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Perspectives for Development of Transport and International Corridors in Armenia, Turkey and the Region

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Foreword

With the current impasse in the political process of rapprochement between Armenia and Turkey, the business relations between the two countries seem to go on as usual. 'Usual' in a sense of the established practice of bilateral and transit trade which has shaped its own operational rules and regulations for over two decades. Mutually beneficial practices have historically underlain effective policies, which enhance these practices further. Today it is high time we understand what policies may facilitate the improvement of existing business practices across borders.

To outline viable policy options our research team undertook this study in an attempt to address milestone issues that the involved stakeholders are interested in, specifically a) what are the actual issues in need of coordination of transportation issues between Turkey and Armenia?; and b) could the engagement of Georgian companies facilitate the Armenia-Turkey interaction, and what are the limits here? In the contemporary world policy research is perhaps one of the most effective instruments to highlight evidence-based policy options and to initiate informed advocacy campaigns. One of the strongest assets of this particular study was the involvement of practitioners at various stages of the study, which enhances the validity of the findings and the subsequent recommendations.

We do hope that the study will become a springboard for further research into business cooperation issues between the two countries, as consolidation of the stakeholder interests across borders may be the leverage necessary to break through the current political deadlock.

Tevan Poghosyan

Executive Director

International Center for Human Development

Despite the complicated political environment and lack of state relations between Armenia and Turkey, during the implementation of Support of Armenian – Turkey Rapprochement Project, UMBA could succeed in creation of Association of Armenian and Turkish Travel Companies. Another platform that was formed is the cooperation between Armenian “Women’s Forum” and Turkish DOGUNKAD NGOs, by bringing together businesswomen of Armenia and Turkey for creation of cross – border business cooperation between two countries.

In absence of diplomatic relations between Armenia and Turkey, as well as any official document, regulating relations between two countries, business ethic rules became the only regulation between two countries. Despite closed borders and number of other obstacles, hindering direct trade, the trade between Armenia and Turkey values approximately 210 million US Dollars. Businesses don't like borders and religion, and the cross border trade takes place through third countries. Being the core source of tax collection and employment in both countries, businesses have a strong potential for lobbying for removal of obstacles, hindering bilateral trade, such as opening of borders and authorizing direct trade.

UMBA was one of first NGOs that established joint platform for development business relations between Armenia and Turkey. In 1997 UMBA became the co-founder of Turkish – Armenian Business Development Council (TABDC) which has contributed a lot in business relations between Armenia and Turkey.

Arsen Ghazaryan

President

Union of Manufacturers and Businessmen (Employers) of Armenia

Our Region already has a hard geological terrain for any kind of transportation of goods, people and services. Political problems on the other hand, have always been influential for the free flow of trade and services and free circulation of the people in the region. This study would possibly show the lost Economical Benefits of Armenia and Turkey as well as the neighboring countries, due to the lack of establishing as well as usage of Transportation Routes that already exist for the benefits of our countries and region.

Our foremost belief is to provide platform for international projects, acting as transit routes in Eurasia region and possibly bringing prosperity to the underdeveloped regions in bordering provinces of Turkey and Armenia and include them in joint cross-border business facilities and create interdependency, social, cultural and economical regional integration, passes through Free Transport Routes and Peace Pipe Lines.

We hope that this study will be one of the first steps to increase the awareness towards establishing economical links, providing free flow of goods, services and people through open borders and realize how much they all would help for solving the regional conflicts.

Kaan Soyak
Co-Chairmen
TABDC

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International Center for Human Development would like to express its special gratitude to USAID for their consistent support to the Support to Armenia-Turkey Rapprochement (SATR) project and certainly to UMB(E)A, which has been an invaluable resource throughout the study with their expertise, and helpful insights into the issue. ICHD would like to express its particular gratitude to UMB(E)A's Ms. Irina Belubekyan for her remarkable contribution and Mr. Athur Ghazaryan for his advices and inspiring ideas.

The Center is particularly grateful to all the discussants having participated in various events organized within the project framework, as they were absolutely essential in revealing the specific challenges complicating the transportation issues between Turkey and Armenia, as well as suggesting viable ways out of these complications. ICHD would like to thank Mr. Samvel Melikyan (Meltrans LTD), Mr. Makar Arakelyan (Sati Armenia), Mr. Rafik Sarkisyan (Apaven Ltd), Mr. Nazmi Gul (Hopa trans) and Mr. Murat Kaya (Gozde Nakliyat) for their feedback and insights related to transportation and freight forwarding issues.

Finally, the Center would like to thank the business associations across the borders for their visionary perspectives on how the current challenges can be addressed and even expanded into future opportunities.

I. Introduction

In mid-2011, the ICHD initiated this research building up on earlier attempts by the UMB(E)A and TABDC to establish cooperation around issues of transport and freight forwarding. This report is based on ICHD's research and builds-up on UMBA's Business Opinion Leader's research, which focused on the issue of transport among others. The Business Opinion Leaders survey gave a background base-line picture of business leaders' opinion and their understanding of business cooperation in a variety of sectors in general, and covered six targeted sectors (tourism, transport, agriculture, IT/communications, light industry and manufacturing, construction/building materials, and engineering) rather than focused on the sector of transport. The research includes broader layers of stakeholders in Armenia and Turkey into an open dialogue focusing on transportation issues between Turkey and Armenia.

This report addresses road, railroad and multimodal transportation milestone issues that stakeholders are interested in. It also looks into two possible scenarios of Armenia-Turkey transport interactions.

This report has been prepared by the team of local experts conducting research using various databases, analytical documents, reports, studies and other documents prepared by credible international institutions and experts. ICHD experts have also conducted several deep interviews with key primary stakeholders (Armenian and Turkish transportation businesses, freight forwarding companies, carriers) including Meltrans LTD, Sati Armenia, Apaven Ltd, Hopa trans, Gozde Nakliyat.¹

The Section II of this report depicts the economic situation and trends in Armenia and Turkey and in the region against the background of the global financial-economic crisis to reveal the context in which the transport sector develops across the region. This section provides economic overview and foreign trade dynamics for Armenia and Turkey, as well as the overview of trade profile between Armenia and Turkey and overview of transport sector (infrastructure and circulation, passenger transport transit of goods, transport costs, etc.).

The Section III considers alternative responses of economies and businesses. In particular, the perspectives related to physical infrastructure are discussed in sub-sections A.1 "Development of Transit Routes under Status Quo (including international legal instruments)" and A.2 "Opportunities for Turkey and Armenia in Regional Transit Corridors and Trade" under different scenarios of political developments, while in sections B.1 "Competition and Non-Tariff based Limitations in Transport Sector under Status Quo" and B.2 "Dynamics of Free Market and Competition of Transport Services" the discussion is rather focused on perspectives related to development of transport services under respective scenarios. For Status Quo scenario, in section A.1 the discussion have been exceptionally focused on road and multimodal transport while railway connection opportunities have been discussed under section B.1, as no infrastructure currently exists and practices available.

The "second line" (A.2 and B.2 subsections) elaborate a phased strategy for sequencing infrastructure development upon border opening. Possible developments in transport sector have been discussed for both scenarios and development lines (status quo vis-à-vis alternative developments) while juxtaposing the emerging opportunities and challenges in the context of the scenarios.

The opportunities for Armenian-Turkish joint-ventures under various scenarios are discussed in the section C.1 and C.2. Sub-section D "Passengers' Transport Development Opportunities" focuses on key issues of tourism and shuttle trade. The authors have also discussed the role of various international instruments supporting the development of international trade and transport in the region with specific focus on Turkey and Armenia in sub-section E.

The Section IV summarizes the key observations and recommendations offered by this report.

A sector-specific larger-scale research and analysis should be conducted to estimate the existing and future transport corridor in case of closed vis-à-vis open borders, refine arguments for Turkish side to advocate for Armenian goods import, study the legal opportunities for Armenia at the international level

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as a landlocked and blockaded country, as well as look into the possibility of creating officially registered Armenian-Turkish joint transport companies in Armenia and Turkey.

II. Economic Situation and Trends

1. For the first time in 60 years, the world economy experienced a steep downturn in 2009, mainly caused by the economic decline in developed countries. More than 89 countries recorded a decline, including Armenia, Turkey and the entire Eastern Europe and South Caucasus region.
2. After continuing high growth rates for the past 16 years, Armenia, heavily affected by the global financial and economic crisis, experienced a 14.2% economic decline in 2009. The crisis affected almost all the largest sectors of the economy. Such a deep decline in GDP was mostly conditioned by an unprecedented recession in the construction sector - by 42%. The decline was significant also in the processing industry (8.8%) and power sector (13.3%). Despite the high economic decline rates, the reduction in households' consumption was quite modest - only 2.3%.² The Armenian economy and market are very small; this creates a number of serious barriers for trade and economic development.
3. The recent crisis of 2008-2009 is the fifth in the last three decades for Turkey; the country is quite familiar with financial crises and following recessions.³ From the Second World War until the 2001 economic crisis, Turkey's economic catching-up with the developed economies was weak and volatile. The volatile growth pattern culminated in the 2000-2001 crisis which led to a contraction of GDP by 5.7% in 2001. Nevertheless, the crisis created a strong incentive for bold reforms leading to five years of economic recovery during 2002-07.⁴ The global economic crisis of 2008-2009 has led to a sharp contraction of economic activity in Turkey, which may exceed that of 2001. The impact has come mainly through two channels: the collapse in external demand has affected Turkey's key exports while subdued domestic lending and capital inflows have depressed domestic demand. Although the deceleration of economic activity in Turkey started as early as mid-2006, the economy slid into negative annual real GDP growth only in the last quarter of 2008 when the economy shrunk by 6.5%. Cumulative growth in 2008 amounted to only 0.9%, sharply down from the 6.8% real GDP growth recorded during 2002-2007.⁵
4. Despite to the dramatic recession both Turkish and Armenian economies faced in 2008-2009, they recovered quite dynamically in 2010. Increase in aggregate demand and international prices of energy sources and metals are expected to positively affect the economy of Armenia in the future. Recovery of economic growth in the main partner countries, particularly in Russia, is expected to lead to increased remittances, revenues generated by labor migrants and investment flows. Considerable changes are predicted in GDP structure. The construction sector, which was considered to be a leading force of the economy before the crisis was paralyzed due to the crisis; in the near future, economic recovery and development will mainly be based on leading and effective sectors, in particular, on the industry and services sectors.⁶ The latest forecasts of IMF point towards an economic growth of 4% in 2012.⁷ Meanwhile it is clear that Armenia needs a new model of economic growth based on promotion of economic and export diversification, in addition to developing exports to become the main source of economic growth.

² Armenia Economic Report 2010: The Necessity for Economic Diversification and Export Expansion. Ministry of Economy of the Republic of Armenia. Yerevan. October 2010. http://www.mineconomy.am/upload/pdf/1_en.pdf

³ Ercan Uygur. The Global Crisis and Turkish Economy. TWN Global Economy Series. Third World Network. 2010.

⁴ Mihai Macovei. Growth and economic crises in Turkey: leaving behind a turbulent past. European Economy. European Commission. Economic Papers 386, October 2009.

⁵ Ibid.

⁶ Armenia Economic Report 2010: The Necessity for Economic Diversification and Export Expansion. Ministry of Economy of the Republic of Armenia. Yerevan. October 2010. http://www.mineconomy.am/upload/pdf/1_en.pdf

⁷ <http://www.imf.org>.

5. IMF growth forecast indicates that the Turkish economy, which relatively faster recovered after the sharp decline, will continue growing at much slower rates in 2011 and 2012 (6.6% and 2.2% respectively).⁸ Turkey enjoys an outstanding long-term growth potential. The main drivers of the continued development could be the people, a diverse and entrepreneurial human capital base, its strategic location as a turntable between Europe and Asia, and a relatively attractive business environment. According to projections by Goldman Sachs, Turkey has the potential to become a USD 6 trillion economy by 2050, making it the third largest in Europe. Turkey could also rapidly narrow the income gap with the EU and achieve a per capita GDP level of USD 60 000 or 75% of the projected EU average by 2050.⁹

Figure 1. GDP annual growth rate for Armenia and Turkey for 1994-2010¹⁰

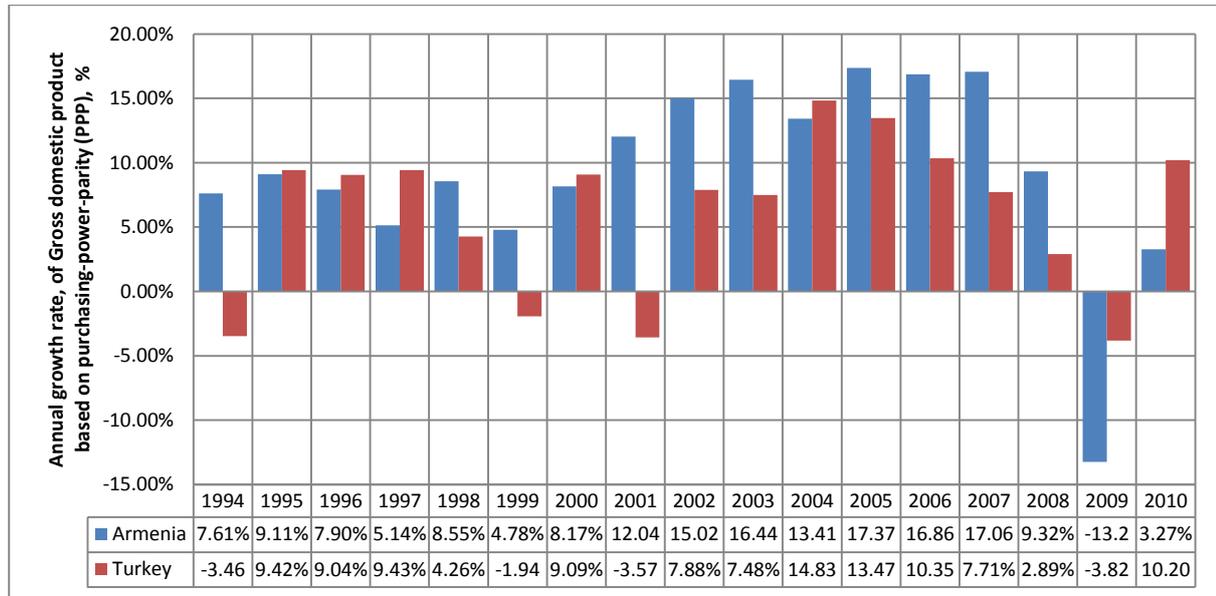
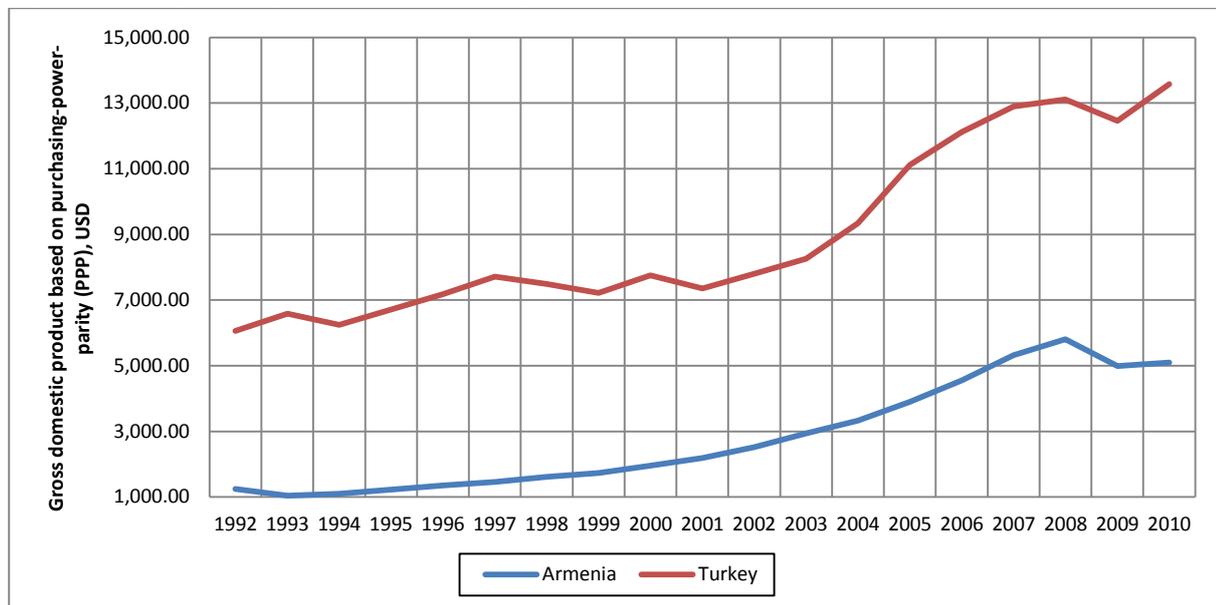


