

STATUS REPORT ON

**REGIONAL TRADE FACILITATION
AND CUSTOMS COOPERATION PROGRAM**

**Senior Officials' Meeting on Central Asia Regional Economic Cooperation
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I. INTRODUCTION

1. The Regional Trade facilitation and Customs Cooperation Program (RTFCCP) was formally launched in 2002 as part of the broad Central Asia Regional Economic Cooperation (CAREC) Program.¹ The RTFCCP aims to promote concerted customs reforms and modernization and address issues of common interest such as transit development and customs data sharing. The Program is guided by a Customs Cooperation Committee (CCC) consisting of the heads of customs administrations of the member countries. The importance of the CCC guidance reflects the country-driven process of the RTFCCP. The CCC endorsed a Common Action Plan in its First CCC Meeting in Urumqi, PRC in August 2002 and created two working groups for its implementation, one chaired by PRC and the other by Uzbekistan. Four expert groups were created to study (i) simplification and harmonization of customs procedures (chaired by PRC), (ii) development of simplified transit systems (chaired by the Kyrgyz Republic), (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 suggested, chaired by Kazakhstan to initiate pilot-testing of joint customs control.

2. The Customs Action Plan has been implemented with a combination of (i) region-wide and bilateral initiatives and (ii) country-specific activities with regional orientation.

3. Training and knowledge sharing are the main focus of region-wide activities. The RTFCCP member countries attach great importance to training and knowledge-sharing because of their relevance to individual countries' ongoing customs reforms and modernization. Knowledge of customs-related WTO Agreements (e.g., valuation and rules of origin) and the WCO's Revised Kyoto Convention has facilitated the customs legal reforms in the member countries, and sharing of country experiences in customs modernization (and automation and risk management practices in particular) has helped the design of customs modernization strategies and investment plans in light of lessons learned elsewhere.

4. Promotion of bilateral initiatives is another area that the RTFCCP has made significant progress. The emphasis on bilateral initiatives reflects the nature of regional cooperation and the pragmatic and result-oriented approach adopted by the member countries in pursuit of regional cooperation. Regional customs cooperation requires strong country ownership and takes time to realize its full potential. Bilateral initiatives by nature rest on strong country commitment of at least two countries and have strong demonstration effects for becoming regional initiatives if proved to be successful. Bilateral agreements were achieved in transit, joint border processing, and data exchange. Agreements on Mutual Administrative Assistance were also signed between several member countries to provide framework and legal foundation for bilateral customs cooperation.

5. Support for country-specific initiatives with regional orientation is a priority area of the RTFCCP. Knowledge-sharing and bilateral activities rest upon country-specific efforts in customs reforms and modernization. Knowledge-sharing would not be fruitful unless it is supported by in-depth country diagnostic studies and customs modernization efforts. Bilateral initiatives may not go beyond signing agreements unless they are supported by government commitment to put in place the enabling infrastructure for their implementation (e.g., automation and modern customs border post infrastructure). Therefore, support for concerted customs reforms and modernization among the CCC member countries is an integral part of the RTFCCP. Technical assistance and financial support for automation and border-post

¹ The RTFCCP member countries are Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People's Republic of China, Tajikistan, Turkmenistan, and Uzbekistan. The 'member countries' refers to the 'RTFCCP member countries'.

infrastructure have been extended to selected member countries in consultation with their customs administration and ministries of finance.

6. The report highlights the progress and proposals made by the member countries in the previous SOM, 3rd CCC Meeting held in Baku on 1-3 December, and the Forum held in Singapore on 26-28 January 2005.

II. PROGRESS AND PROPOSED ACTIVITIES

Working Group 1

A. Simplification and Harmonization of Customs Procedures

7. Simplification and harmonization of customs procedures is at the heart of trade facilitation. Harmonization of customs procedures is being achieved mainly through member countries' efforts to reform customs legal acts or codes in line with the Convention on the Simplification and Harmonization of Customs Procedures, commonly known as the Revised Kyoto Convention. Indeed, this Convention has been serving as a blueprint for reforms and modernization of customs administrations in all the member countries. Kazakhstan ratified their revised Customs Code in May 2003 with assistance from IMF and USAID, and the Kyrgyz Republic adopted the new Customs Code on 12 July 2004 with support from the ADB and USAID. As a key policy initiative supported by ADB's Customs Program Loan, Tajikistan adopted the revised Customs Code on 3 November 2004. Azerbaijan, Mongolia, Turkmenistan and Uzbekistan are also currently in the process of modernizing their respective Codes in line with WTO and the Kyoto Convention as well as national requirements.

