CAREC

Central Asia Regional Economic Cooperation Program

"At the Border" and "Behind the Border"

Integrated Trade Facilitation—Reforms and Implementation

Workshop Proceedings; Tbilisi, Georgia; 10–13 April 2013

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Abbreviations

ADB	–	Asian Development Bank
ASYCUDA	–	Automated System for Customs Data
BCP	–	border-crossing point
BICT	–	Batumi International Container Terminal
BOMCA	–	Border Management Programme in Central Asia
C21	–	Customs in the 21st Century
CAREC	–	Central Asia Regional Economic Cooperation
CBM	–	coordinated border management
CCP	–	customs crossing point
CCZ	–	customs clearance zone
CPMM	–	Corridor Performance Measurement and Monitoring
DFID	–	Department for International Development of the United Kingdom
ECP	–	Economic Competitiveness Package
EU	–	European Union
ICTSI	–	International Container Terminal Services Inc.
OECD	–	Organisation for Economic Co-operation and Development
OSCE	–	Organization for Security and Co-operation in Europe
PRC	–	People's Republic of China
TCD	–	time/cost–distance
TIR	–	Transport Internationaux Routiers
TRACECA	–	Transport Corridor Europe–Caucasus–Asia
TRS	–	time release study
UNDP	–	United Nations Development Programme
WCO	–	World Customs Organization
WTO	–	World Trade Organization

Foreword

In Central and West Asia, border management has a critical role to play. When combined with liberal trade regimes and business-friendly environments, efficient customs and border controls can significantly improve prospects for trade and economic growth.

In recent years, the Government of Georgia has achieved remarkable success in border management, as well as in trade facilitation and economic liberalization. For this reason, the Asian Development Bank (ADB), the ADB Institute, and the Central Asia Regional Economic Cooperation (CAREC) Institute cosponsored Integrated Trade Facilitation “At the Border” and “Behind the Border”: Reforms and Implementation. The event, comprising a workshop in Tbilisi and study tour of facilities around the country, took place during 10–13 April 2013.

There were 55 attendees in all, including 30 senior trade and customs officials from 9 of the 10 countries in the CAREC Program. Among the other participants were representatives of the Government of Georgia; private companies operating in the region; and of international organizations, including the European Union/United Nations Development Programme Border Management Programme in Central Asia, the Organization for Security and Co-operation in Europe, and the World Customs Organization.

The event had three objectives: (i) showcase the reforms that Georgia has carried out to facilitate trade, taking note of the context for the reforms, their scope, and implementation results; (ii) highlight Georgia’s cooperation with neighboring countries on customs and border control, especially its joint border management with Turkey; and (iii) explore the role of technology, especially automation, in making border and customs control procedures more efficient. Although the focus was on Georgia’s innovative practices in these areas, a great deal of emphasis was also placed on the sharing of ideas, perspectives, and experiences of CAREC-member countries.

This report focuses on the workshop held in Tbilisi, specifically, the presentations and concluding commentaries.

What has Georgia done to merit all this attention? In brief, it has been implementing a series of highly effective reforms since 2003 as part of an ongoing effort to facilitate trade. These reforms have entailed (i) the improvement of customs operations, including the introduction of automation and a “single-window” system; (ii) the implementation of a revised border management strategy; (iii) joint customs control with neighboring countries; (iv) infrastructure development; and (v) capacity building for customs and border officers. As part of its reform process, Georgia enacted a new customs code in 2006 that simplified the customs clearance process and aligned it with international best practices. In 2009, Georgia simplified its documentation requirements for imports and exports; in 2011, it unified its tax and customs codes into a single code, eliminating ambiguous and burdensome regulations; and in 2012, it created several customs clearance zones, which now serve as “one-stop shops” for clearance procedures.

Georgia has also introduced a risk-management strategy involving physical inspections of random vehicles at border-crossing points and the Golden List program, which designates 175 companies as "authorized economic operators," and grants them privileges such as expedited document approvals at the borders. Finally, Georgia has pursued a thorough anticorruption campaign that has resulted in the replacement of 85% of its border police force.

To complement its border management and customs reforms, Georgia has liberalized its economy and trade regime through lower taxes, a simplified tax structure, lower tariffs, reduced licensing requirements for new businesses, and the establishment of two free industrial zones. In general, Georgia's approach to reform has been practical and incremental, but the impacts are already proving to be positive. The significant reduction in the delays and costs incurred at Georgia's border-crossing points, which were once a major constraint on trade, is a particularly noteworthy achievement.

While the workshop and study tour were intended to provide ideas on how to replicate Georgia's policies in other countries, three key points must be kept in mind. First, Georgia's customs and trade-facilitation reforms are still evolving and improving as the result of lessons being learned during implementation. Second, Georgia's reforms will not be easy to implement. They required a great deal of political will on the part of the government, something that would have to be emulated by other countries if they are to see similar results. And, third, each country operates within its own unique political and economic environment, so Georgia's reforms may not be directly transferable; or, at the very least, they will require adaptation.

Nonetheless, CAREC-member countries have much to learn from Georgia, and from each other. This event provided an excellent opportunity for them to acquire first-hand information about new methods and technologies concerning border management, customs control, and trade facilitation. The broader knowledge and understanding they gained during those 4 days will enable them to exert a positive influence on their governments' policies, and help set their countries on their own paths to successful reform.

The workshop and study tour were ably organized by the CAREC Secretariat, Central and West Asia Department (CWRD), ADB, under the guidance of Vicky C. L. Tan, director, Regional Cooperation and Operations Coordination Division, and Kathie Julian, Resident Representative, Georgia Resident Mission, CWRD. We also acknowledge the contributions of Lan Wu, advisor on regional cooperation, CWRD, and Jeff Procak, regional cooperation specialist, East Asia Department, ADB.

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Director General
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Designing and Implementing Georgia's Reforms to Facilitate Trade: An Interagency Perspective (I)

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(as of this writing)

Georgia's economy recently suffered two major blows: the short war between Georgia and the Russian Federation in 2008 and the global financial crisis in 2008–2009. In spite of these setbacks, the country has sustained a robust growth rate ever since, with gross domestic product growth averaging 6%–7% per year through 2012. The Government of Georgia has continued to implement reforms to liberalize its economy, a necessity given the country's lack of natural resources such as oil.

Georgia became a member of the World Trade Organization in 2000, and in 2003 started implementing a series of reforms in such areas as taxes and customs policy, with the aim of simplifying the conduct of business and trade.

Georgia has been committed to simple, service-oriented customs policies. Currently, it has no quantitative trade restrictions or barriers in place. And to promote even greater openness to trade, Georgia has signed free trade agreements with all the other former Soviet Union countries, as well as with Turkey. There are also joint customs management agreements with Armenia and Turkey, and the government is currently involved in negotiations with the European Union (EU) regarding the Deep and Comprehensive Free Trade Agreement, scheduled for completion in 2013.

Trade is a leading accelerator of Georgia's economy, and that is why the government is seeking to diversify both its partners and products. In fact, the country's trade structure is already well diversified on both counts.

Azerbaijan is Georgia's largest trading partner, accounting for 26.4% of Georgian exports and 8.1% of Georgian imports. But there are other major partners as well. Georgia exports 11.0% of its goods to Armenia, 9.5% to the United States, 7.0% to Ukraine, and 6.0% to Turkey. Georgia also exports to Canada (4.4%), Bulgaria (2.9%), Kazakhstan (2.6%), Belgium (2.5%), and Italy (2.2%). Just over a quarter of its exports go to other countries. The largest portion of Georgia's imports comes from Turkey (17.8%), followed by Azerbaijan, then Ukraine (7.6%), the People's Republic of China (7.2%), Germany (6.9%), the Russian Federation (6.0%), Japan (4.0%), Bulgaria (3.5%), Italy (3.5%), and Romania (3.3%). The remaining 32.2% of its imports come from other countries.

The largest segment of Georgia's exports by far is motor cars, at 24.7%, followed by ferro-alloys (11.0%), fertilizers (5.8%), gold (3.7%), nuts (3.5%), spirits (3.4%), wine (2.7%), mineral waters (2.5%), copper ore (2.3%), and wheat (2.2%). Other products account for 38.3% of our exports. Petroleum is Georgia's largest import, at 12.1%, followed by motor cars (8.5%), gases (3.2%), wheat (3.1%), medicines (3.0%), telephones (1.5%), automatic data processing machines (1.3%), metal structures (1.2%), cigarettes (1.2%), and transformers (1.1%). Other products account for 63.9% of our imports.

Although Georgia has a well-diversified and growing economy, there are still problems. It is struggling with a 2.1% deflation rate, for example.

But the greatest challenge is Georgia's large current account deficit, which has been a major concern for international organizations and investors. It is also a major concern for Georgians, as foreign investment is a key driver of our economic growth. But this problem can be dealt with. Georgia once reduced a 22% current account deficit to 10% within 1 year. Furthermore, foreign direct investment makes up a large part of the deficit, so a large negative external balance could be a sign of a healthy economy attracting foreign direct investments.

Georgia’s fiscal deficit has been diminishing. After rising in 2008 and 2009, when it peaked at 9.2%, it shrank to 3.6% within 2 years, and then to 3.0% in 2012. This deficit reduction has occurred thanks to Georgia’s sustainably high revenues and prudent government spending. The government is continuing to fine-tune its spending by increasing the share going to social protection and agriculture while cutting back on administrative costs; and it is limiting public borrowing to amounts that are within its repayment capacity. Georgia has a current public debt of 35% of gross domestic product, which is expected to go down further in 2013 and in subsequent years.

Through its comprehensive policy of economic reform, Georgia has made remarkable progress in the following areas:

Corruption. It is difficult to quantify success in combating corruption, but Georgia’s efforts have apparently been far more effective than those of the EU. According to Transparency International’s Global Corruption Barometer for 2010–2011, 78% of the Georgian citizens surveyed said that the level of corruption in their country had decreased over the prior 3 years, and 77% rated their current government’s anticorruption actions as effective.

Taxation. The government has lowered taxes and simplified its tax regime. The number of taxes went down from 21 in 2004 to 6 by 2008. Of the taxes that remain, between 2004 and 2009 the value-added tax went down from 20% to 18%, the corporate income tax went down from 20% to 15%, and the tax on dividends and interest income decreased from 10% to 5%. The income tax, which was 12%–20% in 2004, and the social tax, which was 33% in 2004, were both first reduced and then combined into a single tax of 20%.

Ease of doing business. In the Heritage Foundation’s 2013 Index of Economic Freedom—based on such criteria as property rights, lack of corruption, trade freedom, and investment freedom—Georgia ranks 21st in the world. From 2005 to 2013, the World Bank’s annual publication *Doing Business* ranked Georgia as the top improver, the 2013 edition noting that “with 35 institutional and regulatory reforms since 2005, Georgia has improved in all areas measured by *Doing Business*.”[1]

Development. The Asian Development Bank and other development partners have invested in projects concerning infrastructure, roads, municipal services, water and wastewater management, solid waste management, energy, and agriculture, among other areas. They have also provided budgetary support for reforms in various sectors, and provided technical assistance.

The government’s long-term macroeconomic objectives include

(i) maintaining a stable macroeconomic environment, backed by prudent fiscal, monetary, and financial policies;
(ii) continuing the implementation of successful reforms, while building on existing success stories and accomplishments;
(iii) fostering free and fair competition so as to establish a truly level playing field for all businesses operating in Georgia;
(iv) ensuring the greatest possible transparency and accountability in the public sector; and
(v) strengthening the social safety net to enhance the purchasing power of Georgia’s most vulnerable citizens.

The government also intends to continue developing Georgia’s infrastructure, but in the future using an improved project-selection process to ensure the maximum possible economic impact. The targeted areas will be energy infrastructure, roads, municipal and regional facilities, and agriculture. The government also plans to establish a fund to promote the inflow of long-term capital to finance bankable investment opportunities.

1 World Bank, *Doing Business 2013: Smarter Regulation for Small and Medium-Sized Enterprises* (Washington, DC: World Bank, 2013) 8–9.

Designing and Implementing Georgia's Reforms to Facilitate Trade: An Interagency Perspective (II)

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Trade has been Georgia's top priority since our country gained its independence over 20 years ago. One important way for Georgia to bolster its participation in world trade is to fight corruption in its border and customs services, and another is to attract more foreign investment by making domestic business procedures simpler and more transparent.

