steps:

- Invest in better intermodal facilities, better container handling equipment, and higher quality wagons;
- Introduce best practices in empty container and container chassis management;
- Adopt standardized interchange agreements among themselves and other international railways (e.g., Turkish Railways);
- Build up a system to share information, like the Electronic Data Interchange or web XML schemes;
- Promote common standards and communication protocol;
- Create electronic portals for rate quotation, booking, and track and trace;
- Consider privatizing state-owned enterprises; and
- Foster competition and market discipline to forge an effective and efficient transportation system.

Obviously, the challenges in developing multimodal transport in Uzbekistan are immense. However, China Railway’s recent success in attracting Deutsche Bahn (German National Railways), Zim Lines (Israeli ocean carrier), CMA-CGM (French ocean carrier), NWS (Hong Kong, China–based port and infrastructure developer), Promisky, and China Intermodal Container Company, the largest container manufacturer in the world, to form a $1.6 billion joint venture with the China Rail Container Transport Corporation demonstrates that difficult challenges can be overcome.

**Other Measures**

**On Developing the Industry and Commerce Sectors**

Uzbekistan must support the growth and development of its industrial and commercial sectors. Among other results, this would lead to greater demand for logistics services as more economic activities generate more traffic in people and goods. The Government of Uzbekistan should, therefore do the following:

(i) Improve the competitiveness of Uzbek businesses by
   - relaxing foreign exchange controls,
   - making rules and regulations more transparent,
   - enforcing rules and regulations fairly and uniformly, and
   - developing a strong financial sector;

(ii) Solicit foreign investments that are coupled with technology and knowledge transfer;

(iii) Promote the development of small and medium-sized enterprises (SMEs) by setting aside for these organizations a portion of the government procurement
expenditure, particularly in transport infrastructure development. By mobilizing expenditure, particularly in transport infrastructure development. By mobilizing expenditure, particularly in transport infrastructure development. By mobilizing expenditure, particularly in transport infrastructure development. By mobilizing them this way, the Uzbek government not only wins local support, but most likely obtains better quality work at lower prices from local companies that know the area well and have to live with the results of their work;

(iv) Support the growth of Uzbekistan’s road transport industry by
• providing tax incentives to encourage investments,
• negotiating favorable bilateral or multilateral agreements, and
• fostering logistics and transport management training;

(v) Assist UTY in securing favorable multi-year through rate and through route agreements with interline railways along the New Silk Road;

(vi) Diversify agricultural production and assist farmers in selling perishable products; and

(vii) Strengthen public–private dialogue and cooperation through trade associations and chambers of commerce.

On Ensuring Sustainability of the Transport and Trade Facilitation Sectors

Uzbekistan’s efforts to develop its transport and trade facilitation sectors must be sustained. Private sector investments, especially foreign direct investments, must be encouraged in sufficient amounts to supplement government resources. The human resource pool ought likewise to be built up to levels sufficient to support the growth in investments.

(i) Solicit and ensure foreign direct investments. Despite foreign exchange restrictions, the Uzbek government was successful in attracting foreign investors that bring technical and management capabilities as well as capital to Uzbekistan. For example, PRC firms are building textile mills and garment factories in the country. Recently, General Motors has invested in UzDaewoo and start building Chevrolets in the UzDaewoo plant in Asaka City. The American first deputy general director brought to UzDaewoo fresh thinking, deep manufacturing expertise, and years of experience in successfully managing efficient auto assembly operations in another developing country: Mexico. Much more foreign direct investment in the transport and trade facilitation sectors can be lured into Uzbekistan if the Uzbek government creates an environment conducive to private investment, mainly by resolving issues related to foreign exchange controls, and by offering strong protection for property rights.

(ii) Build up the required human resource pool. To ensure that enough technically-competent manpower is available to support the inflow of investments, both private and public, Uzbekistan must do the following:

• Ensure the offering of appropriate courses and training. Uzbekistan suffers from a shortage of logistics professionals such that multinational companies operating in it must import trained supply chain managers from abroad. To meet this challenge, Uzbek universities must offer the appropriate logistics courses taught by qualified faculty. Logistics and supply chain management should be included in university curriculums and top quality faculty be recruited to teach such courses. Moreover, government officials and logistics industry managers should also be trained in modern supply-chain management concepts. Uzbekistan should consider encouraging its government officials and logistics
industry managers to go to logistically advanced countries like Singapore; Hong Kong, China; the Republic of Korea; and the Netherlands for training.

- **Establish a center for transport and logistics research.** Uzbekistan does not have a peer-recognized center for transport and logistics research. In addition to the critical role it can play in logistics performance measurement and monitoring, this center can develop and/or introduce new approaches to trade logistics challenges based on international best practices, empirical research, and policy analysis. Through its CAREC Institute initiative, ADB can support the creation of a center for transport and logistics research in Uzbekistan.

- **Institute a professional certification system.** Uzbekistan does not have a logistics professional certification program to support the building up of logistics competency. It should work with internationally recognized professional organizations like the American Society of Transport and Logistics to start a certification program.

### On Lessening the Adverse Impact of the Transport and Trade Facilitation Sectors on the Environment

A large number of Uzbek trucks are old, poorly maintained, and underpowered, emitting large amounts of black smoke as they accelerate from a stop or climb uphill. As trade and transport grows, they must be replaced by trucks meeting EURO 3 standards.

Despite the high cost of fuel, only about a third of Uzbekistan’s trucks have cab fairings and roof-mounted air deflectors to reduce aerodynamic drag and increase fuel efficiency. These fuel saving devices, which are common in most developed countries like Western Europe, Australia, and the US, should be specified in new truck and retrofitted to existing trucks. The Uzbek government should consider offering incentives to truckers for installing these devices.

