

# The CAREC Guarantee Mechanism (CGM)

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# Rationale for CAREC Guarantee Mechanism

A CAREC regional transit system supported by a CGM would serve as a modern tool to manage and expedite the flow of transit traffic across the region.

# Rationale for CAREC Guarantee Mechanism

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

## Objectives:

- To enhance security and protect revenue
- To help trade flow more smoothly and efficiently across the borders
- To reduce the overall cost of trade.

# Rationale for CAREC Guarantee Mechanism

Present procedures do not:

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

# Areas of Improvement

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

# Core Principal of CAREC Guarantee Mechanism

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

# CGM Mechanism

The two pillars of the CGM mechanism are:

*Pillar 1*  
**AEO –  
NO GUARANTEE**

*Pillar 2*  
**SINGLE /  
COMPREHENSIVE  
GRADED GUARANTEES**

## Pillar 1 AEO – No Guarantee

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

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



## Pillar 1 Benefits

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

# Pillar 1 Benefits

Specifically, the pillar should:

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

## **Pillar 2** Single/Comprehensive Guarantees

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

## Pillar 2 Single Guarantees

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

## Pillar 2 Comprehensive Guarantees

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

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

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

## Pillar 2 Benefits

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

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

# CGM Guarantee Table

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

# Transit Form and Supporting ICT Exchange Platform

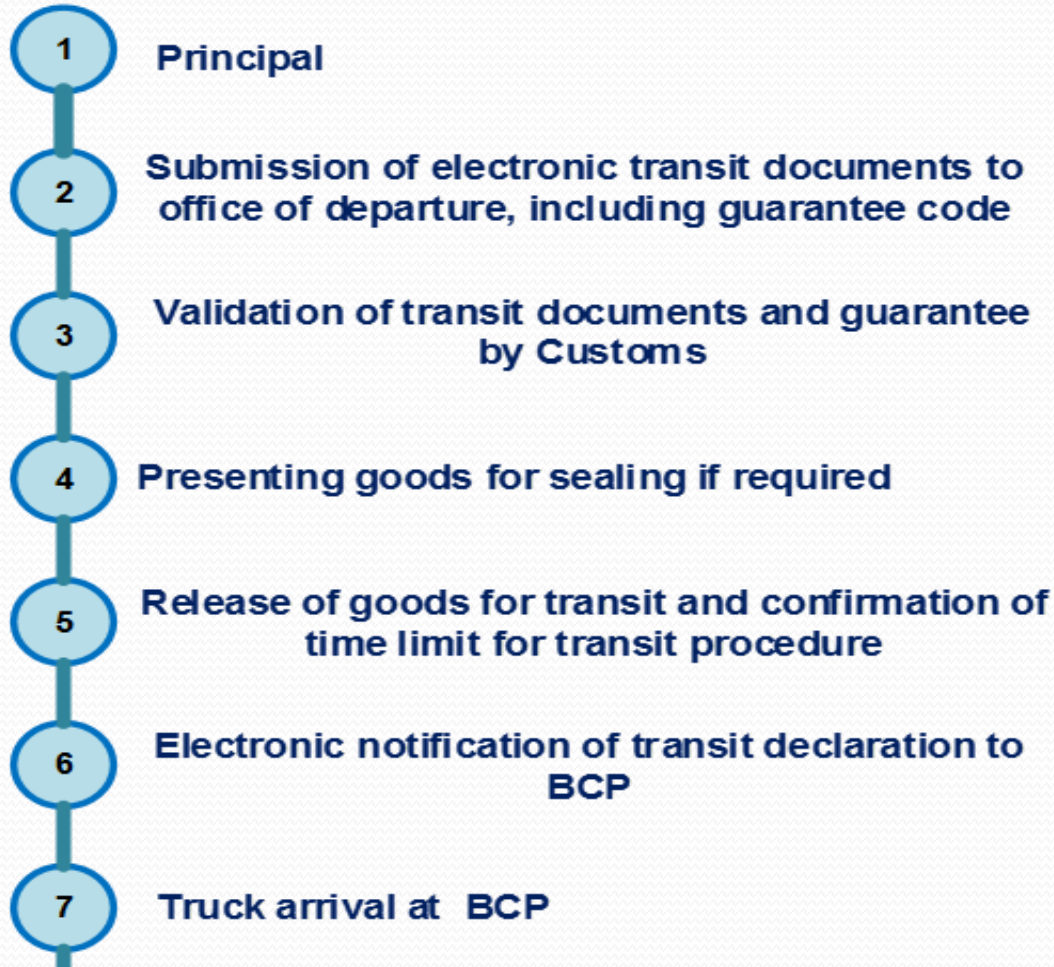
Adoption of a systematic electronic processing of a single transit document is envisaged to reduce costs, increase speed, improve risk management and reduce corruption.