Georgia has led a largely successful fight against corruption. For one thing, the Government of Georgia dismissed about 85% of the police force, replacing them with better-paid and better-trained officers. This one move immediately eliminated the largest source of day-to-day corruption in the country. The government has also prosecuted several high-level officials for corruption-related offenses, and it continues to make its fight against corruption a priority. As a result of our successes so far, Georgia's global ranking in Transparency International's Corruption Perceptions Index jumped from 133rd in 2004 to 64th best in 2011.

Georgia's achievements in fighting corruption originated with the government's strong political will. Each country will need to develop its own way to combat corruption, but whatever methods a country may come up with, there has to be a core of strong political will if that country is to win its battle against corruption.

To improve Georgia's business environment, the government significantly reduced the number of licenses required for new businesses, and introduced a "one-window" system that allows an entrepreneur to open a business relatively quickly. Strict deadlines for agency action on permits have been introduced, and consent is assumed if the agency fails to act within a set period. Georgia has also streamlined its public service delivery. A case in point is Tbilisi's Public Service Hall, which received a United Nations Public Service award in 2012. The hall serves about 23,000 people per day, with an average waiting time of 45 seconds and average service-delivery time of 3 minutes and 45 seconds. Overall, more than 300 services are provided. Georgia is currently assisting Azerbaijan, Brazil, Turkey, and Ukraine in implementing similar facilities.

Georgia has garnered some high ratings for its business environment and trade policies, and with good reason. Further notable accomplishments include

(i) a fair and efficient tax system characterized by low taxes, clear and simple deduction rules, and fair administration;
(ii) liberal labor markets;
(iii) low crime and corruption (according to Transparency International's Global Corruption Barometer for 2010–2011, only 3% of respondents said they had paid a bribe in Georgia over the prior 12 months, in contrast to 5% for the EU);
(iv) a solid sovereign balance sheet and good foreign credit ratings;
(v) a stable and conservatively managed banking sector;

(vi) a multimodal maritime and land transport infrastructure that is well developed for logistics, manufacturing, and trade;
(vii) consistently strong performances in the World Bank's *Doing Business* rankings and in the Heritage Foundation's Index of Economic Freedom; and
(viii) good market access, which has expanded further through the government's energetic pursuit of free trade agreements, bringing the total value of Georgia's trade to $0.9 billion.

Georgia thus boasts a friendly business environment, low taxes, a transparent and fair tax regime, and low crime rate. In fact, the World Bank deems Georgia to be one of the fastest-reforming economies in the world, and in 2011 ranked it as the 16th-easiest place to do business, in the same tier as countries like Australia, Sweden, and Japan. Furthermore, Georgia has a young and skilled workforce that is available at affordable rates; a strategic geographic location at a crossroads of Europe, the Middle East, and Central Asia; and great opportunities for investment in booming industries, most notably energy and tourism, but also wine, grapes, citrus fruits, and hazelnuts, information and communication technology, steel, aircraft, machinery tools, electrical appliances, chemicals, mining, pharmaceuticals, apparel, construction materials, and wood products.

In spite of all the government's successes between 2004 (when a new administration started instituting reforms) and 2013, there is still room for improvement. For instance, Georgia must address its large current accounts deficit, which has been discouraging potential foreign investors.

There is also an important challenge regarding customs policy. Georgia has implemented a series of successful reforms, including the simplification of customs procedures, the harmonization of Georgia's customs procedures with international standards, and the modernization of the facilities at border-crossing points. But now the government must face a delicate problem: how to strike a balance between strengthening customs controls and making the customs-clearance process faster and easier. This problem is especially serious with regard to sanitary and phytosanitary regulations, and in the fight against infringements of copyright laws. The government will have to address it through future reforms.

Much work also remains to be done in trade facilitation, especially if Georgia is to realize its potential as a logistics corridor. The Georgian National Investment Agency is actively promoting Georgia as a regional logistics corridor, given that 80% of its port cargo and 60% of its freight cargo are transit. The agency is also promoting Georgia as a regional services hub, given that services already constitute 45% of the country's inflows of foreign direct investments. But for Georgia to become a logistics corridor, the government must seriously consider building deep sea ports that would accommodate Panamax vessels. And to make Georgia a services hub, the government will have to effect further improvements in the business and investment climate.

Finally, Georgia must continue its efforts to promote free trade agreements with the EU and with all the other countries that were once part of the former Soviet Union.

Customs in the 21st Century and Coordinated Border Management

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The international context in which customs services operate is a dynamic one that has been changing rapidly in the 21st century, and for that reason the role of customs has been diversified from collecting revenue and fighting illegal drug trafficking to securing and facilitating global trade and protecting the environment. To respond proactively to this changing situation, the World Customs Organization (WCO) has adopted "Customs in the 21st Century" (C21), a strategic policy paper published in 2008 that delineated 10 building blocks of WCO areas of responsibility: coordinated border management, intelligence-driven risk management, customs–trade partnerships, modern methods, enabling technology, enabling powers, professional service culture, capacity building, integrity, and globally networked customs systems. To accelerate the process of modernizing customs administration, the WCO is developing four packages that will serve as the foundation of the implementation of C21: the Economic Competitiveness Package (ECP), Revenue Package, Compliance and Enforcement Package, and the Organizational Development Package.

The one area that is central to C21 is coordinated border management (CBM), which seeks to manage trade and travel flows effectively without compromising national or regional security. More specifically, CBM implies greater cooperation and coordination among agencies within national governments and between government agencies of neighboring countries to promote regulatory consistency and efficiency, reduce the time needed to move goods and people across borders, and respond more effectively to the challenges of border management.

The WTO Negotiating Group on Trade Facilitation is preparing a new multilateral agreement that requires greater consistency in basic customs procedures at the borders of all WTO-member countries, and CBM is one of the most important issues in the negotiations surrounding the agreement.

CBM has a critical role to play because border management remains one of the most problematic links in the global supply chain. According to the World Bank, customs is only responsible for a third of border delays. Japan Customs conducted a time release study of cargo transports in the major seaports and airports of Japan.[1] The study found that customs procedures accounted for only 5% (an average of 2.6 hours for sea cargo) of the total processing time (50.8 hours on average) in 2012. Moreover, a 2011 study by the Organisation for Economic Co-operation and Development (OECD) found that, where practiced, CBM had already reduced trade costs by 5.4%.

Aside from reducing trade costs along the global supply chain, CBM could also boost a country's competitiveness through the ECP, which is aligned with the Revised Kyoto Convention. This package includes the following components: the WCO

1 http://www.mof.go.jp/customs_tariff/trade/facilitation/ka20120921.htm

SAFE Framework to Secure and Facilitate Global Trade, the WCO risk management compendium, authorized economic operator programs, small and medium-sized enterprises, the informal trade sector, globally networked customs, information exchange, CBM, the WCO single-window compendium, WCO data model, WCO time release study guide, transit, and integrity.

According to a study done in 2008 by the Department for International Development (DFID) of the United Kingdom, some countries have as many as 15 government agencies operating at their borders. This is a clear indication of a need for CBM, which can involve bureaucratic streamlining as well as cross-border coordination. CBM actually exists in many forms:

(i) regular meetings among domestic and international agencies;
(ii) joint physical examinations (involving agencies within a government or government agencies of neighboring countries);
(iii) cooperation on enforcement (for instance, between customs and police);
(iv) “one roof” or “one room” shared by multiple agencies of a government;
(v) mutual recognition of physical examinations (i.e., an item physically examined in the exporting country is not subject to re-examination in the importing country);
(vi) one-stop border posts;
(vii) the delegation of authority to other government agencies or international organizations; and
(viii) a single border agency (as in the United States, Canada, and Australia).

Considering the importance of transit trade for the countries of Central and West Asia, the WCO is developing effective tools for establishing a good transit system under the ECP Action Plan.

Important Institutional Reforms in Georgian Customs

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To facilitate cross-border trade, the Government of Georgia implemented a series of institutional reforms in such areas as tariffs, documentation requirements, permits, and automation. The most important are described below:

(i) **Rationalization of tax and customs administration.** Previously, there were eight government agencies and categories of private actors involved in tax and customs administration at our borders. This situation encouraged the existence of a chain of corruption, and this chain was exacerbated by a system based 100% on blind control, without any risk analysis or risk assessment. Recent reforms have reduced the number of agencies to two: the Georgia Revenue Service and the Patrol Police. The Revenue Service has access to the Patrol Police database, and can thus collect relevant information for its risk management system. Moving forward, Georgia is seeking to establish integrated, collaborative, and coordinated border management with Azerbaijan. In addition, an agreement providing the legal foundation for the joint use of customs crossing points (CCPs) has been signed by Georgia, Armenia, and Turkey; and the implementation process is ongoing.

(ii) **Improvements in physical infrastructure at customs crossing points.** Government investments have benefited the following CCPs: Ninotsminda and Sadakhlo, on Georgia's border with Armenia; Red Bridge, on Georgia's border with Azerbaijan; Kazbegi, on Georgia's border with the Russian Federation; and Kartsakhi, Sarpi, and Vale, on Georgia's border with Turkey. The investments have supported the complete reconstruction of customs buildings, using the best architectural standards and materials. They have also been used to equip these buildings with new furniture, technology (electronic gates, scanners, etc.), cafeterias, play areas for children, and restrooms for employees. The last facility slated to be finished, Ninotsminda, will be fully rebuilt by 2014.

(iii) **Introduction of automated customs systems.** Georgia's Automated System for Customs Data (ASYCUDA) divides customs clearance applications into four channels: red (requiring a physical inspection of the goods), yellow (requiring a documentary check), green (requiring no physical or documentary checks), and blue (requiring a post-clearance audit). ASYCUDA's classifications are based on both risk criteria and random selection.

(iv) **Simplification of customs duties.** Since 2008, the number of customs duties for almost all goods has been streamlined from 16 to 3: 12%, 5%, and 0%. Of the 10,396 applications received between 2008 and 2013, most (8,405) have had 0% duties.

(v) **Initiatives to improve the integrity of customs staff.** All customs staff members suspected of corruption were fired, resulting in a 95% reduction in Georgia’s customs workforce. One should never underestimate the political will it took to effect such a massive overhaul of personnel.

(vi) **Reduction of documentation requirements.** Since 2005, the number of documentation requirements for import and export clearance has been reduced from 54 to 2. Furthermore, bills of lading and invoices may now be submitted electronically.

(vii) **Establishment of customs clearance zones.** The government has established five customs clearance zones (CCZs), including two at Batumi, one at Poti, and two in Tbilisi. The buildings were financed from the government budget, while X-ray detectors and other equipment were purchased through a grant and technical assistance from the People’s Republic of China. At the CCZs, there are four clearance options:

(a) **Clearance at customs clearance zones.** This option requires the submission of documents and the presentation of means of transport at the CCZs. Service fees are levied based on the value of the goods (either GEL150, GEL300, or GEL400), and payment can be deferred for 5 days.

(b) **Advance declaration.** Under this option, the importer can access goods at the border. Advance declarations can be done by submitting documents to a CCZ, uploading them to www.rs.ge, or by submitting a completed declaration form in electronic format. Service fees can be deferred for 15 days.

(c) **Distant declaration.** This option permits the clearance of goods regardless of their location. For instance, an importer in Batumi can clear goods located in Tbilisi with an electronic signature.

(d) **Clearance of goods of a single consignee or recipient.** Declarations under this option can be made through the submission of documents at a CCZ, via ASYCUDA, by uploading documents to www.rs.ge, or at the importer’s premises (no service fee is applied).

To enable the tracking of cargo from the border to the CCZs, the trucks are sealed at the border, and must reach the CCZ by a designated date. If a truck fails to arrive, it will be subject to an investigation by the Patrol Police.

Through its reforms, Georgia has streamlined its border operations, significantly upgraded its border infrastructure, simplified document requirements, accelerated customs procedures, and created CCZs. Georgia is also promoting coordinated border management with neighboring countries through the joint management of CCPs. These changes have resulted in greater transparency and reduced corruption, more efficient and effective controls, and smoother flows of goods and people across Georgia’s borders.

