

DRAFT SECTOR REPORT
**REGIONAL TRADE FACILITATION
AND CUSTOMS COOPERATION PROGRAM**

Progress and Work Program

For Discussion: Trade Facilitation Sector Session

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I. INTRODUCTION

1. To support customs reforms and modernization of ADB's developing member countries (DMCs) in the East and Central Asia Region (the Region), ADB launched a Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) in 2002 as part of the broad Central Asia Regional Economic Cooperation (CAREC) Program. The RTFCCP is a three-pronged strategy for trade facilitation to help (i) modernize customs infrastructure—including customs legal and physical infrastructure, (ii) develop customs-supporting infrastructure through fostering private customs intermediaries and their participation in trade facilitation, and (iii) address issues of common concerns and complement country-specific support.

2. The RTFCCP is guided by a Customs Cooperation Committee (CCC) consisting of the heads of customs administrations of the participating DMCs.¹ The importance of the CCC reflects the country-driven process of the RTFCCP. The RTFCCP has been supported by major bilateral and multilateral institutions (MIs), particularly support from the World Customs Organization (WCO), the European Union through its Program of Transport Corridors in Europe and Central Asia (TRACECA), the Swiss Agency for Development and Cooperation, IMF, UNDP, USAID, and the World Bank. The establishment of the coordination group of the major MIs at 2nd Ministerial Conference (MC) on 11-12 November 2003 in Tashkent has further strengthened donor coordination for the CAREC Program, and the RTFCCP in particular.

3. The RTFCCP is a combination of (i) region-wide and bilateral initiatives and (ii) country-specific activities with strong regional orientation. Training and knowledge sharing are the main focus of region-wide activities. The CCC member countries attach great importance to training and knowledge-sharing because of their relevance to individual countries' ongoing customs reforms and modernization. Knowledge on customs-related WTO Agreements (e.g., rules of origin and valuation) and the Revised Kyoto Convention has facilitated the customs legal reforms in the CCC member countries, and sharing of country experiences has helped the design of customs modernization strategies and investment plans in light of lessons learned elsewhere.

4. The emphasis on bilateral initiatives reflects the nature of regional cooperation and the pragmatic approach adopted by the MIs in support of regional cooperation. Regional customs cooperation requires strong country ownership and takes time to realize its full potential. Bilateral initiatives by nature rest on strong country commitment of at least two countries and have strong demonstration effects for becoming regional initiatives if proved to be successful.

5. Support for country-specific initiatives with strong regional orientation is the bedrock of the RTFCCP. Knowledge-sharing and bilateral activities rest upon country-specific efforts in customs reforms and modernization. Knowledge-sharing would not be fruitful unless it is supported by in-depth country diagnostic studies and customs modernization efforts. Bilateral initiatives may not go beyond signing agreements unless they are supported by government commitment to put in place the enabling infrastructure for their implementation (e.g., automation and modern customs border post infrastructure). Therefore, support for concerted customs reforms and modernization among the CCC member countries is an integral part of the RTFCCP.

6. This Report highlights the progress since the endorsement of a seven-point Common Action Plan by the CCC in August 2002, and suggests a work program for future activities.

¹ Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People's Republic of China, Tajikistan, Turkmenistan, and Uzbekistan.

Actions in response to the specific proposals endorsed by the Ministers at the 2nd MC are summarized in Appendix 1.

II. PROGRESS AND FUTURE ACTIVITIES

A. Simplification and Harmonization of Customs Procedures

7. Simplification and harmonization of customs procedures is at the heart of trade facilitation. Harmonization of customs procedures is being achieved mainly through individual countries' efforts to reform customs legal frameworks (such as the Customs Code) in line with the Convention on the Simplification and Harmonization of Customs Procedures, commonly known as the Revised Kyoto Convention. Indeed, the Revised Kyoto Convention has been serving as a blueprint for reforms and modernization of customs administrations in all the DMCs. Kazakhstan ratified the revised Customs Code in May 2003 with assistance from IMF and USAID, and the Kyrgyz Republic adopted the new Customs Code on 12 July 2004 with support from the ADB and USAID. As a key policy initiative of ADB's Customs Program Loan support, Tajikistan has recently completed the first draft and is seeking broad-based consultation with relevant Government agencies and private sector stakeholders; the revised Customs Code will be submitted to the Parliament in late September.

