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USAID REGIONAL ECONOMIC COOPERATION (REC) PROJECT

**REPORT ON BARRIERS TO SUPPLY TO THE UNITED STATES
DEPARTMENT OF DEFENSE IN AFGHANISTAN FROM
CENTRAL ASIA**

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ACRONYMS

AmCham	American Chamber of Commerce
AmCham TJ	American Chamber of Commerce in Tajikistan
AmCham UZ	American Chamber of Commerce in Uzbekistan
CA	Central Asia
CAR	Central Asian Republics
CAR&A	Central Asian Republics and Afghanistan
CCIUz	Chamber of Commerce of Uzbekistan
CCIKZ	Chamber of Commerce of Kazakhstan
CENTCOM	Central Command
CoCs	Chambers of Commerce
DLA	Defense Logistics Agency
DLA TS	Defense Logistics Agency Troop Support
DOD	Department of Defense of the USA
EPI	Export Partnership Initiative
EPG	Export Partnership Group
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Control Point System
HVAC	Heating, Ventilation, and Air Conditioning
ISO 9001	International Standards of Quality Management
ISO1400	International Standard of Environmental Management
JCASO	Joint Contingency Acquisition Support Office
JTSCC	Joint Theater Support Contracting Command CENTCOM
KAZATO	Union of International Road Carriers of the Republic of Kazakhstan
KAZNEX	Joint Stock Company National Agency for Export and

	Investment KAZNEX INVEST
MIIT RK	Ministry of Industry and Innovation Technology of Republic of Kazakhstan
MRO	Maintenance, Repair & Operations program
NATO	North Atlantic Treaty Organization
NDN	Northern Distribution Network
OHSAS 18001	Occupational Health and Safety Management System
PV	Prime vendors
QA Team	Quality Assurance Team
REC	Regional Economic Cooperation Project
SJSRC UTY	State Joint-Stock Railway Company “Uzbekiston Temir Yullari”
TMC	Technology Management Company
TJ	Tajikistan
TWI	Theodore Wille Intertrade
USAID	United States Agency for International Development
USACE	United States Army Corps of Engineers
UZ	Uzbekistan
VETCOM	The U.S. Army Veterinary Command

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ABOUT THE USAID REC PROJECT

USAID REC project is a four-year Task Order under USAID/Central Asia Republics' (CAR) Macroeconomic Foundations for Growth Indefinite Quantity Contract (IQC) implemented by Chemonics International Inc. REC facilitates trade among Central Asian countries, Afghanistan, as well as with other large trading partners such as the United States Department of Defense (DOD), China and Russia. Through capacity building initiatives and gender integration strategies, REC expands firms' export potential, while building business network connections in the region. REC also works towards improving Central Asian countries' pro-trade policies and procedures, increasing transport corridor performance, assisting Tajikistan in its WTO accession efforts, and strengthening the capacity of trade promotion agencies and business associations.

USAID's REC Project undertakes a range of trade facilitation activities within its six components:

- **Strengthening Export Partnership Groups (EPG) and encouraging the creation of new EPGs.** USAID's previous regional trade project developed EPGs composed of firms from Central Asia and Afghanistan. REC continues to build and reinforce these networks and cultivates new groups so that participating firms increase their exports. Training and networking occur through the EPG model. Through its grants program, the Project will strengthen women-owned textile businesses in Central Asia, facilitate their participation in international supply chains and increase their exports.
- **Evaluating the export potential of Kazakhstani and Uzbek firms and industries through market research.** REC researches firms in Kazakhstan and Uzbekistan to assess their capacity to export, and then address export capacity shortcomings, identifies formal and informal barriers to trade, and proposes solutions.
- **Testing the barriers to export by facilitating sales to the U.S. Department of Defense (DOD) for use in Afghanistan.** REC is selecting at least three food production firms in Uzbekistan and one in Kazakhstan with the potential to supply to the DOD, and is working with these firms to achieve this. REC is preparing practical guides explaining how to export, and sell to the DOD through the DOD's prime-vendors.
- **Supporting graduates of the State Department's summer 2012 Voluntary Visitors Program through organizing workshops, awarding and managing grants Program.** REC organized and facilitated meetings of women's business associations and representatives from other NGOs at the Central Asian Trade Forum in September 2012. Participants will develop small grant proposals aimed at improving their businesses, increasing exports and/or improving the ability of their organizations to help their beneficiaries.
- **Assisting Tajikistan in WTO Accession.** REC will help Tajikistan to continue developing laws and regulations to help them comply with the WTO agreements and thus make accession possible.

Helping Central Asian countries implement pro-trade policies, regulations and processes.

REC will consult and partner with national and regional businesses, NGOs, and other trade related organizations to determine the status of trade facilitation, trade policy, and transport corridor performance, and create national and regional action plans to facilitate and improve trade facilitation, trade policy and transport corridor activities in Central Asia and Afghanistan

FOREWORD

Foreign trade drives economic development, and this is especially true in Central Asia (CA). Supplying goods to the U.S. Department of Defense (DOD) in Afghanistan through the Northern Distribution Network (NDN) is a new trade opportunity for Central Asian republics (CAR). Since exports to the U.S. DOD are in a nascent stage, there are certain challenges regarding trade barriers, transport and logistics, and shipment procedures for both DLA Prime Vendors as well as for local supplier companies.

Existing reference materials include detailed analysis of the economic situation in Central Asia and the most recent changes in the regional trade policy, such as establishment of the Customs Union (CU) of Belarus, Kazakhstan and Russia. This report outlines general matters of export from the CA region, and this survey focuses on identifying problems and constraints that firms face in supplying CAR goods to the DOD in Afghanistan.

EXECUTIVE SUMMARY

This Report outlines local supplier survey findings as identified by the USAID Regional Economic Cooperation (REC) Project.

Section One describes the survey and research methodologies, as well as resources and reference materials applied to review economic conditions in the region.

Section Two describes the survey findings, including current export trends from Kazakhstan and Uzbekistan between 2002 and 2011 (the time period for which data is available). The survey reviewed current exports from Kazakhstan and Uzbekistan; the viability of the Northern Distribution Network; CAR export potential and government support available for overall export promotion, and particularly for the U.S. DOD needs; selection and sourcing procedures for products; CAR export volume to meet U.S. DOD needs in Afghanistan; and structure and operations of Prime Vendors¹ (PVs): Seven Seas, Supreme Food, TWI.

The survey identified that the CAR exporters have common and specific trade barriers that directly impact DOD Afghanistan supply procedures. The report outlines problems and barriers facing Central Asian exporters and suppliers of DOD Afghanistan in the following categories:

- Trade regulation;
- Transport and logistics;
- Obtaining export documents and customs clearance, taxation, product certification;
- Selection and procurement for DOD;
- Product specifications;
- Entering and implementing contracts between PV and local suppliers and other.

The final chapter of the report outlines survey findings and conclusions, as well as consolidated recommendations from all involved parties (exporters, representatives of DOD Defense Logistics Agency (DLA), prime vendors, export promotion government agencies and other stakeholders) to improve compliance with DOD supply procedures. These survey findings and recommendations will serve a basis for developing the “How to Supply to DOD” Manual.

The report is aimed to become the information source for all stakeholders, government authorities involved with making decisions in the regions as well as contribution to the regional economic cooperation dialogue in Central Asia.

Electronic version of the Report (for free download) is available at <http://www.car-rec.net>

¹ Prime Vendor- long term sustainment contracts with various suppliers to provide materials needed to support the maintenance, repair, and operation (MRO) of its facilities. Items such as plumbing, electrical components, heating/ ventilation/ air conditioning (HVAC), lumber, fixtures, other hardware supplies, etc. would be included. The Prime Vendors need not make these items; the idea is to use purchasing power and commercial purchasing practices to consistently get the US Department of Defense the best prices on these civilian items, delivering them quickly and with little overhead.

SECTION I. RESEARCH METHODOLOGY

The survey studies barriers to export from the Central Asian states to the DOD in Afghanistan through the Northern Distribution Network (NDN).

In order to understand the Central Asian context for trade and exports in the region, REC studied export-specific bylaws in Uzbekistan and Kazakhstan; reports and analytics of the Governments and Ministries of Foreign Trade for the period of 2010-2011; statistics on foreign trade of Kazakhstan and Uzbekistan; as well foreign trade statistics of Central Asian Republics; KazNex Invest, International Finance Corporation (IFC) World Bank (WB), Asian Development Bank (ADB), UNDP, USAID RTLC and other expert reviewers of foreign trade.

To better understand the environment of doing business with DOD, REC studied secondary data including relevant DOD “doing business” manuals and primers, participated in industry trainings, and became involved in initiatives organized by the DOD in the region. REC also analyzed PVs’ presentations and training materials, cooperated with training providers in Afghanistan and the Central Asian region, and provided ad hoc briefings with companies to collect DLA requirements. REC also studied the procedures of DLA and PV procurements.

REC analyzed interview results from local suppliers to DOD. The project developed a supplier questionnaire and pamphlet that includes information on the stages in the supply process for companies with and without experience exporting to the DOD; history of supplying, contracting, payment and documentation challenges; warehousing and transportation; meeting the prime vendor standards and measurement requirements; as well as overall export constraints. The survey requested information on specific requirements for supplying food products, including bottled water, long life juices and milk, fats and oils, pasta, flour, canned and frozen fruits and vegetables, and condiments.

Surveying prime vendors. Prime Vendors are intermediaries between the DOD and local suppliers who possess information on business processes, procedures, and barriers to purchasing goods from local suppliers to DOD. The PVs market local goods to the DOD, purchase, provide storage and consolidate goods, transport, and then distribute the goods to DOD in Afghanistan. REC surveyed PVs in order to identify requirements for selling to the DOD. REC asked the PVs a range of questions to analyze their experience with business processes, trade and administrative barriers to address when supplying to the DOD and working with local suppliers.

Surveying local suppliers. DLA/GSA provided REC with a list of current local suppliers in Kazakhstan and Uzbekistan. REC surveyed the suppliers and gathered information on their experiences. REC analyzed the information included it in a report on existing barriers and difficulties the companies face in selling to the DOD.

The Project shared and discussed the information obtained during the survey with stakeholders, which included local exporters from Uzbekistan and Kazakhstan, officials of KazNex Invest, and the American Chamber of Commerce in Uzbekistan. The stakeholders prepared shared recommendations for elimination of export barriers to DOD in Afghanistan. The stakeholders will share these findings with all organizations involved with export procedures of supplying to DOD.

