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ІНСТИТУТ
ЕКОНОМІЧНИХ ДОСЛІДЖЕНЬ
ТА ПОЛІТИЧНИХ КОНСУЛЬТАЦІЙ

TRADE FACILITATION IN UKRAINE

BUSINESS ASSESSMENT AND EXPECTATIONS

2018 / 2019



EXECUTIVE SUMMARY
BASED ON THE IV WAVE OF THE
ANNUAL SURVEY OF UKRAINIAN
IMPORTERS AND EXPORTERS

KYIV 2019



ДІАЛОГ
ЗІ СПРИЯННЯ
ТОРГІВЛІ

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Executive summary

The survey shows the clear demand for reform of customs in Ukraine in accordance with the requirements and commitments of Ukraine in the Association Agreement with the European Union. Inadequate quality of transport infrastructure, unpredictable trade policy, and overwhelming bureaucracy at customs are top obstacles for exporting, while importing is hampered by complicated customs legislation and non-transparent customs valuation of goods.

Although the assessment of customs performance improved in 2018 compared to 2017, most respondents believe that the customs needs change. As in the previous year, regional assessments of customs performance vary. Assessment of customs performance improved in 13 regions, deteriorated in five regions, and remained unchanged in seven regions in 2018 compared to 2017. