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Central Asia Regional Economic Cooperation Program

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For Session 1 of the Senior Officials' Meeting  
October 2013

# **Trade Facilitation Sector Progress Report and Work Plan**

(May–October 2013)

**Senior Officials' Meeting  
Central Asia Regional Economic Cooperation  
23 October 2013  
Astana, Kazakhstan**



## I. KEY DEVELOPMENTS

### A. Sector Implementation

1. This progress report covers activities conducted since submission of the prior progress report to the June 2013 Central Asia Regional Economic Cooperation (CAREC) Senior Officials' Meeting (SOM). The prospective work plan covers activities scheduled to take place over the next six months (November 2013–April 2014).

2. CAREC members are addressing country-specific issues particularly in streamlining the customs legal framework to adhere to the Revised Kyoto Convention (RKC). The Kyrgyz Republic is in its final stages of completing RKC accession requirements. These are currently being reviewed by its Parliament. Tajikistan has revised its Customs Code in connection with its accession to the World Trade Organization.<sup>1</sup>

3. Countries are also working to improve their risk management systems. In Uzbekistan, risk management implementation will be enhanced once the revised Customs Code is approved by the Parliament. Mongolia is introducing an Authorized Economic Operator program.

#### 1. Institutional Support

4. The Customs Cooperation Committee (CCC), during the 12<sup>th</sup> CCC meeting held on 18 September 2013 in Astana, Kazakhstan, gave its full support to proposed regional technical assistance (RETA) for (i) Aligning Customs Trade Facilitation Measures with Best Practices, (ii) Coordinated Border Management (CBM) for Results, and (iii) Regional Transit Trade. The first RETA, focusing on 'behind the border' measures to facilitate trade, aims to promote a harmonized approach to customs reforms by applying international best practices to support three of the five CCC priority areas, i.e., simplification and harmonization of customs procedures, strengthening of risk management systems, and use of information and communications technology–electronic information exchange. The CBM RETA, focusing on 'at the border' measures, has three components: (i) benchmarking and monitoring border crossing points (BCPs) through time release study (TRS), (ii) reviewing experience and expanding joint customs control pilots, and (iii) integrating customs and other border procedures. The third RETA covers a priority area of the CCC–regional transit trade. It aims to identify options for establishing an effective and affordable corridor-based transit regime and to examine the feasibility of implementing a pilot customs transit regime. The CCC also voiced its support for the refined Transport and Trade Facilitation Strategy (TTFS)–particularly in strengthening capacity building, modernizing BCPs, and satisfying all the identified output milestones. Senior Customs officials from all CAREC countries attended the meeting together with representatives from CAREC Federation of Carrier and Forwarder Associations (CFCFA), World Customs Organization (WCO), and Japan Customs.

5. The CFCFA prepared its work plan for 2014 and elected officers during its Fourth Annual Meeting on 23 August 2013 in Tashkent, Uzbekistan. Issues discussed include: (i) strengthening dialogue with CAREC governments for greater private sector participation and standardization of procedures; (ii) adoption of internationally accepted practices through information sharing and capacity building; (iii) amendments to the CFCFA Charter to permit membership of for-profit companies and to define the responsibilities and tenure of its officers; (iv) transfer of custody of the CFCFA website (cfca.net) from the Asian Development Bank

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<sup>1</sup> Tajikistan became a WTO member on 2 March 2013.

(ADB) to the Association for Development of Business Logistics and augmentation of the proposed content, design, and maintenance of the website to serve as a virtual bulletin board and information hub;<sup>2</sup> and (v) the findings of and proposed refinements to corridor performance measurement and monitoring (CPMM) reports, with emphasis on improvement of rail data collection and analysis.

6. On 22 August 2013, CFCFA organized a Business Networking Forum in Tashkent, Uzbekistan. More than 100 participants attended, including customs officials, development partners, and representatives of the local business community. The Business Networking Forum enabled representatives of logistics, transport, and trading companies from CAREC countries to meet, consider business propositions, and explore opportunities for collaboration. ADB's Private Sector Operations Department provided details on its activities and investments in CAREC.

