



# **Fighting systematic smuggling: Customs reform in Ukraine**

# Smuggling creates macro-losses



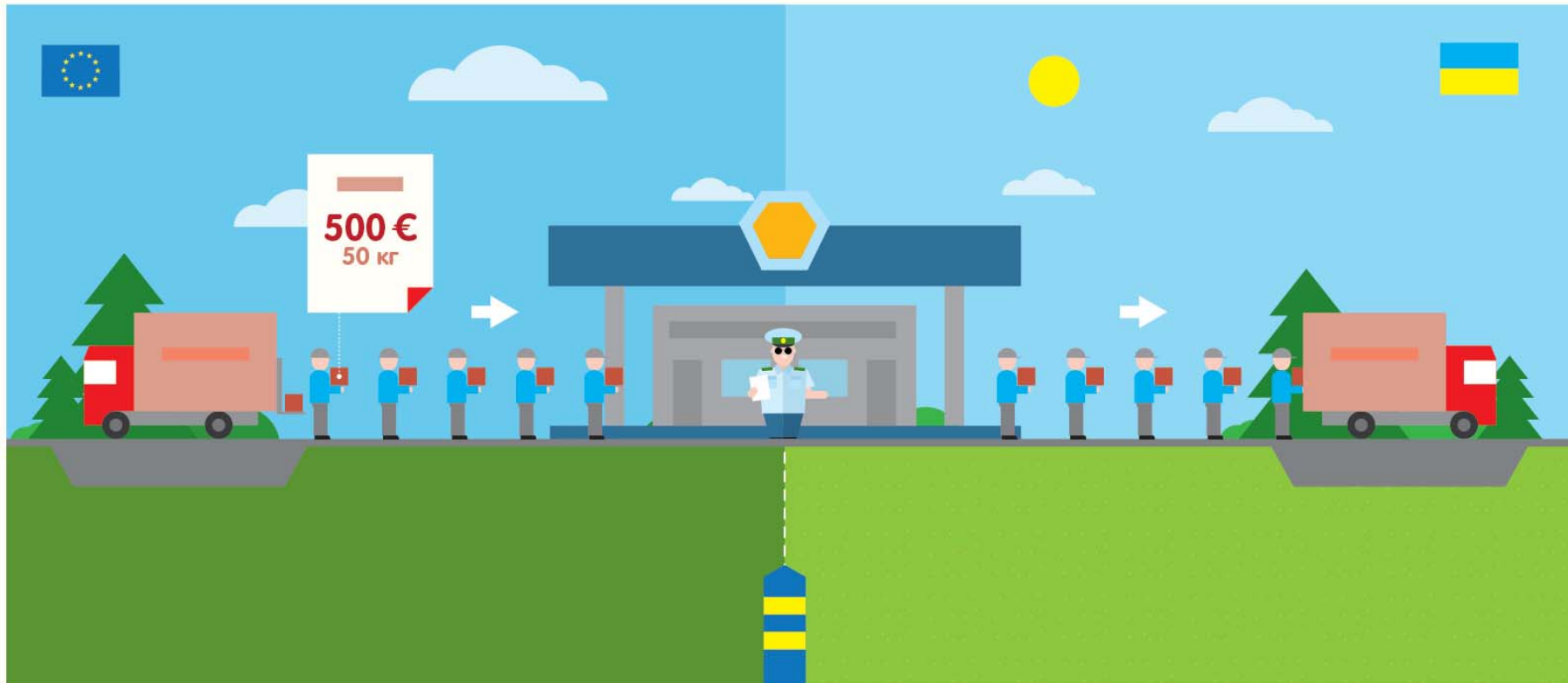
“...The budget has lost UAH 70 billion because of smuggling this year.”

Arsen Avakov, Interior Minister

Süddeutsche Zeitung, a German paper, writes that government losses from corruption in Ukraine’s customs service added up to about \$4.8 billion a year. Deutsche Welle reports that an investigation revealed that this corruption involves the police, the State Border Service, the Prosecutor General’s Office, and the SBU.

