

The fifth wave of the annual survey of Ukrainian exporters and importers

Topic 4. TRADE FACILITATION IN UKRAINE: smuggling and “gray imports”,
corruption at the customs

Summary of the main findings

The study was conducted by the Institute for Economic Research and Policy Consulting as a part of the implementation of the project “Support for the Civil Society Initiative “For Fair and Transparent Customs”, funded by the European Union, the Renaissance Foundation and the Atlas Network



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MAIN RESULTS

This report presents the results of the survey of exporters and importers on the following issues:

- Prevalence of “gray imports” and businesses’ opinions on how to counter them;
- Businesses’ opinion 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 the customs.

“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.

According to the 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 barriers for importers (they occupy the 9th place in the ranking of barriers). 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 in the second place among the proposed measures.

More than ¾ respondents support the criminalization of smuggling of commercial goods. However, they mostly suggest the introduction of criminal liability without imprisonment: this option is supported by twice as many respondents (53.2%) than 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.

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.

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.

In 2020, the share of both exporters and importers facing corruption has decreased. At the same time, the importance of corruption for exporters facing barriers has increased (it came in the 5th place in the ranking of issues), and for importers facing barriers, it has not changed (the 11th place).

In 2020, respondents were less likely to name corruption and bribery among the problems at the customs than in previous waves of this survey. Although the share of the respondents who report corruption is declining, the perception of corruption as a problem is related to the assessment of customs: respondents who point out the problem of corruption and those who assess the level of corruption as higher, make worse assessments of the work of the customs.

1. The structure of the surveyed enterprises

Among 1,045 enterprises surveyed in 2020, there are micro-enterprises (42.3%), small (28%), medium (21.4%) and large (8.2%) enterprises.

Enterprises engaged in foreign trade, which took part in the survey, are divided into three groups by type of foreign trade:

- those who only export (24.4%) – hereinafter, “exclusively exporters”,
- those who only import (40.8%) – hereinafter, “exclusively importers”,
- enterprises engaged in both exports and imports (34.8%).

The surveyed enterprises engaged in foreign trade work in the sectors of agriculture, industry, trade and other service sectors (hereinafter “services”).

86.8% of enterprises reported that they are working with customs brokers.

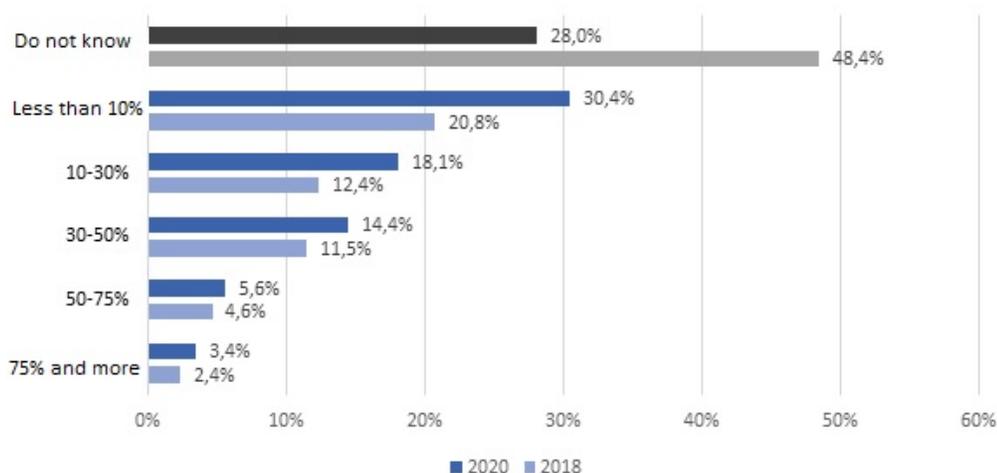
The European Union is the most common destination for both exports and imports for the surveyed companies.

67.5% of respondents were men, while 32.5% were women.

2. “Gray imports”: prevalence

- Enterprises assessed 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%.

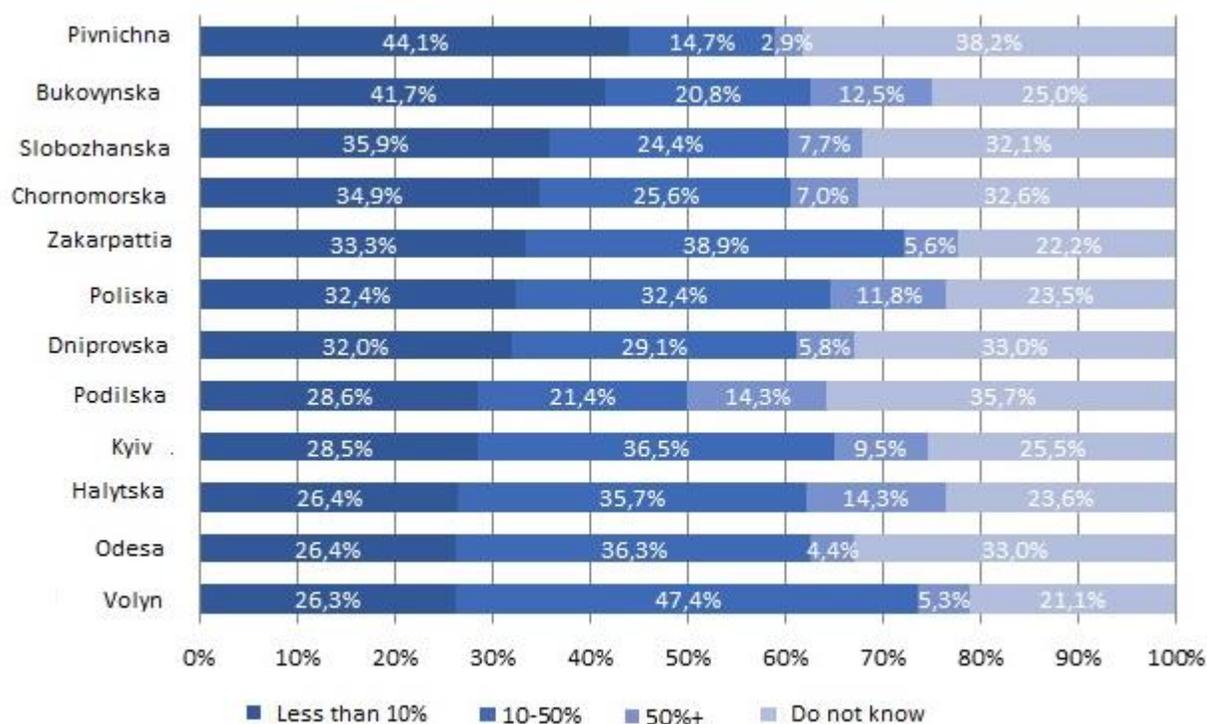
Fig. 1. Estimation of the share of “gray imports” in the market, % of respondents



- 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 has significantly decreased.

- Exclusively exporters more often than others do not know what is the share of “gray imports” in their market.
- Large enterprises consider the share of “gray imports” to be lower than others.
- In the sector of trade, respondents are more likely than others to give an estimate of the share of “gray imports” and estimate its share as the largest (every third one believes that it exceeds 30%).
- Enterprises served 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 most often can estimate the level of “gray imports”.
- Enterprises in the Pivnichna and Podilska Customs Offices can make such estimates most rarely.

