

**ADB Technical Assistance 8586-REG:
Facilitation of Regional Transit Trade in CAREC**

**Interim Workshop
26-27 July 2016
Almaty, Kazakhstan**

A. Introduction

1. The Inception Workshop of Asian Development Bank (ADB) Technical Assistance (TA) 8586-REG for Facilitation of Regional Transit Trade in CAREC¹ was held on 26-27 July 2016 in Almaty, Kazakhstan. The TA commenced on 20 September 2014 and is scheduled for completion in November 2016. The TA has identified priority transit corridors, formulated a comprehensive guarantee mechanism (CGM), examined the legal and regulatory framework, and is assessing information and communications technology (ICT) support systems and information sharing. The TA interim workshop was held to consider the various TA reports and consider the way forward. It was also designed to confirm support for the pilot corridor and the three countries proposed (the PRC, Kazakhstan, and the Kyrgyz Republic).

2. **Annex 1** to this summary of proceedings presents the workshop program and **Annex 2** presents a list of workshop participants. The workshop was attended by representatives of the customs authorities of the CAREC countries,² members of the CAREC Federation of Carrier and Forwarder Associations (CFCFA), other private sector organizations, the TA consultant team, and staff of ADB.

B. Opening Session

3. Mr. Yuriy Kim, Senior Expert, Customs Control Division, State Revenue Committee, Ministry of Finance, Republic of Kazakhstan, offered welcoming remarks. He noted that the project commenced in September 2014 and a large number of missions have been made to the CAREC countries by the consultancy team from PADECO. The project is now in its final stages and this workshop is the penultimate one before the project concludes in November 2016. A number of key reports have been prepared or are in the process of finalization. The purpose of this workshop is to review the findings of these reports and to determine the next steps to be undertaken to develop a pilot scheme for three countries (Kazakhstan, the Kyrgyz Republic, and the People's Republic of China / PRC). This will be a very important step in establishing whether the proposed mechanism is implementable and offers a sound economic measure for improving transit among all CAREC countries.

4. Ms. Cristina Lozano, Regional Cooperation Specialist, Public Management, Financial Sector and Regional Cooperation Division, East Asia Department (EAPF), ADB, began by explaining the significance of the TA, noting that regional transit development is one of the five priority areas of the CAREC Customs Cooperation Committee. She observed that CAREC countries' international trade involves external customs transit through neighboring

¹ CAREC = Central Asia Regional Economic Cooperation. CAREC now has ten members: Afghanistan, Azerbaijan, the People's Republic of China (Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

² Afghanistan did not participate in the workshop.

countries, and even some domestic trade involves customs transit in another country. She then discussed issues related to regional transit. She stated that the objectives of the TA are to: (i) identify options for the establishment of an effective and affordable corridor-based customs transit regime for CAREC; and (ii) determine the feasibility of implementing a pilot customs transit regime along a priority corridor involving two or more countries. Finally, she discussed activities under the TA and next steps. Ms. Lozano's PowerPoint presentation is presented in **Annex 3**.

C. Research Report on Transit Flows: Latest Findings and Development

5. Mr. Graham Walker, Team Leader/Trade Facilitation Specialist, presented the TA objectives, rationale, and strategic framework. He then discussed the proposed pilot corridors in some detail, examining traffic density, volume of trade, value of trade, and economic importance. Mr. Walker's PowerPoint presentation is presented in **Annex 4**.

D. Regional Transit Guarantee Mechanism: Key Recommendations and the International Setting

6. Mr. Nigel Moore, Customs/Trade Facilitation Specialist, presented the CGM. He set out the rationale, areas of improvement, mechanism, and core principles of the CGM. The mechanism has two pillars: (i) AEO – no guarantee and (ii) single/comprehensive guarantee. He then mentioned the transit form and supporting ICT exchange platform. Finally, he presented an example of a CGM transit movement, assessing both challenges and advantages of the system. Mr. Moore's PowerPoint presentation is presented in **Annex 5**.

