

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

**Final Workshop  
7-8 December 2016  
Baku, Azerbaijan**

**A. Introduction**

1. The Final Workshop<sup>1</sup> of Asian Development Bank (ADB) Technical Assistance (TA) 8586-REG for Facilitation of Regional Transit Trade in CAREC<sup>2</sup> (the workshop) was held on 7-8 December 2016 in Baku, Azerbaijan. The TA commenced on 20 September 2014 and is scheduled for completion on 31 December 2016, although an extension is now envisaged to collect data for Georgia, the newest CAREC member. The TA identified candidate transit corridors, formulated a comprehensive guarantee mechanism (CGM), examined the legal and regulatory framework, and assessed information and communications technology (ICT) support systems and information sharing. The TA workshop was held to consider the TA reports and the way forward. It was also designed to confirm support for proposed pilot corridors.

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,<sup>3</sup> members of the CAREC Federation of Carrier and Forwarder Associations (CFCFA), other private sector organizations, the TA consultant team, and staff and consultants of ADB.

**B. Opening Session**

3. Mr. Asker Abdullayev, Deputy Chairman, State Customs Committee, Azerbaijan, offered welcoming remarks. He noted that Azerbaijan is situated at the crossroads of Europe and Asia. He informed the workshop of a number of recent reforms and other comprehensive measures taken by Azerbaijan such as the introduction of an electronic customs information system on May 2016; use of a single automated control system for risk management on August 2016; tax exemptions for transshipment of cargo from railway to other modes of transport; bilateral arrangements and protocols with the customs services of Georgia, the Kyrgyz Republic, and Turkmenistan (on information exchange and training and capacity building, among others). He wished the workshop fruitful deliberations.

4. Mr. Narriman Manappbekov, Country Director, Azerbaijan Resident Mission, ADB, welcomed the delegates to the workshop. He noted that Azerbaijan links east and west along transit routes traversing its territory. The TA commenced in 2014 and includes four elements: a study of regional transit flows, specification of a comprehensive transit guarantee mechanism, legal and regulatory recommendations, and analysis of required ICT systems. He noted that the workshop will consider the requirements for proceeding with a pilot project to progress the concept. He encouraged active participation of the delegates to

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<sup>1</sup> Based on the original assumption of TA completion within 2016.

<sup>2</sup> CAREC = Central Asia Regional Economic Cooperation. CAREC now has eleven members: Afghanistan, Azerbaijan, the People's Republic of China (Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region), Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

<sup>3</sup> Afghanistan did not participate in the workshop.

increase the usefulness of the report and the probability of project implementation. The workshop aims to translate the consultants' work into concrete results, particularly, the development of a pilot scheme .

5. Ms. Cristina Lozano, Regional Cooperation Specialist, Public Management, Financial Sector and Regional Cooperation Division, East Asia Department (EAPF), ADB, explained the significance of the TA, noting that regional transit development is one of the five priority areas pursued by the CAREC Customs Cooperation Committee. She observed that the international trade of CAREC countries involves external customs transit through neighboring countries, and even some domestic trade involves customs transit in another country. She then discussed various issues related to regional transit (e.g., barriers to transit movements caused by a lack of regional cooperation). She stated that the objectives of the TA were 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 CAREC 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 Developments and Implementation Schedule for Pilot Scheme**

6. Mr. Graham Walker, Team Leader and 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. In addition, he presented the implementation schedule for the pilot phase, and summarized the latest status, including endorsement of a pilot scheme at the 15<sup>th</sup> CAREC Customs Cooperation Committee Meeting in Singapore in September 2016. Mr. Walker's PowerPoint presentation is presented in **Annex 4**.

### **D. Regional Transit Guarantee Mechanism: The Mechanics of the Pilot Scheme**

7. Mr. Nigel Moore, Customs and Trade Facilitation Specialist, presented the CGM. He set out the rationale, areas of improvement, the mechanism, and core principles of the CGM. The mechanism has two pillars: (i) no guarantee required for authorized economic operators (AEOs) and (ii) the availability of comprehensive guarantees. 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**.

