



CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

Summary of Proceedings Senior Officials' Meeting March 2007

A. Introduction

1. A Senior Officials' Meeting (SOM) of the Central Asia Regional Economic Cooperation (CAREC) Program was convened at ADB headquarters in Manila, Philippines, on 26-27 March 2007.¹ The SOM was characterized by open and detailed discussion on issues including (i) progress in the priority areas of transport, energy, trade facilitation, and trade policy since the 5th Ministerial Conference (MC) in Urumqi, Xinjiang UAR, PRC, in October 2006; (ii) the ongoing development of sector strategies for each priority area; (iii) approaches to the formation of the CAREC Institute, which will manage training, dialogue, and research activities under the Program; (iv) options and approaches for developing the second tier of activities described in the CAREC *Comprehensive Action Plan* (CAP); (v) options and approaches for strengthening the strategic management and directions of the Program; (vi) interest from new countries and organizations to interact more regularly and substantively with CAREC; (vii) approaches to deepening cooperation with other regional cooperation organizations; (viii) and proposals for strategic messages and arrangements for the 6th MC planned for 2-4 November 2007 in Dushanbe, Tajikistan. The SOM also heard special presentations by Dr. Johannes Linn, CAREC Special Advisor, on "Central Asian Regional Integration: Interests of Partner States and Prospects for Cooperation", and Mr. Tuvakmammet Japarov, First Deputy Minister, Ministry of Economy and Finance, Turkmenistan.

2. The SOM was chaired by Mr. Negmatjon Buriev (Senior Advisor to the President on Economic Policy, Tajikistan) and co-chaired by Mr. Xianbin Yao (Deputy Director General, Central and West Asia Department, ADB).

B. Discussions

3. Mr. Johannes Linn emphasized that at this time there is great interest in Central Asia among its neighbors and development partners and that within Central Asia there is strong interest in regional cooperation. All Central Asian countries and their development partners have a shared long-term interest in a stable and prosperous region. CAREC has a great opportunity to respond to this growing interest in Central Asia; it is uniquely positioned to support regional cooperation and integration. Through the development and implementation of its sector strategies CAREC can promote win-win outcomes in energy, trade, and transport. In addition, CAREC can contribute to improved human security by supporting cooperative initiatives for natural disaster preparedness and response to threats from epidemics. Focus on action and monitoring achievements will help ensure real progress in knitting together the countries of the region and in successfully integrating them into the world economy.

¹ Delegations were present from the eight CAREC participating countries: Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. Representatives from the six partner multilateral institutions (MIs)—Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank—contributed to the proceedings.

4. The SOM was characterized by a call for focused action. Participants emphasized that the CAREC Program is a pragmatic, results-oriented, consensus-based, voluntary, and informal mechanism for policy and project-based activities designed to deepen regional cooperation. Participants urged that CAREC should maintain a simple structure and direct focus on priority projects and policy actions in the priority areas among participating countries. The program should play an important role in gathering and sharing information on multilateral, bilateral, and unilateral regional cooperation initiatives to enable practical, efficient development of policy and project actions.

5. The meeting included detailed presentations on each of the four CAREC priority areas of energy, trade policy, trade facilitation, and transport, as well as progress toward development of strategies in each of these sectors. Detailed updates on activities in each priority sector since the 5th MC are attached (Attachment 1: Energy, Attachment 2: Trade Policy, Attachment 3: Trade Facilitation, Attachment 4: Transport).

1. Energy

6. The SOM was updated on the latest progress in regional energy cooperation in terms of (i) promoting power trade between Central Asia and South Asia, and (ii) regional gas projects, and Clean Development Mechanism (CDM) initiatives, and (iii) CAREC Members' Electricity Regulators Forum. In this context, delegates highlighted various aspects to be considered in the future energy work such as (i) continuing the exchange of experience in the area of CDM among the member countries in view of the technical complexity of the mechanism; (ii) involvement of national experts and agencies in energy studies; (iii) developing capacity for preparing new projects; (iv) the need to reflect each participating country's special needs in the design of a strategy for regional cooperation. Progress in preparing the Strategic Energy Sector Action Plans was also reviewed and pending key contributions from certain participating countries highlighted. Delegates expressed appreciation for the reported progress in regional energy cooperation, as well as for the World Bank's support to the work of the Energy Sector Coordinating Committee.

2. Trade Policy

7. The SOM was preceded by the Sixth Trade Policy Coordinating Committee (TPCC) on 24 March 2007. Delegates (i) reviewed progress in implementation of instructions from Ministerial Conferences on reductions in barriers to transit trade and reform of trade taxes; (ii) discussed how to proceed with preparation of the Trade Policy Strategic Action Plan (TPSAP); and (iii) were briefed on ongoing work on studies on border trade and quantitative restrictions. Delegations concluded the long-term objective of the TPSAP should be trade openness in the region, contributing thereby to development and poverty reduction. World Trade Organization accession for all CAREC countries should be a key goal of TPSAP. Strategic elements of the plan should be drawn from the recommendations of studies on transit trade and taxes, and ongoing studies on border trade and quantitative restrictions.

8. The TPCC made two recommendations to the SOM: (i) the monitoring of implementation measures to reduce barriers to transit trade should in future be conducted by the Trade Facilitation Coordinating Committee (TFCC) based on specific performance indicators, including reductions in time and costs for transit trade. The TFCC would brief the TPCC annually on progress on reducing barriers to transit trade; and (ii) the draft TPSAP should be discussed at

the spring 2008 meeting of the TPCC with a view to finalizing the plan at latest by the autumn 2008 meeting of the TPCC. The recommendations were endorsed.

3. Trade Facilitation

9. In the area of trade facilitation, the SOM was apprised of steady progress in the areas of customs automation; risk management and post-entry audit; joint customs control and one-stop services; regional transit development; harmonization of customs procedures and documentation; data exchanges; and trade logistics development. This progress includes a number of bilateral initiatives and significant action by individual participating countries implementing customs modernization programs. As the TFCC develops its sector strategy it will examine ways of broadening its work beyond customs to more fully involve the range of government agencies important to trade facilitation. The committee will also work with other CAREC coordinating committees to deepen interaction and explore opportunities to develop synergies.

4. Transport

10. The SOM was briefed on major activities in the transport sector, comprising infrastructure investments, nonlending activities, and other regional cooperation initiatives. An outline of the CAREC Transport Sector Strategy Study was also presented. The team developing the strategy will closely coordinate with all stakeholders active in the CAREC region and produce a strategy that will: (i) be simple, practical, and useful for CAREC participating countries; (ii) take full advantage of the outcomes of past transport sector activities, studies, and plans; (iii) have a linkage to the TFCC program and strategy; (iv) identify about five regional transport corridors, including CAREC border-points; (v) review international and regional trade flows to, from, and through CAREC countries; (vi) identify about five international conventions and subsequent domestic procedural requirements for each transport subsector; and (vii) provide an action plan to facilitate transport and a prioritized infrastructure and institutional development plan with financing requirements for potential external financing. It was noted, and delegations agreed, that participating countries will need to actively facilitate and support development of the strategy. Support was expressed for a feasibility study on a proposed PRC-Kyrgyz Republic-Uzbekistan railway project.

C. Sector Strategies

11. Regarding the development of sector strategies, a possible structure and key elements were introduced. The strategies should be concise and provide a clear, specific, long-term vision expressing the shared objectives of participating countries. Each strategy should include specific and measurable actions in the short term (1-2 years) and medium term (3-5 years); outline policy actions required to achieve these actions including accession to international agreements and conventions; and list priority investments required to achieve these actions and possible sources of finance. Delegations noted that these strategies are critical to guide the future work of the program. The strategies should be clear, practical, and project-oriented. Each participating country should be closely involved in development of the strategies to ensure the ownership by CAREC countries that will be required to ensure they are actively and fully implemented.

12. The SOM noted the contribution of the Central and South Asia Transport and Trade Forum (CSATTF) in promoting trade and economic connectivity among participating countries (Afghanistan, Iran, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan) and in providing Central

Asia access to warm-water ports. The SOM recognized there is considerable synergy between CSATTF and CAREC that merits close harmonization of the two programs.

D. Knowledge Sharing and Capacity Development

13. A review was presented of activities under the knowledge and capacity development pillar of the *Comprehensive Action Plan*. This pillar seeks to (i) promote research and open discussion of issues central to improving regional cooperation; (ii) expand awareness and understanding of regional cooperation; and (iii) reinforce CAREC's momentum by creating an environment of support for regional cooperation. In this area, a range of activities are under way or planned, including the formulation of a CAREC capacity building program, development of a small research grants program, initiation of a CAREC Policy Brief series, and more general outreach activities. The SOM noted that capacity development activities should meet the needs of sector committees and senior officials, with a focus on supporting more-rapid identification and development of relevant projects, and opportunities to learn from the cooperation experience of other regions of the world.

14. Regarding establishment of the CAREC Institute, delegations recommended that initial steps should be highly practical and focused, and that the Institute should be "virtual" in nature. Of the three functions of the Institute (research, dialogue and training), delegations stressed that training is needed to develop the skills necessary for senior officials to more effectively engage in regional cooperation and integration. The small research grants program, policy briefs and other outreach and training activities initiated under the CAREC Program should, to the extent possible, be organized under the umbrella of the Institute. Once the Institute has a track record of accomplishments and success, options for a more permanent and substantive institutional structure should be assessed. It was also proposed that a step-by-step approach be undertaken towards establishment of the Institute in full consultation with participating countries. Delegates suggested the Institute should help focus attention of researchers on the challenges and opportunities of regional cooperation, promote dialogue and outreach activities regarding the benefits of regional cooperation, and facilitate training in cooperation with training centers in Central Asia and elsewhere.

E. Second Tier Activities

15. The SOM discussed options for developing the second tier of activities, as outlined in the *Comprehensive Action Plan*. Delegations noted the program must remain focused on CAREC's four priority areas. General suggestions for second tier activities were offered in the areas of human development, the environment, agriculture, tourism, disaster management, and the business sector. It was agreed that second-tier projects should be practical and results-based and should only be initiated if there is a clear terms of reference, statement of expected objectives and outcomes, and performance indicators to monitor results. Detailed project proposals should be prepared and participating countries should take the lead in areas of particular interest to them, including in disaster management. The CAREC secretariat will support these efforts. Based on specific project proposals, an action plan should be prepared for mobilizing necessary technical and financial resources.