SECTION II. OVERVIEW OF EXPORT IN CENTRAL ASIA

Central Asian Republics possess relatively small-scale economies, and require expanded trade for sustainable economic development. Since Central Asian states have no direct port access, liberalization of their foreign trade policy and regional cooperation in trade, transport and customs transit are interrelated.

Recent trends for foreign trade in Central Asia include:

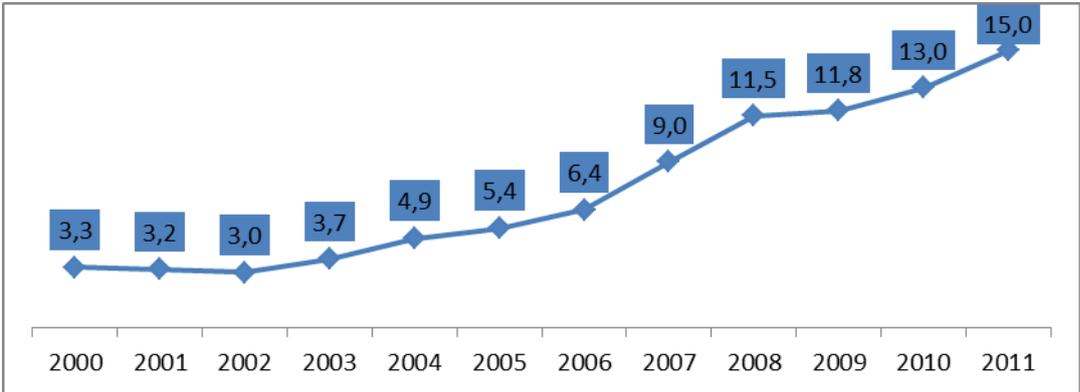
- Rapid trade expansion;
- Exports dominated by undiversified raw material items;
- Trade concentrated in a small number of countries.

Both Central Asian exports (and imports to lesser extent) have been concentrated on a limited number of countries with whom Central Asia has close historical and cultural links, or neighboring countries like China, Russian Federation and Turkey. A second group of leading trade partners include remote countries (Bermuda Islands, Switzerland, United Arab Emirates), where raw materials are being exported, often for further re-export to third countries. The third group of important CAR trade partners includes developed countries (Germany, South Korea, the United States) to which CAR imports large numbers of cars and equipment (such as office, medical and electrical equipment).

Overview of Exports in Uzbekistan

According to official data, the volume of exports from Uzbekistan grew from 3 to 15 billion USD between 2002 and 2011, a 5 –fold increase (see Diagram 1). This significant growth resulted from both increased physical volume of exports in certain commodity groups, and growth of world prices for certain categories of Uzbek commodity items, primarily for gold, other metals, natural gas, and cotton.

Figure 1. Volume of exporting goods and services from Uzbekistan, in millions of USD.



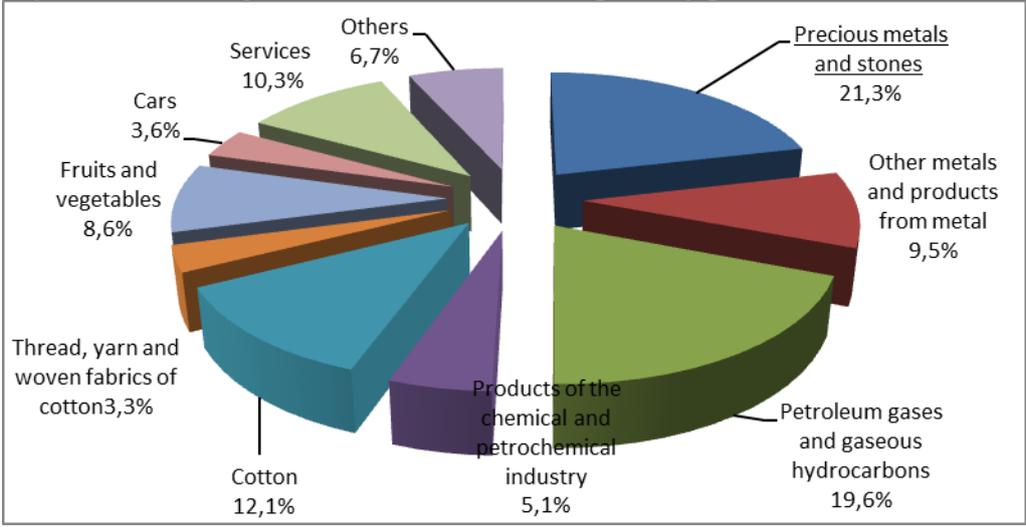
Source: State Committee on Statistics of the Republic of Uzbekistan

A significant share of Uzbek exports is comprised of mineral resources and derived products (Figure 2). Minerals make up a large portion of Uzbekistan’s exports, given its significant supply of

resources: more than 2,700 mineral deposits and potentially more than 100 types of mineral raw material as yet undiscovered. Approximately 57% of 2010 national exports were comprised of metals, mineral resources and hydrocarbons.

Agricultural products, food production industry (including farming, food production, packaging and distribution, retail, and catering) and light industries made up the second highest share of national exports in 2010 at 27%.

Figure 2. Percentage share of Uzbekistan’s exports by product in 2010.



Source: Government Committee on Statistics of the Republic of Uzbekistan

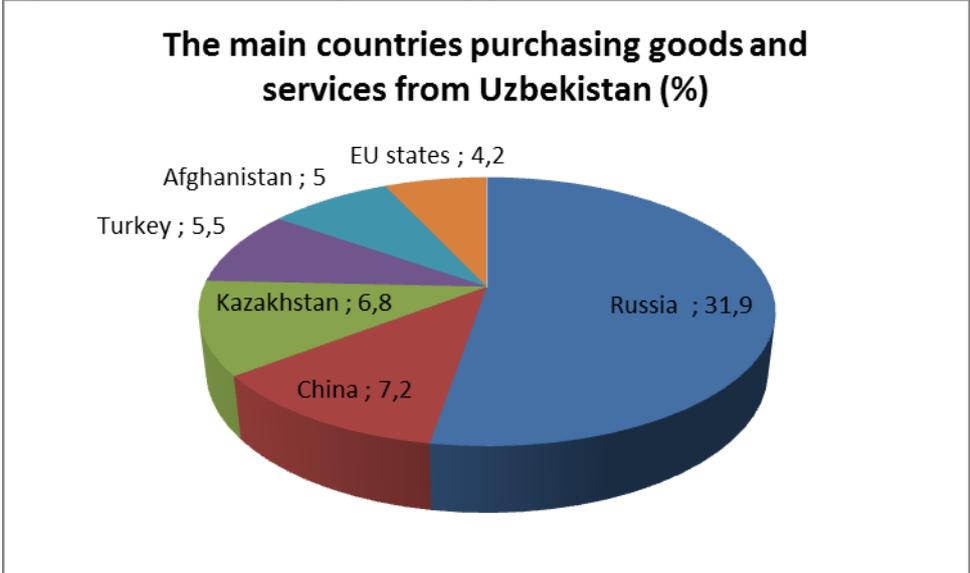
The recent export volume growth trend is divided by product items (see Table 1)

Table 1. Volume of export growth by sector in Uzbekistan, 2000 – 2010.

Raw Materials	Proportion of Growth	Finished Products	Proportion of Growth	Services	Proportion of Growth
Precious metals and stones	3.9	Plastic materials	41.5	Tourism	8.1
Copper and derivatives	4.3	Fertilizer	7.9	Communication	3.9
Ferrous metals	11.4	Textile products	5.7	Commercial air transport	4.1
Uranium	7.7	Fruit and vegetable products	15.8	Rail transport	2,0
Natural gas	11.9	Cars/vehicles	7.6		
Oil refinery products	4.1	Machines/equipment	7.3		

Source: Government Committee on Statistics of the Republic of Uzbekistan

Figure 3: Main Countries purchasing goods and services from Uzbekistan (%)



Source: Government Committee on Statistics of the Republic of Uzbekistan

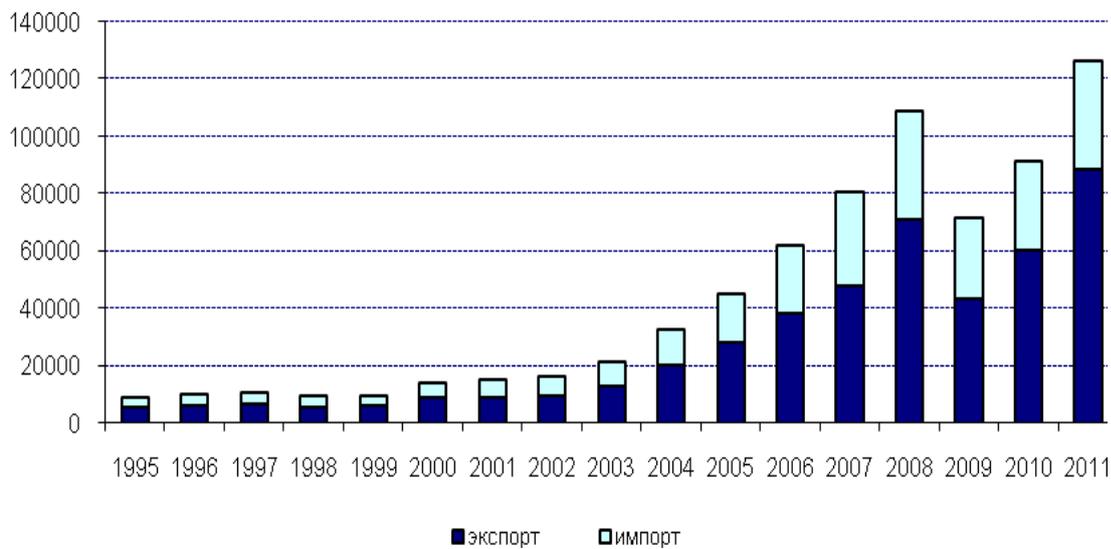
During the 2000-2010 time period, the volume of exports (in USD) to China increased by 41,5 times, to Kazakhstan – by 8.8 times, to Russia by 7.6 times. 75.9% of exported goods to Russia, the leading trade partner of Uzbekistan, in 2010 consisted of: natural gas, fruits and vegetables, and cars. In 2000, the main item of export to Russia was cotton (36.3%)

Overview of Exports in Kazakhstan

Kazakhstan’s position in the world economy is largely defined by its participation in the global economy. Currently, Kazakhstan specializes mainly in raw minerals. Available data on Kazakhstan’s processed exports indicates that Kazakhstan’s most demanded products are: rolled metal and ferrous/non-ferrous metal items, chemical products, fertilizers, fabricated rubber products, cotton, leather, wool, wheat flour, vegetable oil, confectionery goods, various transport vehicles, oscillating pumps, transformers, accumulators (rechargeable batteries) and other items.