8. Regional activities aimed to complement individual countries' legal reforms through (i) organizing forums to address issues of common concerns and distill lessons learned in the revision of Customs Code; (ii) providing training on customs-related WTO Agreement and the Revised Kyoto Convention so that the new Codes will be consistent with the major international agreements and conventions. These activities partly contributed to the CCC member countries' effort to join the WTO and accession to the Revised Kyoto Convention.

9. **Future activities.** To support the revision of the Customs Code and "establish conditions for trade development in accordance with the WTO standards" as emphasized by the Ministers at the 2nd MC, a regional training workshop on WTO's Rules of Origin was held during 6-9 September 2004 in Bangkok, and the need for training on WTO Valuation will be examined during the SOM with the member country representatives. At the request of the AZB Customs, the Secretariat will explore the possibility of providing technical assistance for the revision of the Customs Code. The Secretariat will also support a regional dissemination conference on the Kyrgyz revised Customs Code tentatively scheduled in late September in Bishkek.

B. Development of Border Posts and Facilities

10. The RTFCCP supported (i) needs assessment and investment plans for customs border-post infrastructure development for the Kyrgyz Republic and Tajikistan; and (ii) pilot-testing of joint-border processing initiated by the Kazakh and Kyrgyz Customs. The needs assessments have led to a proposed regional customs border-post infrastructure development project (financed by ADB) for the Kyrgyz Republic and Tajikistan aimed at (i) improving the working conditions and improving efficiency of priority customs border-posts; (ii) providing customs operations and anti-smuggling equipment, and (iii) training and promoting cooperation among border agencies.

11. The concept of joint-customs control or joint-border processing of neighboring countries is recognized as a best practice in trade facilitation. It provides impetus to streamline border procedures of border agencies within each country, and collectively economize resources deployed at borders for trade facilitation and effective border control. However, joint-border

processing requires a high degree of harmonization of customs legal frameworks and perhaps even sharing of jurisdiction on foreign territory that normally requires ratification by two countries' legislative bodies. Such requirements make this trade facilitation initiative one of the most challenging initiatives in the Common Action Plan.

12. Among the CCC member countries, the Kyrgyz Republic and Kazakhstan are spearheading this initiative, and pilot-testing of joint-border processing was introduced at the border-crossing of Akzhol and Korday effective 1 July 2004.

13. **Future activities.** Pilot-testing of joint-border processing will be explored between the Kyrgyz Republic and Tajikistan during the implementation of the regional customs border-post infrastructure development project. Technical assistance grant will be provided to the Kyrgyz and Tajik Customs to support the implementation of the customs modernization project. Dialogue is being held with the Government of Mongolia for financial assistance in customs infrastructure development.

C. Development of Simplified Transit Systems

14. Among the trade facilitation initiatives endorsed by the CCC, transit development stands out as a key one because of the small-economy and land-locked nature facing most of the CCC member countries. Without effective transit systems that facilitate intra-regional trade and also help move goods in and out of the Region, several member countries risk being further marginalized and unable to take advantage of the increasingly globalized economy. On the other hand, viable transit arrangements would help transform the Region into a modern "silk road" or "land-bridge" connecting East Asia with Europe. At the 2nd MC, the Ministers called development of simplified transit arrangements in the Region.

15. Transit was a major focus of RTFCCP activities. Several regional meetings were held to analyze major implementation issues facing the individual countries' transit systems and the international transit system under the TIR Convention.² The regional transit system adopted by the European Union was discussed in details as part of the effort to explore the possibility of introducing an alternative transit system in the Region. ADB and World Bank provided background papers to facilitate the discussions.³ These efforts contributed to the development of a joint MI proposal on the "Strategy and Action Plan for Transit Development" presented to the Senior Officials Meetings for the 2nd Ministerial Conference on 11 November 2003. A two-pronged strategy was proposed to improve the transit condition in the Region: (i) addressing the implementation issues related to the TIR Transit System as an immediate goal and (ii) exploring the possibility of introducing a regional transit arrangement as a long-term development goal. This approach will promote both intra-regional and inter-regional trade. A program of action was suggested as part of the Strategy Paper.