7. Following publication of a sanitary and phytosanitary (SPS) development plan in May 2013,<sup>3</sup> ADB approved on 18 June 2013 a regional capacity development technical assistance<sup>4</sup> to support collective and coordinated efforts to improve implementation of SPS measures throughout the CAREC region. The RETA will (i) promote concerted reforms and modernization in the SPS area consistent with international standards, and (ii) identify and prioritize investment needs to modernize SPS measures and their application.

## 2. Training and Capacity Building

8. On 20–21 August 2013, CAREC and the WCO organized a regional training workshop on TRS in Tashkent, Uzbekistan. Customs officials from Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan learned how to use TRS and benefited from the experience of Japan and other countries in preparing to conduct TRS.

9. During 20–31 May 2013, ADB and the General Administration of Customs of the People's Republic of China (PRC) co-sponsored a workshop and training on customs modernization and management for CAREC countries at the Shanghai Customs College (SCC). Senior and mid-level customs officers learned about, and shared their experience on, customs modernization and management, including RKC accession, risk management, and e-customs initiatives. The course program also featured field visits and onsite learning.

10. CFCFA Logistics Trainings were held in Bishkek, Kyrgyz Republic, on 25–27 June 2013 and in Dushanbe, Tajikistan on 1–2 July 2013. Participants from the private sector, academia, and government became more familiar with best practice in supply chain management, global logistics, and using technology to improve efficiency. Participants also discussed key challenges facing their businesses and sought suggestions on applying best practice locally.

11. Together with the CAREC Institute, the CAREC trade facilitation team helping CFCFA to pilot a program of professional education courses on supply chain management, trade logistics,

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<sup>2</sup> It is anticipated that *cfca.net* will be a platform for posting regional trade-related data and information, corridor traffic reports, fuel prices, training programs, and support an exchange matching demand for for-hire transport services with supply. Freight forwarders, transporters, and logistics companies are the target audience.

<sup>3</sup> Asian Development Bank. 2013. *Modernizing Sanitary and Phytosanitary Measures to Facilitate Trade in Agricultural and Food Products*. Manila.

<sup>4</sup> Asian Development Bank. 2013. *Promoting Cooperation in Sanitary and Phytosanitary Measures for Central Asia Regional Economic Cooperation*. R-PATA 8386 approved 18 June 2013 for \$500,000. Manila.

and FIATA<sup>5</sup> standards. CFCFA members designed, delivered, and benefited from the courses. The courses are intended to improve the efficiency and management skills of CFCFA members and familiarize them with FIATA standards. 60 participants from CAREC countries learned from the pilot round of training held on 19–21 August 2013 in Tashkent, Uzbekistan.

### 3. Corridor Performance Measurement and Monitoring (CPMM)

12. The 2012 CAREC CPMM Annual Report evaluates freight flows and costs along the six transport corridors of the CAREC Program.<sup>6</sup> CPMM collects and analyzes time and cost data from shipping activities on CAREC corridors, providing intermediate outcome indicators to monitor and evaluate the TTFS implementation, and contributing the trade facilitation indicators for the CAREC Development Effectiveness Review (DEfR). A summary analysis of annualized CPMM findings is presented in the 2012 DEfR. The results for the first half of 2013 compared with the same period in the three previous years are shown below.

Trade Facilitation Indicators (January-June)

		2010 (Baseline Value)		2011		2012		2013	
		Mean	Median	Mean	Median	Mean	Median	Mean	Median
		<b>TFI1</b>	Time taken to cross a border crossing point (in hours)	7.9	4.0	8.4	4.3	11.7	4.3
<b>TFI2</b>	Cost incurred at border crossing clearance (in US\$)	202.6	120.0	150.3	87.5	153.5	74.9	218.2	100.0
<b>TFI3</b>	Cost incurred to travel a corridor section (in US\$, per 500km per 20 ton)	737.7	410.9	924.7	649.7	911.7	605.4	1,320.5	803.2
<b>TFI4</b>	Speed to travel on CAREC corridors (in kph), SWOD	34.9	37.2	36.5	37.8	37.4	35.5	36.1	34.2
	Speed to travel on CAREC corridors (in kph), SWD	24.0	22.1	20.9	19.4	23.7	29.4	20.4	19.7

km = kilometer, kph = kilometers per hour, SWD = speed with delay, SWOD = speed without delay, TFI = trade facilitation indicator. Source: CAREC CPMM Reports.