Figure 2. Per capita GDP for Armenia and Turkey for 1992-2010¹¹



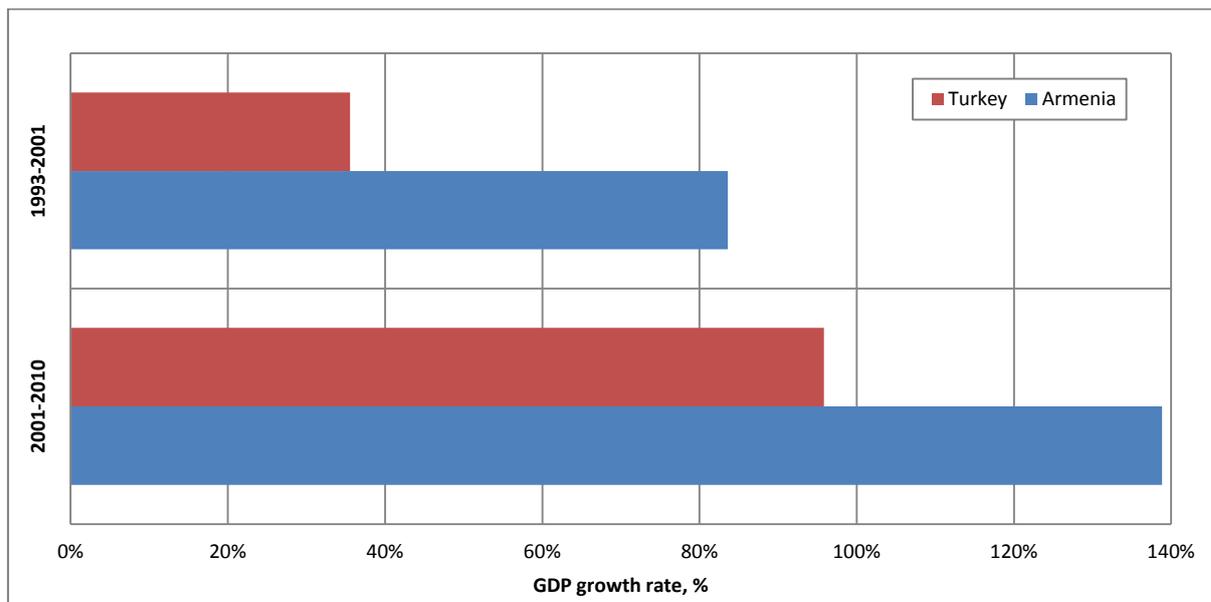
⁸ Bloomberg. <http://www.bloomberg.com/news/2011-09-20/imf-cuts-turkey-growth-forecast-calls-for-tighter-fiscal-policy.html>.

⁹ Ahmet O. Akarli. BRICs, the Next-11 and Turkey 2050: A Space Odyssey. Goldman Sachs International. July 2007. <http://www.tusiad.org>.

¹⁰ World Development Indicators. <http://data.worldbank.org>.

¹¹ Ibid.

Figure 3. Relative variations of GDP growth rates for Armenia and Turkey between 1993-2001 and between 2001-2010¹²



6. The global crises resulted in decrease of global trade volumes. In 2009, Armenia's export and import volumes also decreased significantly, experiencing a decline of 32.8% and 25% respectively.
7. In 2009, both exports from and imports to Armenia declined sharply - by 32.8% and 25% respectively. 89% of exports went to 15 countries, with a visible geographic orientation to north-east – more than 90% of total exports. In late 2008, exports and overall external trade volumes started to decrease. The deepest decline in exports and imports were recorded in May 2009 - by 48% and 30% respectively. Starting from the second half of the year, recovery trends became visible. However, the annual numbers showed a considerable reduction: exports decreased by 32.8%, while imports - by 25.0%. Nonetheless, starting from early 2010, significant recovery was seen in export and import volumes: exports grew by 56% and imports - by 24% during the first half of the year.
8. Despite the overall decline in export volumes in 2009, export volumes to a number of countries increased. The most prominent were exports to the USA, Canada, Switzerland, China and Austria. It is worth noting that the increase in exports to the listed countries was determined by the exports of metals (gold, copper, molybdenum, aluminum – mostly unprocessed or processed through a simple technology or waste of such metals from other production), while exports of other goods to these countries decreased. Armenian exports have been gradually concentrating in a few product lines since early 2000s.¹³ While, Armenia had a comparative advantage in trade with the EU for at least 150 products in various groups and with the world for over 300 products in 2008. However, this comparative advantage is not utilized adequately as many of these products are not exported to the EU (over 100 cases).¹⁴
9. In contrast to exports, imports to Armenia in 2009 decreased from almost all partner countries – on average by 30%. Relatively low decline in imports were recorded from Russia and Brazil. In the case of Russia, low rate of decline in imports was determined by the fact that Armenia imports such strategic goods as wheat and natural gas that constitute 40% of total imports from Russia. Moreover, imports of non-processed aluminum – which constitutes 12% of imports from Russia compared to 5.5% in 2008. Concerning imports from Brazil, 35% of imports from this country is sugar, which consists 90% of total sugar imported to Armenia. Import through intermediary countries represents a large share in total

¹² Ibid.

¹³ Armenia Trade Diagnostic Study. Poverty Reduction and Economic Management. Europe and Central Asia Region. The World Bank. June 2002. http://siteresources.worldbank.org/INTRANET/TRADE/Resources/Pubs/Armenia_TDS.pdf.

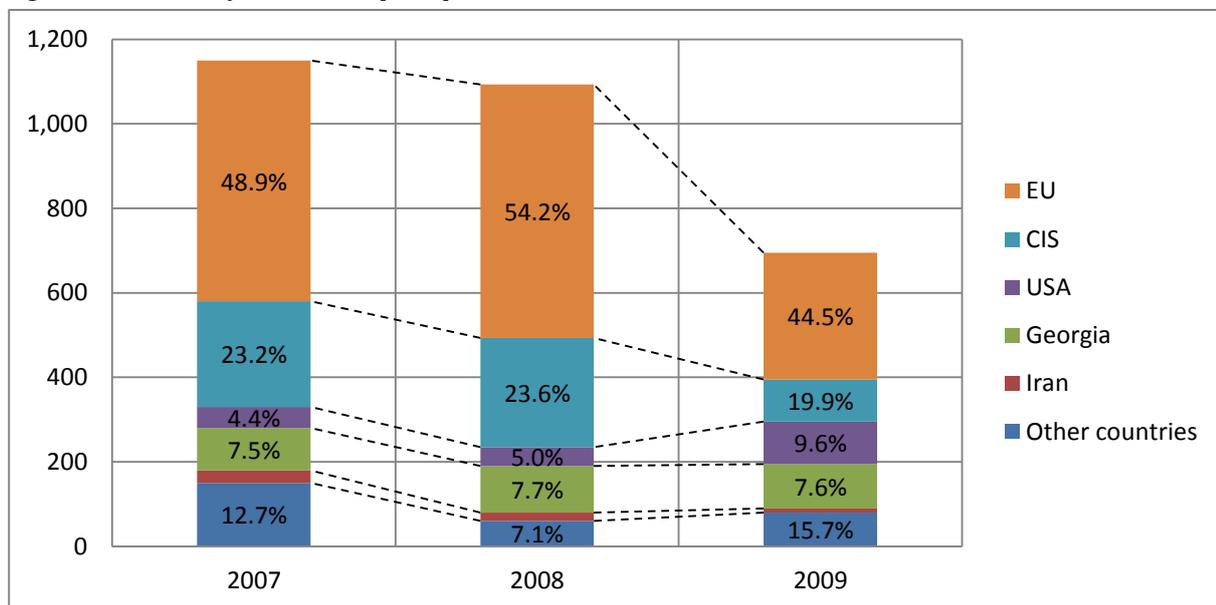
¹⁴ Statistical Analysis of Armenian Export Competitiveness in 2004-2008. AEPLAC. Armenia. 2010. http://missouri.academia.edu/habetmadoyan/Papers/199632/STATISTICAL_ANALYSIS_OF_ARMENIAN_EXPORT_COMPETITIVENE_SS_IN_2004-2008.

imports to Armenia. Goods manufactured in EU and CIS countries with total worth of about USD 1.9 billion were imported to Armenia, however only 74% of those goods were directly imported to Armenia. In turn, 75% of total imports from Georgia are not produced in that country. Exports and imports of services showed relatively stable trends, although decline was visible during 2009.¹⁵

Table 1. Armenian exports and breakdown per destination countries, USD mln¹⁶

Country	2001	2007	2008	2009	Change from 2008, %
Germany	10.9	168.5	184.0	117.2	-36.3
Russia	57.7	198.8	214.6	98.7	-54.0
USA	51.5	49.1	52.9	68.2	28.9
Bulgaria	0.3	46.9	59.2	61.1	3.2
The Netherlands	1.2	156.0	131.1	53.3	-59.3
Georgia	11.9	69.1	81.4	54.0	-33.7
Belgium	46.5	100.1	89.9	47.6	-47.1
Canada	0.9	5.9	15.9	34.8	118.9
Switzerland	23.0	49.2	11.6	25.6	120.7
China	0.1	7.9	2.1	18.5	781.0
Iran	31.5	37.4	25.4	19.2	-24.4
Ukraine	10.9	46.2	22.2	12.8	-42.3
Austria	0.0	5.5	5.3	8.5	60.4
Spain	0.1	15.4	11.6	7.8	-32.8
Italy	6.0	29.8	27.5	7.1	-74.2
Total for the listed countries	252.5	985.8	934.6	634.2	-32.1
Total Exports	300.5	1152.3	1057.2	710.2	-32.8

Figure 4. Structure of Armenian exports per countries, USD mln



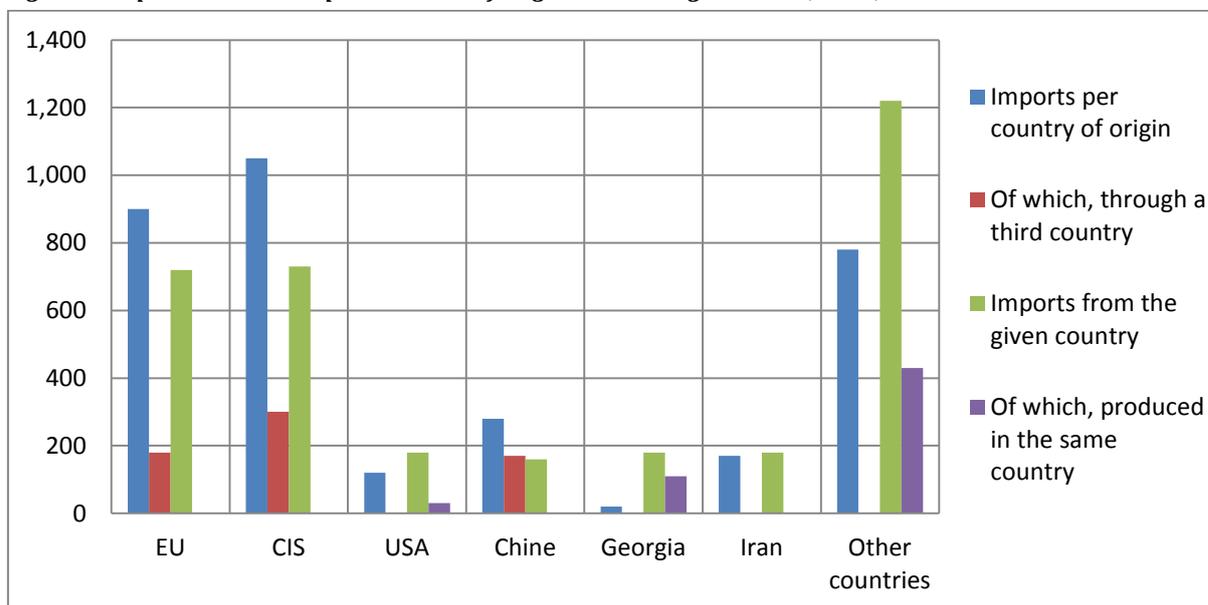
¹⁵ Armenia Economic Report 2010: The Necessity for Economic Diversification and Export Expansion. Ministry of Economy of the Republic of Armenia. Yerevan. October 2010. http://www.mineconomy.am/upload/pdf/1_en.pdf

¹⁶ NSS of RA. <http://www.armstat.am>

Table 2. Imports to Armenia and breakdown thereof per countries, USD mln

Country	2007	2008	2009	Growth from 2008, %	Share in imports, %	
					2008	2009
Russia	482.7	849.8	797.1	-6.2	19.2	24
China	192.4	380.6	288.9	-24.1	8.6	8.7
Ukraine	251.5	314.3	202.6	-35.5	7.1	6.1
Turkey	130.4	270.0	179.3	-33.6	6.1	5.4
Iran	141.0	203.6	136.2	-33.1	4.6	4.1
Germany	112.8	256.7	179.3	-30.1	5.8	5.4
Switzerland	22.3	17.7	122.9	594.1	0.4	3.7
Italy	112.6	159.3	112.9	-29.1	3.6	3.4
USA	129.3	216.9	122.9	-43.3	4.9	3.7
Korea	56.5	79.7	89.7	12.6	1.8	2.7
Bulgaria	87.5	119.5	86.3	-27.7	2.7	2.6
France	148.5	128.4	73.1	-43.1	2.9	2.2
Romania	68.4	101.8	73.1	-28.2	2.3	2.2
Belgium	116.4	92.9	59.8	-35.7	2.1	1.8
Brazil	26.2	57.5	56.5	-1.9	1.3	1.7
Total for listed countries	2078.5	3248.8	2580.5	-20.6	73.4	77.7
Total Imports	3267.8	4426.1	3321.1	-25.0	100.0	100.0

Figure 5. Imports to Armenia per countries of origin and trading countries, 2009, USD mln

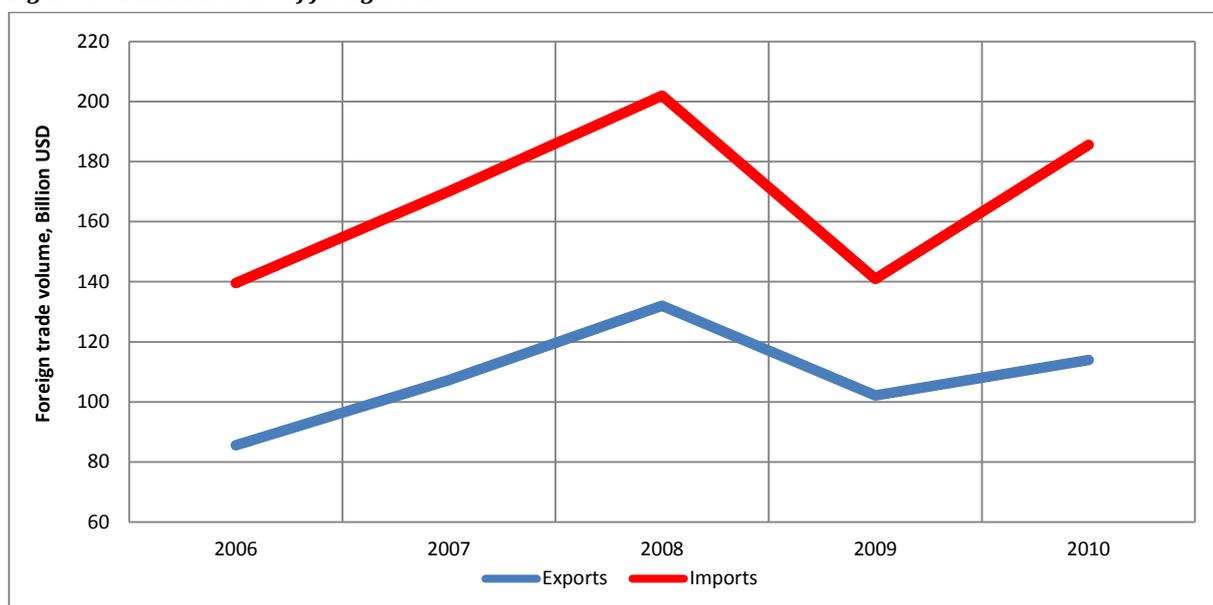


10. Turkey's shares in the world markets rose from 0.15% in 1980 to 0.78% in 2007. Export levels increased from 2.9 billion dollars in 1980 to 132 billion dollars in 2008.¹⁷ The membership of the World Trade Organization in 1995, arrival at the final stage of the Customs Union with the European Union in 1996 and its growing economy were the major reasons behind Turkey's rapid import growth rate during these years.