16. The CCC member countries are well aware of the challenges in developing an alternative transit arrangement in the Region, as the transit issues reflect deep-seated

² The most important international convention concerning transit by road is the Transport Internationaux Routiers (International Road Transport) Agreement, or TIR Agreement, concluded in 1949. This Agreement provided a guarantee system that would cover the duties and other charges at risk on goods moving in the course of international trade. Its success led to the creation in 1959 of the Customs Convention on the International Transport of Goods, also known as the TIR Convention. The 1959 TIR Convention was subsequently revised in 1975 to reflect new technical methodologies, such as the introduction of containers in transport. Among the CCC member countries, only the PRC has not acceded to the TIR Convention.

³ ADB. *Development of Simplified Regional Transit System*. The paper is available at http://www.adb.org/Documents/Events/2003/CCC/Second_Mtg/wp_03.pdf. World Bank. *Trade and Transport Facilitation in Central Asia*.

development issues and challenges confronting the CCC member countries. As a long-term development goal, transit development depends on whether there is concerted effort among the CCC member countries to provide the enabling legal and physical infrastructure for a regional transit system. Therefore, regional efforts in searching an alternative transit system must be rooted in individual countries' efforts in customs reforms and modernization.

17. The signing of a transit agreement between Kazakhstan and the Kyrgyz Republic on 26 March 2004 is a significant step in support of the transit development initiative endorsed by the Ministers. At a meeting in February 2004 in Bishkek, the CCC member country participants underscored the importance of extending such a bilateral transit agreement to other CCC member countries as an initial step to develop an alternative transit arrangement in the Region. The benefit of PRC's accession to the TIR Convention was stressed by the country representatives. The Kyrgyz and Tajik Customs expressed interest to enter into a similar transit agreement by the end of 2004. The Kazakh Custom emphasized on the importance of development of the insurance industry and bank guarantees to support the use of national vehicles for transit movement in the Region and suggested a CCC transit meeting involving private sector stakeholders. At the SOM in April 2004, the representative of the PRC delegation formally expressed interest to join the TIR and sought the Secretariat support for preparatory work.

18. **Future activities.** Proposed future activities include (i) Support for the development of a transit agreement between the Kyrgyz Republic and Tajikistan; (ii) consultation meetings with private sector stakeholders to strengthen the guarantee arrangements for transit, and (iii) support for feasibility studies for PRC's accession to the TIR Convention.

D. Data Sharing and ICT for Customs Operations

19. The use of information and communication technology (ICT) for automation of customs services and data-sharing among customs administrations of neighboring countries is recognized by ongoing discussions in the WCO and the WTO as a major component of trade facilitation. ICT helps reinforce individual countries' customs legal reforms and simplification of customs procedures, and improve transparency and efficiency of customs services. In particular, ICT will improve governance and reduce corruption by reducing direct interfaces between customs officers and traders (and their representatives) in customs clearance. Adequate ICT infrastructure is essential for introducing modern customs practices such as risk management and post-entry audit. One specific proposal endorsed at the 2nd MC was promotion of ICT for greater transparency and efficiency of customs services.

20. The regional activities in this area focused on (i) distilling country experiences and lessons-learned in customs automation; (ii) comparative study of customs automation (transit) systems as endorsed by the 2nd MC, and (iii) assisting individual countries in developing customs modernization strategies and investment plans, and providing financing for introducing unified automated information systems (UAIS).

21. **Lessons learned.** Sharing of country experiences and lessons learned in the development of the UAIS has been a main RTFCCP activity. Several forums were held for the purpose to distill lessons learned from the CCC member countries and elsewhere.⁴

⁴ See Appendix 2 for major lessons learned from development of automated customs information systems.