Currently, about 1,000 Kazakh companies export goods and raw materials, with 75% of these firms exporting processed products. Approximately 30% of Kazakhstan exporters of processed products are small and medium-size businesses. As identified by KazNex Invest, Kazakhstan trade promotion agency, natural resources dominated Kazakh commodity exports between 2005 and 2010. Exported processed goods as a share of total export volume remained stable, and for the same period amounted to approximately 28.3% (see Figure 3).

Figure 4. Export and Import in the Republic of Kazakhstan between 1995 and 2011 (Mil USD)

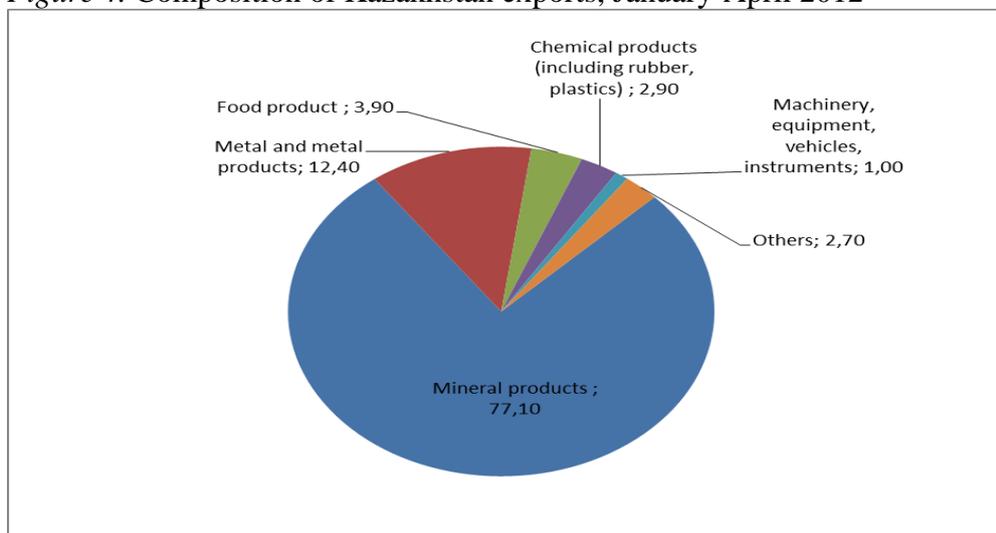


Source: Statistics Agency of the Republic of Kazakhstan

Kazakhstan products are exported to over 120 countries, and over a two year period (2009 to 2011), export coverage expanded from 106 to 121 countries, a net increase of 15 countries. The first five countries to which processed products were exported were China, Russia, Turkey, Switzerland, and Germany.

Figure 4 (below) shows the composition of Kazakhstan export products between January and April 2012, based on data from Statistics Agency of Kazakhstan.

Figure 4. Composition of Kazakhstan exports, January-April 2012



Source: Data from Statistics Agency of the Republic of Kazakhstan

In 2011, as compared to 2010 indices:

- Export of accumulators increased by 2.4 times (2011: USD \$47 million) to Russian Federation, Tajikistan, Belarus, and Kyrgyzstan. New markets: Azerbaijan and Poland.

- Export of bearings increased by 1.6 (2011: USD \$106 million) to Russian Federation and Belarus.
- Copper wire increased by 1.4 (2011: USD \$212 million) to China and Russian Federation.
- Yellow phosphorus increased by 1,4 (2011: USD \$153 million) to Germany, Czech Republic and Poland.
- Cement increased by 17% (2011: USD \$19 million) to Tajikistan and Kyrgyzstan.

A review of the statistics agencies' data indicated significant unrealized potential to expand trade between CAR states and the majority of Eastern and South Asia, as well as Western Europe. One of the recent high-potential export destinations for all CAR states is Afghanistan, because the DOD started sourcing goods for its military commitment in Afghanistan through the Northern Distribution Network. Afghanistan is a country with significant potential for economic development. It has substantial water, agricultural, and mineral resources and is well positioned to become a trade and business hub linking the markets of Central Asia, the Middle East, South Asia, and China. The potential exists for sustainable economic growth in the future. Afghanistan's commercial connections to regional and global economies have been severely disrupted due to regional instability and must be redeveloped. The development of a competitive private sector will depend on establishing access to foreign markets and developing viable export activities.

SECTION III. NORTHERN DISTRIBUTION NETWORK IN CENTRAL ASIA

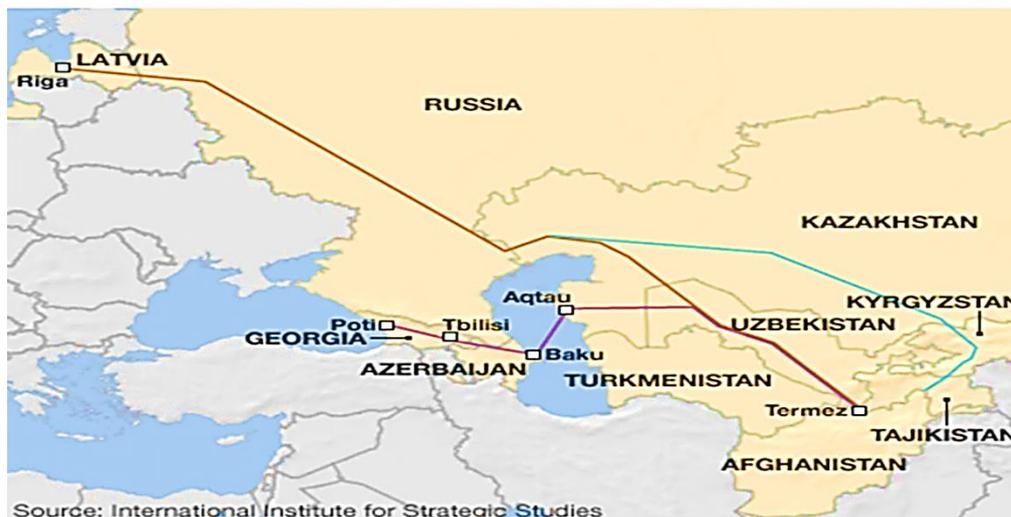
NDN Operations in Central Asia

In the first half of 2009, the United States established several new transit corridors for delivery of non-lethal goods to its forces in Afghanistan. The supply lines enter Afghanistan's northern borders from Uzbekistan and Tajikistan via routes that begin in Latvia and Georgia and cross through Russia and Kazakhstan. These routes make use of a great deal of transit infrastructure (roads, rails, and ports) built more than 20 years ago by the Soviet Union as the principal artery for its forces during the war in Afghanistan in the 1980s. Alternative routes for supplying U.S. troops were needed both by the increased U.S. force presence and by the overreliance on existing routes that start from the Pakistani port of Karachi and enter Afghanistan through increasingly insecure territory. These new routes have been termed the Northern Distribution Network (NDN). The NDN involves three spurs: NDN North, NDN South, and KKT (Kazakhstan, Kyrgyzstan, and Tajikistan). NDN North begins at the Latvian port of Riga. From there, it uses existing Soviet-era rail lines to traverse Russia, Kazakhstan, and Uzbekistan. Once in Uzbekistan, cargo enters Afghanistan at Termez. NDN South transits the Caucasus and completely bypasses Russia. This route originates in the Georgian port of Poti on the Black Sea and crosses Azerbaijan before arriving in Baku. From there, goods are loaded onto ferries for their journey across the Caspian Sea. These supplies make landfall at Kazakhstan's west coast port of Aktau and then proceed to Uzbekistan before entering Afghanistan (Figure 5). If and when the United States secures a transit agreement from Turkmenistan, the port of Turkmenbashi could be an additional destination for goods leaving Baku by ferry.

The KKT route includes Kazakhstan, Kyrgyzstan, and Tajikistan. KKT provides a backup to the Uzbek border crossing at Termez.

Figure 5. Northern Distribution Network.

Afghanistan Northern Distribution Network



The Manas facility in Kyrgyzstan is not part of the NDN. Manas is used as a personnel and air-refueling hub for coalition forces. The NDN is a multi-route logistical network that transports nonmilitary supplies using commercial providers and existing infrastructure. With the exception of the Uzbek air cargo hub at Navoie and the Caspian Sea ferries, the NDN relies on road and rail.

Currently a major volume of cargo is delivered through Kazakh and Uzbek territory. Turkmenistan supports coalition troops through selling fuel to commercial suppliers for USA military forces and providing aircrafts re-fuelling at Ashkhabat airport when they fly within the NDN routes. All five Central Asian states provided U.S. military vessels with flight permits over their territories.

Among all Central Asian states Uzbekistan maintains the most developed multi-branch railway network, which makes it one of the junction points of the NDN. In November 2010 State Joint-Stock Railway Company "Uzbekiston Temir Yullari" completed building the 75-kilometer "Khairaton – Mazari-Sharif" railway in Afghanistan. State Joint-Stock Railway Company "Uzbekiston Temir Yullari" has been the operator of this section during the first three years of operation, which has allowed increasing cargo to flow through the railway. Building this section of railway has been beneficial for all interested parties. According to regional news sources, "Afghanistan has to study the access to the Central Asian markets, and ... the regional energy carriers, – states Uzbek political analyst Eugene Khan. – Cluster of (Uzbek) main lines Tashguzar-Baisun-Kumkurgan and Khairaton – Mazari-Sharif allows Afghanistan potential receipt of resources from Kazakhstan and Russia. These two countries are also interested to cooperate (with Afghanistan), this is economically beneficial for Kazakhstan, and strategic issue for Russia"².