### On Establishing a Performance Management and Monitoring System

Uzbekistan must know the true performance of its transport and trade sectors for it to be able to formulate and execute appropriate measures. It must also be able to ascertain the impact of these measures and, when necessary, revise its menu of options to more suitably respond to such challenges. The Uzbek government should therefore

- establish key performance measures and appoint monitoring entities (Appendix D contains recommendations on key performance measures for the Uzbek transport system); and
- measure performance on a regular basis, publicize results, then review these results with stakeholders, and act to improve performance.

ADB is helping CAREC governments and CAREC carrier and trade associations develop an effective transport and trade performance and monitoring system under TA-6437. This project has received support from the Cabinet of Ministers, Ministry of Foreign Economic Relations, and the Customs Committee. With participation from AIRCUZ (Association of International Road Carriers of Uzbekistan) and the Business Logistics Development Association, this project can become a showcase for future performance measurement and monitoring system projects.
Concluding Remarks

Each country of the Central Asia Regional Economic Cooperation (CAREC), in one degree or another, is a transit country between the prosperous and dynamic production and consumption centers of Europe and Asia. Each, therefore, either singly or in partnership with others, has the potential to benefit fully from trade intermediation activities unique to transit countries.

The selection of trade routes is dynamic and constantly evolving. Merchants and manufacturers continuously monitor the freight rates, transit time, service quality, and reliability of alternate routes to optimize their choices. Ever cognizant of risks, the merchants are always seeking new routes—the key reason why there are so many routes that form the ancient “Silk Road”.

The People’s Republic of China (PRC)–Kazakhstan–Russian Federation route linking Asia and Europe is much simpler than that from the PRC to the Russian Federation through Uzbekistan. Kazakhstan will soon have two rail connections with the PRC (Alashankou and Horgas), increasing the competitiveness of the Trans-Kazakhstan route. Mongolia and the Russian Federation are also working diligently with the PRC to improve the attractiveness of the Trans-Mongolian Route and the Trans-Siberian Route. In the years to come, the trade routes crossing Uzbekistan will face even more intense competition from both existing and emerging transportation routes. As an example, Turkey has started developing a direct rail link to the European rail network for Asian traffic, bypassing Uzbekistan.

Since a route is a fragile chain: the breakdown of just one link will disrupt the entire route, Uzbekistan’s transit traffic can easily be interrupted by its own actions and its transit partner’s political turmoil. Frequent border closures and movement impediments will only convince shippers to bypass Uzbekistan.

Uzbekistan must be vigilant in defending its competitive advantages and constantly strive to make it the most trade and transit friendly country. Investment in infrastructure is a good start, but it must lower transit barriers, reform its laws and regulations, improve its transparency, and increase the competitiveness of its logistics industry.

The study has identified Uzbekistan’s trade and transport deficiencies, and laid out a pathway for addressing such these deficiencies. It is the consultant’s hope that the Uzbek government will consider this pathway with due attention, and act accordingly with speed and resolve to fully develop the country’s excellent transit potential.
Appendixes

Appendix A

Organizations Met and Sites Visited

- Customs Committee
- Ministry of Foreign Economic Relations, Investments and Trade
- Ministry of Health
- Uzavtoyul
- Agency for Road and River Transport
- Uzbekistan Havo Yo’lari (Uzbekistan Airways)
- Uzbekistan Temir Yo’lari (Uzbekistan Railways)
- Shoshtrans
- Uzbekistan International Forwarders Association (UIFA)
- Chamber of Commerce in Tashkent
- Chamber of Commerce in Fergana
- Over 30 private organizations, including freight forwarders, logistics companies, expeditors, investors, traders, import/export companies, farmers, recruiter, university, and an insurer
- Four border-crossing points: Dustlik, Kara Suu, Chernyaevka, and Sarayagach
- Three multimodal terminals: Shoshtrans, Chukusay, and Aziz
- Tashkent Airport cargo center
- Akaltin Cotton Terminal
- Keles rail station
- Tashkent rail station
- UzDaewoo Factory in Asaka City
Appendix B

The System of Cotton Production and Marketing in Uzbekistan

The quality of Uzbek cotton is quite good. It is clean and white with uniform medium length fiber.

As the fifth-largest cotton producer and second-largest cotton exporter in the world (after the United States), it is no surprise that cotton is Uzbekistan’s largest cash crop, accounting for around 16% of gross domestic product.

Figure 4: Cotton Production and Marketing Process

Cotton is planted all over Uzbekistan. Government agencies set cotton plans and production quotas, as well as determine prices for seed cotton and for most of the inputs used in cotton production. The national targets are implemented by contracts signed with growers stipulating the minimum quantity of cotton to be delivered at administered prices.

After harvest, cotton is sold to the government at low state procurement prices (derived from subtracting government cost from export revenue), ginned, and then marketed through government agencies or licensed trading firms. Uzbekistan is moving up the value chain by spinning its cotton into yarns, then weaving the yarns into cloth to supply a growing garment manufacturing industry.

A network of cotton terminals is set up throughout Uzbekistan to serve as facilities for the handling of raw cotton and the storing of ginned cotton bales. They also serve as venues for the
inspection of cotton stocks by foreign buyers and for the distribution of all the necessary papers for cotton exporters.

Currently, there are 25 cotton terminals in Uzbekistan, with a total storage capacity of 410,000 tons. The Akaltin Cotton Terminal is the largest in the country’s cotton terminal network and one of the five cotton terminals designated as a free zone warehouse in Uzbekistan. It has a 50,000-ton storage capacity and handles 10% of the annual cotton export. It is well situated near the new bypass road linking Navoi, Samarkand to Fergana, and has direct connection to Uzbekistan Railways’ Akaltin Station 3 kilometers away. It has a 14,000-square-meter container yard and can handle 25 wagons going in and out every day. The other four free zone warehouse cotton terminals are Bukhara, Karshi, Namangan, and Tashkent.

