

**REGIONAL TRADE FACILITATION  
AND CUSTOMS COOPERATION PROGRAM**

**Customs Reform and Modernization  
Initiatives and Future Plans of Kazakhstan**

**by**

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The Customs Control Agency (CCA) of the Republic of Kazakhstan places great importance on customs reforms and modernization to improve trade facilitation and transit in order to enhance the overall regional trading environment. In 2003, the CCA adopted a Program of Modernization of Customs Services for 2004-2006 under Resolution No 1019 with the specific objective of enhancing the CCA's institutional capacity for trade facilitation and effective customs control. Developed in consultation with the relevant agencies and the trade community, this Program consists of three components: (i) simplification of customs procedures; (ii) facilitating transit trade of neighboring countries; and (iii) developing automated customs clearance and border infrastructure. These efforts are designed to help improve the regional trading environment and to strengthen trade relations among the neighboring countries. This paper describes how these components are being addressed towards the 'goal' of development of a world-class customs services.

### **Customs Modernization Program**

The three-component strategy was developed to address identified key modernization issues affecting customs. These are being pursued both independently and in parallel as it is recognized that there is an inter-relationship between the components, particularly in respect of the increase potential offered by the customs automation strategy.

#### **1. Simplification of Customs Procedures**

It was recognized that complicated and non-transparent customs procedures represented major non-physical barrier to trade and created problems in the relationship with the business community. The CCA is committed to the recommendations contained in the Revised Kyoto Convention that promotes the simplification and harmonization of customs procedures. This required the CCA to consider the introduction of new control concepts towards the achievement of its goals. The main proposed actions in this component are described below.

**“One-Stop” Clearance.** CCA is currently working to develop a standardized system of border controls at both road and rail frontier control points. To ensure the efficient use of time and resources, CCA has submitted proposals to the Government to establish entry control at the road-crossing points based on the “one-stop” principle. This will enable freight transport community to complete all the necessary border crossing procedures in one place in a reduced time. One-stop clearance also save public resources for border management. Control over passenger transport is already carried out following the “one-stop” principle at the point of entry but it was recognized that this needed to be extended to freight in line with Kyoto proposals.

**Single Invoice.** For the receipt of payments received from freight transporters and customs brokers, there were a number of different forms used, depending on the nature of the payment. A unified security and payment form has been introduced that covers all potential payments in relation to both clearance and transit movements.

**3-Stage Customs Clearance.** The traditional customs clearance procedures inherited from the former Soviet Union involved a 5-stage clearance process. It was appreciated that customs procedures needed to be streamlined through simplification and the time taken to completing customs formalities had to be reduced. A new three-stage customs clearance and control mechanism has been introduced on a pilot basis at selected points. Such a mechanism delineates the documentary and physical aspects of clearance, thereby shortening the duration of the whole process to same-day clearance.

**Planned Introduction of Risk Management.** CCA is considering the introduction of risk management in relation to its control of goods entering or passing through national borders. It is recognized that Customs needs to retain appropriate levels of control with limited resources. The use of risk management methodologies will be used to (i) determine threats and risks to customs control arising in the process of customs clearance; (ii) identify ways of minimizing such risks; (iii) develop techniques for evaluating the efficiency of customs control of high-risk goods; (iv) specify actions to be taken in relation to goods and vehicles passing through national customs borders; (v) use customs inspection selectively and rationally; and (vi) respond to the needs of the trade and transport community, while exercising effective control. The introduction of risk management will ultimately reduce delays at the border and clearance points by reducing the overall examination levels, particularly in relation to low risk shipments.

## **2. Facilitating Transit Trade of Neighboring Countries**

The CCA recognize the importance of transit movements both internally between the border and the point of clearance and external transit movements across countries. Such external transits are important, as Kazakhstan is located on the main transit corridors between northwest Europe and Russia and the Kyrgyz Republic, Tajikistan and Uzbekistan handling a major portion of their trade movements.

**Installation of SafeTIR.** For goods shipped under TIR Carnet<sup>2</sup>, the SafeTIR<sup>3</sup> system provides electronic notification of the completion of the transit. Computer hardware has been installed at both the CCA headquarters and regional customs offices and SafeTIR has now been implemented. It efficiently relays advance information about the completion of TIR transits to Kazakhstan back to the database administered by the International Road Union to indicate safe arrival and is then relayed on to the transport association in the country where the transit commenced. In addition, it allows a prompt response to unexpected delays of vehicles crossing the borders under the TIR Carnet.

