

ADB Technical Assistance: Facilitation of Regional Transit Trade in CAREC

CAREC GUARANTEE MECHANISM



In association with



MDR Group, LLP

Strategic Drivers for Customs Transit Regimes and Guarantee Mechanisms

Risk Management

- In the last 10 years, traditional Customs control systems have been slowly replaced with compliance management and risk-based selectivity systems.

Mutually Recognised Approved Economic Schemes

- In the Mutual recognition of AEO status is seen as a key element to strengthen and assist end-to-end security of the supply chain and to multiply benefits for traders.

Advanced Electronic Information Exchange between Customs

- In the Standard 6 of the SAFE Framework of Standards (SAFE FoS) describes Customs-to-Customs “*Advanced Electronic Information*”. It states:

The Customs administration require advance electronic information on cargo and container shipments in time for adequate risk assessment to take place.

Rationale for CAREC Guarantee Mechanism

A CAREC regional transit system supported by a CGM would serve as a modern tool for Customs to manage and control the transit system.

Rationale for CAREC Guarantee Mechanism

There is significant scope for the enhancement of existing CAREC transit procedures taking into account international best practice.

Present procedures do not:

- Provide a uniformed single guarantee system for transit goods moving across the region.
- Take full-account of a trader's compliance history when setting the level of guarantee required.
- Provide comprehensive guarantees.

Areas of Improvement

The main areas of improvement that have been identified are:

- Introduction of a uniformed single guarantee system to cover transit goods from the beginning to end of a journey across the region.
- Allowing a reduction in guarantee levels based upon a trader's compliance history and status e.g. AEO.
- Introduction of 'comprehensive guarantees' to cover multiple transit movements over a specified period of time such as one year and then renewable.

Core Principal of CAREC Guarantee Mechanism

The core principal of the Single Regional Transit Procedure is that as far as possible the costs of transit guarantees for compliant traders should be reduced to encourage voluntary compliance with Customs laws.

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 - 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 - Comprehensive Guarantees

A comprehensive 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 - 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.

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

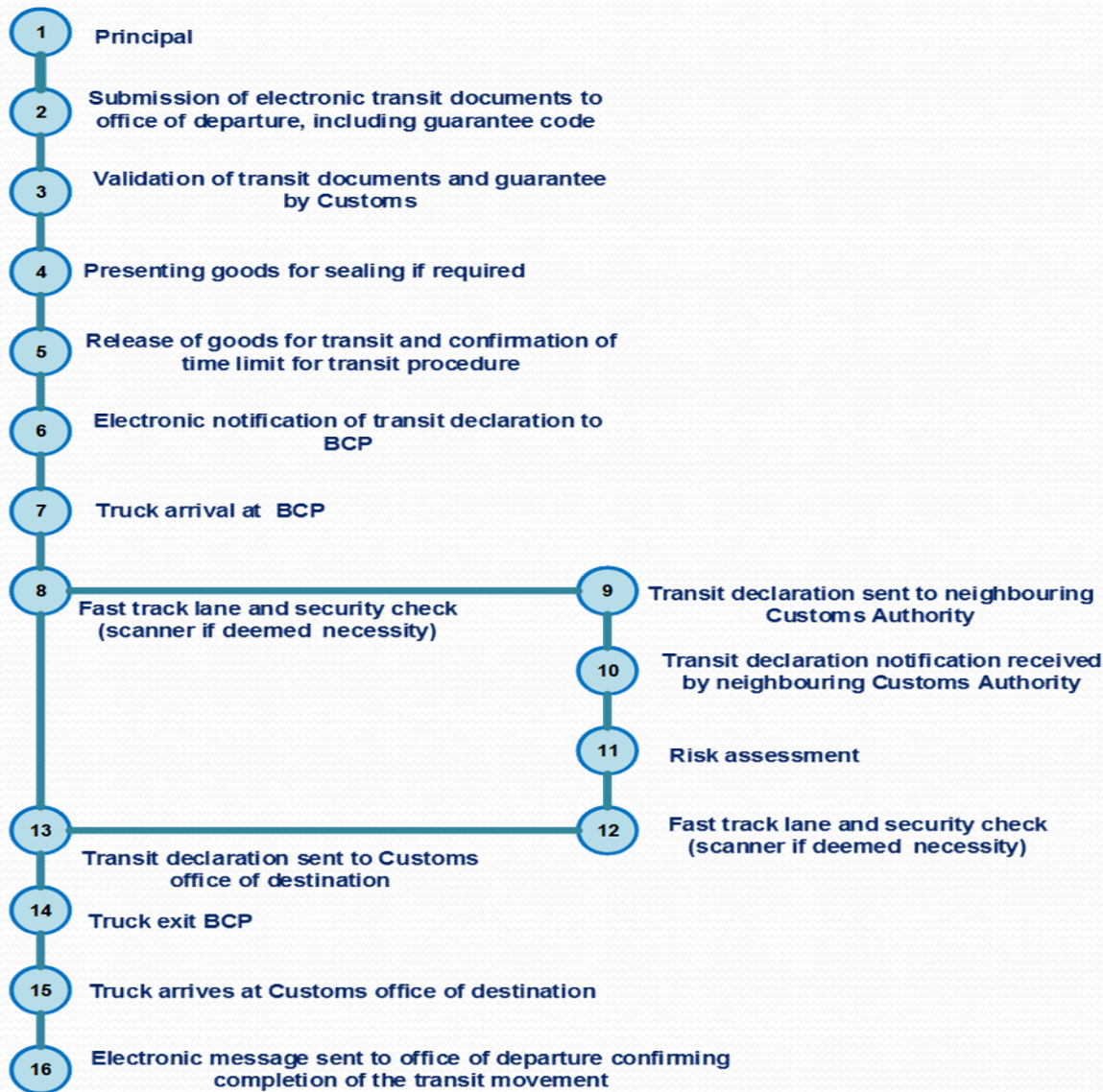
Transit Form and Supporting ICT Exchange Platform

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 is to:

- Facilitate integration with the developing CAREC Single Window technology to support the modernisation of regional transport systems and the supporting Customs procedures;
- 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.

Example of a CGM Transit Movement



Challenges of Introducing a CAREC Regional Transit System

The development of a CAREC Regional Transit System will not be an easy task for a number of reasons. These include the following:

- the existing geo-political situation in the region;
- the limitations placed on transportation in the region due to individual country's security concerns;
- the limited level of real-time data sharing activities presently being carried out by CAREC Customs Administrations;
- the high control focus and limited 'risk appetite' still being displayed by many CAREC Customs Administrations;
- the fact that Kazakhstan and the Kyrgyz Republic are now members of the EEU and are therefore bound to apply the EEU rules for transit.
- the low level of maturity of the financial and insurance sectors in the CAREC region will also present difficulties in finding the guaranteeing organisations/ institutions.

Advantages of the CGM

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.

CAREC Guarantee Mechanism

- Thank you for your attention.