¹⁷ Undersecretariat of Foreign Trade. <http://www.dtm.gov.tr>.

11. In total exports, the share of “machinery and transport equipment”, a product group comprising of high value-added and high-tech products, increased from 7.1 billion dollars to 39 billion US dollars from 2001 to 2008.¹⁸ Indeed, machinery and transport equipment has been the largest component of Turkish exports in 2004-2007, surpassing the traditional export leader, textiles and clothing. However, the exports of manufactured goods became the dominant commodity component in Turkish exports since 2008.
12. The global financial-economic crisis affected Turkish trade dramatically the export of Turkey declined by 22.6% in 2009. Despite to the recent increase to about USD 114 billion (11.6%) in 2010, Turkish exports have not reached the pick level of 2008 yet. Nevertheless, the exports in manufacturing goods in 2010 exceeded the level of exports in 2007, constituting over 92% of Turkey’s exports; while the exports of agricultural, mining and other goods have been gradually increasing even under overall economic recession caused by the global crisis.
13. The crisis affected the Turkey’s imports, growing annually by about 20% on average in 2006-2008, even more dramatically; after decreasing by 30.2% in 2009, the Turkish imports increased subsequently by 31.7%, reaching USD 185 billion in 2010, thus exceeding the level of imports in 2007. The manufacturing remains the leading sector absorbing Turkey’s imports (78.3%).¹⁹

Figure 6. Main indicators of foreign trade²⁰



14. There is a huge regional disparity of foreign trade in Turkey. Thus, according to the tax numbers of the firms located in provinces, Istanbul is attributed about the half of Turkey’s foreign trade - about 47% of exports and about 53% of imports in 2010 (56% and 55% in 2008, respectively). Meanwhile, the exports from the North East Anatolia (Erzurum, Erzincan, Bayburt, Ağrı, Kars, Iğdir and Ardahan) was less than 0.2% of Turkey’s exports and the imports from this region was less than 0.05% of total imports in 2010. Similarly, foreign trade from Central East Anatolia is as low as 0.58% of Turkish exports and 0.1% of imports in 2010. The annual foreign trade for several regions neighboring with Armenia has been extremely low: less than one million USD exports from Kars, Tunceli, Erzincan in 2010; less than five million USD exports from Ardahan, Bayburt and Bitlis; and less than 20 million USD exports from Van and Muş. Similarly, imports for Ardahan and Tunceli have been lower than a million USD; imports for Kars, Muş, Bitlis, Bingöl and Bayburt were lower than 3 million USD in 2010.²¹ These areas could be considered as potential markets for Armenian exports, while a detailed analyses of markets in Turkey’s provinces would be required.

¹⁸ Turkey’s Statistical Yearbook 2010. Turkish Statistical Institute. <http://www.turkstat.gov.tr>.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

15. EU member countries constitute the most important foreign trade partner for Turkey. However, the share of EU countries in Turkish exports have declined from 56% in 2006 to 46.3% in 2010; and the share of EU countries in Turkey's imports have declined from 42.6% to 38.9% for the same period. Turkey's exports to the BSEC member countries that reached to about 16% in 2008, declined after crisis has been recovering reaching 12.7% in 2010 (about USD 14.5 billion). Turkish imports from BSEC countries was over USD 33.6 billion in 2010 (over 18% of total imports). The Turkish exports and imports with CIS countries reached 9% and 16.5% respectively in 2010. Country wise, Germany remains Turkey's most significant exports partner with USD 11.5 billion (10.1% of total exports) and Russia remains the most significant imports partners with USD 21.6 billion (11.3% of total imports) in 2010.²²

Table 3. First 10 countries by exports and imports, 2010²³

Total	Imports		Total	Exports	
	USD million	%		USD million	%
	185,535	100.0		113,976	100.0
Russia	21,600	11.6	Germany	11,485	10.1
Germany	17,548	9.5	United Kingdom	7,238	6.4
China	17,181	9.3	Italy	6,510	5.7
USA	12,319	6.6	France	6,055	5.3
Italy	10,203	5.5	Iraq	6,042	5.3
France	8,176	4.4	Russia	4,632	4.1
Iran	7,645	4.1	USA	3,769	3.3
Spain	4,840	2.6	Spain	3,565	3.1
South Korea	4,764	2.6	U.A.E	3,338	2.9
United Kingdom	4,681	2.5	Iran	3,043	2.7
Others	76,579	41.3	Others	58,300	51.2

16. Turkey has set a goal to attain USD 500 billion in exports by 2023 which will require a two-digit annual growth rate until this target date. This aim should be seen as a driving force for a pressing need to diversify and extend the use of international transport routes.
17. The trade volume between Turkey and Armenia was estimated about USD 30 million in 1997 growing to at least by USD 120 million in 2007.²⁴ Estimations by various experts including the World Bank, Armenian Chamber of Commerce and TABDC, for the current trade volume between two countries vary USD 150 million to USD 300 million, with over 90% of trade attributed to Turkish exports to Armenia.²⁵ Armenia's official statistics on trade with Turkey is presented below in Table 4.²⁶ The foreign trade between Turkey and Armenia focuses mainly at textile, spare parts and construction materials.²⁷

Table 4. Trade between Armenia and Turkey

	Export, in thousand USD	Import by, in thousand USD	
		country of origin	consignment
2011	983.40	218,244.28	184,703.41
2010	1,291.27	210,381.16	187,629.79
2009	1,197.49	177,648.75	158,240.65
2008	1,850.90	268,187.28	221,590.52
2007	3,033.03	130,631.25	125,382.97
2006	2,370.51	95,422.88	88,502.99
2005	2,473.38	66,928.03	61,217.65
2004	2,021.25	44,804.66	39,807.14
2003	1,154.67	40,886.69	36,736.24

²² Ibid.

²³ Ibid.

²⁴ <http://www.eud.org.tr/Upload/1298erm.htm>.

²⁵ <http://www.worldbulletin.net/index.php?aType=haberArchive&ArticleID=53530>.

²⁶ <http://armstat.am>.

²⁷ Alin Ozinian. General Outlook on Turkish-Armenian Trade and Developing Possible Cooperation. TABDC. 2010.

18. Transport and communication accounted for 6.8% of Armenia's GDP in 2008, gradually increasing since 2004.²⁸ Meanwhile, transport, storage and communication sectorial share of GDP at current prices reached 14.2% of Turkey's GDP in 2008, later declining to 13.3% through 2009-2010.²⁹
19. The detailed description of the road, railway and air transport infrastructure and network in Armenia and Turkey have been described in several credible sources³⁰. We will not specifically discuss this issues, however data provided by this sources and publications will be used for deliberation below. Here we would like to focus on basic indicators outlining the transport infrastructure in Armenia and Turkey, as well as to provide several comparative snapshots juxtaposing infrastructures of the countries.
20. The Global Competitiveness Index 2010 ranked Armenia's and Turkey's infrastructure at 90 and 56 out of 139 countries respectively, with the scores of 3.46 and 4.21 in a range of 1 (very bad-quality infrastructure) to 7 (very good-quality infrastructure). The neighbors in the region rank between 73 and 76 (Georgia ranks 73 with the score of 3.75, Iran ranks 74 with the score of 3.75 and Azerbaijan ranks 76 with the score of 3.69). Among the components evaluated, Armenia's roads ranked 87, its railway infrastructure ranked 79, its air transport infrastructure ranked 77 and its port infrastructure ranked 128. Respectively, Turkey's roads ranked 46, its railway infrastructure ranked 63, its air transport infrastructure ranked 44 and its port infrastructure ranked 72.³¹

Picture 1. Armenia's transport infrastructure



²⁸ National accounts of Armenia, 2010. <http://armstat.am/en/?module=publications&mid=6&id=1198>.

²⁹ Turkey's Statistical Yearbook 2010. Turkish Statistical Institute. <http://www.turkstat.gov.tr>.

³⁰ Such as: Armenia's Transport Outlook. Transport Sector Master Plan. Transport and Communications. Armenia 2011. Asian Development Bank. <http://www.adb.org/documents/reports/armenia-transport-outlook/armenia-transport-outlook.pdf>. Republic of Turkey Prime Ministry. Investment Support and Promotion Agency of Turkey. Transportation & Logistics Industry Report. January 2010. <http://www.invest.gov.tr/en-US/infocenter/publications/TRANSPORTATION.LOGISTICS.INDUSTRY.pdf>.

³¹ The Global Competitiveness Report 2010-2011. 2010 World Economic Forum. Geneva. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf.

21. Armenia's primary roads total 10,818 kilometers of which the 1,686 km are international corridors. The road network serves as the backbone of the country's economic development, providing connectivity within the country, to neighboring countries, and to mainland Asia and Europe.³²
22. Turkish national and international transport is dominated by road transport. Turkey has an extensive network of approximately 64,236 kilometers of well-maintained main roads of which the 2,036 km are motorways and 31,271 km are state highways.³³ The approximate length of the international road network, important for international traffic running through Turkey, is about 9,000 km.³⁴ 8,878 km of the main road network consist of E-Roads which connect the east and west through the Anatolian mainland and have high standards. International road transport operations are carried out with permits obtained in bilateral negotiations or with licenses from the European Conference of Ministers of Transport. Around 200 000 truck loads per year (both directions) are operated by road, but the restricted number of permits granted to Turkish truckers along the transit corridors to Western Europe (particularly in Hungary, Austria, Italy and Slovenia) creates difficulties for international transport. Although there has been a 138% increase in Turkish exports to the EU, this sector has seen only a 50% increase in the quota of permits received in the last 5 years. This problem is further aggravated by difficulties to obtain visas for Turkish truck drivers in a timely fashion, as well as transit border bottlenecks with high transit charges in countries along the Central Asian route. Hence, Turkish operators have started to buy companies in Europe to overcome permit problems and have developed Roll-on-roll-off (Ro-Ro) services to provide alternatives.³⁵

Table 5. International Road Network in Turkey

International Road Network In Turkey	Length (Km)
Trans European Motorway (TEM)	6,896
Agreement on Main International Traffic Arteries (AGR) E-ROADS	8,878
Black Sea Economic Cooperation - BSEC	4,472
Economic Cooperation Organisation - ECO	7,982
UN-ESCAP	5,247
TRACECA	1,500
Euro-Asian Linkages	3,020
Pan-European Corridors (Corridor IV)	261

Source: Turkish General Directorate of Highways

Table 6. Fleet configuration of the international road haulage sector in Turkey, 2007

International Road Transport Fleet in Turkey	Number
Tractors + Trailer – trucks	43,618
Lorries	16,894
Trailers/Semi-trailers	53,902
Refrigerated	1,914
Conventional-Dry cargo	5,524
Textiles	735
Car carriers	883
Glass carriers	65
Low beds	190
Platforms	415
Silo tankers	59
Liquid fluid tankers	831
Liquid gas tankers	140
Total	125,170

Source: Turkish General Directorate of Road Transport

³² Armenia's Transport Outlook. Transport Sector Master Plan. Transport and Communications. Armenia 2011. Asian Development Bank. <http://www.adb.org/documents/reports/armenia-transport-outlook/armenia-transport-outlook.pdf>.

³³ Turkey's Statistical Yearbook 2010. Turkish Statistical Institute. <http://www.turkstat.gov.tr>.

³⁴ Intermodal Transport. National Peer Review: Turkey. International Transport Forum. OECD/ITF 2009.

³⁵ Ibid.

Table 7. Transit Traffic by Road Vehicles in 2007

BORDER GATES	NUMBER OF TRANSIT VEHICLES ENTERING IN TURKEY						NUMBER OF TRANSIT VEHICLES EXITING TURKEY					
	Empty			Loaded			Empty			Loaded		
	Turkish	Foreign	Total	Turkish	Foreign	Total	Turkish	Foreign	Total	Turkish	Foreign	Total
KAPIKULE	0	1,143	1,143	9,856	7,332	17,188	0	621	621	912	4,222	5,134
İPSALA	0	754	754	54	2,974	3,028	0	587	587	19	2,745	2,764
ÇİLVEGÖZÜ	0	1,055	1,055	6,847	4,555	11,402	0	984	984	3,354	2,188	5,542
GÜRBULAK	0	989	989	1,487	10,137	11,624	0	345	345	8,774	9,177	17,951
SARP	0	1,631	1,631	103	661	764	0	254	254	1,656	2,798	4,454
TÜRKGÖZÜ	0	38	38	12	0	10	0	0	0	55	8	63
TOTAL	0	5,610	5,610	17,994	25,160	44,016	0	2,791	2,791	14,770	21,138	35,908

Source: RODER

23. Armenia's railway network, operated by South Caucasus Railway (SCR), a subsidiary of Russian Railways since mid-2008, has 23.5-ton axle loads and is wholly electrified. The infrastructure and fleet of cars are dated, with most of the electric locomotives around 35 years old and in need of repair or replacement. Track speed is often limited to 30 km per hour, with rehabilitated sections allowing 60 km per hour. About 370 km of the 732 km network are fully operational: the Yerevan-Georgian border line, the Yerevan-Yeraskh passenger line, and sections of the Yerevan-Azerbaijan/Vardenis lines. Much of the main Yerevan-Gyumri-Airum (Georgian border) line is in poor condition. The railway system transports more international than domestic freight. Almost 65% of all rail freight is international, of which about 45% consists of imports. The principal commodities transported by railways were (in order of decreasing importance) cereals, oil and oil products, cement, and chemical and mineral fertilizers. Total freight transport by railway increased from 2005 to 2007, declined in 2008, and then slightly increased in 2009.³⁶
24. The length of Turkey's main railways is 9,083 kilometers³⁷ (of which 2,316 km are electrified), operated by the General Directorate of Turkish State Railways (TCDD). The network is predominantly single-tracked (95%) and is characterized by mountainous terrain, tight curves and steep gradients. The permitted axle load is 20-ton on about 61% and 22.5-ton on about 37% of the network. The Turkish rail system is both jointed and welded, with concrete sleepers used on around 60% of the network. Turkey's rail corridors include: Sirkeci (İstanbul)-Pehlivan köy-Greek border; Sirkeci-Pehlivan köy-Bulgarian border; Haydarpaşa (İst.)-Arifiye-Adapazarı; Haydarpaşa (İst.)-Arifiye-İzmit-Eskişehir-Ankara; Ankara-Kayaş-Irmak-Karabük-Zonguldak; Ankara-Kayaş-Irmak-Kayseri-Sivas-Samsun; Sivas-Çetinkaya-Erzincan-Erzurum-Kars-Akkaya; Sivas-Çetinkaya-Malatya-Yolçatı-Elazığ-Muş-Tatvan-Van-Iranian border; Malatya-Yolçatı-Kurtalan; Kayseri-Ulukışla-Adana; Adana-Toprakkale-İskenderun; Adana-Toprakkale-Fevzipaşa-Narlı-Gaziantep-Nusaybin-Syrian border; Eskişehir-Alayunt-Kütahya-Balıkesir; Bandırma-Balıkesir-Manisa-Basmane (İzmir); Manisa-Uşak-Afyon-Alsancak (İzmir)-Aydın-Goncalı-Denizli; Denizli-Goncalı-Karakuyu-Afyon; Afyon-Karakuyu-Gümüşgün (Burdur)-Bozanönü (Isparta)-Eğirdir; Eskişehir-Afyon-Konya-Karaman-Ulukışla-Adana. Direct international freight transportation by railways through the following border crossing points are feasible: to Bulgaria and other European countries through Kapıkule border connection; to Greece and other countries through Uzunköprü; to Iran and the Central Asian countries through Kapıköy border connection; to Syria and Iraq through Islahiye border connection; to Syria and Iraq through Nusaybin border connection, etc.³⁸

³⁶ Armenia's Transport Outlook. Transport Sector Master Plan. Transport and Communications. Armenia 2011. Asian Development Bank. <http://www.adb.org/documents/reports/armenia-transport-outlook/armenia-transport-outlook.pdf>.