KyivPost

# Popular schemes: Pocket cargo

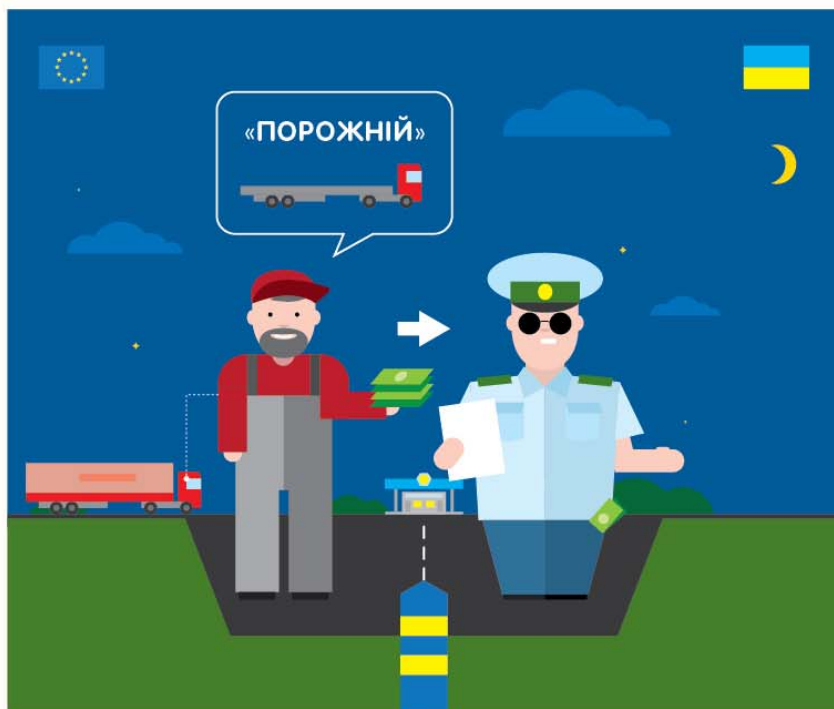


# Popular schemes: "Empty" trucks



