

# TRADE FACILITATION IN UKRAINE: Smuggling and “Gray Imports”, Corruption at the Customs

according to the results of the fifth wave of the annual survey of  
Ukrainian exporters and importers

Project "Support to Public Initiative  
"For fair and transparent customs"

Kyiv 2020

# ABOUT THE PROJECT


**The overall goal of the project** is to increase the capacity of civil society to participate in economic policy development in Ukraine.

## **Expected results:**

- (1) strengthening the capacity and effectiveness of the initiative;
- (2) intensification of the political dialogue between civil society and the state on the implementation of customs reform



**Project implementation period:** 36 months, from January 1, 2020.

*With the financial support of the European Union, the Renaissance Foundation and the ATLAS Network (USA).*





The initiative is an informal network of CSOs from different regions of Ukraine that care about improving the business climate.


26 members as of September 2020



The activities of the initiative are aimed at monitoring the implementation of customs reform and promoting dialogue on the implementation of institutional reform of customs in accordance with the principles of good governance and the principles of free trade..



The public initiative was established in 2018 in the process of implementing the Trade Facilitation Dialogue project, which was implemented by the IER with the support of the EU and the Renaissance Foundation.



# Annual survey of Ukrainian exporters and importers: the basis of advocacy and analytical work of the Initiative

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The IER has developed and has been implementing since 2015 a special national policy monitoring and evaluation tool, Trade Facilitation Monitoring.

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It is a tool for measuring progress in facilitating and simplifying international trade and customs procedures, which is based on the assessments of the direct participants in the policy implementation process - business representatives.

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The monitoring is based on the results of the annual survey of 1000 exporting / importing enterprises throughout Ukraine.

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There were 5 annual surveys: 2015, 2016, 2017, 2018, 2020

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# 5th Annual Survey: Topics

How business evaluates the activities of customs authorities and customs reform

Quantitative and qualitative estimates of the cost and duration of FEA procedures

How business evaluates different customs procedures

Why are cargoes delayed during customs control?

Is it easy for companies to challenge the actions of washed bodies?

How the "one-stop window" and electronic document management work

Which hinders importers and exporters

How the Association Agreements affected business activities

What is the role of business associations

Where companies get information

What do businesses think about "smuggling" and "gray imports"

What's with the corruption at the customs

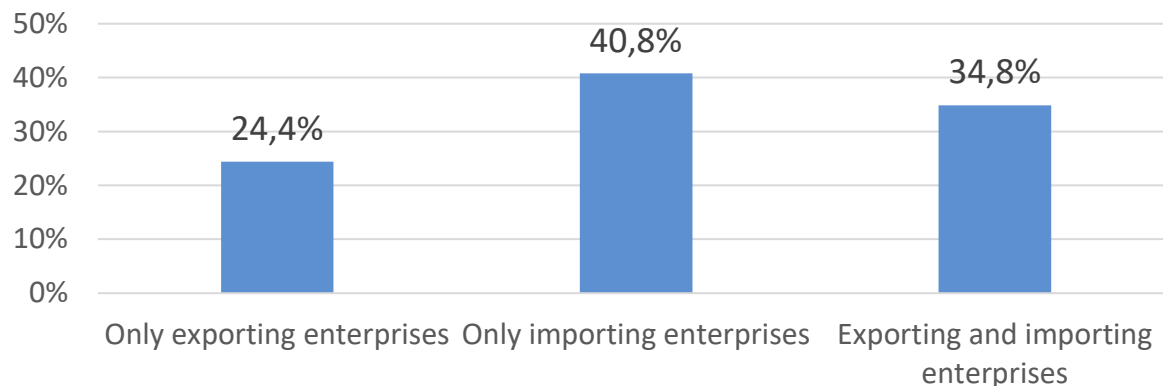
# WHO WAS INTERVIEWED: SAMPLE

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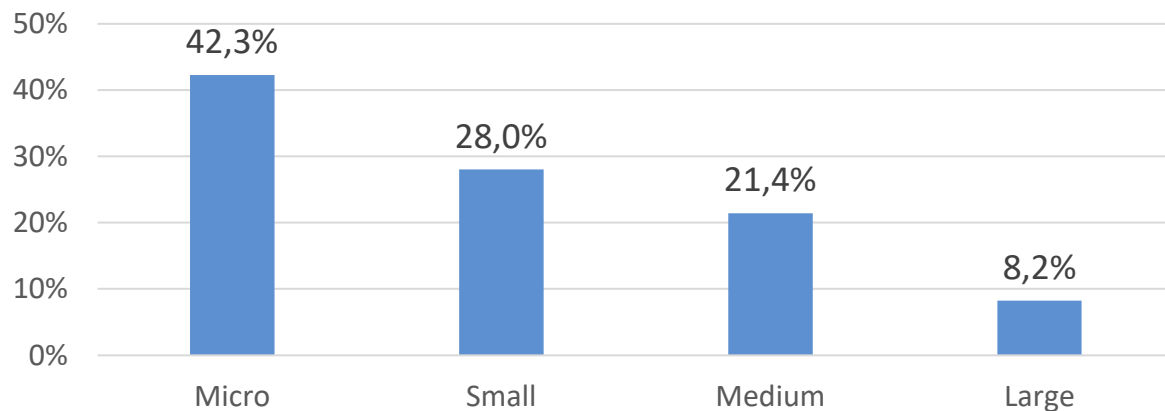
# Sampling: what are the surveyed companies

Enterprises by type of foreign trade, %

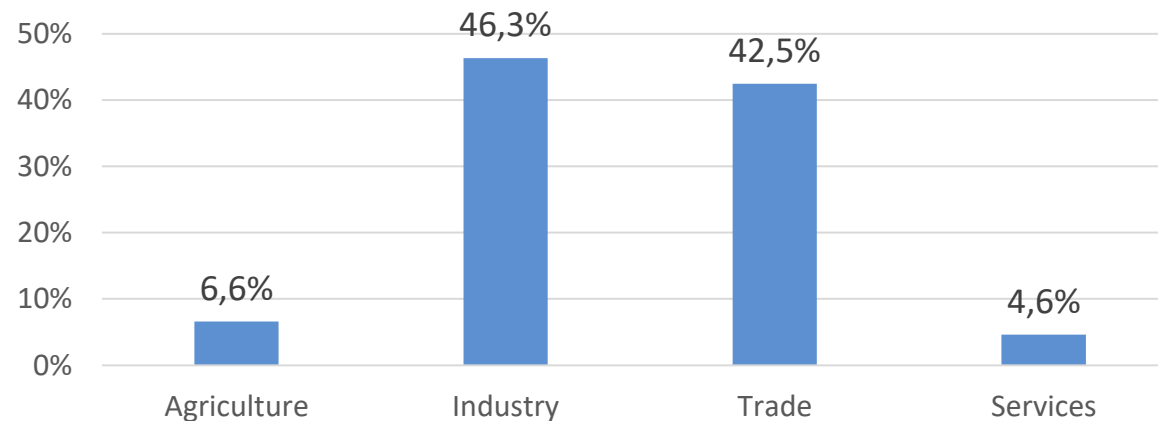


- **1000+ surveyed** representatives of enterprises engaged in export and / or import
- Business of all **sizes** was surveyed: from micro-enterprises to large enterprises. The majority were micro and small enterprises
- Most of the respondents are representatives of **industry and trade**

Enterprises by size, %



Enterprises by sector, %



# WHY WE SHOULD TALK ABOUT “GRAY IMPORTS” AND CORRUPTION AT THE CUSTOMS

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# "Gray imports" and corruption are topical issues

- “Gray imports” are goods imported **in violation of customs regulations**, including without taxation
- This problem is relevant **for business**, because it creates unequal conditions for competition
- This is also an important problem **for the state**, since in case of “gray imports”, no customs duties are received
- **Corruption at the customs** is a problem that is being discussed by the business community and the government alike.
- Preventing and combating corruption is one of the **priority steps** of state strategic documents in Ukraine, such as the Anti-Corruption Strategy for 2020-2024 and the Plan for Improving the Efficiency of the Customs Service
- Today we will talk about :
  - **The prevalence** of "gray imports" and business views on how **to counter it**
  - Business views on **criminal liability** for smuggling
  - Various aspects and **manifestations of corruption**: the importance of informal relations with the authorities, corruption among the problems at the customs, the connection between **the assessment of corruption** and the **general assessment** of the work of customs



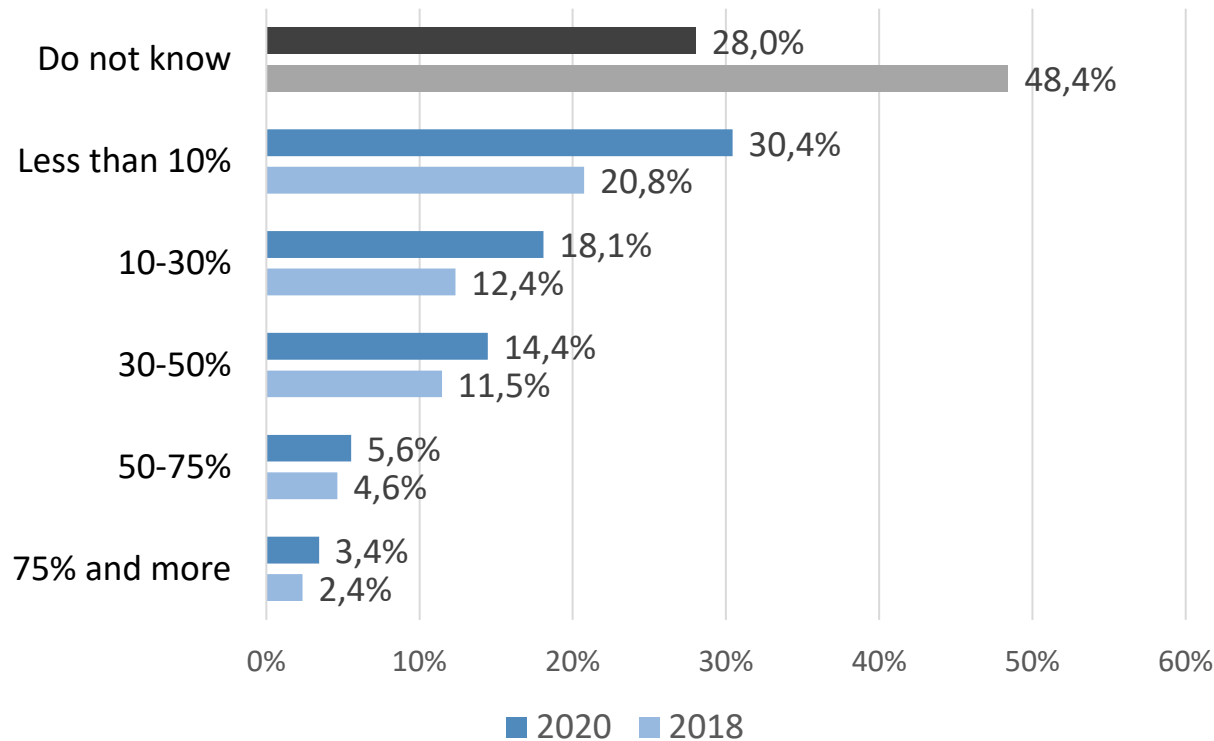
# "GRAY IMPORTS": PREVALENCE, COUNTERACTION

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# Estimation of the level of "gray imports"

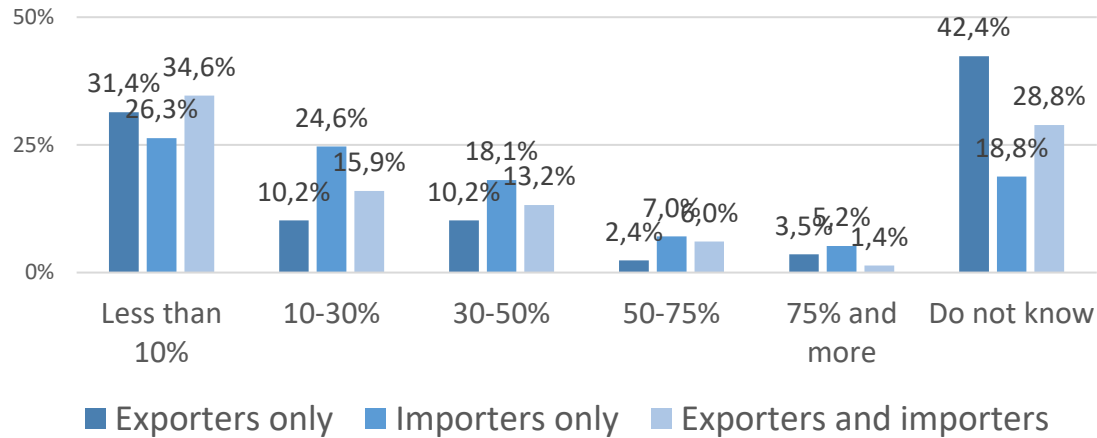
Assessment of the share of "gray imports" in their market, %



- Enterprises estimated **the presence of "gray imports"** in their industry market
- Almost a third of respondents estimate this share as **less than 10%**. Another third believe that the share of "gray imports" is **from 10% to 50%**
- Only 3.4% estimate the share of "gray imports" as higher than 75%
- On average, according to respondents, the level of "gray imports" in 2020 is 24.2% - almost as much as in 2018 (25.3%)
- Compared to 2018, **the share of enterprises that cannot estimate the share of "gray imports" in their market significantly decreased**