Barriers to NDN Operations in Central Asia

Central Asian experts acknowledge the problem of transport corridor safety. Uzbek experts think that the Termez – Mazari-Sharif railway attracts terrorist forces and may worsen the situation in the region, as well as jeopardize Uzbekistan due to terrorists' penetration to the region. According to

² <http://centralasiaonline.com/ru/articles/caii/features/politics/2011/06/29/feature-01?mobile=true>

Uzbekistan expert Mr. Yevgeniy Khan, “This is in fact the reverse side of the medal. However, it is not beneficial for Uzbekistan to turn such projects down – since this strengthens its political and economic position in the Northern Afghanistan.”³ Uzbekistan is already planning a new project, the Mazari-Sharif – Great railway, which theoretically links the existing railway line, laying to the west from Gerat. However, this causes some issues too. “This raises economic and infrastructure problem,” says an official representative of the УТЎ Company Rasul Khalikov. “The east – Great line uses European track of 1435 мм (56.5 in), whilst the standard of our railway branch is 1520 мм (59.8 in)”. CIS states continue using wider track, inherited since Soviet Union era. “Afghanistan needs to purchase additional locomotives and wagons, to be able to combine these railway branches,” said Mr. Khalikov⁴.

The use of NDN is also a problem of a different nature for exporters from CA. As noted by many carriers from Central Asia and Afghanistan, they encounter the following challenges while crossing the border between Uzbekistan and Afghanistan through the NDN:

- Cargo delays on the Uzbekistan and Afghanistan border, lengthy procedures for transportation, customs, phyto-sanitary control⁵.
- Use of the Kazakhstan – Kyrgyzstan – Tajikistan automobile route in winter encounters the problem of bad roads and weather conditions.
- Shipment of transit cargo by railway to Afghanistan via Uzbekistan has to pass through lengthy licensing procedures, similar to automobile transport cargo delays on the border.

Therefore, Prime Vendors use Manas airport, near Bishkek, Kyrgyzstan, as the center for transit shipments. Cargo transportation by air is expensive when compared to other types of transportation. Nevertheless, starting in the middle of 2011, there has been a provision H-11 “Rules for Cargo Shipments with regard to Uzbekistan,” valid for all types procurement by the U.S. Department of Defense that states, “Materials used in the process of implementing this contract, should not pass as transit through territory of Uzbekistan. The U.S. Government does not bear any responsibility for expenses or delay resulting from failure to comply with this instruction. The subcontractor is not released from liabilities to reimburse losses and indemnity payment due to cargo delay and failure to implement projects in time, due to a subcontractor’s decision to forward cargo through the territory of Uzbekistan”⁶. Based upon provisions of recent transit agreements via the NDN, entered into with Kazakhstan and Uzbekistan, Uzbekistan will charge non-military cargo carriers from Afghanistan up to 50 percent over existing tariff rates for railway use. Carriers will also have to deal with additional bureaucracy, which is not included in the agreement signed with Kazakhstan.

According to Article 13 of the Agreement dated November 17, 2011 with Uzbekistan, “the cost of railway cargo transit through [the] territory of Uzbekistan is set at an amount, which exceeds international railway transit tariff [by] 1.5 times.” Previous transit agreements with Tashkent used to set rates in accordance with the international railway transit tariff. Carriers also are mandated to apply for multiple permits for cargo transit from Afghanistan to the Ministry of Defense of Uzbekistan, which then arranges the time when cargo is allowed to be transported.

³ <http://centralasiaonline.com/ru/articles/caii/features/politics/2011/06/29/feature-01?mobile=true>

⁴ Maksim Yeniseev <http://centralasiaonline.com/ru/articles/caii/features/politics/2011/06/29/feature-01?mobile=true>

⁵ Problems have been articulated by representatives of KazATO and Zhdanova, representative of Chamber of Trade and Commerce in the Almaty city, working with the Afghan importers and exporters

⁶ <http://russian.eurasianet.org/node/59202>

An agreement with Kazakhstan, signed in December 2011, is much shorter and simpler than the one for Uzbekistan. It says that “transit of cargo through territory of the Republic of Kazakhstan is the subject of export control and requires obtaining permit from appropriate agencies, as stipulated in the Kazakhstan Law about export control”.

SECTION IV. DOING BUSINESS WITH THE DOD IN CENTRAL ASIA

The United States supports the NDN’s resiliency and improves its effectiveness by expanding local procurement using the NDN. The U.S. works with its Central Asian partners and CA republics are already included in the broadened Afghan First Policy.

The Defense Logistics Agency (DLA) and the General Services Administration (GSA) have established a “virtual storefront” in Termez, Uzbekistan, that aggregates local goods before moving them south to Afghanistan. In addition, the Office of the U.S. Trade Representative is in the early stages of working with USAID and other U.S. government agencies to ensure that procurement officials in the Pentagon, looking to meet their many requirements, know about their agency-specific programs in Central Asia. Overall progress on local procurement, however, has been slow due to rigid Department of Defense procurement policies. As part of its effort to source items, the contractor must be able to document that the supplier or source is “positioned for success.” This provision requires contractors to meet a number of criteria:

- They must be capable of shipping or delivering a substantial portion of the anticipated monthly volume at a reasonable price;
- They must meet an acceptable quality standard;
- They must be financially capable of performing;
- They must not pose unreasonable risk.

DOD supply is regulated with specific procedures and implemented by DOD structural subdivisions. The DLA is the Department of Defense's largest logistics combat support agency, providing worldwide logistics support in both peacetime and wartime to the military services as well as several civilian agencies and foreign countries. In accordance with the structure of the DOD⁷, the key customer for goods and cargo for military commitment in Afghanistan is CENTCOM. Procurement and delivery of goods and services are also implemented for the United States Army Corps of Engineers (USACE). The Joint Contingency Acquisition Support Office (JCASO) is in charge of the procurement planning procedures, contracting and contracts implementation.

One of DLA’s subdivisions is DLA Troop Support (DLA TS), which provides U.S. military forces with food products, clothing, textiles, medications, medical equipment, construction materials and equipment. DLA TS also renders humanitarian aid on behalf of the U.S. Government and emergency aid as needed.

In Central Asia DOD works through its prime vendors: TWI, Seven Seas (TMC), Supreme Food and the DLA Procurement Team, which provide:

⁷ <http://www.defense.gov/orgchart/#v>

- Marketing for the DOD needs of products and services;
- Purchasing, warehousing, consolidation of the goods;
- Transportation and distribution of goods among DOD subdivisions in Afghanistan.

Selection and procurement of commodities in CA for DOD Afghanistan are implemented in accordance with the DOD request and requirements as applicable by product classes I, IV, as well as other commercial equipment and their associated repair parts (Annex 1). Examples of products that are currently being supplied to the DOD include: power generators & spares; electrical panels & cabling; lumber; plumbing; HVAC; tools; cable; paints; pickets; temporary living quarters, barriers, construction hardware, light towers, and other related items.

Based on 2010 performance statistics and Kaznex data, the total volume of Kazakhstan commodities exported to US DOD in Afghanistan was USD \$1,561,000. This included USD \$1,165,000 worth of procurement by TMC (profile sheet, fuel barrels) and \$396,000 worth of procurement by TWI (plywood sheets). According to the DLA report, the 2010 procurement volume plus the first two months of 2011 amounted to USD \$98,577,000. This is made up by about 82% (\$80,452,000) in transportation services and fuel, and only 18% (\$18,124,000) in commodities (construction materials, water, hygienic items such as cleaning items, paper and other).

Based on the DLA report, local procurement in Kazakhstan from October through December 2011 totaled USD \$16,474,716. DLA expenditures accounted for \$13,040,716 of the total, while GSA procurements account for the remaining \$3,434,000 materials and supplies purchased during the first quarter of the 2012 fiscal year. During the first quarter of 2012, DLA and GSA reported contracts and transportation costs equaling half of what was reported in the entire fiscal year in 2011 (see Table 2 below for further detail).

Table 2. Total expenditures in Kazakhstan by fiscal year and quarter for DLA and GSA.

Commodity/Agency	FY11 Total⁸	1QFY12 (Oct-Dec)	2QFY12 (Jan-Mar)	FY12 Total
Fuel (DLA)				
Transportation Costs	\$25,359,029	\$11,655,986	\$15,755,018	\$27,411,004
Fuel Purchases ⁹	\$352,541	\$24,091	\$70,062	\$ 94,153
Fuel Total	\$25,711,570	\$11,680,077	\$15,825,080	\$ 27,505,157
Constr. Materials (DLA)	\$1,770,041	\$856,639		\$ 3,538,645
- Contracts	\$1,770,041	\$856,639	\$2,682,006	\$ 3,538,645
Temp Warehouse fees	\$31,200	0	0	0
Constr. Materials Total	\$1,801,241	\$856,639	\$2,682,006	\$ 3,538,645
Subsistence (DLA)				
- Bottled Water	\$2,990,400	\$504,000	\$ 665,280	\$1, 169,280
Subsistence Total	\$2,990,400	\$504,000	\$ 665,280	\$ 1, 169, 280
Supplies (GSA)				
- Supplies	\$2,493,472	\$3,264,396	\$4,209,884	\$7,474,280
- Transit/Freight/ Customs/Taxes	\$238,625	\$169,604	\$234,261	\$ 403,865

⁸ All FY 11 total dollar amounts as of 31 December 2011 report.

⁹ FY 11 Fuel purchases updated due to added data from DLA Energy showing \$352,541 in fuel purchased through the Air Card program in support of U.S. Government aircraft serviced at commercial airports in Kazakhstan.

GSA Total	\$2,732,097	\$3,434,000	\$4,444,145	\$ 7,878,145
OVERALL TOTAL	\$33,235,308	\$16,474,716	\$23,616,511	\$40,091,227

DLA data for 2011 does not include purchase of fuel from TRANSCOM, which is implemented for the Army needs particularly.

Local procurement in Uzbekistan from October through December 2011 totaled \$16,073,797 USD from DLA. This represents a 122% increase in DLA local procurement from last quarter (July - September 2011). This also represents 56% of all fiscal year 2011 (\$25,092,744) procurement. For the General Services Administration (GSA), local procurement in Uzbekistan from October through December 2011 totaled \$853,054 which was an increase from last quarter by 148%. Total expenditures (DLA & GSA) in Uzbekistan for fiscal year 2012 (October - December 2011) were \$16,926,851 and is equivalent to 66% of all fiscal year 2011 procurement combined (\$25,724,192).