Georgia's Coordinated Border Management Strategy: Current Status and Future Agenda

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Coordinated border management (CBM) can be defined as the organization and supervision of border-control agencies to improve the effectiveness and efficiency of border procedures so as to facilitate the legal movement of people and goods, while maintaining secure borders and adhering to legal requirements.[1] Georgia's own laws regarding CBM fall into two categories: primary legislation, which refers to the Tax Code of Georgia; and secondary legislation, comprising an ordinance of the President of Georgia and joint orders from the ministers of finance and of internal affairs. In addition to the domestic laws, there are international conventions on customs to which Georgia has acceded. These include the following:

(i) International Convention on Harmonized Commodity Description and Coding Systems (HS Convention), since 2009;
(ii) Customs Convention on Containers, since 1999;
(iii) International Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offences (Nairobi Convention), since 2009;
(iv) International Convention on the Harmonization of Frontier Controls of Goods, since 1999;
(v) Convention on International Transport of Goods under Cover of TIR Carnets (TIR Convention), since 1994;
(vi) Convention on the Contract for the International Carriage of Goods by Road (CMR Convention), since 1999; and the
(vii) Istanbul Convention on the Temporary Admission of Goods, since 2010.

The Government of Georgia approved its Integrated Border Management Strategy and Action Plan on 4 February 2008. Under this strategy, the Revenue Service was to carry out 85 specified activities related to border management. The Revenue Service ended up implementing 68 of them, as the remaining 17 activities, or 25% of the activities originally planned, were later deemed to be no longer relevant.

One major institutional reform in Georgia has been the reduction in the number of authorities with a presence at the border. The government and private agencies that originally engaged in border activities included the Customs Department, under the Ministry of Finance; Border Police, Ministry of Internal Affairs; Phytosanitary Service, Ministry of Agriculture; Veterinary Service, Ministry of Agriculture; Transport Administration, Ministry of Transport; customs brokers; cargo carriers; and insurance companies. Today there are only two

1 Erich Kieck, "Coordinated Border Management: Unlocking Trade Opportunities through One Stop Border Posts," *World Customs Journal* 4 (March 2010), 4; Mariya Polner, "Coordinated Border Management: from Theory to Practice," *World Customs Journal* 5 (September 2011), 51–52; Luc De Wolf and José B. Sokol, eds., *Customs Modernization Handbook* (Washington, DC: World Bank, 2005), 5.

agencies operating at the borders: the Revenue Service and the Patrol Police. This significant reduction in the number of agencies has enabled border management to become more efficient and has eliminated corruption.

The Customs Service, which in 2009 was merged with the Tax Service to form the Revenue Service, retains many important functions, such as customs supervision and control; implementation of trade policy measures; insertion of appropriate records into travel documents; identification of travelers conveying cash, checks, and other securities subject to monitoring; implementation of border measures connected with intellectual property rights; radiation control; and sanitary and phytosanitary border control. Customs control takes several forms: documentary checks, interviews, video monitoring, examination, laboratory control, and post-audit activities.

Greater effectiveness in border management has been achieved not only by streamlining the bureaucratic structure, but also by promoting interagency cooperation: the Georgia Revenue Service and the Patrol Police now jointly use and maintain a passport database. There has also been progress on the international level. For instance, Georgia is cooperating with Armenia and Turkey on the joint use of customs crossing points, and Ukraine has agreed to an information exchange.

Finally, an important complement to reform is human resources management and training, as progress toward efficiency and integrity cannot be sustained without competent personnel. The government has conducted more than 30 training sessions, benefiting about 1,200 customs employees. These sessions have covered professional training systems; personal development, including management training and team building; service-level development, including service standards, video labs, and overt observation; and foreign language study.

Automating Trade-Related Documentation: A Taxpayer's Day in Georgia

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Deputy Head of the IT Center
Georgia Revenue Service

In the 1990s, the Ministry of Finance and the Revenue Service did not have a joint database. It would have been difficult to maintain one back then because all the trade and tax declarations were processed in hard copies. Today, it is a different story. Georgians can do everything electronically from home, as we can see by following a typical Georgian taxpayer as he uses the system over the course of a day.

How can this Georgian taxpayer use the system? First, he must access it, and there are two ways to go about that. The easier way is for the taxpayer to enter his username and password. The other way is to use his ID card, which has information that he can enter into the system. After accessing the system, he is taken to his own home page, where there are notifications, a list of all the services that he can use today (e.g., customs declarations), and general information. There are also messages, such as notifications about an invoice, deadlines, or the arrival of a shipment. The messages might say, "last day for submitting declarations," "your vehicle has arrived at the terminal," "a collection charge has been imposed on your account," "you have been granted the right to an alternative audit," "a seminar on value-added tax (VAT) is scheduled for 10 April," or "last day of payment of property tax," etc.

Reviewing the information on his page, the Georgian taxpayer can see whether or not he is actually registered as a taxpayer, whether he's active or inactive as a taxpayer, and whether he has been registered for the VAT. With just a click, he can see a list of all the declarations he has filed; information about the customs transactions he has implemented, export and import; information about licenses; and records of all his violations of the tax code, with descriptions of when and how he violated the code.

The taxpayer can click on the calendar icon to see the list of tasks scheduled for any given day, along with the relevant documents. For instance, the first thing he will be doing today is registering a declaration. With just a click, he can access a declaration form for his property—in this case, a new car.

There is an online service through which Georgians can track their cargo or containers via SMS. If a Georgian taxpayer knows the number of his container, he can enter that number, and a message containing the information will be sent straight to his mobile phone. Using this service, our taxpayer learns that his new car has arrived at one of Georgia's border posts, Red Bridge.

Next, our taxpayer must pick up his car at the Red Bridge terminal, where he will have to sign for the car before driving it home. If he decides to have someone else pick it up for him, a friend or family member, he must grant that person a power of attorney. Our taxpayer decides to send his son to pick up the car.

Georgia now has Automated System for Customs Data (ASYCUDA) software, and Georgian taxpayers can use this program to find the necessary forms for registering or clearing all their declarations. They can also access VAT invoices, submit applications, get information from the Revenue Service, file complaints, find a tax auditor, and use their bank cards to pay for these services—all electronically. Georgian customs offers about 400 application forms, divided into 18 main groups, and dozens of them have an automatic reply function that provides an answer within 1 minute.

When our taxpayer’s son arrives at the terminal to pick up the car, he will be able to pay all the taxpayer’s bills by using Paybox, a system that ensures security for online payments. He will not have to deal with a customs officer. By the end of the day, our taxpayer will receive notification via his cell phone that the car was picked up without any problems. If he used a preliminary declaration, he may also be informed that his deadline for payment has been extended.

Georgian importers can use ASYCUDA software to send their goods to retailers. More than 100,000 waybills are executed each day for that purpose, and more than 600,000 invoices are processed every month. They can also get information on the Georgian customs website about what is going on in the markets. For instance, they could find out from which countries wheat is being imported into Georgia. Or if they want to research potential markets, they could use the website for this purpose as well.

Joint Customs Control: Progress, Plans, and Implementation Status

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The exercise of joint customs control by Georgia and Turkey is an example of successful international cooperation. It was made possible by two developments: (i) multiple agreements between the two countries covering various aspects of integrated customs control; and (ii) the automation of customs and other trade-related documentation, with information shared via electronic transmission.

Integrated border management is generally based on three pillars: intra-agency cooperation and coordination, interagency cooperation and coordination, and international cooperation and coordination.[1] Georgia's joint border control with Turkey is an excellent example of the third pillar. The agreements laying the basis for Georgian–Turkish joint border control include the following:

(i) The Memorandum of Understanding between the Government of Georgia and the Government of the Republic of Turkey on Joint Use of Customs Crossing Points.

(ii) Agreement between the Government of Georgia and the Government of the Republic of Turkey on the Joint Use of Land Customs Crossing Points of "Sarpi–Sarp," "Kartsakhi–Çildir/Aktaş," and "Akhaltsikhe–Posof/Türkgözü."

(iii) Protocol on Cooperation and Alignment of the Procedures for the Movement of Passengers, Vehicles and Goods, and Workings Hours at Land Customs Crossing Points of "Sarpi–Sarp," "Kartsakhi–Çildir/Aktaş," and "Akhaltsikhe–Posof/Türkgözü."

(iv) Protocol between the customs authorities of Georgia and the Republic of Turkey on the details for electronic data exchange regarding the international movement of passengers, vehicles, and goods.

(v) Technical Provision document on data exchange.

These agreements have facilitated the joint use of border-crossing points, and have thus helped reduce the time spent by commercial vehicles at the Georgia–Turkey border. For one thing, border procedures are not duplicated. Rather than having the customs authorities of both countries implement declaration and control procedures, the country of exit now accepts declarations, while the country of entry is responsible for controls. And automation has boosted efficiency even further with the electronic

1 Mariya Polner, "Coordinated Border Management: From Theory to Practice," *World Customs Journal* 5 (September 2011): 3. According to this source, "integrated border management" is the term favored by the European Union, as opposed to "coordinated border management" (World Customs Organization), "collaborative border management" (sometimes used by the World Bank), and "comprehensive border management" (Organization for Security and Co-operation in Europe [OSCE]). The source notes that there are subtle differences in meaning without specifying what those are, but then says that they refer essentially to the same concept. OSCE, *National Strategy on Integrated Border Management* (Tirana: OSCE, 2006), 5. This OSCE document refers to integrated border management as "the coordination and cooperation among all the relevant authorities and agencies involved in border security and trade facilitation to establish effective, efficient and integrated border management systems, in order to reach the common goal of open, but controlled and secure borders." For the purposes of this report, the two terms may be treated as interchangeable.

sharing of data, making it possible for transporters to get through border formalities and secure the release of their goods faster than before.

These improvements do not guarantee that border crossings will go smoothly for everyone. Customs procedures will not be completed if there is no declaration or if the declaration form is incomplete. Also, the process will stall if the physical inspection of a vehicle reveals evidence of removal of goods, such as a tampered seal, a torn tent, or any other signs that a container or vehicle may have been tampered with.

Whether a transporter is exiting Georgia and entering Turkey or exiting Turkey and entering Georgia, the process is as follows:

At the customs control zone of the country of exit, passport information and license-plate records are entered into a database system. Exit formalities involving drivers and passengers are conducted using this system, and information is recorded in their passports if necessary. There are customs formalities such as the presentation of a summary declaration and/or other documents or information related to the exit from the country. The data obtained through these formalities are also entered into the system. All the data collected by the country of exit are then transferred to the country of entry.

When vehicles carrying commercial goods reach the customs control zone of the country of entry, the formalities are based on the passport and information transferred electronically by the country of exit. If a TIR, ATA, or CPD carnet is submitted,[2] the carnet is regarded as a summary declaration. In the country of entry, the examination formalities are conducted in accordance with the legislation of that country.

The country of entry will typically allow all the vehicles or passengers to leave the customs control zone following the confirmation through the electronic system that the necessary formalities were successfully completed in the country of exit. In cases of software failure lasting more than an hour, the formalities can be conducted manually. Customs procedures are conducted 24 hours a day, 7 days a week. In the case of any problems with vehicles, containers, goods, or documentation, the vehicles or goods in question can be returned to the country of exit.

Automation has been critical to the success of joint border management by Georgia and Turkey. It has sped up border formalities, eliminated duplication, and boosted efficiency—all by allowing data to be shared easily between the two countries while preserving the security of the data. Here is how:

(i) The automated system supports a constant flow of electronic data in advance of the arrival of vehicles and containers at the country of entry.
(ii) The system allows constant advance electronic-data exchange, and the application of risk analysis and risk management.
(iii) The sharing of data between the information systems of the customs administrations of Georgia and Turkey is secured through a virtual private network connection.
(iv) Electronic communication is transmitted in packet mode.
(v) Electronic messages are in XML format, and they are sent to a specified frequency.
(vi) In cases of data-exchange failure, the Georgian and Turkish customs authorities are able to use other electronic methods.

Georgia and Turkey's joint management of their shared border is thus based on a legal foundation and implemented with the help of automation. Its success clearly shows what can be achieved when combining technology with international cooperation.

2 TIR = Transports Internationaux Routiers/International Road Transport, ATA = Admission Temporaire/Temporary Admission, CPD = Carnet de Passages en Douane.

Development Partner Experience Sharing: Overview of the Organization for Security and Co-operation in Europe Border Management Programs in the CAREC Region

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The mission of the Organization for Security and Co-operation in Europe (OSCE) is to work for stability, prosperity, and democracy through political dialogue about shared values and through practical work that can make a lasting difference. Operating in 57 countries in Europe, Asia, and North America, the OSCE covers three dimensions: the politico-military dimension (military security, conflict prevention and resolution); the economic and environmental dimension (economic and environmental policies that promote security); and the human dimension (respect for human rights and fundamental freedoms, rule of law, support for democracy and tolerance).

The OCSE's mission with respect to trade and transport facilitation are laid out in three documents: the Ministerial Council Decision No. 11/06 on Future Transport Dialogue in the OSCE (Brussels, 2006); Ministerial Council Decision No. 11/11 on Strengthening Transport Dialogue in the OSCE (Vilnius, 2011); and the OSCE Border Security and Management Concept (Ljubljana, 2005).

There are certain themes found in these documents that merit highlighting here. One is the vital importance of developing sustainable and secure transport networks as a condition for stability and economic growth in the region. Another is the need for the OSCE to promote dialogue, stronger partnerships (between countries and with international bodies), greater cooperation and exchange of experiences, and capacity building—all in support of transport development and security. Given the crucial role of transport in generating trade and economic development, all three documents noted that landlocked developing countries face unique challenges related to their lack of access to the open sea, their dependence on transit services, and their difficulties in reaching markets.

Indeed, out of 31 landlocked countries in the world, 9 are OSCE-member states: Kazakhstan (3,750 kilometers from the nearest major ocean or sea), the Kyrgyz Republic (3,600), Tajikistan (3,100), Uzbekistan (2,950), Turkmenistan (1,700), Azerbaijan (870), Armenia (693), Belarus (623), and Moldova (170). For these countries, border crossings are especially important, yet according to the International Road Transport Union's New Eurasian Land Transport Initiative, 40% of inland transport time is taken up by border crossings and customs procedures. This tremendous loss of time at border-crossing points, as well as the costs involved, can only have a negative impact on the vulnerable economies of developing landlocked countries.

Greater border security and more efficient border and customs procedures are a necessity if we are to have viable transport networks that can facilitate trade and growth. The OSCE has sought to contribute to this goal through capacity-building and awareness-raising activities.

It has sponsored sessions to familiarize participants with the UNECE Harmonization Convention,[1] the World Customs Organization

1 UNECE = United Nations Economic Commission for Europe.

(WCO) SAFE Framework of Standards,[2] and the Revised Kyoto Convention. These sessions have so far been held in Almaty, Ashgabat, Astana, Balkanabat, Belgrade, Dushanbe, Kiev, Moscow, Skopje, Tashkent, and Tbilisi. The organization has also held meetings on the United Nations Economic Commission for Europe (UNECE) Euro-Asian Transport Links, Trans-European Railway, and Trans-European Motorways projects. These meetings have taken place in Almaty, Astrakhan, Tashkent, Turkmenbashy, and Vienna.

The OSCE's Border Management Staff College, established in Dushanbe on 27 May 2009, provides specialist training for senior officials from customs services, border police, and border guards. The training covers trade and transport facilitation and the prevention of illegal trade, for instance drug and weapons trafficking or the smuggling of ivory, exotic birds, and other illegal animal and plant cargo. There are three 1-month multidisciplinary staff courses per year, along with various outreach workshops and seminars. The Border Management Staff College also has a library and strong research facilities.

In cooperation with the UNECE, the OSCE has prepared a volume for policy makers, the *Handbook of Best Practices at Border Crossings: A Trade and Transport Facilitation Perspective*. This handbook is an effective way for policy makers to learn from the experiences and expertise of officials in other countries. It provides practical guidance and examples of best practices. Policy makers can use the handbook as a reference document and as a source of inspiration. It recommends a range of policy options in a non-prescriptive manner.

The handbook has nine chapters and two annexes on various aspects of border management. It features over 120 examples of international best practices and case studies. The original version was published in English, and then translated into Russian. Translations in other languages are forthcoming. The chapters are structured as follows:

(i) **Chapter One, "Trade and Customs: The International Legal Framework,"** is an overview of key conventions, tools, and standards. These include World Trade Organization (WTO) agreements, the UNECE Harmonization Convention, the WCO SAFE Framework of Standards, and the Revised Kyoto Convention.

(ii) **Chapter Two, "From Domestic to International Cooperation,"** discusses interagency cooperation on the national and international levels, covering such concepts as integrated border management, coordinated border management, collaborative border management, and the single-window and one-stop systems for border-crossing points.

(iii) **Chapter Three, "Balancing Security with Trade Facilitation and Developing Partnerships with Private Industry,"** examines border-security measures as well as methods of facilitating trade and establishing partnerships between government and the private sector. It also advocates balancing the requirements of security with those of trade facilitation.

(iv) **Chapter Four, "Processing of Freight: Policies for Control, Clearance and Transit,"** looks at border and customs control policies, introducing such concepts as inland clearance, pre-registration and advance-information programs, and customs transit regimes. The material covered in this chapter is particularly important for landlocked developing countries.

(v) **Chapter Five, "Risk Management and Selectivity,"** makes a case against traditional transaction-per-transaction checks and physical-inspection techniques, and for replacing them with risk-based management that includes ways to distinguish between compliant and legitimate businesses and potentially noncompliant ones.

(vi) **Chapter Six, "Options for the Design of Border-Crossing Points,"** describes best practices associated with construction surveying (also known as "lay-out" or "setting out"), construction, renovation, repair, and maintenance. It also distinguishes between the requirements for large and small border-crossing points and explores the options for public–private partnerships.

2 SAFE Framework of Standards to Secure and Facilitate Global Trade.

(vii) **Chapter Seven, "ICT and Non-Intrusive Inspection,"** examines the role of information and communication technology in border management and in the international regulatory environment; introduces the WCO Data Model, single electronic window, and other data technologies; and highlights the importance of non-intrusive inspections.

(viii) **Chapter Eight, "Human Resources Management,"** highlights the complexity of tasks performed by the personnel of customs and other agencies; explores the uses of information technology; and emphasizes the importance of ethical standards in the work of border personnel and of providing training on an ongoing basis.

(ix) **Chapter Nine, "Measuring Border Agency Performance: Options for Benchmarking,"** gives an overview of best practices in performance management and benchmarking, noting the maxim that "what gets measured gets managed."

The OSCE used the handbook at its first regional training seminar on best practices at border crossings, held in Dushanbe in July 2012. The seminar was co-organized by the OSCE Secretariat, the OSCE Border Management Staff College, and the UNECE to provide training in areas covered by the handbook. Participants came from Afghanistan, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Latvia, Moldova, the Russian Federation, Switzerland, Tajikistan, Turkmenistan, and Ukraine.

The OSCE will continue its awareness-raising and capacity-building activities, including tailor-made seminars on specific chapters of the handbook, something that has been requested by various national governments.

Georgia as a Regional Logistics Corridor: CAREC Corridor Performance Measurement and Monitoring

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CAREC Corridor Performance Measurement and Monitoring (CPMM) identifies bottlenecks and impediments along the six CAREC transport and trade corridors for the purpose of assessing transport and trade efficiency in the region as a whole. These corridors link the region's key economic hubs and connect the landlocked CAREC countries to global markets. The CAREC Transport and Trade Facilitation Strategy mandates that the performance of these corridors be measured and monitored periodically to

(i) identify causes of delays and unnecessary costs encountered along each CAREC corridor, including at border-crossing points (BCPs) and intermediate stops; and
(ii) help regulators and policy makers determine courses of action to address the identified bottlenecks.

To monitor corridor development and trade-facilitation efficiency, indicators on duration, cost, and speed of travel along the CAREC corridors are regularly reported and reviewed. Furthermore, these indicators are tracked and monitored in each corridor for all modes of transport. Reports include statistics and data trends for corridors, subcorridors, and key BCPs for both roads and railways. The CPMM database is populated with figures submitted by associations of international trucking companies in CAREC countries that are engaged to collect time and cost data on a regular basis.

To measure the average time spent on activities at BCPs, CPMM looks at the cost and delay factors affecting shipments crossing borders, including those associated with border security and control; customs, especially single-window systems; customs clearance; health and quarantine practices; phytosanitary assessments; veterinary inspections; visa and immigration; traffic inspections; police checkpoints; emergency repairs; escorts and convoys; loading and unloading; payments at road tolls; queuing; the changing of railway gauges; the classification of trains; technical inspections; commercial inspections; load protection; and security services.

Among all the activities listed, waiting in queues and loading and unloading appeared to be the major causes of delays, as they are frequently experienced by drivers. Other time-consuming activities (e.g., escorts and convoys, emergency repairs) are significant, but less frequently reported by drivers. In 2011, the average time it took to clear borders improved: 7.9 hours, down from 8.7 hours the previous year. But the situation varies from one BCP to another and from one corridor to another.

According to the 2011 CPMM report, which has the most recent figures to date, Corridor 2 suffers longer average delays than the other corridors, but has lower average costs. The report also found that, due to the large volume of traffic, these delays are more pronounced in BCP pairs along Corridor 2, including Yierkeshitan (People's Republic of China [PRC])–Irkeshtan (Kyrgyz Republic), Dautota (Uzbekistan)–Tazhen (Kazakhstan), and Alat (Uzbekistan)–Farap (Turkmenistan).

The average costs incurred at BCPs along the CAREC corridors in general dropped significantly in 2011. On the other hand, the average costs incurred while traveling a section of corridor—assuming a 500-kilometer (km) stretch traveled by a truck with 20 tons of cargo—showed a noticeable increase. Details of these indicators are provided in the 2011 CPMM annual report.[1]

Corridor 2 is a very long route that serves seven CAREC countries, and it is the only corridor that has a potential for waterborne transport. Few samples for trans-Caspian routes have been collected, however, due to the lower frequency of trade between Azerbaijan and other CAREC countries, as Azerbaijan tends to trade more with the Russian Federation, Iran, Georgia, and Europe. There is a good deal of trade between Georgia and CAREC countries, however, and this is one of the reasons why the workshop and study tour took place there. Another limitation is that one can retrieve information from the CPMM database for road sections, but not for whole corridors. And there is not much in the way of data for rail transport, except for the top causes of delays: loading and unloading (6.1 hours), waiting in queues (3.8 hours), and the classification of trains (1.9 hours).

CPMM is based on a modified time/cost–distance (TCD) methodology using survey instruments. For instance, consider the TCD data for one trip, which would count as a single sample in CPMM. Below are the actual TCD findings for a trip from Baku, Azerbaijan, to Bishkek, Kyrgyz Republic—a total of 3,541 km.

(i) The first leg of this journey started aboard a ship from Baku to Turkan, Azerbaijan, and lasted 1.5 hours. Before the voyage across the Caspian Sea to Kazakhstan, an additional 3 hours were spent on border-crossing procedures relating to customs clearance, border control, transport inspection, and the checkpoint. The costs incurred at Turkan amounted to $80.

(ii) The shipment then continued for 500 km across the Caspian Sea to Aktau, Kazakhstan, taking 20 hours. Border procedures in Aktau took 3.5 hours, and the costs incurred were $170.

(iii) The next three legs of this trip were overland within Kazakhstan: to Beynau, then to Aktobe, and then to Shymkent. A half hour was spent in each city for inspections.

(iv) The next leg was to the Kazakhstan–Kyrgyz Republic border at Sypatai-Batyr (Kazakhstan border post) and Chaldybar (the post on the Kyrgyz Republic side of the border), where customs procedures took a total of 7.5 hours and the costs amounted to $160.

(v) Finally, traveling by truck, the shipment arrived in Bishkek.

Below are the TCD findings for a trip from Chirchik, Uzbekistan, to Poti, Georgia—a trip of 3,626 km that was totally overland.

(i) A truck traveled 680 km from Chirchik to Alat, Uzbekistan, in 12 hours. In Alat, which is on the border with Turkmenistan, border-crossing procedures took 25 hours, including customs clearance (2.6 hours), border control (1 hour), and waiting in queues (20 hours).

(ii) The journey continued 660 km to Artik, Turkmenistan, and then crossed the border into Iran. The border-crossing procedures took 19.6 hours and incurred $530 in costs.

(iii) At the BCP in Maku, Iran, near the Turkish border, there was a delay of 19.3 hours due to queuing and customs clearance, along with charges totaling $530.

(iv) Another border crossing, this time from Turkey into Georgia, in Batumi, meant a delay of 19.5 hours and the expenditure of $240.

(v) Then the shipment, traveling by road, reached Poti.