### **E. Discussion (1)**

8. Discussion followed:

- (i) A delegate from the Azerbaijan (Azerbaijan International Road Carriers' Association) asked which competent authority approved Azerbaijan's participation in the pilot project. It was clarified that the July 2016 Interim Workshop held in Almaty concluded that the best option would be to pilot test the project in Azerbaijan and Kazakhstan, considering the PRC's focus on their implementation of the TIR system starting in January 2017. Further bilateral discussions with Azerbaijan and Kazakhstan Customs confirmed their interest in participating in the pilot.
- (ii) A delegate from Georgia (Georgia Revenue Service) observed that this kind of transit system will be helpful in developing regional economies. A question was raised about the calculation of the guarantee when there are different tariff rates among countries.

- Various customs authorities would have to agree on the tariff rate to apply, aside from considering the risk levels of the product.
- (iii) A delegate from Pakistan (Pakistan International Freight Forwarders) asked about the criteria for AEOs, and if a trader is registered as an AEO in any CAREC country, what is required for registering the names of the AEOs to the other countries. It was clarified that the criteria for AEOs are to be determined by the individual countries, with reference to standard criteria recommended by the World Customs Organization (e.g., a good compliance record with the customs administration). The names of compliant operators may be exchanged between and among customs administrations.
  - (iv) Another delegate from Pakistan (Federal Board of Revenue) noted that all these issues have been comprehensively addressed in other transit systems (e.g., the TIR system), and then asked why CAREC needs a separate system, and that a new one will have to interact with existing ones. A delegate from Turkmenistan (Turkmen Association of International Road Carriers) raised similar issues. It was explained that the TIR system does not cover all transport operators. In addition, the TIR system does not support risk assessment at the guarantee level, and it does not provide for comprehensive guarantees, which are well set out now in the Trade Facilitation Agreement of the World Trade Organization (WTO). From a customs' perspective, these are important incentives for voluntary compliance by the business community. AEOs will not need a separate guarantee. Operators should be given a choice of the most efficient and effective guarantees.
  - (v) A delegate from the private sector of the PRC (China International Freight Forwarders) asked how members of the CFCFA can participate, and what are the details of the CGM. It was explained that in the pilot stage, when customs administrations are setting criteria, consultations should be undertaken with members of the CFCFA.
  - (vi) A delegate from the Kyrgyz Republic (Jubilee Insurance Company) observed that a number of practical organizational issues may require further clarification in moving forward. It was stated that copies of the key reports have been distributed and will be distributed to anyone that have not yet received them. Any comments, concerns, or questions can be reflected.
  - (vii) A delegate from Azerbaijan (Azerbaijan State Customs Committee) asked about possibilities for multimodal transport under the proposal, considering that the TIR system only applies to movements by road. The team clarified that the proposed system can support movements by different modes.

## **F. Legal and Regulatory Framework: Gap Analysis and Recommendations**

9. Mr. Bruce Winston, Transit Facilitation Specialist (Legal), presented the legal and regulatory issues. For the focus countries, he presented global, multilateral, plurilateral and 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? Finally, he proposed the structure of an international agreement to implement the CGM as well as one to address overall requirements for a regional transit regime. Mr. Winston's PowerPoint presentation is presented in **Annex 6**.

## **G. ICT Systems: Overview and Recommendations**

10. Mr. Konstantin Naumov, ICT Specialist, discussed ICT solutions for the CGM. He first introduced the general requirements and components 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, including a review of customs ICT systems in the pilot project countries. Finally, he provided recommendations for the pilot project (e.g., software requirements specification, comparability with existing systems, and new requirements and dependencies) and for the information system for the advanced CAREC transit system project (e.g., detailed workflows and in-depth analysis). Mr. Naumov's PowerPoint presentation is presented in **Annex 7**.