16. Possible approaches to expanding interaction with additional countries and bilateral or multilateral organizations were examined. Expansion could bring increased opportunities for access to new, large markets. It could also dilute the current focus on improvements in the four priority areas within the current participating countries. Delegates welcomed the prospect of participation by Turkmenistan. They noted that CAREC is focused sharply on policy and project-

based activities intended to deepen regional cooperation among participating countries. It was suggested that the program should examine issues of expansion with this core objective in mind. It was proposed that the secretariat continue consultations with participating countries on these issues and (i) prepare a note on proposed steps to guide potential new countries in joining the CAREC Program; (ii) work with any country that expresses interest in participating in CAREC to develop a concrete proposal for discussion and consideration by CAREC countries; and (iii) explore development of a "business plan" or set of well-defined project proposals that may be used to begin further interaction with potential bilateral and multilateral partners.

17. The Tajikistan delegation, as host of the 6th MC, proposed the MC be held on 2-4 November 2007 in Dushanbe, Tajikistan. The delegation suggested the theme of the 5th MC, "Good Neighbors, Good Partners, Good Prospects," neatly and accurately sums up the objectives of the program and should be maintained. A number of key messages were proposed for the MC. These include (i) implementation of the CAP and its four pillars; (ii) the need for strategic management and vision of the program; (iii) the need for special initiatives under the second tier; (iv) an emphasis on deeper cooperation among CAREC countries and development partners; (v) the need for closer cooperation with the Shanghai Cooperation Organization, the Eurasian Economic Community, and other regional cooperation initiatives. A further proposal was to include the concept, "think regionally; act locally." The SOM agreed the proposed theme and key messages are appropriate, and should guide discussions in the lead-up to the 6th MC.

18. Regarding strengthening the capacity of the SOM and MC to provide strategic management and direction for the CAREC Program, delegations concluded that it was not necessary to establish a new Strategic Management and Priorities Subcommittee. Rather, delegations recommended steps for strengthening the SOM, including through more frequent in-country and regional workshops, regular meetings of CAREC's domestic advisors, and support by the CAREC secretariat and international advisors. It was noted that strategic management needs to be based on strategic analysis and planning, and more preparatory work is needed in this regard.

F. Special Presentation

19. Mr. Tuvakmamet Japarov (First Deputy Minister, Ministry of Economy and Finance, Turkmenistan), who attended the SOM as an observer, gave a comprehensive overview of the Turkmenistan economy covering each of the CAREC priority sectors. Mr. Japarov thanked the SOM for the opportunity to observe its proceedings and noted that this participation opened the way for consideration of future interaction with the CAREC Program.

G. Closing Remarks

20. Participants expressed high appreciation to the Government of Tajikistan for chairing the SOM and for its assistance in preparations and arrangements for the SOM, and to the ADB for the warm hospitality extended to participants and the excellent meeting arrangements.



Energy Sector Status Report

**Senior Officials' Meeting
On Central Asia Regional Economic Cooperation
26-27 March 2007
Manila, Philippines**

REPORT ON ENERGY

1. The purpose of this Report, prepared by the World Bank with contributions from other IFIs involved in CAREC activities, is to capture the developments since the last Senior Officials Meeting in October 2006.

A. Regional Energy Projects

2. **Central Asia South Asia Regional Electricity Market (CASAREM).** Under this initiative, in which five IFIs (ADB, EBRD, IFC, IsDB and WB) are participating together with four governments (Afghanistan, Kyrgyz Republic, Pakistan and Tajikistan) significant progress has been made in the last six months. The agenda would be underpinned by a set of projects and the corresponding inter-governmental and commercial agreements as discussed below.

- ***Sangtuda I Hydropower Project in Tajikistan***, Government of Republic of Tajikistan (GoRT) and RAO UES of Russia, the main sponsors of this 670 MW run-of-river hydroelectric project (HEP), continue to make significant progress in the completion of construction of this project. The first unit could be installed as early as December 2007 (and latest by March 2008). A tripartite meeting, between GoRT, RAO UES and the IFIs, took place in Washington in February 2007 and a Memorandum of Understanding was signed confirming the following agreements: (a) the summer production (7 months) of Sangtuda 1 HEP would be earmarked for exports to South Asia (Afghanistan and Pakistan); (b) the ownership stakes in the project company would be 25% plus one share for GoRT, 51% for RAO UES, and the remaining 24% have been offered to IFIs; (c) the sponsors will undertake the necessary preparatory work to comply with the due diligence requirements of IFIs; and (d) the financial closure of the IFI financing of Sangtuda I HEP and that the projects to establish the necessary trading and transmission arrangements would occur at the same time (currently estimated to be mid-2008).
- ***Tajikistan has launched the development of its coal resources in an integrated manner.*** Tajik authorities are aware that the high quality coal reserves they possess need to be developed in order to meet the winter demand for electricity as well as that for space heating. Their intentions were given a fillip when they received an actual offer from two Chinese coal mining companies to invest in developing the Fan Yagnob mine. Also because they have received interests from Russian and perhaps Indian companies, Tajik authorities have sought formally expressions of interests from interested parties for the development of integrated coal mine and power plant. The policy framework for such integrated coal mine development is: (a) coal mine and power plant would be developed in an integrated manner; (b) the projects would be developed as public private partnerships; and (c) A large part of the electricity would be dedicated to exports to South Asia.
- ***Transmission Links for electricity exports.*** There are several projects that would enable electricity trade between Central Asia and South Asia:
 - ***A 220 kV transmission system is being developed to supply power from Tajikistan to Afghanistan***, which will also aim to supply power to all the towns and other population centers from the northern borders of Afghanistan to Kabul (e.g., Kunduz, Maza-e-Sharif, Phul-e-Khumri, etc). Afghanistan is developing the

necessary transmission system – Northern and Eastern Power System (NEPS) – to bring this power, with the help of IFIs (ADB and World Bank) and bilateral donors (Germany, India, US). Correspondingly, Tajikistan is undertaking to build the transmission links needed to supply this power. The maximum power that can be supplied along the NEPS to Kabul would be 300 MW, and therefore, the expectations are that Tajikistan would supply 300 MW of electricity in summer to Afghanistan. For this purpose, in December 2006, ADB approved the Regional Power Transmission Interconnection Project totaling US\$56.5 million; and ADB and World Bank are providing legal and financial advisory assistance to Afghanistan and Tajikistan (under separate projects) to realize this trade along commercial lines and to follow international practices. Efforts are aimed at realizing this trade by 2009.

- ***In November 2006, Afghanistan and Uzbekistan signed an MoU*** whereby Uzbekistan agreed to export 87 MW to Afghanistan at the current time. Such exports could be enhanced to 150 MW with certain transmission links and eventually to 300 MW with certain other transmission links (Syr Darya thermal power plant to Talimardjan power plant and to Hairatan substation on the Afghan border). Uzbekistan's position is that the earlier funding would be made available, the earlier the exports level would be boosted to 300 MW. The expectations are that most of the Uzbek supply would be in the winter, thus complementing the summer exports from Tajikistan.
- ***In September 2006, the construction of the 500 kV South-North Line in Tajikistan was begun*** with a US\$280 million financing from China. This line is an important link between Tajikistan's main power generation facilities in the country's south and its north, and it will contribute significantly to de-congest the transmission grid in Central Asia, especially in Uzbekistan. It will also enable Kyrgyz Republic to export its summer surplus to South Asia. This line is planned to be completed in late 2008 or early 2009.
- Lastly, ***significant progress has been made in the development of high voltage (e.g. 500 kV) transmission and trading system between Central Asia and Pakistan*** via Afghanistan. This link would be a dedicated link essentially aimed at supplying Pakistan, but deliver some power to Kabul. In the second conference in Dushanbe in end-October 2006, the first Inter-Governmental MoU was signed, where the countries involved committed themselves to develop this project further. An institutional framework for project development, comprising an Inter-Ministerial Committee and a Multi-Country Working Group (MCWG) has been established and are functioning. Two critical studies - Techno-Economic Assessment (TEA) funded by ADB, and Design of Institutional, Financial, Risk Mitigation and Legal Framework (IFRL Framework) with funding arranged by the World Bank) are about to be launched. The next critical decision point is in July-August, when the third CASAREM conference is scheduled to take place in Kabul.

3. **Regional Gas Projects.** ADB is currently working with the Ministry of Energy, Industry and Fuel Resources of Kyrgyz Republic, KyrgyzGas (KG) and KyrKazGas, a joint venture between KazTransgas and KG on developing a regional gas transmission project that will rehabilitate the Kyrgyz section of the Tashkent-Bishkek-Almaty pipeline. The proposed project will improve regional gas transportation infrastructure, which will result in enhanced gas trade between Kazakhstan, Kyrgyz Republic and Uzbekistan. Interests are sought for co-financing

from other multilateral, bilateral, and private sector financiers, including possible public private partnerships/concessions and privatization of Kyrgyzgas.

B. Energy Sector Strategic Action Plans

4. At its April 2006 meeting the ESCC agreed on a timetable to develop their Energy Sector Strategic Action Plans (ESSAP) comprising Investment Needs, Capacity Building Needs; Outputs; Outcomes, and Monitoring Indicators for the energy sectors of each of the CAREC members.

- ESSAPs have been received to date from Afghanistan, Azerbaijan, Kyrgyz Republic, Tajikistan, Mongolia and Uzbekistan (the oil and gas company UzbekNeftigas). At the October 2006 ESCC meeting, People's Republic of China made a presentation on its energy sector, and Azerbaijan recently submitted a revised more concise action plan.
- Uzbekneftigas (Uzbekistan), is expected to submit refinements of the plan which was initially submitted.
- People's Republic of China (PRC), Kazakhstan, the power company of Uzbekistan – Uzbekenergo, are yet to submit their respective actions plans.

