

ADB Technical Assistance: Facilitation of Regional Transit Trade in CAREC

CAREC GUARANTEE MECHANISM

Presentation by Nigel Moore, Customs/Trade Facilitation Expert

Final Workshop

Baku, Azerbaijan, December 7th and 8th 2016



Opportunity to Improve the Existing CAREC Transit Systems

We believe the introduction of a CAREC regional transit system supported by a CAREC Guarantee Mechanism would:

- Enhance the security of the supply chain across the region
- Help trade flow more smoothly and efficiently across the borders
- Reduce the overall cost of trade

Enhance security of the supply chain across the region

“Provide a means for operational convergence in accordance with modern Customs working practices:”

- Single Electronic Transit Document
- Exchange of Data – advanced data for risk analysis purposes
- Common Criteria for Trusted Trader (AEO) development

Help trade flow more smoothly and efficiently across the borders

Adoption of a systematic electronic processing of a single transit document is envisaged to reduce costs, increase speed, improve risk management and reduce corruption.

The main objectives of the system are to:

- Allow Customs-to-Customs information exchange as well as management by Customs of data on guarantees; and
- Permit advanced Customs risk assessment of the transit movement to enhance the security of the supply chain

Reduce the overall cost of trade

The main areas of improvement to support a reduction in overall costs are:

- **A regional electronic transit system** using a common single document as the transit declaration
- **A single guarantee system** to cover transit goods from the beginning to end of a journey
- Allowing for a **range of guarantee ‘simplifications’** based upon a trader’s compliance history and status e.g. AEO, Comprehensive guarantees

CGM Mechanism

The two pillars of the CGM mechanism are:

**AEO –
NO GUARANTEE**

**SINGLE / COMPREHENSIVE
GRADED GUARANTEES**

Pillar 1 - AEO

Pillar 1 starts from the concept that ‘trusted traders’ should not be required to deposit guarantees for their transit movements.

This pillar can be established using the legislative framework of the **AEO (Trusted Trader)**

Pillar 1 – Self-Guarantee

- Transit movements are in essence guaranteed by the AEO
- Agreed standards to safeguard the revenue will be set by Customs

Pillar 1 - Benefits

- ***Development of a Customs-to-Business Partnership Environment***
 - ***Reduced Border Crossing / Transit Times***
 - ***Waiver of Customs Transit Guarantees***

Specifically, the pillar should:

- Facilitate movements across borders for AEO trusted Traders
- Provide for faster transit and clearance of goods by Customs.
- Reduce Customs control physical examination rates for cargoes in transit.
- Generate savings in time and costs for transporting goods around the region.
- Establish uniformity and predictability of transit operations.
- Provide for a reduction in reporting requirements by the use of simplified procedures.
- Contribute to the overall enhancement of the security of the supply chain

Pillar 2 - Single/Comprehensive Guarantees

The aim of Pillar 2 is to provide the maximum flexibility for smaller and medium-sized transit operators seeking to guarantee their transit movement of goods between CAREC countries.

Pillar 2 – Single Guarantees

A Single Guarantee would be calculated on the basis of the highest rate of duty applicable to the goods in the country of departure. In addition, for certain goods involving greater risk of fraud specific minimum rates may apply.

Pillar 2 – Single Guarantee

- 100% of duties and taxes secured

Pillar 2 - Comprehensive Guarantees

A comprehensive risk-based guarantee would cover a certain number of transit operations up to one year.

To use a comprehensive guarantee the trader will be required to fulfil certain common criteria set by Customs. The criteria that have to be fulfilled will depend upon the type of goods being transported.

Actual level of comprehensive guarantee will be fixed by Customs at 100, 75, 50 or 25 per cent of the highest rate of duty applicable to the goods in the country of departure.

Pillar 2 - Comprehensive Guarantees

Comprehensive risk-based guarantees are provided for in the WTO Trade Facilitation Agreement and already in widespread use in other regional transit systems. For example the European Union NCTS system provides for these type of guarantees.

The TIR system does not provide for comprehensive risk-based guarantees.

Pillar 2 – Comprehensive Guarantees

- Customs will approve traders/carriers to use comprehensive guarantees based on an agreed set of criteria.
- The level of a guarantee will be set as a percentage of the duties and taxes at risk.
- Insurance companies undertake their own ‘due diligence’ when issuing any insurance product – such checks will help to minimise the risk of default.

CGM Guarantee Table

	TIR	AEO	Individual Movement Guarantees			Comprehensive Guarantee
			Guarantor	Voucher	Cash Deposit	
Coverage	Single Transit Movement	Number of Transit Movements	Single Transit Movement	Single Transit Movement	Single Transit Movement	Number of transit Movements
Goods	No restriction	No restriction	No restriction	No restriction	No restriction	Possible Restrictions
Amount Required as Guarantee	100% of all Customs Fees and Duties	0%	100% of all Customs Fees and Duties	100% of all Customs Fees and Duties	100% of all Customs Fees and Duties	Depending on Risk – 100% 50% 25% of all Customs Fees and Duties
Period of Validity	Transit Movement	Whilst AEO	Transit Movement		Transit Movement	1 Year
Proof of Guarantee	Individual CARNET	AEO Certificate	Guarantee Certificate	Individual Voucher	Cash Deposit	Comprehensive Guarantee Certificate

Pillar 2 - Benefits

The pillar will replace the existing flat rate charge on transit movements with a risk-based insurance mechanism to cover the transit movements of goods.

It will allow Customs to reduce the required level of guarantee based upon the compliance history of the trader involved.

Pillar 2 - Benefits

- The main rationale for Pillar 2 that it will:
 - (i) Best support the Customs in the 21st Century, including rewarding compliant operators with reduced guarantee requirements.
 - (ii) Provide maximum flexibility to meet the needs of all types of transport operators (small, medium and large).
 - (iii) Reduce the cost of transit movements to the minimum possible.

Securing Payment for any none completed transit procedures

- AEOs
- Comprehensive Guarantees

In Summary

A regional system would help Central Asian countries participate in the global value chains that are the most dynamic segment of the 21st century global economy by:

- providing an opportunity to eliminate the duplication of effort in complying with the requirements of several transit systems;
- streamlining and harmonising transit documentation; create a single electronic messaging system and remove the manual processing of documentation;
- establishing a modern risk based affordable guarantee mechanism which would reward compliant operators e.g., AEOs.
- Reducing Customs processing time at the border.
- Provide compatibility with existing transit systems e.g EU NCTS.