Bandar Abbas became the main cotton export port since the completion of the Iranian Meshed–Sarakhs line in 1997. This is the shortest route to the sea and the best route for shipping cotton to the Indian subcontinent and Southeast Asia. Cotton destined for the People’s Republic of China (PRC) is shipped through both Bandar Abbas and Alashankou, according to the general manager of Tianjin Cotton Exchange. A new highway route through Kara Suu, Osh, Sary Tash, Irkeshtam, Kashi, to the PRC is planned. In addition, a significant amount of cotton is still transported by Russian Railways to the Russian Federation, the Commonwealth of Independent States countries, and Europe.
### Appendix C

#### Freight Forwarders and Logistics Companies

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Comments</th>
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<tbody>
<tr>
<td><strong>Global Logistics Company</strong></td>
<td>DHL</td>
<td>Deutsche Post World Net, owners of DHL, placed all the worldwide express and logistics services it offers under the DHL brand. This saw Danzas, Excel Logistics, and Deutsche Post Euro Express join forces with DHL to form DHL Global Forwarding brand. DHL Global Forwarding combines air, ocean, and ground transport, as well as customs brokerage services with dedicated warehousing and distribution centers. It manages the flow of goods and information across a customer’s global supply chain, connecting suppliers, carriers, customs brokers, and end-users through a seamless supply of distribution services.</td>
</tr>
<tr>
<td><strong>Regional Logistics Company</strong></td>
<td>DVTG/Far East Transport Group</td>
<td>DVTG/ Far Eastern Transport Group Joint Stock Company is one of the largest freight forwarding companies in the Russian Federation. The holding company owns both freight-forwarding and rail operating companies. DVTG/Far East Transport Group provides full services in transport and forwarding of domestic, transit, and export—import cargos in the Russian Federation, the CIS, and overseas by rail, sea, and intermodal means. It handles a wide range of cargos, including oil products, timber, coal, aluminum, and metal products. At present, its rolling stock consists of more than 10,000 units. In 2007, it transported more than 21 million tons of cargo, generating 1.52 billion rubles (+23%, year-on-year) in revenue.</td>
</tr>
<tr>
<td><strong>Regional Logistics Company</strong></td>
<td>Panalpina</td>
<td>Panalpina is one of the world leaders in forwarding and logistics services, specializing in intercontinental air and sea freight and supply chain solutions. It provides globally integrated, door-to-door forwarding solutions tailored to its customers’ individual needs. It operates a network of 500 branches in 90 countries and closely cooperates with selected partners in 60 additional countries.</td>
</tr>
<tr>
<td><strong>Regional Logistics Company</strong></td>
<td>Kuehne + Nagel (Ibrakom)</td>
<td>Kuehne + Nagel delivers integrated solutions across the supply chain that turn companies’ logistics challenges into real competitive advantages. It is a global leader in international forwarding, ranking among the top three contract logistics players worldwide following its 2006 acquisition of ACR Logistics. Founded in 1890, it has more than 52,000 employees in 830 locations in more than 100 countries. It entered the Uzbekistan market through its acquisition of 60% of Ibrakom.</td>
</tr>
<tr>
<td><strong>Regional Logistics Company</strong></td>
<td>Schenker (Delta Bar)</td>
<td>Schenker is one of the world’s leading transport and logistic companies. It is part of Deutsche Bahn (DB), which also runs the German National Railway. It is represented in Uzbekistan by Delta Bar an Iranian transport and logistics services company.</td>
</tr>
</tbody>
</table>
### Freight Forwarders and Logistics Companies (continuation)

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecowise</td>
<td>Ecowise is a Korean logistics company that has been in Uzbekistan since 1998.</td>
<td></td>
</tr>
<tr>
<td>Eurosib</td>
<td>Headquartered in St. Petersburg, Eurosib Group is one of the leading logistics and transport businesses in the Russian Federation. It is engaged in shipping, handling, warehousing, and distribution of general cargo (including oversized and extra-weight loads); bulk cargo (including minerals, chemical products and metal industry products, car kits and car components, paper and cardboard), as well as containerized cargo. It manages a fleet of 11,800 covered wagons, minerals wagons, open-top wagons, timber flat wagons, rail tankers, woodchip wagons and multipurpose flat wagons. It also provides third-party logistics services to its clients in the Russian Federation, the countries of the CIS and Eastern Europe. The Group is a large transporter of cars into Uzbekistan and utilizes specialized car carrying containers.</td>
<td></td>
</tr>
<tr>
<td>Globalink</td>
<td>Globalink is a full-service international freight forwarder that manages the movement of cargo via air, land, and sea to destinations worldwide. Since its creation in 1992, it has come to be recognized as one of the most successful independent relocations, projects, and freight management company operating in the CIS. In the domestic transport market, it ranks among the top three.</td>
<td></td>
</tr>
<tr>
<td>Green Integrated Logistics</td>
<td>Green Integrated Logistics is a Korean logistics company with over $100 million in revenues. Established in 1997, it has expanded to operate over 26 branch offices worldwide, with a strong presence in the CIS.</td>
<td></td>
</tr>
<tr>
<td>HEB International Logistics LLC</td>
<td>HEB International Logistics LLC is an international logistics solution provider with head offices in Dubai, United Arab Emirates. It also has full-fledged offices in Afghanistan, Pakistan, and Uzbekistan.</td>
<td></td>
</tr>
<tr>
<td>International Transport Solutions, Inc.</td>
<td>International Transport Solutions, Inc. is an express air shipment company focusing on Eastern Europe and the newly independent states.</td>
<td></td>
</tr>
<tr>
<td>M&amp;M Transport Logistics Services</td>
<td>M&amp;M is one of the most experienced forwarding and logistics companies in all types of integrated logistics services worldwide. Its core competence is cargo forwarding to and from Central and Eastern Europe, Southeastern Europe, the Russian Federation, the Near and Middle East as well as Mongolia and the PRC.</td>
<td></td>
</tr>
<tr>
<td>Pantos Logistics</td>
<td>Pantos Logistics is a Korean logistics company with offices in the PRC, Japan, Southeast Asia, Central Asia, the US, and Europe. Its services include brokerage of air freight and sea freight, container freight, bonded transport and courier services, as well as project cargo, customs clearance, warehousing, break bulk, and consolidation.</td>
<td></td>
</tr>
</tbody>
</table>
### Freight Forwarders and Logistics Companies (continuation)

