

# **REGIONAL TRADE FACILITATION AND CUSTOMS COOPERATION PROGRAM**

## **Report to the Customs Cooperation Committee**

**4<sup>th</sup> Customs Cooperation Committee Meeting  
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Ulaanbaatar, Mongolia**

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## I. INTRODUCTION

1. The Regional Trade Facilitation and Customs Cooperation Program (the Program) is part of the broad Central Asia Regional Economic Cooperation (CAREC) Program. Its objective is twofold: (i) promoting concerted customs reforms and modernization, and serving as a regional forum to address issues of common interest (e.g., regional transit development); and (ii) supporting an integrated trade facilitation approach through interagency cooperation and partnership with the private sector. The latter will facilitate the participating countries' move toward "one-stop" and "single electronic window" services for traders and the business community as a long term goal of the CAREC's trade facilitation program.

2. The Program has been coordinated by the Customs Cooperation Committee (CCC) to achieve the first objective. The CCC consists of the heads of customs administrations of the participating countries. The importance of the CCC's guidance reflects the country-driven process of the Program. The CCC endorsed a Common Action Plan in its First CCC Meeting in Urumqi, People's Republic of China (PRC) in August 2002 and created two working groups for its implementation, one chaired by the PRC and the other by Uzbekistan. Four expert groups were created to study (i) simplification and harmonization of customs procedures (chaired by the PRC), (ii) development of simplified transit systems (co-chaired by the Kyrgyz Republic and Tajikistan), (iii) data sharing and ICT for customs modernization (chaired by Uzbekistan), and (iv) risk management and post-entry audit (chaired by the PRC). Additionally, a task force was created, chaired by Kazakhstan to initiate pilot-testing of joint customs control.

3. In view of the participating countries' varied capacity and commitment to trade facilitation and regional cooperation, the Program has been implemented with a pragmatic and result-oriented approach focusing on (i) promotion of bilateral initiatives (e.g., bilateral agreements and pilot testing) and (ii) country-specific customs modernization efforts. This approach is different from other subregional cooperation programs where participating countries have more comparable capacity and whose focus has been on entering multilateral trade and transport agreements, followed by pilot-testing. Training and knowledge sharing through regional events has been another priority area of the Program which has helped strengthen capacity and trust and confidence-building among the participating countries.

4. Submitted to the Customs Cooperation Committee, this report highlights the activities and presents the proposals by the three working group sessions held in 2005. The report serves as a background paper for discussions among the members of the CCC at their 4<sup>th</sup> annual meeting on 7-9 September 2005 in Ulaanbaatar, Mongolia. It supplements the progress report prepared for the CAREC's Senior Officials' Meeting (SOM) held on 26-27 April 2005.

## II. PROGRESS AND PROPOSED ACTIVITIES

5. The 2005 activities continued to focus on the priority areas endorsed by the CCC in its first Meeting. Several regional and in-country activities were organized to address these priority issues. These include the (i) Singapore Forum (January) focusing on issues related to customs automation, (ii) Seminar in Shenzhen, PRC (June) on risk management and post entry audit, and (iii) Seminar in Bangkok (July) on joint control and one-stop services. Three working group meetings were held in connection with these events, organized and chaired by the State Customs Committee of the Republic of Uzbekistan and the Customs General Administration of China. Regional events are also planned for the remainder of 2005, in Shanghai in October on the TIR Convention and regional transit arrangements, and in Seoul in early December on integrated trade facilitation solutions and major e-governance products adopted by the Government of the Republic of Korea.

6. Bilateral agreements were reached in 2005 between Azerbaijan and PRC Customs on Mutual Administration Assistance and Cooperation, and between the Kyrgyz Republic and Tajikistan on transit arrangement. An Agreement on Mutual Administrative Assistance and Customs Cooperation was also finalized between the PRC and Uzbekistan Customs.

7. As suggested by the Azerbaijan Customs at the SOM, a website for the Program has been developed for launching at the Fourth CCC Meeting. The website documents all reports and publications produced under the Program, and provides a gateway for access to the websites of the participating countries' customs administrations.

8. In-country support for customs modernization assessments was provided for Mongolia to assist in gap-analyses and formulation of a strategy and implementation plan for customs modernization and "single electronic window" services for the business community. Similar assistance will be provided for Azerbaijan commencing in early October. Technical assistance for the Kyrgyz Republic and Tajikistan will commence in early October to help prepare for customs automation. The assistance will focus on business process reengineering, training and change management, and development of a "master plan" for automation. Modest amount of grant was provided to the Mongolian Customs to equip the customs training institute.