**Preferential Customs System Project.** To simplify customs formalities for goods in transit by rail, the CCA in conjunction with the Association of National Freight Forwarders of Kazakhstan (ANFK) is in the process of developing the Preferential Customs System Project. This is a transit guarantee system similar to the TIR Convention, under which the ANFK guarantees the payment of customs charges and taxes, and takes responsibility for the non-delivery of goods to the customs at destination. This will facilitate rail movements through the borders and for transit shipments by rail through to neighboring countries.

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<sup>2</sup> The most important international convention for transit by road is the Transport International Routiers (International Road Transport) Agreement, or TIR Agreement, concluded in 1949, that provided a guarantee system that would cover the duties and other charges at risk on goods moving in the course of international trade. Its success led to the creation of the Customs Convention on the International Transport of Goods under cover of TIR Carnets, also known as the TIR Convention that entered into force in 1960. The TIR Carnet is an international Customs document and forms the administrative backbone of the TIR Transit System and provides proof of an international guarantee in relation to a movement.

<sup>3</sup> SafeTIR is the computerized control system for TIR, managed by the International Road Transport Union (IRU) that records the issuing of the Carnets to national associations and individual operators. Its primary function is to advise the TIR system via an electronic message from the customs at the final office of discharge confirming that the goods have completed the arrival procedures, thus indicating that the guarantee is not at risk of being used for a claim. The guarantee is not finally released until the copies from the office of destination are linked to that of the office of departure – i.e. the release is still undertaken on a paper-based system. Both Customs and the national associations have access through the SafeTIR system to the database in relation to current or previous transit movements to/from their country. As indicated, this is not an online system and is based on messages from the offices of destination, with no messaging input from the border crossing.

**TC-SCAN System.** A static inspection and examination system called TC-SCAN has been installed at the border-crossing point shared with the People's Republic of China, with another to be installed at the Dostyk railway customs. TC-SCAN ensures compliance with customs requirements by scanning objects in transit. It displays, registers, and records details about the object, and processes, stores and communicates relevant information to the operator. It can be used to identify images and differentiate between organic materials and metal items. It allows containers to be inspected without being opened and expedites customs clearance, upgrades inspection efficiency, reduces the number of unregulated cargo delays, detects contraband, and generally improves the overall quality of customs control.

**Private-Public Partnership.** The development of a simplified customs transit system that ensures border security and timely delivery needs the full cooperation of the business community. CCA has signed agreements with trade associations to encourage self-compliance based on risk management principles. In addition, a concept paper on self-compliance for trade facilitation for the business community is being drafted.

CCA also interacts with other national law enforcement agencies. Cooperation with the customs authorities of the neighboring countries is necessary for obtaining information on goods in transit, as well as on bilateral trade. CCA is an active partner in all initiatives designed to enhance regional cooperation among customs administrations.

**Development of Simplified Transit Systems.** CCA is committed to development of transit systems in the Region. In March 2004 an intergovernmental agreement on transit of goods by road was signed with the Kyrgyz Republic. This ensures the movement of goods to and from Kyrgyzstan without escort or a deposit by having a guarantee mechanism covering the liability of customs payments in the event of a non-completed transit.

A regional system of guarantees is imperative, since it is the only way for a system of regional transit system to operate efficiently. CCA is consulting with concerned parties such as banks, insurance companies, customs brokers, national chambers of commerce, and transport associations with a view to addressing this issue and sharing experiences in the region.

### **3. Development of Automated Customs Clearance and Border Infrastructure**

**Customs Automated Information System (CAIS).** Automation is at the heart of reform and modernization initiatives, given that minimization of manual operations at various stages of customs control is the crucial element in simplifying customs procedures. Thus, the Customs Automated Information System (CAIS) is considered to be a key management tool for customs administration. It was introduced in 1997 to automate operations at headquarters, regional departments and customs border points. In general, it performs the following tasks:

- (i) Automation of customs clearance and control processes;
- (ii) Provision of management information for decision making;
- (iii) Collection and processing of statistical data on international trade; and
- (iv) Exchange of information with relevant agencies and customs of neighbouring countries.

The system consists of (i) a corporate data transmission network (DTN) or communication infrastructure and (ii) an information management system,<sup>4</sup> CAIS is being continuously developed and upgraded with recent developments including the following:

- (i) Preparation of a new legal framework for the application of electronic format and filing of customs documents;
- (ii) Establishment of a standardized information environment for public authorities to be implemented under the uniform Electronic Documents Circulation Information System (EDCIS) at the CCA;
- (iii) Exchange of data on exports and imports to 4- and 6-digit goods nomenclature level;
- (iv) Development of a corporate television studio. To date eleven lectures of central cabinet officials have been broadcast, as well as 2 live broadcasts of CCA conferences. The corporate telecasts at the CCA channel can be done in an interactive mode; and
- (v) Establishment of the CCA website [www.customs.kz](http://www.customs.kz) providing information on CCA organisation, legislation, exchange rates, press service, question and answer, and links to relevant agencies. Presently the website is only in Russian, but will be translated into Kazakh and English in 2004.