## **H. Discussion (2)**

11. Discussion followed:

- (i) A delegate from Pakistan (Federal Board of Revenue) asked the TA team about reported difficulty in obtaining customs ICT technical information. The delegate assured the TA Team that any required information can be provided. Pakistan has an advanced customs ICT system, perhaps the most advanced in the CAREC region. Consider, for example, that Pakistan can communicate with China Customs electronically. It was agreed that the ICT questionnaire for the TA will be provided directly to the delegate to facilitate the response.
- (ii) A delegate from the private sector of the Kyrgyz Republic (Jubilee Insurance Company) asked whether insurance companies would be able to obtain data (e.g., number of years in business, claim history) from the customs ICT system(s) to assess and underwrite risks. It was noted that the data protection laws of the countries would need to be respected in responding to such requests. Basic information about movements can be provided to enable monitoring of guarantees.
- (iii) A delegate from Georgia (Georgia Revenue Service) asked whether the country could be included in the Legal and Regulatory and ICT reports. Ms. Lozano, ADB, replied that Georgia can be included in the analysis, and the project completion date could be extended into 2017 to accommodate this request.
- (iv) Regarding the legal analysis, a delegate from the Kyrgyz Republic noted that the draft customs code of the Eurasian Economic Union (EEU) was sent to the EEU member countries in August 2016 (i.e., four months ago, although after the submission of the final legal and regulatory report in June 2016).

## **I. Development of the Pilot Scheme: Next Steps**

### **1. Institutional and Management Issues**

12. Mr. Walker noted the country and corridor focus of the envisaged pilot project. He then outlined a Phase 1 (with an indicative timing of 2017-2018) including establishment of governmental consultative committees for the CGM, establishment of technical subcommittees, establishment of project support teams, and provision of technical support. He also described a Phase 2 (indicative timing of 2019-2020) and a Phase 3 (indicative timing of 2020 onwards). In fact, a more compressed schedule may be possible, with a provisional scope of the pilot formulated in 2017 and implementation of the pilot in 2018. It is further envisaged that by 2020 the CGM could be implemented in most CAREC countries. Mr. Walker then set out details of institutional and management arrangements, e.g., establishment of a multiagency Governmental Consultative Committee for the CGM, establishment of technical subcommittees, and establishment of a project support team. Mr. Walker's PowerPoint presentation on this topic is provided in **Annex 8**.

### **2. Customs Collaboration**

13. Mr. Moore 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. Mr. Moore's PowerPoint presentation on this topic is provided in **Annex 9**.

### **3. Legal and Regulatory Issues**

14. 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 a memorandum of agreement) among the participating countries addressing specific issues; (ii) alignment of domestic laws and regulations with the international agreement, over time as necessary; and (iii) in the longer term, formulation of an international agreement to address overall requirements of a regional transit regime. Mr. Winston's PowerPoint presentation on this topic is provided in **Annex 10**.

### **4. Development of the ICT System**

15. Mr. Naumov presented technical and management issues related to development of the ICT system for facilitation of regional transit trade in CAREC. He presented suggested ICT system architecture for the pilot project and implications for ICT systems (e.g., automated customs systems, other potential integration and interfaces). He then offered specific recommendations for the pilot project (e.g., specification of agreed software requirements, comparability with existing systems, new requirements and dependencies, recommendations regarding the EEU). Mr. Naumov's PowerPoint presentation on this topic is provided in **Annex 11**.

## **J. Discussion (3)**

16. Discussion followed:

- (i) A delegate from the Kyrgyz Republic informed the workshop of achievements in his country as well as in Tajikistan in establishing trade facilitation committees. Further, he stressed the importance of involving the private sector in the institutions to be established. The TA Team concurred as they too envisaged significant private sector involvement for the technical subcommittees.
- (ii) Mr. Walker stressed the importance of time release measurement to ensure that the pilot program actually works and is acceptable to all of the pilot countries.
- (iii) A delegate from the private sector of the Kyrgyz Republic asked whether other route options could be selected for the pilot project. Mr. Walker explained that because of the PRC's commitment to implement the TIR system in 2017, the Interim Workshop agreed to look at Corridor 2A, focusing on Azerbaijan and Kazakhstan, as it already presents several advantages. This corridor option has been enhanced with Georgia becoming a CAREC member and Georgia's links to the New Computerized Transit System (NCTS) in Europe. If the pilot works in 2 years, it will certainly be extended to other corridors, particularly those with high traffic flow and density.
- (iv) A delegate from Georgia (Georgia Revenue Service) shared that in 2016 the country ratified the Trade Facilitation Agreement of WTO, which among other things calls for time release studies, which they have already implemented twice. They also abolished the mandatory national customs guarantee fee, a move that benefited the transport companies; this implies the need to evaluate whether to maintain an obligatory system. In addition, how would the tariff rate be set as basis for the guarantee so that no one country is favored. He then suggested a mutual recognition

agreement after the pilot is completed, stressing the need for harmonization of transit documents. Mr. Moore noted that different parties will have different views on various issues, and a common ground has to be reached to strike a balance between and among the various interests.