C. Energy Efficiency and Opportunities Offered by Clean Development Mechanism

5. ADB and WB continue to develop CDM programs and projects as summarized below.

- The ADB Carbon Market Initiative (CMI) was approved by the ADB Board in November 2006. The Asia Pacific Carbon Fund (APCF), a component of CMI, is expected to be operational in mid 2007. The APCF offers upfront funds to project developers/sponsors for future delivery of carbon credits. The CMI also provides grant-based technical support to projects for preparing required CDM documentation.
- The ADB Energy Efficiency Initiative is implementing its second Phase until December 2007, which includes the preparation of country-level investment and action plans on energy efficiency, development of the project pipeline for 2008-2010, design and establishment of the Clean Energy Financing Partnership Facility, and identification of immediate energy efficiency investment opportunities.
- The World Bank continued its active engagement in Central Asia within its recently endorsed assistance program for countries, which have ratified the Kyoto Protocol and have a portfolio with the World Bank.
- In early 2007, the World Bank completed workshops on Clean Development Mechanism in Azerbaijan, Kyrgyz Republic and Uzbekistan, focusing on "Assessing Carbon Finance" and "The Role of a Designated National Authority". In conjunction with the workshops, meetings for project developers were held there to discuss their project ideas and provide feedback from carbon specialists on potential project opportunities under the CDM.
- Furthermore, a Memorandum of understanding was signed between the World Bank and the Government of Uzbekistan, outlining assistance in identifying and developing CDM

projects towards increasing energy efficiency and energy savings, methane leaks prevention, methane utilization and biomass use. A Designated National Authority (DNA) was established in Uzbekistan in November 2006.

- The World Bank has extended an invitation to the Designated National Authorities of the Governments of Kyrgyzstan and Uzbekistan to participate in the Annual Carbon Expo in May 2007 and to become a member of the World Bank's Host Country Committee, which is a forum for information exchange by WB and member governments.
- On October 26-27, 2006, the World Bank co-hosted the Carbon Expo Asia in Beijing, along with its Conference partners (International Emissions Trading Association - IETA and Koelnmesse - Cologne Fair) and with the Ministries of Science and Technology and Finance, and the National Development and Reform Commission. This Expo attracted almost a thousand participants from all over the world, and allowed buyers and sellers of carbon emission credits to inter-face in a market environment. The Expo also featured several technical sessions on matters of direct interest to carbon market participants. The World Bank signed two purchase agreements with China in October as well, on Wind farm and Run-of River Hydro projects.

D. Enabling Legal and Regulatory Environment for Energy Sector Development

1. CAREC Member Electricity Regulators Forum (CMERF)

6. At the Second Annual Meeting of CMERF held in September 2006 the participating countries reemphasized the practical value that CMERF adds to the process of harmonizing energy regulations, encouraging and facilitating regional trade, and developing the capacity of the regulators and the regulatory bodies. The countries requested ADB to further support the CMERF program in 2007-2008. The countries advised CMERF to focus on providing training on specific regulatory topics to its participants.

7. As a continuation of its efforts supporting CMERF and developing the capacity of its participants to provide sound regulation and regulatory support of energy sector reforms ADB is currently developing a regional technical assistance (TA). This regional TA will build on the outcomes of the past CMERF activities and provide direct and hands-on support for regulatory bodies through designing and implementing tailor-made training programs for regulatory staff.

8. The Third Annual Meeting of CMERF is planned to be held in Ulaanbaatar, Mongolia in September 2007. The event will be hosted by the Energy Regulatory Authority (ERA) of Mongolia. At the Second Annual Meeting, the participating countries supported ERA's initiative to host the 2007 meeting. In the CAREC region, Mongolia conceptually has the most independent power regulation structure and body. ERA which recently celebrated its 5th Anniversary has been instrumental in reducing commercial losses in Mongolia's power system.



Trade Policy Coordinating Committee Status Report

**Senior Officials' Meeting on
Central Asia Regional Economic Cooperation
26–27 March 2007
Manila, Philippines**

CAREC Trade Policy Coordinating Committee Status Report for the March 2007 Senior Officials' Meeting

I. INTRODUCTION

1. At the request of the 2nd Ministerial Conference (MC), the April 2004 Senior Officials Meeting (SOM) discussed the possible objectives, mandate, terms of reference, and work plan for the CAREC Trade Policy Coordinating Committee (TPCC). It was agreed that the TPCC should help all CAREC member countries adopt more open trade regimes, so as to facilitate both intra- and inter-regional trade.

2. The TPCC was the first CAREC committee established whose focus would be exclusively on policies, not projects. The IMF agreed to take the lead in organizing the work of the TPCC.

3. Since its establishment, the TPCC held six meetings. The reports of the first five meetings are summarized in the Trade Policy Coordinating Committee Status Report that was submitted to the October 2006 Senior Officials' Meeting (SOM). This report focuses on the sixth TPCC meeting.

II. SIXTH TPCC MEETING

4. The sixth TPCC meeting was held in Manila on March 24, 2007. During the meeting, delegates reviewed the progress made in the implementation of the instructions from the 4th and 5th Ministerial Conferences, discussed how to proceed with the preparation of the Trade Policy Strategic Action Plan (TPSAP), were briefed on the preparation of the ongoing studies on border trade and quantitative restrictions on trade, and gave guidance on priorities to the TPCC's work program.

A. Review of progress

1. Reduction in barriers to transit trade

5. In line with the communiqué of the 4th Ministerial Conference, the TPCC continued monitoring of the implementation of the recommendations to reduce barriers to transit trade. The country delegates reported that progress in the implementation of the six recommendations will take time, reflecting the complexity and importance of the issues involved.¹ In this context, the country delegations reported that while there has been little progress since the September 2006 TPCC meeting in reducing the barriers to transit trade, their governments are strongly

¹ The recommendations are: (i) ensuring full compliance with the provisions of the TIR Convention by customs services and other agencies; (ii) reduction in the rate of charges for customs convoy under the national transit systems in appropriate countries with simultaneous reductions in the list of goods subject to such convoys; concrete proposals to these ends will be developed by the time of the next Trade Policy Coordinating Committee meeting; (iii) abolition of all other charges and fees on entry and transit of foreign road carriers; (iv) reduction of the cost of entry visas for drivers of foreign road carriers and issuance of visas to them at international pass points in a simple way; (v) harmonization of transport, customs, and border documentation in order to simplify procedures of control at and to minimize time to pass at the border; and (vi) taking measures to prevent and eradicate cases of unofficial payments from road carriers in transit.

committed to the goal of a liberal trade regime in the region. They noted that the pace of progress needs to be accelerated, recognizing that greater trust among CAREC countries is fundamental to the process. They recommended that monitoring of implementation of measures to reduce barriers to transit trade should in the future be conducted by the Trade Facilitation Coordinating Committee (TFCC). Further, monitoring should be based on specific performance indicators, including the reductions in time and costs for transit trade resulting from TIR compliance, reduced charges for customs convoys and other charges and fees, easier visa access, and customs harmonization and simplification at border crossings. Such a monitoring by the TFCC would be in line with the request of Ministers for greater coordination between trade policy and trade facilitation. The TFCC would brief the TPCC once a year on the progress on reducing barriers to transit trade.

2. Reform of trade tax regimes

6. In line with the recommendation of the 5th Ministerial Conference, the TPCC began the process of monitoring implementation of measures to reform the trade tax regimes of CAREC countries.² As in the case of the recommendations to reduce barriers to transit trade, some country delegates reported it will take time to achieve reform of their trade tax regimes. On the other hand, some country delegates reported that they are already in compliance with at least some of the recommended trade tax reforms, reflecting—in the case of People’s Republic of China, Mongolia, and Kyrgyz Republic—their membership in the WTO. In general, however, country delegates reported little change since the 5th Ministerial Conference in implementing the recommended reforms. Mongolia was an exception, as in recent months it has reduced the VAT applied both to domestic and imported goods from 15 percent to 10 percent, and has revised the regulations related to exemptions and concessions to the tariff regime in the priority sectors. Again, country delegates were of the view that trade tax reforms are a vital element for promoting trade, and that progress needs to be accelerated. However, given that progress may require legislation and other steps, monitoring of progress on an annual basis was considered sufficient. Accordingly, the TPCC will discuss progress on reducing barriers to transit trade once a year, but the delegates were encouraged to inform the committee more frequently if measures are taken in this regard.

B. Papers on trade policy issues

1. Barriers to border trade

7. During its fifth meeting in Tashkent in September 2006, the TPCC requested that the World Bank prepare a study on border trade among CAREC member countries building on the work that has already been done by the Kazakh delegation on this subject. The World Bank representative (Mr. Mitra) made a presentation on the objectives of the study, the methods that will be utilized in the study to achieve these objectives, and the areas that will be covered in policy recommendations of the study.

² The recommendations are: (i) reducing tariffs and other trade taxes in countries where the cumulative average rate is high, with the aim of bringing the simple average tariff below 10 percent; (ii) reducing the maximum and high tariff rates, with the maximum rate limited to 20 percent; (iii) cutting the number of non-zero tariff bands to around; (iv) eliminating specific and combined tariffs by shifting to an ad valorem methodology; (v) removing exemptions and abstaining from granting them in the future; (vi) applying taxes (VAT and excise) uniformly to imported and domestically produced goods; and (vii) consolidating other import taxes, fees, and charges into a single rate.

8. More specifically, Mr. Mitra noted that border trade, defined as the flow of goods and services near or at border crossing points between CAREC countries, could make a large contribution to raising production and employment, and fighting poverty. The study would identify the scope and content of such trade, its drivers and major participants as well as the major impediments such trade faces. The study would also develop a framework and make recommendations to CAREC member countries for maximizing the benefits of such trade. It would rely on empirical surveys conducted at border points by teams of local consultants. It was expected that proposals for the simplification of border trade would be developed. In this context, the study would also examine the European experience over the past decade with “Euroregions” and its relevance and applicability to CAREC countries.

9. In the discussion, country delegations made a number of suggestions for further refining the concept of border trade, advanced practical proposals for conducting the work, and recommended additional areas that the policy recommendations should cover.

10. Delegations agreed that the study would provide common approaches to facilitating border trade, but proposals would need to take into account the specific characteristics of each border area. The study should define “border trade” narrowly and precisely, and proposals should be consistent with national trade and transit approaches. It should not prejudice the efforts under way to develop free-trade zones. Member countries will have an opportunity to review the draft paper before it is discussed at the TPCC meeting.

11. It was observed that successful border trade requires coordinated, transparent, and reciprocal treatment between countries, open flow of information, good condition in physical structures for markets, and effective payment systems. All delegates agreed that the potential for raising incomes, employment, and welfare from liberalized border trade was high.