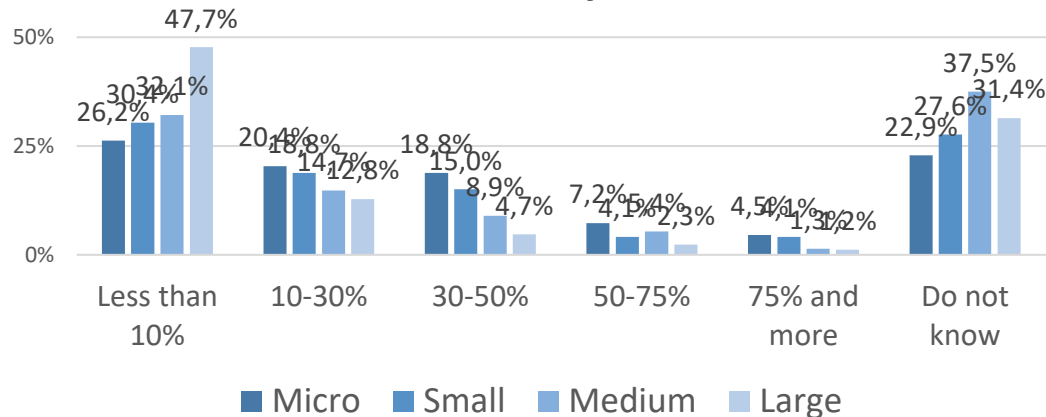
# Assessment of the level of "gray imports": groups

Assessment by type of foreign trade, %

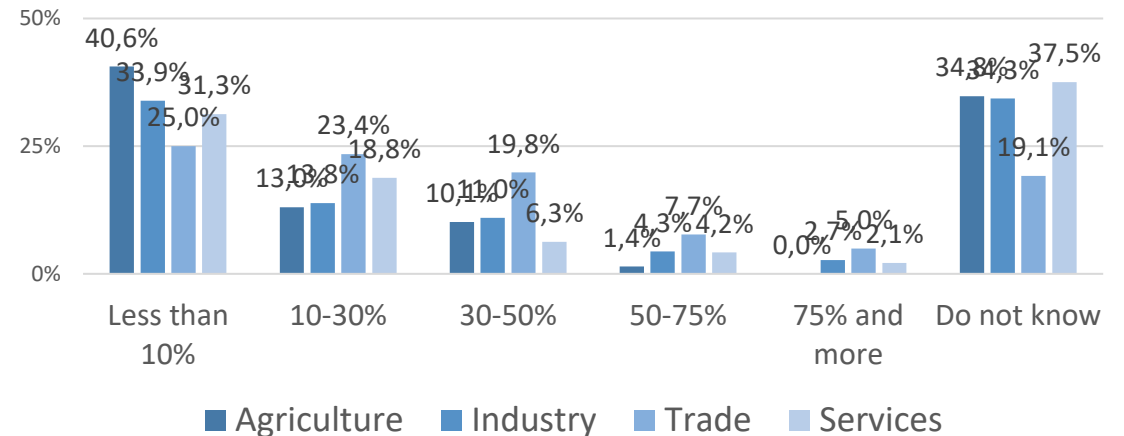


- **Only exporters** more often than others do not know what is the share of "gray imports" on their market
- **Large enterprises** consider the share of "gray imports" to be smaller than others
- In the field of **trade**, respondents are more likely than others to give an estimate about the share of "gray imports" and estimate its share as the largest (one in three believes that it exceeds 30%)

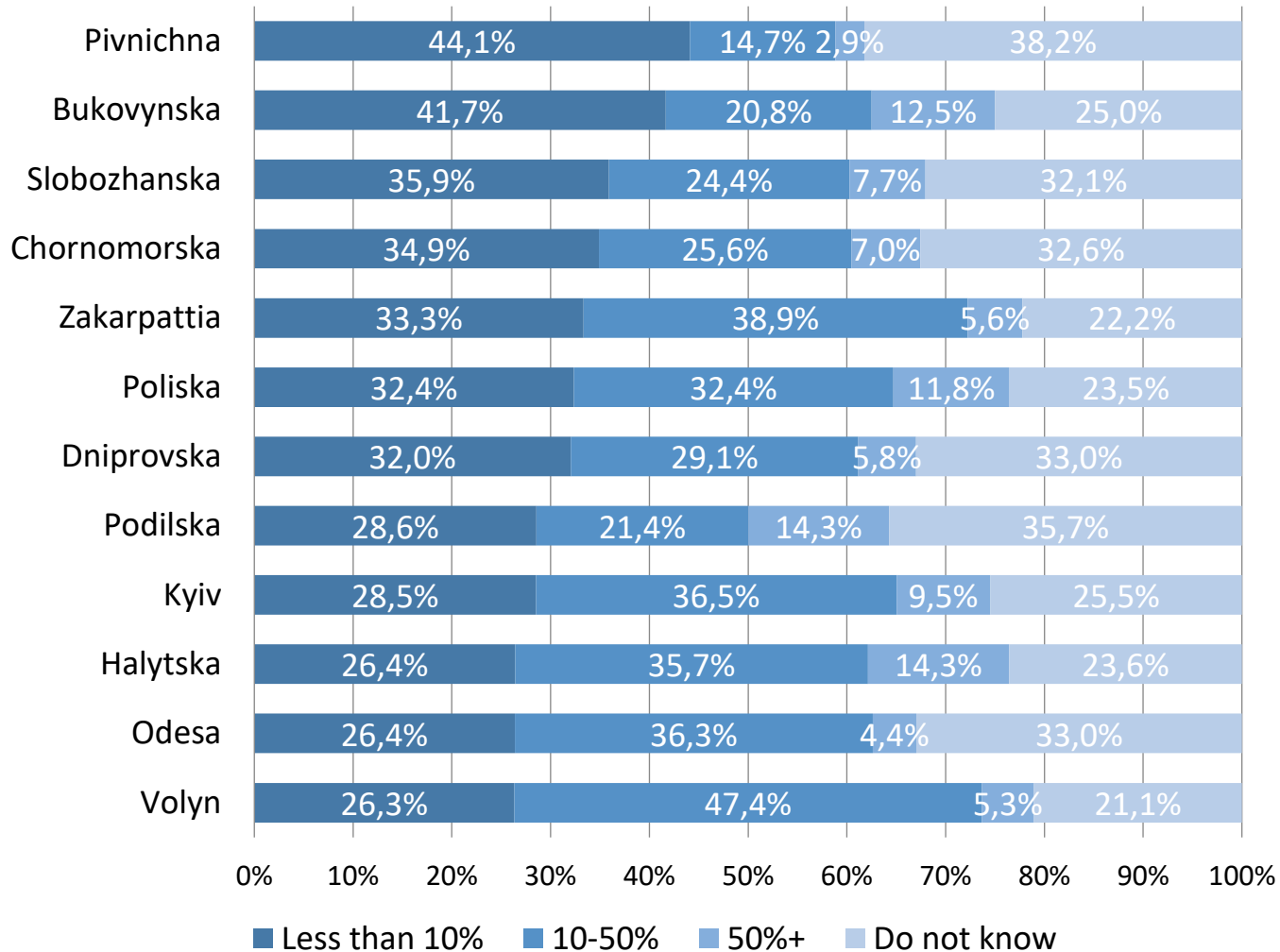
Assessment by size, %



Assessment by sector, %



# Assessment of the level of "gray imports" by customs office

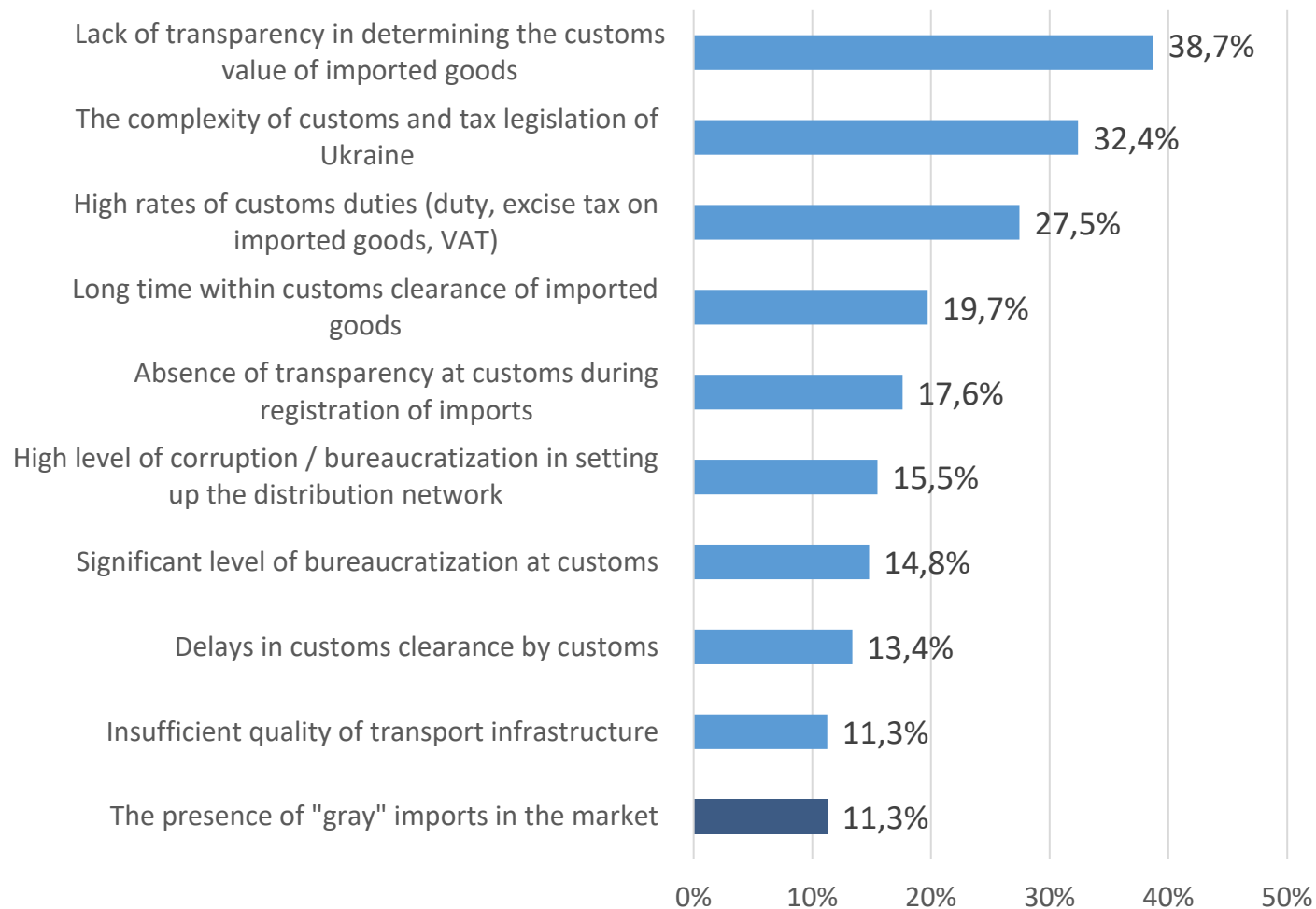


- Enterprises serviced at the Pivnichna and Bukovynska Customs Offices assess the level of "gray imports" as **the lowest**
- Every seventh enterprise among those that clear customs at Podilska and Halytska Customs Offices considers it to be **more than 50%**
- Enterprises at Volyn and Zakarpattia Customs Offices **more often** can assess the level of "gray imports"
- Enterprises in the Pivnichna and Podilska Customs Offices give these estimates **most rarely**

*The answers of the enterprises at the Azov and Skhidna Customs Offices are not taken into account in the analysis due to the insufficient number of respondents*