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rhenus Logistics</td>
<td>Rhenus Logistics with a turnover of €3.3 billion, the Rhenus group is one of Europe’s leading logistics service providers. Its business areas include contract logistics, the management of complex supply chains, and innovative value added services. It has over 15,000 employees at 230 locations, covering important industrial centers and sea ports in Europe.</td>
<td></td>
</tr>
<tr>
<td>Sinotrans Land Bridge Transport</td>
<td>Sinotrans Land Bridge Transport Co., Ltd operates the new Eurasia Land Bridge block train service from Lianyungang to Alashankou with the special approval of the PRC’s Customs General Administration. It is a subsidiary of Sinotrans, one of the largest diversified transport companies in the PRC. Sinotrans Land Bridge Transport offers short sea services connecting Lianyungang to the Republic of Korea, Japan, Shanghai, and Qingdao. It has won over 90% share of the market for transit transport on the new Eurasia Land Bridge. Currently, the Lianyungang—Alashankou route is the first choice for the Republic of Korea; Japan; Hong Kong, China; Taipei, China; Singapore; India; the US; and Australia as a shortcut to trade in Central Asia.</td>
<td></td>
</tr>
<tr>
<td>Soyuztranslink</td>
<td>Soyuztranslink is a young Kazakh freight forwarder with offices throughout Central Asia and Iran. It provides air, sea, road, and rail forwarding services and handles project cargo.</td>
<td></td>
</tr>
<tr>
<td>STS Logistics Solutions</td>
<td>STS provides rail, truck and sea cargo services. Its coverage includes the Russian Federation, Central Asia, the PRC, Japan, and the Netherlands. It is one of the few companies that offer door-to-door delivery of LCL shipments except the PRC and other Asian countries (Hong Kong, China; Taipei, China; Malaysia; and Singapore) to any place in the Russian Federation via the port of Vladivostok.</td>
<td></td>
</tr>
<tr>
<td>Trans Siberian Express Service</td>
<td>Trans Siberian Express Service was formed in 1991 by Sealand and the Russian Ministry of Railways, with Sealand acquiring control in 1999. After the acquisition of Sealand by AP Moller group in 2000, it became a subsidiary of Maersk. Trans Siberian Express Service provides rail and road transport, value-added services, and integrated logistics solutions to, from, and through the territory of the former Soviet Union. It operates important rail routes connecting Central Asia to Europe including</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Riga–Almaty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Riga–Tashkent</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• St. Petersburg–Almaty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• St. Petersburg–Tashkent</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Novorossiysk–Almaty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Novorossiysk–Tashkent</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Breast–Almaty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Breast–Tashkent</td>
<td></td>
</tr>
</tbody>
</table>
## Freight Forwarders and Logistics Companies (continuation)

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transemuz</td>
<td>Transemuz</td>
<td>Transemuz is a logistics company based in the Jebel Ali Free Zone, United Arab Emirates. It offers air, sea, road, and rail transport and warehousing services in Europe, Iran, Turkey, the CIS, the Baltic states, Far East, and the PRC.</td>
</tr>
<tr>
<td>TransRail Holding</td>
<td>TransRail Holding AG</td>
<td>TransRail Holding AG is an accredited freight agency of Russian Railways and organizes the international transports of goods to be shipped on CIS railways and the railway networks of the Baltic States and Iran. Its services include international documentation; transporting of containers and conventional cargos, liquids, bulk goods, and goods needing temperature-controlled storage; and the handling of blocks of wagons and entire trains. It has two representative offices in Baku–Azerail and Azersped.</td>
</tr>
<tr>
<td>Woojin Global Logistics</td>
<td>Woojin</td>
<td>Woojin is a Korean logistics company with a strong presence in Uzbekistan. It handles raw cotton, cotton yarn, and non-ferrous metal, among other commodities, from Uzbekistan to worldwide locations at the rate of around 200 20-foot equivalent units (TEUS) per month. It operates its own terminal in Tashkent, and Margilan.</td>
</tr>
<tr>
<td>Local Logistics and Forwarding Company</td>
<td>Eastland</td>
<td>Eastland is an Uzbek–United Kingdom joint-venture company that provides forwarding services.</td>
</tr>
<tr>
<td>ITS Nippon</td>
<td>ITS Nippon</td>
<td>ITS Nippon is a local freight forwarder that concentrates on handling inbound traffic from Japan. At one time, it was the largest Japanese transport company serving the CIS, but now focuses more on trading. It forwards Japanese diplomatic cargo and serves as the agent for large Japanese forwarding and logistics companies. Its activities cover Uzbekistan, the Kyrgyz Republic, and Tajikistan.</td>
</tr>
<tr>
<td>KimyoTrans</td>
<td>KimyoTrans</td>
<td>KimyoTrans provides rail forwarding services.</td>
</tr>
<tr>
<td>Mis Taka</td>
<td>Mis Taka</td>
<td>Mis Taka, formed in 1995 is one of the leading forwarding companies in Uzbekistan. Since 1999, it has, together with Latvian company Sun Gate, operated a container block trains on the Tashkent–Riga route. It is one of the few in Central Asia rendering such kind of service. It operates its own container yard only 3 kilometers from Tashkent. This yard is also the authorized terminal for GE SeaCo, the world’s largest container lessor, with a fleet of almost 1 million TEUs.</td>
</tr>
<tr>
<td>Safir Trans Servis</td>
<td>Safir Trans Servis</td>
<td>Safir Trans Servis provides air, sea, rail, and road forwarding services.</td>
</tr>
<tr>
<td>Trans-Osiyo</td>
<td>Trans-Osiyo</td>
<td>Trans-Osiyo is a subsidiary of Uzvneshtrans. It renders forwarding services for commercial cargoes.</td>
</tr>
<tr>
<td>Trans-Serval</td>
<td>Trans-Serval</td>
<td>Trans-Serval is a joint venture between Serval Shipping from Zug, Switzerland, and two local Uzbek transport companies.</td>
</tr>
</tbody>
</table>
### Freight Forwarders and Logistics Companies (continued)