³⁷ Turkey's Statistical Yearbook 2010. Turkish Statistical Institute. <http://www.turkstat.gov.tr>.

³⁸ Intermodal Transport. National Peer Review: Turkey. International Transport Forum. OECD/ITF 2009.

Picture 2. Turkey's Priority railway projects³⁹



25. Armenia has three main airports: Zvartnots, Shirak, and Erebuni. Zvartnots (or Yerevan) International Airport is the principal gateway to the country. Armenian International Airports manages and maintains the airports in Zvartnots and Shirak under a 30-year concession.⁴⁰ Turkey has many modern airports that are open to international and domestic flights. The major international airports are Atatürk in Istanbul, Antalya international terminals, Esenboğa in Ankara and Adnan Menderes in Izmir. There are 45 airports, 16 of which serve for international flights. Turkey has a large airspace (982,096 km²) with a total length of controlled ATS routes of 50,797 km, situated among the three continents, Europe, Asia and Africa. Due to its special geographical location, Turkish airspace includes crossroads of north-south and east-west traffic flows between Europe-Asia and the Middle East. The overall traffic increase in the Turkish airspace during 2005 approached 15%, well above the European average.⁴¹
26. Maritime transport is one of the most significant transport modes in Turkey with a strong private shipping sector. All of the major ports are accessible by railways with a storage capacity of 2 million tones and total throughput around 46 million tons per year. With over 8000 km of coastline, Turkey has five ports which have been registered as international ports/ferry links and container terminals by the European Agreement on Main International Combined Transportation Lines and Related Facilities (AGTC). In recent years, container traffic at the ports showed a 20% increase annually.⁴²
27. Access to the Black Sea ports is important for the landlocked Armenia. According to estimations, such access would reduce the trade deficit by a third to a half, and would increase GDP by 30%.⁴³ Without the trade generated by access to these ports, Armenia will have a relatively modest annual GDP increase in the upcoming years.⁴⁴ Armenia needs access to as many ports as possible. Dependence on only one or two outlets to the sea poses the risk of Armenia becoming a “captive shipper.”⁴⁵
28. A multimodal logistics network is key to building an efficient distribution system. About 30,000 containers (70% of them 40 feet long) are imported to Armenia annually through Georgia’s port of Poti on the Black Sea. Railway transport handles about 30% of them. Potentially, however, 800,000 tons worth of international containers could be imported. A German company is currently establishing an multimodal

³⁹ Ibid.

⁴⁰ Armenia’s Transport Outlook. Transport Sector Master Plan. Transport and Communications. Armenia 2011. Asian Development Bank. <http://www.adb.org/documents/reports/armenia-transport-outlook/armenia-transport-outlook.pdf>.

⁴¹ Intermodal Transport. National Peer Review: Turkey. International Transport Forum. OECD/ITF 2009.

⁴² Ibid.

⁴³ E. Polyakov. 2001. Changing Trade Patterns after Conflict Resolution in the South Caucasus. World Bank Policy Research Working Paper Series No. 2593. Washington, DC: World Bank.

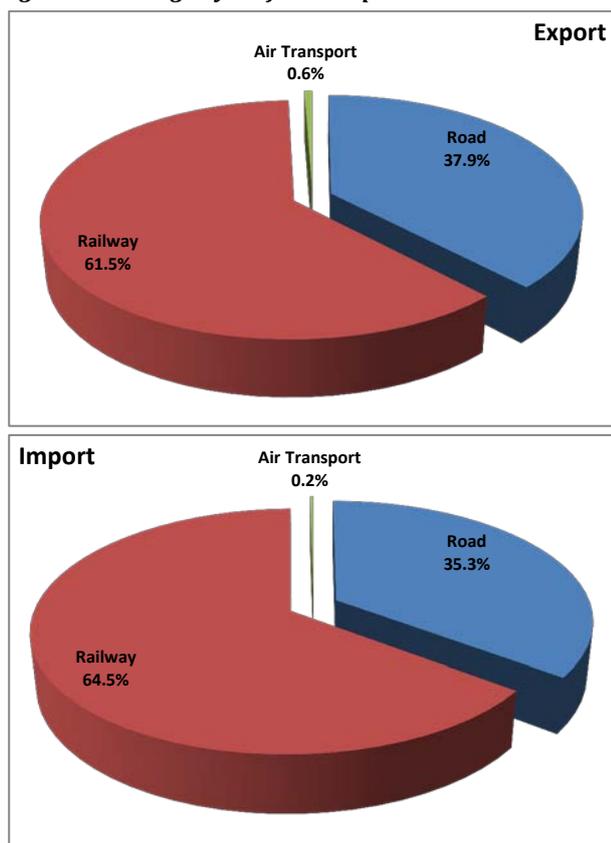
⁴⁴ Armenian-European Policy and Legal Advice Center. 2005. Study of the Economic Impact on the Armenian Economy from Re-Opening of the Turkish-Armenian Borders.

⁴⁵ T. Snow, M. Faye, J. McArthur, and J. Sachs. 2003. Country Case Studies on the Challenges Facing Landlocked Developing Countries. UNDP Human Development Report Office Occasional Paper. New York: United Nations Development Programme (UNDP).

block train from Western Europe to Bulgaria that will connect with the ferry service to Poti. This train-ferry route will strengthen Armenia's multimodal logistics network.⁴⁶

29. Freight villages and multimodal terminals are logistic nodes with differing functions. In order to establish such a system in Turkey, to ensure the enhanced attractiveness of combined transport, an increase in the customer satisfaction and the share of freight transportation as well as the prevention of pollution, TCDD has included in its priorities the transformation of six locations into freight villages, namely Halkalı (Ýstanbul), Köseköy (Ýzmit), Bođazköprü (Kayseri), Gelemen (Samsun), Hasanbey (Eskişehir), Gökköy (Balýkesir). This initiative reflects Turkey's willingness to facilitate multimodal operations by enhancing the logistics supply and demand chain.
30. The transportation and logistics sector, broadly defined to include airlines and airfreight, shipping, road and rail transport and the associated infrastructure and services, generated USD 3.4 trillion of revenue globally in 2007. It has grown with a Compound Annual Growth Rate (CAGR) of 6.2% between 2003 and 2007. By 2012, the global transportation industry is forecast to reach USD 4.5 trillion growing with a CAGR of 5.4%.⁴⁷
31. Armenia exported 554.4 thousand tons of goods by: road (210.3 thousand tones), railway (340.80 thousand tones) and air (3.3 thousand tones) in 2010. In the same year, Armenia imported 2,210.7 thousand tons of goods (about four times more than exported) by: road (779.3 thousand tones), railway (1,425.9 thousand tones) and air (5.5 thousand tones)⁴⁸. The share of this transport means is exposed in Figure 7 below.

Figure 7. Carriage by major transport means in Armenia for 2010



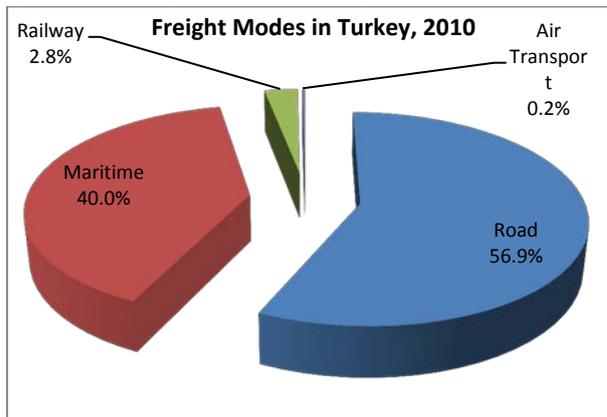
⁴⁶ Armenia's Transport Outlook. Transport Sector Master Plan. Transport and Communications. Armenia 2011. Asian Development Bank. <http://www.adb.org/documents/reports/armenia-transport-outlook/armenia-transport-outlook.pdf>.

⁴⁷ Republic of Turkey Prime Ministry. Investment Support and Promotion Agency of Turkey. Transportation & Logistics Industry Report. January 2010. <http://www.invest.gov.tr/en-US/infocenter/publications/Documents/TRANSPORTATION.LOGISTICS.INDUSTRY.pdf>.

⁴⁸ Social-Economic Situation in Armenia in January-December 2010. Statistical Report. http://armstat.am/file/article/sv_12_10a_124.pdf

32. Road transport has the highest modal share of bilateral and transit markets in east-west and north-south connections.

Figure 8. Carriage by major transport means in Turkey for 2010



33. Road transport is the major mode of passenger transportation in both Armenia and Turkey as measured by traffic. The Figure 9 below illustrates the traffic of passenger transport by main modes in 2010. The overall passenger traffic in Turkey (about 237,000 million passenger/km) exceeds the passenger traffic in Armenia (about 3,940 million passenger/km) over 60 times. In Turkey 96% of passenger traffic is by road transport and the other modes share the other 4%, with railway and air transport being almost equal (about 2%)⁴⁹. In Armenia the road transport bears about 64% of the passenger traffic, while air transport is another significant mode of transport for Armenian passengers (about 32%)⁵⁰. While in Turkey the maritime transport have minor (about 0.36 percent) share of passenger traffic, in Armenia there is no maritime traffic of passengers.

Figure 9. Passenger Transportation by Modes of Transport for 2010, million passenger kilometers⁵¹



III. Reponses of Economies and Businesses to Status Quo Development vis-à-vis Alternative Developments

A.1. Development of Transit Routes under Status Quo (including international legal instruments)

34. An important opportunity that enables further utilization of developing regional road infrastructure by Armenia transport sector is the **Black Sea Ring Highway (BSRH)**. The twelve governments of BSEC

⁴⁹ Summary Statistics on Transportation 2010. Turkish Statistical Institute. <http://www.turkstat.gov.tr>.

⁵⁰ Social-Economic Situation in Armenia in January-December 2010. Statistical Report. http://armstat.am/file/article/sv_12_10a_124.pdf.

⁵¹ The data for Air Transport in Turkey is for 2005, as no later data is available to the authors of this report. Source: Republic of Turkey Prime Ministry. Investment Support and Promotion Agency of Turkey. Transportation & Logistics Industry Report. January 2010. <http://www.invest.gov.tr/en-US/infocenter/publications/Documents/TRANSPORTATION.LOGISTICS.INDUSTRY.pdf>.

member-states have signed a Memorandum of Understanding for the coordinated development of the BSRH in April 2007, intending to promote co-operation in the development of multimodal transport infrastructure in BSEC region and to create adequate road interconnections with the Trans-European, the Pan-European and the Euro-Asian Transport Networks in coordination with the EU. The BSRH length is approximately 7000 km around the Black Sea. While economic cooperation is the key objective, yet the highway could attract tourists to this region. While the cost of the project and date of completion were not set, the main route and its connections have been outlined and may include the following cities: Istanbul (Turkey), Samsun (Turkey), Trabzon (Turkey), Batumi (Georgia), Poti (Georgia), Yerevan (Armenia), Baku (Azerbaijan), Novorossiysk (Russia), Rostov-on-Don (Russia), Taganrog (Russia), Mariupol (Ukraine), Melitopol (Ukraine), Odessa (Ukraine), Chisinau (Moldova), Bucharest (Romania), Constantza (Romania), Haskovo (Bulgaria), Sofia (Bulgaria), Nish (Serbia), Belgrade (Serbia), Tirana (Albania), Edirne (Turkey), Komotini (Greece), Alexandroupolis (Greece), Istanbul (Turkey). Financing of the BSRH construction and reconstruction is envisaged out of national funds and budgets, as well as engaging private sector stakeholders, EU funds and loans by the transnational banks and funds. Under this project the existing roads will be upgraded and linked up under the project⁵². Twelve trucks, one from each country, were sent to test the current state of roads and make recommendations. The highway is of extreme importance as it will both facilitate economic cooperation and promote conflict resolution in the Black Sea region.

35. The BSRH is very important for Armenia's transport sector under Status Quo scenario as it will secure access to adequate quality for up-to-date traffic ensuring safety, speed and comfort and, thus, will facilitate economic and social development to the benefit of Armenia. It will also serve as a vibrant platform and will create further opportunities for enhancing Armenia-Turkey economic cooperation.

Picture 3. Black Sea Ring Highway



36. In recent years, due to the problems arising in the road transport, Ro-Ro transport has increased to a significant level.⁵³ Ro-Ro traffic is very active in the Black Sea region⁵⁴: Ro-Ro vessels are operating

⁵² Memorandum of Understanding for the Coordinated Development of the Black Sea Ring Highway. <http://www.blacksearing.org/index.php?id=153>.

⁵³ Atilgan, C. (2005). Sustainable Transport through Intermodality. Palermo 18-19 March 2005.

between ports in Turkey, Ukraine and Russia and Georgia as described below in Picture 4. Container and Ro-Ro traffic plays a key role for the flow of manufactured and high value-added goods in port traffic with Europe and other neighbors of Turkey.⁵⁵ Turkey gradually increases its capacities to offer Ro-Ro services through various ports in Black Sea.

37. Armenian transport companies also extensively use Ro-Ro services in Black Sea: currently exceptionally Ro-Ro routes from port Poti, to Russia, Ukraine and Bulgaria. Armenia is a landlocked country and predominantly uses opportunities provided by multimodal freight transport. Direct land roots pass to Russia and Iran through north-east corridors as described above. However, under severe weather conditions, particularly in Verkhniy Lars- Kazbeki border cross between Russia-Georgia trucks have no other alternative but using Ro-Ro services from Russian ports to Poti. Cargo of total weight of 1,037 thousand tones⁵⁶ has been shipped to and from Armenia by road in 2010. The considerable share of this volume requires intermodal freight transport provided by Black Sea Ro-Ro services.

Picture 4: Map of Ro-Ro and Ferry Services in Black Sea Region⁵⁷

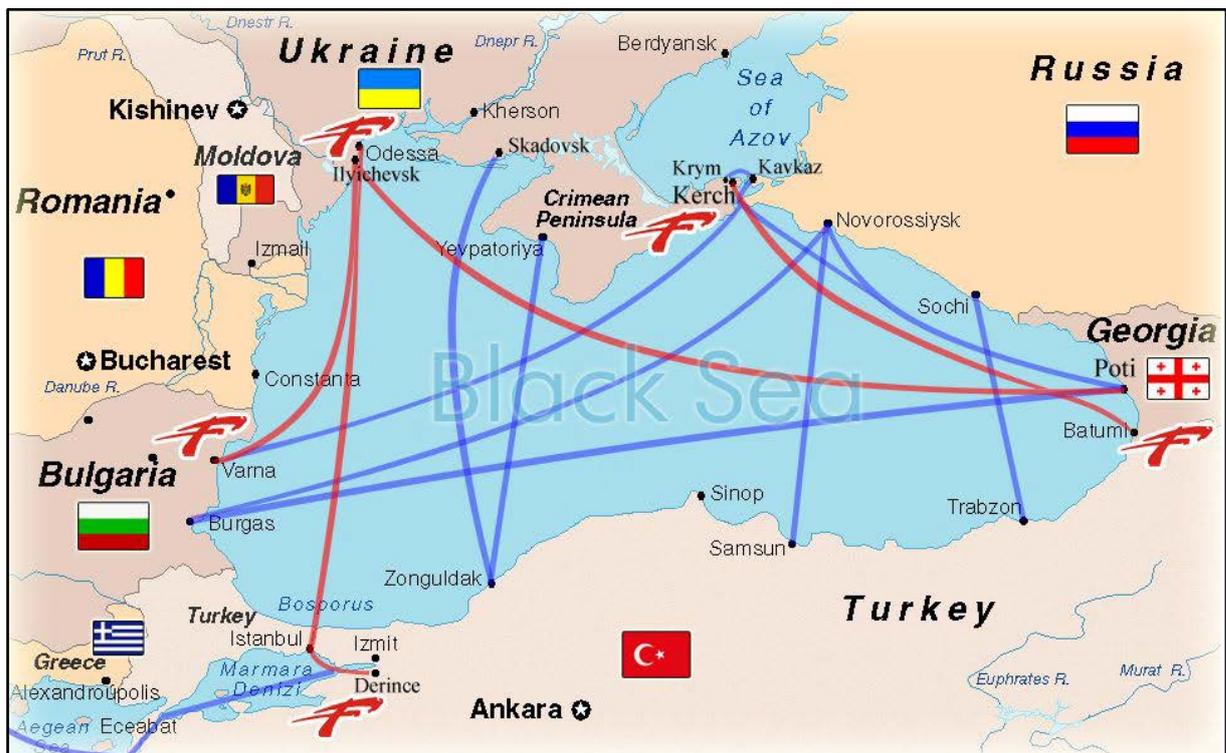


Table 8. Ro-Ro operations in 2010⁵⁸

Port in Turkey	Port in other countries	Turnover
Samsun Port	Novorossiysk (Russia)	15,145 vehicles
Zonguldak Port	Ukraine Ports	19,573 vehicles
Rize Port	Poti (Georgia)	0 vehicles ⁵⁹
Trabzon Port	Sochi (Russia)	5,078 vehicles

⁵⁴ Hülya Zeybek. Intermodal Freight Transport and Logistics Research in European Union And Turkey. Turkish State Railways, Ankara,06330 Turkey.