# Rating of obstacles at import

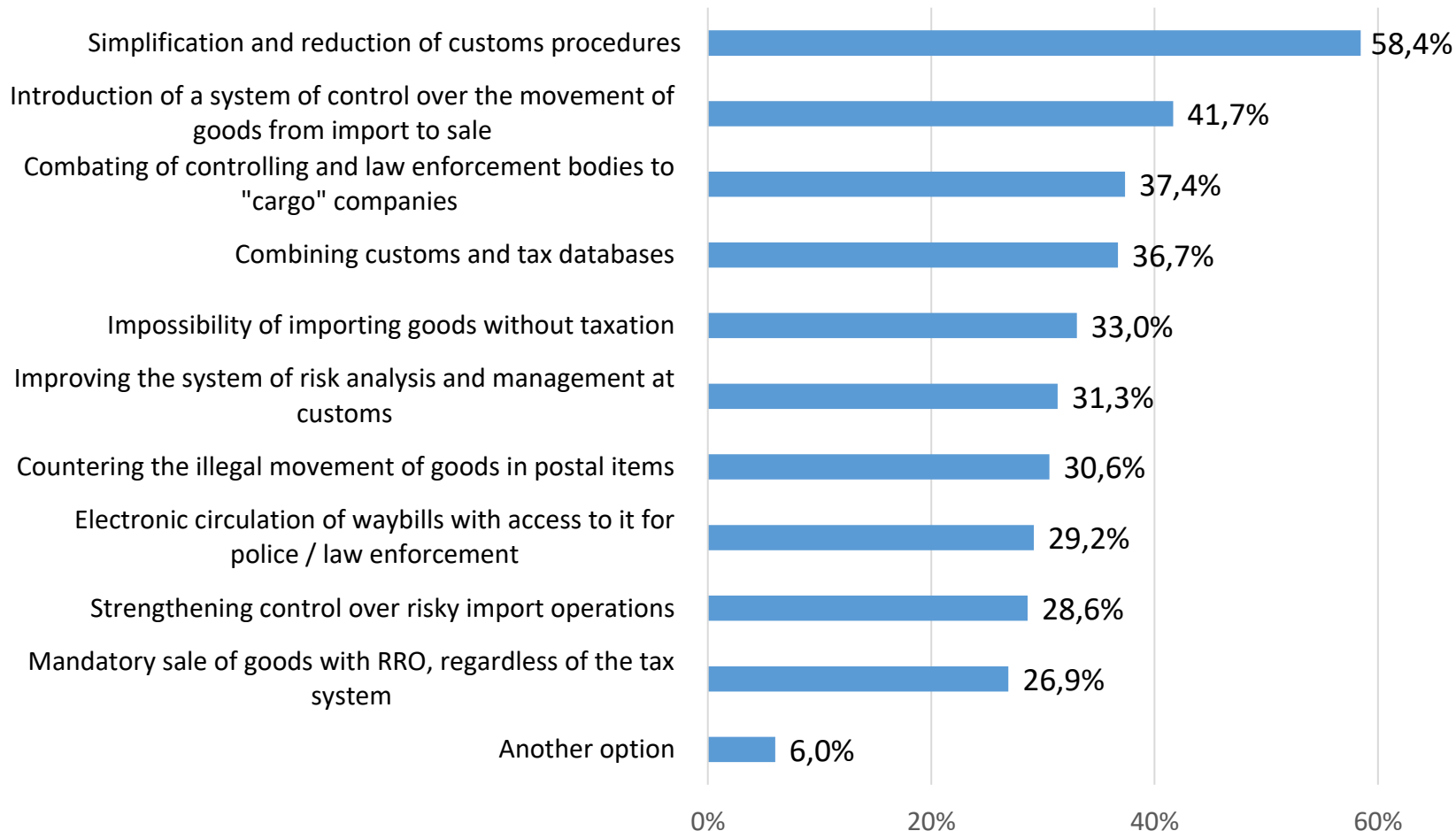
Barrier rating among importers who had barriers,%



- The problem of "gray imports" is **not one of the most acute problems** for importers
- In 2020, the top 3 problems were **the opacity of customs valuation, the complexity of customs and tax legislation, and high customs duties**
- In 2020, "gray imports" share **the 9<sup>th</sup> place** among the problems for importers along with the problem of poor infrastructure
- In 2018, this problem was also ranked **9<sup>th</sup>** in the ranking of problems **for importers**
- We can assume that the impact of this problem **has not changed** in 2 years

# How to counteract "gray imports"?

Measures that respondents propose to eliminate "gray imports" from their market, %

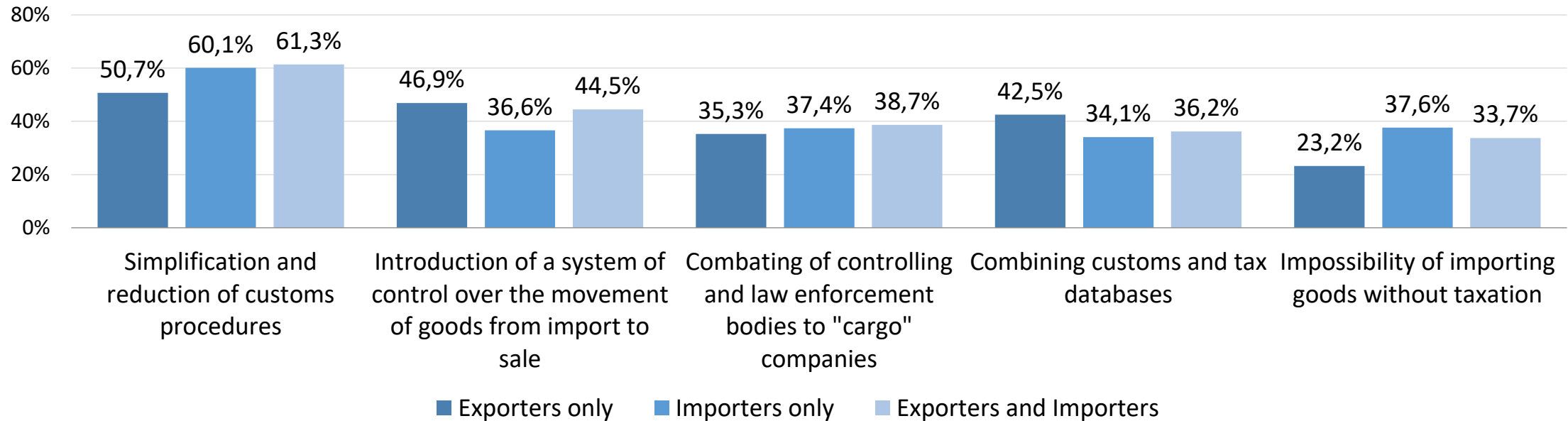


- **Simplification and reduction of customs procedures** is in the first place among the measures that should be taken to combat "gray imports", according to the respondents
- **Introduction of a system of control** over goods from import to sale is with a large gap in the 2nd place
- On the 3rd and 4th places are such measures as **counteraction to "cargo" companies** and **unification of customs and tax databases**

# How to counteract "gray imports"?

## Proposals by type of foreign trade

Distribution of top 5 suggestions for combating "gray imports" by type of foreign trade,%

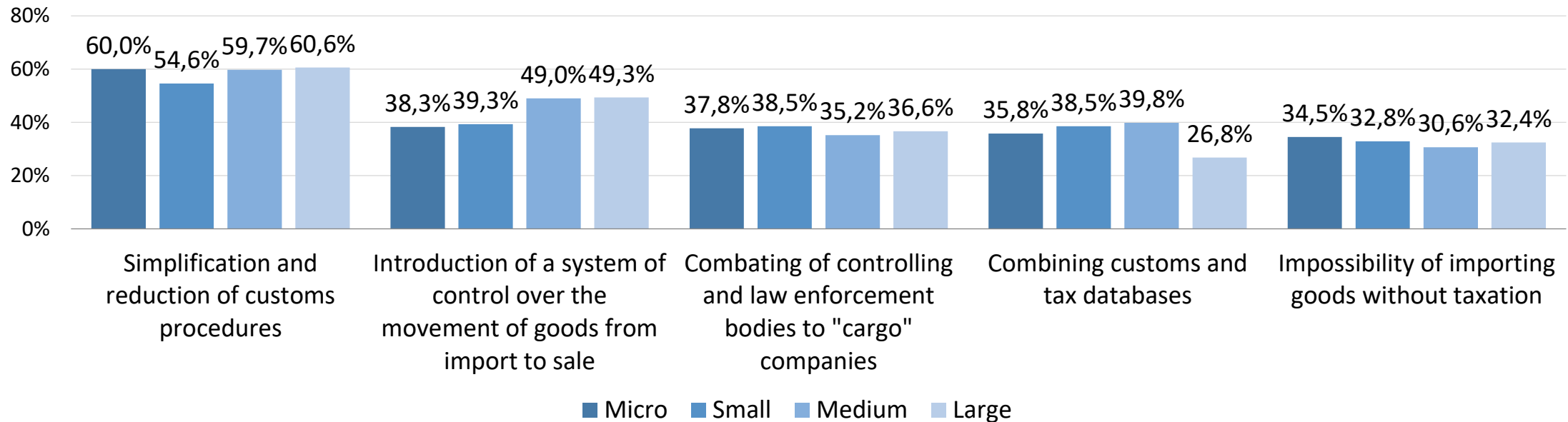


- For most of the measures that businesses offer to eliminate "gray imports" from the market, there are **no significant differences** between enterprises of different sizes, sectors and types of foreign trade
- **Importers** more than exclusively exporters support the simplification and reduction of customs procedures, but also the ban on the import of goods into Ukraine without taxation

# How to counteract "gray imports"?

## Proposals by size

Distribution of top 5 suggestions to combat "gray imports" by size, %



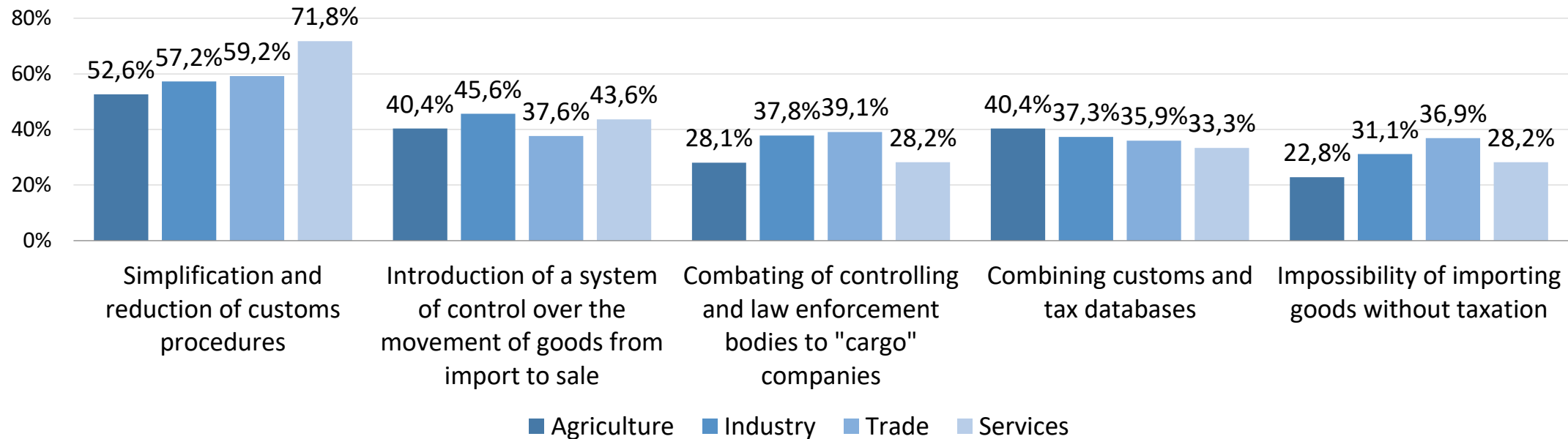
- **Medium and large** enterprises more than micro and small ones support the introduction of a system of control over the movement of goods from their imports to final sale



# How to counteract "gray imports"?

## Proposals by sector

Distribution of top 5 suggestions to combat "gray imports" by sector, %



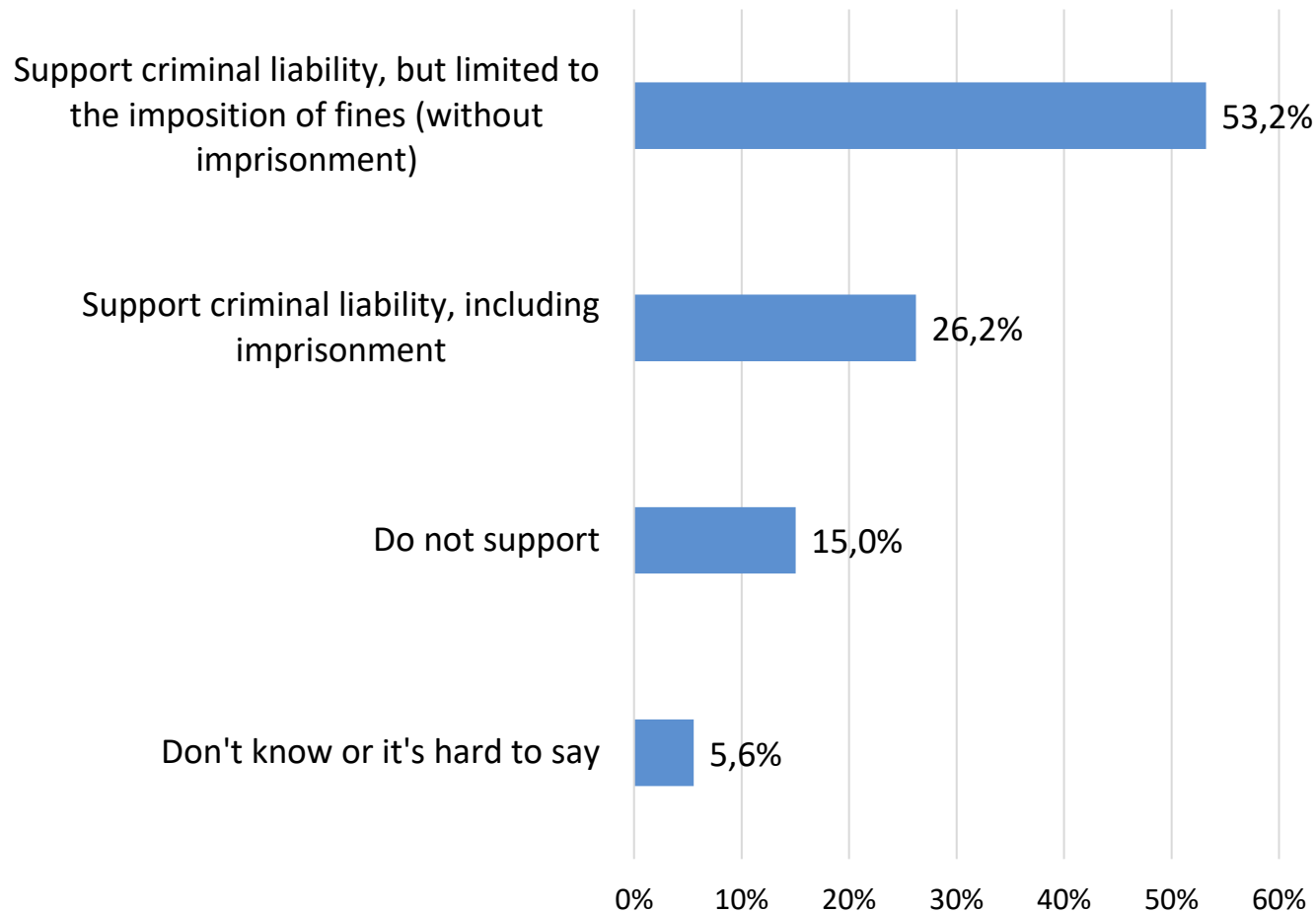
- In the **service sector**, simplification and reduction of customs procedures is proposed more often in order to combat "gray imports" than in other sectors