8. Regional activities have complemented individual countries' legal reforms through (i) organizing forums to address common issues and distill lessons learned in the revision of Customs Codes; and (ii) providing training on customs-related WTO Agreements and the Revised Kyoto Convention so that the new Codes will be consistent with the major international agreements and conventions. These activities have partly contributed to the member countries' efforts to join the WTO and accession to the Revised Kyoto Convention.

Future Activities

9. **Support for the Revision of Customs Codes and Dissemination.** Revision of the Customs Codes remains a key customs modernization initiative of several member countries (e.g., Azerbaijan, Mongolia and Uzbekistan). Support for customs legal reforms is a priority of the next phase of the ADB's regional technical assistance that will be provided in further consultation with the member countries concerned. Such consultation is essential because several international agencies (e.g., USAID and the EC) are also involved in offering assistance in code modernization. A review of the customs legal framework will also be part of customs modernization assessment being carried out by Azerbaijan and Mongolia, with support from the Secretariat.

10. **Consultation and Dissemination of the Customs Codes.** Consultation with the relevant government agencies and private sector stakeholders is essential for the revision of the Customs Codes. Dissemination of the revised Customs Code (after Parliament approval) is equally essential for broad-based awareness, and promotion of "informed compliance" by the trade community and its consistent application in customs control. The publication of the revised Customs Code and organization of a regional meeting for dissemination by the Kyrgyz Customs

in October 2004 is an example of such effort. Similar initiatives could be initiated by other member countries and necessary support can be provided by the Secretariat.

11. Customs Business Process Reengineering. To support the development and upgrading of the unified automated information systems (UAIS) for customs services, several member countries have embarked on the exercise of business processing reengineering. The business process reengineering will ensure that the UAIS will automate the streamlined customs clearance processes and the Customs will leverage information technology for further changes, including the possibility of streamlining trade-related procedures handled by other agencies. The customs administrations of the Kyrgyz Republic and Tajikistan are currently undertaking this exercise with technical assistance from the Secretariat. Mongolia will also launch the same exercise soon.

12. Harmonization of Customs Declaration Forms. While simplification and harmonization largely depends on the revision of the Customs Codes by individual member countries, effort were also made in harmonization of customs data sets for imports and exports declaration. In a regional meeting held in the Kyrgyz Republic in August 2003, a minimum set of customs data was proposed for regular exchange among the member countries. These efforts will help move toward the adoption of a common declaration form and the same documentation requirements at customs borders among the member countries. Therefore, RTFCCP's other cooperation initiatives such as exchange of customs data and risk management are closely related to simplification and harmonization of customs procedures.

B. Development of Border Posts and Facilities

13. The RTFCCP has supported (i) needs assessment and investment plans for customs border-post infrastructure development for the Kyrgyz Republic and Tajikistan; and (ii) pilot-testing of joint-border processing initiated by the Kazakh and Kyrgyz Customs. The needs assessments have led to regional customs border-post infrastructure development project for the Kyrgyz Republic and Tajikistan financed by ADB, aimed at (i) improving the working conditions and efficiency of priority customs border-posts; (ii) providing customs operations and anti-smuggling equipment, and (iii) training and promoting cooperation among border agencies. The project was approved by ADB on 26 November 2004.

14. The concept of joint-customs control or joint-border processing is recognized as a best practice in trade facilitation. It provides impetus to streamline border procedures of border agencies within each country, and collectively economize resources deployed at borders for trade facilitation and effective border control. The Kyrgyz Republic and Kazakhstan are spearheading this initiative with pilot-testing of joint-border control introduced at the border-crossing of Akzhol and Kordai in July 2004. Training on joint-customs control was provided at regional seminars.

Future Activities

15. Pilot-testing of Joint Customs Controls by the Kazakh and Kyrgyz Customs demonstrates that the benefits of trade facilitation of joint customs control cannot be fully realized unless other border agencies are involved and support the initiatives by streamlining their procedures. To support the pilot-testing of the joint customs control by the Kazakh and Kyrgyz Customs, a regional seminar cum field visit will be sponsored by the Customs Administration of Thailand and WCO's regional training office in Bangkok. The event aims to introduce the details of the "one stop procedures" and will enable the member country participants to gain knowledge on cooperation among all the agencies present at the borders.