13. In the first half of 2013, the average time taken to cross a **BCP** fell significantly (by 31%) to an average of 8.0 hours (from 11.7 hours in 2012). Marked improvements in border-crossing duration of road transport were observed in all corridors. Corridor 3 featured the best performance, with an average clearing time of 2.5 hours. Improvements in Corridor 2 border-crossing at Irkeshtan (PRC shipments destined for Tajikistan) were observed: severe delays due to adverse weather appear to have been averted. There were only a few data samples reporting extremely long delays (e.g. long waiting time in queues along Corridor 1 at Khorgos, PRC for vehicles entering Kazakhstan). On the whole, the average duration of crossing borders was reduced significantly compared with 2012 performance. Rail transport border crossing duration experienced some improvement, but still exceeded baseline figures.

Comment [r1]: Abbreviation explained? Abbreviation spelled out in para. 4

<sup>5</sup> International Federation of Freight Forwarders Associations, from the French: Fédération Internationale des Associations de Transitaires et Assimilés.

<sup>6</sup> <http://cfca.net/cpmm/cpmm-annual-and-quarterly-reports/2012-annual-report/> Corridors are as defined in the original TTFS.

14. Seemingly improved performance in border management came at a cost: the gradual decline of average border-crossing cost since 2010 was reversed. The cost of crossing borders increased substantially (by 42%) in the first half of 2013. Further analysis reveals that, while border-crossing costs along most corridors continued (for road transport) to decline gradually, costs incurred at BCPs along Corridor 4 escalated. Increased Customs clearance fees imposed on goods entering Mongolia from PRC at Zamyun-Uud and from Russia at Altanbulag appear to be the cause of this increase. Rail border-crossing costs remained largely unchanged.

15. The cost to travel a 500-km corridor section also rose considerably to an average of \$1,321 (from the 2012 average of \$911). Oil price fluctuations and drivers' salaries continue to inflate vehicle operating cost within the region. As a result, costs continued to rise year-on-year in most corridors (corridor 6c being the exception, where a minimal decline in cost of shipments was observed). A principal cause of cost escalation appears to be vehicle operating cost in shipments bound to Tajikistan from the Kyrgyz Republic and PRC: CPMM data reveal a steep increase in this traffic segment. Rail transport cost along corridors 1 and 4 also rose.

16. Speed indicators exhibited mixed trends in the first half of 2013. Road shipments along corridors 1, 2, and 6 registered significantly faster speed without delay estimates; corridors 3, 4, and 5 suffered from considerable deterioration in speed. Rail transport exhibited a decline in speed in all corridors. This contributed to a slight drop in overall corridor performance. The speed with delay estimates, accounting for stops and impediments at BCPs, mirrored these trends to produce a slight deterioration in the indicator compared to the first half of 2012.

## **B. Addressing Actions Proposed in the 2012 CAREC Development Effectiveness Review and Ongoing Key Issues**

### **1. Priority Actions Proposed in the 2012 CAREC DEF**

- Review the TTFS and Implementation Action Plan for consideration at the SOM and Ministerial Conference.

17. **Action initiated:** A midterm review (MTR) of the TTFS was conducted November 2012–September 2013. The draft refined CAREC TTFS 2020 and Implementation Action Plan advocates intensified efforts in: (i) customs reform and modernization, (ii) CBM, (iii) national single window (NSW) development, and (iv) beyond-customs trade facilitation.