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight Forwarder with Intermodal Terminal</td>
<td>TransContinental Ltd Company</td>
<td>TransContinental provides a complete package of transport and logistics services, including customs clearance, forwarding, rail and road transport, air and sea shipping, intermodal transport, and integrated logistics services.</td>
</tr>
<tr>
<td></td>
<td>TransTurkiston</td>
<td>TransTurkiston is a joint venture between Uzvneshtrans and Sojuzvneshtrans LLC, the oldest forwarding company in the Russian Federation.</td>
</tr>
<tr>
<td></td>
<td>Uznek</td>
<td>Uznek is an Uzbek company with 700 employees. It provides a complete range of forwarding services in the Russian Federation and the CIS, including all modes of transport, customs clearance, hazardous, oversize and heavy cargo shipment, logistic services, and warehousing services.</td>
</tr>
<tr>
<td></td>
<td>Uzvneshtrans</td>
<td>Uzvneshtrans is a state joint-stock foreign economic company founded in 1991 whose main activity is the forwarding of export cargos from Uzbekistan. It conveys about 1.5 million tons of export–import cargo every year. The range of commodities it handled includes: cotton, lint, wheat, flour, fertilizer, base metals, oil products, and industrial equipment and machinery.</td>
</tr>
<tr>
<td></td>
<td>Zudlik Trans</td>
<td>Zudlik Trans is one of the leading freight forwarders in Central Asia, connecting Central Asia with the PRC and Turkey. It moves a wide range of cargo, from frozen meat in reefer containers to sunflower oil in wagons, from heavy equipment on railway platforms to general cargo in trucks.</td>
</tr>
<tr>
<td>Freight Forwarder with Intermodal Terminal</td>
<td>Azia Trans Terminal</td>
<td>Azia Trans Terminal is part of a Russian logistics company that recently converted a rail station in Tashkent acquired from the Uzbekistan Railways, into a large intermodal facility with a customs examination station.</td>
</tr>
<tr>
<td></td>
<td>Shoshtrans</td>
<td>Shoshtrans is a joint venture rail and intermodal forwarding company between the Uzbekistan Railways and two foreign transport companies. It is one of the largest Uzbek freight forwarders and operates the Shoshtrans Terminal in Tashkent.</td>
</tr>
<tr>
<td></td>
<td>Uztemiryukonteiner</td>
<td>Uztemiryukonteiner is a rail and intermodal forwarding company affiliated with the Uzbekistan Railways, with facilities throughout Uzbekistan.</td>
</tr>
</tbody>
</table>


Source: Author.
Appendix D

Logistics Performance Measurement and Monitoring

Logistics performance indicators are essential for the government to assess the success of its policies, laws, and regulations and for the private sector to develop an efficient and effective logistics system.

These indicators should be developed in such a way that they can be deployed across the entire Central Asia Regional Economic Cooperation (CAREC) region, so the performance of CAREC members can be compared with one another and with more developed countries. This will facilitate benchmarking and the learning of best practices from high logistics performance countries.

Ideally, the data should be collected by competent, independent entities not subject to the influence of government agencies or trade groups. Careful thought must be given to ensure the use of the appropriate data definition and collection methodology. In addition, the entity charged with performance measurement and monitoring must have adequate funds to ensure the sustainability of the measurement and monitoring effort.

ADB, as a trusted party with deep knowledge of the CAREC region, should play a significant role in fostering logistics performance measurement and monitoring, including the creation of an ADB trade logistics index for member countries and for the entire region.

Uzbekistan’s Scores in the World Bank Logistics Performance Index

The World Bank logistics performance index (LPI) is based on a survey of the assessment of transport operators on the logistics “friendliness” of the countries in which they operate and trade. The feedback from these operators is supplemented with objective data on the performance of key components of the logistics chain in the home country. Therefore, the LPI consists of both perception and objective measures that profiles the logistics friendliness of the countries covered.

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Republic of China</td>
<td>30</td>
<td>3.32</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>103</td>
<td>2.35</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>111</td>
<td>2.29</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>129</td>
<td>2.16</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>133</td>
<td>2.12</td>
</tr>
<tr>
<td>Mongolia</td>
<td>136</td>
<td>2.08</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>146</td>
<td>1.93</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>150</td>
<td>1.21</td>
</tr>
</tbody>
</table>

CAREC = Central Asia Regional Economic Cooperation
All CAREC members except the People’s Republic of China (PRC) scored low in the World Bank 2007 report *Connecting to Compete: Trade Logistics in the Global Economy*. Uzbekistan’s LPI was ranked fourth among the eight CAREC member countries, lower than the PRC, the Kyrgyz Republic, Uzbekistan, but higher than Kazakhstan, Mongolia, Tajikistan, and Afghanistan.

**Approaches in Measuring and Monitoring Uzbekistan’s Logistics Performance**

The choice of performance indicators in transport and logistics can be overwhelming. In view of the embryonic stage of efforts to develop a sustainable system to track Uzbekistan’s logistics performance, the consultant recommends only a limited number of simple measures that address the most important areas and are easy to implement (especially when measures can be derived from reliable data available from trade or trade association sources). As CAREC members gain expertise in performance measurement and collection, more can be added.