⁵⁵ Zeybek, H (2006). Ports in Turkey and Perspectives for Cooperation in the EuroMediterranean Region 15-06-2006 Available online: <http://www.turkishmaritimnews.com/index.php?sayfa=vazar&id=10>.

⁵⁶ <http://www.customs.am>.

⁵⁷ Ferry Services in the Black Sea Region. UkrFerry Shipping company

⁵⁸ By Hacer Uyarlar. TRACECA LOGMOS, Tbilisi 3-5 October 2011. UTİKAD

⁵⁹ 5,372 in 2003 and 0 since 2007.

38. Another critical regional transport project opening opportunities for development of transit routes under Status Quo scenario is the **Kars-Tbilisi-Baku railway** construction. The Kars-Tbilisi-Baku railway, or Kars-Akhalkalaki-Tbilisi-Baku railway, is a regional rail link project to directly connect Turkey, Georgia and Azerbaijan. The project of a railroad between Azerbaijan and Turkey through Georgia was first discussed in July 1993, after the Kars-Gyumri-Tbilisi railway, which goes through Armenia, was closed. The new railway link is intended to provide an alternative route to the existing Kars-Gyumri-Tbilisi railway line, which has been out of use since 1993, when Turkey closed its border with Armenia to support Azerbaijan in its conflict with Armenia following the Nagorno-Karabakh War. A multi-lateral accord to build the link was signed by the three countries in January 2005. Because of a lack of funding at this time, this project was more or less abandoned. However, during the inauguration of the Baku-Tbilisi-Ceyhan pipeline on May 2005, the Presidents of Azerbaijan, of Georgia and of Turkey evoked once again the possibility of building a railroad between their three countries.⁶⁰ In February 2007 in Tbilisi, Azerbaijan, Georgia and Turkey signed a trilateral agreement to launch the construction of the railroad the same year. On November 21, 2007, the leaders of three countries inaugurated the construction of the railroad and the first rails in Turkey began to be laid in July 2008 from Kars.⁶¹ The project was previously scheduled to be completed by 2010, but was delayed due to certain technical problems and the conflict between Georgia and Russia in 2008. The railway line is now expected to be complete by the end of 2012.⁶²
39. A total of 105 km of railway line, including railway line segments in Turkey and Georgia would be constructed as part of the project. In addition, the 160 km section of Akhalkalaki-Tbilisi railway line would be modernized, substantially improving its carrying capacity. Experts forecast that the Kars-Tbilisi-Baku railway line will transport a million passengers and 6.5 million tons of cargo in its initial stage after beginning operations in 2011.⁶³ By 2030, this railway line would carry an estimated 17 million tons of cargo and about three million passengers.⁶⁴
40. While the objective of the project is to improve economic relations between the three countries, however according to several discussions this project has been considered somewhat inconsistent with Armenia's economic and political interests. The key concerns in these discussions have been focusing on the fact that the route bypasses and somewhat marginalizes Armenia from regional economic projects, as the route through Armenia was politically impossible due to the unresolved conflict over Nagorno-Karabakh. However, proper transport strategies and infrastructure development projects between Armenia, Russia, Iran and Georgia may well benefit from Kars-Tbilisi-Baku railway by offering further regional integration opportunities to all stakeholders in the region and beyond.

⁶⁰ Aydin Suleymanli. The Baku-Tbilisi-Kars railway connection as an important section of the Trans-European Railway network. Workshop Rail Transport Between Europe And Asia. Istanbul, Turkey. June 09-10, 2009.

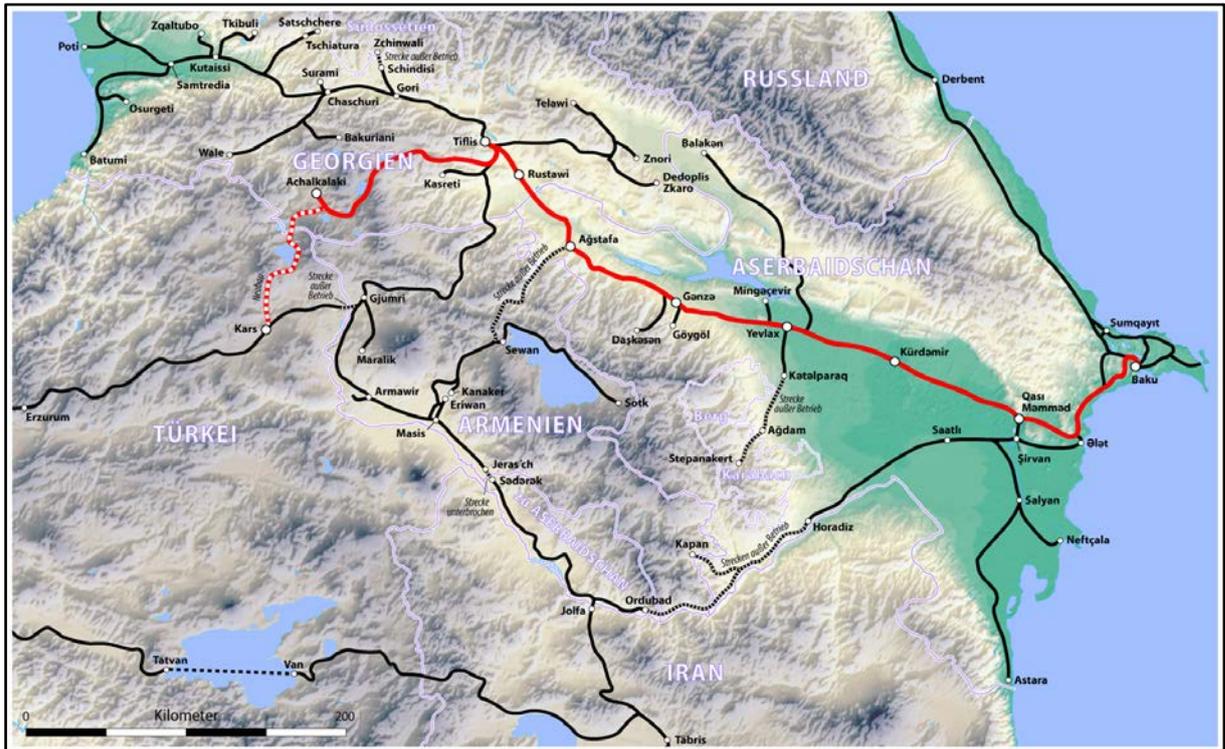
⁶¹ http://cria-online.org/5_5.html.

⁶² Baku-Tbilisi-Kars Line. Railway Technology com. <http://www.railway-technology.com/projects/baku-tbilisi-kars/>.

⁶³ Kars-Tbilisi-Baku Railway Project Freight Demand Analysis and Forecasts. Yüksel Domanýç. Republic of Turkey Ministry of Transport General Directorate of Railways, Harbours and Airports Construction. August 2006.

⁶⁴ Baku-Tbilisi-Kars Line. Railway Technology com. <http://www.railway-technology.com/projects/baku-tbilisi-kars/>.

Picture 5. Baku-Tbilisi-Kars Railway



41. Under Status Quo scenario another opportunity for new railway corridor providing transport connectivity for Armenia to regional networks is considered under Transport Strategy of the Republic of Armenia for 2009-2019. Specifically, Armenia considers a possibility to include in the TRACECA agenda the project of building **Armenia-Iran railroad** as a priority⁶⁵. The mentioned railroad would create a direct railway communication between Iran and Armenia and will have a great significance for the mining industry of Armenia. The projected railroad with approximately 470 km in length, which construction will cost around 1.5-2 billion US dollars, will also promote sustainable opportunities for transit.⁶⁶ The proposed route ensures efficient, safe and sustainable road network for connecting Black Sea, Armenia and Iran, which can later be extended to Persian Gulf, thus promoting the overall regional transport operation. Later, it can be further connected to the East – West Railway of Georgia that leads to Poti and Batumi at the Black Sea. This route provides Armenia with the shortest access to the sea ports linked to Europe and Russia (70% of Armenian trade are made through this route).⁶⁷ The project will append the existing railroads with new constructed sections in Armenia. In particular, the railroad will connect Georgian ports on the Black Sea (Poti, Batumi) with Vanadzor (currently operational) leading further to Dilijan (47 km Vanadzor-Dilijan railroad will be constructed)⁶⁸, Gagarin (Dilijan-Gagarin section will be rehabilitated) and finally to Iranian border in Meghri (423 km will be constructed).

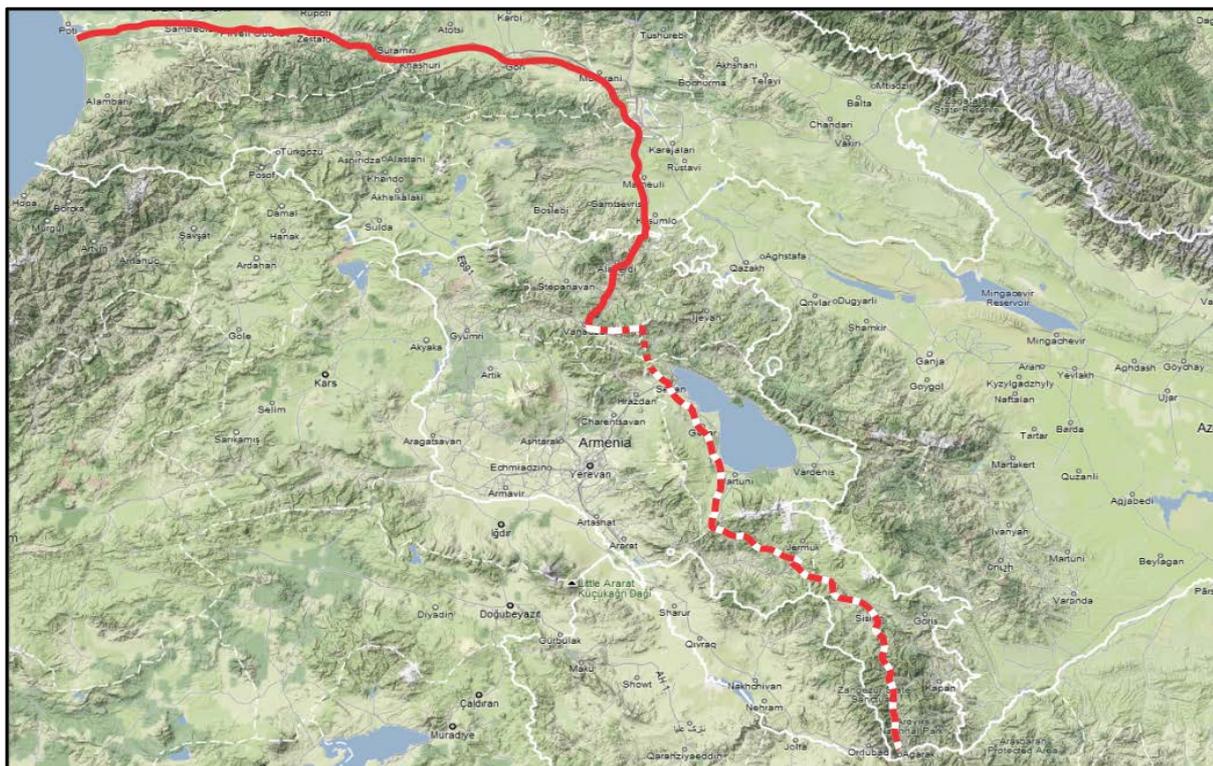
⁶⁵ Armenian Railway Infrastructure Rehabilitation. Priority Project Fact Sheet. Transport Dialogue and Interoperability between the EU and its Neighbouring Countries and Central Asian Countries. First TRACECA Investment Forum. Brussels. 12th October 2010. http://www.traceca-org.org/fileadmin/fm-dam/Investment_Forum/BOOKLET_FINAL.pdf.

⁶⁶ Ministry of foreign Affairs of the Republic of Armenia. <http://www.mfa.am/en/international-organisations/TRACECA/>.

⁶⁷ Transport Sector in Armenia. Ministry of Transport and Communication of the Republic of Armenia. Druskininkai, Lithuania. 4-5 April 2011.

⁶⁸ Technical-economic justification (feasibility study) of the construction of Vanadzor-Dilijan railroad is ongoing under the frameworks of TRACECA.

Picture 6. North-South Corridor



A.2. Opportunities for Turkey and Armenia in Regional Transit Corridors and Trade

- 42. The open Armenia-Turkey border and established diplomatic relations between two countries will offer to the entire region various significant opportunities for further integration and development of regional transit corridors and international trade. Specifically, such opportunities will anchor at utilization of currently existing capacities and infrastructure and will make the construction of new and expensive infrastructure redundant, as well as will enrich the alternatives of transport corridors.
- 43. As an entry point to this discussion, we will juxtapose existing (through currently not completely utilized) infrastructure with various projects. Alternative railway corridors connecting South Caucasus region with Turkey and Russia are exposed in Picture 7. While the total length of the railroad corridor Baku-Tbilisi-Kars is 826 km,⁶⁹ the total length of Baku-Tbilisi-Gyumri-Kars is 780 km.⁷⁰ However, the second alternative can become functional upon Armenia-Turkey border opening and minor rehabilitation of the infrastructure of the cross-border section Akhurian (Armenia) - Dogukapi (Turkey) with total length less than 10 km and with capacity of 6.0 million tons/year.⁷¹ Meanwhile, for the Baku-Tbilisi-Kars project construction of 105 km of railway and reconstruction of 160 km will be required as mentioned above. In a long-term perspective these two alternative railroad projects, currently perceived competing, will mutually complement the railroad network in the region and will provide enhanced capacities of international corridors.
- 44. Moreover, both projects gain significant interest for major economic players in the region, as they offer high capacity and cost effective railway connection between Russia and Turkey. An illustrative example of such interest is the case of transport of Russian coal to Turkey. Turkey imported around 15 million tons of

⁶⁹ Samuel Lussac. The Baku-Tbilisi-Kars Railroad and its Geopolitical Implications for the South Caucasus. *Caucasian Review of International Affairs*. From Vol. 2 (4) - Autumn 2008. http://cria-online.org/5_5.html.

⁷⁰ Атлас схем железных дорог СССР (1976). <http://atlasrussia.ru/atlas-shem-zheleznyh-dorog-sssr-1976>.

⁷¹ Report on Transport in The Black Sea Region. The Twelfth Plenary Session of the PABSEC General Assembly, The Economic, Commercial, Technological and Environmental Affairs Committee. Parliamentary Assembly of the Black Sea Economic Cooperation. Istanbul, 22 December 1998. <http://www.pabsec.org/pabsec/aksisnet/file/pdf/rep29.98.pdf>.

thermal coal in 2010,⁷² and this volume seems to increase gradually in upcoming years by at least 10 percent annually. This general cargo is shipped from Kuzbas via Russian or Ukrainian ports to Turkish Black Sea ports by vessel currently. The capacity and efficiency of this route is inadequate vis-à-vis direct railway transportation of this cargo via Azerbaijan, Georgia and Armenia. The later routes provide opportunity to avoid problems related to vessel seasonal delays, major pollution of all ports engaged, as well as losses during vessel loading/unloading operations.⁷³

Picture 7. Alternative railway corridors connecting South Caucasus region with Turkey and Russia.