Table 3. Total expenditures in Uzbekistan by quarter for DLA and GSA

Commodity/Agency	FY11 Total	1QFY12 (Oct-Dec)	FY12 Total
Fuel (DLA)			
- Transportation Costs	\$11,863,659	\$9,639,587	\$ 9, 639, 587
- Fuel Purchases	\$0	\$0	\$0
Fuel Total	\$11,863,659	\$9,639,587	\$9, 639,587
Construction Materials (DLA)			
- Contracts	\$1,881,630	\$2,430,436	\$2,430,436
- Bukhara Lumber Mill		\$1,410,154*	\$1,410,154*
- Temp Warehouse fees	\$1,507,420	\$0	\$0
Construction Materials Total	\$3,389,050	\$3,840,590	\$3,840,590
Subsistence (DLA)			
- Contracts	\$9,840,035	\$2,593,620	\$2,593,620
Subsistence Total	\$9,840,035	\$2,593,620	\$2,593,620

Supplies (GSA)			
- Supplies	\$419,956	\$809,959	\$809,959
- Transit/Freight/ Customs/Taxes	\$211,492	\$43,095	\$43,095
GSA Total	\$ 631, 448	\$853,054	\$853,054
OVERALL TOTAL	\$ 25, 724,192	\$16,926,851	\$16,926,851

Increasing the CA local procurement of supplies for Afghanistan is very important to strengthening the NDN. It would generate goodwill among NDN participants, giving them a greater stake in the NDN's continued operation. Currently, the interest in supplying goods from Central Asia for the DOD has also been expressed by CENTCOM Joint Theater Support Contracting Command (JTSCC).

SECTION V. PRIME VENDORS COMMODITIES SELECTION AND PROCUREMENT PROCEDURES FOR THE DOD FROM CENTRAL ASIA

The REC Project Team reviewed the procedures for the selection of commodities and suppliers; the requirements of Prime Vendors towards potential suppliers from Central Asia; and met with representatives of TWI, Supreme Food and TMC in Kazakhstan regarding selection and procurement of commodities, product specifications and company procurement requirements.

For Central Asian procurement purposes, the DLA and PV teams regularly conduct their own marketing research activities for commodities, products and services in accordance with DOD requirements. DLA has compiled a database for DLA suppliers in Central Asia (Central Asia Yellow Pages), indicating products which they may deliver for DOD. Marketing research, selection, and procurement of commodities from Central Asia through all Prime Vendors is implemented according to the established procedure by TWI, Seven Seas and Supreme Food.

Twenty nine (29) respondents were interviewed for the purpose of studying the current situation regarding local supplies for DOD in Afghanistan: 15 companies from Kazakhstan, 8 companies from Uzbekistan, 4 companies from Kyrgyzstan and 1 from Tajikistan, as well as the American Chamber of Commerce in Tajikistan (AmCham TJ), which promotes Tajik exports to external markets. These companies have already delivered products to the DOD through Prime Vendors TWI and Supreme Food.

A summary of how the local suppliers were identified and the type of product sold are below:

- TWI and Supreme Food approached local companies themselves and offered delivery of products.
- Out of 24 suppliers, two companies have been invited to supply based on references of the UAE partners. This indicates that the main partners' search tools are internal market surveys and Internet resources of Prime Vendors.

- Kazakh and Kyrgyz companies mainly supply the following products for TWI: cleaning substances, fire prevention equipment (smoke detectors), cartridges, paper towels, toilet paper, disposable kitchenware, detergents and other household items.
- Uzbek companies mainly supply food products for Supreme Food: bottled water and beverages, pasta products and juices;
- TWI entered into contracts with Uzbek suppliers for delivery of cable products, sanitizing items and disposable dishes.

Selection and entering agreements with all surveyed companies have been done in accordance with the Prime Vendor procedures, as indicated in the Annexes (Annexes B, C and D).

According to respondents, TWI's procedure to select potential suppliers is conducted as follows. At the individual meeting or telephone call, respondents were requested complete a company profile, documents confirming their accreditation, certification, quality standards, product verification and requirements for standardization, technical regulation, as well as provide catalogues, lists of products, company brochures, business partners' references, verification of the company's legal status and product samples. When all products were presented and samples verified according to the requirements, both parties advanced to the negotiations stage and contract signing.

Supreme Food procures food products. According to Uzbek producers, Supreme Food selects suppliers as follows. At the individual meeting or telephone call, respondents were requested complete a company profile, documents confirming their accreditation, certification, quality standards, product verification and requirements for standardization, technical regulation, as well as provide catalogues, lists of products, company brochures, business partners' references, verification of the company's legal status and product samples.

As mentioned by a representative of Nestle in Uzbekistan, Makiz Baraka, the representatives of the Supreme Quality Assurance (QA) Team forward a check list to companies in advance, and afterwards they visit to conduct a preliminary audit check of an enterprise. Based on preliminary checkup, the PV issues recommendations and identifies noncompliance issues to be addressed. Audit findings are then provided to producers (potential suppliers) with remarks and recommendations, as well as the deadline to address noncompliance issues (if any). A second visit is scheduled for another checkup on the products and technological processes, conducted by representatives from VETCOM, which concludes with the audit findings report. A company's possessing conformity certificates, such as ISO and HACCP, are weighed heavily in the review by representatives of VETCOM and Supreme Food. If the audit outcome is positive, Supreme Food sends VETCOM /CENTCOM a request for approval of a particular product item to be procured for the DOD. After obtaining VETCOM approval, the process of negotiation and subsequent contract signing begins. All Uzbek companies interviewed indicated that VETCOM audits are conducted every six months at the suppliers' production facilities. If a company meets all DOD requirements, the parties begin negotiations and signing the agreement between the company and the PV.

All Kazakh and Kyrgyz suppliers agreed that while implementing the contract, Prime Vendors always took the shipment from the warehouses, so that the supplier could avoid dealing with customs documentation required to cross the border. According to the contract provisions in Uzbekistan, commodities are delivered by suppliers from Tashkent to Termez by rail and truck, and then transported by Prime Vendors from the supplier's warehouse.

However, there are issues which create significant barriers for supplying goods and cargo to Afghanistan, including for the DOD. Both local suppliers and American Prime Vendors operating in Central Asia encounter constraints related to trade policy; transport and logistics; export and customs clearance documentation; and procedures and requirements for supplying to the DOD in Afghanistan, conforming to DOD procurement requirements.

SECTION VI. TRADE BARRIERS IN CENTRAL ASIA

Central Asian trade is negatively affected by multiple barriers to trade, i.e. factors impeding export and import to and from Central Asia. Some of these barriers are additional transport expenses and transportation time, requirements to send international shipments via Central Asia due to no seaport access and complicated topography, are out of any one entity’s control. However, other barriers created by economic policy implemented by CAR states and their trade partners may be reduced by CARs through national or joint activities.

Trade Policy Barriers

Foreign trade procedures include not only operations directly related to entering into and implementing a trade deal, but also customs supervision procedures, payment of customs fees, making international payments, cargo transportation, and obtaining various permits and approvals. The number of documents, procedures, time, and money spent to export and import goods, products and services are reflected in the World Bank “Doing Business” index on “Trading Across Borders”. According to the 2012 index, Kazakhstan ranked 176th and Uzbekistan ranked 183rd out of 183 countries, which indicates the complexity and high cost of these countries’ export and import procedures for business. (Table 4)

Table 4. “Trading Across Borders” Index, World Bank “Doing Business” 2012 Rating¹⁰

	Kazakhstan	Uzbekistan
National income per capita (USD)	6,740	1,100
Population (millions)	15.9	27.8
Trading Across Borders (rank out of 183)	176	183
Quantity of documents required for export	9	10
Average time for export (days)	76	71
Average cost of export (USD per container)	3,130	3,150
Quantity of documents required for import	12	11
Average time for import (days)	62	92
Average cost of import (USD per container)	3,290	4,650

All information used to calculate the “Trading Across Borders” index is drawn from legislative regulations of exports and imports in the country. The total number of bylaws regulating export of goods and services in Kazakhstan is now about 340, which includes international treaties, codes, laws, government decrees, orders, and instructions issued by ministries and agencies¹¹. Export operations in Uzbekistan are also regulated with even larger number of bylaws¹².

¹⁰ <http://www.doingbusiness.org>, Documents to export <http://data.worldbank.org/indicator/IC.EXP.DOCS>

¹¹ [Law database of RK http://online.zakon.kz/](http://online.zakon.kz/)

¹² http://norma.uz/publish/doc/text1725_zakonodatelstvo_respubliki_uzbekistan1

All companies surveyed identify the following problems related to government regulation of export operations:

- High number of required documents for customs registration of goods and services to cross borders. The number of documents may differ depending upon a product or other particular conditions; in some cases it can be as high as 20 or more documents.
- Multiple industry-related bylaws and regulations for export operations.
- Multiple government agencies involved with the approvals procedures and issuing permits for exporting products.
- High customs fees
- Time consuming procedures for obtaining licenses to export products, and the high number of required documents associated with applying for an export license (Annex E).
- Delays encountered while crossing the border caused by lengthy border procedures, such as inspections of transport and commodities by various regulatory and supervisory agencies (transportation, phyto-sanitary, veterinary, customs control, frontier security and other agencies).

Kazakh companies face the following problems in the area of government regulation of export operations:

- Taxation – issues with VAT reimbursement: long-term return of the VAT and the lack of a clear mechanism for automatic offset taxes; absence of a system of electronic information exchange between all government agencies involved in the export regulation;
- Technical regulation – inconsistencies related to lack of recognition of Kazakhstan certificates of conformity and testing protocol;
- Transportation - high tariffs for transportation;
- Intellectual property - access to Patents database and Register of trademarks from Customs Union states: Russia, Belarus and Kazakhstan);

Problems encountered by Kazakh businesses while exporting commodities to Afghanistan and Uzbekistan include:

- Currency conversion and payments to buyers from Afghanistan and Uzbekistan; complicated procedures obtaining permits for transit and transport cargo passing Uzbekistan;
- high entry tariffs;
- Limits created by quotas allocated for international automobile transport between the countries.

Key problems related to export from Uzbekistan are:

- Over-estimated official rate for national currency exchange. There is a significant difference between the official and the market exchange rate, and a lack of free currency conversion for current operations indicates that the official rate for the Uzbek som (UZS) is significantly over-estimated. The practice of over-estimating national currency exchange rates encourages imports and discourages exports, as well as impedes developing local production, resulting in inefficient participation in the international division of labor.