7. Discussion followed:

- (i) A delegate from the Ministry of Finance of Pakistan stated that his country has developed a web-based system through which much of its current trade already takes place. However, Pakistan has not yet implemented an AEO system or guarantee system. They are working to develop an electronic data interchange (EDI) system with the PRC. In addition, they are working on developing an AEO program with USAID technical assistance; they have designated officers for this purpose. They have a green channel similar to but not the same as an AEO system; 95% of transit trade takes place through the green channel.
- (ii) Mr. Moore observed that the TIR and CGM are complementary and can be implemented alongside each other. While the TIR is an important platform, it is important to provide flexibility and options for businesses. While the TIR system offers a standard approach, the CGM provides a risk-based approach as well as a comprehensive guarantee mechanism.
- (iii) A delegate from the State Customs Committee, Azerbaijan, observed that the TIR system includes the principle of mutual recognition through the chain of transit. The responsibilities of AEOs should be recognized by all concerned national authorities. Most CAREC countries do not yet have provisions in their customs codes for AEOs. The question is how to regulate the entire transit chain. Safety and security is an important requirement. The delegate from Azerbaijan inquired what mechanisms other than through the TIR are available for mutual recognition of customs controls and AEOs. Mr. Moore pointed out that the PRC and Kazakhstan have planned mutual recognition of AEOs. For the CAREC pilot project, common criteria would be set for the AEOs (e.g., compliance level and financial soundness of the businesses). The delegate from Azerbaijan expressed his hope that the TIR system will be

implemented in CAREC. Mr. Moore stressed again that the TIR and the CGM can run alongside each other.

- (iv) A delegate from the International Road Carriers of the Republic of Kazakhstan (KAZATO) expressed concern that the CGM is “reinventing the wheel”. There is already the common transit system and TIR on the Eurasian continent. The TIR system is more than 50 years old, and now it is focusing on paper-free, electronic technology. As of 1 July 2016, the TIR guarantee is up to EUR 100,000. There are no problems between Kazakhstan and the Kyrgyz Republic because they are EEU members; shipments to/from Europe and transit across Uzbekistan present problems, but these can be addressed through the TIR. The proposed system is only being developed on a theoretical level. Since the TIR is a common system, he urged the meeting to focus on improving the TIR. He added that the PRC has just acceded to the TIR Convention, which is an important development. Mr. Moore responded that a flexible approach under the proposed mechanism can provide a cost-efficient alternative to the TIR that can benefit the trading businesses.
- (v) A delegate from the China International Freight Forwarders Association stated that it is not up to the meeting to develop the TIR system because it has its own institutions; the question is how the CGM can be used. If we base the concept on AEOs, it should be further elaborated. Since the TIR has not yet been established on an electronic platform, development of an electronic platform can be a competitive advantage of the proposed new system. Mr. Moore observed that the core principles in the mechanism are well rooted in modern working practices across regions and consistent principles well established by the World Customs Organization (WCO). The question for CAREC is how quickly to move forward to maximize opportunities for regional trade.
- (vi) A delegate from the State Customs Committee, Azerbaijan, stated that the New Computerised Transit System (NCTS) in Europe has T1 and T2 declarations, and the TIR system has a TIR carnet; he asked what the form of the customs declaration would be for AEOs in the proposed system. Mr. Moore explained that AEOs would also make customs declarations, but be identified as an AEO on the form. Azerbaijan asked whether there is a formal name for this paper or document. Mr. Moore responded that the TA team has called it a *single transit document*, an electronic form that will accompany the transit across the countries.
- (vii) Ms. Lozano stated that while no one is questioning the usefulness of the TIR, it is just an option for transport operators. In many countries the TIR coexists with other transit systems, e.g., in Europe. Within the CAREC framework, it should be possible to enhance cooperation in transit. The TIR system is a UN convention with many members; amendments to the convention requires consensus by all members, and therefore is a long process. CAREC countries should not be prevented from exploring other options to improve transit in the region. The world is moving toward more flexibility in terms of transit. CAREC should be more proactive and explore options to increase flexibility based on a risk-based approach. Because implementing an enhanced transit regime is a major task, an incremental approach based on a pilot corridor is recommendable. If the results are positive, it can be rolled out along other corridors, with other countries. The suggestion is to start small, but think big.
- (viii) A delegate from Kazakhstan asked whether the proposed mechanism could be applied to corridors other than those involving the PRC. Mr. Walker explained the

rationale for choosing corridors including the PRC, e.g., the large volume of trade from the PRC to the CAREC countries (valued at about USD 40 billion per year).

- (ix) Mr. Moore stated that the WCO had reviewed the proposals for the CGM and had concurred with its basic principles (pillars). He added that the proposed mechanism is looking 5-10 years ahead, providing flexible options for operators.