The main objectives of the system is to:

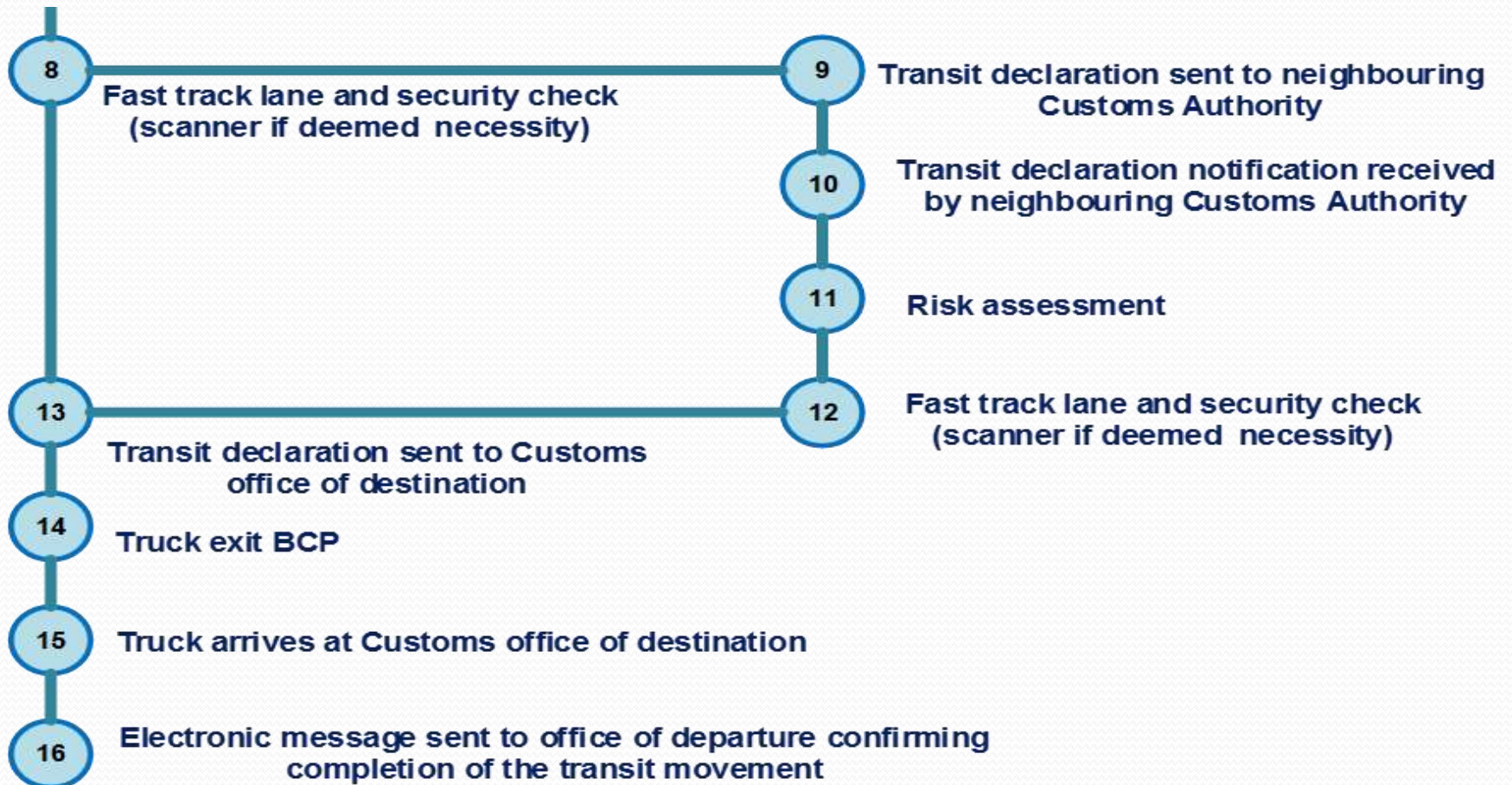
- Allow Customs-to-Customs information exchange as well as management by Customs of data on guarantees; and
- Permit advanced Customs risk assessment of the transit movement to enhance the security of the supply chain.



# Example of a CGM Transit Movement (Part 1)



# Example of a CGM Transit Movement (Part 2)



# Challenges of Introducing a CAREC Regional Transit System

The development of a CAREC Regional Transit System will not be an easy task for a number of reasons:

- ❖ Existing geo-political situation in the region;
- ❖ Limitations placed on transportation in the region due to individual country's security concerns; Not sure what this mean.
- ❖ Limited level of real-time data sharing activities presently being carried out by CAREC Customs Administrations;
- ❖ High control focus and limited 'risk appetite' still being displayed by many CAREC Customs Administrations;
- ❖ Kazakhstan and the Kyrgyz Republic are now members of the EEU and are therefore bound to apply the EEU rules for transit.
- ❖ Low level of maturity of the financial and insurance sectors in the CAREC region will also present difficulties in finding the guaranteeing organisations/ institutions.

# Advantages of the CGM

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

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

Thank you very much for your  
attention.