9. Additionally, two studies were launched in an effort to broaden the trade facilitation program: (i) Trade Logistics Strategy for PRC's Xinjiang Uygur Autonomous Region, and (ii) an Integrated Trade Facilitation Strategy based on interagency cooperation and partnership with the business community. As part of the efforts to promote a broad trade facilitation approach, senior officials from tax administrations and Border Guards were invited to attend the Singapore Forum and the Bangkok Seminar. Highlights of the discussions and proposals on the following areas are as follows.

#### **A. Customs Automation**

10. A regional forum on Trade Facilitation and Customs Modernization was held in Singapore on 26-28 January 2005 to address issues and challenges in the development of unified automated information systems (UAIS). Promotion of concerted development of the UAIS is a key objective and a performance indicator of the trade facilitation program. UAIS is a major trade facilitation tool that helps improve efficiency and reduce corruption. A Regional Customs Modernization and Infrastructure Development Project was approved by ADB in November 2004 to help the Kyrgyz Republic and Tajikistan launch the UAIS. Other participating countries are at varied stages of implementation and upgrading of their UAIS. The Forum highlighted Singapore's experiences and addressed key issues such as flexibility in the architecture design and interoperability among the participating countries' UAIS in order to achieve a "single information space" in the region. A paper on *Singapore's TradeNet System* was published by ADB in March 2005 to disseminate Singapore's experience and lessons learned from the automation efforts.

11. Uzbekistan, which chairs the ICT Working Group, sponsored bilateral consultation and study tour for the Kyrgyz Republic and Tajikistan in 2005. This is in support of these two countries' preparation for developing a master plan for customs automation.

12. The "master plans" for customs automation being developed respectively by the Kyrgyz Republic and Tajikistan will present detailed discussions on technology issues related to the UAIS. Workshops will be organized by the Kyrgyz and Tajik Customs in 2006 to seek suggestions and comments on the master plans from the participating countries. A study tour will be organized for the Kyrgyz and Tajik Customs senior officials by the consulting firms implementing ADB's technical assistance.

13. Another regional forum is planned in Seoul tentatively in early December 2005 to (i) share Korea's e-governance solutions and best practices, and (ii) promote cooperation between the customs and tax administrations through information and communication technology. To promote cooperation and interoperability between the systems of revenues administrations, senior officials from customs and tax administrations will be invited to attend the forum.

## **B. Risk Management and Post-Entry Audit**

14. A regional Seminar on Risk Management and Post-Clearance Audit was held in Shenzhen with significant financial contribution by the PRC Customs. The Seminar aimed to help the participating countries' Customs move away from the practices of inspecting every consignment and adopt modern customs control techniques based on risk management and post-clearance audit. The seminar program combined presentations with field visits which greatly enhanced the practical relevance of the seminar to the participating countries. Risk management and automation enable PRC's Shenzhen Customs to clear each container within few minutes and allow the Customs to release significant portion of cargoes without physical inspections.

15. The following elements were stressed as essential pillars for risk management:

- (i) change in corporate culture of customs administrations from "control-oriented" to "compliance facilitation" or "informed-compliance" where customs try its best to serve the business community for economic development;
- (ii) introduction of "structured approach" for data review, taking into account the evolving and country-specific nature of risks; and
- (iii) importance of data exchanges among the neighboring countries, and thus the bilateral Agreement on Mutual Administrative Assistance and Cooperation providing the legal basis for such exchanges.

16. For countries at the early stage of introducing risk management systems, the emphasis was on identification of a "baseline of compliance" in relation to traders and companies to be inspected. The baseline compliance enables the Customs to determine a level of non-compliance which is the target of a risk management system. Incentive should be provided to traders with good compliance record such as fast-track clearance. Japan and Thailand's experiences show that the "point system" for import profiling could be a practical and effective approach for accelerated implementation of a risk management system.<sup>1</sup>

17. A Risk Management Guide was published by ADB and the WCO in support of the participating countries' efforts to implement and enhance their risk management systems.

## **C. Joint Customs Control and One-stop Services**

18. A Regional Seminar on Trade Facilitation and One-Stop Service was held in Bangkok on 27-29 July 2005 in partnership with the Thailand Customs Department and the World Customs Organization. The Seminar aimed to promote "joint customs control" initiated by Kazakhstan and the Kyrgyz Republic and support the participating countries' efforts to provide one-stop and "single electronic window" services for the business community in the long term. The "time release study" by Kazakh Customs on the joint control at the Akzhol-Kordai shows significant reduction in the clearance time.<sup>2</sup> Encouraged by the positive outcome, the Kyrgyz and Kazakh Customs will soon initiate joint control at the Aktilek-Karasuu crossing-point, and the Mongolian

<sup>1</sup> The "point system" was presented by Mr. Mitsunori Numaguchi at the Bangkok Seminar on 27-29 July 2005.