CPMM data are used to create a TCD diagram of a trip in which the time and cost of the trip are plotted against the distance traveled. In this way, CPMM can help locate the delays and bottlenecks.

In these two examples, the long delays at BCPs were caused by waits in queues. In fact, a comparison of the two routes shows that avoiding the expense of crossing the Caspian Sea was of little benefit in the end. Because the overland shipment in the second example had to cross more borders, the trip

1 http://www.carecprogram.org/uploads/docs/CAREC-CPMM-Reports/1-CAREC-CPMM-Annual-Report-2012.pdf

duration (counting the stops at border-crossing points) was almost double that of the trans-Caspian route: 248.10 hours (just over 10 days), as opposed to 156.33 (6.5 days). And given the greater number of BCP charges, the total cost of the overland route was actually higher than that of the trans-Caspian route: about $4,000, compared with $3,500.

CPMM has developed an extensive database on trade along CAREC corridors, and statistical analyses of the data have provided many insights into trade dynamics. For instance, they were recently used to test the significance of Transport Internationaux Routiers (TIR),[2] and to compare border-crossing procedures for perishable and nonperishable goods. They have also been used to examine policy impacts on CAREC-region trade. One such impact, for example, resulted from the creation of the Customs Union, which includes Belarus, Kazakhstan, and the Russian Federation: although the union has been beneficial to its members, it has exacerbated delays for inbound transporters from nonmember states. Policies relating to trade flows *within* the CAREC region can also be verified and tested using CPMM data, provided that sufficient data are available, and these examinations are featured in CPMM reports.

Data from CPMM studies have informed project development and design, especially with regard to regional improvements in border services, sanitary and phytosanitary practices, and economic corridor development. And CPMM data serve as an instrument and as a primary knowledge and data source for the conduct of time release studies (TRSs), which measure the average time taken to release cargo shipments at each step of a border procedure.

CPMM studies actually complement TRSs. For instance, in order to utilize funds and resources more efficiently, TRSs in their initial stages require information regarding the location and scope of study. That is something that CPMM studies can provide. CPMM studies can also pinpoint and identify impediments at BCPs, highlight which BCPs the local customs service should focus on, and identify procedural and systemic issues at BCPs—all of which can serve as bases for TRSs.

The PRC, Kazakhstan, Mongolia, and Uzbekistan have all conducted TRSs to varying degrees; and the training of customs officials in the conduct of TRSs is under way in these countries. In 2012, the CAREC Program organized a training course for customs officials in Afghanistan and Pakistan, and followed up in August 2013 with an analogous course for customs officials from other countries in the region. Georgian customs is apparently preparing to conduct TRSs as well, and ADB could assist Georgian and Azerbaijani customs officials in developing a collaborative TRS program.

What are the policy implications of CPMM? Given that CPMM studies facilitate the analysis of transport trends and regional trade dynamics, they can provide a solid foundation for policy making aimed at improving the efficiency of customs and border controls and, ultimately, at furthering economic development in the CAREC countries.

2 Or "International Road Transport." It is an international customs transit system allowing cargo to travel through the borders of over 50 member countries in Europe, western Asia, and North Africa with minimal customs procedures.

Georgia as a Regional Logistics Corridor: Batumi Sea Port

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Batumi Sea Port is located on the coast of Georgia, on the Black Sea, and is a gateway to the European transport corridors. The port's operations include cargo handling, cargo storage, and the servicing of vessels and other means of transport.

It covers an area of 22.2 hectares, and has five terminals—one each for containers, dry goods, ferries, oil shipments, and passengers. There are 11 berths in all, as well as conventional buoy mooring. The Batumi oil terminal has three of the berths (1–3); the container terminal, two berths (4–5); the ferry services, one berth (6); the dry cargo terminal, three berths (7–9); and the passenger terminal, two berths (10–11).

The port registers a total throughput of up to 19 million tons of cargo per year. Dry cargo turnover for 2012 totaled 1,576,875 tons, which amounted to 105% of the production plan for that year.

There are three kinds of cargo flows: transit, import, and export. Transit traffic accounts for 37% of the port's total cargo flows.[1] Azerbaijan is by far the leading recipient of cargo transshipped through the port, accounting for 93.67% of transit cargo, principally raw sugar from Brazil. The next biggest recipient, Turkey, accounts for 4.35%, followed by the United Arab Emirates (0.74%), Turkmenistan (0.69%), the Kyrgyz Republic (0.38%), the US (0.11%), and Armenia (0.06%).

Imports also account for 37% of cargo flows through Batumi, with Turkey and South Africa as the leading sources of imports. Turkey accounts for 20.18% of import flows through Batumi—principally grain and building materials such as cement, laminate, gypsum, and granite. South Africa is a close second at 20.03%, with mainly manganese, ore, and coke. The other major sources of import flows through Batumi include Brazil (18.62%), Ukraine (15.26%), Australia (13.27%), and the Russian Federation (12.47%).

Exports account for 26% of cargo flows through Batumi, and the United States (US) is the leading recipient, accounting for 69.15% of the port's export flows. In 2012, the US imported 237,018 tons of ammonium nitrate and 49,626 tons of silicomanganese shipped through Batumi. Other notable recipient countries include Bulgaria (8.26%), France (5.44%), Egypt (4.66%), Mozambique (2.66%), Britain (2.06%), Turkey (1.97%), Canada (1.93%), Lithuania (1.33%), Spain (1.01%), with Romania, Sweden, Libya, and Oman each below 1%. Georgia's main exports through Batumi are ammonium nitrate, ferro silico manganese, sheep, and hay, though the largest exports are of ammonium nitrate, destined for the US and Europe.

Batumi Sea Port has the following facilities: a port fleet of 13 craft, almost half of them tug boats with the aggregate capacity to handle vessels carrying up to 120,000 deadweight tons; 12 gantry and mobile cranes, including one with a hoisting capacity of up to 32 tons; and 25 loaders with carrying capacities ranging from 1.5 to 10 tons. In addition, there will be two more cranes added in late 2013 with the combined carrying capacity of up to 40 tons.

The port is a member of regional associations, including the Black and Azov Sea Ports Association, the Transport Corridor Europe–Caucasus–Asia Program, and the Association of Mediterranean Cruise Ports.

1 The percentages given here for transit traffic, imports, and exports are for 2012.

Georgia as a Regional Logistics Corridor: Batumi International Container Terminal

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Batumi International Container Terminal LLC (BICT), which is situated at Batumi Sea Port, is the first and only maritime container terminal in Georgia in which stevedoring, vessel handling, the delivery and receipt of containers and cargo, and container storage are all done within the same facility.

Batumi Sea Port is one of the key cargo transport points in the Black Sea Basin. With its location in the Adjara region, in southwestern Georgia, the port is also the last stop on the Transcaucasian railroad and the terminus of the Baku–Batumi oil pipeline. The port is also only about 20 kilometers away from the Turkish border, making BICT an ideal point for reloading cargo from trucks to wide-gauge (1,520 millimeter) railway cars bound for Armenia, Azerbaijan, Kazakhstan, and Turkmenistan, among other countries.

BICT is a subsidiary of International Container Terminal Services Inc. (ICTSI), a Philippines-based company established in 1987 that is widely recognized as a leading terminal operator, an innovator in its field. ICTSI develops, manages, and operates 24 terminals in 18 countries.

BICT started operating the container terminal, ferry bridge, and general cargo berth at Batumi Sea Port in November 2007; and it officially started its containerized cargo-handling service on 2 March 2008, with the arrival and service of the M/V MSC GRANADA, the first container ship ever to dock in Adjara.

The BICT facility encompasses 13.6 hectares leased from Batumi Sea Port. The container yard measures 3.6 hectares, but will extend to the full 13.6 hectares when fully developed.

The discharging and loading of container vessels take place at the container terminal, at berths 4 and 5, which have a total length of 284 meters and depth of 11.7 meters. Containers are stored in the 3.6-hectare yard, which has a capacity of 2,500 twenty-foot equivalent units (TEUs), or 100,000 TEUs of cargo throughput per year. When the facility is fully developed, that capacity will increase to 440,000 TEUs per year. The stripping and stuffing of containers occur at a dedicated container freight station.

The ferry and dry dock terminal are at berth 6, which is 183 meters in length, has a depth of 8 meters, and handles general cargo vessels. The ferry service runs via an automated ferry bridge, and accommodates rail cars, trucks, and passenger vehicles. Cargo is stored in the customs warehouse, which has 625 square meters of storage space.

BICT's equipment includes 2 mobile harbor cranes totaling around 100 tons in capacity (primarily used for discharging containers), 2 portal cranes, 4 reach stackers, 6 tractors, 14 chassis, 2 side lifters, 7 spreaders, 6 forklifts, and 57 reefer plugs.

The handling of both containers and cargo at BICT is done to and from multimodal units of transport—mainly trucks and railway cars. And there are customs officers located at the terminal to ensure the quick dispatch of cargo.

BICT now boasts a new customs clearance facility (GEZI), which cost $2 million to build and was officially opened on 31 May 2013. The new building serves as a customs clearance zone based on the single-window concept, and also has an area for cargo and parked cars with all the necessary equipment. GEZI is certainly not BICT's last project. An expansion of the container yard and rail facilities is slated by the end of 2013, at an initial cost of about $20 million. And BICT plans to refurbish and expand its terminal capacity to accommodate larger volumes.

Drawing from ICTSI's expertise, the best practices of global operations, and the Georgians' own innovative approaches, BICT has emerged as one of the most efficient terminals in the region, and as the fastest growing container terminal on the Black Sea. By providing a world-class trade gateway at Batumi Sea Port, BICT is also contributing to the growth of Georgia's economy.

The Risk Management System in Georgian Customs and the Golden List

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Risk management in customs is a systematic method of identifying, monitoring, analyzing, and responding to risks involved in the customs-clearance process to improve the effectiveness of border controls. The Golden List is an important part of Georgian customs' risk management system. It does not help to identify or analyze risk; instead, it directly reduces risk.

The Golden List is a roster of reputable importers and exporters that have been designated as "authorized economic operators." As part of its SAFE Framework of Standards to Secure and Facilitate Global Trade, the World Customs Organization provided global standards for the launching of programs for authorized economic operators by its member states. In 2007, the Ministry of Finance started compiling Georgia's list, which currently includes 175 such operators.

To be eligible for membership, companies must be law-abiding and have good tax histories. Specifically, an applicant company must be an economic operator and value-added-tax payer, trade goods with a minimum of GEL5 million value per year, pay at least GEL900,000 in customs duties (or make 100 customs declarations) per year, and have no record of serious customs offenses during the prior 6 months.

Membership in the Golden List entitles companies to undergo simplified customs procedures when sending shipments into Georgia: they can have their goods cleared by customs at border-crossing points, defer their payments of fees, and use electronic versions of supporting documents.

The Golden List contributes to overall trade and investment facilitation, not only by making trade easier for member companies, but also by allowing simplified customs-clearance procedures for a portion of the shipments crossing into Georgia. As a result, it allows a more effective use of administrative resources, improves time management, makes customs control more effective, and reduces the number of penalties.

The privileges of membership in the Golden List can serve as an incentive for more companies to obey Georgia's laws and regulations in order to qualify. This, in turn, helps reduce or eliminate commercial crime, and thus contributes to more effective risk management.

Another important component of Georgia's risk management system is the Automated System for Customs Data (ASYCUDA), a computerized customs management system developed by the United Nations Conference on Trade and Development (UNCTAD) to make the customs-clearance process more efficient. ASYCUDA helps calculate risk by (i) identifying sources of risks, such as high duties, quantity controls, the demand for prohibited goods, and traffic; (ii) using existing databases and records on commodity and trader histories, and (iii) reviewing current procedures to identify weaknesses. Then risk is evaluated based on the degree of certainty of a risk and on the likely consequences.

Based on this information, customs agents can earmark specific consignments of goods for physical inspection. Georgian customs officers may also conduct inspections at their own discretion, either because they suspect illicit activity or are conducting searches by random selection.

The Private Sector Perspective: Georgian Chamber of Commerce and Industry

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There are two main concerns for the Georgian business community: the Government of Georgia's reforms of border-crossing infrastructure and regulations (including efforts to stamp out of corruption), and the need for a regional approach to trade facilitation, with an integrated tariff policy and joint border management.