2. Quantitative restrictions on trade

12. During its fourth meeting in Urumqi in April 2006, the TPCC requested that the Asian Development Bank prepare a study to identify the nature and extent of quantitative restrictions on trade (QRs) in Central Asia, assess their economic and social impact, and make policy recommendations for reducing QRs in the sub region. Richard Pomfret, ADB consultant, made a presentation on the objectives of the study, the methods that will be utilized in the study to achieve these objectives, and the areas that will be covered in policy recommendations of the study. Professor Pomfret noted that the economics literature, based on both theoretical analysis and global experience, argues strongly against the use of QRs to regulate trade.

13. The study will assess QRs in the context of the overall trade regime. It will cover both the restrictions on international trade applied by the countries concerned as well as those applied to such countries by their major trading partners. The analysis will be based on information and data from both official statistics and legislation and from surveys and interviews with other key stakeholders.

14. More specifically, the study will, with assistance from domestic consultants, produce an inventory of existing QRs. On the basis of the inventory, analysis of expected trade flows, questionnaires and surveys, a small number of QRs in each country will be selected for further analysis. Following from this assessment of the economic and social impact of the selected restrictions and drawing on other countries’ experience, time-bound recommendations for removing the restrictions that have negative economic and social impact will be prepared.

15. In the discussion, country delegations commented on the value of compiling an inventory of QRs. Some delegates noted that there were good reasons for some of the existing QRs, which led to a discussion of whether this justified their analysis. There was also a discussion of the need to eliminate QRs as part of the WTO accession process. In sum, value was seen in the compilation of an inventory of QRs, and a detailed analysis of the reasons for and effects of existing QRs.

C. Trade Policy Strategic Action Plan

16. The Fifth Ministerial Conference endorsed the Comprehensive Action Plan (CAP) as a strategic document to guide CAREC's activities and initiatives. In addition, the Ministers at the conference recommended that medium-term sector strategies in primary sectors of energy, trade, and transportation be developed to make the CAP operational. To this end, the TPCC had its first round of discussions on the preparation of the Trade Policy Strategic Action Plan (TPSAP).

17. Discussions on the TPSAP focused largely on the following five elements: (i) objectives of the TPSAP; (ii) the strategic elements of the TPSAP (including the most important elements from the recommendations of the studies endorsed by the Ministerial Conferences); (iii) the timetable for the implementation of the TPSAP; (iv) performance/outcome indicators of the TPSAP; and (v) capacity building needs that should be addressed (in particular, to be able to implement the TPSAP).

18. The country delegates concluded that the long-term objective should be trade openness in the region, contributing thereby to development and poverty reduction. WTO accession for all CAREC countries should be a key goal of the TPSAP. The strategic elements of the TPSAP should be drawn from the recommendations of studies on transit trade and trade taxes, as well as the ongoing studies on border trade and quantitative restrictions. Regarding transit trade, the focus should be on customs harmonization and simplification. Regarding trade tax reforms, the focus should be on applying taxes (VAT and excise) uniformly to imported and domestically produced goods. In this connection, country delegates felt that they needed more time and consultations with their authorities to input to the TPSAP. Country delegates stressed that the TPSAP should include short-term and medium-term objectives and complement the trade strategies of other regional organizations, notably of the Shanghai Cooperation Organization (SCO) and EurAsEC. Finally, country delegates noted that capacity building should be a major element of the TPSAP.

D. Future work plan

19. The TPCC agreed that its agenda going forward should include:

- (i) continued monitoring on an annual basis of the recommendations related to reform of the trade tax systems endorsed by the 5th Ministerial Conference
- (ii) indirect monitoring of the implementation of the recommendations related to barriers to transit trade endorsed by the 4th Ministerial Conference, with close direct monitoring in the future conducted by the TFCC;
- (iii) completing the paper on barriers to border trade led by the World Bank, and formulating recommendations to address the related issues by September 2007;

- (iv) completing the paper on quantitative restrictions to trade in CAREC countries led by the Asian Development Bank, and formulating the related recommendations by September 2007;
- (v) preparing the TPSAP with a view to having it ready for discussion at the Spring 2008 meeting of the TPCC; and
- (vi) contributing to capacity building and information sharing on WTO-related issues to facilitate member countries' accession to the WTO.

E. Recommendations for consideration for the SOM

20. Based on the discussions, the TPCC reached agreement on the following recommendations to be submitted to the SOM during its meeting on March 26–27, 2007:

- (i) The monitoring of implementation of measures to reduce barriers to transit trade should in the future be conducted by the TFCC based on specific performance indicators, including the reductions in time and costs for transit trade. The TFCC would report to the TPCC once a year on the progress on reducing barriers to transit trade
- (ii) The draft of the TPSAP should be discussed at the Spring 2008 meeting of the TPCC with a view to finalizing it at the latest by the Fall meeting of the TPCC.



Regional Trade Facilitation and Customs Cooperation Program Status Report

**Senior Officials' Meeting
On Central Asia Regional Economic Cooperation
26-27 March 2007
Manila, Philippines**

CONTENTS

- I. INTRODUCTION
- II. PROGRESS AND PROPOSED ACTIVITIES
 - A. Customs Automation
 - B. Risk Management and Post-Entry Audit
 - C. Joint Customs Control and One-Stop Services
 - D. Regional Transit Development
 - E. Bilateral Initiatives for Harmonization of Customs Procedures and Documentation
 - F. Bilateral Initiatives for Data Exchanges
 - G. Other Areas
- ATTACHMENT 1. Program Framework
- ATTACHMENT 2. Statement of the CCC at its Fifth Meeting, October 2006, Astana, Kazakhstan

I. INTRODUCTION

1. The Trade Facilitation Program (the Program) aims to promote concerted customs reforms and modernization, and serves as a regional forum for addressing issues of common interest such as regional transit development. The Program's longer-term objective is to support an integrated trade facilitation approach through interagency cooperation and partnership with the private sector. The Program is guided by the Customs Cooperation Committee (CCC), consisting of the heads of customs administrations of the participating countries. Please refer to Attachment 1 for the Program framework, including objectives, priority areas, performance indicators, and results framework.
2. This report provides an update of major initiatives since October 2006 and highlights planned activities under each priority area.

II. PROGRESS AND PROPOSED ACTIVITIES

A. Customs Automation

3. The Kyrgyz Republic and Tajikistan are in the process of drafting customs automation masterplans. The masterplans include details on the (i) development of software applications of the united automated information system (UAIS), (ii) development of communication infrastructure, and (iii) training and change management.
4. The needs assessment for customs modernization in Mongolia has been completed. In December 2006, ADB approved the investment project aimed at modernizing Mongolia's customs administration. The project, to be implemented during March 2007 to February 2010 will support (i) the upgrading of customs automated data processing system, (ii) the improvement of infrastructure at major customs houses and border posts, and (iii) institutional strengthening, including business process reengineering and training related to the above two components, interagency cooperation, and public-private partnerships.
5. To further support capacity building, the People's Republic of China (PRC) has proposed a regional seminar on customs automation in Beijing in late-May 2007. PRC has also proposed two more training programs in Shanghai during the second half of 2007.

B. Risk Management and Post-Entry Audit

6. The Program continues to support the participating countries' efforts to implement and enhance their risk management systems. Following the request from the CCC, ADB in cooperation with the Royal Thai Customs, organized a Seminar on Implementation Challenges in Joint Customs Control, Risk Management and Post Entry Audit in February 2007 in Bangkok.
7. The seminar covered key elements of and requirements for effective risk management, including (i) strategic risk management (identify high risk geographical areas in accordance with a Customs Strategic Plan, and allocate the necessary human and financial resources accordingly), and (ii) tactical risk management (involve different organizations and line agencies to form a National Intelligence Center that generates intelligence products such as alert via customs intranet, monthly intelligence report, post seizure analysis report and intelligence report on specific issues).

8. In the area of post-entry audit, the seminar provided detailed and practical guidelines for the (i) establishment of a legal and regulatory framework, (ii) organization of an appropriate post-entry audit division, (iii) engagement of capable customs auditors and provision of training to customs officers to acquire appropriate expertise (e.g., accounting and auditing, international trade and business processes including banking procedures, customs laws and procedures, electronic record-keeping and information technology applications). WCO has developed a Post Clearance Audit Guide, which could serve as a useful reference to customs administrations.

9. A Working Group meeting, chaired by Uzbekistan, was convened during the seminar to discuss ongoing initiatives in risk management and post-entry audit. CAREC member countries are at different stages of developing their risk management and post-entry audit systems. While more advanced countries, such as PRC and Kazakhstan, are in the process of enhancing their risk managements systems, others such as Kyrgyz Republic and Tajikistan, are introducing integrated risk management techniques with the development of UAIS.

C. Joint Customs Control and One-Stop Services

10. The Program remains supportive of the participating countries' efforts to implement joint customs control and to provide one-stop and single electronic window services for business community in the long term. The Bangkok Seminar in February 2007 discussed implementation challenges in joint customs control (JCC) involving (i) operations (how adjoining customs authorities operate specific functions such as joint inspection, documents check, valuation, origin determination, operating hours, etc.), (ii) institutional mechanism (formulation of a national and joint oversight arrangement to guide the implementation of JCC), and (iii) compatibility of information technology. To address these challenges, the seminar highlighted the need for, among others (i) cooperation between border authorities, not necessarily through joint operations but through recognition and awareness of their respective operations, (ii) a lead coordinating agency at the national level, and (iii) detailing the functions of customs officers under JCC in a formal memorandum of agreement.

11. Considerable progress has been made in the bilateral initiatives on JCC under the Program. A meeting between Kazakhstan and PRC will be concluded during the first quarter of 2007 to establish a joint working group responsible for developing a concrete action plan for JCC. Mongolia and PRC have already established a working group and the policy dialogue on JCC between the two countries is well advanced. Kyrgyzstan and Kazakhstan are currently pilot testing JCC at the Aktilek-Karasu border.