18. The draft refined strategy was presented, and subsequently endorsed for submission to the Ministerial Conference, during a joint meeting of the Transport Sector Coordinating Committee (TSCC) and CCC in Astana, Kazakhstan on 19–20 September 2013. Agreements in the area of trade facilitation include: (i) improving monitoring and evaluation of strategy implementation through joint efforts by CCC and TSCC; (ii) establishing and/or strengthening National Joint Transport and Trade Facilitation Committees (NJC) in CAREC countries; (iii) organizing joint CCC and TSCC annual meetings; and (iv) strengthening the role of the CAREC Institute in training, research, and knowledge creation and dissemination. Relevant issues raised relate to the harmonization of procedures (e.g. customs) and standards (e.g. vehicle). Delegates acknowledged CPMM's utility and requested expanding its coverage of railway traffic.

19. **Next steps:** The finalized refined strategy will be submitted to the 12th CAREC Ministerial Conference for formal adoption.

- Maximize the benefits of CAREC corridors by identifying key nonphysical barriers to cross-border transport and implementing the endorsed approach to corridor-based transport facilitation arrangements.

20. **Action initiated:** Capacity building activities have been conducted (see paras. 8–11). Data submissions from partner associations continue to enrich the CPMM database. Consultants are working to expand the volume of railway traffic data captured by CPMM.

21. Efforts to integrate Pakistan and Turkmenistan fully into the CAREC Trade Facilitation program continue. Recognizing Pakistan's and Turkmenistan's CAREC membership and updated projections on traffic and trade flows, the refined TTFS proposes updates to CAREC corridor alignments. Moreover, CPMM has recently expanded its coverage to include traffic originating, terminating, or transiting via Pakistan and Turkmenistan. The June 2013 SOM supported the continuation and refinement of CPMM.

22. In addition to customs formalities, other agencies have border management responsibilities in areas such as animal quarantine and food and plant inspection (i.e., enforcement of SPS measures). SPS reform and modernization seeks to harmonize and upgrade SPS measures and their application. The proposed (for 2014) Regional Upgrade of SPS Measures for Trade project has received support from the Asian Development Fund subregional allocation.<sup>7</sup> Project formulation and CAREC country participation will be informed by outputs from the SPS technical assistance (see para. 7).

23. **Next steps:** With WCO's technical endorsement, the CAREC trade facilitation RETA initiatives proposed above (see para. 4) will commence by the last quarter of 2013.

24. CPMM funding was replenished in December 2012. Resources have been secured for the conduct of CPMM through the first half of 2014. To account for refinements to the TTFS, CPMM will be expanded to monitor more railway traffic and the role of logistics service providers. Additional funding will be sought to ensure that future years are covered. ADB is working to identify possible sources.

- To sustain operations growth: (i) update the medium term priority project list endorsed at the Ministerial Conference of 2012, and (ii) commence mainstreaming priority projects into national development plans of the CAREC countries.

25. **Action initiated:** Since the 11<sup>th</sup> Ministerial Conference, the CAREC Regional Improvement of Border Services (RIBS) Project<sup>8</sup> has been approved by ADB's Board of Directors. Detailed investments in BCPs and NSW under the RIBS Project were identified for the Kyrgyz Republic and Tajikistan. The RIBS grant-funded project in Tajikistan was declared effective on 8 July 2013 and the loan- and grant-funded project in the Kyrgyz Republic was declared effective on 15 August 2013.

26. **Next steps:** Mongolia expressed renewed interest in the RIBS project. ADB has proposed to discuss again the terms and conditions of Mongolia's participation in the project. An

<sup>7</sup> ADB's Strategy and Policy Department has made available \$50 million in cofinancing for this project from the Asian Development Fund's (ADF) subregional allocation. Accessing these funds will require a corresponding allocation of performance-based allocation resources by ADF-eligible country programming teams.

<sup>8</sup> Asian Development Bank. 2013. *Central Asia Regional Economic Cooperation: Regional Improvement of Border Services*. Loan 2995-KGZ (\$4.202 million), Grant 0340-KGZ (\$4.202 million), and Grant 0341-TAJ (\$9.202 million), approved 1 April 2013. Manila.