- █ existing infrastructure (section crossing Armenia-Turkey border non-functional since 1993)
- █ infrastructure as per Kars- Tbilisi-Baku (partly existing sections, completion foreseen by 2013)
- █ functional railroad corridor upon open Armenia-Turkey border (rehabilitation needed)

45. Another perspective international corridor with huge potential for enhancing regional economic cooperation and integration is the opportunity for operating direct railway connection from Azerbaijan (Baku) to Armenia (Gyumri) upon further resolution of regional conflicts and opening of border between Armenia and Azerbaijan.⁷⁴ On the technical side, the operation of this route requires construction of 47 km Vanadzor-Dilijan section of the railroad as described above, as well as rehabilitation of border crossing sections between Armenia and Turkey in the north-west as discussed above and Armenia and Azerbaijan in the north-east (48.3 km Dilijan-Ijevan-Kazakh). This project provides with a challenging option for the Transcaucasus Network, by creating important traffic flows of oil products and raw materials between the Black Sea and the countries located on the Silk Road's West-East railway corridor⁷⁵ extending further beyond Baku to Aktau (Kazakhstan). This route also seems more competitive vis-à-vis the Kars-Tbilisi-Baku route in several dimensions.⁷⁶

⁷² Russia boosts railed coal volumes on Turkish demand. Monday, 13 Jun 2011. <http://leeuniversal.blogspot.com/2011/06/russia-boosts-railed-coal-volumes-on.html>.

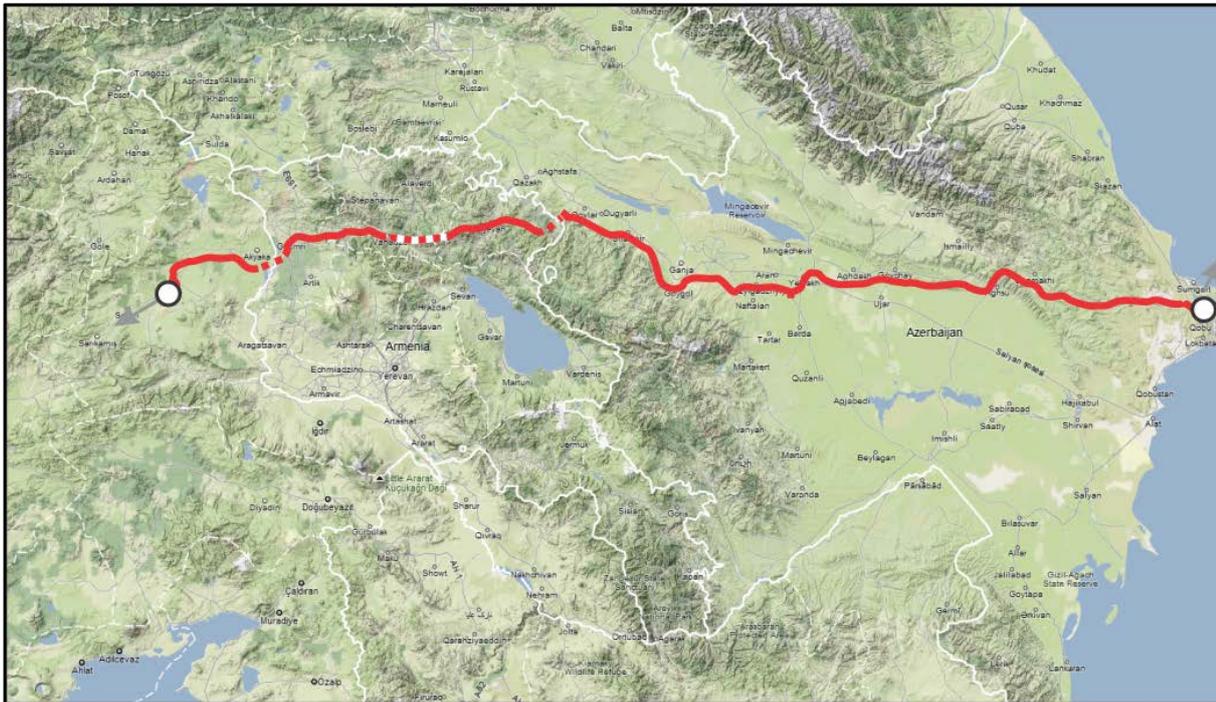
⁷³ Транзитный потенциал Армении по перевозкам каменного угля из России в Турцию.

⁷⁴ Transport Sector in Armenia. Ministry of Transport and Communication of the Republic of Armenia. Druskininkai, Lithuania. 4-5 April 2011. <http://www.osce.org/eea/76425>.

⁷⁵ Armenian Railway Infrastructure Rehabilitation. Priority Project Fact Sheet. Transport Dialogue and Interoperability between the EU and its Neighbouring Countries and Central Asian Countries. First TRACECA Investment Forum. Brussels. 12th October 2010. http://www.traceca-org.org/fileadmin/fm-dam/Investment_Forum/BOOKLET_FINAL.pdf.

⁷⁶ Poti to Baku and Turkmenbashi Transport Route. UNECE Euro-Asian Transport Route Meeting. Turkmenbashi, 7-8 December 2010.

Picture 8. Direct railway connection route Russia-Azerbaijan-Armenia-Turkey



46. In an east-west direction, Armenia has even more significant potential for transshipments between Turkey-Russia and Central Asia. Routes through Armenia are as short as or shorter than alternative routings and have to negotiate fewer natural barriers (i.e. mountain ranges).⁷⁷ The expediency of the rehabilitation of Kars-Gyumri-Nakhichevan-Meghri-Baku railway and its regional role has been officially communicated by Armenia to TRACECA,⁷⁸ and other multilateral players.⁷⁹

Picture 9. Kars – Gyumri – Nakhijevan – Meghri – Baku railroad.

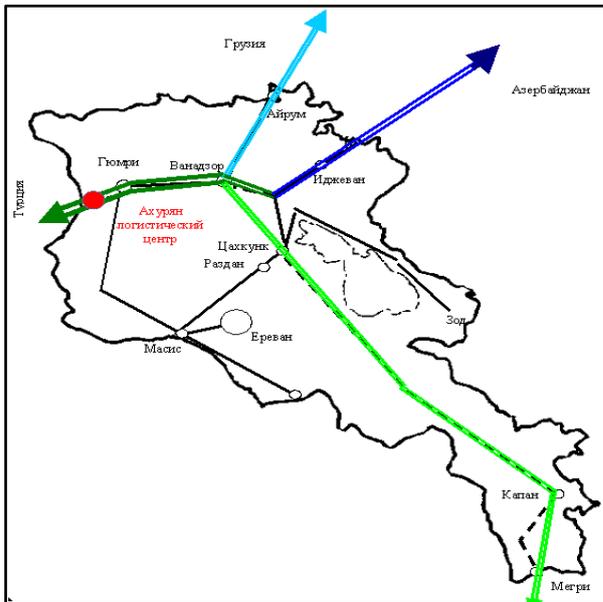


⁷⁷ Richard Beilock. Karine Torosyan. A Phased Strategy for Opening Armenia's Western Border. <http://www.aiprg.net>.

⁷⁸ Ministry of foreign Affairs of the Republic of Armenia. <http://www.mfa.am/en/international-organisations/TRACECA/>.

⁷⁹ Transport Sector in Armenia. Ministry of Transport and Communication of the Republic of Armenia. Druskininkai, Lithuania. 4-5 April 2011. <http://www.osce.org/eea/76425>.

47. Further, upon implementation of the above mentioned projects related to operation of new international railway corridors in the region, a need for a logistic HUB with stronger capacity will arise. Responding to this need, a project on constructing an International Logistic Center (ILC) in Akhuryan has been formulated.⁸⁰ The center will be capable to handle over 215,000 tons of goods in 2012 according to skeptical scenario (minimum scenario). This volume will reach over 310,000 by 2021, according to the same scenario.⁸¹ The center will offer comprehensive services through “one stop shopping” system, including the ‘door to door’ scheme. It will contribute to the consolidation of customers and may attract international forwarding companies eventually increasing the transit capacities in the region substantially.



48. Upon opening of Armenian-Turkish border, regional transport corridors will be extended to Turkish Mediterranean ports such as Mersin and Izmir. Turkey uses standard gauge track (1,435mm), while Armenia, Azerbaijan and Georgia use broad gauge track ((1,520mm). At all cross-border railway stations, a special area should be constructed for trains to convert from one gauge to another. Turkish State Railways (TCDD) currently has many network extension and modernization projects planned. TCDD is seeing the largest investment since the 1930s and with these investments is constructing new lines, primarily high-speed lines.⁸²

⁸⁰ Ibid.

⁸¹ ЗАО «ЮКЖД» представило проект создания МЛЦ на станции Ахурян. <http://www.transportweekly.com/pages/ru/news/articles/81189/>.

⁸² A Short History of Turkish Railways. <http://www.trainsofturkey.com/w/pmwiki.php/History/History>.

Picture 10: Network of Turkish State Railways (TCDD)⁸³



B.1. Competition and Non-Tariff based Limitations in Transport Sector under Status Quo

49. In 1993 Turkey laid embargo for Humanitarian Cargos passing to Armenia⁸⁴ and in general on trade with Armenia. However, in 1996, air corridor has been agreed and became functional between Armenia and Turkey and a direct air connection between Istanbul and Yerevan has been established⁸⁵. In the following years “suitcase trade” has mushroomed and the overall volume of imports from Turkey to Armenia increased. Thus, a need for consolidating the cargo, seeking for cheaper transport alternatives for growing volumes emerged. Turkish tracking businesses responded to this need quite energetically and a practice of transport of goods from Turkey to Armenia has been established and developed.
50. Entrepreneurs import these goods from Turkey to Georgia providing two invoices: one for Georgian intermediary consignee company and another for real Armenian consignee. While leaving Turkish customs border both invoices are stamped by customs authorities and one with Georgian consignee is later included in Turkey-Georgia trade statistics. Entering Georgia the transport agent provides invoice for Armenian consignee to Georgian customs authority. Thus, these goods pass Georgia as transit and further exit from Georgia and entrance to Armenia of the transport runs smoothly, as no embargo of Turkish goods exists in Armenia.
51. The practice of transit of goods via Turkey from third countries to Armenia has been established in 2002, by the efforts of Armenian transport businesses supported by Turkish business Associations with TABDC playing a critical role in facilitating the process. The tracking transit of goods via Turkey to Armenia by various international tracking companies runs smoothly and freely and no need for quasi-legal procedures for international tracking companies emerged ever since 2002.
52. The above-mentioned descriptions of transport and transit practices equally refer to multimodal transportation for shipment of cargo by containers to Armenia using international carriers. In particular, the multimodal transit of goods via hub port Istanbul provided by various international carriers also functions smoothly without any quasi-legal facilitation and need for third-party mediation.

⁸³ Ibid.

⁸⁴ Declaration by the Government of Turkey of 3 April 1993. Quoted from: “The Stakes of the Opening of Turkish- Armenian Border: The cross-border contacts between Armenia and Turkey”. By Dr. Burcu Gültekin. <http://www.caei.com.ar/es/programas/cei/P05.pdf>.

⁸⁵ Ibid.

53. Overall, it seems that the success and breakthrough in establishing cooperation and promoting services in transport sector could be largely credited to the practical approach of Armenian and Turkish businesses. Additionally, the practices of engaging other stakeholders including business associations, media and civil society at large in parallel with working low profile and carrying second track negotiations to address practical needs and extend businesses proved being effective.
54. A number of emerging opportunities and challenges and constraints should be considered if the current status quo of closed border and absence of diplomatic relations between Armenia and Turkey on one side and established business practices on the other side is continued in short- and mid-term perspectives including those related to competition and current non-tariff based limitations in transport sector.
55. Firstly, the current transport facilitation practices will face challenges emerging from the new customs modernization initiative of Georgia and Turkey. As a result of Customs Union with EU, and as a requirement of harmonization of external tariff with the third countries, Turkey, signed FTA with Georgia 2008⁸⁶. Further, in the framework of customs modernization efforts by Turkey under the auspice of Turkey-EU Customs Union⁸⁷, Turkey and Georgia signed an agreement on joint management of customs checkpoints on the border of the two countries (Sarpi, Vale, Kartsakhi checkpoints) in early October 2010, and the first such joint checkpoint in Sarpi has been officially opened in 31 May, 2011.⁸⁸
56. While, as Turkish officials noted this initiative will reduce the burden of procedures in customs gates by 40 percent⁸⁹, this modernization initiative will, perhaps, negatively affect trade and transport opportunities from Turkey to Armenia through Georgia, as the current quasi-legal mechanism cannot be applied further and businesses should seek new ad hoc solutions. Specifically, in the customs checkpoints managed jointly by Turkish and Georgian customs authorities, the customs freight procedures are simplified and drivers fill out their customs declarations at a checkpoint only one time⁹⁰. Thus, the “miracle” procedure with double invoices is no longer viable. Currently, the checkpoints in Vale and Kartsakhi operate under former customs separate procedures, yet in the close future this transit “gate” will also become reconstructed and transport companies will face similar problems in this locations.
57. Under the status quo scenario the above-mentioned challenge could be addressed if Turkish custom authorities accept and register invoices of Turkish goods with final destination to Armenia by introducing Armenia’s international AMD code in Turkey’s custom service document circulation. This will make the practice of double invoicing redundant and will further ensure integrity of transport and transit operations in all three countries engaged in transport cycle: Turkey, Georgia and Armenia. Such approach would considerably reduce vulnerability of transport agents, drivers and clients vis-à-vis procedures and related impact of local discretionary actions through all borders. Further, such step bears significant anti-corruption potential through reducing corruption risks, closing loopholes and preventing corruption cases in international trade and transport.
58. Secondly, under Status Quo scenario the transport businesses and governments could face additional challenges related to unexpected developments of road permission quota for third countries negotiated by Georgian government with these countries bilaterally. Thus, transport businesses may remain the hostage of these negotiations and would dramatically suffer from unwanted negotiations results.
59. To support the business interests of transport sector stakeholders, to balance the asymmetries in this contexts and to ensure that the current practices and results are at least sustainable the businesses and

⁸⁶ Free Trade Agreement Between the Republic of Turkey and Georgia. <http://www.economyy.ge>.

⁸⁷ Cahit Gökçelik. Turkey’s Customs Reform Experience Under the Auspice of Turkey-EU Customs Union. Prospects of Georgia’s Integration In the EU Customs Union Project funded by The Black Sea Trust, a project of German Marshall Fund of United States.

http://www.pmcg.ge/files/Publications/6_%20Prospects%20of%20GeorgiaG%C3%87%C3%96s%20Integration%20in%20the%20EU%20Customs%20Union_%20Turkish%20Experience.%20Report.pdf

⁸⁸ <http://commercial.ge/05/georgia-and-turkey-to-open-new-sarpi-border-checkpoint>.

⁸⁹ <http://www.worldbulletin.net/index.php?aType=haber&ArticleID=64944>.

⁹⁰ http://208.75.229.2/news/news_text.php?id_news=38920&ct=4&im=main&ddd=&ddd2=&month=12&year=2011&srch_w=&srch=1&wth=1223&rec_start=0&rec_start_nav=0&ddd2=27-11-11&month=12&year=2011.

transport associations should support negotiations between Armenian and Georgian governments aiming either at revision of the methodology of calculating the number of transit trucks under established quotas with third countries or at considering specific quota based on the maximum number of transit tracks with destination to Armenia.

60. The cost of transport for Turkish track from Turkey to Armenia through Georgia is estimated based on a rate provided the Turkish transport company. The rate incorporates *inter alia* the transport means insurance in Turkey, Georgia and Armenia, as well as transit road tax charged in Georgia (USD 120 per truck) and entry tax charged in Armenia (USD 320 per truck). Specifically, for trucking the rate for a full truck with approximate cargo weight of 20 tons from locations in the main trade areas: e.g. Istanbul, Izmir, Denizli, o Yerevan is about USD 4,000. The rate depends on the cargo weight and place of loading in different regions of Turkey and varies from USD 3,600 to USD 4,300 for a full a track.
61. The above mentioned rates refer to those tracks that enter Georgia within the limits of established annual quantity of quotas concerning the number of trips of trucks country of origin (e.g. Bulgaria) to Armenia via Georgia⁹¹. If a truck would cross Georgia while the road permission quota for the specific country has been expired, additional charges are incurred. This charge has been equal to GEL 500 (USD 300) by November 2011, yet it has been increased by 1000% and is set to GEL 5000 (USD 3,000) currently. Meanwhile, Georgian authorities count both transit trucks from the third countries passing to Armenia and trucks with final destination to Georgia under the same quantity of quota. Thus, the transit cost jumps dramatically if the current quota for all trucks (both transit and non-transit) from the specific country of origin has been expired.
62. As for the multimodal shipment the rate for a for a 20 ft. container with cargo of same weight FOB Istanbul to Yerevan is about USD 2,400. For a 40 ft. container the rate for the same route and cargo weight is about USD 3,600. The later cost seems to be less competitive vis-à-vis the tracking cost for the same destinations, as it considers longer transit times and additional pre-carriage costs from the location of lading to FOB Istanbul.⁹²
63. Transit of Goods through Turkey to Armenia
64. The average rates of transit for a full track from Turkish ports to Russia and Ukraine by Ro-Ro services and similar costs from Poti to similar destinations are provided below in Table 9.