These indicators should be measured throughout the CAREC region, with the hope of initiating a virtuous cycle of improvement in member countries.

**Using Simple Measures**

Simple measures are more likely to be collected consistently and accurately over time and can be implemented not only in Uzbekistan, but across the entire CAREC region as well. These measures are also less costly to ascertain, raising the likelihood that logistics operators, shippers, trade associations, and government agencies will support their use.

**Addressing Diverse Stakeholder Needs**

The performance measures are selected to address the needs of three major groups of stakeholders, each with its own special interests:

- Government, which wants to use the measure to gauge the results of its policies and the health of its logistics industry;
- Transport and logistics service providers, who want to use the measures to improve their efficiency and service quality; and
- Transport and logistics service users, who want to reduce cost and make sound decisions on carriers and transport modes.

**Taking into Account Measurement Issues**

The indicators are also chosen to address the following issues that impact the quality of the data and the sustainability of the collection effort:

- collection fatigue,
- definitional difference,
- confidentiality,
- jurisdictional constraints, and
- budget limitations.
Recommendations on Actionable Performance Indicators

Measures for Guiding Government Decisions
Uzbekistan ranks 129th out of 150 in the 2006 World Bank LPI Index. Its Customs score of 1.94 ranks 136th, the worst component of its LPI scores. Moreover, it ranks low on the 2006 Business Environment and Enterprise Performance Survey (BEEPS), a joint initiative of the European Bank for Reconstruction and Development and the World Bank. Import clearance in it takes an average of 8.7 days (maximum 15.3 days) and export clearance takes an average of 5.1 days (maximum 9.3 days).

Measures that track customs performance are thus particularly important in Uzbekistan. Aside from customs-related measures, the Uzbek government should also track the sustainability, safety, and quality of its transport network; the growth of its transport industry; as well as the development of major transport corridor/s.

Table D2: Measure to Track Customs Performance

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Improvement</td>
<td>Import Customs clearance time (mean and variance)</td>
</tr>
<tr>
<td></td>
<td>Export customs clearance time (mean and variance)</td>
</tr>
<tr>
<td></td>
<td>Percentage of electronic declarations</td>
</tr>
<tr>
<td></td>
<td>Percentage of single window processing</td>
</tr>
<tr>
<td></td>
<td>Percentage of physical inspections</td>
</tr>
<tr>
<td>Sustainability of Transport Network</td>
<td>Road infrastructure expenses as a percentage of GDP</td>
</tr>
<tr>
<td></td>
<td>Rail infrastructure expenses as a percentage of GDP</td>
</tr>
<tr>
<td></td>
<td>Air infrastructure expenses as a percentage of GDP</td>
</tr>
<tr>
<td>Quality of Transport Network</td>
<td>Number of potholes per km of roadway (reported by drivers calling into a hotline and verified by Uzavtoyul)</td>
</tr>
<tr>
<td></td>
<td>Number of slow train orders per km of railway</td>
</tr>
<tr>
<td>Safety of Transport Network</td>
<td>Number of fatalities caused by trucks per highway ton-km</td>
</tr>
<tr>
<td></td>
<td>Number of fatalities caused by rail, per rail ton-km</td>
</tr>
<tr>
<td>Logistics Competitiveness</td>
<td>Logistics cost as a percentage of GDP</td>
</tr>
<tr>
<td>CAREC Corridor Development</td>
<td>Annual average daily traffic (AADT) on CAREC corridors</td>
</tr>
<tr>
<td></td>
<td>Average flow speed on CAREC corridors</td>
</tr>
<tr>
<td></td>
<td>Growth in transit traffic</td>
</tr>
<tr>
<td></td>
<td>Cargo volume passing through CAREC corridor BCP</td>
</tr>
<tr>
<td></td>
<td>Delay time at CAREC corridor BCP (mean and variance)</td>
</tr>
<tr>
<td></td>
<td>Number of new businesses started along the corridor</td>
</tr>
<tr>
<td></td>
<td>Total revenue of new businesses started along the corridor</td>
</tr>
<tr>
<td></td>
<td>Total value of new investments along the corridor (especially foreign direct investment)</td>
</tr>
<tr>
<td>Promote Intermodal Transport</td>
<td>Ton and ton-km transport by each mode</td>
</tr>
<tr>
<td></td>
<td>Number and tonnage of intermodal shipments</td>
</tr>
<tr>
<td></td>
<td>Number and total square meter of ICD</td>
</tr>
</tbody>
</table>

continued on next page
Measures for Transport and Logistics Providers
A strong transport and logistics industry is essential for supporting robust growth in Uzbekistan’s economy. Performance indicators for transport and logistics providers should thus be designed to track costs and revenues at the micro-business level. The measures should enable them to operate efficiently and provide reliable services to their customers are shown in Table D3.

Table D3: Measures to Track Operations and Service Provision

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Operating Ratio (operating cost/operating revenue)</td>
</tr>
<tr>
<td></td>
<td>Return on assets</td>
</tr>
<tr>
<td>Operating Efficiency</td>
<td>Percentage of empty miles</td>
</tr>
<tr>
<td></td>
<td>Average weight per vehicle</td>
</tr>
<tr>
<td></td>
<td>Average revenue per vehicle</td>
</tr>
<tr>
<td></td>
<td>Fuel consumption per ton-km</td>
</tr>
<tr>
<td>Service Quality</td>
<td>Door-to-door transit time in key traffic lanes (e.g., Lianyungang to Tashkent, Tashkent to Bandar Abbas)</td>
</tr>
<tr>
<td></td>
<td>Percentage of on-time arrivals (mean and variance)</td>
</tr>
<tr>
<td></td>
<td>Percentage of on-time pickups (mean and variance)</td>
</tr>
<tr>
<td></td>
<td>Equipment availability</td>
</tr>
<tr>
<td></td>
<td>Loss and damage cost as a percentage of operating revenue</td>
</tr>
<tr>
<td>Safety of Transport Network</td>
<td>Number of injuries per ton-km</td>
</tr>
<tr>
<td>Freight Characteristics</td>
<td>Average size of shipment</td>
</tr>
<tr>
<td></td>
<td>Average length of haul</td>
</tr>
<tr>
<td></td>
<td>Average revenue per ton-km</td>
</tr>
</tbody>
</table>

km = kilometer.