E. Legal/Regulatory Framework

8. Mr. Bruce Winston, Transit Facilitation Specialist, Legal, presented legal/regulatory issues. For the three proposed pilot project countries, and then for the other CAREC countries, he presented global, multilateral, plurilateral/regional, bilateral, and national legal instruments, along with remarks about the respective legal systems. He also presented gap analyses, i.e., for each country, what are the key changes in the legal and regulatory framework that may be required to implement the proposed regional transit guarantee scheme? Mr. Winston's PowerPoint presentation is presented in **Annex 6**.

9. Discussion followed:

- (i) A delegate from the State Customs Committee, Azerbaijan, observed that the country's Customs Code is business focused and may not require amendment for implementation of the proposed CGM. Mr. Winston replied that the draft legal report recognized that the Code already incorporates several best practices and generally complies with the norms and standards of the World Trade Organization and the European Union Customs Code.
- (ii) A delegate from the China International Freight Forwarders Association stressed the advantages of choice between the TIR and proposed CGM. If a new guarantee system is agreed, then there will be need to amend the customs laws and regulations step by step; this cannot be done immediately. He then touched on a number of other relevant issues, e.g., the importance of economies of scale in insurance pools, the possible advantages of using GPS in implementing the proposed system. Messrs. Winston and Moore concurred that changing laws and regulations will take time; it would be best to move forward under an MOU, i.e., an international agreement at the ministerial level. The pilot project period is envisaged to take about five years, during which time the required legal changes can be phased in; this is normal when testing new approaches. Mr. Moore then offered further clarifications, e.g., the advantages of combining insurance products (i.e., transit and cargo insurance), the advantages of opening the insurance market to competition among insurance companies that meet established criteria to keep rates reasonable. A delegate from the State Revenue Committee, Kazakhstan, stated that it is less a matter of applicable criteria, but how each country can hold the other accountable in the case of a default by an authorized economic operator. Mr. Moore clarified that if there a claim, one proposal is that one customs administration would request payment from the other customs administration, which would go to the insurance company and ensure that payment is made. The customs administrations need to agree on the process of approving AEOs so that there is trust, normally by having common criteria for approving the AEOs.
- (iii) A delegate from the Ministry of Finance, Pakistan, queried why only one of the four parties to the Quadrilateral Traffic in Transit Agreement (i.e., Pakistan) was not included in the envisaged pilot project. Mr. Walker and Ms. Lozano explained that it might be better to keep the test simple and focus on one CAREC corridor. However, the matter may be further considered.

F. ICT Systems: Overview and Recommendations

10. Mr. Konstantin Naumov, ICT Specialist³ discussed ICT solutions for the CGM. He first introduced the components and general requirements of the ICT system. The interface will be single transit and internal document based. He then discussed various implications for the ICT solutions, including suggested ICT system architecture for the pilot project. Mr. Naumov's PowerPoint presentation is presented in **Annex 7**.

11. Discussion followed:

- (i) A delegate from the PRC asked (a) who will develop the ICT system for the pilot project, (b) what changes should be made to existing systems, and (c) what would be the costs to develop a new system. Mr. Naumov replied that from the viewpoint of the pilot project it would be possible to use the single customs document and develop an integration module in each country; who will do it should be a technical decision. In addition, he discussed the changes to existing systems to be made by the customs administration referring to the slide on automated customs systems. Also, he stated that requirements for changed specifications depend on further work on the format of the electronic transit document. Mr. Moore added that costs will need to be factored in at a later stage.
- (ii) Mr. Naumov observed that the proposed system cannot exist in a vacuum; prerequisites must be established, as for example is being done in a Single Window project in the Kyrgyz Republic. That said, a project focusing on customs-to-customs data exchange does not necessarily require profound regulatory changes. Regarding project financing, the customs module development can have a significant impact on total project costs depending on the complexity.
- (iii) Mr. Moore stressed the need to focus on the strategic goals, e.g., implementation of AEO programs and data exchange between customs authorities. The pilot project is meant to be the first step in moving forward. A five-year duration has been suggested for the pilot project, with other countries joining when they are ready.

G. Coordination of Transit Freight in Azerbaijan

12. Mr. Rauf Guliyev, Head, Project Management Division, and Head, Department of Performance Measurement and Development Programs, State Customs Committee, Republic of Azerbaijan, presented basic principles for establishing a single automated management system (SAMS) in the Customs Service of the Azerbaijan Republic. He began by setting out key pillars of the strategy. He then discussed a number of specific issues related to the system, including infrastructure development, the development concept, and various innovative projects (e.g., Single Window).