D. Regional Transit Development

12. With ADB support, the International Road Transport Union (IRU) conducted a seminar on *Transport Internationaux Routiers* (TIR) Transit System¹ in October 2006 in Mongolia. The seminar provided detailed guidelines on TIR operations, including customs control measures,

¹ The TIR system was developed to facilitate the transport of goods through simplified procedures for transit traffic. Goods are carried in sealed vehicles or containers and accompanied by TIR carnet, a document accepted by customs authorities in countries of departure, transit, and destination. An international guarantee chain secures customs duties and taxes in case of an irregularity during the journey. Countries that adopt the TIR system recognize customs control measures at the country of departure. Consequently, sealed loads are not subject to examination at customs offices, whether these be en route or at destination, except for special cases, thereby leading to (i) fewer delays in goods transit, (ii) protection of customs revenues, (iii) reduction of physical inspection of goods, and (iv) efficient customs control and documentation.

technical regulation on load compartments and containers, and SafeTIR - a risk management tool that facilitates early detection of fraud in the TIR system. The seminar also identified specific roles and responsibilities of various sectors involved in transit operations.

13. While Mongolia has issued only one TIR carnet since 2004, it has benefited from passage of about 160 TIR shipments. Upon accession of the PRC to the TIR Convention, which is a priority of the Program, and completion of the Central North-South Corridor Road financed by ADB that links Russia and the PRC's Tianjin port through Ulaanbaatar, the number of locally issued TIR carnets are expected to increase significantly.

E. Bilateral Initiatives for Harmonization of Customs Procedures and Documentation

14. Simplification and harmonization of customs procedures are being achieved through a host of measures, including the revision of customs codes, introduction of risk management practices, JCC, and business process reengineering in relation to customs automation. As proposed by PRC, the program is supporting (i) harmonization of cargo manifest, and (ii) mutual recognition of customs inspections and seals/stamps. PRC and Kazakhstan, as well as PRC and Mongolia, will pilot-test the initiative under their existing cooperation framework.

F. Bilateral Initiatives for Data Exchanges

15. Data exchanges between customs administrations and between importers and exporters are essential for fast clearance and effective risk management. Participating countries have held preliminary discussions on the establishment of an electronic platform for data exchange, and the drafting of an agreement to provide the legal basis for the initiative. Likewise, the Kyrgyz Republic and Uzbekistan, and Tajikistan and Kazakhstan, have initiated bilateral discussion on pilot-testing the initiative.

16. During the Fifth CCC Meeting, delegates noted the importance of the Data Exchange Project and availability of all the preconditions to commence its pilot implementation in several countries. Taking this into account, the CCC requested ADB assistance to provide a consultant in this area.

G. Other Areas

17. A conference on the PRC and Mongolia trade facilitation and trade logistics development was held in November 2006 in PRC. The conference reviewed trade logistics studies for Mongolia and Inner Mongolia, and explored opportunities to enhance cooperation for trade logistics development.

18. The logistics studies demonstrated recent progress in both countries at local, national and even international level to improve basic infrastructure and improve the policy environment for trade facilitation and trade logistics development. However, there is a need to address major infrastructure bottlenecks and improve cooperation between Mongolia and IMAR. Areas needing further cooperation identified at the conference included development of (i) key road & rail transport links; (ii) special economic zones and logistics infrastructure; (iii) cross-border financial services, payment and settlement system; and (iv) coordination and information exchange in customs administration.

19. Following the conference, a preliminary joint action plan has been developed and will be submitted to the two Governments for review. It proposes coordinated efforts in establishing

conducive legal and policy framework in both countries leading to finalization of transport agreements; improving transport networks and corridors; expansion of dry ports and inland depots; building refrigerated capacity as part of cold chain development and collaboration; promoting inter-modalism; building logistics and transport information systems aimed at process optimization; harmonizing documentation and information systems leading to efficient data exchange and integration; capacity-building and logistics human resources development; and acceleration of the development of special economic zones.

CAREC Trade Facilitation Program Framework

Objectives	Priorities and Performance Indicators	Highlights of Activities
<p><u>Short- to Medium-Term objectives:</u> To promote concerted customs reforms and modernization and to serve as a regional forum to address issues of common interest</p>	<p>1. Customs Automation</p> <ul style="list-style-type: none"> • Automation systems adopted, particularly for Kyrgyz Republic and Tajikistan 	<ul style="list-style-type: none"> • Customs modernization assessments and master plans for customs automation (Azerbaijan, Kyrgyz Republic, Mongolia, and Tajikistan), and related consultation and dissemination workshops • Study visit for Kyrgyz Republic and Tajikistan on customs automation, to Kazakhstan and Singapore, respectively • Training for Kazakhstan and Mongolia officials sponsored by PRC Customs • Kyrgyz Republic and Tajikistan: Regional Customs Modernization and Infrastructure Development Project; Project Management Offices established • Customs Modernization Project for Mongolia approved in 2006 • Seminar on customs automation and e-governance initiatives (Seoul, December 2005 and Singapore, January 2006) • Regional seminar cosponsored by Japan Customs in April 2006
	<p>2. Risk Management, Post-Entry Audit, and Customs Intelligence</p> <ul style="list-style-type: none"> • Risk management practices adopted 	<ul style="list-style-type: none"> • Publication of the "Risk Management Guide" with the WCO • Risk management and post-entry audit seminar (Shenzhen, PRC in June 2005; Bangkok, Thailand in February 2007) • WCO diagnostic missions on Framework of Standards concluded in Kazakhstan, Kyrgyz Republic, Mongolia, PRC, and planned for Azerbaijan, Tajikistan and Uzbekistan • Publication of the "Risk Management: Catalyst of Customs Reforms and Modernization"

Objectives	Priorities and Performance Indicators	Highlights of Activities
	<p>3. Joint Customs Control</p> <ul style="list-style-type: none"> • Pilot-testing implemented and extended in other countries 	<ul style="list-style-type: none"> • Pilot-testing of joint customs control by Kazakhstan and Kyrgyz Republic in (i) Akzhol-Kordai and (ii) Aktilek-Karasuu; bilateral agreement on joint customs control signed between Kazakhstan and Kyrgyz Republic • Efforts to pilot-test joint customs control between Mongolia and PRC, and Kazakhstan and PRC • One-Stop/Single Window Seminar (Bangkok, Thailand in July 2005) • Seminar on Joint Customs Control (Bangkok, Thailand in February 2007).
	<p>4. Regional Transit Development</p> <ul style="list-style-type: none"> • PRC's accession to the TIR Convention • Bilateral transit agreements signed and implemented 	<ul style="list-style-type: none"> • Study visit fielded by PRC Customs to consult with relevant organizations on accession procedures • Establishment of SafeTIR system in Kyrgyz Republic • Forum on regional transit development (Shanghai, October 2005) • Training on TIR system for Kyrgyz Republic and Mongolia customs and transport operators in October 2006 • Bilateral transit agreements signed between Kyrgyz Republic and Tajikistan, and between Kazakhstan and the Kyrgyz Republic • Publication of "TIR Customs Transit System: Experiences and Initiatives of CAREC participating countries"
	<p>5. Harmonization of Customs Procedures and Documentation</p> <ul style="list-style-type: none"> • Cargo manifest harmonized • Accession to the Revised Kyoto Convention 	<ul style="list-style-type: none"> • Harmonization of cargo manifest (bilateral consultation meeting between Kazakhstan and PRC, and Mongolia and PRC) • Accession to the Revised Kyoto Convention by Azerbaijan and Mongolia in 2006 • Tajikistan adopted new Customs Code in 2004; formulation of draft revisions of Customs Code in Afghanistan, Kazakhstan, Kyrgyz Republic, Mongolia; development of New Customs Code of Azerbaijan; and completion of drafting of the new Customs Code of Uzbekistan; in line with modern international standards.

Objectives	Priorities and Performance Indicators	Highlights of Activities
	<p>6. Data Exchange</p> <ul style="list-style-type: none"> • Data elements for cargo manifest and customs declaration harmonized • Technology solutions for data exchange agreed bilaterally 	<ul style="list-style-type: none"> • Training seminar on WCO's Framework of Standards and Customs Data Model cosponsored by PRC Customs and ADB in July 2006 • Bilateral agreement on exchange of customs statistics signed between Kyrgyz Republic and PRC • Efforts to pilot test electronic data exchanges between Kyrgyz Republic and Uzbekistan
	<p>7. Framework for Customs Cooperation</p> <ul style="list-style-type: none"> • Bilateral agreements on mutual administrative assistance and customs cooperation signed and implemented. 	<ul style="list-style-type: none"> • Bilateral agreements signed between Azerbaijan and PRC, between Azerbaijan and Kyrgyz Republic, and between Kyrgyz Republic and Mongolia.
<p><u>Long-term Objective:</u> To support an integrated trade facilitation approach through interagency cooperation and partnership with the private sector</p>	<p>Establishment of a National and Regional Mechanism for Integrated Trade Facilitation Approach</p> <ul style="list-style-type: none"> • National Trade Facilitation Committee established • Integrated Trade Facilitation Strategy developed in support of one-stop and single electronic window services <p>Regional Committee established consisting of National Trade Facilitation Committees</p>	<ul style="list-style-type: none"> • Trade Facilitation Sub-Committee under Public-Private Sector Consultative Committee established in Mongolia in 2005 • Formulation of Mongolia's single electronic window initiated • Study on Trade Logistics Strategy for PRC's Xinjiang Uygur Autonomous Region concluded, with workshop held in April 2006 • Study on Trade Logistics Development for Mongolia and Inner Mongolia Autonomous Region in the PRC completed, with seminar held in November 2006. • Study on an Integrated Trade Facilitation Strategy

**Statement of the Customs Cooperation Committee
at
the Fifth Meeting of the Heads of Customs Administrations
under the Central Asia Regional Economic Cooperation (CAREC) Program
11–13 October 2006, Astana, Kazakhstan**

Introduction

1. The Customs Cooperation Committee (CCC), comprising heads/deputy heads of customs administrations from member countries of the Central Asia Regional Economic Cooperation (CAREC) Program, held its Fifth Meeting in Astana, Kazakhstan on 11-13 October 2006 to deliberate on the progress and chart the strategic direction of the CAREC Trade Facilitation Program (the Program). Mr. Kunio Mikuriya, Deputy Secretary General of the World Customs Organization (WCO), and Mr. Jan Hoffman, Economic Affairs Officer, United Nations Conference on Trade and Development (UNCTAD), participated as resource speakers during the consultation forum.
2. The participants conveyed their gratitude to the Customs Control Committee of the Republic of Kazakhstan for hosting the Meeting and for their gracious hospitality and excellent arrangements. The CCC also appreciated the efforts of the eminent speakers who generously shared their knowledge on integrated border management, logistics development and trade facilitation. The participants thanked the Asian Development Bank (ADB) for providing financial support and serving as the Secretariat.
3. The CCC reconfirmed its commitment to be the frontrunner in promoting regional trade facilitation initiatives through concerted customs reforms and modernization efforts and deepened regional cooperation, interagency coordination and public-private partnership.
4. The CCC recognized ADB's efforts to promote capacity building by partnering with international organizations and customs administrations supporting the Program. The members of the CCC expressed their appreciation to the Government of Singapore, Republic of Korea, Japan Customs, and PRC Customs for hosting regional forums and study tours. The CCC likewise noted the support of WCO, Thailand Customs Department, United Nations Economic Commission for Europe (UNECE), United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and International Road Transport Union (IRU) for sharing international best practices and modern customs techniques during the Program's regional and in-country activities. In line with this, the CCC acknowledged the importance of continually exploring opportunities to draw international support for sustaining the momentum of reforms initiated under the Program.
5. The CCC members reaffirmed their intention to implement the WCO Framework of Standards to Secure and Facilitate Global Trade, while recognizing the challenges of this undertaking. They value the assistance of WCO in fielding diagnostic missions to help them implement the Framework of Standards.