After the end of Aslan Abashidze's administration, in 2004, the government effected three phases of reforms that have directly affected trade facilitation. The first phase was mostly welcomed by Georgian businessmen because it targeted corruption, especially in the government structures concerned with trade and border-crossing points. Before 2004, corruption was the biggest problem confronting Georgian businessmen. It was a major drain on Georgia's resources and destabilized our economy, especially imports and exports, on which this country is very dependent. Although the process was not an easy one, corruption has been largely eradicated, and this success has resulted in lower costs and greater efficiency in cross-border commerce.

The second phase of government reforms focused on documentation and procedural requirements at border-crossing points. Here we have made huge progress, which has been reported in a number of studies by the International Finance Corporation, the World Bank, and other financial institutions. The third phase comprised extensive government investments that radically improved the country's border and customs infrastructure.

Each of the three main areas of reform—corruption, border-crossing procedures, and infrastructure—impacts on the others. For example, Georgia's overly strict border-crossing procedures and regulations, once a source of many complaints from businesses, were a legacy of the high levels of corruption that existed years before. They were also the result of deficiencies in border infrastructure: if you do not have enough scanning machines, or if you cannot accommodate enough vehicle-inspection lines to handle traffic quickly, you will definitely end up applying stricter rules to compensate for these inadequacies.

The government's reforms have now made it possible for truck drivers, manufacturers, and customers to get their goods into and out of Georgia faster and more easily. These reforms have been especially important for small and medium-sized businesses. Large enterprises never worry about customs and border-crossing infrastructure because they do not have to confront them directly, on a personal level. But small and medium-sized businesses, which take care of their own transport, used to waste a lot of time in long queues at border-crossing points.

Nevertheless, Georgian businessmen still have some complaints, and these mainly concern trade policy. Georgia has free-trade arrangements with all its neighbors, but domestic producers complain about unfair competition from imports. Specifically, agricultural producers in Georgia fear that the substantial indirect subsidies enjoyed by their competitors in neighboring countries give those competitors a built-in advantage. And since Georgia does not have a single trade barrier, domestic producers are hit directly by cheaper imports, and sometimes find it impossible to stay afloat. But it is not just about agriculture: three scrap metal companies in Georgia are about to shut down because of lower-priced competition from abroad and the absence of any Georgian legislation to protect them. Ideally, there should be some kind of regional trade mediation center to address these problems. And there should be special legislation in Georgia to deal with dumping (i.e., predatory pricing) by foreign companies.

It is easy to ship goods into Georgia, but not always easy to ship goods from Georgia into other countries. When it comes to formal trade barriers, the European Union (EU) is one of the worst places in the world. The Chamber of Commerce and Industry did an analysis of trade barriers around the world, and found that the highest barriers are actually in the United States. But Europe also has too many formal trade barriers, and that is why the Georgian government is negotiating a Deep and Comprehensive Free Trade Agreement with the EU. The hope is that, once this agreement is in place, the EU trade barriers will disappear.

There is a second group of barriers that are not associated with formal arrangements. Most of these would be categorized as informal trade barriers. For instance, Georgian producers frequently complain about the difficulty of exporting to Azerbaijan and Turkey. Although Turkish law enforcement is generally very effective, there have been rumors that Georgian producers of wine, nuts, and other products cannot get their wares to Turkish markets, even though they are covered by a free trade agreement between the two countries. There are, however, trade conferences every year, sometimes even a couple of times a year, at which these problems are being discussed.

Apart from the border problems, transportation is even more problematic. Despite the fact that Georgia and most of its neighbors once belonged to the same country, there is very little communication among their transport authorities. For example, there is some communication between Georgian Railway and Azerbaijan Railways on cargo tariffs, but none at all with their counterparts in the Central Asian countries.

To make truly pathbreaking reforms of Georgia's cross-border trade, and provide some relief to businessmen by enabling them to get through customs in 2 hours instead of 2 days, the government's approach to transport and commerce must be a regional one. It will be much easier for Georgia to work with its major trading partners if it views the whole of Central Asia and the South Caucasus as one economic corridor. After all, no matter how well the borders are managed, if there is no integrated tariff policy throughout the region, there will be no real development of the corridor.

An integrated tariff system should be accompanied by further investments in infrastructure by the national governments in Central Asia and the South Caucasus. Ideally, that would include a railway running from the People's Republic of China to the Turkish border. Without such a railway line, it will be hard to depict the region as the "Silk Road" economic territory.

There should also be a greater emphasis on joint border management, as Georgia has achieved with Turkey. Indeed, there should be a joint approach to border issues in general, given the fact that joint border management already exists in other corridors. And an intergovernmental or inter-business center should be established that would be charged with harmonizing tariffs and minimizing the differences among the countries' requirements. Success in this domain would make the region all the more business-friendly.

The Private Sector Perspective: The Gosselin Group and the AmCham Trade and Transportation Facilitation Committee

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Member of the EU-Georgia Business Council
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During 2003–2013, there was a huge improvement in Georgia for shippers and for businesses in general. Such changes as the opening of the Sarpi border-crossing point and the renovation of the port in Batumi have made the conduct of business very easy in Georgia. In addition, companies operating in Georgia now have what they need most: a way to track the location of their cargo. Thanks to the Georgian customs website, they can see online where and at what time any of their trucks have crossed a border.

The Government of Georgia has also established multiple free industrial zones where cargo can be cleared, and this has made importing a lot easier. The regulations on operating a customs-bonded warehouse for businesses have been simplified as well. For example, Georgia is now one of the few countries in which the Gosselin Group, a Belgian cargo transport-and-storage company, can have its own customs-bonded warehouse. When a cargo-loaded truck arrives at its warehouse, the company can make a report to Georgian customs and obtain clearance by computer. After just a click, the customs website responds with a light. If it is a green light, the truck can be unloaded immediately; if it is red, the company has to wait for a visit by customs officials, who typically look at the newly arrived cargo and then authorize clearance. It is a boon to business that customs matters can be handled this easily.

Customs clearance has improved tremendously in Azerbaijan as well. This country had many problems in the beginning, so it admittedly had a long way to go, but the Azerbaijanis are changing the way they do things.

One major trade barrier that still exists throughout the region, however, is the lack of communication among governments. Businesses shipping cargo to Central Asia prefer to go through the port in Riga, in part because it is less expensive, but also because communication is better there. It is difficult to send a truck to Kazakhstan via Georgia and Azerbaijan precisely because communication is lacking, not only among governments, but also among trucking companies and other businesses.

The Customs and Trade Facilitation Committee of AmCham, which represents the American Chamber of Commerce in Georgia, has for years been trying to get customs people to sit together and discuss the problems of this region, one of which is the lack of harmonization of customs requirements from country to country. For example, there is the case of a cargo truck that recently entered Georgia through the port in Poti, Georgia. Before the truck was cleared for transit, Georgian customs took note of the truck's weight, and this presented no problem. But when the truck arrived in Tashkent, the weight of the vehicle was completely different. That was because in Georgia they use gross weight, whereas in Uzbekistan, they use net weight. For reasons like this, a truck can be delayed in one spot for 3 to 5 days. The problem is that border procedures need to be coordinated. For businesses, these delays are a waste of time and money. Businessmen prefer to have their trucks arrive, be cleared within an hour, and then be able to deliver their goods to the customers.

This lack of communication and coordination comprises the only serious bottlenecks in the region. As for Georgia itself, there is still much room for improvement despite the progress made so far. Actually, there is always room for improvement. Businesses will always have complaints because they want to have it easier and easier, as soon as possible. Does a government have to do everything the business community wants? Of course not. There will always be a need for regulations.

The situation is relatively good in Georgia, but one must take into account the fact that it is a small country. The challenges may be greater in larger countries like Kazakhstan, Turkmenistan, or Uzbekistan. But in Central Asia and the Southern Caucasus, transport and customs are poised to improve 20 times over in the near future because business in the region is expanding, and is expected to continue doing so through the second decade of the 21st century.

Finally, there is the situation of the region’s train systems. The railways are very important because they are the future of Central Asian transport. Trucking is expensive, especially to Central Asia, so the railways will be the solution. But rail transport is not ready to take over the mantle just yet. There is a lack of connections between rail lines and other infrastructure; but, again, the biggest problem with railways is the lack of communication and coordination among countries in the region.

When shipping a container by rail to Georgia, for example, one can see on a computer what city that container is in, just like with trucks. However, as soon as the container crosses into Azerbaijan, it is lost from view. The transporter has to wait for another border crossing before being able to track it again, until the final notification stating that the container has arrived at its destination. As with trucking, it is very important that customers be assured that their goods are secure. They should be able to know where their goods are. This is a huge problem. But if this problem is solved, if customers can know where their goods are between the points of departure and arrival, this would be a tremendous improvement.

The Private Sector Perspective: Poti Free Industrial Zone

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Riga is a formidable competitor for shipments to Central Asia, but it is not the only one. If Bandar Abbas (Iran) were still a transit hub, if the Iranians were not still under an embargo, Georgia would have no chance of attracting customers interested in transporting containers through the TRACECA route to Central Asia.[1] The cost of shipping through Bandar Abbas would be exactly half of what it is through Georgia, and that would be for the same distance. It would be absolutely impossible for Georgia to compete against Iran because of that country's lower cost of diesel fuel and of transportation, and because of the absence of unions there. Moreover, the Government of Iran does not merely protect Iranian transporters, it actively assists them.

In contrast, logistics companies shipping goods to Central Asia via Georgia must argue with various governments along the way. When they finish with Georgia, they have to confront the authorities in Azerbaijan. When they finish with Azerbaijan, they have to cross the Caspian Sea to the main port on the other side, Turkmenbashy, where they have to argue with the Government of Turkmenistan. Then they go through the same process with Kazakhstan. It is impossible to have to organize all this and then be able to compete with Bandar Abbas, from which a route leads through Iran straight to Central Asia; or with Riga, from which cargo travels on the trans-Siberian route through one country, the Russian Federation, for most of the trip.

The only way to make the TRACECA route competitive is for the countries in the region to get together and come up with a single, unified system of procedures, tariffs, and regulations. Some countries, like Azerbaijan, have already accomplished much in this direction. But 100 things remain to be done if Georgia is to compete with Iran, and one of them is to start emphasizing railway transport. There is no possibility for Georgia to compete against Bandar Abbas through trucking, so it must be done by rail.

But Georgia cannot compete by rail, let alone by truck, if every country on the TRACECA route has its own tariffs, regulations, etc. For example, when Georgian Rail reduced its tariffs by 35%, Azerbaijan Railways immediately raised its tariffs by 50%, though it lowered them again after some negotiations. Then there is Tajikistan. No shipping line will allow its containers to go through Tajikistan because they can be held up there for 40 days, and no shipping line can afford delays of 40 days. In principle, the maximum time allowed is 12 days. In Kazakhstan, the main problem is the vast distances within the country.

Overall, the route from Georgia is a long one, and it passes through five countries. With trucking, Georgia would have to find a way to somehow compensate for the taxes and cost of petrol. The same challenge exists when shipping by rail. Transporters going via Riga use the railway through mostly one

1 TRACECA, or Transport Corridor Europe–Caucasus–Asia, is a multilateral program for developing a transport corridor connecting these regions.

country directly to Central Asia, while transporters using Poti Port have to ship through five countries, adding days to the journey. Some may be tempted to adhere to protectionism, thinking that it would give a country more control over its own policies. But protectionism comes at a price. Each country has the right to make its own choices, but then the customers will choose to ship via Bandar Abbas or Riga.

The main reason for providing a route from Georgia is to create an alternative to shipping via the trans-Siberian route or from the Turkish border. It is in the interest of the Central Asian countries to have a third option, and Georgia could be that option. That is why Ras Al Khaimah[2] bought a majority share of Poti Port from the Georgian government in 2008 with the intention of developing a free economic zone there. The Poti Free Industrial Zone is now in place in Poti Port. Today a manufacturer in the People's Republic of China (PRC), for example, can have a small plant to support the demand for spare parts from its customers in the Commonwealth of Independent States and Black Sea countries. It works the same way for trading. Instead of using Dubai or Jebel Ali as a hub, Ras Al Khaimah has created a place in the Black Sea region that will be tax-free. This has nothing to do with tax evasion, as transporters pay their taxes in their own countries. Upon arrival in Georgia, they get customs clearance, pay the value-added tax, and then are done.