Table 9. Ro-Ro service average rates for a full track

Port of Shipment	Port of Destination	Service rate, USD	Service rate for excise goods, USD
Poti (Georgia)	Novorossiysk (Russia)	2,000	2,500
Poti (Georgia)	Kerch, Ilichevsk (Ukraine)	1,700	1,700
Novorossiysk (Russia)	Poti (Georgia)	1,500	1,500
Kerch, Ilichevsk (Ukraine)	Poti (Georgia)	2,000	2,000
Samsun (Turkey)	Novorossiysk (Russia)	800	800
Zonguldak (Turkey)	Kerch, Ilichevsk (Ukraine)	1,000	1,000
Trabzon (Turkey)	Sochi (Russia)	800	800
Novorossiysk (Russia)	Samsun (Turkey)	800	800
Yevpatoriya, Skadovsk (Ukraine)	Zonguldak (Turkey)	900	900
Sochi (Russia)	Trabzon (Turkey)	800	800

65. Considering current Status Quo could be sustained in short- and mid-term period, the Ro-Ro services connecting Russian and Ukrainian ports with Turkish Samsun, Trabzon and Zolgundak ports could be extended as cost effective alternative to Ro-Ro services from the same ports to Poti (Georgia). Such alternative offers various advantages including: about USD 1,000 saving on Ro-Ro services costs, substantial reduction of waiting days in Poti port (heavy delays at Poti are due to bad weather conditions,

⁹¹ Such quotas are negotiated between Georgia and third countries bilaterally.

⁹² Source: official websites of Turkish transport companies.

insufficient port facilities, port congestion and closure).⁹³ While this alternative extends driving distance by about 500 km and driving time by about 24 hours, as well as results in additional transport costs, however the benefits offered by the alternative are seems to be substantially attractive. The international trucks widely practice this alternative. The Armenian carriers might wish to consider these practices to increase cost effectiveness of their operation including in the cycle transit through Turkish ports.

66. Armenian International Road Carrier Association (AIRCA) requested the Union of Road Transport Associations in the Black Sea Economic Cooperation Region (BSEC-URTA) to organize free transit of Armenian trucks holding BSEC Permit across the territories of Turkey with a view to benefiting from the Ro-Ro services between Turkey and Russia in March 2011. BSEC-URTA and BSEC undertook various contacts and discussions with the Turkish authorities in order to seek positive consideration of the AIRCA's request in mid-2011.⁹⁴ Thanks to the active role and efforts of Armenia's representative in BSEC, as of 1 July 2011 Turkey allowed the holders of the actual BSEC Permit for transit including 200 Armenian trucks.⁹⁵ Permissions have been officially commissioned to AIRCA in September 2011. Based on the above mentioned practice of creating and promoting precedent based practices two TIR trucks of Armenian carrier with non IMO, non-excite, non-heavy cargo disembarked from Ro-Ro vessel in Samsun (Turkey) and passed Turkey using the established quota. AIRCA and BSEC-URTA have facilitated the process in real time and secured implementation of the quota providing hands-on solutions to emerged minor issues. Thus, a practice has been established, details of procedures under current state of affairs have been fine-tuned and the BSEC-URTA permits mechanism became operational. Later, in November 2011, it was agreed to continue the permit quotas to 2012.⁹⁶
67. We recommend proper sequencing of activities for extending the current practice under the established permit quota for transit operations from Armenia to final destinations (e.g. in Russia and Ukraine) via Turkish ports. Firstly, we consider engaging other stakeholders including Armenian and Turkish Business Associations and think tanks working closely with local authorities, namely, AIRCA, UMBA, TABDC, TEPAV, as well as BSEC-URTA to ensure smooth and gradual extension of the current practice, specifically tracking border crossing process, assisting facilitation of the process, and responding to emerging problems.
68. Secondly, we recommend extending the current practice over the trucks with excise cargo (e.g. Armenian brandy). Specifically, Armenian carriers (trucking companies and truck owners) could send the first Armenian truck under established BSEC-URTA permission quota via Sarpi checkpoint to Turkish ports Trabzon or Samsun, with excise cargo to Russia, making bank deposits according Turkish regulation for alcohol transit. At the same time key stakeholders as mentioned-above should be informed and engaged to follow and facilitate transit and border crossing.
69. Upon successful implementation of the above-mentioned recommendations and steps, we consider that under Status Quo scenario a window of opportunity for introducing a new practice of shipment of cargo by track or by other multimodal option from Armenia to Turkey will open. Based on the lessons learned from the success stories and failed attempts solving the issues politically, we consider that such opportunity should be used by creating another practical precedent.

B.2. Dynamics of Free Market and Competition of Transport Services

70. As discussed above in the section A.2, the scenario of developing international transport corridors upon opening Armenia-Turkey borders leads to a number of emerging opportunities for development of markets in Armenia and in the region at large. The message of such sequence is straightforward: the

⁹³ United feeder services ltd. 6th April 2011. Newsletter nr.11. <http://www.utdfeeder.com/file/92UFS%20Newsletter%20Nr.11.pdf>

⁹⁴ Activity Report. 19th Meeting of the BSEC-URTA General Assembly. Bucharest-Romania. Monday, 16 May 2011.

⁹⁵ <http://www.bsec-urta.org/en/news/1.html>.

⁹⁶ <http://www.bsec-urta.org>.

political breakthrough and Armenia-Turkey rapprochement will boost economic development in the entire region. At the same time, it seems that existing economic ties and business interests are still not adequate to cause political breakthrough currently.

71. Meanwhile, further development of economic and infrastructure cooperation in the region and between Armenia and Turkey both directly and mediated, will lead to enhanced economic interdependences and multifaceted mutual interests between businesses and economies at large. Moreover, economic and infrastructure integration of Armenia to the regional and global markets and networks would consolidate political support for Armenia-Turkey rapprochement and would leverage positive changes.
72. The breaks of the above-mentioned dynamics of increasing economic and business interests might seem small. Each of these breaks might seem not attractive if juxtaposed vis-à-vis major regional projects, such as pipeline and other transit route construction projects currently on the regional agenda backed by multilateral actors and transnational investors. Each of these breaks might also seem less feasible if considered standalone vis-à-vis political situation with closed borders and unresolved conflicts in the region. However, these breaks consolidate into a pillar that might support the infrastructure fabric of development of individual economies and the place of the region globally.
73. In a nutshell, the vision of the above mentioned integration lays beyond consolidation of various alternative infrastructures, both existing and planned, and their capacities for more extended participation of the region in global economy. Through, in a short-run these alternatives might seem mostly competing in the context of attracting investments and political gains of winning in the sequencing derby, however in long-run these alternatives will eventually serve as branches of the developed regional network and center of gravity for neighboring economies. The above mentioned vision can be illustrated on several examples.
74. Thus, the minor advantages of using alternative routes is presented below. The current *modus operandi* of transit of goods through Georgia incurs additional opportunity costs to transport companies in several terms. Firstly, the transit route from Turkey to Armenia via Georgia seems to be longer vis-à-vis direct transport route for example through Margara-Alican. Thus, the road distance between Istanbul and Yerevan through Georgia (Sarpi) is about 1920km, while direct distance is about 1625 km (about 300 km shorter). Through, the road through Vale-Türkgözü is 1800 km and through Kartsakhi yet 85 km shorter, yet the later two roads cross a number of difficult mount-passes in Turkey.
75. Secondly, respective direct transit times are shorter by about 48 hours. Indeed, the average non-stop driving time from Istanbul to Yerevan via Sarpi is approximately 40-50 hours with average truck road speed 48 kph for over 600 kilometers from Poti to Armenia.⁹⁷ Though some dual carriageway exists, yet the road is mostly single lane. In addition, mountain roads slow traffic giving congestion and safety hazard and CO₂ emission problem. Turkey-Georgia Sarpi BCP entry for trucks to Batumi to Tbilisi road heavily used by Turkish trucks: more than 100 average per day each impacting on road surface. Trucks carry cargo for Baku, Armenia and Kazakhstan mainly for oil industry projects. Road tunnel renovation results in trucks taking mountain bypass road with inevitable impact increasing fuel consumption and extra time and wear and tear on vehicles plus extra CO₂.⁹⁸ Thus, the total transit time is approximately 5-6 days (with two border passes).⁹⁹ The average non-stop driving time via Margara-Alican is approximately 30 hours (border pass only) which results in total transit time of 3.5-4 days.

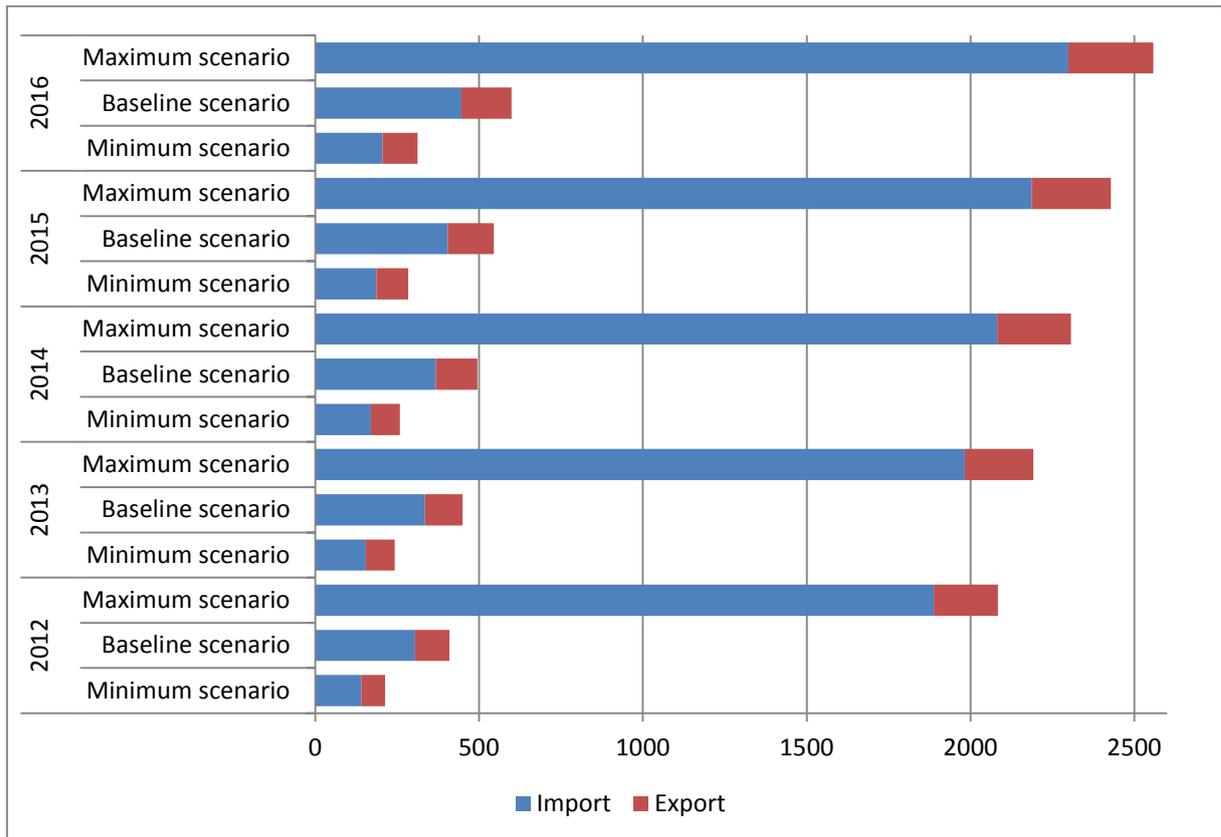
⁹⁷ Poti to Baku and Turkmenbashy Transport Route. UNECE Euro-Asian Transport Route Meeting. Turkmenbashy, 7-8 December 2010.

⁹⁸ Ibid.

⁹⁹ The total transit time includes non-stop driving time, border crossing time, break period, and daily and weekly rest periods. For this scenario, we consider the EU standards and best practices for drivers' working hours given the overall process of aligning national legislations in our region with EU acquis. In the European Union, drivers' working hours are regulated by EU regulation (EC) No 561/2006, which entered into force on April 11, 2007. The non-stop driving time may not exceed 4.5 hours. After 4.5 hours of driving the driver must take a break period of at least 45 minutes. However, this can be split into 2 breaks, the first being at least 15 minutes, and the second being at least 30 minutes in length. The daily driving time shall not exceed 9 hours. The daily driving time may be extended to at most 10 hours not more than twice during the week. The weekly driving time may not exceed 56 hours. In addition to this, a driver cannot exceed 90 hours driving in a fortnight. Within each period of 24 hours after the end of the previous

76. Further, the southern transit route seems to offer more reliable and all-season choice vis-à-vis northern routes. The latter are frequently closed under severe weather conditions in winter. Finally, the total transport cost will be substantially reduced, as no extra transit costs and charges caused by transit permits and road taxes of third country applied to the route via Georgia (relevant to all three Turkey-Georgia checkpoints) will be incurred for the direct route.
77. The example below illustrates how the competitive advantages of the above-mentioned route if consolidated might offer significant interest for regional trade and transit of goods from Far East to West. The construction of the ILC in Akhuryan (Armenia) as mentioned above in section B.2 is an implicit illustration of such opportunity. Thus, the South Caucasus Railways Company projected larger volumes of cargos based on various scenarios as presented in Figure 10.

Figure 10. Forecast volume of freight passing through the ILC for 2012- 2016, thousand tons



78. The below example illustrates how the potential of the developed infrastructure might enhance the economic networks across the region. The transit of Russian coal to Turkey discussed above might almost fully utilize the potential capacity of the northern railway of Tbilisi-Kars on the route Kuzbas-Kars as per estimated perspective annual demand of coal in Turkey. Meanwhile, the growing needs of coal transit could be addressed by parallels utilizing the capacity of southern routes as discussed in section B.2. The total capacity of these routes could become increasingly attractive for transit of other goods (such as grain and cotton) due to competitive advantages (cost effectiveness, reduced congestion and transit times) of parallel operation of northern and southern routes.
79. These transit schemes will extend opportunities for Armenian transport market development, develop direct markets for Turkey, as well as will create new transit opportunities for Turkey to become a unique most HUB for East-West transit from Far East and Central Asia to Europe and Middle East. Anatolia will regain its historical mission as a connection node on the Silk Road.

daily rest period or weekly rest period a driver must take a new daily rest period. Source: "EUR-Lex - 32006R0561 - EN". Eur-lex.europa.eu. Retrieved 2010-10-07. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006R0561:EN:HTML>.

80. The opening of the above-mentioned railway corridors will particularly provide new opportunities for extending export of Armenian low cost construction and raw materials to neighboring country due to increased transport cost effectiveness.
81. The increased flow of goods through Turkish railways will, on the other hand, will attract new investments for modernization and reconstruction of Turkish railways network.

C.1. Opportunities for Armenian-Turkish Joint-Ventures under the Status Quo scenario

82. In this section the opportunities for Armenian-Turkish joint ventures providing transportation services will be discussed within the two development scenarios discussed earlier in Section A1 and A2.
83. The findings regarding the transport and trade situation under status quo suggest that all the road transportation carrying Turkish goods destined for Armenia is being catered only by Turkish tracking companies. This circulation is possible only through Georgia. Similarly, international tracking companies preferring to transport goods to Armenia via Turkey still have to go through Georgia. For multi-modal shipments, for instance, by containers, Georgia and Iran remain the main transport routes. Armenian transport companies already have quite a successful practice of mutually beneficial cooperation with respective companies in Georgia and Iran.¹⁰⁰
84. This situation has created a demand for establishing representative offices of both Turkish and international carriers in Armenia in order to improve the quality of the provided services and better understand the needs of local customers. For example, since 1996 several international carriers have opened up their representative offices in Armenia. An interesting characteristic of these representatives is the use of Armenian human resources; the carriers tend to nominate local Armenian transport companies as their agents. The same tendency can be observed with several Turkish carriers that have established their offices in Armenia for the last three years. As mentioned earlier, since 2011 Armenia gained the opportunity to provide a transit service via Turkey for 200 Armenian trucks.
85. Obviously, these facts have necessitated mutual cooperation of Armenian and Turkish transport companies and in prospect the creation of business joint ventures. The opportunities are already being discussed among Armenian and Turkish businessmen in conferences¹⁰¹ and round-tables in the framework of the Armenia-Turkey Rapprochement Project having been implemented by UMBA¹⁰² and TABDC¹⁰³ since 2010.