Fig. 2. Estimation of the level of “gray imports” by customs, % of respondents

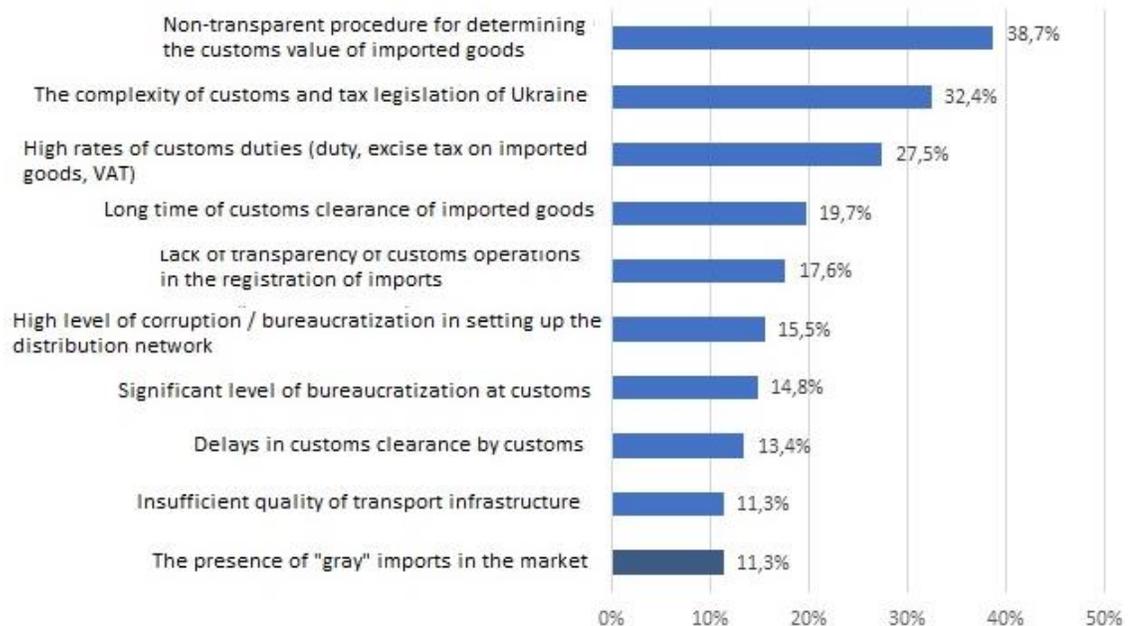


3. “Gray imports” as a barrier for importers

- The problem of “gray imports” is not one of the most acute problems for importers.
- In 2020, the top 3 problems are the non-transparency of customs valuation, the complexity of customs and tax legislation, and high customs duties.
- In 2020, “gray imports” share the 9th place among the barriers for importers along with the barrier of poor infrastructure.
- In 2018, this problem was also ranked 9th in the ranking of problems for importers.

- It can be assumed that the impact of this problem has not changed in 2 years.

Fig. 3. Rating of the barriers among importers who faced barriers, % of respondents



4. How to combat "gray imports"?

- Simplification and reduction of customs procedures occupy the first place among the measures that should be taken to combat "gray imports", according to the respondents.
- The introduction of a system of control over goods from their imports to their sale was placed with a large gap on the 2nd place.
- In 3rd and 4th places, there are such suggestions as combating "cargo" companies and merging customs and tax databases.
- 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 support the simplification and reduction of customs procedures more than exclusively exporters, but also express more support for the ban on the import of goods into Ukraine without taxation.
- Medium and large enterprises more than micro and small ones support the introduction of a system of control over the movement of goods from imports to final sale.
- In the service sector, simplification and reduction of customs procedures is proposed more often in order to combat "gray imports" than in other sectors.
- For the enterprises serviced at all customs offices except Poliska Customs Office, simplification and reduction of customs procedures comes first among the suggested measures.
- For enterprises at Poliska Customs Office, the first place is occupied by the introduction of a system of control over the movement of goods from their imports to sale.

Fig. 4. Measures that are proposed by the respondents to eliminate "gray imports" from their market, % of respondents