The Poti Free Industrial Zone is also a customs-bonded area. There is a Georgian customs officer at the gate. If the cargo is not destined for Georgia, if it is transit cargo, the officer lets the transporter proceed. If the cargo is destined for Georgia, it will be customs-cleared at the gate of the free zone, where Georgian customs regulations apply.

The traffic handled by the ports of Poti and Batumi, Georgia, is actually 60% transit, and that is why it is vital that the TRACECA Program work well. It will be necessary to expand the transport network, and to reduce the restrictions and improve the customs systems of TRACECA-member states.

For instance, Poti Port participates in a project called Gezi-Poti that imports second-hand cars from the United States. Gezi-Poti is a state-of-the-art facility where all the containers come from the US or Europe. It is also a customs-bonded area into which a car owner can enter, discharge his car from the container it was shipped in, clear the car through customs, submit the payment receipt number, register the car, pay the fees, and check the engine—all in exactly 10 minutes.

In many countries in the Middle East and the Caucasus, it can take 2 or 3 days to clear a car, but in Georgia it takes exactly 10 minutes. How do the Georgians do this? They established an automated system through which the customer knows the car's serial number even before it arrives in Georgia, and can thus prepare the declaration and other customs forms in advance. Such systems could be established in the other countries along the TRACECA route, with the Georgian system connected to the systems of the other countries, thereby allowing this information to be read anywhere. Georgian customs installed its system in exactly 3 months.

In exchange for Georgia's granting the free zone at Poti Port, the investors had to provide some of the facilities, such as a customs building, a weighbridge, and a scanner. There were no problems integrating the free-zone system into Georgian customs. Actually, the free zone adopted the Georgian customs system, and even pays a fee for the privilege, because there are fewer problems with it.

As the Poti Free Industrial Zone is a customs-bonded area, a transporter can clear a container within 7 minutes. This rate is superior to those seen in many ports around the world.

The free zone currently serves customers from Armenia, Azerbaijan, the PRC, India, Iran, Lebanon, Turkey, Ukraine, the United Arab Emirates, and the United States, among other countries. It services transporters from every region of the world, but about 80% of them are based along the TRACECA route. That is all the more reason why it makes sense to use Poti, or Georgia in general, as a transit hub. And it makes sense for transporters from any region of the world to open trading companies and factories in Georgia's free industrial zones.[3]

2 Ras Al Khaimah is an emirate in the United Arab Emirates.

3 Georgia has three such zones: in Poti, Tbilisi, and Kutaisi.

Resources for Replicating Lessons Learned: Overview of the EU/UNDP Border Management Programme in Central Asia

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What is BOMCA?

The Border Management Programme in Central Asia (BOMCA) was established in 2004 by the European Commission and local partners; it is funded by the European Commission and implemented by the United Nations Development Programme (UNDP). The main objective of BOMCA is to promote the gradual adoption in Central Asia of modern border-management methods to improve border security and facilitate legal trade and transit. BOMCA is working to achieve this objective by introducing integrated border management, which requires increased cooperation and collaboration at the national, regional, and interregional levels. There are four components to BOMCA's program: institutional reforms, enhanced professional skills, better counter-drug capacity, and improved border-crossing points. BOMCA has many partners, but one of the most important is the International Centre for Migration Policy Development, based in Vienna.

BOMCA provides as much financial assistance as possible to its partners in Central Asia for infrastructure development, including the renovation of border-crossing points. So far, the program has built 12 border-crossing points in the region, and provided a great deal of equipment to partners there. The BOMCA program is currently in its eighth phase, which is scheduled to last through June 2014, with a total budget of €8.79 million. There will be a subsequent phase, intended to last until 2017, that will be funded by the European Union (EU). Since 2004, BOMCA has received a total of €36 million.

During the current phase, BOMCA has been focusing more on institutional development, helping its Central Asian partners strengthen their capacity in border management and customs services. The program is also improving the capacity of drug-combatting units, particularly in the Central Asian countries bordering on Afghanistan, i.e., Tajikistan, Turkmenistan, and Uzbekistan. It provides professional training, and is trying to adapt the best practices of Europe to Central Asia whenever possible. The main beneficiaries of BOMCA's training and infrastructure assistance are border guard services, customs services, drug-control agencies, national security agencies, phytosanitary services, and veterinary services.

The Challenges BOMCA Must Face

Between 2004 and 2013, BOMCA has had to address the following challenges:

(i) **Border delimitation and demarcation.** This important issue affects the Kyrgyz Republic, Tajikistan, and Uzbekistan. The border between the southern Kyrgyz Republic and Tajikistan has never been properly demarked, and negotiations are now under way to correct this. The border between the Kyrgyz Republic and Uzbekistan is also problematic, though not as much, and BOMCA is working to provide technical support there as required.

(ii) **Resource constraints.** There are disputes over the ownership of energy sources, water, and land. The disputes over water are especially important, as some countries have plenty of water and others need plenty of water, but do not have it. Water will remain a major cause of contention in the future.

(iii) **Limited cross-border movement.** Cross-border movement has been limited because of ethnic tensions and bureaucratic procedures. Ethnic tension is a problem especially in the southern part of the Kyrgyz Republic, along the border with Uzbekistan, where serious conflicts in April 2010 had a negative impact on trade facilitation. Inefficient bureaucratic procedures have hampered cross-border movement by causing long waits for the resolution of simple issues. Corruption is also a big problem in some countries, though governments are trying to eradicate it with the help of international organizations.

(iv) **Obstacles to trade and business development.** Border-inspection procedures can be complex and redundant, and there is a lack of effective risk management in the region. These problems make it more difficult to conduct business, but they do not exist in all the Central Asian countries to the same extent. Border-crossing points vary widely in the speed and efficiency of their operations.

(v) **Border security.** The major challenges to border security are religious extremism; terrorism; and trafficking in drugs, weapons, radioactive materials, and human beings.

Religious extremism is increasing in the Kyrgyz Republic, specifically along its border with Tajikistan; and terrorism may increase after the withdrawal of the security forces from Afghanistan in 2014. One only has to look at a map to see how terrorism, which arises from religious extremism, could easily penetrate from Afghanistan into Central Asia. An especially vulnerable area is the Fergana Valley, where the contested borders of the Kyrgyz Republic, Tajikistan, and Uzbekistan all converge. Until these borders are fully demarcated, they will remain porous, enabling security problems in Afghanistan to spill over into Central Asian countries.

According to the United Nations Office on Drugs and Crime (UNODC), about 25%–30% of the heroin transported through Central Asia is destined for Europe and the United States. Of special concern is drug trafficking via the 1,400-kilometer border between Afghanistan and Tajikistan. This is a mountainous area that is difficult to control. Tajik border guards, customs officials, and staff from other government agencies are trying their best, but Afghan drug dealers continue to get through. UNODC published a report in 2012 stating that 6.9 million tons of opium are produced in Afghanistan each year, from which 490 tons of heroin can be manufactured. One kilogram of heroin costs $4,000 in Afghanistan, but will bring $150,000 in Europe and America, so Afghan opium farmers make total profits of up to $3.0 billion–$3.5 billion per year, while Afghan warlords and local dealers make total annual profits of $6 billion. Dealers who take the heroin to the final destinations in Europe and the United States make a total profit of $24 billion. Thus, the total annual profits from the opium/heroin trade can amount to upwards of $35 billion. And some of these drugs are shipped through Turkey to Europe via the Georgian port of Batumi.

BOMCA's Responses

What are BOMCA's responses to these challenges? The program is trying as much as possible to cultivate mutual understanding and cooperation among Central Asian countries, so that they can solve their problems more effectively.

With regard to border security, BOMCA is first and foremost helping the Central Asian countries adopt integrated border management, along with the best practices of EU states. Actually, the original concept was first applied by the people of Central Asia some 500 years ago, when they established the Silk Road, which ran between China and the Middle East. That was truly a form of integrated border management. Tribes would pass from place to place, buying and selling goods along the way. One can say that trade facilitation started in Central Asia with the Silk Road, and that integrated border management, far from being a new concept in the region, is actually the continuation of a traditional idea, though with modern technology and practices.

BOMCA is encouraging the customs services, border guard services, and other relevant agencies of Central Asian governments to agree on certain training components and to set up a consortium of training institutions. And it recently convinced the border guard commanders of Afghanistan, the Kyrgyz Republic, and Tajikistan to meet and discuss border-security issues and prepare for any security problems that may arise in Afghanistan, particularly along the border with Tajikistan, after the International Security Assistance Force leaves.

BOMCA is also trying to bring Afghanistan and the Central Asian countries together so that Afghanistan can participate in the region's economic development, including the activities of the Asian Development Bank (ADB) in trade facilitation and infrastructure development. For example, there was a meeting in Dushanbe in the spring of 2013 that included representatives from BOMCA and from the ministries of agriculture and foreign affairs of Afghanistan, the Kyrgyz Republic, and Tajikistan.

Regarding the Fergana Valley, 2012 saw the start of a 5-year cooperation plan (2012–2017) jointly facilitated by BOMCA and the UNDP Peace and Development Programme. As part of the plan, BOMCA brought together Kyrgyz and Tajik community leaders from towns and villages near the border between their countries—in the Batken Oblast (region) of the Kyrgyz Republic and the Sughd Oblast of Tajikistan—along with Kyrgyz and Tajik border guards and customs officials. This was done to foster dialogue among the border communities and between the communities and the Kyrgyz and Tajik border authorities.

The point of this intercommunity dialogue was to reduce ethnic tension and reach mutually acceptable solutions. It was not easy at first to get the community leaders to participate, especially those from the southern Kyrgyz Republic. BOMCA eventually managed to do so through cultural events, particularly the celebration of the New Year, called "Norus." The program organized a Norus party for the community leaders and border guards. It was the first time these local residents had even met a border guard, but they spoke freely with the guards about their problems. And BOMCA has since set up a joint committee to tackle problems at the community level. Some of these communities were affected by the ethnic conflict in 2010, so BOMCA is also trying to train the border guards in the prevention of conflict and human rights violations.

BOMCA has promoted cooperation across the Afghanistan–Tajikistan border through annual conferences on trade and security cosponsored with the EU Delegation to Tajikistan, the Embassy of Japan in Dushanbe, and the Border Management in Northern Afghanistan program. These conferences aim primarily to strengthen cross-border coordination and cooperation between the law-enforcement authorities of Afghanistan and Tajikistan. The lessons learned at the 2012 Afghanistan–Tajikistan conference were that (i) risk management and border management require securing the border from both sides, with an equal level of commitment from both countries; (ii) risk management and border management also require an exchange of information between the authorities on both sides of the border; and (iii) enhanced cross-border cooperation between Afghanistan and Tajikistan, and among other Central Asian countries, is the core of border security throughout the region.

There is also the Issyk-Kul Initiative on Border Security in Central Asia, which consists of annual meetings of the border guard commanders from Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Held for the first time in 2011, these meetings provide an opportunity for the highest-level officials to discuss issues relating to border management, border security, and regional and bilateral cross-border cooperation. As a result of the meeting in 2011, bilateral agreements were signed between the border guard services of Kazakhstan and the Kyrgyz Republic, and between those of Tajikistan and Turkmenistan. The agreements stated their signers' intention to cooperate on border security, effect joint measures to prevent conflicts on their borders, exchange information on security issues, and comply with the provisions of other bilateral and international agreements their governments had signed. At the meeting in 2012, the border guard commanders of all five countries signed three protocols concerning training institutions.

In the meantime, BOMCA has already set up a training consortium in Central Asia for border guards and customs service officers. The governments of the five Central Asian countries agreed to hold meetings four times a year to agree on improved training curricula based on shared principles. And the curricula will soon include anticorruption and gender issues. There are some training institutions in Europe willing to be twinned with training institutions in Central Asia. This may ensure the sustainability of BOMCA's programs, as the European partners could take over BOMCA's role in establishing and improving training curricula.

To increase the Central Asian officials' understanding of new procedures, BOMCA has arranged several study tours for Central Asian border guards and customs officials to Europe, where they can observe the progress made in some of the countries there. Although BOMCA will be arranging a study tour for customs officers to Belgium and the Netherlands, most of the trips do not include Schengen countries, as these have systems that are too sophisticated to be adapted easily to Central Asia. Instead, BOMCA is focusing on countries with borders external to the EU; for instance, Latvia and Finland.