22. **Comparative study of automation systems.** This is a proposal endorsed at the 2nd MC. To help the CCC member countries develop their own UAIS according to their country circumstances, a study was conducted to examine major customs automation systems and their pros and cons.⁵ The automation systems adopted by the European union, Kazakhstan, Mongolia, Philippines, and PRC were presented in a CCC forum held in Beijing in April 2004. The automation systems adopted by the Mongolian and Kazakh Customs will be widely disseminated through publications.

23. **Scope of data-sharing.** Progress was also made in agreeing on the scope of customs data to be exchanged among the CCC countries' customs administrations in reference to the WCO initiative on common data elements. The adoption of a common ICT language was emphasized to ensure the ability of exchanging customs data among the country systems.

24. **Financial assistance for development of the UAIS.** At the 2nd MC, the Ministers called for greater use of ICT for promotion of transparency and efficiency of customs services. Building on the progress in customs legal reforms supported by major MIs, financial assistance will be extended to the Kyrgyz Republic and Tajikistan to develop their customs automation systems. The scope of assistance includes (i) software development for the core application systems of the UAIS, (ii) provision of communications infrastructure, and (iii) training and consultation with private sector stakeholders. The assistance will enable the two CCC member countries to catch up with the neighboring countries in customs modernization and effectively participate in regional customs cooperation initiatives. Technical assistance will be provided to ensure that the customs administrations' organizational structure and human resource policy support the modernization efforts, and automation and change in customs procedures will reinforce each other.

25. The concerted efforts in customs modernization by the two countries not only maximizes the regional benefits of their trade facilitation efforts, but also creates new sources for customs cooperation among the CCC member countries. Supported by the Secretariat, the Kyrgyz and Tajik Customs held two consultation meetings in June and August to explore cooperation mechanisms for joint development of the UAIS. A joint working group will be established for the development of the UAIS. The Kazakh Customs will provide technical support for the development of the UAIS.

26. **Future activities.** Sharing of country experiences in customs modernization (and automation in particular) will continue to be promoted through the CCC Forum and publications. A CCC Forum will be held in Manila tentatively in October 2004 to promote public-private consultation and partnership for customs automation. Support will also be provided for regular consultation and a joint working group initially consisting of the ICT personnel of the Kyrgyz, Kazakh and Tajik Customs. Financial support for the upgrade of the Mongolian customs automation system will be explored through country consultation missions.

E. Development of Risk Management and Post-Entry Audit

27. With growing volume of international trade and passengers, the traditional method of inspecting every traveler or cargo consignment has become a hindrance and is no longer practical. Risk management offers a solution by allowing customs to focus its resources on detecting and examining "high-risk" cargos and travelers, while not impeding the movement of

⁵ ICT for Customs Modernization, Seminar on Trade Facilitation and Customs Modernization, 4-8 August 2003, Issyk-Kul, Kyrgyz Republic. Available: http://www.adb.org/Documents/Events/2003/CCC/Trade_Facilitation_Customs_Modernization/Seminar_Documents.asp#modernization.

“low-risk” cargos and travelers. Time for customs clearance can be further shortened by combining risk management with post-entry auditing, in which customs scrutinize shipment after its entry has been cleared particularly on those identified as high-risk importers. A combination of risk management and post-entry audit effectively balances customs’ due function of trade facilitation and controls to ensure revenue collection and protection of public interests.

28. Training was the main focus of this initiative. The following aspects of risk management were covered in the training events: risk profiling, selectivity criteria and technical requirements for implementing a risk management system. Country assessments were also carried out in the Kyrgyz Republic and Uzbekistan to identify training, technical assistance and equipment that is needed to implement an effective risk management and post-entry audit program. Detailed recommendations were provided to the two countries’ customs administrations for the implementation of the risk management system. Lack of adequate ICT infrastructure was identified as a main constraint to the application of such practices.