<sup>2</sup> See presentation by Deputy Chairman Mr. Baurzhan Abdishev at the Bangkok Seminar on 27-29 July 2005.

Customs is considering a proposal to pilot-test with the PRC Customs at the Yarant-Takashiken crossing-point.

19. Thailand and Japan's experiences with the one-stop and single electronic window show that (i) having a vision and strong leadership from Customs Management is essential to move steadily toward such modern trade facilitation practices, and (ii) efforts to measure clearance time and identify sources of delay (through a time release study) could encourage other agencies to join the trade facilitation efforts, and thus enable their countries to adopt an integrated trade facilitation framework for one-stop and single electronic window services for the business community. Mongolian Customs is currently preparing a strategic framework for single electronic window practices.

#### **D. Regional Transit Development**

20. Promotion of bilateral transit arrangements and PRC's accession to the TIR Convention are two priorities of the Program. On 22 July 2005, the Kyrgyz Republic and Tajikistan entered into a transit agreement, similar to the transit agreement signed between the Kyrgyz Republic and Kazakhstan on 26 March 2004. It is hoped that the experience with the implementation of these transit agreements will provide inputs for developing a regional transit agreement in the future. The PRC Customs fielded a study trip in August 2005 to Europe to consult with international agencies administering the TIR Convention such as the United Nations Economic Commission for Europe (UNECE) and the International Road Transport Union (IRU). As part of the accession effort, PRC will cosponsor a regional forum with ADB on TIR accession and regional transit arrangements in Shanghai tentatively in October 2005. The Forum will bring together representatives from Customs, private freight forwarders and transport associations, and representatives from the UNECE and IRU.

#### **E. Bilateral Initiatives for Harmonization of Customs Procedures**

21. Simplification and harmonization of customs procedures are being achieved through a host of efforts including revision of Customs Codes, introduction of risk management practice, joint customs control, and business process reengineering in relation to customs automation. Concrete proposals in relation to harmonization of customs procedures were made by the PRC Customs at the working group session during the Bangkok Seminar. These are (i) harmonization of cargo manifest, and (ii) mutual recognition of customs inspections and seals/stamps. Efforts to harmonize data requirements for cargo manifests will facilitate data exchanges between exporters and importers for preparation of customs declaration, and therefore reduce customs clearance time and improve quality of trade statistics. Mutual recognition of customs inspection and customs seals and stamps provide an essential pillar for regional transit arrangement as shown by Thailand's transit initiatives with neighboring countries. Several countries responded positively to the proposals. The Management of the Kazakhstan Customs expressed interest to further develop the proposal under the two countries' existing cooperation framework and requested ADB's support to facilitate bilateral consultation and working group meetings.

#### **F. Bilateral Initiatives for Data Exchanges**

22. Data exchanges between Customs Administrations and between importers and exporters are essential for fast clearance and effective risk management. Two working group sessions were held in connection with the regional forums to discuss Uzbekistan Customs' proposals to establish an electronic platform for data exchange among the participating countries, and a draft agreement to provide the legal basis for the initiative. While the technical proposal was broadly endorsed by the member countries, suggestions were made to clearly define the trade facilitation objective of the proposal and the scope of data-exchange



requirements for facilitating trade clearance. The Uzbekistan Customs was also encouraged to pilot-test the proposal with a participating country. To facilitate the initiative, ADB prepared a paper on World Customs Organization's Customs Data Model which suggests data requirements for cargo manifests, export and import declaration. Extensive comments on the proposal were also provided by an ADB resource person at the Shenzhen Seminar.<sup>3</sup>

### III. CONCLUSION

23. In line with its practical approach to trade facilitation, the Program has adopted short- and long-term goals, with the former being coordinated by the CCC, and the latter by a committee consisting of the national focal points for trade facilitation to be established in the future. The priority areas of the Program and suggested performance indicators are shown in the Attachment.

24. Effective donor coordination is critical in extending concerted support and ensuring its sustainability. The coordination group established among the major multilateral institutions (MIs) at the 2<sup>nd</sup> Ministerial Conference on 11-12 November 2003 in Tashkent is a vehicle to strengthen donor coordination in support of CAREC Program, and its trade facilitation initiatives, in particular. ADB as the Secretariat will work closely with the MIs to support the Trade Facilitation Program.