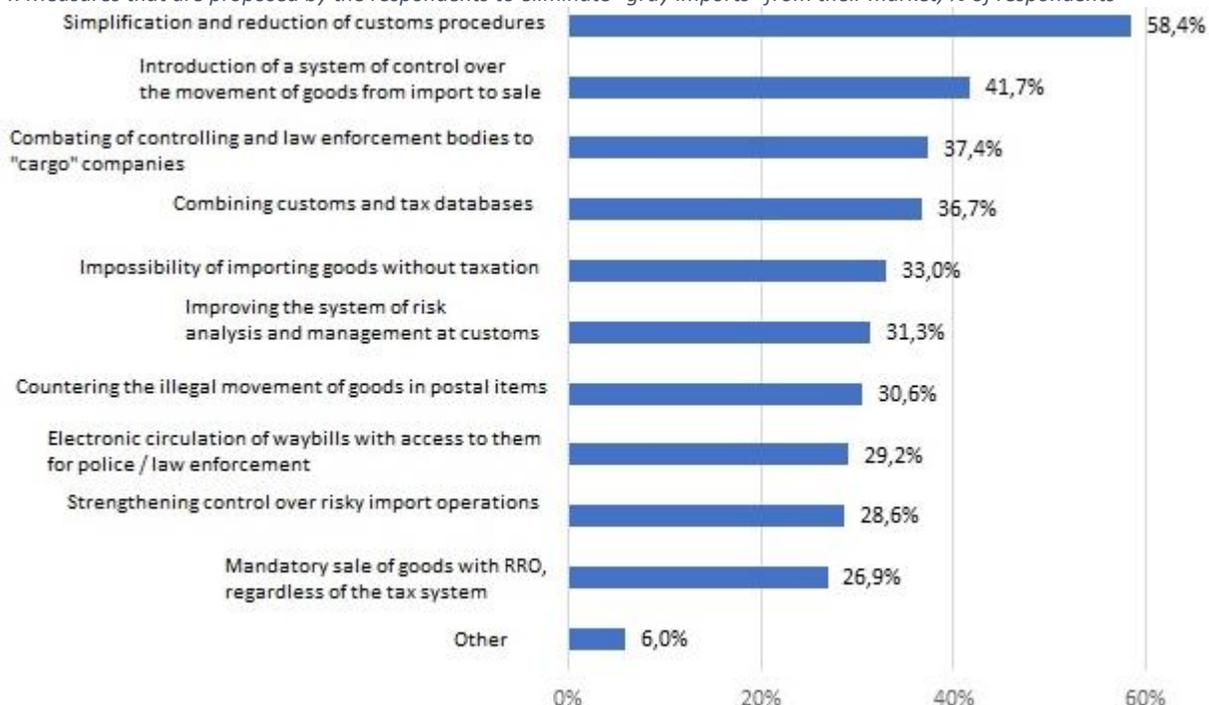
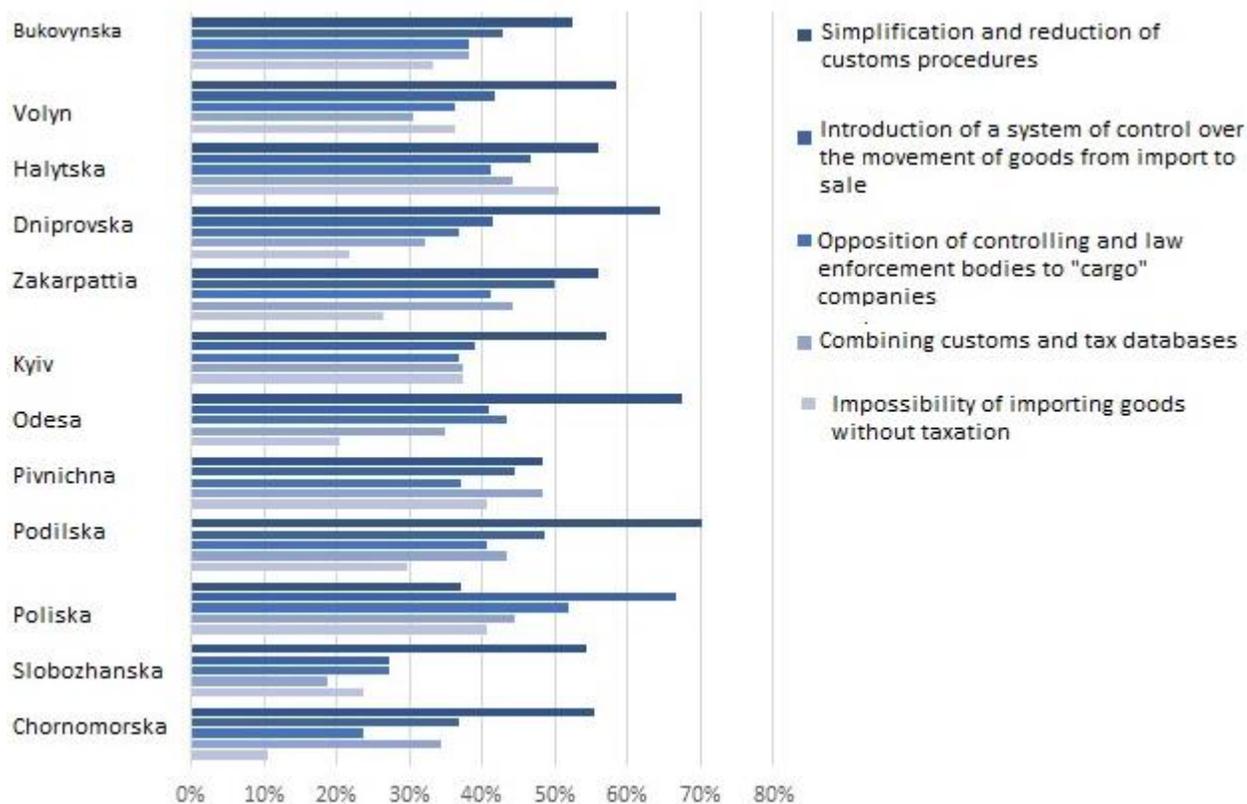


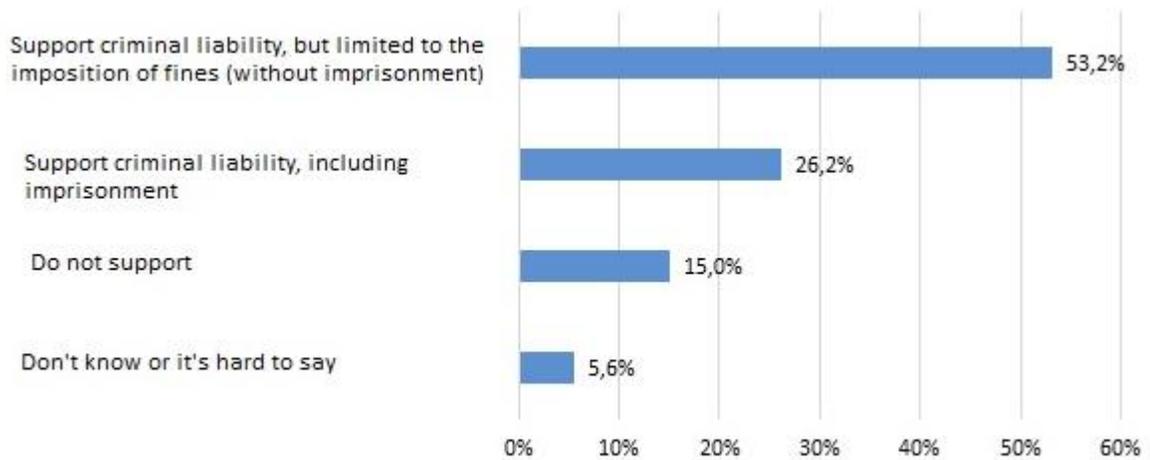
Fig. 5. Measures that are proposed by the respondents to eliminate "gray imports" from their market, by customs, % of respondents



5. Support for the criminalization of smuggling of commercial goods

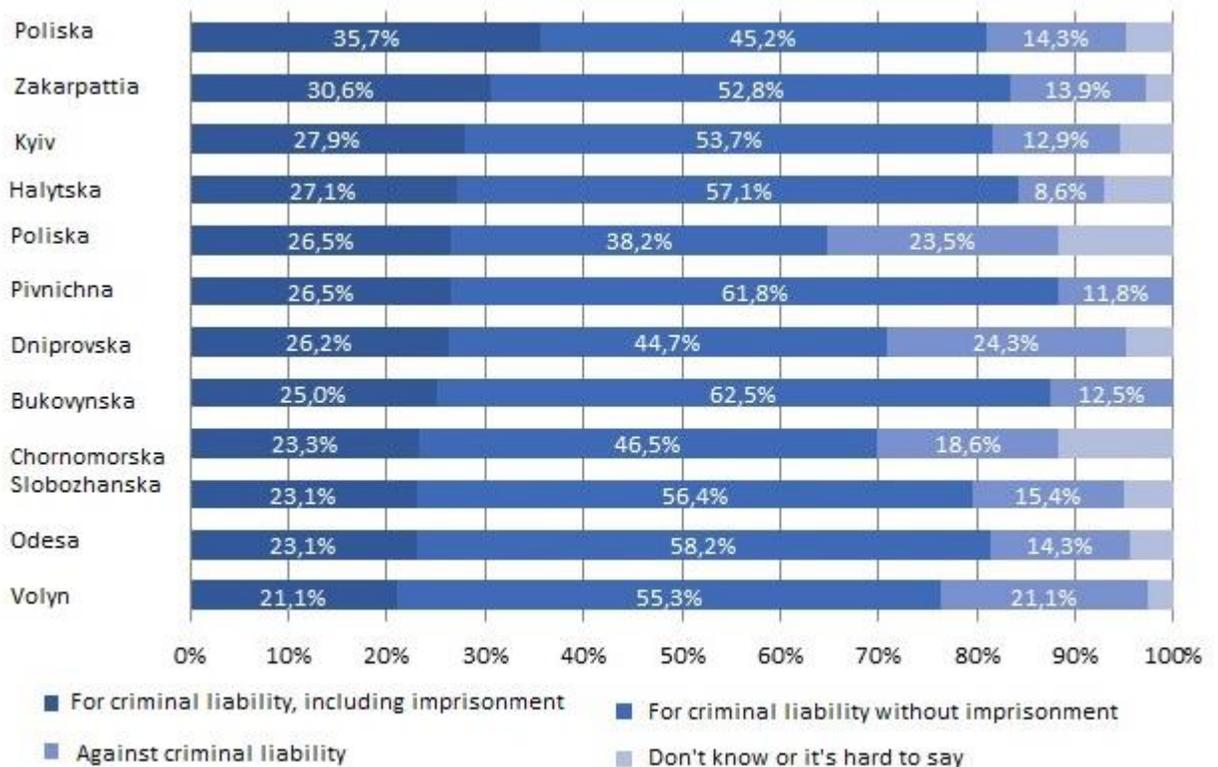
- Respondents often support the criminalization of smuggling of commercial goods, but without imprisonment: more than 50%.
- Approximately one in four respondents believes that smuggling should be criminalized with imprisonment.
- Only 15% do not support the criminalization of smuggling.