# CRIMINALIZATION OF SMUGGLING

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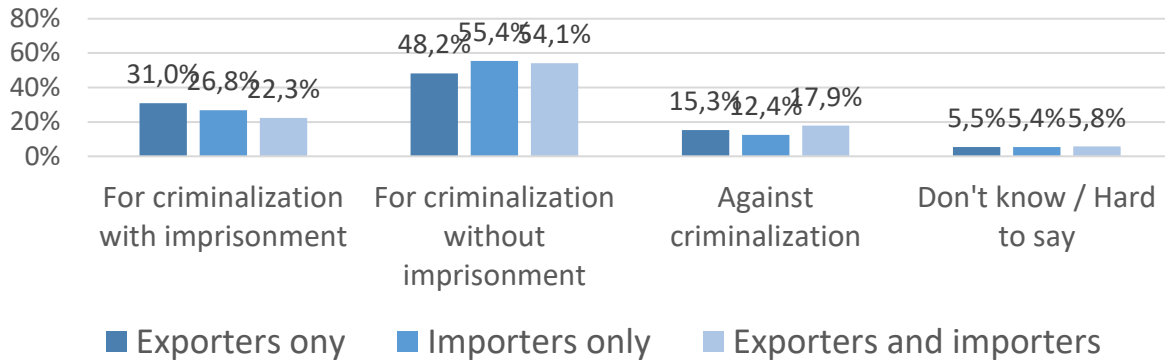
# Support for criminalization of smuggling of commercial goods



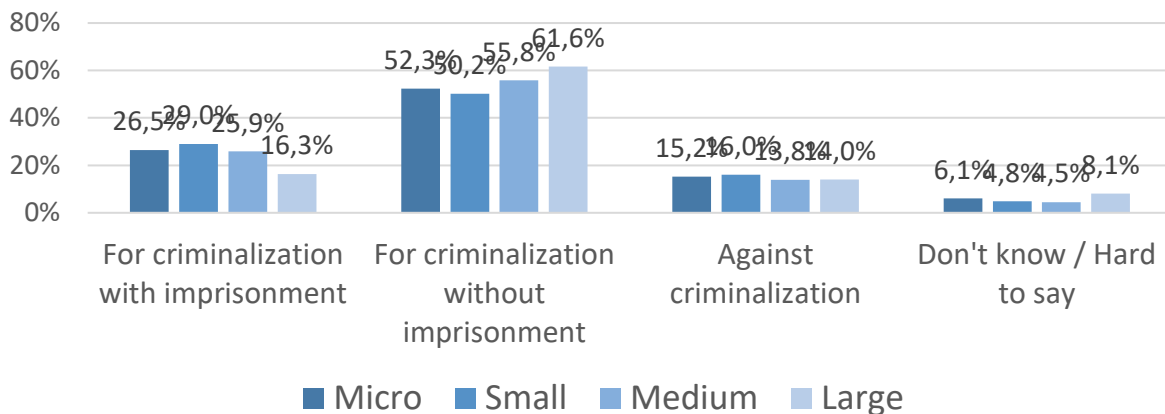
- Respondents most often support the criminalization of smuggling of commercial goods, but without imprisonment: more than 50%.
- Approximately one in four respondents believes that smuggling should be criminalized with imprisonment
- Only 15% **do not support** the criminalization of smuggling
- IER analyzes criminalization of smuggling in detail **in the policy paper "Is it necessary to criminalize commodity smuggling?"**, by A. Butin <http://tfdialogue.ier.com.ua/archives/3305>

# Support for the criminalization of smuggling of commercial goods: groups

Attitude to criminalization of smuggling by type of foreign trade,%

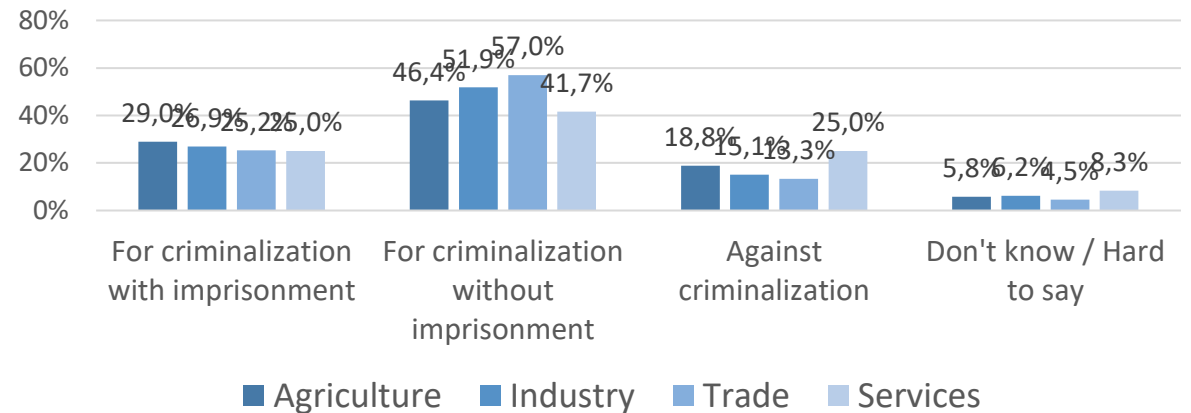


Attitude to criminalization of smuggling by size,%

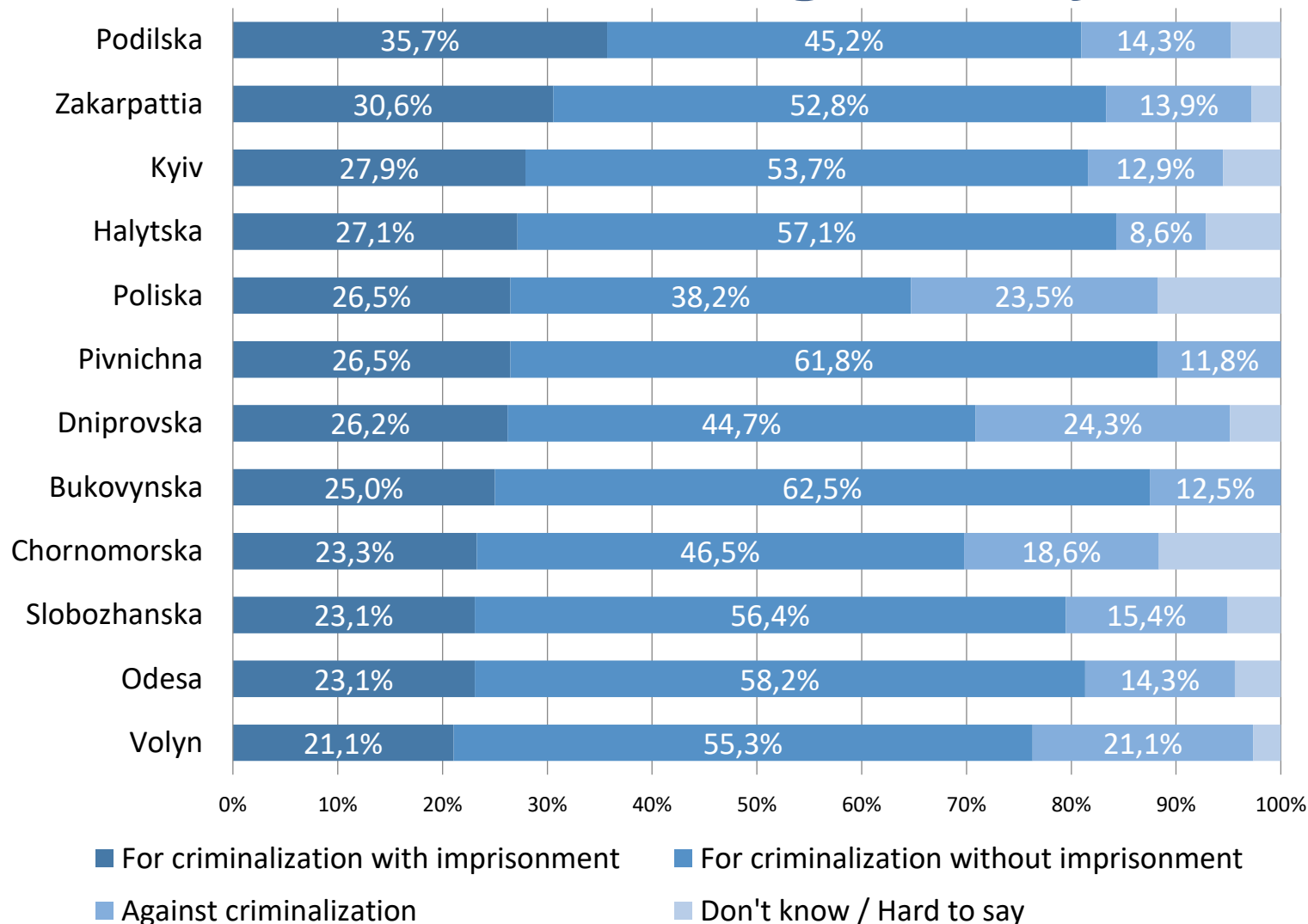


- **Exporters and importers** do not differ significantly in their attitudes towards the criminalization of unofficial imports of goods
- **Large enterprises** are less likely than others to support the criminalization of smuggling with imprisonment
- **In the service sector**, criminalization of smuggling is opposed most often compared to other sectors

Attitude to criminalization of smuggling by sector,%



# Support for criminalization of smuggling of commercial goods by customs office

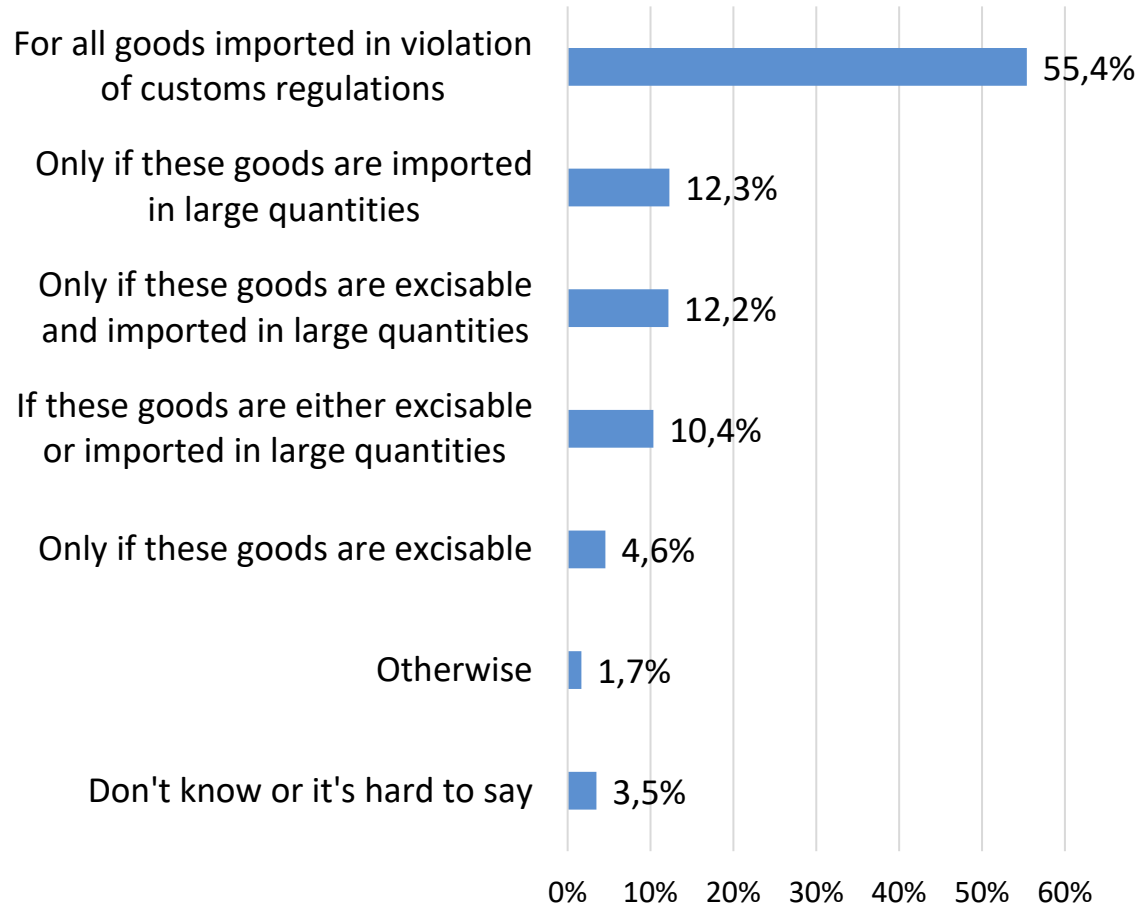


- Enterprises cleared through the customs at Podilska Customs Office **are most supportive** of the criminalization of smuggling **with criminal liability**
- Among the enterprises that clear customs at the Dniprovska and Poliska Customs Offices, the largest shares are those that **oppose criminalization** of smuggling