- Requirement of 100% prepayment in export contracts. Prepayment is usually unallowable by foreign buyers' specifications, therefore foreign buyers often disagree with these particular transaction terms and many potential export contracts are not finalized.
- 100% fine for untimely payment within the export contract. This fine is calculated based on the amount of foreign currency received outside of the contract timeframes, or not received at all.
- Bureaucratic complications. Bureaucratic issues stem from procedures related to registering the export contract, product certification, obtaining barcodes, and interaction with customs authorities.
- Lengthy period of VAT reimbursement. This is also related to a lack of distinct mechanisms for automatic mutual offset of taxes.
- Outdated mechanisms for submitting documentation. There are often limited procedures or capability for exporters to submit documents electronically and the system of electronic document exchange among all government agencies involved into regulation of export is similarly outdated.
- Insufficient development of pre-export financing mechanisms. Banks do not issue loans against future currency revenues on export contracts, even if it is secured with the buyer's bank guarantee or letter of credit. Factoring is also not developed in the country. The bank finances a client against the concession of its monetary claim, as well as the concession of the right of transfer the contract to another creditor (selling debt receivable). The development of these operations is complicated by differing interpretations by regulatory agencies of the President's Decree №YII-1504, which states: "Commercial banks shall implement payment for the products (work, services) shipped directly to suppliers without letting payments be offset by third parties" (Paragraph 5).

Transport And Logistical Barriers

Underdeveloped and underserved infrastructure is a significant barrier for regional trade development. The World Bank developed the Logistics Quality Index (LQI) to characterize this type of trade barrier (see Table E). The CAR states, particularly those with smaller economies, do not rank well in this index. The main barriers to trade in these countries include: insufficient quality of trade and transport infrastructure; insufficiently developed system of logistics services; and inefficient processes for customs clearance. Nevertheless, a comparison of LQI values in 2007 and 2010 indicates that all countries of the region, particularly Kazakhstan and Uzbekistan, made some progress in this area.

Table 5. Country ranking (out of 150 in 2007; out of 155 in 2010)

	Com mon 2007	Comm on 2010	Custom	Infrastru cture	International shipment	Logistics competen ce	Control of shipments at pass through	Timeli ness
Afghanistan	150	143	104	139	141	141	128	146
Kazakhstan	133	62	79	57	29	73	85	86
Kyrgyzstan	103	91	71	118	39	107	132	106
Tajikistan	146	131	147	128	127	125	141	98
Turkmenistan	No data	114	119	101	137	111	126	65
Uzbekistan	129	68	107	70	83	89	63	50

Source: World Bank

According to the LQI, the most visible improvements occurred in the ratings for infrastructure and timeliness of international shipments. These improvements may have resulted from large-scale investments in transport and energy infrastructure in the countries of the region, made through the support of Iran, China and Russia, as well as international development organizations. An example of one such large-scale project, funded by the World Bank, is the thorough repair of auto transport corridors passing through almost all countries of the region.

Nevertheless, all survey respondents identified the following barriers:

- High cost and low quality of transport and logistics services in the region;
- Difficulties carrying goods and transport vehicles' through the CAR borders and territories of neighboring states;
- Transport expenses for international shipments to CARs are high and the timeframe for transportation is inconsistent;
- Lack of repair and maintenance, medical, and catering units on remote sections of roads, as most of these amenities are located in inhabited settlements.

When Kazakhstan entered the Customs Union, it encountered problems with cargo documentation on rail transportation. An example of a barrier identified by a Kazakh company involved the mandatory procedure of getting confirmation of codes on the shipment of the export goods in question by rail and sea, which is conducted by two different agencies, depending on the destination of the shipment. If the shipment is sent to the east, JSC "Kaztransservice" in Astana conducts this inspection, but OOO "TIS" in Moscow conducts this inspection if the shipment is sent to the West. This procedure can take from two to ten days. Additionally, high-value goods shipped by road are required to be carried in trucks or vehicles that display the TIR-cornet logo (indicated by a red stripe). Obtaining the TIR-cornet symbol for display on the vehicle is a cost incurred by the customer

As noted by the Uzbekistan Association for development of business logistics (BDLA)¹³, many logistic companies encounter the following specific challenges:

- Lack of implementation of QMS ISO 9001 for transport and logistic companies.
- Lack of professionally-trained staff on international logistics, transport communications, and international legislation.
- Lack of manuals or guides on logistic issues offered by universities in Uzbekistan.
- Lack of updated maps, including an electronic atlas of CAR roads with all infrastructure and stations for drivers.
- Lack of knowledge of environmental requirements for transport.
- Lack of communication between CAR and international logistic associations and centers.
- Lack of "one-stop shops" in logistics and transport systems, including: informational, industry, technology, insurance, customs broker's activities, and storage warehouse terminals.
- Problems related to exporting to Afghanistan include a lengthy waiting period on the border (anywhere from one to three or more days) and issuance of visas. The waiting time at the

¹³ <http://www.adbl.uz/index.php?lang=en>

Afghan border is long because of strict requirements on the detection of contraband from Uzbekistan to Afghan, and on the relative availability of narcotic drugs in Afghanistan. The following state authorities inspect cargo at the border: national security state bodies; Customs; Ministry of internal affairs; phyto –sanitary state body; Veterinary state body.

To reduce some problems in this area, BDLA designed the new Transport and Logistics Information Internet Portal <http://www.logistika.uz/en/>. This informational resource is for entrepreneurs (freight owners) and transport companies (carriers) as well as for companies and organizations providing complex services related to forwarding, insurance and customs clearance of cargoes. The aim of the portal is to reduce transport and logistics expenditures incurred on the prime cost of goods imported or exported to major sale markets through achieving an efficient transport.

Barriers Related to Bureaucratic Procedures

All respondents identified inefficient bureaucratic practices as the biggest obstacle to CA trade. According to CA freight forwarders' associations, the bureaucracy at borders is the greatest impediment to trade. The majority of these bureaucratic obstacles are created by relations between transit countries. As such, the abundance of border crossings involved in transcontinental trade creates significant inefficiencies. Border crossings create delays that account for up to 40 percent of the total travel time between Europe and Asia and about a third of freight charges. The ADB reports that transportation costs may represent 50 percent of the price of nationally produced goods in Kyrgyzstan¹⁴.

The official difficulties at borders are exacerbated by corruption. Representatives of the Union of International Road Carriers of the Republic of Kazakhstan (KAZATO) identified corruption as the most critical issue at border crossing points. Corruption can involve customs, sanitary, phyto-sanitary, and other formalities. Within Central Asia, unofficial costs at borders exacted through bribes and facilitating payments are several times higher than official duties.

KAZATO also noted the presence of extortion through bribes on many roads in Kazakhstan. Drivers need to fill "Talon fringe"¹⁵ with a note of each item of control. Fees are charged for each stamp required: border control, phytocontrol, sanitary inspection, etc. All transport to Afghanistan that passes through the post Kanazbaev (Kazakhstan) - Yalym (Uzbekistan) on the Turkmen - Iranian border is charged USD 500 to 600 per vehicle. All vehicles crossing at the Uzbek-Turkmen point of crossing the border (PCB) are charged approximately USD 160. At the Turkmen-Iranian border, vehicles are idle for as long as one day because the border is open only during the day, from 6:00 in the morning until 8:00 at night, as night work is prohibited. The waiting time at the border of Kazakhstan, Uzbekistan, and Kyrgyzstan averages three to eight hours.

Other barriers that were identified by drivers include:

- Different types of international transport permits are needed on a regular basis: A - regular public transport services; B - occasional passenger transport; C - freight.

¹⁴ Kuchins, Sanderson, and Gordon The Northern Distribution Network and the Modern Silk Road Planning for Afghanistan's Future

¹⁵ A fee paid for a permit to cross the border.

- A disconnected system of customs classification exists in some cases where border officials hold the customs clearance and arbitrarily interpret and apply these regulations.
- The need for compulsory approval from the Uzbek railway for transportation of cargo to Afghanistan.
- Excessive demands for documents needed for customs clearance in order to get additional funds for the acceleration of customs clearance procedures.
- Free interpretation of the procedures and rules of transport control by transport inspection due to confusion and lack of information.
- After elimination of the transport control on roads, customs is sometimes confused about the categories of permission required for transport control, with respect to generally accepted categories of permits issued by the traffic police. Efforts to conduct trainings for customs officers on specific aspects of transport control have failed. It is possible that training was insufficient.
- There is a resolution of departure of third countries. The quota for such permits is set at 200 trucks. To get this permission is extremely difficult. Transit should be free, similar to the Consolidated Resolution on the Facilitation of International Road Transport. (GATT article 5 of WTO)

Borders, however, do not cause all the bureaucratic obstacles to transcontinental trade. Disparate regulations across regional states make for a highly convoluted and inefficient transcontinental transport sector. The agreements between countries in CA on the simplification of transit regulations are not functional. A lack of unified transit and road safety controls compounds these challenges.

Barriers to Companies' Potential for Export Development

Kaznex Invest JSC, under the Ministry of Industry and New Technologies¹⁶, is the key operator interacting with the American counterpart for Kazakh commodity procurement for the non-military needs of the DOD in Afghanistan. Since March 2010, there have been regular meetings between representatives of the DLA, PV, MINT RK and KazNex to discuss interaction and coordination of export to DOD Afghanistan. As noted by KazNex representatives, the outcome of these meetings was a list of product items procured by DLA to supply the U.S. Army in Afghanistan.

As requested by DLA, KazNex JSC has compiled a database of potential Kazakh suppliers in accordance with the list of goods procured by American counterparts (over 100 companies): timber, section iron, roofing and water-proof materials, construction materials, fuel barrels, metal devices, packaging products, cleaning items, drinking and distilled water, fresh fruits, and vegetables.

According to KazNex, Kazakh suppliers possess significant potential for supplying commodities for the DOD, however, there are challenges related to local potential suppliers not understanding: requirements and terms of shipment for DOD by product categories; procedures of selection and procurement of products; documents required; and transportation and product packaging requirements.

According to KazNex, one of the main problems is that the DOD sourcing list provided does not contain information about anticipated volumes and prices or technical characteristics and standards

¹⁶ <http://www.kaznex.kz/>

required for the procured products, thus complicating negotiations and contract signing. Some of these issues are currently being resolved. KazNex provided a comparative spreadsheet for compliance of State Standards of the Republic of Kazakhstan with American standards for certain types of products to all interested parties. DLA also provided the GSA sourcing list for 2012 (the “Yellow pages” database of potential suppliers), compiled by American counterparts as the source of potential DOD suppliers.

Another problem identified by all local suppliers is incompatibility of Kazakh products with American and European standards. As indicated by all respondents, a significant potential export development problem for producers and exporters is a lack of international certification of products and entities (ISO 9001, ISO 22000, ISO 1400 and other). Developing and implementing such international standards, entities and product certification is expensive, and sometimes requires modernization of the entities, purchase of equipment and incurs other financial costs.