Review of Progress

6. The CCC appreciated the extensive knowledge-sharing activities organized since the fourth CCC Meeting including: (i) a forum on TIR Customs transit system in Shanghai in

October 2005; (ii) a seminar in Daejeon and Seoul, Republic of Korea on trade facilitation and e-governance in December 2005; (iii) a forum in Singapore in January 2006 focusing on issues related to customs automation and IT platform for trade and logistics; (iv) an in-country workshop in Ulaanbaatar on trade logistics and customs modernization, in February 2006; (v) an in-country workshop in Urumqi, People's Republic of China (PRC) focusing on Xinjiang's trade logistics development, in April 2006; (vi) a seminar in Tokyo in April 2006 on trade facilitation and customs modernization; (vii) a seminar in Urumqi, PRC in July 2006 on the WCO's framework of standards and customs data model; and (viii) training programs in Shanghai Customs Academy for Kazakhstan customs officials in May 2006 and for Mongolia customs officials in September 2006 sponsored by the PRC Customs General Administration.

7. The CCC welcomed the progress achieved over the past year, including:

- (i) accession to the Revised Kyoto Convention by Mongolia in October 2006;
- (ii) membership of Afghanistan to the WCO;
- (iii) draft revisions of Customs Code in Afghanistan, Kazakhstan, Kyrgyzstan, Mongolia, development of the new Customs Code of the Azerbaijan Republic and completion of drafting of the new Customs Code of the Republic of Uzbekistan, in line with modern international standards;
- (iv) ongoing implementation of the ADB-assisted Regional Customs Modernization and Infrastructure Development Project for the Kyrgyz Republic and Tajikistan;
- (v) preparation of an investment project for the modernization of Mongolia customs administration, expected to be approved by ADB in 2006;
- (vi) bilateral agreement on joint customs control signed between Kazakhstan and Kyrgyz Republic;
- (vii) initiatives to pilot-test joint customs control between Mongolia and PRC;
- (viii) efforts on harmonization of accompanying documents for the goods being transported between Mongolia and PRC;
- (ix) efforts to prepare agreement on information data exchange between Kyrgyz Republic and Uzbekistan;
- (x) PRC's effort to accelerate its accession to the TIR Convention;
- (xi) initiative to enhance SafeTIR system in the Kyrgyz Republic to facilitate transit development; and
- (xii) publication of several papers to disseminate knowledge products, including papers on TIR Customs transit system and risk management highlighting the experiences and initiatives of CAREC participating countries; customs reforms and modernization strategy and experience of Thai Customs; and several articles published in the CAREC Newsletter.

Future Work Plan

8. The CCC broadly endorsed the work plans proposed by the Working Group Chairs including pursuing the ongoing initiatives discussed above. Other major activities are highlighted below.

9. The CCC endorsed the training seminars on TIR Transit System to be conducted by IRU in October 2006 in Ulaanbaatar for Mongolia customs officials and transport operators, and in Geneva for Kyrgyz customs officials.

10. The CCC welcomed ADB's support for customs modernization needs assessment study in Afghanistan and Uzbekistan. In addition, the CCC is pleased to note that ADB is preparing a regional technical assistance project to support the development of an integrated regional trade facilitation strategy for each CAREC member country. This initiative will be useful in pursuing the CCC's long-term goal of promoting an integrated approach to trade facilitation.

11. The CCC requested assistance from ADB to support capacity building seminars including:

- (i) a regional forum on joint border control
- (ii) ICT and data and information exchange¹
- (iii) issues related to trade facilitation, such as best practices on implementation of the Revised Kyoto Convention, and harmonization of customs processes and documentation, including revision of Customs Codes, legal basis for e-declaration and international best practice in this area, and Istanbul Convention
- (iv) protection of intellectual property rights, and
- (v) challenges and experiences in the implementation of risk management and post-entry audit systems.

12. The CCC agreed that after each seminar a Working Group meeting will be held. The meeting will provide a policy forum to develop an action plan to move forward the regional trade facilitation agenda.

13. The CCC acknowledged that trainings conducted by the Customs Academy in Shanghai have been very useful and they requested continued support from ADB and PRC to finance participation of CCC members in these training programs.

14. The CCC members recognized that the CAREC Trade Facilitation Program could serve as a useful forum to share country experiences in implementing the Framework of Standards and they agreed to continually update each other of WCO diagnostic missions' findings and recommendations during the CCC forums.

¹ The CCC requested ADB to support a seminar in the 1st quarter, 2007 in Bishkek with participation of all the parties concerned.

15. CCC members noted the importance of the Data Exchange Project and availability of all the preconditions to commence its pilot implementation in several countries. Taking this into account, the CCC requested ADB assistance to provide the expert on this matter.

16. The CCC urged Kazakhstan and PRC to continue their efforts on harmonization of accompanying documents for the goods being transported.

17. The members of the CCC welcomed the offer of Kyrgyz Republic to host the Sixth CCC Meeting, tentatively on the second week of September 2007.



Transport Sector Status Report

**Senior Officials' Meeting
on Central Asia Regional Economic Cooperation
26-27 March 2007
Manila, Philippines**

CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

TRANSPORT SECTOR STATUS REPORT

I. Progress of Cooperation since the Fourth Ministerial Conference

A. Transport Sector Coordinating Meetings

1. The Transport Sector Coordinating Committee (TSCC) held two meetings in Urumqi, People's Republic of China (PRC) in 2006—the Fifth Meeting on 15 and 16 March and the Sixth Meeting on 24–25 August. The meetings were attended by delegations from eight CAREC countries and representatives of multilateral institutions (MIs) including the Asian Development Bank (ADB), United Nations Development Programme, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and the World Bank. The meetings were chaired by the Ministry of Communications, PRC and co-chaired by ADB.

2. The meetings endorsed the following results and decided to submit them to the Senior Officials' Meeting for information:

- (i) Updated Multilateral Institutions (MIs)' Assistance Program for regional transport projects for 2006–2008; and
- (ii) TSCC Work Program for 2007.

3. The meetings endorsed the following results and decided to submit them to the Senior Officials' Meeting for approval, as appropriate:

- (i) Central Asia Regional Transport Sector Road Map Update (2005–2010);
- (ii) An Action Plan on Harmonization of Regional Transport Regulations and Cross-Border Agreements; and
- (iii) A proposal of ADB technical assistance for CAREC transport sector strategy study.

B. Infrastructure Investments

4. Progress was made in improving the regional transport network. Major investments with external assistance included:

- (i) **Afghanistan.** About 91% of the regional road transport corridors comprising the regional ring road and eight regional road transport corridors within the country, totaling about 3,178 kilometers (km) have been or are being improved by external assistance totaling more than \$1 billion. As for the regional ring road totaling about 2,140 km, about 93% have been or are being improved by external assistance, while the remaining road stretch totaling about 143 km located near Murghab along the north west section of the regional ring road transport corridor requires rehabilitation. The Kabul-Kandahar-Herat section (about 1,047 km) was rehabilitated by USA (\$377 million), Japan (\$105 million) and Saudi Arabia (\$45 million). Iran provided \$30 million to improve the Herat-Armalikh section (60 km). ADB is improving the Bela Murghab-Andkhoy section (350 km) for \$135 million, while ADB and ADB-administered Japan Fund for Poverty Reduction (JFPR) have financed the Andkhoy-Puli Khumri (322 km) for \$90 million. The Puli

Khumri-Doshi section (47 km) is relatively in good condition and is considered for financing Islamic Development Bank (IsDB). Work on the Doshi-Kabul section (272 km) is ongoing with World Bank assistance. In 2004, rehabilitation of the Salang Tunnel, 2.7 km long at 3,363 m above the sea level, was completed.

In addition to the regional ring road network, Afghanistan has 8 major regional road corridors totaling about 1,037 km which connect Afghanistan to its surrounding countries through the regional ring road network. About 85% of the total length of the 8 major regional roads corridors have been or are being improved. The Kabul-Torkham (bordering Pakistan) totaling 224 km—the main road corridor—is improved by European Union (150 km) and Pakistan (74 km). The Kandahar-Spin Boldak (bordering Pakistan) is being improved by ADB/JFPR and Kuwait, totaling \$25 million. India assisted the reconstruction of the Delaram-Zaranj (border of Iran) totaling 223 km (\$84 million). Iran upgraded the Herat-Islam Qala (border of Iran) totaling 124 km (\$50 million). Iran also assisted the construction of a 320-meter (m) bridge and its approach roads. Improvement of cement concrete surfaced road between Herat and Torghandi (119 km) is being considered. A road section (37 km) between Andkhoy and Aquina (border of Turkmenistan) is planned for improvement with external assistance. Rehabilitation of the Naibabad-Hairatan road section is underway with ADB/JFPR. The World Bank has assisted the construction and rehabilitation of a road section between Puli Khumri-Sher Khan Bandar facing Tajikistan (\$30 million). Rehabilitation of the Salang Tunnel (2.7 km long at 3,363 m above the sea level) was completed in 2004. The construction of a new 670 m long two lane bridge over the Phanzh river, bordering Afghanistan and Tajikistan, was completed by USA. In 2005, Japan started to finance the improvement of the Kabul International Airport (about \$30 million) and ADB-funded regional airport project maintains its complementarity with this international airport. In May 2005, World Bank approved a supplemental grant of about \$45 million for the rehabilitation of the Taloqan-Kishem section of the road from Kundz to Faizabad and additional rehabilitation of the Kundz-Taloqan road, including additional demining requirements in the civilian areas of the Kabul International Airport and other project areas. ADB approved a \$138.2 million loan and JFPR grant for improving the north-south road transport corridor in September 2006. Road sections of Kabuk-Kandahar and Kabul-Chaharikar requires widening and some sections may need rehabilitation.