29. **Future Activities.** Promotion of risk management-based modern customs practices is a specific proposal endorsed by the Ministers at the 2nd MC. To maximize the benefits of training, the Secretariat will support a series of in-country training in 2004 and 2005. Training workshops are planned for Uzbek Customs in November 2004, and Tajik Customs early 2005, in partnership with the SGS, a private customs inspection quality certification company. Each event will benefit more than 20 customs officers.

F. Strengthening of CCC Member Countries’ Customs Intelligence Systems

30. A customs intelligence system will strengthen customs enforcement against drug trafficking and smuggling. Drug trafficking and smuggling are recognized as a major regional issue. An effective intelligence system will also complement the risk management system.

31. RTFCC activities will aim to (i) improve the CCC member countries’ participation in the WCO’s RILO network through training and technical support, and (ii) provide training as part of training on risk management and post-entry audit.

G. Capacity Building for Customs Administrations

32. Training was an important component in all of the RTFCC regional meetings. Topics covered included (i) Revised Kyoto Convention, (ii) TIR Convention, (iii) WTO Valuation and Rules of Origin (iv) risk management and post-entry audit, (iv) various customs declaration processing systems, and (v) new computerized transit system adopted by the European Community.

33. Modest amount of grant support was provided to the CCC members (KGZ, TAJ, PRC, UZB) for procurement of training equipment.

34. Regional training will continue to be the priority of CCC activities, complemented by in-country training to address country-specific training needs. Technical assistance grant will be provided for the Kyrgyz and Tajik Customs to help introduce change management, and provide ICT training in support of customs automation.

III. SUMMARY OF THE PROPOSED WORK PROGRAM

35. A summary of the proposed work program is given in Attachment 3.

Specific Proposals recommended by the SOM and endorsed by the 2nd Ministerial Conference	Actions Taken
<ul style="list-style-type: none"> • Accession to the WTO and major international conventions by all the CCC member countries and provide training to assist member countries' accession; 	<ul style="list-style-type: none"> • Training on WTO's "Rules of Origin". • Planned training on WTO's Valuation in partnership with the WTI.
<ul style="list-style-type: none"> • Development of customs legal frameworks to harmonize customs codes and procedures; 	<ul style="list-style-type: none"> • Supported the revision of the Customs Cods for the Kyrgyz Republic and Tajikistan. • Support dissemination conference on the Kyrgyz Customs Code planned in Sept 2004. • Technical assistance planned for review of the customs procedures as part of the broad support for customs automation in the Kyrgyz Republic and Tajikistan.
<ul style="list-style-type: none"> • Promotion of modern customs practices such as risk management; 	<ul style="list-style-type: none"> • In-country training on risk management and customs intelligence will be conducted in Uzbekistan, Tajikistan, and other CCC member countries as requested.
<ul style="list-style-type: none"> • Development of a unified transit system; 	<ul style="list-style-type: none"> • Supported development a bilateral transit agreement between the Kyrgyz Republic and Kazakhstan, and between the Kyrgyz Republic and Tajikistan. • Dissemination on the KGZ/KAZ agreement was conducted in Feb 2004 in Bishkek. • Bilateral consultation between the KGZ/TAJ was sponsored in June and August 2004.
<ul style="list-style-type: none"> • Promotion of transparency of customs procedures and data-sharing through IT technology; 	<ul style="list-style-type: none"> • Financial support will be provided for the Kyrgyz Republic and Tajikistan for automation of customs services. • Supported consultation between KAZ and PRC and between KGZ and PRC on data-sharing in connection with CCC regional events. • A CCC Forum on "Private-Public Partnership for Customs Modernization" is planned in Manila in October.
<ul style="list-style-type: none"> • Comparative Study of computerized transit systems of various countries. 	<ul style="list-style-type: none"> • A CCC Forum was held in Beijing in April 2004 to share CCC member countries' automation systems/proposals, and examine the systems adopted by Philippines and the EU.