Automation has enabled CCA to accelerate the customs clearance process, simplify border-crossing procedures, collect customs duties promptly, compile complete and authentic customs information, and contribute to greater efficiency and transparency of services. It has also improved the quality of data and is a crucial tool for CCA to undertake its responsibility as the official source of the country's trade statistics. In view of evolving nature of the customs code, expanded exchange of information and agreements with other agencies and countries, and rapid advance of information and communications technology, there are plans to upgrade and expand the CAIS to adapt these changes. For 2004 the main objectives are to (i) modernize the system and technical platform, and (ii) modernize applied software and implement new information technologies. The application of these additional components should further ensure a higher quality of customs services.

**Customs Statistics.** One of the new important functions of CCA is to be the repository and processor of the data of all ministries or agencies dealing with foreign trade. CCA will thus independently compile, process, and publish official statistics on foreign trade from 2004 onwards, taking over the function previously performed by the Kazakh Statistics Agency. CCA is already modernizing this function in order to (i) reduce time for analytical tasks, increase flexibility during analysis, and improve the quality of analysis; (ii) provide prompt and reliable data to management for decision-making; (iii) provide access via Internet/Intranet to trade statistics from the CCA website; (iv) enhance efficiency and raise the quality of quarterly bulletins and annual reports on trade; and (v) eliminate routine and labour-intensive data preparation and control tasks.

**Automated Logistics Control System (ALCS).** The ALCS will be installed and put in operation on the major cargo routes within the year. A distinctive feature of the system is the integration of technology and customs control, such as transport tracking and radiation control, to maximise the reliability of information and minimise human involvement. This system has the following capabilities:

- (i) video-recording and video-supervision of vehicles and containers;

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<sup>4</sup> Technical details are described in the Annex.

- (ii) identification of vehicle license-plate numbers;
- (iii) classification of vehicles based on weight and size;
- (iv) communication of information to the data acquisition center and to the customs authorities at the destination;
- (v) electronic sealing of containers/vehicles;
- (vi) vehicle positioning and tracking; and
- (vii) recording/reading, storing and processing information.

Equipping customs authorities with the ALCS will allow CCA to: (i) have complete information on goods and vehicles crossing the customs border at any time; (ii) exercise on-line control, including visual, over the movement of goods through the customs border and across national territory; (iii) ensure the safe delivery of goods to the customs authorities at the destination; (iv) exclude potentially "false transit" goods; and (v) minimize manual intervention in carrying out customs control and optimize the deployment of customs staff at border-crossing points. ALCS will thus enable CCA to carry out online centralised monitoring of goods and vehicles in transit in combination with the CAIS data. This will reduce the time spent on physical examination and improve traffic-handling capacity at the checkpoints. Finally, it will strengthen CCA control over vehicles exceeding prescribed sizes and axle loads and allow it to intercept prohibited imports. In 2004 ALCS will be installed and implemented at the Korgas (Kazakh-PRC border), Kordai (Kazakh-Kyrgyz border), and Gani Muratbaev (Kazakh-Uzbek border) checkpoints to enhance effective control over transit goods.

**Electronic Customs (e-Customs).** The long-term goal is to establish an electronic customs information system or e-Customs, covering three areas: (i) implementation of a uniform customs information environment on customs services; (ii) provision of web-based services to clients and other participants; and (iii) electronic declaration of goods.

E-Customs will allow the use and transmission of electronic documents for registration and clearance. The advantages of e-Customs include: (i) opportunities for economic entities in the country to conduct their business at any location using free software, thus reducing the entry barriers to business, particularly for small and medium-sized enterprises; (ii) reduced customs clearance time, through a "check on-site", allowing business entities to effectively integrate with customs; and (c) transition to a paperless declaration system using electronic digital signatures.

**Development of Joint Border Controls.** Joint control of border processing means the concentration of actions performed by the two countries' frontier agencies at a single point for each direction. By establishing joint border processing, customs procedures can be drastically simplified and processing time can be reduced by avoiding the repetition of similar operations on both sides of the border. The Kyrgyz Republic and Kazakhstan have entered into an agreement on joint control at the Kordai-Akzhol in July 2004 on a pilot basis. CCA has also developed a data exchange agreement with PRC at the Korgas-Horgos border. The bi-monthly data exchange allows analysis of identified contraventions so that remedial measures can be taken to decrease the number of such discrepancies. In addition, at a meeting between the RK and PRC border agencies in November 2003, attention was focused on the issue of information sharing for bilateral trade and on the countries' respective laws. The parties have agreed to create an information platform for exchange of customs data.