*The answers of the enterprises at the Azov and Skhidna Customs Offices are not taken into account in the analysis due to the insufficient number of respondents*

# In which cases should smuggling be criminalized?

Grounds for criminalization of smuggling,%



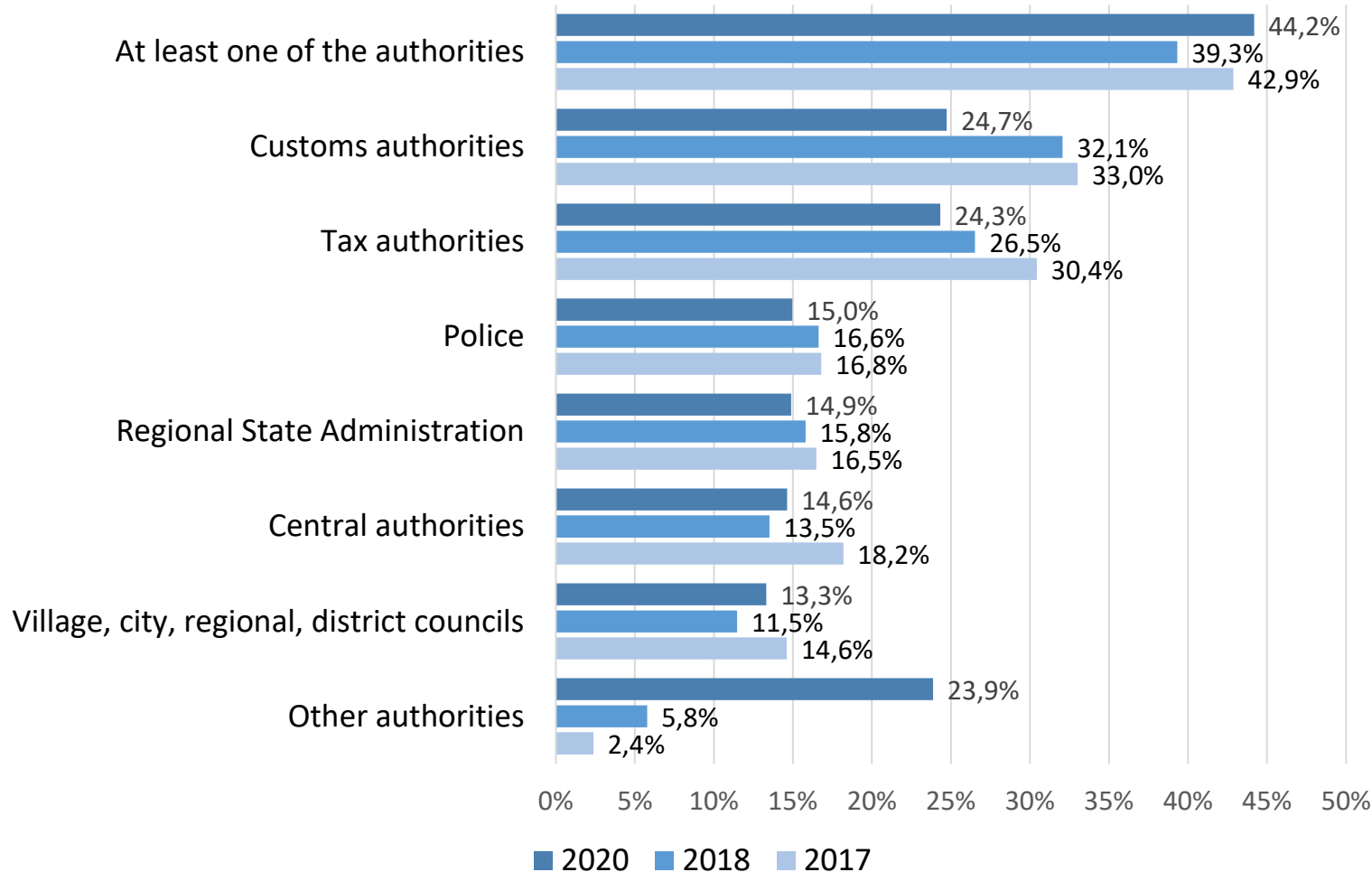
- More than half of respondents who support criminalization of smuggling believe that criminal liability should be introduced for the import of **all goods** with violations
- Every eighth respondent believes that smuggling should be criminalized **in large volumes** and as many respondents believe that imports only **in large volumes + excisable goods** should be criminalized
- **Exclusively importing enterprises** are less likely to support criminalization of all smuggling and are more often likely to support criminalization of only large-scale smuggling
- As the **size** of enterprises increases, their support for the criminalization of all smuggling increases, too
- Businesses that use the services of **Bukovynska** Customs Office most often support criminalization of all smuggling, and those that clear customs in **Volyn** Customs Office support criminalization of only smuggling in large volumes more often than others

# CORRUPTION: "IMPORTANT FRIENDS"

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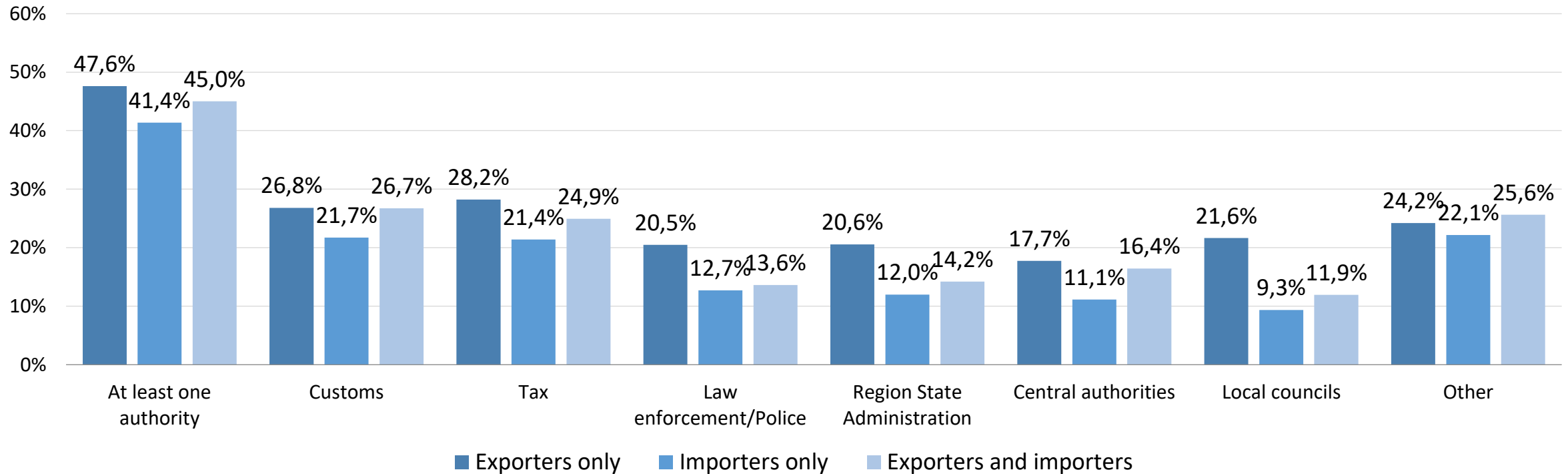
# The importance of informal relations with the authorities for doing business



- In 2020, **more than 44%** of respondents said that informal relationships with at least one government authority are important for business success
- This is **slightly more** than in 2018 (39.3%)
- Thus, **informal channels** of interaction with the government remain important for business
- As before, **the first two places** are occupied by customs and tax authorities
- However, the importance of informal relations with these authorities **has diminished**
- The importance of relations with other authorities **has increased**

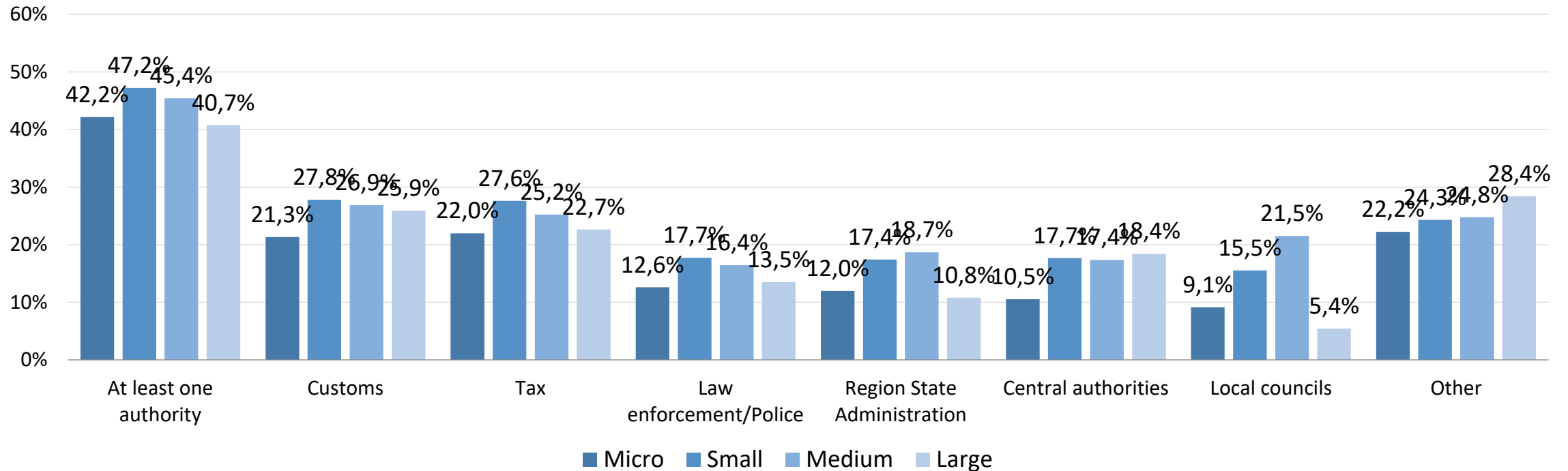


# The importance of informal relations with the authorities by type of foreign trade



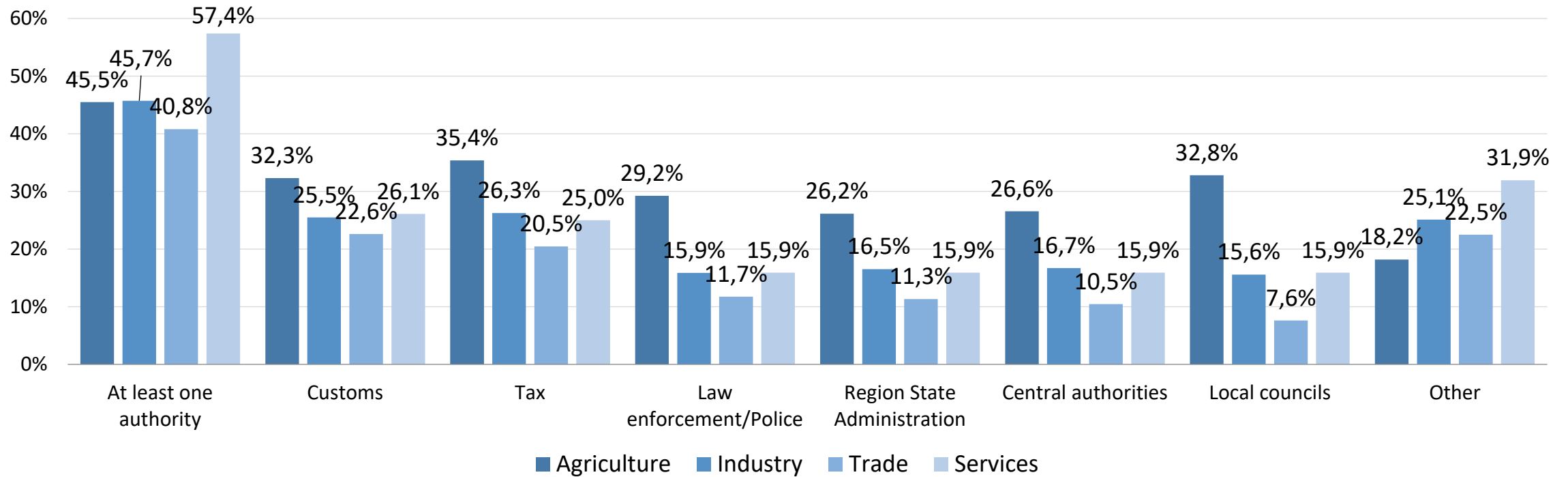
- **Exclusively exporters** are more likely to consider it necessary to maintain informal relations with the authorities, especially with local councils, the law enforcement, and regional state administrations.