- (ii) **Azerbaijan.** The Yevlakh-Ganja and Qazakh-Georjian border sections of the east-west highway corridor is being improved with financing from ADB (\$52 million), IsDB (\$10.4 million) and Saudi Fund for Development (\$11 million). ADB is preparing a multitranche financing facility for the Road Network Investment Program with the first tranche to help develop the new Masalli-Astara expressway of the southern road corridor, connecting to Iran. In addition to its assistance to the construction of a bypass around Tovuz in western Azerbaijan (\$40 million), the World Bank approved in January 2006 a \$200 million loan for rehabilitating the Kurdamir-Ujar section of the Baku-Georgia road corridor, upgrading the Alat-Masalli section of the Baku-Iran road corridor, and rehabilitating the 2nd category road between Baku and Shamakhi of the east-west transport corridor. The World Bank is preparing two other \$200 million loans for further improving the sections of Azerbaijan's East-West and North-South

corridors, for approval in 2008 and 2009 respectively.¹ The World Bank is preparing a \$200 million loan in rail trade and facilitation, for approval in 2007. European Bank for Reconstruction and Development Bank (EBRD) supported the development of the Baku port (€16.2 million). It also assisted the reconstruction of an 85 km section of Gazi Mamed-Kyurdamir road (\$41 million) in 1997 and the upgrading of a 60 km section of the Sumgait-Zarat along the Baku-Samur road corridor, bordering Russian Federation, (\$100 million) in 2005. EBRD helped the improvement of the Azeri section of the trans-Caucasian rail link through track renewal, improvements to a tanker wagon workshop and commercialization initiatives (\$36 million and EU grant of \$8 million in 1998) and the Azerbaijan Dovlet Demir Yolu (Railway Company) in meeting the increasing demand for oil and oil products traffic primarily among the East-West trans-Caucasus railway line (\$50 million) in 2005. The air navigation systems were also upgraded with financing from EBRD (\$13.7 million) in 1997.

- (iii) **Kazakhstan:** The World Bank provided a \$100 million loan to rehabilitate priority national road sections of the Astana-Karaganda road (part of Asian Highway Route No. 7) and strengthen routine road maintenance. The Astana International Airport was constructed with Japan's assistance (about \$190 million). The Irtysh River bridge in Semipalatinsk, along one of the major regional road transport corridors, was constructed with assistance from Japan (about \$180 million) to further improve regional trade flows. Japan also financed three road sections² totaling 954 km in the western region (about \$140 million). The Kazakhstan section of the Almaty-Bishkek regional transport corridor was improved by ADB (\$52 million) and EBRD (\$25 million), and TRACECA (about \$2 million). An EBRD loan (\$119 million) was provided to rehabilitate the existing 900 km road between Atyrau and Aktau in the oil rich region of western Kazakhstan in 2003. EBRD financed the improvement of track maintenance methods and improvement of labor productivity in 1999 (\$65 million with €2 million grant). The Government has requested the MIs to consider financing of the East-West road transport corridor project totaling 2,309 km traversing from western Russia Federation to eastern PRC. EBRD is reviewing the proposed Almaty-Issykul road project. The World Bank is preparing a loan for the rehabilitation and reconstruction of about half of the South-West road corridor that links Kazakhstan to PRC and Russia Federation.
- (iv) **Kyrgyz Republic:** About \$50 million was provided from Japan to improve the Bishkek-Manas International Airport. The Kyrgyz's section of the Almaty-Bishkek regional transport corridor was improved with ADB support (\$5 million). The road sections totaling about 383 km of the Bishkek-Osh road transport corridor (about 619 km) were upgraded by ADB and Japan, amounting to about \$170 million, while IsDB has financed the Jalal Abad-Uzgen section of the corridor. The remaining road stretches (totaling 120 km) of the corridor are being improved with assistance from ADB (\$40 million). Once this section is completed, the whole Kyrgyz section of Asian Highway No. 7 connecting the country to Uzbekistan will be completed. The road section between Osh and Sopol Korgan–

¹ A loan of \$50 million is also under preparation by the World Bank for urban transport and traffic management improvement in Baku for approval in 2008.

² Atyrau-Uralsk (492 km), Kostanai Oblast border-Karabutak (249 km) and Karabutak-Aktyubinsk (213 km). The first two road segments are located along the Asian Highway Route Nos. 63 and 61, respectively.

part of the Asian Highway No. 65 connecting Kyrgyz to Tajikistan and PRC—is being improved by financial support from ADB (\$32.8 million) and the China State Development Bank (\$4 million). ADB is preparing a \$20 million loan to further strengthen road maintenance in the country.

- (iv) **Mongolia:** The Altanbulag-Ulaanbaatar-Choyr section was improved from financial support from ADB (a total of \$50 million), while ADB's financing (\$37.1 million), together with Republic of Korea (\$23.9 million) and PRC (\$1.5 million), is supporting the remaining section of this road transport corridor connecting Mongolia to the Russian Federation and PRC. ADB is preparing a loan for developing a road in the western region to link the PRC and Russian Federation through Mongolia. Japan supported railway transport rehabilitation in two phases, totaling about \$70 million. Japan provided a grant (about \$7 million) to improve the ancillary railway facilities at about 45 locations along the northern part of the main North-South railway corridor.
- (vi) **PRC:** In 2002, the World Bank provided \$150 million for the rehabilitation of the Kuitun-SailimuHu Highway and the improvement of connectivity of the primary local roads and towns to the provincial and national highway system in the Xinjiang Uygur Autonomous Region, in the western part of the PRC. ADB is preparing a \$150 million loan for upgrading the Korla—Kuqa road in the Xinjiang Uygur Autonomous Region.
- (vii) **Tajikistan:** ADB-financed road project (\$20 million) improved important sections of the North-South road transport corridor along Asian Highway Route No. 7 (connecting Tajikistan to Afghanistan and Uzbekistan) and of the East-West road transport corridor along Asian Highway Route No. 66 (linking Vahdat [near Dushanbe] and Kulma pass, bordering PRC). Subsequent assistance from ADB in two phases, totaling \$45 million, has supported the improvement of the eastern part of the road transport corridor linking the country with Uzbekistan and Kyrgyz Republic (Asian Highway Route No. 65). ADB is preparing a loan to finance the remaining section of this corridor. IsDB has financed the road section between Anjirob Poyom and Shagon along Asian Highway No. 66. Japan started to finance on a grant basis (about \$10 million) the southern most segment of the Dushanbe-Nizhni Pyanzh section of Asian Highway Route No. 7. In 2001, EBRD approved a loan of \$5.5 million to modernize Tajikistan's air navigation equipment and to support the restructuring of the aviation sector. This has been also supported by \$2 million grants from the Japan Fund for Post Conflict Support and Japan Europe Cooperation Fund.

In October 2006, the Tajikistan Government started the construction of the Sharshar tunnel, located at the south of Dushanbe, which will reduce travel time between the capital and Kulob, one of the major cities in the southern region. The total cost is estimated at \$35 million, of which \$30 million has been borrowed from the PRC. This tunnel and the highway bridge across the Panj river (which is being constructed by US and will be completed by the end of 2007) will improve trade links with Afghanistan. The PRC is also supporting the Dushanbe-Khudjent road project³ along the North-South road transport corridor (Asian Highway Route No. 7). EBRD is considering to finance road maintenance equipment.

³ Includes tunnels. Concessional financing from the PRC is about \$300 million.

- (viii) **Uzbekistan:** An important segment of regional railway connection linking Uzbekistan to Kazakhstan and Turkmenistan was rehabilitated with ADB assistance, totaling \$140 million. ADB is preparing a \$20 million Regional Infrastructure Roads Project that would connect Uzbekistan to Kazakhstan. In 2001, an EBRD loan of \$68 million was approved to upgrade diesel-electric locomotives, in addition to its financial support (\$40 million approved in 1999). It also supported, together with Japan (about \$90 million) and ADB (\$70 million), Uzbekistan to modernize the railway systems and management. The Tashkent Airport was rehabilitated by an EBRD loan (\$48 million approved in 1997). In 2004, Japan financed the construction of a new railway line between Tashguzar-Kumkurgan through a concessional loan of about \$140 million.

5. At the TSCC meetings in 2006, the Kyrgyz Republic delegation requested MIs to provide grant financing for the feasibility study of the proposed PRC–Kyrgyz Republic–Uzbekistan railway link project. The 6th TSCC Meeting agreed that regional transit traffic flows would be studied under the CAREC transport sector strategy study (CAREC TSSS).

6. It is recognized that the external assistance program for regional transport projects needs to be updated from time to time as appropriate.

C. Nonlending Activities

7. MIs continued to provide grant assistance to CAREC countries in support of regional transport cooperation. Major nonlending activities with external assistance included:

- (i) **Afghanistan.** Swedish International Development Cooperation Agency (Sida) has funded a feasibility study on the Hirat-Chagcharan road section of the East-West highway corridor. USAID has funded a feasibility study on the Mazar-Lai Sarjantal-Trin Kot section of the North-South highway corridor.
- (ii) **Azerbaijan.** ADB assisted in developing a transport sector development strategy. The World Bank approved technical assistance for the railway trade and transport facilitation project.
- (iii) **Mongolia.** ADB is assisting the Government in preparing the feasibility study of the western regional road development, and is preparing a transport sector development strategy. The World Bank is preparing an infrastructure strategy.
- (iv) **Kyrgyz Republic.** ADB is assisting the Government on developing a road maintenance program and is also preparing a transport sector development strategy.
- (v) **Tajikistan.** ADB is carrying out a study on strengthening road maintenance and financing. ADB is considering its support to develop a transport sector master plan for the country.