## TECHNICAL ANNEX

### Customs Automated Information System of the Customs Control Agency

The CAIS Project commenced in 1997 and up to 1999 was developed by private firms funded by the national budget, after which it was handed over to the CCA. Given the technical complexity and the scope of CAIS, the development of applied software for the second stage of CAIS-2 will continue during 2004 to 2005. Terms of Reference have been approved, as well as separate terms for the design of new applied software components. To maintain the applied software (i.e. ARM Universal) and to improve the reliability of data, the regional departments were given an additional software module for formatting and control of both the working and archive database of customs declarations. Data is being processed to implement the protocols of information exchange on: (a) goods transiting from third countries via Kazakhstan and the Russian Federation, (b) movement of goods between Kazakhstan and the Russian Federation, (c) goods transiting by road through Kazakhstan and Uzbekistan.

**Communication Infrastructure.** The data transmission network (DTN) was initially conceived on the basis of satellite communication channels in order to establish nationwide coverage, considering the uneven customs infrastructure among regional offices and the remoteness of some customs posts. However, the original plan of installing satellite communication stations in all customs units irrespective of location was revised in 2001, when communication channels were rented from service providers instead. At present the CAIS components include a corporate DTN of 88 satellite stations, 40 radio-modems, over 1000 routers, 3 optical communication lines, 112 UNIX-servers, database management system (DBMS) Informix and over 2000 personal computers in the customs agencies. The corporate DTN functions reliably in transmitting data to all customs units.

**Management Information System.** One of the highest priorities of the CAIS project was to automate customs clearance and transmission of electronic customs documents to the central database at headquarters. Currently 16 regional customs control departments, 11 customs houses and 99 customs posts are linked. CCA receives about 1,350 cargo customs declarations daily and another 150 weekly from points not linked to the DTN. The main subsystems of the integrated ARM Universal software are now in operation, i.e. cargo customs declarations, customs value declarations, delivery control documents, and customs receipts are registered and processed in the customs documents database.

Recently software packages for Customs Receipts, Registration of Customs Value Adjustments and an Automated Workstation Customs Inspector have been implemented. The Foreign Trade Statistics module was introduced at CCA headquarters providing a daily summary report of the database of electronic copies of freight customs declarations.

**System Administration.** The Automation and Customs Statistics Department (ACSD) of the CCA is in charge of the CAIS. Aside from the administrative functions of coordinating all automation activities including methodology provision, ACSD undertakes the following:

- (i) Support and development of the CAIS technical platform and application software;
- (ii) Administration of key CAIS components, i.e. UNIX servers, DBMS Informix at the customs servers, corporate DTN, mail system and catalogue service, and customs database; and
- (iii) Information exchange with public authorities and customs services of other countries.

Contractors maintain the information system. On average the cost of maintaining the communication services, system and technical platform including DBMS Informix, hardware and software, amounts to about \$2 million annually.

**Customs Statistics.** The integrated system for external trade statistics is a continuation of the CAIS subsystem Customs Statistics. In 2003 a local software application was developed for CCA headquarters forming the statistical base from the archived freight customs declarations and regulation reports. The subsystem will be transformed into a web-based integrated system that will include: (i) a system of processing and formatting the customs statistics for publication, (ii) Internet access to the customs statistics; and (iii) a decision-making support system called Analytics that allows analysis of trade statistics. A database of cargo customs declarations and methodology information has already been developed.

**Future Development Plan.** The following are anticipated as future components of the CIAS and technical platform modernization:

- (i) Phased transition of regional departments from satellite channels to surface high-speed channels, allowing them to work online through improvements in the speed of data transmission;
- (ii) Back-up of the main management information system components to improve reliability and protect them from error;
- (iii) Use of licensed software and anti-virus software; and
- (iv) Replacement of old equipment of 5-6 year services, starting with the servers Sun Ultra-1, and Ultra-5.

The upgrading of CAIS software will be based on the approved terms of reference. The most important areas are the following:

- (i) Establishment of e-Customs to enable web-based declaration and comply with the uniform information environment program so as to involve participants in the customs registration process, i.e. declarants, forwarders, brokers, warehouses owners;
- (ii) Implementation of the trade statistics project, including analysis and provision of Internet access to the statistics; and
- (iii) Integration of the new Automated Logistics Control System (ALCS) into CAIS using special technical means.

The development and upgrades of the computers, servers, network infrastructure, and communication channels is expected to reduce administrative costs by an average of \$1 million annually.