# The importance of informal relations with the authorities by size



- There is no significant difference between enterprises of different sizes in the shares of those who consider relations with **at least one** authority to be important, but **micro-enterprises** are less likely than others to name different authorities as those they consider important to be friends with

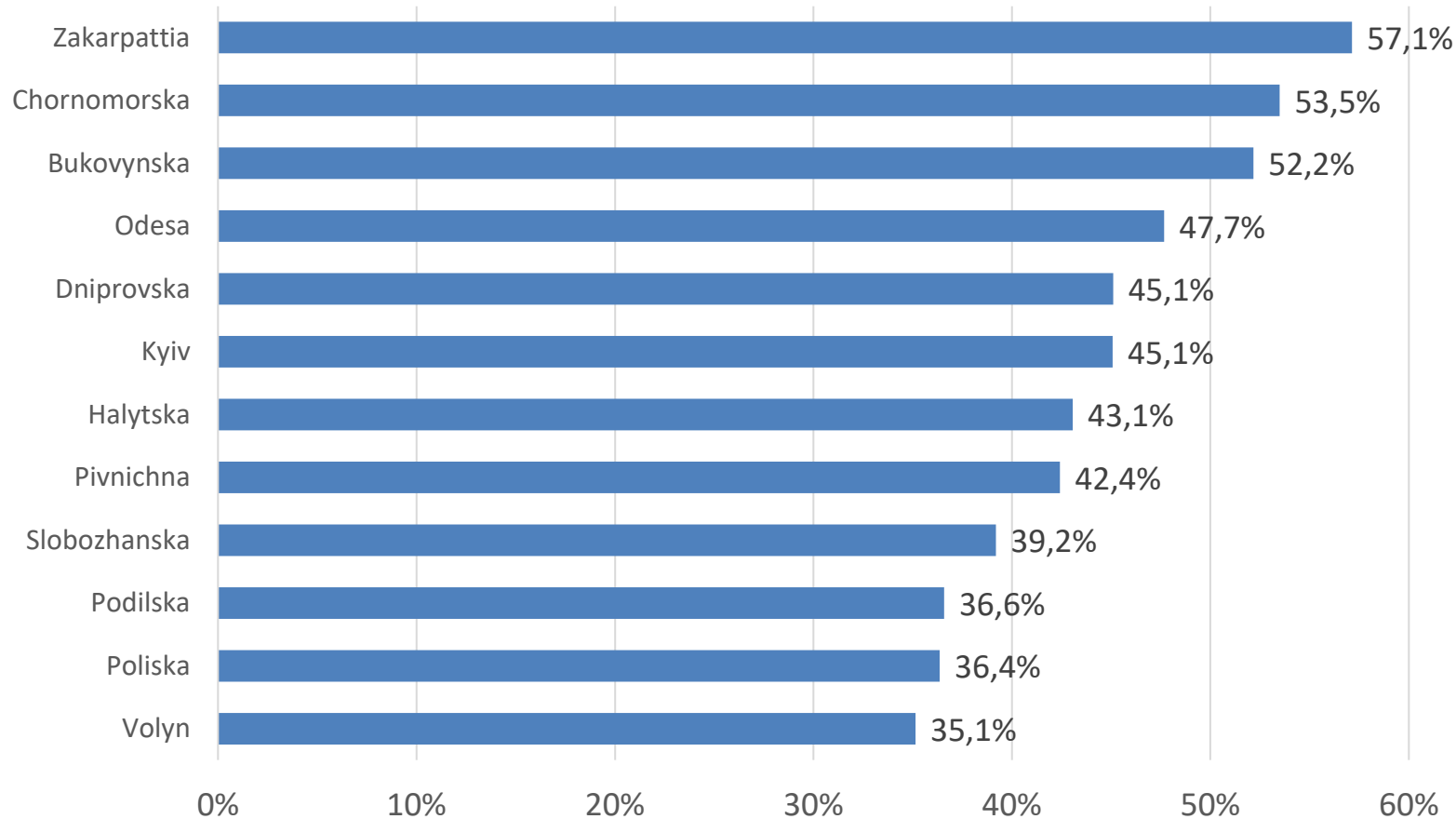
# The importance of informal relations with the authorities by sector



- **Agricultural enterprises** are more often than others called by different authorities, but in the **service sector**, most of the respondents said it was important to be friends at least with one government authority

# The importance of informal relations with the authorities by customs office

Importance of informal relations with at least one authority, %

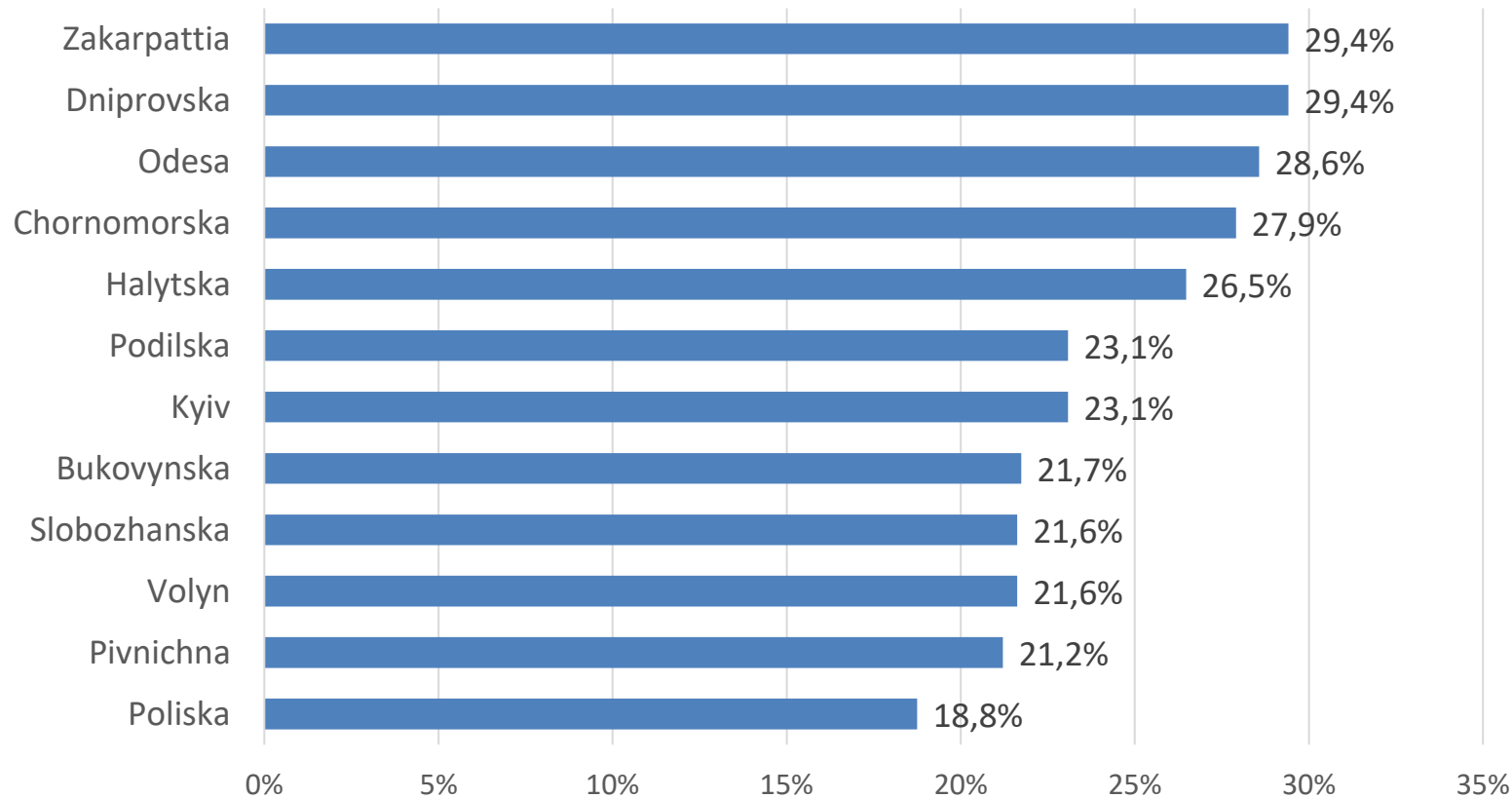


- Enterprises using the services of Zakarpattia, Chornomorska and Bukovynska Customs Offices **most often** consider “friendship” with at least one authority important
- Enterprises at Volyn, Poliska and Podilska Customs Offices express such opinions **most rarely**

*The answers of the enterprises at the Azov and Skhidna Customs Offices are not taken into account in the analysis due to the insufficient number of respondents*

# The importance of informal relations with customs authorities by customs office

Importance of informal relations with customs authorities for doing business,%



- Enterprises using the services of Zakarpattia and Dniprovka Customs Offices consider informal relations with customs authorities important **more often than others**
- Businesses in Poliska, Pivnichna and Volyn Customs Offices **most rarely** consider it necessary to “be friends” with customs authorities

*The answers of the enterprises at the Azov and Skhidna Customs Offices are not taken into account in the analysis due to the insufficient number of respondents*

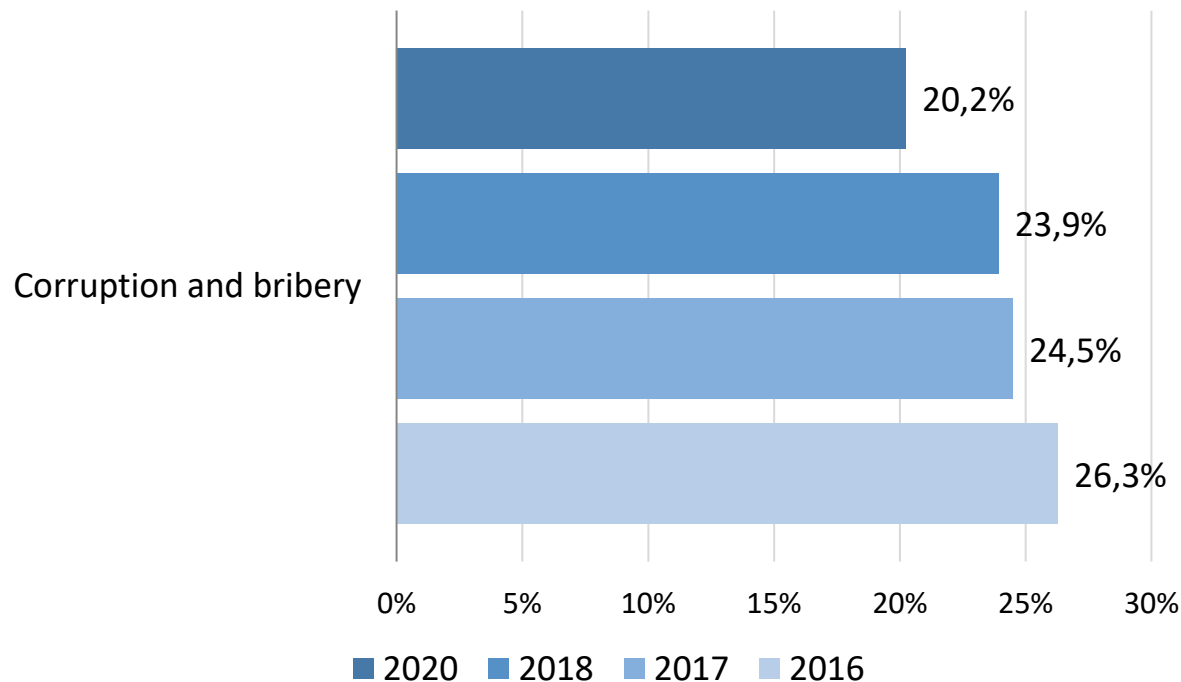
# CORRUPTION AT CUSTOMS: ASPECTS, ASSESSMENTS, ALTERATIONS

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# Corruption and bribery as a problem at customs