16. **Needs Assessment and Preparation for Customs Modernization Project.** Technical assistance will be provided each to the Kyrgyz Republic and Tajikistan (\$500,000) for the implementation of the regional customs modernization and infrastructure project. Support for assessment and preparation of customs modernization projects will be extended to other member countries (e.g., Azerbaijan and Mongolia) in consultation with the customs administrations and the governments.

C. Development of Simplified Transit Systems

17. Among the trade facilitation initiatives endorsed by the CCC, transit development stands out as a key one because of the small-economy and land-locked nature facing most of the member countries. Without effective transit systems that facilitate intra-regional trade and also help move goods in and out of the Region, several member countries risk being further marginalized and unable to take advantage of the increasingly global economy. On the other hand, viable transit arrangements would help transform the Region into a modern “Silk Road” or “land-bridge” connecting East Asia with Europe.

18. Transit has been a major focus of the RTFCCP. Several regional meetings were held to analyze implementation issues facing the individual countries’ transit systems and the international transit system under the TIR Convention. The regional transit system adopted by the European Union was discussed in detail, as part of the effort to explore the possibility of developing a simplified transit system for shorter distance transit movements within the Region. ADB and World Bank provided background papers to facilitate the discussions.² These efforts contributed to the development of a proposed “Strategy and Action Plan for Transit Development” circulated at the Second CCC Meeting in Tashkent in October 2003. A two-pronged strategy was proposed to improve the transit conditions in the Region: (i) supporting PRC’s accession to the TIR Convention and addressing the implementation issues related to the TIR Transit System as immediate goals (as PRC has not acceded and some member countries acceded TIR but has not issued any TIR Carnet); and (ii) exploring the possibility of introducing a simplified regional transit arrangement as a long-term development goal.

Future Activities

19. **Support for Implementation of Bilateral Agreements.** The signing of a transit agreement between Kazakhstan and the Kyrgyz Republic in March 2004 represented a significant step in support of exploring an alternative transit arrangement. A similar bilateral transit agreement is expected to be signed by the Kyrgyz Republic and Tajikistan in 2005. Successful testing and implementation of the bilateral transit agreements is crucial for replicating such agreement among other member countries and providing foundation for a regional transit arrangement. Therefore, technical assistance will be extended to support the implementation of the bilateral agreement. The Kyrgyz Republic and Kazakhstan are also expected to discuss the transit agreement at a regional transit meeting to be sponsored by PRC as described below.

20. Related to the implementation of the bilateral transit agreement is the Kazakhstan Customs’ proposal to develop insurance and guarantees schemes in support of national vehicles for transit movement in the Region. To develop guarantee arrangements, the Kazakh Customs places the importance of consultation (meetings) with all relevant parties including

² ADB. *Development of Simplified Regional Transit System*. The paper is available at http://www.adb.org/Documents/Events/2003/CCC/Second_Mtg/wp_03.pdf. World Bank. *Trade and Transport Facilitation in Central Asia*.

transport associations, banks and other private sector stakeholders. These initiatives show that private-public partnership is a key dimension of a broad trade facilitation agenda.

21. **Support for PRC's Accession to the TIR Convention.** In several regional events held in 2004, the PRC Customs expressed firm commitment to accede the TIR Convention and requested ADB for a feasibility study for the accession (with the terms of reference for the requested study to be prepared by PRC and submitted to ADB). Consultation is ongoing between the PRC Customs and relevant agencies such as the International Road Transport Union (IRU). As part of the accession process and as well as PRC's support for the RTFCCP, the PRC Government proposes to cofinance a regional transit meeting with ADB to be held in 2005 in PRC. The proposed meeting will provide an opportunity to discuss TIR-related issues including various implementation issues facing other member countries. It may also address implementation issues related to the bilateral transit agreements among Kazakhstan, the Kyrgyz Republic and Tajikistan.

22. **Logistics Development.** Regional transit development and operations of the TIR Convention require efficient logistics services to facilitate movement of goods beyond borders. Efficient logistics services lower the "behind-the-border" cost of movement of goods and services, and reduce regional disparity in economic development. Therefore, support for logistics development is a natural extension of ADB's support for customs cooperation and modernization of customs services. The Secretariat will support needs assessments and development logistics services strategies. Initial effort will be the KAZ-PRC initiative to develop a "land port" or an international logistics center at Khorgos-Xorgos to facilitate transit and bilateral trade. Training will be provided to government agencies in charge of logistics services to raise the awareness of the "third-party logistics services" as an effective means for trade facilitation, and the importance of private associations (e.g., customs and forwarders) in logistics development and transit movement.