Source: Author.
Measures for Users of Transport and Logistics Service

Performance indicators for transport and logistics users should provide a micro-level measurement of the costs and performance of specific transport and logistics service providers, and specific transport modes or modal combinations. Table D4 lists measures that should enable the transport and logistics users make intelligent choices in the design and management of their supply chains.

Table D4: Measure for Transport and Logistics Service Users

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Return on asset</td>
</tr>
<tr>
<td>Cost</td>
<td>Inventory carrying cost as percentage of sales</td>
</tr>
<tr>
<td></td>
<td>Transport cost as a percentage of cost of goods</td>
</tr>
<tr>
<td>Asset Efficiency</td>
<td>Inventory turnover ratio</td>
</tr>
<tr>
<td>Service Quality</td>
<td>Perfect order fulfillment rate</td>
</tr>
<tr>
<td></td>
<td>Cycle time from order to delivery</td>
</tr>
<tr>
<td></td>
<td>Percentage of on-time delivery of products (mean and variance)</td>
</tr>
</tbody>
</table>

Source: Author.

Performance Monitoring

Performance monitoring of macro-indicators should best be conducted by competent, independent entities that are not subject to government or trade influence. Appropriate data definition and collection methodology should also be used.

The monitoring process should start with a “base-case” study, i.e., a detailed snapshot of the situation as it currently exists. This study can then be followed by other studies over time as changes are implemented.

The Uzbek Chamber of Commerce, a government entity supervised by the Cabinet of Ministers, has expressed interest in conducting performance monitoring. It conducts surveys on business climate, assists its members on government regulation and government inspections, facilitates access to information, and serves as a conduit for the view of its members. However, while it is likely to have good access to government data, it might not be the best watchdog on Uzbek government performance.

The other candidates as service providers for performance monitoring include the Uzbek International Forwarders Association, State Statistical Committee, and top Uzbek universities and research institutes, as well as the CAREC Institute.

With support from ADB and CAREC region governments, the CAREC Institute can be a force in performance monitoring and can apply the findings to guide research and capacity building efforts.
Appendix E

Case Study: The Export of Fergana Valley Fruits and Vegetables

The Fergana Valley is the most densely populated region of Central Asia, with a multimillennial tradition of agriculture out of the rich alluvial soils brought down by rivers flowing from surrounding mountains. Most of it is in eastern Uzbekistan, with the rest being located in Tajikistan and the Kyrgyz Republic.

Even though its climate and soil supports a wide variety of agricultural use, the Fergana Valley along with the rest of Uzbekistan was devoted to growing just cotton during the Soviet era. The cotton monoculture caused much of the soil to be exhausted with overuse, and poisoned by too many chemical fertilizers, insecticides and herbicides.

Since independence, the Uzbek government followed an import-substitution policy and promoted the cultivation of grain and other food crops alongside cotton. However, the low state purchase prices for grain and cotton have limited the incomes of Fergana Valley farmers, making them among the poorest in Uzbekistan. This has prompted an increasingly larger number of farmers in the valley to shift to fruit and vegetable farming which, despite limited government support, has been expanding in the area. The quality of Fergana Valley fruits and vegetables are excellent and can be sold for hard cash at free market prices. Farmers can thus earn far higher income growing fruits or vegetables over a small plot of land than growing cotton or grain over a large area. The Uzbek government should encourage this and other export-oriented activities in Fergana Valley by promoting their products to targeted markets and setting up the proper support structures.

Marketing

According to farmers the consultant met in Fergana, roughly 90% of the fruits they produce are exported to the Russian Federation and 10% to Kazakhstan. The farmers also reported that traditionally, they sell their products to middlemen who contract to purchase a certain volume of the fruits at a price agreed upon at the beginning of the season. They added that they have no sense of the margin extracted by the middlemen, and that the only reference price they use as basis for deciding on the contract price to agree on is the price of similar products sold at local bazaars. The local bazaar price is, however, far from the prices the fruits fetch in European and the Commonwealth of Independent States (CIS) countries.

This marketing system prevents farmers from getting full value for their crops as their margins and sales are controlled by the middlemen, and as they are given neither the incentive nor the capacity to know prevailing prices and the changing tastes of the market. Moreover, farmers are exposed to great risk in that any delay in the middlemen’s payment may mean their being unable to fully implement prescribed planting technologies that must be followed if optimal yields are to be achieved.

The chamber of commerce can support farmers’ cooperatives in developing new channels and new markets for Fergana Valley’s produce. Cooperative marketing is an effective marketing mechanism used successfully in many countries. The cooperatives can work with the Uzbek government to learn how their products can be sold for the highest profit and tailor their produce (e.g., size, color, taste, and ripening time) to meet consumer expectations.
Instead of selling to traditional markets developed during Soviet times (e.g., the Russian Federation, Kazakhstan), Fergana Valley farmers are likely to fetch higher prices selling to new markets (e.g., the Gulf States, the European Union). It would be very beneficial for the chamber of commerce to sponsor a market research study to identify the best markets for Fergana Valley produce.

Farmers’ cooperatives can also develop a grading system for the size and quality, as well as brands for their fruits and vegetables. They can learn from the success of California farmers’ cooperatives in setting up grading system for oranges and in developing the well known Sunkist brand.