Fig. 6. Support for criminalization of smuggling of commercial goods, % of respondents



- Exporters and importers do not differ significantly in their attitudes towards the criminalization of unofficial imports of goods.

Fig. 7. Support for criminalization of smuggling of commercial goods by customs, % of respondents

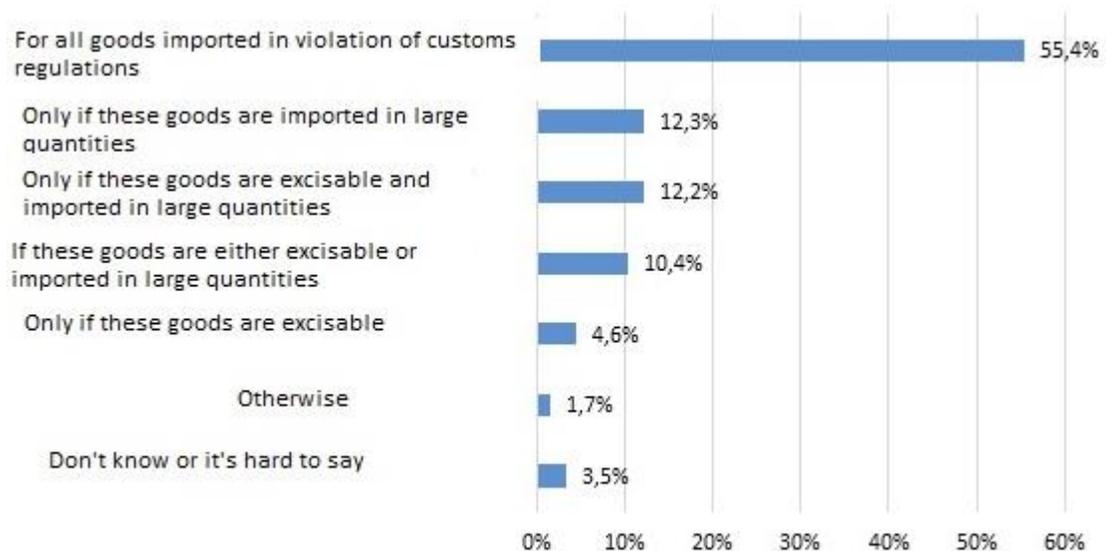


- Large enterprises are less likely than others to support the criminalization of smuggling with imprisonment.
- In the service sector, the criminalization of smuggling is opposed most often compared to other sectors.
- Enterprises cleared through the customs at Podilska Customs Office are most supportive 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 the criminalization of smuggling.
- The topic of criminalization of smuggling IER analyzes in detail in the advisory work “Is it necessary to criminalize commodity smuggling?”, A. Butin <http://tfdialogue.ier.com.ua/archives/3305>

6. In which cases should smuggling be criminalized?

- More than half of the respondents who support the criminalization of smuggling believe that criminal liability should be introduced for the imports of all goods that contain 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 than others to support the 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 the 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.

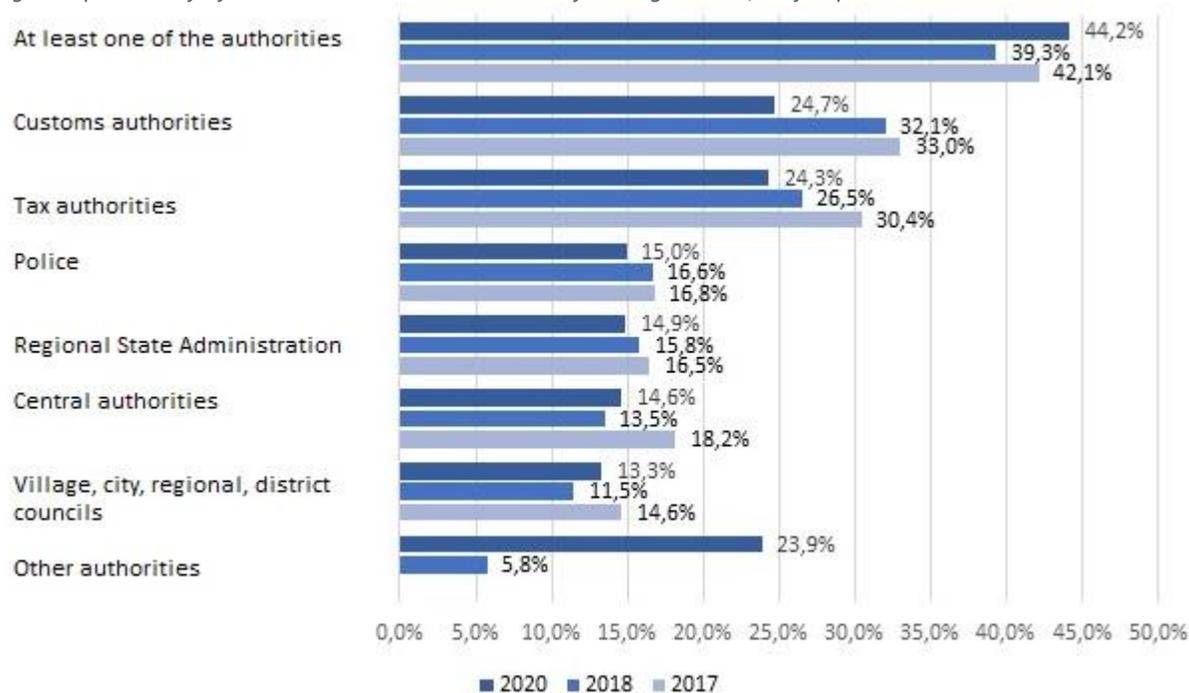
Fig. 8. Grounds for criminalization of smuggling, % of respondents