ADB mission to Mongolia in May 2013 discussed with the government the investments to be covered by the RIBS project. Currently, the government is re-establishing its NSW working group to work with ADB in project preparation.

- To counter the drop in finance mobilization, step up efforts to explore cofinancing opportunities among CAREC governments, multilateral and bilateral institutions, other development partners, and the private sector.

27. **Action initiated:** Proposed CAREC trade facilitation RETAs (see para. 4) will be funded by Japan Fund for Poverty Reduction. Technical assistance project profiles have been transmitted together with the approved concept papers to the Ministry of Finance of Japan.

28. **Next steps:** RETA funding and approval are anticipated by the fourth quarter of 2014.

- Ensure relevant sector-focused training and capacity building activities are implemented through the CAREC Institute.

29. **Action initiated:** CAREC Institute and the CAREC trade facilitation team have been working closely since the end of 2012 to design a series of activities that aim to (i) disseminate more broadly CPMM data analysis and improve or increase its use as a policy development and decision-making tool, (ii) share with senior CAREC officials the results of good practice achieved in situations similar to those faced by many CAREC countries, (iii) and build the professional skills sets and capacity of transport service providers such that their efforts to improve performance complement efforts by the government to streamline procedures and reduce the time and cost of delivering goods to market. For progress to date, please see the progress report submitted to the SOM in June 2013 and para. 11.

30. **Next steps:** CAREC Institute and the CAREC trade facilitation team are designing further capacity building programs together with ADB Institute. The ensuing activities will also provide the substance for subsequent knowledge products. Building capacity on the conduct of TRS, RKC accession and compliance, and risk management remain a priority. Beneficiaries of capacity building activities developed in conjunction with CAREC Institute include CAREC customs officials (specialized Customs training conducted by the Shanghai Customs College) and CAREC private sector partners. To increase the knowledge and capabilities of CAREC countries to design, comply with, and implement SPS measures, opportunities will be sought to leverage CAREC Institute resources to support delivery of priority training. In this regard, collaboration with other subregional programs (the Greater Mekong Subregion is active in modernizing SPS standards regionally) will be pursued.

## 2. Actions Identified in the Wuhan Action Plan

31. **Renovation of BCPs.** The RIBS project will improve the physical infrastructure at BCPs along the priority CAREC corridors. Other projects have funded investments in cross-border infrastructure as part of a broader agenda (e.g., customs modernization for the Kyrgyz Republic, Mongolia, and Tajikistan; upgrade of roads leading to BCPs). ADB is proposing a RETA for CBM (see para. 4) and to fund investments at BCPs in Pakistan.

32. **Adoption of new/amended Customs codes.** Some CAREC countries have enacted or amended customs codes guided by the RKC. Five CAREC countries have acceded to the RKC; five others are at various stages of the accession process. A proposed RETA (see para. 4) will help CAREC customs authorities align their policies and procedures with the RKC.

33. Investing in automated customs information systems. ADB has completed 3 investment projects that funded the development and introduction of automated information systems for the customs services of the Kyrgyz Republic, Mongolia, and Tajikistan. The World Bank is making similar investments in Afghanistan and Kazakhstan.

34. Moving toward establishment of NSWs. The approved RIBS project will build upon ADB investments in automated Customs information system to augment NSWs in the Kyrgyz Republic and Tajikistan. These NSWs have benefited from initial investments by ADB and the European Union, respectively. They will accommodate eventual CAREC-wide NSW connectivity and interoperability. Azerbaijan has introduced its NSW and expanded the number of agencies providing trade-related services via the NSW. The World Bank's Customs Modernization Project for Kazakhstan includes an NSW component. The Republic of Korea's International Cooperation Agency is investing in the development of an NSW for Uzbekistan. The next critical step will be to initiate information sharing protocols among CAREC countries' NSWs to augment risk management efforts, support the expansion of Authorized Economic Operator programs, enable mutual recognition of laboratory test results for goods subject to SPS measures, etc.

35. Upgrading border control risk management systems. Training courses on risk management and customs modernization for CAREC Customs officials have been conducted (see para. 9). A proposed RETA will review legal issues which may impede some CAREC countries from introducing a risk management approach to vehicle inspection at BCPs.