H. Development of the Pilot Scheme: Next Steps

1. Institutional and Management Issues

13. Mr. Walker noted the country and corridor focus of the envisaged pilot project. He then outlined a Phase 1 (2017-2018) including establishment of governmental consultative committees for the CGM, establishment of technical subcommittees, establishment of project

³ Mr. Naumov participated through videoconferencing from Toronto, Canada.

support teams, and provision of technical support. He also described a Phase 2 (2019-2020) and a Phase 3 (2020 onwards).

2. Customs Collaboration

14. Mr. Moore then discussed next steps with respect to the two pillars of the proposed CGM. In addition, he noted the need to move forward with the single transit document and customs controls (e.g., type, frequency, mutual recognition, priority treatment for transit). He also stressed the need for time-release measurements in the pilot stage.

3. Legal and Regulatory Issues

15. Mr. Winston identified the following next steps with respect to legal and regulatory issues: (i) formulation of an international agreement (which could be in the form of an MOU) among the participating countries addressing specific issues; (ii) alignment of domestic laws and regulations with the international agreement, over time as necessary; and (iii) formulation of an international agreement to address overall requirements of a regional transit regime.

4. Discussion

16. Discussion followed:

- (i) A delegate from the State Customs Committee, Azerbaijan, asked whether the team has considered the experience of other regions with AEO schemes. Mr. Moore noted that the AEO scheme has been applied across the world in about 60 countries. The delegate then queried about the use of AEO schemes for transit. Mr. Moore clarified that it has been so applied in Europe, e.g., with fast transit lanes for AEOs in Moldova.
- (ii) A delegate from KAZATO noted that on 26 July 2016 the PRC acceded to the TIR Convention and starting from 5 January 2017 the PRC will initiate its first TIR operations. He asked about the role of the Federation of Carrier and Forwarder Associations (CFCFAs) in this process. Mr. Moore stated that the TIR can still be implemented alongside the CGM. The delegate replied that he remains opposed to the proposed system. Mr. Moore responded that the approach is merely to provide transporters with choice. Ms. Lozano explained that at the CAREC level there is no mandate to be involved with the TIR system, but this issue can be discussed by the CFCFA members among themselves. A delegate from the China International Freight Forwarders Association stated that the envisaged pilot schemes can be used by the CFCFA members, although their role in implementing this system needs to be clarified. The KAZATO delegate requested that the pilot project not be implemented at border crossing points (Torugart, Khorgos) where the initial TIR transit of trucks is to be implemented. Mr. Walker stressed the benefits of the comprehensive approach to be applied under the proposed project, but stated that the TA team is open to suggestions from the countries to identify an alternative pilot scheme. The KAZATO delegate noted that AEO status requires a EUR 1 million deposit, which is prohibitive; Mr. Walker replied that the initial requirement for AEOs had been USD 13,000 but the Eurasian Economic Union had imposed a EUR 1 million bond requirement for AEO membership. This resulted in the elimination of all 163 AEOs operating in Kazakhstan due to their inability to comply with this condition. A delegate from the PRC private sector stated the need to choose the system to be applied before

moving forward. A delegate from the State Customs Committee, Azerbaijan, stated that the CGM needs to be further refined; he expressed his view that the CGM will find its proper place with multimodal operations.

- (iii) Mr. Kim, State Revenue Committee, Kazakhstan, asked whether the countries or ADB would be responsible for implementing the next steps. Mr. Winston responded that the countries as sovereign states would be primarily responsible, but a request could be made to ADB for technical support to facilitate the process.

I. Working Groups

1. Private Sector and Insurance Companies

17. Mr. Walker summarized the deliberations of the working group for the private sector including insurance companies:

- (i) There was general support for the project in the working group discussion.
- (ii) The working group discussed insurance requirements for the CGM and the pilot project. Development of an insurance pool will be important. There will be a need for reinsurance to ensure proper cover for the insurance product. It was proposed that a more extensive insurance product could be developed including cargo insurance and provisions for the health and safety for drivers. The “financial muscle” for the pilot scheme could be provided by reputable companies in the region supported by international insurance companies. He added that staff of the Bank of China Group Insurance Company had expressed considerable interest in supporting this project and had planned to attend the Workshop but had encountered visa problems. The local insurance company in the Kyrgyz Republic was also part of the largest insurance company in Pakistan. He added that the major insurance brokers in Hong Kong had shown considerable interest in supporting this project.
- (iii) Some possible alternative border crossings involving the PRC were considered, although they may not be as suitable as the originally proposed ones.