Working Group 2

D. Data-Sharing and ICT for Customs Operations

23. The use of information and communication technology (ICT) for automation of customs services and data-sharing among customs administrations of neighboring countries is recognized by WCO and WTO as a major component of trade facilitation. ICT helps reinforce the member countries' customs legal reforms and simplification of customs procedures, and improve transparency and efficiency of customs services. In particular, ICT will improve governance and reduce corruption by reducing direct interfaces between customs officers and traders (and their representatives) in customs clearance. Adequate ICT infrastructure is essential for supporting modern customs practices, such as risk management and post-entry audit.

24. The sharing of country experiences and lessons learned in the development of the UAIS have been a main activity. Several forums were held for the purpose to distill lessons learned from the member countries and elsewhere. To help the member countries develop their own UAIS according to their country circumstances, a study was conducted to examine major customs automation systems and their pros and cons.³ The automation systems adopted by the European Union, Kazakhstan, Mongolia, Philippines, PRC and Singapore were presented in a

³ ICT for Customs Modernization, Seminar on Trade Facilitation and Customs Modernization, 4-8 August 2003, Issyk-Kul, Kyrgyz Republic. Available: http://www.adb.org/Documents/Events/2003/CCC/Trade_Facilitation_Customs_Modernization/Seminar_Documents.asp#modernization.

forums held in Beijing in April 2004, Manila in October 2004 and Singapore in January 2005. The automation systems adopted by Philippine and Singapore will soon be published.

25. In relation to data-sharing, progress has been made in agreeing on the scope of customs data to be exchanged among the member countries' customs administrations with reference to the WCO initiative on common data elements. The adoption of a common ICT language was emphasized to ensure the ability of exchanging customs data among the country systems. The WCO's initiative in standardization and simplification of the data fields for transit and customs declaration has served as a reference for the CAREC's custom cooperation program.

26. Building on the progress in customs legal reforms supported by the international community, financial assistance were extended to the Kyrgyz Republic and Tajikistan by ADB to develop their customs automation systems. The scope of assistance includes (i) software development for the core application systems of the UAIS, (ii) provision of communications infrastructure, and (iii) training and consultation with private sector stakeholders. The assistance will enable the two member countries to catch up with the neighboring countries in customs modernization and effectively participate in regional customs cooperation initiatives. Technical assistance of \$500,000 each was part of the package to support business process reengineering to ensure that automation and procedure changes reinforce each other. The State Customs Committee of Uzbekistan has also embarked on the development of UAIS, supported by credit from Export and Import Bank of the United States. Kazakhstan has entered into the next phase of customs automation by entering into a contractual arrangement with an international company. Mongolia will also expand their ICT modernization efforts starting with needs assessment supported by the Secretariat.

Future Activities

27. **Customs Data Exchange.** Promotion of data sharing is a major initiative of several member countries. As mentioned earlier, data-sharing is crucial for simplification and harmonization of customs procedures and documentation, and is a major initiative of all customs cooperation groups, including the Customs Expert Group under the G7. Among the CAREC member countries, the KGZ and PRC entered into a bilateral agreement on exchange of customs statistics. KAZ and UZB held consultation on comparison of trade statistics and underlying methodologies. KAZ and PRC maintain an active program of discussions and consultation regarding exchange of customs information. The two countries' customs administrations exchange trade statistics once every quarter and entered into an agreement to share information regarding customs laws and regulations. Under the auspices of the two countries' Ministries of Foreign Affairs, a Subcommittee on Cooperation Between Check Posts and Customs Bureaus held a meeting on 17-19 November 2004 and agreed to speed up the establishment of data bank to monitor the movement of goods across borders and to assist in the creation of an International logistics center at the Khorgos-Xorgos "land port". The Secretariat will work closely with the member countries concerned to support these initiatives.

28. **Establishment of an Expert Group on ICT.** An expert group on ICT was established, chaired by the UZB Customs. This group focuses on issues related to the development of the UAIS and compatibility among the member countries' automation systems. A discussion paper was developed by the UZB Customs highlighting the general issues related to the UAIS such as development of the "master plan", architecture design, and functional and technical specifications. The expert group held its first meeting in January 2005. The second meeting is scheduled in June 2005 in PRC.