### **3. Resolution of Ongoing Key Issues**

36. The scope and impact of the Russia–Belarus–Kazakhstan Customs Union continues to evolve. The Kyrgyz Republic has drafted a 'road map' for its contemplated accession to the Customs Union. CPMM will continue to monitor the time and cost involved in shipping goods into the Customs Union economic space.

37. Implementation of RIBS and the CAREC Cross-Border Transport Agreement are contingent in some respects on reclassification of the Karamyk BCP in the Kyrgyz Republic from bilateral to international. (The post on the Tajikistan side of the BCP has already been classified as international.) Enforcement of its bilateral status has been haphazard, allowing third country vehicles to pass unhindered and thereby creating the impression that it is open to vehicles from third countries. The bilateral classification of this key CAREC Corridor 3/5 BCP has been subjected to periodic, arbitrary enforcement, forbidding passage to third-country vehicles transiting the Kyrgyz Republic, consequently causing substantial increases in the time, cost, and distance of moving goods between Afghanistan and PRC. On the Tajikistan side of the border, truck drivers report that border clearance fees on weekends are doubled as the BCP is technically closed on weekends. Both the Kyrgyz Republic and Tajikistan have committed to pilot joint customs control procedures at Karamyk by 2015. Positive action is anticipated in response to an appeal by the Kyrgyz Republic trucking associations to Parliament in May 2013 to reclassify the status of Karamyk BCP to international.

## **II. KEY ISSUES FOR GUIDANCE BY THE SOM**

38. The TTFS MTR revealed that collaboration between customs, other border management agencies, traders, and transport authorities needs to be strengthened. Moreover, beyond-customs trade facilitation demands better coordination involving all key stakeholders. The June 2013 SOM acknowledged the need to develop trade logistics services and the importance of

greater cross-sector coordination and private sector participation through establishment and/or strengthening of interagency NJCs. CCC members agree with MTR recommendations that NJCs must have a clear mandate<sup>9</sup> and should submit progress reports regularly. (The experience of Pakistan in this respect may be instructive.) Guidance is sought on the timeframe within which NJCs are to be reconvened.

39. Trade facilitation measures should be implemented hand-in-hand with trade and investment liberalization. Recognizing this, CAREC has commissioned an update of the Trade Policy Strategic Action Plan (TPSAP) to coincide with refinements to the TTFS. The Trade Facilitation team has been engaged in this process to ensure that trade policy formulation and its implementation (which includes areas that trade facilitation covers under its agenda) are complementary. Guidance is sought on how best to ensure synchronized implementation of TPSAP with the TTFS.

### III. CHANGES TO SECTOR ACTION PLAN

40. Formal adoption of the refined TTFS 2020 will necessitate an updating of the Trade Facilitation Work Plan for better alignment with the new Strategy. The Work Plan was originally submitted to the SOM for consideration in November 2011 and was subsequently endorsed. Initial steps have already been taken towards updating the Work Plan in anticipation of the new Strategy's shift in emphasis. CPMM is being expanded to capture more (and more accurate) data on railway movements. It will be modified to capture data on the performance of trade logistics services. Action to implement the new initiative on SPS is underway and capacity building activities for customs (training on TRS, risk management, customs modernization, and RKC accession and compliance) continue. Further updates will be introduced and reported to the SOM as the focus shifts from refining the TTFS to implementing a refined TTFS.

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<sup>9</sup> NJCs were envisaged to operationalize cross-border transport agreements, support national data collection, and assist in reporting on TTFS implementation progress. However, only a handful of NJCs have been established, and not all evolved as intended. It was proposed that NJCs be given a wider and more defined role that includes: undertaking regular collection of a defined set of data on trade and traffic; coordinating and filtering proposals for CAREC projects; taking the lead in monitoring project outcomes; and establishing a more formal way of working, i.e., meet regularly and employ a secretary in charge of the minutes of the meeting, including dissemination to the CAREC Secretariat for coordination purposes.