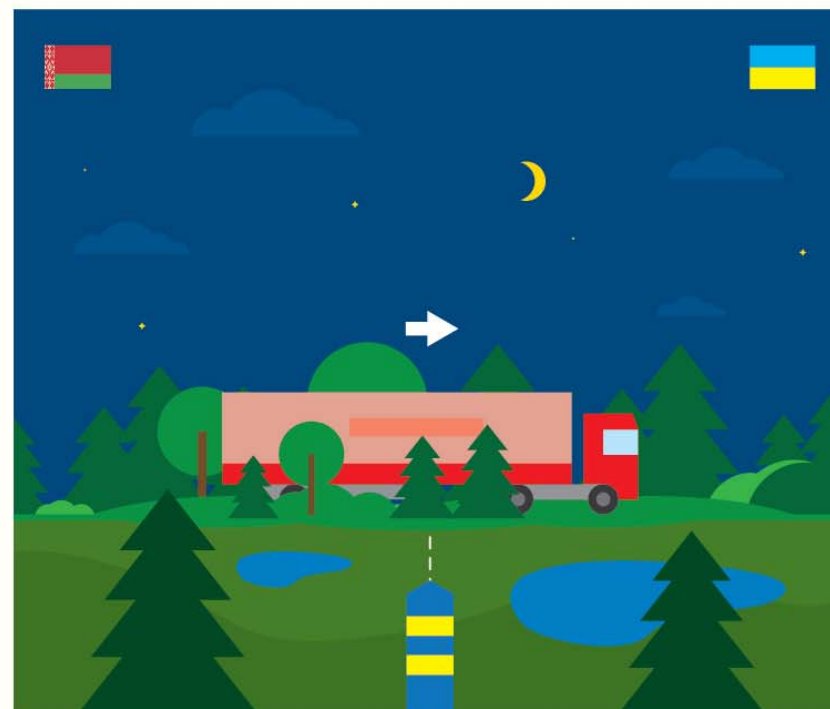
А

Коли в пункті пропуску транспортний засіб декларується як порожній

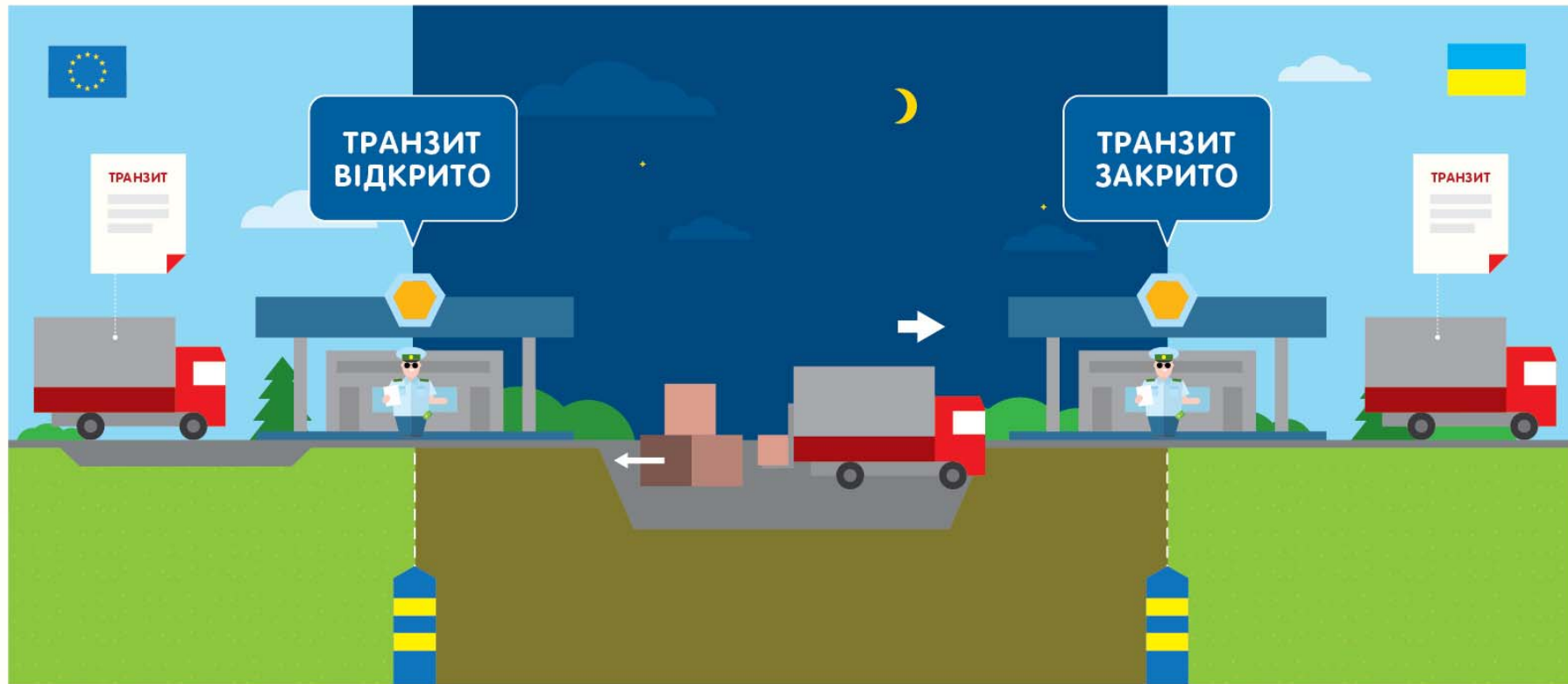