7. Importance of informal relationships with authorities for doing business.

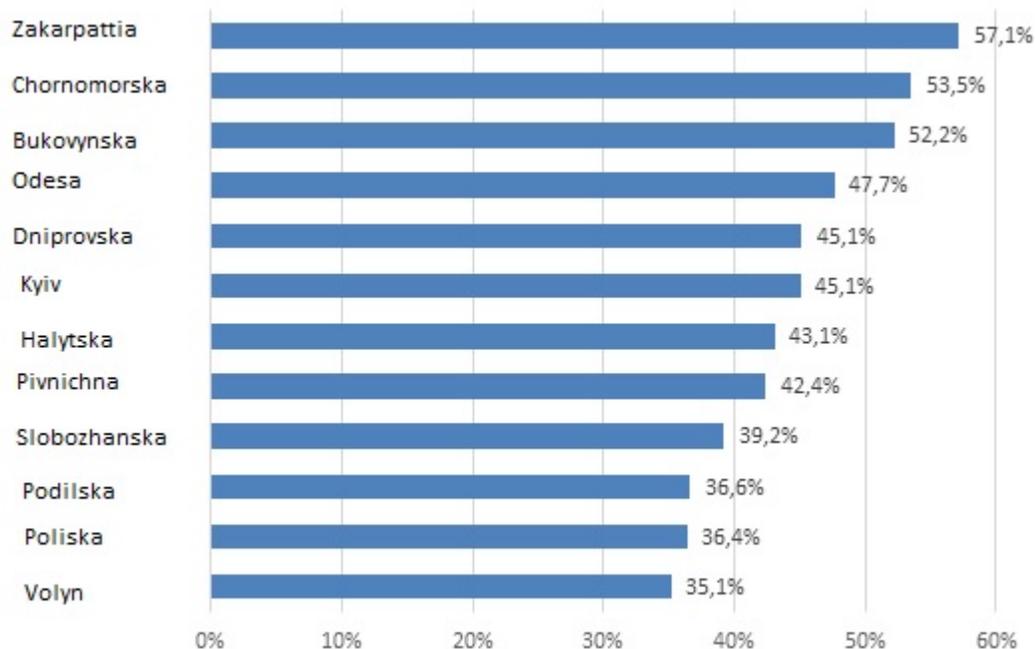
- In 2020, more than 44% of respondents said that informal relationships with at least one government agency are important for business success. This is slightly more than in 2018 (39.3%).
- Thus, informal channels of interaction with the government remain important for business.

Fig. 9. Importance of informal relations with the authorities for doing business, % of respondents



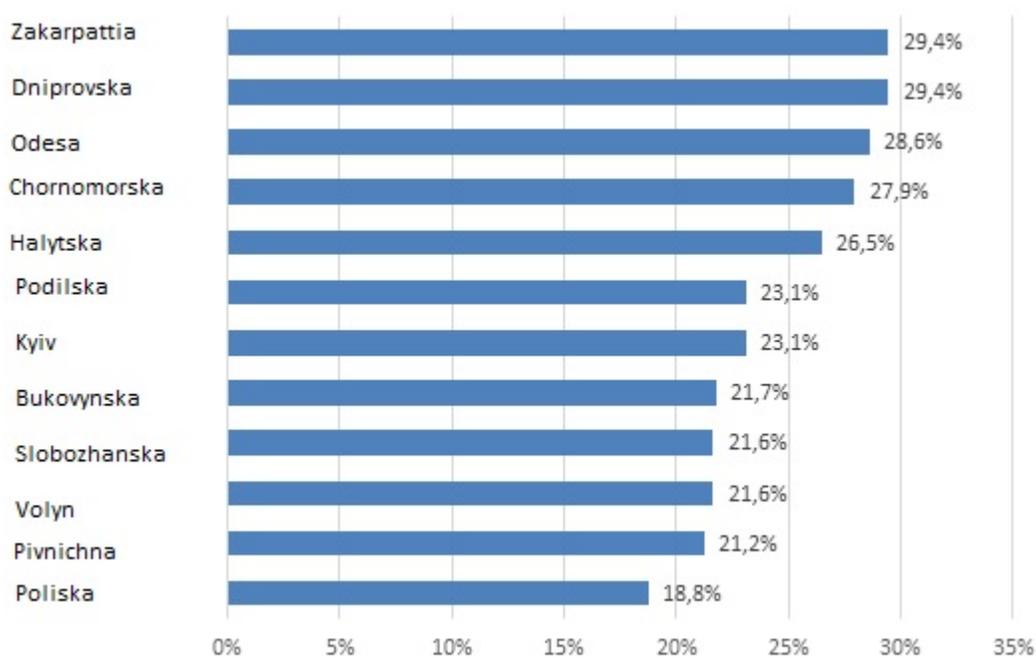
- As before, the first two places in this ranking are occupied by the customs and tax authorities. However, the importance of informal relations with these authorities has diminished.
- At the same time, the importance of relations with other government authorities has increased.
- Exclusively exporters are more likely to consider it necessary to maintain informal relations with the authorities, especially with local councils, the law enforcement, and with regional state administrations.
- There is no significant difference between enterprises of different sizes in the shares of those who consider the relationship with at least one authority to be important. Yet, micro-enterprises are less likely than others to name different authorities as those they consider important to be friends with.
- Agricultural enterprises more often than others name different authorities among those they consider important for informal relationships. However, in the services sector, most of the respondents said it was important to be friends at least with one government body.
- 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.

Fig. 10. Importance of informal relations with the customs authorities, % of respondents



- Enterprises using the services of Zakarpattia and Dniprovska 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.

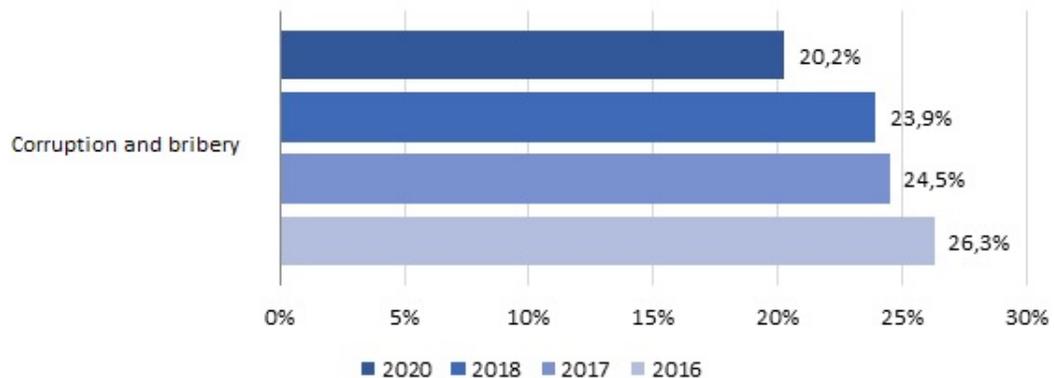
Fig. 11. Importance of informal relations with customs authorities for doing business, % of respondents



8. Corruption and bribery as a problem at the customs

- The importance of corruption and bribery as a problem at customs has slightly decreased compared to the previous years.
- In 2020, it was 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.