KazNex as the national export promotion agency and works only directly with registered Kazakh companies (exporters and producers), supporting them in their activities. However, as the survey identified, none of the respondents (all of whom were distributors and not included in the KazNex register) were aware of KazNex activities, and were not included into the exporters’ register. Uzbek companies work in close collaboration with the Ministry of External Relations, Investments and Trade in the area of promoting Uzbek companies’ products. All Uzbek producers mentioned active collaborate with the American Chamber of Commerce (AmCham) in Uzbekistan.

According to the American Chamber of Commerce in Tajikistan, Prime Vendors in Tajikistan only do market research work and request pricelists. Currently, none of the local companies have received a particular request for supply of commodities for the DOD in Afghanistan. As mentioned by AmCham Director in Tajikistan, Tajik suppliers have more advantages in supplying goods for DOD, such as geographic proximity to Afghanistan and the potential for shipping goods via roads during all seasons, except winter and late fall. Therefore, AmCham in Tajikistan is planning to ramp up this work with DLA representatives.

The survey identified that 70% of Kazakh companies represented by the top managers were unaware of their goods being ultimately shipped to the DOD. Unlike Kazakh suppliers, Uzbek producers knew the final destination of their goods and shipment.

VII. ISSUES RELATED TO CAR PRODUCT DELIVERY PROCEDURES AS APPLICABLE FOR DOD NEEDS IN AFGHANISTAN

Procurement and Supply Procedures

All surveyed companies from Central Asia involved in DOD procurement and supply procedures identified the following barriers and problems:

According to Kazakh companies, a challenging issue is the lengthy procedure (up to 12 months) for submitting required documents and obtaining approvals, as well as other requirements, such as translation and submitting all documents in English. All suppliers indicated strict requirements for certification and standardization.

DLA/USACE representatives articulated challenges faced by PVs and DLA procurement teams while selecting suppliers for the DOD:

- Many suppliers have no ISO 9001 quality management system established.
- Enterprises providing food products have no international quality management system standards for food safety in place, such as ISO 22000, Hazard Analysis and Critical Control Points - HACCP, Occupational Health and Safety Advisory Services - OHSAS 18001, or a system of international standards for environmental management (ISO1400).
- Noncompliance of local products with American and European standards.
- Lack of information about enterprises and their products in English and on public websites.
- No English speaking employees on the staff.

DLA also highlighted Local Vendors Responsibilities:

- Develop or produce products in accordance with quality requirements
- Obtain best price
- Ensure adherence to local customs clearance procedures
- Conform to U.S. Government packaging/shipping requirements
- Keep prime vendor aware of local laws that affect local procurement

Contracting and Implementation between Procurement Companies and Suppliers from Central Asia for DOD

All Kazakh companies noted that entering contracts on non-beneficial terms is an issue:

- Volume of products, prices and terms for delivery are indicated in a separate specification for the agreement. Shipment volumes and delivery schedules are negotiated at a different time during a year, thus creating difficulties for warehouse inventory planning.
- The buyer does not bear any responsibility if it does not withdraw commodities from supplier's warehouse for a long period of time.
- The buyer does not consider any supplier's discrepancy report (statement of disagreements) regarding the contract provisions.
- Based on contract provisions, payment for the commodities shall be made upon delivery within 30 days, thus creating financial issues for suppliers.
- Arbitration note requires the resolution of disputes at U.S. or European arbitration courts, indicated by American counterparts only. At the same time, supplier preferences for alternative resolution of disputes at Kazakh or other neighboring countries' arbitration courts are not considered.
- Contract annexes indicate the fixed price, although the contract is often signed for a year and according to shipment terms may be shipped in installments in the course of getting buyer requests. Since almost all suppliers are distributors and procure goods from other countries in a different currency, and the currency exchange fluctuates during a year, the suppliers bear the losses.
- Kazakh companies also indicate challenging issues related to dealing with banks while arranging transactions for amounts exceeding USD 50,000. However, this procedure was

terminated in January 2012, and transaction requirements for customs documentation have been replaced with the procedure of contract registration. Almost none of the respondents were aware of this legislation change.

The situation related to entering and implementing contracts in Uzbekistan is different. In accordance with Uzbek legislation, and as confirmed by the respondents, contracts with PVs anticipate 100% prepayment for delivery of products. This has also been mentioned in the DLA Uzbekistan Report: “Considerable progress is being made with regards to 100 percent prepayment expectations from Uzbek vendors. Because of TWI's contracts with the U.S. Government, UZBEKINVEST has agreed to issue export credit insurance to the suppliers with which TWI establishes contracts on GSA’s behalf. This credit insurance will allow the Uzbek suppliers to accept terms for payment upon proof of shipment of the products ordered, per normal U.S. Government practices. UZBEKINVEST insures that payment for product will be made to the Uzbekistan supplier (for a fee of 1% of the transaction), which allows the Uzbekistan suppliers to forego their request for advance payment. Although UZBEKINVEST has agreed to issue export credit insurance to suppliers with which TWI establishes contracts on GSA’s behalf, not all Uzbek suppliers can or are willing to work under these terms. This still remains a challenge with DLA’s subsistence prime vendor. However, DLA’s subsistence prime vendor will explore the feasibility of using UZBEKINVEST to implement alternate payment methods with their suppliers. DLA will continue working at resolving this issue and will be addressed in a subsequent report”.

Uzbek suppliers identified the following specific issues related to subcontracting with PVs:

- All contracts are signed for one year, but according to the contract, the shipment lots and delivery schedule are renegotiated during the year, which caused issues related to inventory planning at warehouses.
- As all respondents noted, Uzbek suppliers have problems with preparation and signing contracts due to 100% prepayment for shipment.
- Arbitration note in the agreement anticipates review at the courts of Switzerland and the U.S. All respondents mentioned that while implementing PV subcontracts, none of them had to deal with the court review, as there was no single court proceeding initiated in practice. Only two Kazakh companies noted that according to the contract provisions, dispute resolution with U.S. or European courts would cause significant cost for the entity (for serving both as a claimant and/or defendant), mostly related to hiring lawyers to represent their interests at the foreign court. The respondents also noted that they knew nothing about operations and arbitration courts’ procedures, legislation of those countries and court system, indicated in the arbitration provision of the contract.

SECTION VIII. FINDINGS SUMMARY AND RECOMMENDATIONS

Based upon interviewing private business, PVs and other counterparts involved, there are general and specific barriers which create a negative effect on the development and promotion of exports, including supply to the DOD in Afghanistan:

- Government regulation on export operations
- Lack of government support and export promotion

- Poor development of marketing and consulting services and lack of information about markets. Particularly, enterprises lack information and knowledge to search for new markets: in Kazakhstan, there is no information about demand for Kazakh goods and services abroad. The local producers and exporters are not familiar with the product requirements and procedures of customs, veterinary and other types of controls in foreign countries. Foreign companies are unaware about export opportunities of local companies and produced goods in Kazakhstan.
- Lack of information on how to become an eligible supplier for the DOD, particularly requirements applied to enterprises and products.
- Procedures for selection and procurement of products for the DOD in Afghanistan. Local suppliers are not informed of the shipments' nature and products required for the DOD, which makes compiling documentation and submission to PVs complicated. There is also a lack of product requirements and specifications.
- Lack of smooth information exchange between organizations involved with export to the DOD, and a lack of information about domestic producer support instruments, which contributes to external risks related to exporting. There is a lack of sustainable authority capable of advising on requirements and procedures of supplying to the DOD.
- Lack of information and knowledge regarding aspects of international private law, entering into contracts with foreign companies, and resolving disputes through international arbitration.
- Many enterprises require explanatory and educational training sessions on introduction and maintenance of the quality systems and product safety, as well as other barriers outlined more in-depth in the report.

Based upon the mentioned barriers, the USAID REC Project recommends improvement of Central Asian sourcing for DLA as follows:

- In collaboration with NGOs, international organizations, and working groups under the governments of CARs, develop and present the recommendations on simplification of customs and transport procedures and border inspections, and reduce the list export permits.
- Establish an export partnership group (EPG) specifically for supplying to the DOD, and identify potential suppliers' activities and needs regarding training and information to facilitate supplying to the DOD, to be addressed within the framework of the USAID REC Project.
- Develop and publish the "How to Supply to DOD" Manual and disseminate it among project counterparts and publish on the project website.
- With the support and consent of the DLA, PVs, and KazNex, the REC Project will upload information regarding procedures of selection, product sourcing lists and product requirements to be supplied to the DOD in Central Asian countries on its website.
- Deliver training sessions for potential suppliers regarding contracting with foreign companies, alternative arbitration provisions in the contract, and implementing proceedings for arbitration disputes.
- Deliver various training sessions and/or render technical assistance as requested by EPG members on: introduction of the quality management system according to ISO 9001-2009 and other international standards, international law, operations of the international arbitration courts and other relevant topics.
- Assist enterprises with elimination of the PV and VETCOM audit complaints identified while meeting product requirements for supply to the DOD, continuing assistance until the subcontract is signed and implemented with a PV.

- Conduct regular meetings among representatives of USAID, DLA, PV, KAZNEX, EBRD, GTZ and other interested parties, aimed at exchanging information on progress made, resolution of issues, and coordination of joint activities on supplying to the DOD.

DLA Representatives at the USACE/DLA KazBuild Conference on March 15, 2012 in Almaty also expressed their particular interest in strengthening and increasing local suppliers' potential to supply to the DOD, including:

- Mandatory implementation of ISO 9001 at enterprises.
- Possible implementation of the international standard of ISO 22000, HACCP, OHSAS 18001, ISO 1400 at food production entities.
- International standards for security compliance for all products. Making available in English information about the company profile, its products, catalogues, and brochures.
- Mandatory availability of English-speaking decision-makers and/or personnel to manage negotiations with the Prime Vendors.

These recommendations are likely to facilitate procedures for selecting potential DOD suppliers and help improve product quality of local suppliers, ultimately making their entry to new international markets easier.