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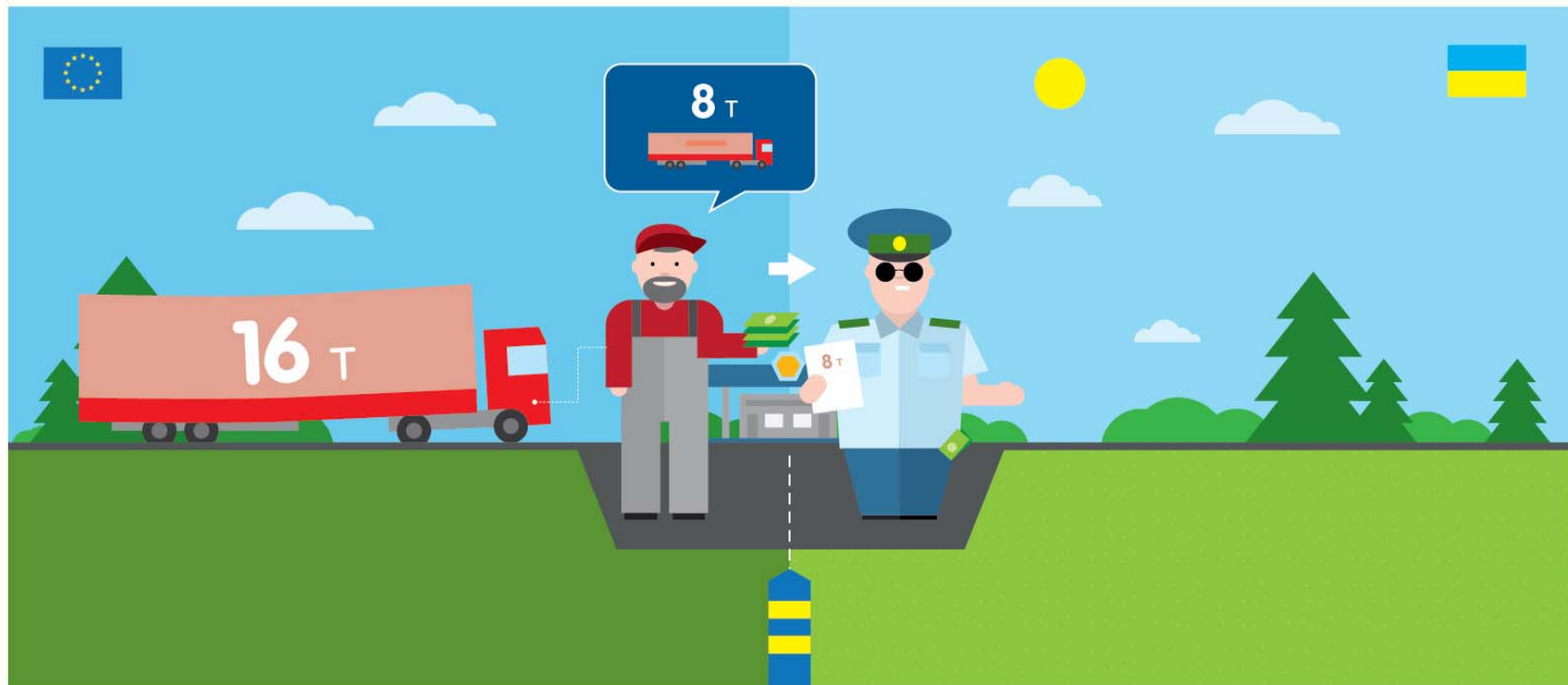
Коли вантаж ввозиться поза пунктами пропуску