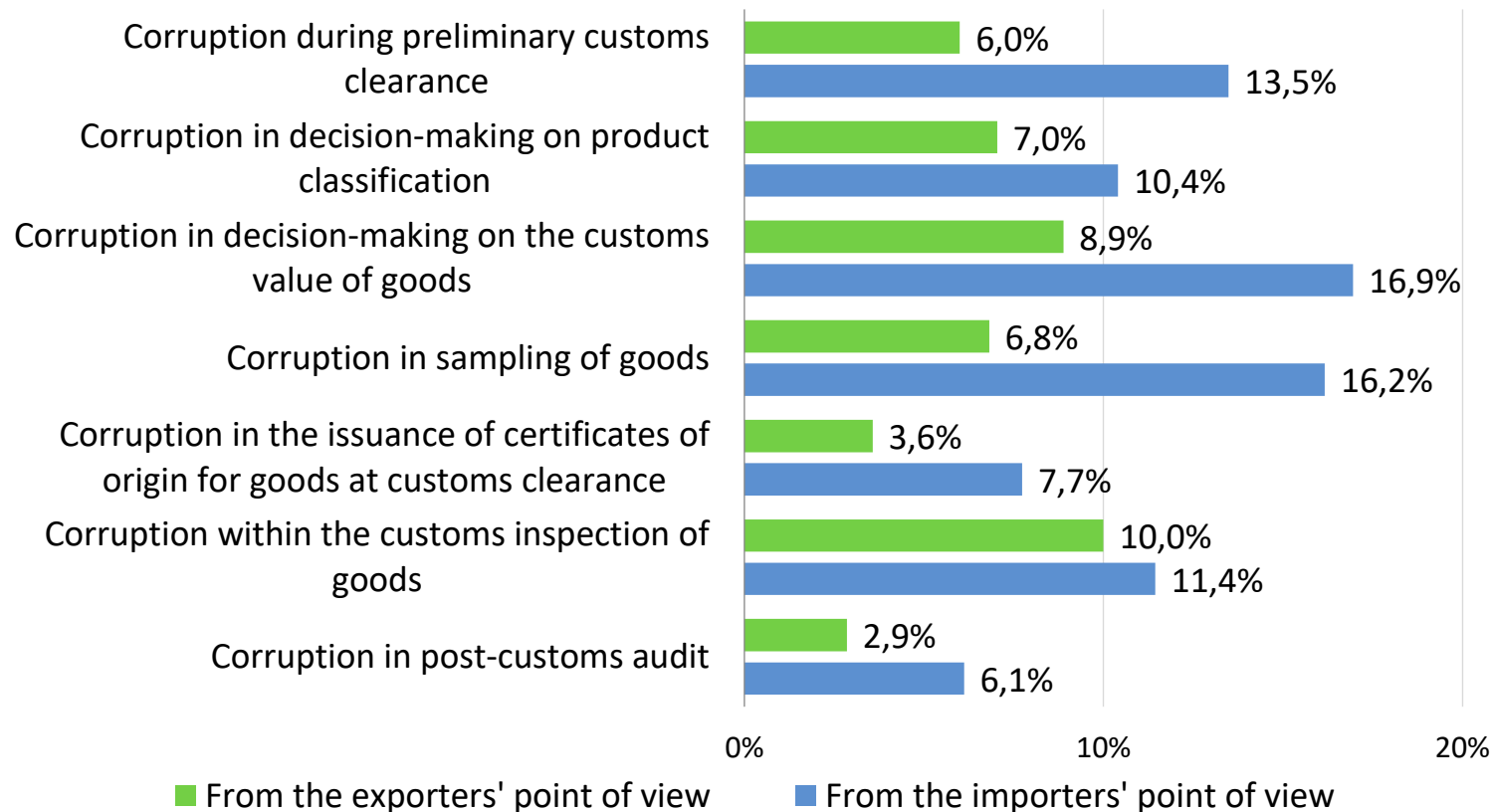
The share of enterprises that named corruption and bribery among the problems in the work of customs



- The importance of corruption and bribery as a problem at customs has slightly **decreased** compared to previous years
- In 2020, it is in **4th place** in the ranking of problems at customs
- The first three places of this ranking are occupied by such problems as **imperfect customs legislation, overstatement of customs value and lack of transparency and openness**
- 25.2% of respondents who **consider it necessary to maintain informal relations with at least one authority** consider corruption and bribery a problem at customs
- This is more than the share of those who **do not consider** it necessary to “be friends” with the government (14.8%)

# Corruption as an obstacle to customs procedures

The problem of corruption in various procedures,% among those who faced problems

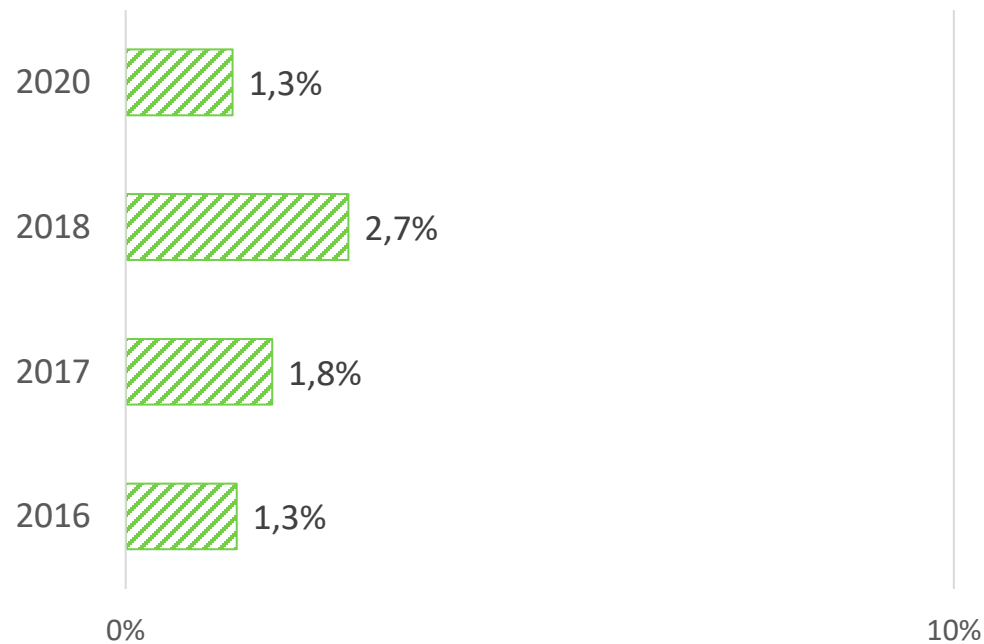


- Corruption is **not one of the main problems** reported by respondents in the context of various customs procedures
- **Importers** are more likely to report this problem
- Corruption is most often reported in the context of the procedure of **determining the customs value of goods and taking samples and specimens of goods**
- It is likely that the problems that respondents report most often often (unjustified inspections and overestimation of customs value, and unequal conditions for business) **contain a corruption component**



# Corruption as a barrier to exports

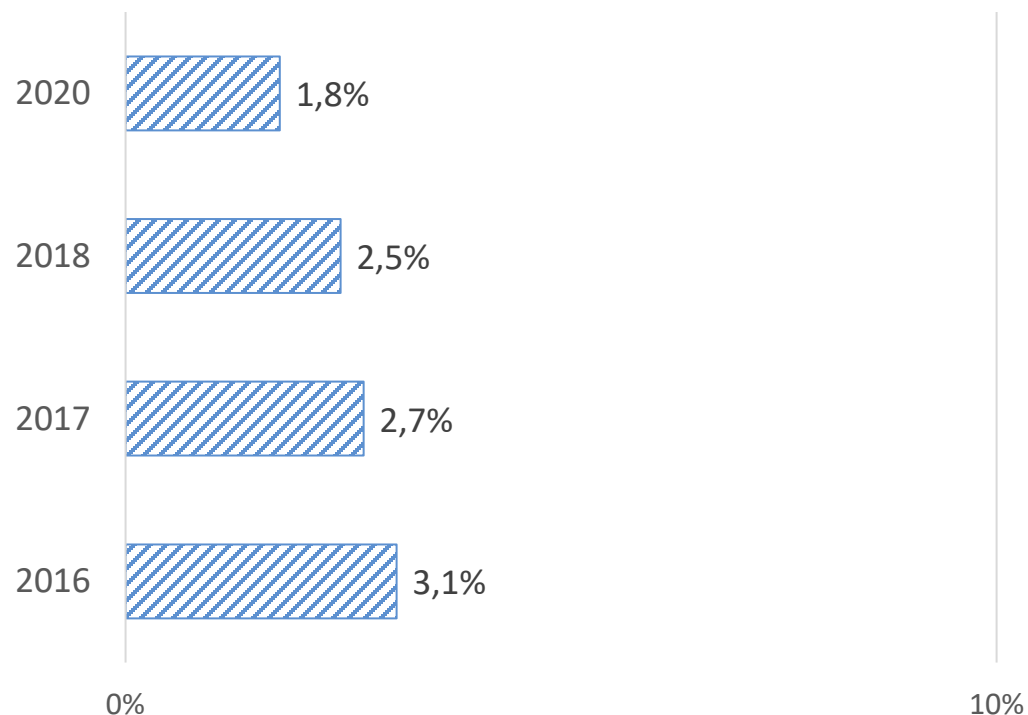
Exporters who call corruption at customs a barrier, % among all exporters



- The importance of corruption at customs as a barrier to exports **increased in 2020**: it occupies the 5<sup>th</sup> place in the ranking of 18 barriers
- **16.3% of exporters** who encountered obstacles report this problem
- At the same time, the share of the exporters who report corruption among all the surveyed exporters **decreased** compared to 2018.
- The fact that the importance of corruption is increasing compared to other problems, while the share of all exporters who report it decreases, may mean that **with the lessening of the importance of other problems for exporters, the problem of corruption becomes more acute**

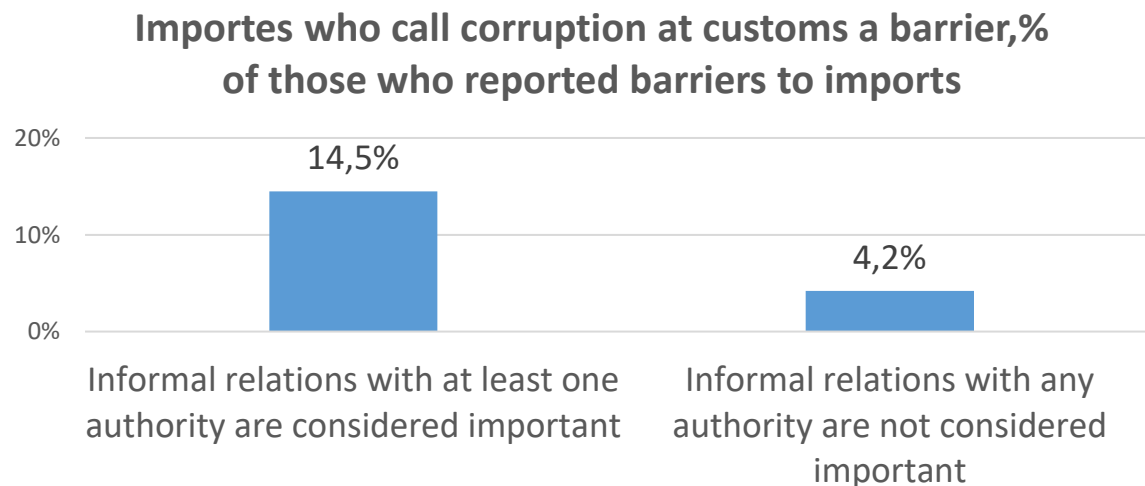
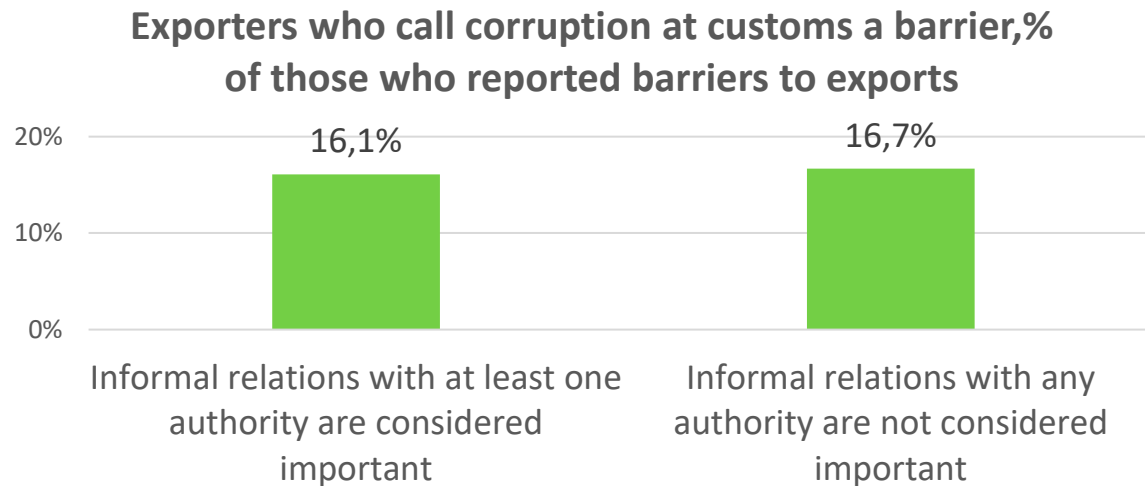
# Corruption as a barrier to imports

Importers who call corruption a barrier to customs, % among all importers



- For the importers who face obstacles, the importance of corruption **has hardly changed**
- Corruption is reported by **every tenth** importer who encountered obstacles (9.9%). It is **in the 11<sup>th</sup>** place in the ranking of 20 obstacles
- The share of importers reporting barriers has **also decreased**
- Accordingly, the share of respondents who report the problem of corruption among all importers has **decreased**
- This may mean that the **problem of corruption is related to other problems for importers** and its relevance decreases along with the decreasing relevance of other connected issues