Coordination with Partners

BOMCA seeks to align all these capacity-building interventions with other regional initiatives, and sees potential partners in such organizations as ADB's Central Asia Regional Economic Cooperation (CAREC) Program, the Central Asian Regional Information and Coordination Centre, Eurasian Economic Community, Commonwealth of Independent States Council of Border Guards, and the World Customs Organization for Trade and Transit.

BOMCA also seeks to align its border-management goals and activities with programs in poverty reduction, good governance, and other areas of sustainable development. For this purpose, it has strong partnerships with the United States Agency for International Development (USAID), with which BOMCA shares the costs of some of its projects; UNODC; the Organization for Security and Co-operation in Europe; International Organization for Migration; and the United Nations High Commissioner for Refugees (UNHCR). For exchanging experiences and information on best practices, BOMCA works with the European Union Border Assistance Mission and the South Caucasus Integrated Border Management Programme. In addition, BOMCA is pursuing community-based development in conflict zones near borders, in close cooperation with the UNDP Peace and Development Programme.

ADB's CAREC Program has also been a partner in the region, though BOMCA has not yet participated in any joint projects with it. BOMCA is certainly willing to support the CAREC Program as much as possible, particularly in the field of training, where ADB has the capacity and the regional network. For example, a consortium of training academies for customs services and border guards could be the focus of future cooperation with ADB and UNDP.

Future Scenarios*

The scenarios to consider involve the security problems that could arise in the region after the withdrawal of the security forces in 2014. Southern Afghanistan has traditionally been a hotbed of the Taliban, and the conflict there could spread into Pakistan and Iran, given that Afghanistan shares a 2,430-kilometer border with Pakistan and a 945-kilometer border with Iran. Of the heroin and opium transports in the region, 70% pass through the Afghanistan–Pakistan border, so this will be the most problematic part of the conflict.

If the government in Kabul manages to fight terrorism in the south of Afghanistan, the north will remain stable and safe. If not, the conflict could spread into northern Afghanistan and potentially affect the border security of Central Asian countries. Moreover, if northern Afghanistan becomes a safe

* The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

haven for drug dealers, they could become even more active there and increase the amount of drugs flowing from Afghanistan through Central Asia to Europe. It is therefore essential that there be strong cooperation between the Central Asian countries and Afghanistan on border security.

The facilitation of cross-border trade will certainly benefit regional economic development, and ADB's efforts in this regard will contribute to regional stability as well as to economic growth. The transit of goods among the Central Asian countries is also hindered by poor roads, however. One of the objectives of Central Asian governments seems to be the improvement and construction of roads, but road development should be matched with improvements in border-management procedures.

Out of the five countries of Central Asia, only the Kyrgyz Republic and Tajikistan are members of the World Trade Organization. The other Central Asian countries should be encouraged to join, as membership in the organization would help to take them into a new era, through the introduction of advanced technologies and procedures. An especially important step, for instance, would be the establishment of the single-window system throughout the region. But one should remember that it is not easy to pressure these countries into switching from the Soviet model to a new one. It will take time, and BOMCA and its partners will have to give the countries of Central Asia the time they need to adopt new systems and new ideas.

Lessons Learned and Concluding Thoughts: Replicating Georgia's Best Practices in the CAREC Region

The final session focused on the lessons that the delegates had learned from the workshop-study tour in Georgia. Jeff Procak, of the Asian Development Bank (ADB), and Anbumozhi Venkatachalam, a capacity-building specialist at the ADB Institute, identified a couple of key lessons for CAREC-member countries: (i) the importance of employing modern information and communication technologies and of building appropriate infrastructure; and (ii) the merits of adopting advanced risk management techniques. They added that Georgia's experience underscores the benefits of interagency and cross-border cooperation, including regular and open experience sharing.

Takashi Matsumoto, of the World Customs Organization (WCO), expressed mixed views about Georgia's policies. He noted the huge investments Georgia had made in its customs organization, not only on the procedural side, but also on offices and equipment. Without political will, he said, the Georgian government would not have given the Revenue Service such a large budget. But Georgia had one overriding concern, trade facilitation, and policy making on customs has to be aligned with the government's trade facilitation strategy.

Mr. Matsumoto admitted that Georgia's simplification of its border procedures had accelerated the government's anticorruption efforts, but said that there still is corruption among Georgian customs officers and traders, and questions remained about the extent to which Georgia's customs practices conform with the Revised Kyoto Convention. He thought that Georgia needed to improve the integrity of its Golden List program by applying the WCO's authorized-economic-operator guidelines. And he encouraged the CAREC-member countries to use the framework developed in the Greater Mekong Subregion as a model for integrating border procedures throughout the region. "Unfortunately, the Georgian government has other priorities, with trade facilitation the most important among them," he said. "For that reason, the Revenue Service of Georgia is thinking more about facilitated trade than about the issues I have mentioned here."

Maka Khvedelidze, of the Georgia Revenue Service, responded to Mr. Matsumoto by making three points. The first was that, as part of the negotiations with the European Union regarding the Deep and Comprehensive Free Trade Agreement, one of Georgia's obligations will be to develop its authorized economic operator program. So, the further promotion of this program would remain one of Georgia's most important priorities within the scope of trade facilitation.

The second point concerned Mr. Matsumoto's reference to political will. Ms. Khvedelidze said that it is impossible to start anything without political will. "This political will has supported us in making very important investments in the modernization of different customs services, and in our introduction of new electronic administration systems," she said.

Ms. Khvedelidze's third point was about corruption. She said that the Government of

Georgia understood that it would have to think about the sustainability of the progress it has made in fighting corruption. She added that the government also understands that it must continue to develop approaches to fighting corruption that will be in accordance with current international standards and conventions.

A delegate from Pakistan listed the lessons he had learned from his visit to Georgia. One very important factor, he said, even more important than political will and ownership, is peace and security. First and foremost, the priority should be to bring peace to the region. This is the major challenge, especially for Afghanistan, Iran, and Pakistan. Azerbaijan, Georgia, and Turkey can cooperate with each other, and expand their trade, because there are no security issues confronting them. "But in our area, because of military interventions, especially those involving issues of terrorism, these issues do concern us," he said. "We believe that once the foreign forces leave this region, there will be a good chance for peace to prevail."

The Pakistani delegate then said that, since the beginning of the foreign occupation, the production of opium in Afghanistan had increased significantly, from 595 tons per year during the Taliban period to thousands and millions of tons. "Once there is peace and the security issues are addressed, I think our governments and authorities will be in a good position to make independent decisions without being dictated to by foreign powers," he said. "This issue is linked to what we have learned from the experiences of Azerbaijan, Georgia, and Turkey. That is why we need to mention it here."

Another important issue is drugs and weapons smuggling, according to the Pakistani delegate. He said that the problem is not so pronounced in Azerbaijan, Georgia, and Turkey, but that it is serious in Iran, Pakistan, and the Central Asian countries, impacting on their economies in a very negative way. He saw Georgia as a model to follow. "What Georgia has been able to do is, first, eliminate corruption and bring about honest and creditable customs institutions. So we need to emulate and follow the Georgian model of addressing corruption," he said. "Second, Georgia has been able to develop a data bank of illegal traders and smugglers, whereas in our countries we have no such resource. So we need to establish data banks of drug carriers, smugglers, their contacts, the means of transportation they use, and the techniques they apply for smuggling. Georgia has done all of these in a very, very successful way. This is a lesson for us."

The Pakistani delegate said he also learned that

(i) it is important to involve the private sector in setting up modern border-management systems;
(ii) Pakistan should replace its very rigid and strict visa regime with a more liberal one, especially for transit drivers;
(iii) countries pursuing transparent policies will have fewer problems with smuggling;
(iv) Pakistan should solve its problem of overcrowded ports by further developing its port infrastructure; and
(v) with automation, there is less likelihood of corruption, as automated operations (as opposed to manual) are more transparent.

"It is important to see how the Georgian Revenue Service monitors the movement of containers from the entry to the exit point," he said. "The Georgians have introduced a tracking system, and now they are going to have electronic signatures as well. I think that theirs is a good model, and we need to follow it."

"During our visit, we have learned not just one or two lessons, but many lessons," the Pakistani delegate concluded. "And we are thankful to the Georgian authorities, and to ADB, for giving us the opportunity to learn from their experiences."

Ms. Khvedelidze cautioned against copying the Georgian model too closely. The copy-and-paste approach—the total adoption of a system from another country—is absolutely impossible. Each country's customs service must first identify the practices in other countries that might be appropriate for adoption, and then analyze them to see how they can be improved or better adapted to its own situation. "That is why we share our experiences. The workshop and study tour of the last 4 days represents exactly the kind of meeting that is critical for us all," she said. "This is how we can conduct international dialogue, learn new procedures, analyze the challenges, and work together to come up with solutions."

She did offer Georgia's help, however. "If there is even just one little policy or practice in Georgia that could be beneficial to your countries, that could help your countries take a small step toward modernization, you can contact us at any time for our assistance. We would be more than happy to work closely with you."

The final two remarks were made by representatives of cosponsors of the event. The first to speak was Mr. Venkatachalam, of the ADB Institute, followed by Mr. Lan Wu, adviser on regional cooperation to ADB's Central and West Asia Department and an associate of the CAREC Institute.

Mr. Venkatachalam said that the workshop-study tour had really been a joint learning exercise for all the participants. The event had been organized with the objective of understanding the technologies and institutional reforms required for the efficient cross-border mobility of goods, and a few lessons on that topic occurred to him during the four days.

One was that reform is always a painful process, but if it is implemented in a programmatic, step-by-step way, CAREC-member countries could realize their objectives. This was something the participants learned from the initial presentations and field visits, he said. The second lesson was that inter-sector coordination and public–private dialogue can strengthen the reform process. The participants learned how this could work during their visit to Batumi and in their workshop discussions. The last lesson was the importance of political will. The government had a very clear, targeted objective; and in pursuit of that objective, the government simultaneously implemented capacity-building programs for its staff. These are the necessary and sufficient conditions for implementing similar programs.

Mr. Venkatachalam said that one could also look to other countries, such as Pakistan, Tajikistan, and Uzbekistan, to learn from what they have been doing. Their experiences are applicable and replicable—if not all, then at least some of them. And at the international level, they could be up-scalable.

He then requested that the participants share with their government colleagues the insights they had gained from the "very splendid and wonderful 4 days, during which we acquired new knowledge, new skills, and new wisdom." He encouraged the participants to use ADBI's Facebook page to continue their exchanges of ideas. "This is the beginning of the process, not the end," he said. "Through this medium, you can continue your discussions from the workshop, and in this way we can ensure a greater continuity of our learning experience."

Mr. Wu observed that the CAREC-member countries had taken some important steps in 2012 that will strengthen the CAREC Institute. Among these were the adoption of a Strategic Knowledge Framework; the decision to relocate the CAREC Institute to the region; and the adoption of the Institute's work plan (in Wuhan on 30 October 2012), in which trade facilitation is a key theme.

He said that the work toward trade facilitation is a maturing process and this workshop was very timely in the sense that people from the region could see how integrated trade facilitation could be carried out.

Referring to the comments made by Ms. Khvedelidze, Mr. Wu concurred that countries cannot copy everything from one another. "But I think that the point has been very well made through the past few days that if things can be done in Georgia, in principle they can be done elsewhere," he said. "It is just a matter of how we do it. That's the thought we must all leave here with."

In his final remark, Mr. Wu said, "trade facilitation is probably the most difficult area to tackle. It is a lot easier to build roads, railways, and customs houses than it is to shape how those roads, railways, and customs houses will be used." He further emphasized that improvements would not take place overnight, "but we will be your partners on this long journey."

"At the Border" and "Behind the Border"
Integrated Trade Facilitation—Reforms and Implementation
Workshop Proceedings; Tbilisi, Georgia; 10–13 April 2013

Government officials and private sector representatives from CAREC-member countries and elsewhere exchanged information about new methods and technologies concerning border management, customs control, and trade facilitation. This report summarizes the knowledge they shared and gained.

About the Central Asia Regional Economic Cooperation Program

The Central Asia Regional Economic Cooperation (CAREC) Program is a practical, project-based, and results-oriented partnership that promotes and facilitates regional cooperation in transport, trade, and energy. CAREC comprises 10 countries: Afghanistan, Azerbaijan, the People's Republic of China, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. Six multilateral institution partners support the work of the CAREC member countries: the Asian Development Bank (ADB), European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank. ADB serves as the CAREC Secretariat.

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