Lessons Learned in the Development of the Unified Automated Information System

- (i) **Sequencing of modernization and procedure reengineering.** At the CCC Seminar held in the Kyrgyz Republic in August 2003, country representatives developed ten general principles regarding the application of ICT for customs modernization.¹ A key principle is that countries must *first* reform customs laws and procedures according to country circumstances and international best practices and *then* use ICT to reinforce the reform process. ICT should not be used to re-engineer poor and antiquated customs procedures in the hope that it would help solve inefficiency, corruption, and other problems. ADB's support for customs legal and procedure reforms followed by support for customs infrastructure development is in line with this key lesson learned.
- (ii) **Importance of compatibility.** The EU's experience in integrating national automated customs information systems to develop the Newly Computerized Transit System shows that no single existing ICT system is considered ideal. One of the key attributes of all the different national systems is that they are compatible with each other and can readily transfer data, taking into consideration international conventions such as the Revised Kyoto Convention and common documentation standards such as the Single Administrative Document (SAD) administered by the United Nations Economic Commission for Europe (UNECE).
- (iii) **Phased roll-out/development.** Customs modernization has high economic and social benefits but is a long-term and costly endeavor. It requires comprehensive planning, with prioritization and sequencing of development and implementation. Experience in the Philippines shows that project completion in computerization does not mean the conclusion of the entire project. In fact, it is only a milestone to mark the start of modernization. Adequate financial support must be provided for following phases of development to upgrade and maintain the system, and keep up the momentum of customs modernization.
- (iv) **Capacity building and human resource development.** Human resources development is essential to maintain the newly developed or adopted system and constantly upgrade and adapt it to the countries' circumstances. Computers are only tools and could perform only as good as the user. The users must therefore be well-trained to maintain and upgrade the system in order to support the overall efficiency of customs operations.
- (v) **Change management and public consultation.** Change management and consultation with customs staff and stakeholders (such as traders and brokers) are essential. Migration to automation is often met with concerns because automation is unknown to most and manual operations in customs services is the norm for customs of many developing countries. The benefits of automation must then be emphasized, explained, and fears allayed by a dedicated group – the “change management team”.

¹ Summary of Discussions of the ICT Working Group, Seminar on Trade Facilitation and Customs Modernization, 4-8 August 2003, Issyk-Kul, Kyrgyz Republic. Available: http://www.adb.org/Documents/Events/2003/CCC/Trade_Facilitation_Customs_Modernization/ICT_final_English.pdf.

**Customs Cooperation Committee
Regional Trade Facilitation and Customs Cooperation Program**

Strategic Priorities and Objectives	Outputs/Activities
<p>I. Regional activities with strong country ownership</p> <p>Address issues of common concerns and develop regional public goods (e.g. harmonized customs legal framework and procedures).</p> <p>Focus initially on bilateral/trilateral initiatives to ensure country ownership, and demonstration effects.</p> <p>Maintain cooperation mechanism.</p> <p>Share experiences and lessons learned in customs modernization.</p>	<ol style="list-style-type: none"> 1. Support development of a transit agreement among Kazakhstan, Tajikistan and the Kyrgyz Republic, and its implementation. 2. Joint working Group on Customs Automaton proposed by the Kyrgyz, Kazakh, and Tajik Customs; 3. Regional training (on WTO Valuation and Revised Kyoto Convention to be determined in consultation with the CCC member countries, and risk management and customs intelligence). 4. CCC Meeting and Working Group Meeting, tentatively 1-3 December 2004, Baku 5. CCC Forum on Private-Public Partnership for Customs Modernization, 14-16 October, Manila
<p>II. Country-specific activities with strong regional orientation</p> <p>Promote concerted customs reforms and modernization through</p> <ul style="list-style-type: none"> • support for customs legal reforms and physical infrastructure development, • customs-supporting infrastructure development. <p>Accession to international conventions</p> <p>Training and capacity building</p>	<ol style="list-style-type: none"> 1. Support for customs legal reforms and revision of customs procedures, requested by AZB Customs 2. Support the implementation of customs automation and customs border-post infrastructure development (TA grant will be provided to KGZ and Tajik Customs to facilitate the implementation of the modernization plan) 3. Consultation with the Government of Mongolia for potential support for customs modernization 4. in-country training for Uzbek Customs on risk management and customs intelligence in Nov 2004, and Tajik Customs early 2005.