- (v) A delegate from Tajikistan (Association of Freight Forwarders) raised the possibility that Georgia providing a “window of opportunity” to reach European markets may have a negative impact on intraregional trade. On the mismatches or gaps in the legal and regulatory framework, he asked if ADB could support the required changes in the applicable legal and regulatory frameworks. Another issue is that some CAREC countries have geographic limits on their transit operations, for instance, how far they can operate into the PRC, which recognizes bilateral agreements only when WTO Article 5 (Freedom of Transit) should apply. Mr. Walker responded that intraregional trade, rather than external trade, should remain the focus of the project; in any case, the link with Europe combined with greater PRC trade and investments will spur the intraregional movement of goods. Ms. Lozano, ADB, stated that the legal and regulatory assessment identified potential gaps for the applicability of the CGM. She emphasized that the aim is to minimize legal and regulatory changes, but if major changes are required, ADB can consider providing support. But again, the legal and regulatory frameworks of the pilot countries may require only limited changes, mainly to secondary legal instruments.
- (vi) A delegate from the private sector of the Kyrgyz Republic requested that his country be included in the selected pilot project. Its legal and regulatory framework is similar to that of Kazakhstan, and testing the pilot scheme in one of the smaller countries would be useful. Mr. Moore noted that a phased approach has been recommended, and other countries can be added as they are ready.
- (vii) A delegate from Kazakhstan mentioned that they have practically solved the language issue with the PRC with computer-aided translation. On another topic, it was mentioned that payments systems may vary by country, and at the pilot stage it would be difficult to integrate payments into the transit system.
- (viii) A delegate from Azerbaijan (ABADA) stated that if there is a single customs document and the project is operational, a single permit or right-of-way document may also be required for entry of vehicles and drivers into countries. The importance of these issues was noted, and indeed an international agreement covering the overall requirements for facilitation of seamless transit traffic was recommended. Another delegate from Azerbaijan stated that these issues may be beyond the competence of the customs department, but there have been efforts to address them (e.g., UNESCAP has proposed a model road transport agreement).
- (ix) A delegate from Georgia stated that the country’s joining CAREC was a strategic statement of its interest in developing trade with CAREC countries; its role is not only as a window to Europe but to provide opportunities and raise the capacities of other countries to increase trade. Regarding the ICT presentation, he considered the issues well addressed and he did not see any special problems. He mentioned the need to harmonize the country’s software with EEU software and others (e.g., Azerbaijani software), which is not seen as a problem; the various systems may be coordinated. At this stage, one may say that Georgia has expressed interest in this project, but further detailed technical discussions are required. In this connection, he shared that Georgia will be introducing ASYCUDA in 2017, which would need to be coordinated with the CAREC system(s). The TA Team underscored the need to use a single transit document.
- (x) A delegate from the Kyrgyz Republic expressed agreement with the proposal. He raised practical issues, e.g., an increase in ferry fees for vehicles from the Kyrgyz Republic using the Caspian Sea route.

## **K. Closing Statements**

17. Ms. Lozano, Regional Cooperation Specialist, ADB, recalled that ADB developed this TA project at the request of the CAREC governments. Transit remains an outstanding issue under the CAREC Strategy 2020. She stated that the proposed CGM will provide a flexible multimodal solution, aligned with international best practice, following the directions in which the world is moving in modernizing transit operations. She thanked all for providing information to the TA Team, to allow for evidence-based development of the CGM. She concluded by noting that this workshop is not the end of the project, but rather a beginning, and in fact ADB has allocated preliminary funds for preparatory work for launching a pilot scheme.

18. Mr. Walker, Team Leader and Trade Facilitation Specialist, thanked the participants for their support during the project, and thanked the Azerbaijan State Customs Committee for their excellent arrangements and hospitality. He observed that all countries have been trying to improve transit and stated that it is reassuring that after more than 2 years of work, it will be possible to move ahead with a pilot scheme in January 2017, and implement it in 2018. He thanked Georgia for its participation, and expressed pleasure that Azerbaijan and Kazakhstan would also join the effort to make the proposed pilot project successful.