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<sup>3</sup> Comments by Mr. Tan Sian Lip is available at the ADB website for the Program.

Short-term and Long-term Objectives	Priorities and Performance Indicators	Highlights of Activities
<p><u>Short-term, medium-term objective:</u> Promote concerted customs reforms and modernization and serve as a regional forum to address issues of common interest</p>	<p>1. Customs Automation</p> <ul style="list-style-type: none"> <li>• Automation systems adopted, particularly KGZ and TAJ</li> </ul>	<ul style="list-style-type: none"> <li>• Customs modernization assessments and “master plans” for customs automation (Azerbaijan, Kyrgyz Republic, Mongolia, and Tajikistan) and related consultation and dissemination workshops.</li> <li>• Study tour for the Kyrgyz Republic and Tajikistan on customs automation</li> <li>• Customs automation and e-governance initiatives (Seoul Seminar, December 2005)</li> </ul>
	<p>2. Risk Management, Post-Entry Audit, and Customs Intelligence</p> <ul style="list-style-type: none"> <li>• Risk management practices adopted</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of “Risk Management Guide” with the WCO</li> <li>• Risk management and post-entry audit seminar ( Shenzhen, PRC in June 2005)</li> </ul>
	<p>3. Joint Customs Control</p> <ul style="list-style-type: none"> <li>• Pilot-test implemented and extended in other countries</li> </ul>	<ul style="list-style-type: none"> <li>• Pilot-testing of joint customs control by Kazakhstan and Kyrgyz Republic and potential expansion in another border crossing point</li> <li>• Efforts to pilot test joint customs control between Mongolia and PRC</li> <li>• One-Stop/Single Window Seminar (Bangkok, Thailand in July 2005)</li> </ul>
	<p>4. Regional Transit Development</p> <ul style="list-style-type: none"> <li>• PRC’s accession to the TIR Convention</li> <li>• Bilateral transit agreements implemented</li> </ul>	<ul style="list-style-type: none"> <li>• Study tour fielded by PRC Customs to consult with relevant organizations on accession procedures.</li> <li>• Forum on regional transit development (Shanghai Forum, October 2005)</li> <li>• Bilateral transit agreements signed between Kyrgyz and Tajikistan; and between Kazakhstan and the Kyrgyz Republic</li> </ul>

Short-term and Long-term Objectives	Priorities and Performance Indicators	Highlights of Activities
	5. Harmonization of Customs Procedures <ul style="list-style-type: none"> <li>• Cargo manifest harmonized</li> </ul>	<ul style="list-style-type: none"> <li>• Harmonization of cargo manifest (bilateral consultation meeting between Kazakhstan and PRC)</li> </ul>
	6. Data Exchange <ul style="list-style-type: none"> <li>• Data elements for cargo manifest and customs declaration harmonized</li> <li>• Technology solutions for data exchange agreed bilaterally</li> </ul>	<ul style="list-style-type: none"> <li>• Training seminar on WCO's common data model to be cosponsored by ADB and WCO</li> <li>• Bilateral agreement on exchange of customs statistics signed between Kyrgyz Republic and PRC</li> </ul>
	7. Framework for Customs Cooperation <ul style="list-style-type: none"> <li>• Bilateral agreements on mutual administrative assistance and customs cooperation signed</li> </ul>	<ul style="list-style-type: none"> <li>• Bilateral agreements signed between Azerbaijan and PRC; Azerbaijan and Kyrgyz Republic; and Kyrgyz Republic and Mongolia</li> </ul>
<p><u>Long-term objective:</u> To support an integrated trade facilitation approach through interagency cooperation and partnership with the private sector</p>	Establishment of a National and Regional Mechanism for Integrated Trade Facilitation Approach <ul style="list-style-type: none"> <li>• National Trade Facilitation Committee established</li> <li>• An Integrated Trade Facilitation Strategy developed in support of one-stop and single electronic window services</li> <li>• Regional Committee established consisting of National Trade Facilitation Committees</li> </ul>	<ul style="list-style-type: none"> <li>• Formulation of Mongolia's "single electronic window" has been initiated</li> <li>• Study on Trade Logistics Strategy for PRC's Xinjiang Uygur Autonomous Region has been launched</li> <li>• Study on an Integrated Trade Facilitation Strategy has been initiated</li> </ul>