2. Customs

18. Mr. Moore summarized the deliberations of the customs working group:

- (i) Regarding the first pillar of the CGM (no guarantees for AEOs), the group reviewed the status of AEO schemes in each of the countries. The PRC, Kazakhstan, the Kyrgyz Republic, Mongolia, and Uzbekistan reported progress in implementing AEO schemes in law, while Pakistan, Tajikistan, and Turkmenistan have yet to proceed. The PRC and Kazakhstan have been developing a scheme for mutual recognition of transit traders including sovereign guarantees for those traders based on a bilateral agreement between the Ministry of Finance of the Republic of Kazakhstan and the General Administration of China Customs.
- (ii) The group also looked at comprehensive guarantees, the second pillar of the CGM, and agreed that each country needs to address this issue individually.
- (iii) Considering that Georgia will be joining CAREC next year and considering the spread of the NCTS beyond Europe, implementing the NCTS may be an additional option.

- (iv) The size of the task of implementing the CGM was noted. A step-by-step approach may be a way forward, e.g., starting with development of an electronic transit document, followed by development of AEO schemes, and then reduction of the scale of guarantees.

3. Transporters

- 19. Mr. Winston summarized the deliberations of the transporters' working group:
 - (i) At the outset, interest was expressed in the development of standards for the CGM system; it was suggested that the CFCFAs could play a role in developing the relevant standards.
 - (ii) It was also suggested to apply GPS and RFID technology to monitor the movement of vehicles, although it was mentioned that customs administrations need the means to respond when there is an irregularity.
 - (iii) There was considerable interest in the details of the proposed scheme; it was urged to move forward to the pilot implementation stage so that tangible results can be shown. It was stated that there is a need for a time-bound work plan, indicating who will do what and when. It was observed that while there are more questions than answers at this stage, this is normal.
 - (iv) The importance of railway transport as well as road transport was underscored; the possibility of covering multimodal movements under the CGM was therefore welcomed
 - (v) The need to address some of the related issues was stressed, e.g., visas for drivers and crew members, the facilitation of frontier crossing formalities, and nondiscrimination.
 - (vi) It was noted that ADB developed the current TA project at the request of the CAREC governments. Transit is an outstanding issue under the CAREC strategy 2020. The results of this meeting will be reported to the CAREC governments. The intention is to bring the pilot project to the authorities of CAREC through the Customs Cooperation Committee, and if it is endorsed there, to escalate it to the ministerial conference of CAREC, to endorse a possible pilot test along one CAREC corridor.
 - (vii) It was clarified that the proposed approach would not undermine the TIR system, but would rather enhance it by providing additional flexibility for operators. The TIR system will continue to be used, while the CGM can provide additional flexibility based on a risk approach for transit traders; the two options do not conflict. Also, a multimodal solution can be provided under the CGM, while the TIR only applies to road transport
 - (viii) It was further clarified that the CGM will avoid duplication by providing additional features and value added to the overall transit system. The additional solution provided will be in line with international best practices. CAREC can choose to be a pioneer and move faster than other regions.
 - (ix) Finally, it was suggested to consider the signing of an MOU with the International Road Transport Union (IRU) to avoid duplication or conflicts.

J. Closing Statements

20. Mr. Walker, Team Leader/Trade Facilitation Specialist, thanked the participants. He expressed appreciation for their continuing commitment to the project. The proposed CGM can provide an alternative to the TIR and thereby have a positive impact on transit in the region. The participation of private sector organizations, the ultimate beneficiaries of the CGM, has been important. The project will be taken forward to the Customs Cooperation Committee in September 2016 and then hopefully to the CAREC Ministerial Conference in November 2016. Azerbaijan has shown how the development of a comprehensive transit system can be achieved and this could be replicated in the countries. The ICT work is continuing, with additional missions in September and October 2016. Also, the TA team will also provide indicative costings for project implementation. The TA team will complete the final report by the end of October 2016 and hold the last workshop in early November 2016.

21. Ms. Lozano, Regional Cooperation Specialist, ADB, reminded the participants that ADB developed this technical assistance project at the request of the CAREC governments. Transit remains an outstanding issue under the CAREC strategy for 2020. The TA has engaged closely with the private sector because at the end of the day the private sector will be the users of any transit system put into place. She reiterated that the proposed CGM will not undermine the TIR, but rather will enhance it by providing more flexibility. One may think of the overall transit system in the region as a single system with two legs, the TIR and the proposed CGM, with the latter providing additional flexibility based on a risk approach for transit traders, and also offering a multimodal solution. The CGM will be aligned with international best practice, following the directions in which the world is moving in modernizing transit operations.