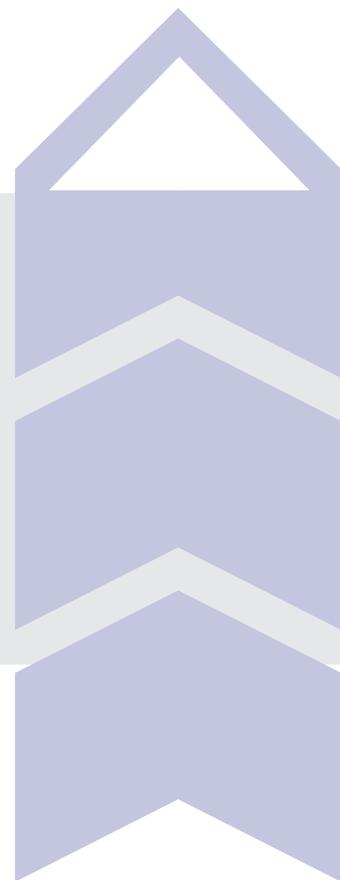




Fighting systemic smuggling: customs reform in Ukraine

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Smuggling has reached an impressive scale in Ukraine. Nearly one-third of external trade in commodities goes illegally. Losses to the Ukrainian treasury reach billions of US dollars per year. Smuggling proceeds are used for shadow funding of political processes that impact the quality of top level decision-making. Poor exchange of information between trading partner nations is seen as the core of the phenomenon.

Large-scale smuggling

It is no secret that Ukrainian borders are very loose. Illegal flow of commodities creates problems for both sides: the EU and Ukraine. The EU countries complain about illegal flow of cigarettes, alcohol and weapons coming from Ukrainian territory¹. Likewise, Ukrainian authorities report large-scale smuggling of various commodities arriving from the EU². For European countries, the “transparent” borders of Ukraine are the predominant source of illegal trade, which in many cases is criminalized. For Ukraine large-scale smuggling schemes are the source of top level political corruption which influences decisions at the geopolitical level and suppresses the business environment in Ukraine.

The scale of the phenomenon could be indirectly derived from discrepancies between statistics of trade partner nations. For instance, exports from Poland to Ukraine are systemically reported by almost 30% higher than imports arriving from Poland to Ukraine. Almost one-third of commodities simply ‘evaporate’ crossing Ukrainian borders and customs points.

Discrepancy in trade statistics between Poland and Ukraine

Year	Data from Poland, export to Ukraine*, thnd USD	Data from Ukraine, import from Poland**, thnd USD	Difference, thnd 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

**Ukraine – destination country*

***Poland – trading country*

Source: national statistics offices

In the literature, these discrepancies are attributed to differences in national statistical methodologies. To some extent this point makes sense. However, such discrepancies coupled with reports of multibil-

¹ https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2018/09/project_sun_methodology.PDF

² <https://journalist.today/arsien-avakov-potieri-ot-kontrabandy-prievyshaiut-biudzhiety-mvd-i-minoborony-eng/>

lion-dollar smuggling³ and ‘field evidences’ of large-scale illegal trade lead to the conclusion that statistical methodology is only a partial explanation. What’s more, in 2016 the UN published a report claiming that a major part of the trade data gap with developing countries should be attributed to smuggling rather than to statistical peculiarities⁴.

Pillars of illegal trade

The majority of smuggling schemes that we know of stand on misreporting the type of commodities and their customs value in customs checkpoints. In many cases customs officers simply open the gate without any inspections and wagons that officially existed on the EU side simply never appear in official statistics on the Ukrainian side. Poor or nonexistent exchange of information between the customs agencies of trading partner nations coupled with the institutional weakness of said customs agencies (in many cases customs officers collaborate with officers of law enforcement bodies) stand behind the systemic smuggling.

How to address the problem of illegal trade

Poor infrastructure at customs checkpoints as well as low competence of customs officers are under scrutiny from western partners. Ukraine receives technical support to address these two issues.

However, the heart of the problem exists in poor exchange of information and limited possibility to cross-check commodities’ flows on both sides of the border. Information bias creates opportunities for large-scale systemic smuggling.

Automatic exchange of information between customs bodies in electronic form eliminates opportunities for misreporting customs values of traded goods. Further, this allows for crosschecking of information on types of goods on both sides of the border.

Creation of opportunities for electronic exchange of information between trading partners is among Ukraine’s liabilities in the EU-Ukraine Association Agreement.

Ukraine committed to implement the Union Customs Code (UCC). The UCC obliges nations to develop, maintain and employ electronic systems for data-processing and for exchange of information with trading partners.

Ukraine committed to establish a system of common transit, the so-called new computerized transit system, NCTS. The system presumes exchange of information with trading partner nations in electronic form.

Systemic illegal trade stands on an imperfect information exchange between customs bodies of trading partners. Ukraine’s commitment to the EU-Ukraine Association Agreement presumes creation of opportunities for exchange of customs data in electronic form. It’s critical to pressure Ukrainian authorities to implement their commitments on the Union Customs Code and on the system of common transit.

³ <https://www.kyivpost.com/ukraine-politics/suddeutsche-zeitung-ukraine-loses-4-8-billion-a-year-due-to-corruption-at-customs.html>

⁴ <https://voxeu.org/article/trade-data-gap-mistake-and-malfesance>