- (vi) **Uzbekistan.** ADB completed, in January 2007, a transport sector strategy and in March 2006 the project preparatory technical assistance on the Regional Railway Rehabilitation Project.
- (vii) ADB funded a pre-feasibility study of improving three regional roads: (i) Bishkek–Torugart–Kashi road linking the Kyrgyz Republic to PRC along Asian Highway Route No. 61, (ii) Dushanbe–Tursunzade (near the border of Uzbekistan) road in Tajikistan along Asian Highway Route No. 65, and (iii) the Angren–Gulistan road in Uzbekistan along Asian Highway Route No. 7 connecting Uzbekistan to Kazakhstan. The Final Report was submitted to the relevant Governments and ADB in February 2007.
- (viii) The World Bank is financing a study on transport corridor performance measurement in Central Asia.
- (ix) **TRACECA.** Recent TRACECA activities include the following:
- Pre-feasibility and Feasibility Studies on the Termez (Uzbekistan)–Dushanbe (Tajikistan)–Sari-Tash (Kyrgyz) road along Asian Highway Route No. 65 (€ 1.4 million, 2004)
 - Development of the Coordinated National Transport Policies (€ 1.25 million, 2004)
 - Development of Equipment Certification Centers for the Transportation of Perishable Goods in Central Asia in the frame of ATP Convention⁴ to facilitate trade and transport by implementing technical standards, certification and licensing systems in the field of international road transport at the regional level for perishable goods (€ 2 million, 2004)
 - Training of Air transport Control Staff of South Ring States (€ 2.5 million, 2004)
 - Analysis and Forecasting of Traffic flows for the TRACECA countries (€ 2.5 million, 2005)
 - Development of Master Planning and Feasibility Studies for Aktau Port, Kazakhstan Central Asian (€ 2 million, 2005)
 - International Logistics Centres/ Nodes Network in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) (€ 2 million, 2006)
 - Training in Civil Aviation Administration (€ 2 million, 2006)

⁴ Agreement on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be used for such Carriage (entry into force on 1 September 1970, amended on 7 November 2003). This is usually abbreviated as ATP Convention.

- Development of Common Security Management System and Cooperation in the Area of Maritime Safety and Ship (€ 3.5 million, 2006)⁵
 - Motorways of the Sea (€ 2.5 million, 2006)⁶
- (x) **EU and UNDP.** EU, together with UNDP, has supported the Border Management Programme in Central Asia (BOMCA) and Drug Action Programme in Central Asia (CADAP).
- (xi) **United Nations Office on Drug Control (UNODC).** UNODC is conducting programs to address the negative aspects of transport and trade facilitation.⁷
- (xii) **Japan International Cooperation Agency (JICA).** JICA is conducting a study on transport and customs in the Central Asia in response to the Second Ministerial Meeting for the Central Asia plus Japan Initiative held in June 2006. The study will be conducted from February to July 2007.
- (xiii) **CAREC Transport Sector Strategy Study (CAREC TSSS).** In February 2007, ADB has started the regional technical assistance for the CAREC TSSS. CAREC TSSS will be conducted in two phases: (i) assessment of regional transport developments, issues, and constraints; and (ii) development of a CAREC transport sector strategy. CAREC TSSS will be completed in December 2007. The CAREC TSSS team will closely coordinate with stakeholders active in the CAREC region.

The CAREC TSSS will (i) pursue simplicity in the overall goals and recommendations and aim to complete assessments and develop the recommendations in such a way as to be practical and useful for CAREC participating countries, supporting them to achieve actual transport facilitation on the ground, and effectively responding to the present economic realities and medium- and long-term economic developments; (ii) take full advantage of the outcomes of the past CAREC TSS activities, regional transport facilitation programs other than CAREC, ADB's transport sector strategies and operations in CAREC countries, and the studies and plans conducted by CAREC countries

⁵ The Project will develop an overall concept, designed as a Master Plan for the development of a Common Security Management System, focusing on both the Black Sea and the Caspian Sea, and linking the institutions involved in risk assessments and in case of emergency. The project specific objectives are: (i) identification of technical and personnel prerequisites in order to meet the requirements of IMO Conventions on safety of navigation, security of transport, including passengers and crews, and the requirements for environmental protection; (ii) developing and adapting of technical and personnel prerequisites in order to meet the requirements of the Port State Control Memorandum in the Black Sea as well as in the Caspian Sea; (iii) based on the upgrading of maritime education of seafarers in order to fulfil the requirements of the IMO White List; (iv) institution building in order to establish sustainable bodies in charge of performing the relevant tasks; (v) permanent upgrading of personnel know how and skills; (vi) assimilation of the development level of the different Beneficiary countries in order to meet best International standards.

⁶ The overall objective of the Project is to facilitate trade and transport through improving logistics capabilities, interoperability and multimodal transport and thus developing modern efficient "Motorways of the Sea" connecting the TRACECA countries with Europe and the international market. The specific objective of the Project is to develop a financially and economically viable, as well as a technically feasible and an environmentally and institutionally sound concept for the intermodal transport with a focus on including the river and the seas systems into this concept within the TRACECA region.

⁷ Include the drug control at airports. UNODC has more than 15 ongoing programs which address HIV/AIDS, anti-drug and human trafficking, and anti-terrorism. Some programs are relevant to transport and trade facilitation.

and ADB's development partners active in the CAREC region; and (iii) address both positive and negative aspects of transport facilitation.

The CAREC TSSS is expected to (i) have a linkage to the CAREC trade/customs facilitation program and strategy, since movements of goods and people tend to be constrained more by procedural matters at border points rather than by transport infrastructure deficiencies themselves; (ii) identify about five major regional transport corridors and CAREC border-points;⁸ (iii) review actual international and regional trade flows from, to, and through the CAREC countries, since international and regional trade presently takes place beyond the geographical boundaries of the currently-defined CAREC region;⁹ (iv) identify about five major international conventions and subsequent domestic procedural requirements for each transport subsector (roads and road transport, railways and railway transport, ports and shipping, and airports and civil aviation); and (v) contain not only strategies but also the CAREC regional transport corridors and border-facilities, TA requirements, an action plan to facilitate transport, and prioritized infrastructure and institutional development plan with financing requirements for potential external financing.

On 15 March 2007, the first consultation workshop was held to further discuss and refine the terms of reference and work program in Almaty, Kazakhstan. The RETA will have two more workshops: (i) second consultation workshop tentatively scheduled for 1.5 days in June/July 2007, which will be held in conjunction with the 7th TSCC meeting in Tashkent; and (ii) third consultation workshop scheduled for November/December 2007 in Manila for completing the final report.

The expected outputs from RETA in June 2007, leading towards the 6th Ministerial Conference to be held in Dushanbe, will be a simple statement of CAREC TSS, proposing about 5 major strategic goals, which the CAREC Ministers will be requested to endorse.¹⁰ Detailed technical matters will be further discussed and refined by TSCC members and relevant transport offices since technical matters require substantial time to let the CAREC participants get fully involved in discussions and let them have ownership. Support from CAREC participating countries to CAREC TSS is important throughout 2007, especially during mid 2007—the 6th Ministerial Conference.

8. It is recognized that external assistance program for nonlending activities also needs to be updated from time to time as appropriate.

D. Other Regional Cooperation Initiatives

9. The fifth negotiating meeting of Shanghai Cooperation Organization (SCO) member countries (comprising the PRC, Kazakhstan, the Kyrgyz Republic, the Russian Federation, Tajikistan, and Uzbekistan) over the draft Agreement (the Agreement) on Facilitation of

⁸ UNESCAP's Asian Highway and Railway Initiatives and TRACECA's transport corridors will also be reviewed. Appropriate criteria for the selection of CAREC regional corridors will be developed

⁹ Including Georgia, Iran, Pakistan, the PRC as a whole, Turkmenistan, and the Russian Federation.

¹⁰ A brief description of major CAREC transport corridors and border-points, TA requirements, an action plan to facilitate transport, and prioritized infrastructure and sector development plan may be added as an attachment, for which any endorsement will not be sought.

International Road Transport was held in Beijing on 23–26 January 2007 with support from ADB and UNESCAP. The meeting made substantive progress with consensus to about half of the framework agreement. The SCO secretariat with support of ADB, UNESCAP, and experts of the countries will conduct a study on preparation of Annexes to the Agreement. The next meeting will be held in Issyk Kul, Kyrgyz Republic, during the third quarter of 2007. The CAREC TSSS team will closely coordinate with SCO.

10. SCO has identified, among others, two regional road projects along Asian Highway Route No. 70 in Kazakhstan as top priority investments: (i) Volgograd-Astrakhan-Atyrau-Biynueu-Kungrad road section (about 788 km), and (ii) Aktau-Biynueu-Kungrad road section (about 544 km) located in the western region of Kazakhstan including construction of the bridge over Kigach river (part of Asian Highway Route No. 70). SCO has also identified two other road projects along Asian Highway Route No. 65: (i) Osh (Kyrgyz)-Kashgar (PRC) and (ii) Dushanbe (Tajikistan)-Karamyk (Kyrgyz)-Kashgar (PRC) as priority projects. CAREC TSSS will review all regional road projects considered by SCO.

11. Representatives of Mongolia, the PRC, and the Russian Federation concluded negotiations over the draft Transit Traffic Framework Agreement in November 2005. The finalized Transit Traffic Framework Agreement has been submitted to the three governments for consideration and signing.

II. Next Steps

12. In accordance with the 2007 Work Program endorsed at the Sixth TSCC Meeting, the TSCC will undertake the following activities in 2007:

- (i) Review of implementation of Action Plan on Harmonization of Regional Transport Regulations and Cross-Border Agreements;
- (ii) Preparation and review of the CAREC transport sector strategy;
- (iii) Review of the pre-feasibility study report on improving the Bishkek–Torugart–Kashi road linking the Kyrgyz Republic to the PRC, Dushanbe–Tursunzade road in Tajikistan, and the Angren–Gulistan road in Uzbekistan;
- (iv) Preparation and review of the final report on maintenance management of regional roads in selected CAREC countries;
- (v) Update of external assistance program for regional transport projects; and
- (vi) Preparation of CAREC Transport Sector Report Update.