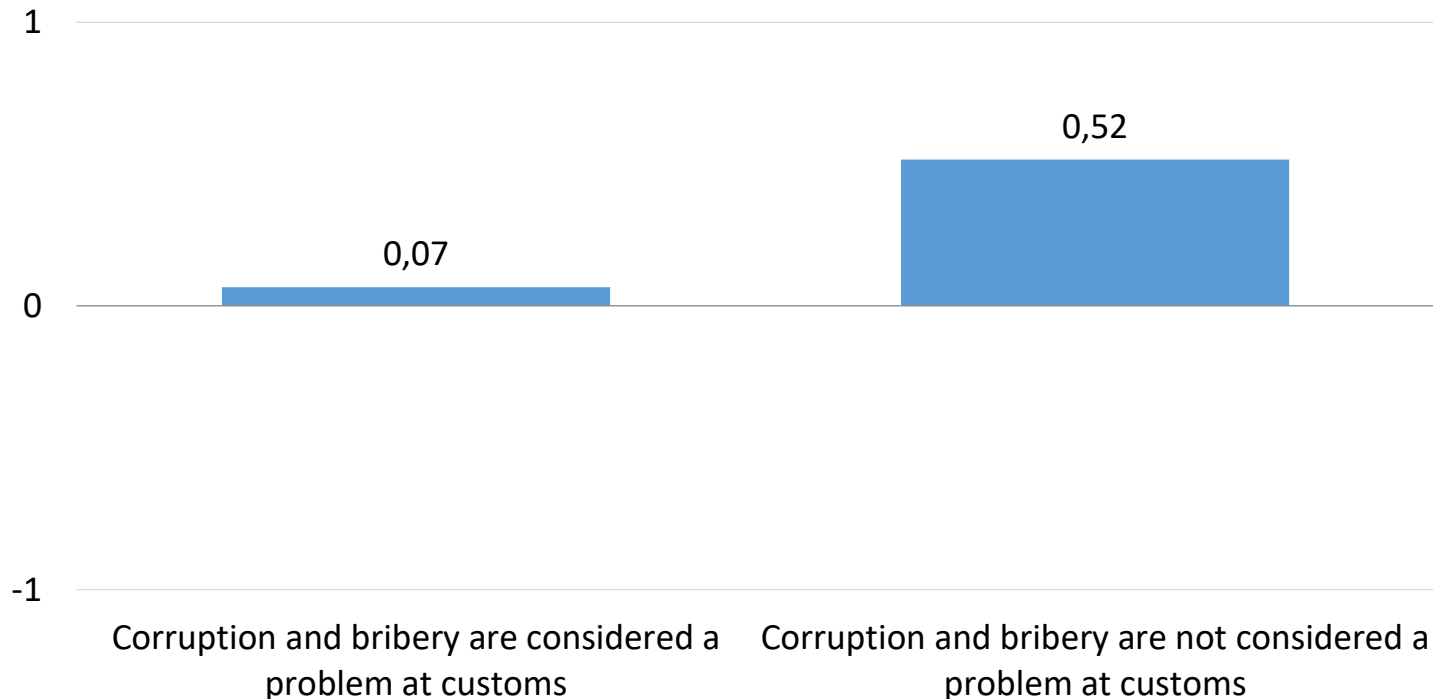
# Corruption as a barrier to exports and imports: connection with the importance of “friendship” with the government



- There is **no difference** in the assessment of customs corruption as a problem between exporters who consider it necessary to maintain informal relations with at least one authority and those who have faced problems but do not want to “be friends” with the authorities.
- 14.5% of importers who **consider it necessary to maintain informal relations** with at least one authority consider corruption at the customs to be a problem
- This is more than the share of those who **do not consider it necessary to “make friends” with the authorities: 4.2%**
- This may mean that importers treat informal relations with the authorities primarily as a means of **protecting their business**, and exporters, as a means of **simplifying/facilitating their business**

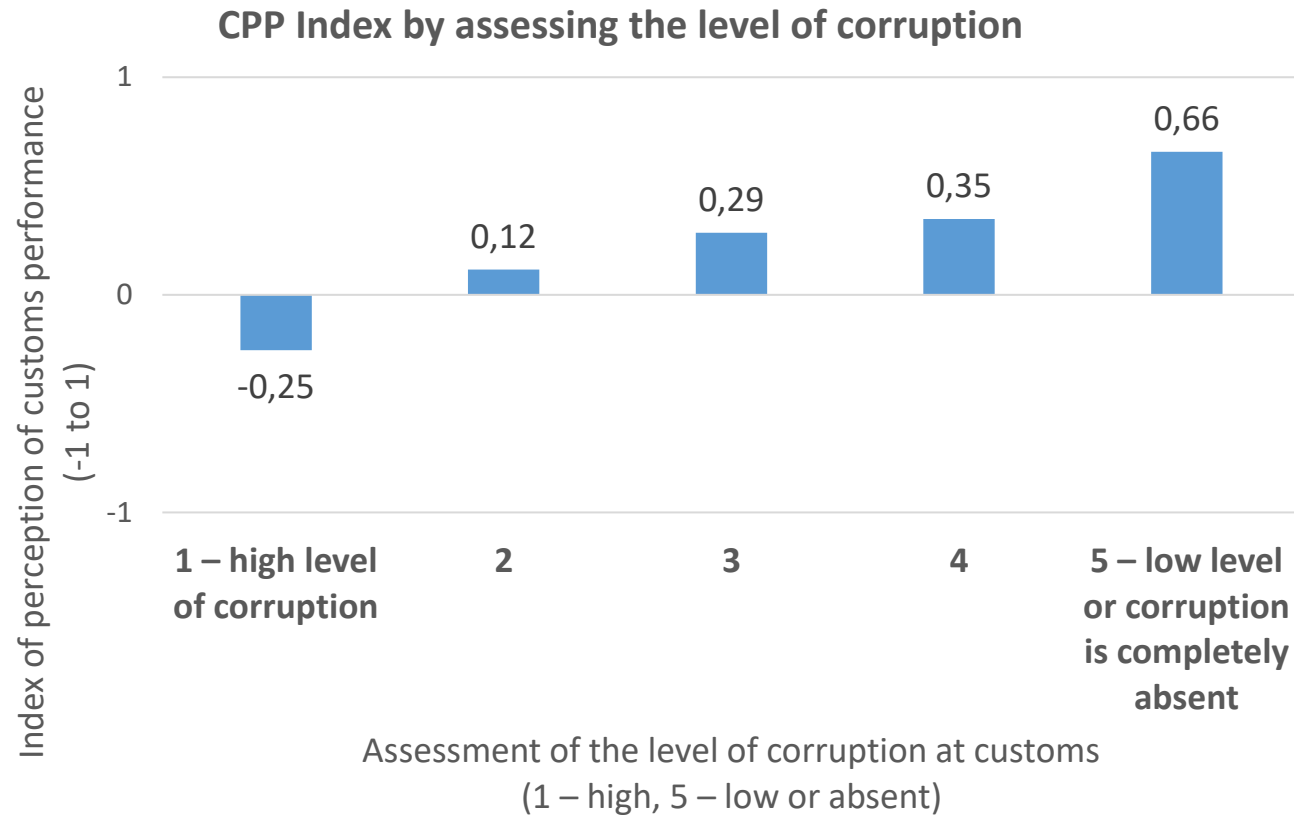
# Assessments of corruption and customs efficiency

CPP index by the assessment of corruption and bribery as a problem at the customs



- Perception of **corruption** as a problem is associated with **poorer assessments of customs performance**
- This is confirmed by our analysis of two questions: **corruption and bribery** as a problem at the customs and the assessment of the **level of corruption** at the customs
- Respondents who consider **corruption and bribery a problem** at customs evaluate the work of the customs worse (Customs Performance Perception (CPP) Index = 0.07) than the respondents who did not report this problem (CPP Index = 0.52)

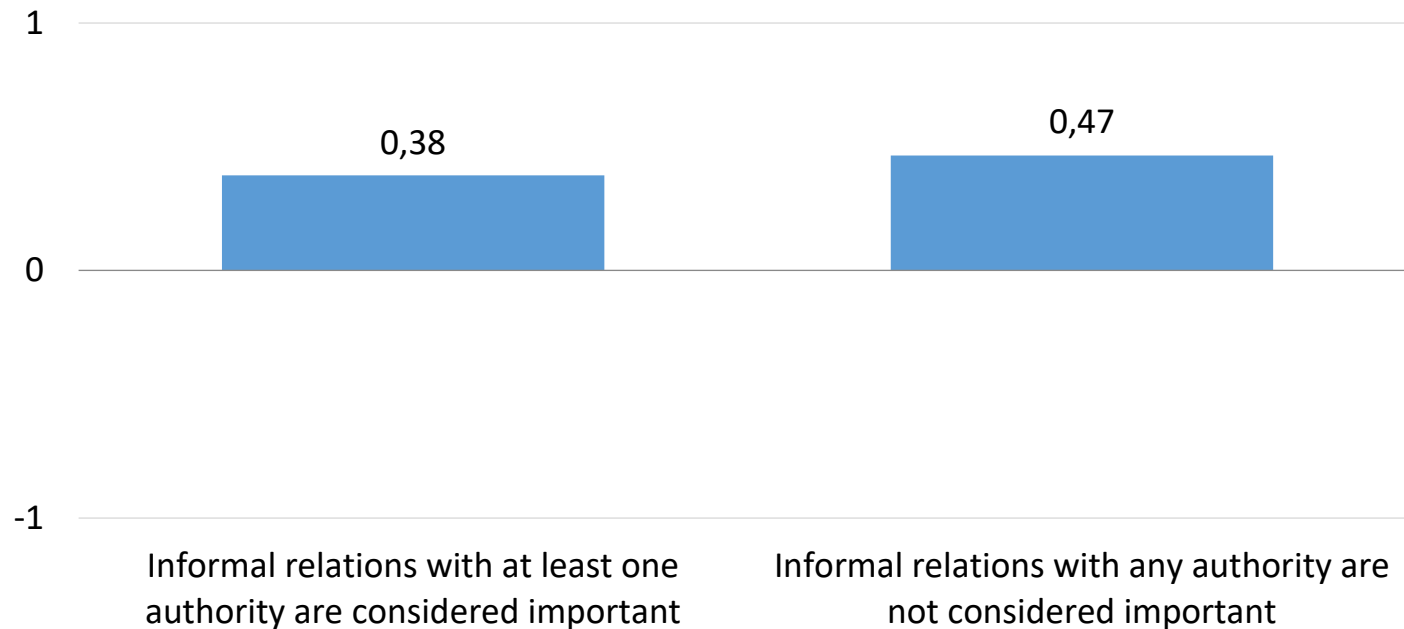
# Assessments of the level of corruption and efficiency of customs work



- Survey participants assessed the level of corruption at the customs as quite low: at an average of **3.9 points** (1 – high, 5 – low)
- **Poor assessments of the level of corruption are associated with lower assessments of the efficiency of customs in general** (moderate positive correlation with the CPP Index,  $r = 0.48$ ,  $p = 0.00$ )

# The importance of “friendship” with the authorities and assessment of the effectiveness of the customs

CPP Index on the importance of informal relations with the authorities



- Respondents who consider it necessary to maintain **informal relations** with at least one authority rate the efficiency of customs **slightly worse** (CPP index = 0.38) than those who do not think so (CPP index = 0.47)

# Conclusions (1)

## “Gray imports”: prevalence, counteraction

- According to respondents, the average share of “gray imports” in the market is 24.2% in 2020. It has hardly changed since 2018, when this share was estimated at an average of 25.3%.
- At the same time, in 2020, 72% of enterprises were able to assess the level of “gray imports” in their market. This is more than in 2018, when only a little more than half of the respondents were able to make such an assessment.
- “Gray imports” are not among the key problems with imports (the 9<sup>th</sup> place in the ranking of problems).
- To eliminate “gray imports” from the market, respondents often suggest simplifying and reducing the cost of customs procedures. The creation of a system of control over goods from their imports to their sales is on the second place among the proposed measures.

## Criminalization of smuggling

- More than  $\frac{3}{4}$  of the respondents support the criminalization of smuggling of commercial goods, but mostly suggest the introduction of criminal liability without imprisonment: this option is supported by twice as many respondents (53.2%) as criminal liability with imprisonment (26.2%).
- Only 15% of respondents oppose the criminalization of smuggling.
- More than half of the respondents consider it necessary to introduce criminal liability for all goods imported in violation of customs regulations.

# Conclusions (2)

## Corruption: important friends

- 44.2% of respondents believe that informal relations with at least one authority are important for business success.
- This is slightly more than in 2018, when there were 39.3% of such respondents.
- Most often, these are customs and tax authorities, but the importance of “friendship” with them in 2020 has diminished.

## Corruption at customs: aspects, assessments, changes

- In 2020, the share of both exporters and importers facing corruption has decreased.
- At the same time, the importance of corruption for exporters facing problems has increased (it came in the 5th place in the ranking of problems), and for importers facing problems, it has not changed (the 11<sup>th</sup> place).
- In 2020, respondents were less likely to name corruption and bribery among customs issues in previous waves of this survey.
- Although the proportion of respondents who report corruption is declining, the perception of corruption as a problem is related to the assessment of customs: respondents who indicate the problem of corruption and those who assess the level of corruption as higher, make worse assessments of the work of the customs .



# THANK YOU FOR YOUR ATTENTION!

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## QUESTIONS?



# CONTACTS

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Project "Support to the Public Initiative" For Fair and Transparent Customs "  
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