29. **Publications and Knowledge Forums.** In view of the challenges in implementing and upgrading the UAIS, there is a need for the member countries to broaden the learning experience and share knowledge with countries that have successfully implemented automation systems. Two publications will be brought out soon to disseminate the lessons learned from Philippines and Singapore. Knowledge forums on ICT will continue to be held in consultation with the member countries.

E. Development of Risk Management, Post-Entry Audit, and Customs Intelligence

30. With growing volumes of international trade and passengers, the traditional method of inspecting every traveler or cargo consignment has become a hindrance and is no longer practical. Risk management offers a solution by allowing customs to focus its resources on detecting and examining “high-risk” cargos and travelers, while not impeding the movement of “low-risk” cargos and travelers. Time for customs clearance can be further shortened by combining risk management with post-entry auditing, in which customs scrutinize the shipment after its entry has been cleared. A combination of risk management and post-entry audit effectively balances customs’ due function of trade facilitation and controls to ensure revenue collection and protection of public interests.

31. Training has been the main focus of this initiative. The following aspects of risk management were covered in the training events: identification of risk areas, risk profiling, selectivity criteria, post-entry audit, compliance requirements, customs intelligence, change management, selected risk management systems, ICT requirements for risk management, customs intelligence, and the role of an *Agreement of Mutual Administrative Assistance* for data sharing and risk management. Country assessments have also been carried out in the Kyrgyz Republic, Kazakhstan and Uzbekistan to identify the training needs and prepare for in-country training events. The sharing of risk management practices by the Philippine and Singapore Customs and site visit during the forums held in Manila and Singapore was much appreciated by the member country participants.

32. The first In-country training under the RTFCCP was organized on 3-5 November 2004 in Tashkent to support the risk management working group and provide training to senior customs officers from regional customs houses. Training of senior customs officers from regional customs houses provides potential to spread the benefits of training if they make efforts to share the training materials and conduct a training seminar for their staff.

Future Activities

33. **Regional Training Workshop on Risk Management.** As support for the CAREC’s program and the member countries’ effort to implement risk management, the Government of PRC will finance a regional training seminar to share PRC Customs’ risk management practices. The training seminar is planned on 7-9 in Shenzhen, PRC.

34. **Publication of a “Risk Management Guide”.** Jointly published by ADB and WCO, the Guide provides a general framework for development of a risk management system. Its wide dissemination will help the member countries develop their own based on their strategic priorities and country circumstances.

III. TRAINING AND CAPACITY BUILDING

35. Training and capacity building is a component of the seven-point Action Plan and has been an important activity of all the regional meetings. Topics covered included (i) Revised Kyoto Convention, (ii) TIR Convention, (iii) WTO Valuation and Rules of Origin (iv) risk management and post-entry audit, (iv) various customs declaration processing systems, and (v) new computerized transit system adopted by the European Community. Extensive training and capacity building will be provided to the Kyrgyz Republic and Tajikistan Customs to support their customs automation and infrastructure development.

IV. TRADE FINANCE (EBRD)

36. The EBRD's Trade Facilitation Programme (TFP) aims to promote foreign trade to, from and within Central and Eastern Europe and the CIS (the EBRD countries of operations). Through the programme, the EBRD provides guarantees to international confirming banks, taking the political and commercial payment risk of international trade transactions undertaken by banks in the countries of operations (the issuing banks). Over 90 issuing banks in 20 countries of EBRD's operation participate in the programme, including 23 banks in CAREC member countries. In addition, more than 500 confirming banks throughout the world have joined the TFP. Since start of the programme in 1999, the EBRD has facilitated under this programme more than 3,500 trade transactions with a total amount of over € 1.9 billion, including more than 460 transactions financed by banks in CAREC member countries in the total amount of about € 500 million. In the next two years, the EBRD intends to expand its programme in the region. TFP also supports intra-regional trade and, since the start of the programme in 1999, more than 400 intra-regional transactions in the total amount of € 250 million have been financed. These transactions included for example, export of transport services from Kazakhstan to the Kyrgyz Republic or export of home appliances from Kazakhstan to Tajikistan. The EBRD also provided trade finance training to banks in CAREC member countries. Since 2002 the EBRD has organised training courses for more than 100 bankers from all 23 issuing banks under the TFP in CAREC member countries, providing them with knowledge in documentary and structured trade finance transactions. The training was financed by the governments of Austria, Ireland, France and the UK. The courses completed to date have been a great success. In 2005 the EBRD will provide smaller and less experienced banks in Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan with trade finance advisory services which will be funded by the Swiss and German government.