C.2. Opportunities for Armenian-Turkish Joint-Ventures under the alternative development scenario

86. Given the development tendencies of the open border scenario, when the main transport corridor and international trade will become direct between Armenia and Turkey, and new transit options via Armenia will become available, the margins of the market opportunities for transport companies will significantly increase. The demand for joint ventures will still exist, but the nature of this demand will be targeted to profit making rather than mutual assistance prevalent in the previous scenario.

¹⁰⁰ Narmania, D. and Grigoryan, S. (2010) Cross-Border Co-operation between Georgia and the Republic of Armenia: Existing Problems and Challenges. Care International. Available online at http://www.entwicklung.at/uploads/media/20101115_Cross_Border_Study_FINAL.pdf. Retrieved on December 22, 2011

¹⁰¹ <http://www.panorama.am/en/economy/2011/07/22/conference/> and http://www.rferl.org/content/turkish_armenian_business_leaders_meet_in_yerevan/24399475.html

¹⁰² www.umba.info.am

¹⁰³ <http://www.tabdc.org>

87. For instance, if the anticipated economic development creates a demand for increased industrial activities in the region (textile industry being a currently discussed sector), establishment of transport joint ventures may respond to the needs of textile industry more efficiently. Effectiveness of goods transportation will increase in case the import of textiles from Turkey to Armenian clothing manufactures, and the proceeding export of their products to Russia, will be carried out by one Armenian-Turkish joint venture company instead of at least two: different Turkish and Armenian ones. A joint venture will naturally offer a more attractive rate policy and a more coordinated service.

D. Passengers' Transport Development Opportunities

88. In terms of passenger transportation between the two countries it makes sense to distinguish between two sectors: tourism and shuttle trade, as this is where Armenia has the most passenger flow. Tourism to Turkey is reflected by the demand of Armenians visiting the old Armenia monuments and churches in Turkey. The two other main destinations of tourist flow from Armenia to Turkey are Istanbul and the Antalya sea resort, and the main mode of transportation for the tourists is by air, though the air fare is significantly higher than the bus travel rates. The data about the passenger transportation are provided in more detail Section II of this report above.

89. As to shuttle traders, it should be noted that they prefer to travel to Turkey by bus, as it is considerably more inexpensive than air travel (Bekin, 2005). Goods to Istanbul are transported on buses owned by nearly 20 Turkish bus companies on a 36-hour route. Because of border disputes between Turkey and Armenia the transportation is carried out via Georgia. Shuttle traders purchase goods in Istanbul to bring back to Armenia, for which they then arrange cargo truck transport in Istanbul before they return home via the passenger buses. The companies provide services such as changing the commercial invoices and transport documents on the Turkish-Georgian border, and ensuring the customs clearance in Armenia as a final destination.

90. However, the shuttle trade faces a few serious challenges. First, it should be noted that the transportation of the cargo from Turkey is arranged by Armenian travel agencies, which in a way act as intermediaries. The latter contract the above-mentioned Turkish bus companies for providing the passenger transport to Turkey and back to Armenia, since the access to Turkey of Armenian transportation means is restricted to passenger cars and mini buses with not more than 17 seats. Why this restriction has been made remains unclear yet, however, the issue is currently being researched by UMB(E)A, ICHD, TABDC, and TEPAV.

91. The second challenge is the fact that the Armenian tourist agencies have monopolized this business, thus controlling the rate policy. For instance, in early 2011 they increased the prices of both the cargo transportation from Turkey and the customs clearance in Armenia¹⁰⁴.

92. A possible solution to the mentioned challenges can be the establishment of an Armenian-Turkish joint venture, a travel agency, which will use Armenian big busses on the territory of Armenia and Georgia and, Turkish buses to provide passenger transportation in Turkey. Such an enterprise will address the issue of monopoly as well.

93. Finally, another relevant issue that has initiated discussions among Armenian and Turkish businesspeople is the initiation of an air route Van-Yerevan, as the tourist flow to Van keeps increasing. The Turkish side has also acknowledged an increased interest in tourism in Armenia. To launch the mutual cooperation a memorandum of understanding was signed between the Chamber of Commerce and Industry of Van and UMB(E)A, highlighting the necessity of founding an "Association of Armenian and Turkish Travel Agencies"¹⁰⁵.

¹⁰⁴ <http://web.hurriyetdailynews.com/n.php?n=armenian-shuttle-traders-hurt-by-monopolistic-price-hike-2011-02-01>

¹⁰⁵ <http://m.mediamax.am/en/news/4/1852>

94. All the above-mentioned development options are relevant to the status quo scenario, whereas in case the closed borders open up, the redundant practice of commercial invoice change will become unnecessary, as the need for intermediary travel agencies which raise the costs of services will disappear. Open borders will suggest a few other advantages as well, such as decreased bus fares and enlarged tourist flows, especially in bordering regions in both countries.

E. International instruments supporting the further development of international trade and transport

95. There are several key international conventions on international trade and transport to which both Armenia and Turkey are signatory and which may become a viable platform for further development of the current practices under status quo.

96. Turkey is a contracting party of many important organizations that significantly simplify international road transport such as the United Nations Economic Commission for Europe (UNECE), the Customs Transit Convention (TIR), the European Agreement concerning the Work of Crews of Vehicles Engaged in International Road Transport (AETR) and the Agreement on the International Occasional Carriage of Passengers by Coach and Bus (INTERBUS).

97. Some of these conventions, such as TIR and CMR have been signed by Armenia in 1993 and in 2006 respectively. However, the current practice shows that both countries breach the clauses of these conventions. Still, none of the sides seems to be willing to change this status quo, as the violation, aka the change of commercial invoices and transport documents, is the only open window for the arrangement of cargo transportation from Turkey to Armenia. In case of international cargo transportation via transit routes in Turkey continue operating according to TIR carnet and CMR transport document: no changes are made in these documents.

98. In case of open borders direct TIR and CMR conventions will be fully operative in all cases, allowing for direct trade between Armenia and Turkey.

99. Another international instrument is ECMT (the European Conference of Ministers of Transport), currently, the International Transport Forum (ITF) at the OECD is an intergovernmental organization with 53 member countries. It acts as a strategic think tank for transport policy and organizes an annual summit of ministers.¹⁰⁶ Annually it provides multilateral quota for each member country. The significance of this quota is the permission for a free entry for the trucks from one member country to another in accordance with the decided truck quantity.

100. At the moment Armenia and Turkey do not have bilateral quota assignments, and if the Turkish trucks entering Armenia do not enjoy any quota, but pay full entry fees USD 320, as mentioned above. In contrast, Armenian trucks are forbidden an entry to Turkey at all.

101. Given the realities of the status quo, it is in the interest of both countries to apply to ITF for mediation to enhance a quota exchange practices.

102. Another international convention which seems to directly address the land transportation needs of Armenia is the UN convention on Transit Trade of Land-locked States. The United Nations Convention on the Law of the Sea defines a "landlocked country" as a "State that has no sea coast. In practical terms, landlocked countries are located in the interior of continents, hundreds or even thousands of kilometers from maritime ports". According to United Nations definitions, there are 31 landlocked developing countries in the world and Armenia is one of those.¹⁰⁷ The UN addressed the issue of land-locked countries in order to support the expansion of international trade, as these countries, especially the least developed and later developing ones, were facing significant challenges in trade and transport.

¹⁰⁶ <http://www.internationaltransportforum.org/IntOrg/quota/>

¹⁰⁷ <http://www.unctad.org/templates/Page.asp?intItemID=4540&lang=1>

103. Trade and transport challenges faced by the landlocked least developed countries can be classified into two broad categories: those due to internal factors, requiring interventions at national level and those due to external factors, which are beyond the jurisdiction of the national government. Given the focus and the scope of the current study, the target of the analysis here is the external factors, among which most importantly is the regional infrastructure.
104. The condition of roads, railway lines, bridges, border infrastructure capacity and ports facilities are crucial for keeping the costs down for landlocked countries. Certain transit routes are more preferable, than others, despite the distance, simply because of the state of road and other border facilities. For example, transit time from Bandar-Abbas to Yerevan is 7-9 days for the distance of 2750 km, though Iran has many restrictions for transit, specifically in case of transporting cigarettes and alcohol. In contrast, Georgia offers a faster and shorter route by road and by rail, 680 km to sea port Poti. However, during the war in August 2008 all roads were closed and Armenia had not alternative. For Armenia these are essentially the only two access points to the sea.
105. Interestingly, among the countries which provide a regional infrastructure in the South Caucasus, only two are signatories to the Convention: Turkey, which joined it in 1969, and Georgia, which signed the Convention in 1999. According to the Article 2 of the Convention “Freedom of transit shall be granted under the terms of this Convention for traffic in transit and means of transport. (...) Consistent with the terms of this Convention, no discrimination shall be exercised which is based on the place of origin, departure, entry, exit or destination or on any circumstances relating to the ownership of the goods or the ownership, place of registration or flag of vessels, land vehicles or other means of transport used.” Article 3 takes up customs and transit dues, stating, “Traffic in transit shall not be subjected by any authority within the transit State to customs duties or taxes chargeable by reason of importation or exportation nor to any special dues in respect of transit.”¹⁰⁸
106. Thus, were to Armenia to join the Convention on Transit Trade of Land-locked States, it could fully be in a position to defend its rights when it comes to free transit of goods. The Convention will grant Armenia a chance to seriously negotiate with Turkey on opening up the borders.
107. Another opportunity in case borders between the two countries will open, is the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR)¹⁰⁹. At a regional seminar organized by the TRACECA LOGMOS project in October, 2011 the General Secretary of UTİKAD association announced that Turkey will join ADR in 2012.¹¹⁰ Joining this agreement is significant for Armenia as well, particularly in case of open border scenario development.
108. Both Armenia and Turkey are members of the World Trade Organization (WTO) since 2003 and 1995 respectively. This is an international platform with rich resources, which both countries seem not to use quite efficiently. Though both countries are members to the Organization, Turkey made reservations regarding Armenia and lifted the application of WTO rules in respect to Armenia when the latter joined that organization (Hoekman and Mavroidis, 2007)¹¹¹. However, how the latest development in Armenian-Turkish relations will affect the further developments of trade relations, yet remains to be studied. The business associations and other relevant civil society organizations can support research into the possibilities that this platform offers to the two countries, and these findings may serve as necessary prerequisites to project the development in transport and trade sectors in Armenia and Turkey under the two scenarios in discussion.
109. Finally, the recent developments in the relations between the European Union and Armenia suggest another platform that potentially can affect the trade and transport relations between Turkey and Armenia, free trade agreements which permit making trade faster and cheaper between the signatories.

¹⁰⁸ <http://www.unctad.org/templates/Page.asp?intItemID=4540&lang=1>

¹⁰⁹ http://www.unece.org/trans/danger/publi/adr/adr_e.html

¹¹⁰ http://www.traceca-org.org/en/events/single-event/n/logmos_regional_seminar_to_determine_action_plans_in_caucasus_and_central_asia/

¹¹¹ Hoekman, B. and Mavroidis, P. (2007) *The World Trade Organization: law, economics, and politics*. Routledge. New York

Turkey and EU have signed a Customs Union agreement in 1995, pursuant to the 1963 EU-Turkey Association Agreement.¹¹² Armenia has started negotiations with the EU over signing a deep and comprehensive free trade agreement (DCFTA) with the European Union.¹¹³ One of the key issues on the negotiation table is the development of customs operations on the borders with Turkey, Georgia and Iran as part of an integrated border management framework.¹¹⁴ This implies common customs procedures and standards in compliance with the EU benchmarks. This instrument seems to be a viable leverage to bring the two countries together at the negotiation table to facilitate the national trade.

IV. Key Observations and Recommendations

110. The following key observations summarize the findings of the study:

- The two scenarios discussed in the study are not contradictory, and none is better than the other, simply they offer different opportunities for the two countries. The developments projected under the 1st scenario (Status Quo), regardless all the current challenges and issues revealed, still can provide a logical transition to the 2nd scenario (Open Border). As a consequence, both countries have to be ready for implementing innovative logistics strategies, planning for the transforming trade flows and transport channels, using new technical equipment.
- Regardless political disputes and restrictions trade between Armenia and Turkey has found a certain functional leeway of operation, particularly through establishing a practice of semi-legal documentation. The basis of this operational practice is the business ethics and mutual trust among business representatives across the borders.¹¹⁵
- Given the nature of the developments in Armenian-Turkish relations, the realities described in the 1st scenario may change so drastically, that the projected developments under status quo may simply become redundant. Thus, the focus will shift to the development tendencies predicted for the 2nd scenario.
- The dual causality of trade and transport is reflected in the transport situation of the region: on one hand, a good transport system facilitates trade, and on the other, trade brings about the necessity of development of routes and services. Thus, the new transport corridors discussed in the study can be both the cause and the consequence of the market development and regional integration.
- The developments in trade for the recent decade have revealed a tangible need for establishment of joint-ventures between Armenian and Turkish companies, especially in the field of goods and passenger transportation.
- Both Armenia and Turkey are signatories of major international organizations and conventions on trade and transport, such as WTO, BSEC TIR, CMR and ECMT. However, the potential of these instruments for enhancing cooperation between Armenia and Turkey has been underestimated and little researched.

111. Based on the findings and the key observations, several recommendations are suggested:

- Under status quo all the transport corridors either existing or currently being constructed need to be regarded as possible opportunities for development of both national and transit trade. Under the open border scenario such opportunities will anchor at utilization of currently existing

¹¹² <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/turkey/>

¹¹³ <http://www.euadvisorygroup.eu/trade>

¹¹⁴ <http://www.euadvisorygroup.eu/customs>

¹¹⁵ <http://www.todayszaman.com/news-266656-trade-between-turkey-armenia-goes-on-amid-legal-woes.html>

capacities and infrastructure and will make the construction of new and expensive infrastructure redundant, as well as will enrich the alternatives of transport corridors, by investing in reconstruction of “older” corridors.

- The developing trade relations between the two countries call for a review of the current practice of semi-legal documentation regulating the trade flow between the countries. It is recommended that business association in Armenia and Turkey lobby for acceptance and registration of commercial invoices of Turkish goods with final destination to Armenia by introducing Armenia’s international AMD code in Turkey’s custom service document circulation. Such a step bears significant anti-corruption potential through reducing corruption risks, closing loopholes and preventing corruption cases in international trade and transport.
- Armenian transport companies need to be encouraged to take advantage of the free transit of Armenian trucks using BSEC Permit across the territories of Turkey. Such a practice has been established in November, 2011, and it was agreed to continue the permit quotas to 2012. Proper sequencing of activities for extending the current practice for transit operations from Armenia to final destinations (e.g. in Russia and Ukraine) via Turkish ports. The same practice should be extended to the trucks with excise cargo (e.g. Armenian brandy).
- If under status quo the establishment of Armenian-Turkish joint ventures can be considered an opportunity to facilitate the existing practice, in case of open borders, this will become a necessary prerequisite for increasing mutually beneficial business interactions.
- Engagement of other stakeholders including Armenian and Turkish Business Associations and think tanks working closely with local authorities, namely, AIRCA, UMBA, TABDC, TEPAV, as well as BSEC-URTA is required to ensure smooth and gradual extension of the current practice, specifically tracking border crossing process, assisting facilitation of the process, and responding to emerging problems.

112. The final recommendation is based on the consolidation of the outcomes of the above-mentioned recommendations pertinent to the status quo. Such consolidation will create a strong platform and augmentation of business interests for sustainable and irreversible cooperation within the South Caucasus region, thus turning it into a unique HUB for East-West transit from Fareast and Central Asia to Europe and Middle East, with a specific advantage: each country will enjoy a unique role in this cooperative HUB. Additionally, open borders will provide a better environment for the two countries to utilize the existing and future international instruments towards the satisfaction of their mutual interests.

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