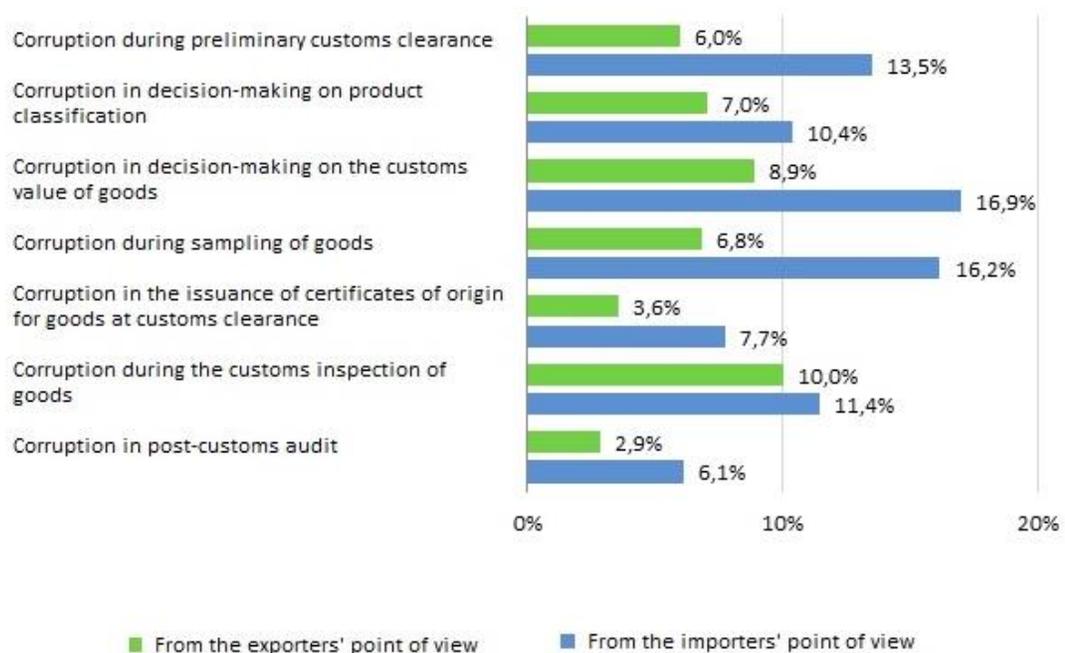
Fig. 12. The share of enterprises that named corruption and bribery among the problems in the work of the customs



- 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 authorities (14.8%).

9. Corruption as a barrier at customs procedures

Fig. 13. The problem of corruption in different procedures, % of respondents among those who faced problems

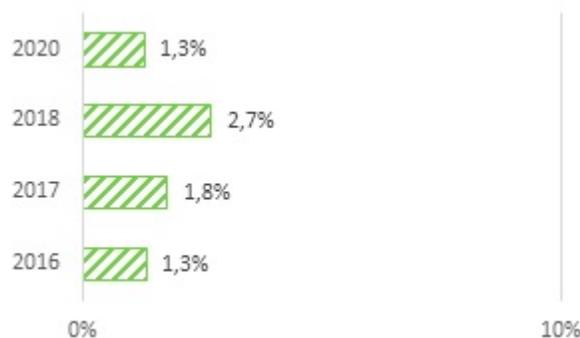


- Corruption is not one of the main problems reported by the respondents in the context of various customs procedures.
- Importers are more likely to report this problem.
- Corruption is most often reported in the context of the procedure of determining the customs value of goods and the procedure of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

10. Corruption as a barrier at exports and imports

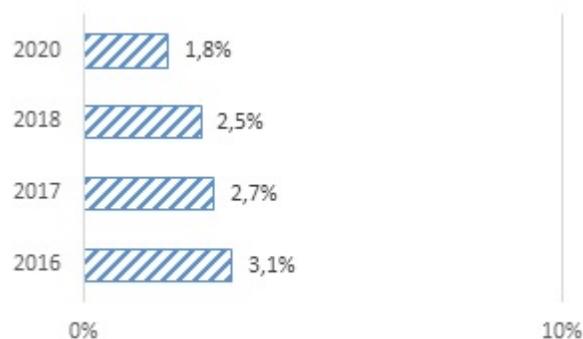
- The importance of corruption at customs as a barrier to exports increased in 2020: it occupies the 5th place in the ranking of 18 barriers.
- This problem is reported by 16.3% of exporters who have encountered any barriers.
- At the same time, the share of exporters who report corruption among all 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.

Fig. 14. Exporters who name corruption at the customs a barrier, % among all exporters



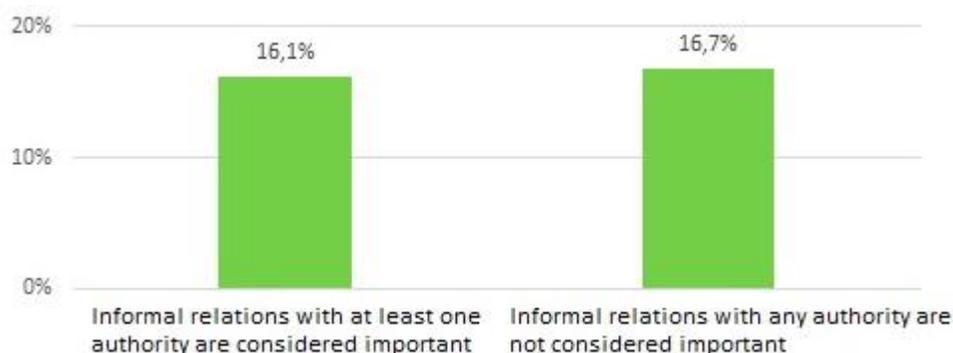
- For the importers who face barriers, the importance of corruption has hardly changed.

Fig. 15. Importers who call corruption at customs a barrier, % among all importers



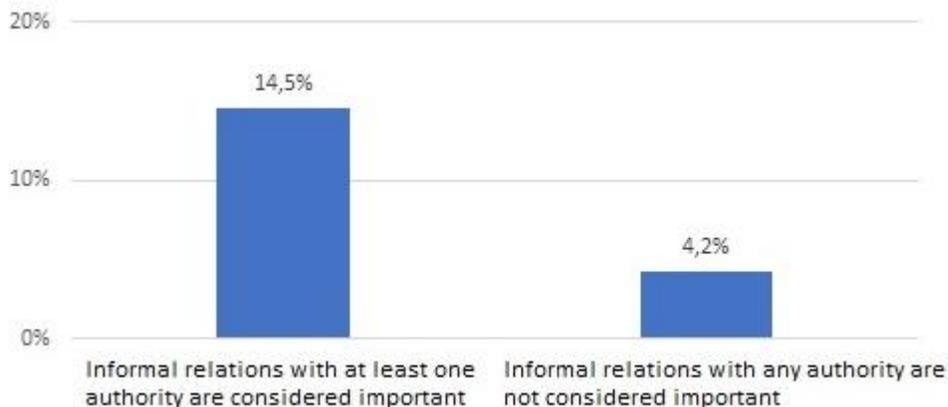
- Corruption is reported by every tenth importer who encountered barriers (9.9%). It is in the 11th place in the ranking of 20 barriers.
- The share of importers reporting barriers has also decreased.
- Accordingly, the share of the respondents who report the problem of corruption among all importers 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.
- There is no difference in the assessment of corruption at the customs as a problem between exporters who reported problems and consider it necessary to maintain informal relations with at least one public authority and those who have faced problems but do not want to “be friends” with the authorities.