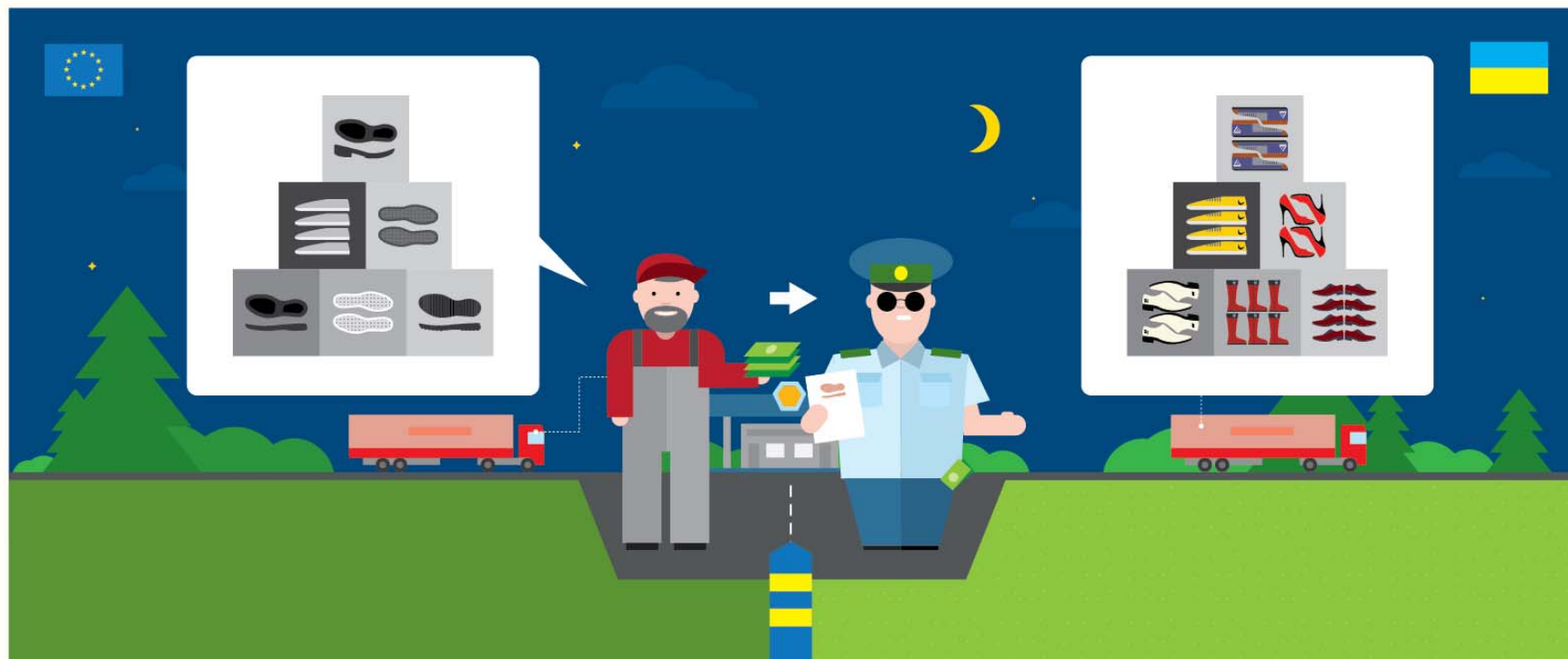
# Popular schemes: Faked transit



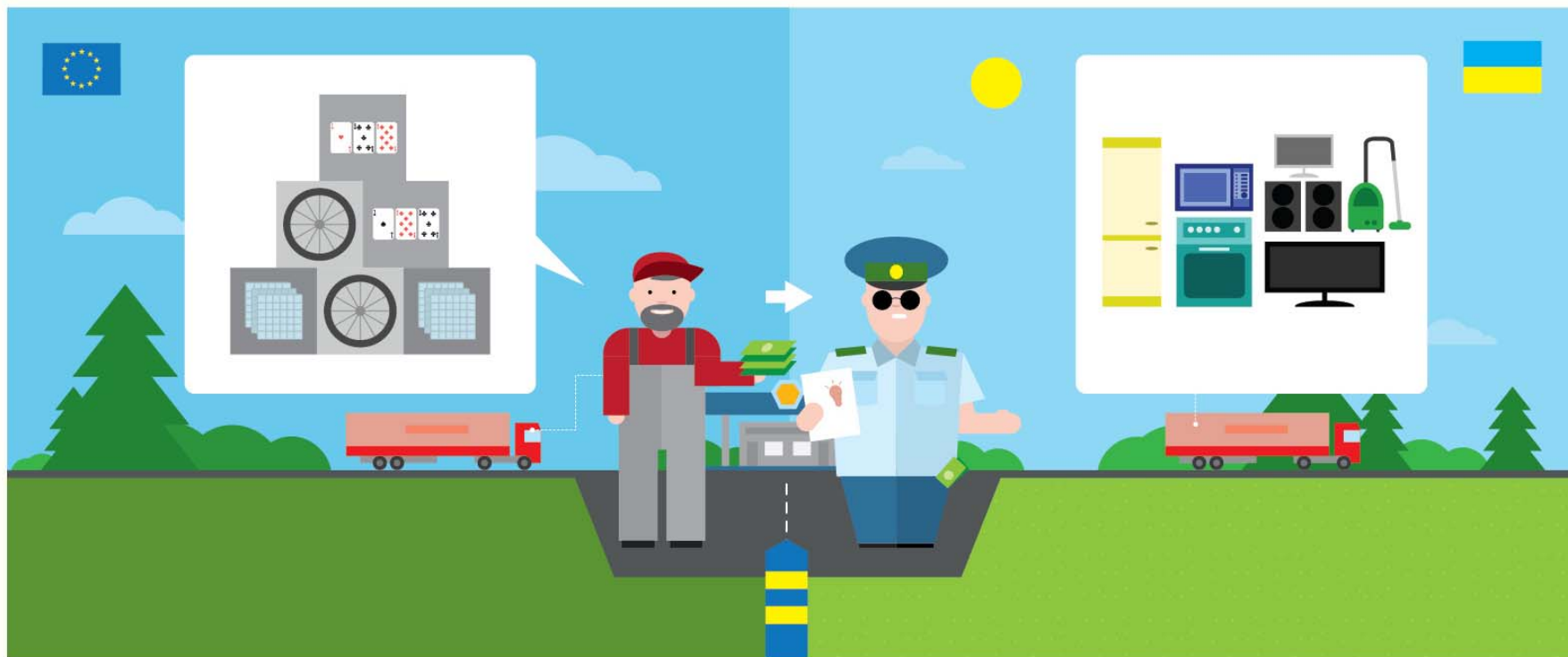
# Popular schemes: Faked weight



# Popular schemes: Disguising goods



# Popular schemes: Cover goods





# Popular schemes: Handy brokers



# How smuggling is being tackled



- Setting up “one-stop-shops” at customs points
- Institutional strengthening of customs points
- Criminalizing smuggling activities

But...



...inaccurate and incomplete information offers smugglers the most opportunities.

# The Seven Pillars of Smuggling



- Poor data sharing on movement of goods with other countries (except Moldova)
- Poor infrastructure at checkpoints and customs clearance sites
- Poorly organized border areas outside border crossing points
- Institutional weakness at customs service for countering the illegal flow of goods
- Collaboration between customs officers and smugglers
- Low salaries for customs officials and poor legal protection for whistleblowers
- Weak institutional capacity at the State Fiscal Service to supervise customs operations

# Near 1/3 of commodities “disappear” at the border



Year	Data from Poland on exports to Ukraine, '000 USD	Data from Ukraine on imports from Poland, '000 USD	Difference, '000 USD
2013	5,713,136	4,068,686	1,644,450
2014	4,210,127	3,070,820	1,139,307
2015	3,303,591	2,324,048	979,543
2016	3,834,132	2,693,327	1,140,805
2017	4,778,370	3,453,817	1,324,554

Lack of electronic data exchange offers huge opportunities for large-scale smuggling.

# Commitments under the Association agreement



**Under the EU-Ukraine Association Agreement, Ukraine committed to instituting the Union Customs Code within three years of the AA coming into effect (Annex XV).**

# Union Customs Code mandate



“...to develop, maintain and employ the electronic systems necessary to implement the Union Customs Code...” (p. 3, para. 6)

“...to establish ... the legal principle that all customs and trade transactions are to be handled electronically and that information and communication systems for customs operations are to offer, in each Member State, the same facilities to economic operators.” (p. 4, para. 17)

“... [harmonize] and [standardize] the application of customs controls by the Member States, to ensure an equivalent level of customs control throughout the Union so as not to give rise to anti-competitive behavior at the various Union entry and exit points” (p. 4, para. 19)

“For the exchange and storage of information, means other than the electronic data-processing techniques referred to in Article 6(1), may be used on a transitional basis, until December 31, 2020, at the latest, where the electronic systems that are necessary for the application of the provisions of the Code are not yet operational.” (p. 86, Title IX, Chapter 1, Art. 278)

**On the top of that...**



**Under the EU-Ukraine Association Agreement, Ukraine committed to setting up a common transit system within one year of the AA coming into effect (Annex XV).**