The chamber of commerce is also encouraged to study how the state of California developed “California” as a global brand that stands for the high quality of its agricultural products. Lessons learned can assist the Fergana Valley farmers in creating a “Fergana” brand that represents the high quality of its fruits, nuts, and vegetables.

To conquer new markets, Fergana Valley farmers must grow products that are desired and that meet the government standards, including phytosanitary standards, of targeted markets. Toward this end, large supermarkets from targeted countries should be invited to set up buying offices in Fergana Valley. These buying offices can serve many functions, including

- replacing the middleman as a market channel,
- assisting farmers in meeting phytosanitary standards,
- assisting farmers understand consuming trends,
- assisting farmers grow and ship the right produce, and
- serving as an export consolidator to aggregate small lots into container loads.

**Product Development**

Today, the People’s Republic of China (PRC) is the largest producer of cut flowers in the world, accounting for one third of the world’s total production. By 2010, it will produce 4 billion cut flower stems, up from 2 billion in 2000, according to available studies.

The Uzbek government should study how the PRC developed its rose industry in Kunming, the capital of Yunnan Province. To exploit Kunming’s “eternal spring” weather, the PRC government searched for an agricultural product that can be grown there and readily exported despite the area’s inaccessibility, Yunnan Province being landlocked and surrounded by mountains.

Deciding on aviation as the best transport option, the PRC government began the search for an agricultural product that

- is suited to Kunming’s climate and soil;
- has a high value-to-weight ratio, so air shipping cost is a tolerable proportion of the price of goods;
- requires fast air transport to preserve shelf life;
- has a large, receptive global market; and
- requires processing before shipping, so low Kunming wages creates a competitive edge.

After an exhaustive study, the PRC government determined cut roses as the perfect agricultural commodity to be grown in, and exported from, Kunming. Cut roses enjoy a large, global
market. They are perishable, with a very high value-to-weight ratio. Furthermore, rose thorns can be removed by low cost labor in Kunming prior to air shipping. Today, Kunming grown roses are regularly auctioned at Amsterdam and are sold even in Thailand, itself a large flower producer.

The Uzbek government is encouraged to undertake a similar study in determining the best agricultural product to grow in Fergana Valley. It should seriously consider the strawberry, which has high value to weight ratio and a large global market.

Uzbek strawberries are sweet and delicious. Because they can be easily bruised by handling and shipping, they are currently not widely distributed outside the country. Air shipping minimizes handling and gets the product to destination markets fast, assuring freshness. Once an appropriate trade logistics system is designed and developed, strawberries should be an excellent export crop to grow in Fergana Valley. The Gulf States would be a lucrative market for Fergana Valley strawberries.

In addition, the Uzbek government might benchmark the PRC’s rise to become the largest producer of apples in the world. The PRC’s apple boom was initiated in mid-1980s as the country started to free up its agriculture sector. The PRC government worked with the farmers to improve the productivity and quality of apples for the last two decades. Now, the PRC is producing about half of the world’s apples.

**Alternative Crop Use**

Farming is subject to high uncertainty. Rainfall, growing conditions, and infestation all impact on crop yield. Demand and supply, including those of substitutes, determine crop price. Like farmers worldwide, Fergana Valley farmers have faced abundant harvest that can only be sold at ruinous prices.

The Uzbek government should encourage investments in juice and jam production and dry fruit manufacturing in the Fergana Valley. In addition to serving as an alternative use of the Valley’s crops, juicing and drying help cushion surges in crop harvest and thus enable farmers to wait after bumper harvests and sell their produce at better prices. Juices, concentrates, jams, and dried fruits and vegetables are also easier to ship.

In addition, the Government of Uzbekistan should encourage the development of facilities to pickle fruits and vegetables. These products should find receptive markets in the Russian Federation and many CIS countries.

**Farm Productivity and Training**

Fergana Valley farmers are conservative in their farming practices. They plant the same crops and use the same methods that were passed down to them for generations. This situation results, in a great part, to the fact that unlike many countries, Uzbekistan does not have the equivalent of an “agricultural extension” system, which applies scientific research and new knowledge to improve agricultural practices and then educate farmers on new technologies,
including seed selection, weed and insect control, pruning techniques, crop rotation, and farm management. The Ministry of Agriculture and Water Management should thus consider setting up a network of agricultural extension offices in Uzbekistan to provide useful, practical, and research-based information to farmers.

**Microcredit**

To shift to newer, more productive farming practices, farmers frequently require additional capital. However, in Uzbekistan, loans are difficult to get and come with very high interest rates.

It would be beneficial for the Uzbek government to solicit assistance from multilateral organizations that sponsor microcredit lending. The type of lending has achieved much success in developing countries all over the world, including Central Asia. Multilateral organizations can work with farmers' cooperatives in setting up credit unions. They can also contract local banks to perform loan origination and services.

**Cold Chain Logistics System**

Cold storage and temperature-controlled warehouses, as well as good quality refrigerated trucks, are required to support the export of Fergana Valley produce to world markets. However, there are no modern temperature-controlled warehouses in Fergana Valley or even in Uzbekistan. Good quality refrigerated trucks are also in short supply. Most of the produce-hauling trucks are unrefrigerated. The few that are refrigerated generally use refrigeration machines that are several generations behind current technology. In addition, most of the refrigerated haulers are small and family owned.

Assistance is therefore needed to build a cold chain logistics system to support the export of Fergana Valley produce to world markets.

**Customs Clearance**

Their perishable nature makes the speedy release of fruits and vegetables from border crossing points imperative. Each day of customs clearance delay subtracts 1 day out of the shelf life of these commodities.

Uzbek customs should work with their counterparts in neighboring countries to create a “green corridor” where Fergana Valley fruits and vegetables will receive expedited export clearance.