Fig. 16. Exporters who say corruption at the customs is a barrier, % of those who reported barriers to exports



- 14.5% of importers who consider it necessary to maintain informal relations with at least one authority believe 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%.

Fig. 17. Importers who say corruption at the customs is a barrier, % of those who reported barriers to imports

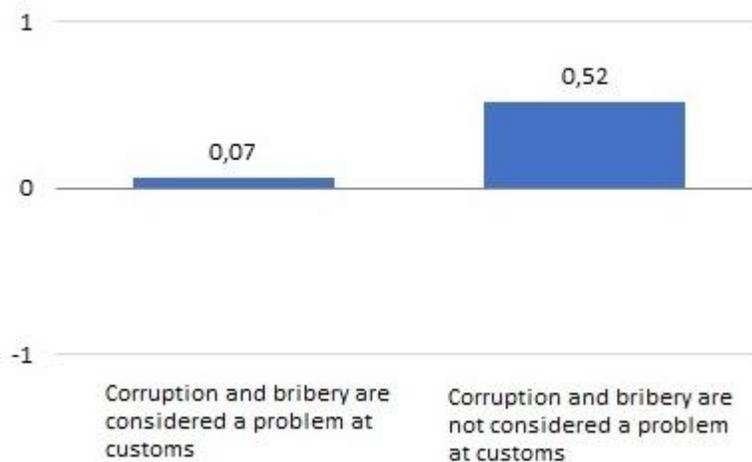


- This may mean that importers treat informal relations with the authorities primarily as a means of protecting their business, and exporters, as a means of simplifying/facilitating their business.

11. Relationship between corruption assessments and customs performance assessments

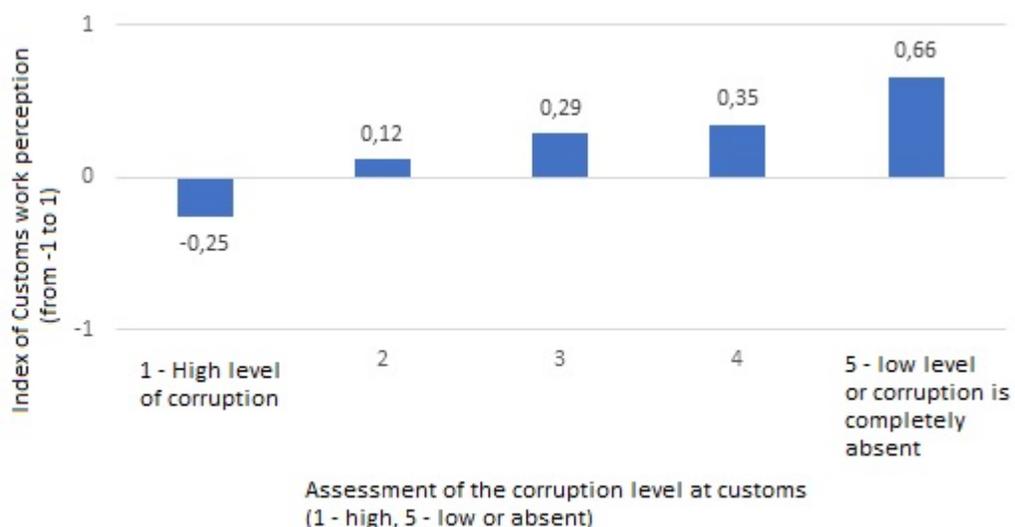
- Perception of corruption as a problem is associated with poorer assessments of customs performance.
- This is confirmed by our analysis of two issues: corruption and bribery as a problem at customs and the assessment of the level of corruption at customs.
- Respondents who consider corruption and bribery to be a problem at customs rate the work of customs worse (Customs Performance Perception Index (CPP) = 0.07) than respondents who do not point out this problem (CPP Index = 0.52).

Fig. 18. CPP index on the assessment of corruption and bribery as a problem at customs



- Survey participants assessed the level of corruption at customs as quite low: an average of 3.9 points (1 – high, 5 – low).

Fig. 19. CPP index for assessing the level of corruption

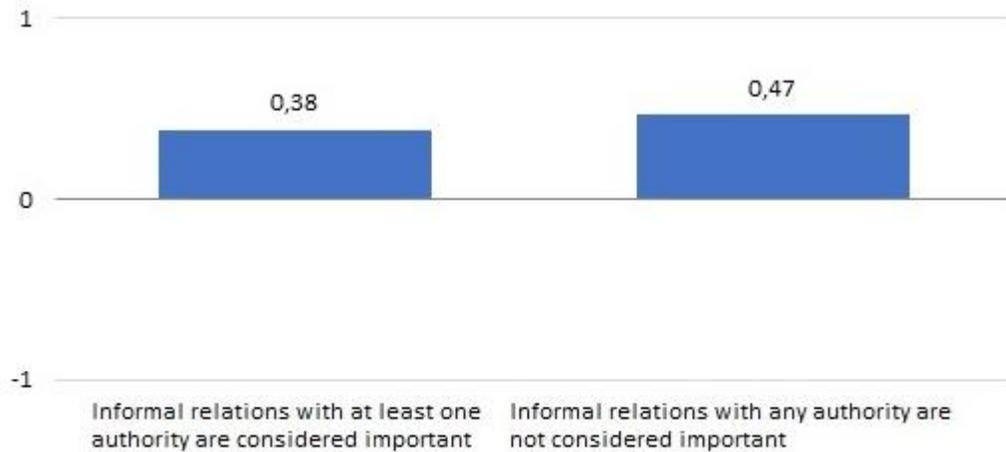


- Bad assessments of the level of corruption are associated with lower assessments of the efficiency of customs in general (moderate positive correlation with the CPP Index, $r = 0.48$, $p = 0.00$).

12. The importance of “friendship” with the authorities and evaluation of the work of customs

- The respondents who consider it necessary to maintain informal relationships 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).

Fig. 20. CPP index on the importance of informal relations with the authorities



Survey methodology

It is important to hear the opinion of business engaged in foreign trade (importers and exporters) in order to study the conditions of foreign economic activity in Ukraine, the challenges facing businesses, and the reforms and policy measures that are needed to solve the existing issues. The Institute for Economic Research and Policy Consulting conducts regular monitoring of business opinion on these issues through an annual survey of exporters and importers. This survey provides the “feedback” directly from business representatives who are engaged in import and export and can tell from their experience about the specifics and problems of this activity in Ukraine.