SECTION IX. SOURCES

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ANNEX A. U.S. ARMED FORCES CLASSES OF SUPPLY

Class I	Subsistence (food), gratuitous (free) health and comfort items.
Class II	Individual equipment, tentage, organizational tool sets and kits, hand tools, unclassified maps, administrative and housekeeping supplies and equipment.
Class III	Petroleum, Oil and Lubricants (POL) (package and bulk): Petroleum, fuels, lubricants, hydraulic and insulating oils, preservatives, liquids and gases, bulk chemical products, coolants, deicer and antifreeze compounds, components, and additives of petroleum and chemical products, and coal.
Class IV	Construction materials, including installed equipment and all fortification and barrier materials.
Class V	Ammunition of all types, bombs, explosives, mines, fuses, detonators, pyrotechnics, missiles, rockets, propellants, and associated items.
Class VI	Personal demand items (such as health and hygiene products, soaps and toothpaste, writing material, snack food, beverages, cigarettes, batteries, alcohol, and cameras—nonmilitary sales items).
Class VII	Major end items such as launchers, tanks, mobile machine shops, and vehicles.
Class VIII	Medical material (equipment and consumables) including repair parts peculiar to medical equipment. (Class VIIIa – Medical consumable supplies not including blood & blood products; Class VIIIb – Blood & blood components (whole blood, platelets, plasma, packed red cells, etc).
Class IX	Repair parts and components to include kits, assemblies, and subassemblies (repairable or non-repairable) required for maintenance support of all equipment.
Class X	Material to support nonmilitary programs such as agriculture and economic development (not included in Classes I through IX).
Miscellaneous	Water, salvage, and captured material.

ANNEX B. DOING BUSINESS WITH TWI

Theodor Wille Intertrade (TWI) <http://www.twipv.com/>

Theodor Wille Intertrade (TWI) specializes in providing Expeditionary Supply Chain solutions directly to Prime Contractors that support overseas operations. TWI has built procurement platform based on more than \$1 billion in overseas supply transactions and over a decade of experience as a Defense Logistics Agency (DLA) Prime Vendor in multiple commodities. TWI has established a strategic procurement platform in Dubai, UAE with multiple regional satellite support locations and has assembled the industry experts in Expeditionary Supply & Logistics. The core of this platform is DLA's CENTCOM Facilities Maintenance, Repair, & Operations (MRO) contract through which TWI has achieved significant leverage in the regional markets for the full range of construction and O&M supplies, and for distribution logistics capabilities. From this platform, we have established a successful track record of providing supply chain management services to Prime Contractors operating throughout the Middle East, Africa, and Central Asia.

TWI provides category management of a broad range of commodities to include the following:

- Power Generation & spares
- Pre-fabricated buildings
- Containerized Housing Units (CHU's)
- Electrical panels & cabling
- Sewage treatment plants
- Welding equipment
- Heavy Equipment & spares
- Storage/fuel/water tanks
- Office equipment
- Hand/power tools
- O&M supplies
- Plumbing

DLA Prime Vendor for CENTCOM for Construction and Operations & Maintenance materials (CL II / IV / VII):

- Electrical
- Lumber
- Plumbing
- HVAC
- Tools
- Building Materials
- Power Generation

MRO Products required from Central Asia

- | | |
|----------------------------|--------------------------|
| - <i>Basic Commodities</i> | - <i>Основные товары</i> |
| - Construction Supplies | - Строительные поставки |
| - Flooring | - Напольное покрытие |
| - Plumbing | - Сантехника |

- | | |
|-----------------------------|---|
| - Steel Rebar | - Арматурный прокат |
| - Corrugated Steel | - Профнастил |
| - Wire Products | - Изделия из стальной проволоки |
| - Cement | - Цемент |
| - Electrical Supplies | - Электрические поставки |
| - Cable | - Кабель |
| - Light Bulbs | - Осветительные приборы |
| - Lumber | - Пиломатериалы |
| - Plywood | - Фанера |
| - Paper Products | - Бумажная продукция (Туалетная бумага, Салфетки) |
| - Bags and Liners | - Пластиковые мешки, упаковочная продукция |
| - Toner Cartridges | - Картриджи, (HP) |
| - Food Wrap and Preparation | - Упаковка для продуктов питания (фольга, пластиковая упаковка) |
| - Chemicals and Cleaners | - Чистящие средства |
| - Gloves | - Перчатки/ Рукавицы |
| - Dinnerware and Flatware | - Одноразовая посуда |

How to become TWI Supplier

- | | |
|---|--|
| - <i>Required Information</i> | - <i>Необходимая информация</i> |
| - Company Brochure | - Брошюры компании |
| - Product Catalogue | - Каталог продукции |
| - Two Business References | - Деловые рекомендации |
| - Any Quality Certifications | - Сертификаты качества и т д |
| - Relevant Business Licenses or Registrations | - Юридическая документация компании |
| - Sample Products | - Образцы продукции |

The potential supplier needs the enrollment on TWI website and present all required document and information for:

- Reviewed for Completeness
- Certifications, Licenses Reviewed
- Phone Interviews
 - With Company
 - With References
- References will be interviewed
- Samples Tested for Quality Requirements

ANNEX C. DOING BUSINESS WITH SEVEN SEAS SHIPCHANDLERS & TMC

<http://www.sevenseasgroup.com/>; <http://www.tmcservices.com/>

Seven Seas is the administrator of the contract GSA & DOD MRO. Seven Seas operates in countries: Argentina, Bahrain, Bosnia, Djibouti, Germany, Gibraltar, Kuwait, Morocco, Norway, Netherlands, Oman, Portugal, Qatar, Spain, Singapore, UAE, Uruguay & USA. Seven Seas in Central Asia is represented by TMC. TMC operates in Kazakhstan, Uzbekistan, Tajikistan, Afghanistan, Azerbaijan and Georgia. TMC looks for suppliers, negotiates, procures goods, contracts, and exports them in line with requests from the DLA.

Vendors Qualifying Process:

- Company and site information,
- Accreditations and standard certifications,
- Process and product capabilities,
- Catalog/Equipment list (if available)

Items being procured/ Товары, которые были закуплены

Pickets	Пикеты (ограждения)
PVC pipes & Fittings	ПВХ трубы и арматура
De-Icing Fluid	Размораживание жидкости (Тосол)
Paints	Краски
Screw nuts & bolts	Гайки и болты
Barriers	Барьеры (ограждения)
Re-locatable Buildings	Передвижные дома
Concertina wire	Сетка рабица
Hasp	Засовы, замки
Fuel drums	Топливные емкости
Lumber	Пиломатериалы
Bricks	Кирпичи
Ply wood	Фанера
Generators	Генераторы

Product need MRO CTR

Fencing	Металлическая сетка (рабица)
Water heater	Водонагреватели
Ridge caps	
Roofing corrugated steel	Кровельная гофрированная сталь
Plywood	Фанера, пиломатериалы
Water Tanks	Емкости для воды
Mattresses	Матрасы
Concrete redimix	Строительный раствор
Bricks	Кирпичи
Pickets	Ограждения, Турникеты (Пикеты)

Flooring
Plumbing
Steel Rebar
Corrugated Steel
Wire Products
Cement
Cable
Light Bulbs
Lumber

Напольное покрытие
Сантехника
Арматурный прокат
Профнастил
Изделия из стальной проволоки
Цемент
Кабель
Осветительные приборы
Пиломатериалы

ANNEX D. DOING BUSINESS WITH SUPREME FOOD

<http://www.supreme-group.net/index.php?pageid=431>

The main supplier of food products for the DLA TS is Supreme food group. Supreme Food works in the Middle East region (Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, & Yemen), North Africa (Djibouti, Eritrea, Ethiopia, Somalia, Kenya, Uganda, Sudan, & Seychelles), Afghanistan, CIS: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, & Uzbekistan. Supreme has five divisions: aviation; product (food) security, logistics services, shipping supplies, support, and warehouses in different countries. Supreme uses various methods to search for potential suppliers, new partners.

Procedure sourcing:

Supreme acquires information through various methods for effective source management: Supreme is connected with in country trade and export promotion organizations.

- KAZNEX (Kazakhstan Export Development Organization) for sourcing and business support.
- Supreme attends to all related industrial exhibitions, DLA-TS trips and arranges regular visits to existing and potential manufacturers.
- Supreme procurement team arranges sourcing and business development trips to Central Asia Countries at least 2 times a year.
- Through recommendations from existing sources.
- Internet research.

Procedure selection:

Supreme follows internal source selection criteria as identified above.

All potential sources are interviewed over the phone or during a meeting immediately for basic introduction

Supplier and product details are obtained for procurement review

All eligible suppliers and products are communicated to Supreme Central QA for pre – audit (for technical evaluation of quality standards, certifications, product composition, ingredients, etc. before the actual audit)

QA Team schedules the audits with potential suppliers

QA Team shares the audit results with the potential supplier and Supreme procurement team

If the subject supplier and / or the products are not acceptable, QA team:

1. Identifies corrective action and discusses with the supplier in detail
2. Monitors the improvements until all requirements are fulfilled
3. Conducts another audit
4. If successful, coordinates with procurement for VETCOM / CENTCOM

approval request

5. Once VETCOM approval is received, Supreme QA announces approval to procurement for further action

If the subject supplier and products are eligible (VETCOM and Supreme QA approved), procurement team:

1. Arranges for product tasting and sampling by the customer (ARCENT/JCCOE)

2. Finalizes price negotiations
3. Obtains internal and external approvals for listing the product
4. Plans the demand and starts ordering

Supreme QA monitors product quality closely as orders are received. Every 6 months, approved suppliers are audited for continuity of compliance with standards.

Specific Requirements:

Label Format

Shelf Life Requirements

Pallet Specifications

Bolt Seals / Cable Seals

Loading Requirements

TMD (for temperature controlled shipments)

Documentation: Invoice, Packing List, Railway Bill, Transit Permission, etc.

Product Opportunities

Bottled Water

Long Life Juices and Milks

Beverages

Fats and Oils

Pasta/Flour

Canned and Frozen Fruits & Vegetables

Condiments

Others

Commercial food, bottled water, and ice production facilities wishing to sell their products to DOD are inspected by Public Health Command veterinary personnel (VETCOM) to verify compliance with regulatory, industry, and DoD requirements. If the commercial food production facility passes the audit, it is placed on the Worldwide Directory of Sanitarily Approved Food Establishments for Armed Forces Procurement for specific food products that DOD wants to buy. Appropriated and Non-Appropriated DoD food, bottled water, and ice purchasing facilities use the Worldwide Directory to ensure that the food fed to US Service Members and their families is safe. Questions regarding Commercial Audits and DoD Approved Food Sources may be directed to U.S. Army Public Health Command, (USAPHC) DoD Approved Food Sources at 410-417-3725, Aberdeen Proving Ground, Maryland or USAPHC, Army Institute of Public Health (AIPH), Food Protection Program, Aberdeen Proving Ground.

Limitations

- Not suited for sporadic, low, or narrow procurement volumes
- Creates some fixed costs in order to ensure base capacity is available

ANNEX E. KAZAKHSTAN GOODS EXPORT PROCESS MAP