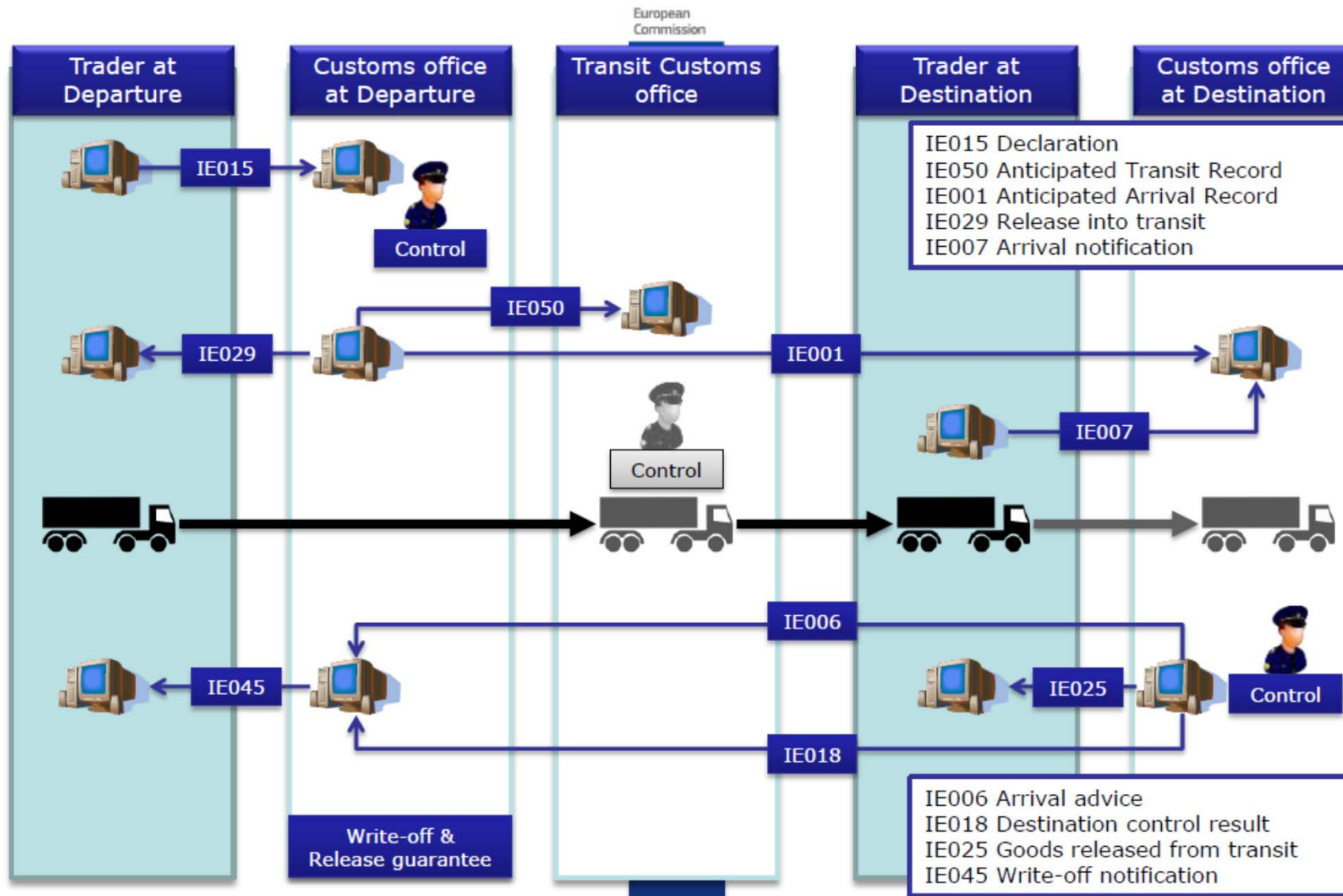


## The common transit system involves:



- 1) Establishing the NCTS or new computerized transit system, which provides for data exchange with trading partners in electronic form.
- 2) Guaranteeing management.
- 3) Establishing a customs declaration system based on the T1 unified transit document.
- 4) Setting up a transit simplification system.

# How the NCTS works



# Government moves



The Cabinet drafted a Bill “On Amendments to the Customs Code of Ukraine to bring transit procedures in line with the Convention on a Single Mode of Transit and the Convention on Facilitation of Trade in Goods.” (reg. # 5627, 29.12.2016).

The bill calls for:

- Establishing customs declarations that comply with EU requirements and apply to common transit procedures;
- Adapting the State Fiscal Service’s automated information system in line with NCTS requirements.

On May 15, 2018, the Verkhovna Rada failed to pass this bill.



*With the “one-stop-shop” at customs points and the criminalization of smuggling activities, customs reforms have been window-dressed for public consumption without real improvement.*

# Key steps to effective reform



**Step #1:** Establishing an electronic system for data exchange on the transit of goods between all customs authorities, transit participants and other participants in foreign economic activity by joining the Convention on a single transit regime.

**Step #2:** Instituting a single standardized document to be used for any import or export procedures and for a common transit procedure for trade between Contracting Parties, regardless of the type and origin of goods, by joining the Convention on Facilitation of Trade in Goods.



**Customs reform needs serious  
public awareness efforts among voters and a  
strong advocacy campaign**