In 2015-2016, the Institute for Economic Research conducted such monitoring for the first time as a part of the Trade Facilitation Dialogue project. This wave of the survey was exploratory in nature and covered 381 businesses engaged in foreign trade. The fieldwork took place in April-August 2015. In the following years, the Institute for Economic Research conducted three more waves of this monitoring as a part of the Trade Facilitation Dialogue project:

- The second wave of the monitoring was conducted in 2016-2017. Information was collected in October-December 2016. 1044 businesses engaged in foreign trade were interviewed.
- The third wave of the monitoring was conducted in 2017-2018. Information was collected in November 2017 — February 2018. 1019 businesses engaged in foreign trade were interviewed.
- The fourth wave of the monitoring was conducted in 2018-2019. Information was collected in October-December 2018. 1012 businesses engaged in foreign trade were interviewed.

The fifth wave of this survey took place in 2020 as a part of the project “Support of the Civil Society Initiative “For Transparent and Fair Customs”. The fieldwork phase of the survey took place from 14 April to 9 June 2020. 1045 businesses engaged in foreign trade were interviewed.

The fieldwork of the second, the third and the fourth waves of the survey was conducted by GfK Ukraine, and the fieldwork of the fifth wave in 2020 was conducted by Info Sapiens research agency. The samples of the second, the third, the fourth and the fifth waves of the survey are representative in the national dimension.

The 2020 survey was conducted using computer assisted telephone interviews (CATI). All interviews were conducted with business representatives, who can assess the economic situation of the business and the conditions of foreign trade (owners, directors, deputy directors, chief accountants, heads of departments or deputy heads of departments related to exports or imports).

The survey covered companies from all over Ukraine except those located in the temporarily occupied Autonomous Republic of Crimea and the city of Sevastopol, as well as certain areas of Donetsk and Luhansk regions that are not controlled by the Ukrainian government.

The number of observations for each sampling option was monitored at the data analysis stage. If the number of observations was insufficient for statistical analysis, such analysis was not performed and, accordingly, is not presented in the report. For more information on sampling parameters, see the Sampling section.

To carry out this monitoring, the IER developed a standardized questionnaire to survey businesses. This report compares the findings of surveys in different waves on a number of questions, the wording of which in the fifth wave of the survey has not changed compared to the previous waves of the survey in 2016-2018. At the same time, some questions are also compared with the findings of the first wave of the survey in 2015-2016. However, it must be noted that the sample of this wave of the survey was different from the following ones, which may factor in the difference in indicators.

Distribution of the respondents by customs offices

The businesses that took part in the survey indicated at which customs they mainly obtain customs clearance for their goods. In 2019, 16 customs offices were established within the State Customs Service, including 14 regional customs offices, as well as the Energy Customs Office and the Coordination and Monitoring Customs. The largest share of interviewed businesses (326 or 31.2 % of the total sampled information) obtains customs clearance at the Kyiv Customs Office, which consolidated the Zhytomyr, Kyiv, Kyiv city and Cherkasy Customs of the SFS. The next largest share of respondents obtains customs clearance at the Halytska Customs Office, which consolidated three customs: Ivano-Frankivsk, Lviv, and Ternopil. The 140 interviewed businesses or 13.4% of the sample use the services of this customs.

The Dniprovsk Customs Office is in the third place with the largest number of interviewed businesses, which indicated the customs for exporting or importing of their goods. At this customs, which consolidated the Dnipropetrovsk, Zaporizhia, Kirovohrad and Poltava Customs, the customs clearance is obtained by 103 respondents, which is almost 10% of the total number of the respondents. Somewhat less businesses (91 or 8.7% of the sample) indicated that they obtain customs clearance at the Odesa Customs Office. 78 businesses obtain customs clearance at the Slobozhanska Customs Office, which consolidated the Sumy and Kharkiv Customs. These businesses account for 7.5% of the sample.

The services of other customs are used by smaller shares of the interviewed businesses. In addition, 36 businesses (almost 3.5% of the sample) indicated that they obtain customs clearance at other customs offices or did not name the customs offices where they obtain such clearance.

Table 1. Distribution of businesses interviewed by customs, where they mainly obtain customs permit

	Number of businesses	Sample proportion
Azov Customs Office (Donetsk Customs of the State Fiscal Service of Ukraine)	13	1.2 %
Bukovynska Customs Office (Chernivtsi Customs of the SFS)	24	2.3%
Volyn Customs Office (Volyn Customs of the SFS)	38	3.6%
Halytska Customs Office (Ivano-Frankivsk Customs of the SFS, Lviv Customs of the SFS, Ternopil Customs of the SFS)	140	13.4%
Dniprovsk Customs Office (Dnipropetrovsk Customs of the SFS, Zaporizhia Customs of the SFS, Kirovohrad Customs of the SFS, Poltava Customs of the SFS)	103	9.9%
Zakarpattia Customs Office (Zakarpattia Customs of the SFS)	36	3.4%
Kyiv Customs Office (Zhytomyr Customs of the SFS, Kyiv Customs of the SFS, Kyiv City Customs of the SFS, Cherkasy Customs of the SFS)	326	31.2%
Odesa Customs Office (Odesa Customs of the SFS)	91	8.7%
Pivnichna Customs Office (Chernihiv Customs of the SFS)	34	3.3%
Podilska Customs Office (Vinnytsia Customs of the SFS, Khmelnytskyi Customs of the SFS)	42	4.0%

	Number of businesses	Sample proportion
Poliska Customs Office (Rivne Customs of the SFS)	34	3.3%
Slobozhanska Customs Office (Sumy Customs of the SFS, Kharkiv Customs of the SFS)	78	7.5%
Skhidna Customs Office (Luhansk Customs of the SFS)	7	0.7%
Chornomorska Customs Office (Mykolaiv Customs of the SFS, Customs Office of the SFS in Kherson region, Crimea and Sevastopol)	43	4.1%
Other customs office	5	0.5%
Did not specify their customs offices	31	3.0%
Total	1045	100%

Customs posts where businesses obtain customs clearance

Some of the respondents (352 businesses) indicated a customs post at which they mainly obtain customs clearance. The customs posts most often mentioned by the interviewed businesses are Krakovets, Yahodyn and Boryspil Airport. More than 30 interviewed businesses or more than 3% of the sample obtain customs clearance at each of these customs posts. 693 businesses or 66.3 % of the sample did not name the post where they obtain customs clearance.

Table 2. Distribution of businesses interviewed by customs, where they mainly obtain customs permit

	Number of businesses	Sample proportion
Boryspil Airport Customs Post	34	3.3%
Zhytomyr-Central Customs Post	10	1.0%
Zakhidnyi Customs Post, Kyiv	11	1.1%
Stolychnyi Customs Post	19	1.8%
Sviatochyn Customs Post	12	1.1%
Yahodyn Customs Post	39	3.7%
Ternopil-Central Customs Post	10	1.0%
Chornomorskyi Customs Post	14	1.3%
Shcherbakivka Customs Post	12	1.1%
Zakhidnyi Customs Post	21	2.0%
Krakovets Customs Post	48	4.6%
Lutsk Customs Post	17	1.6%
Pivnichnyi Customs Post	19	1.8%
Odesa-Central Customs Post	18	1.7%
Rava-Ruska Customs Post	13	1.2 %

	Number of businesses	Sample proportion
Uzhhorod Customs Post	10	1.0%
Other customs post	45	4.3%
Did not specify their customs post	693	66.3%
Total	1045	100%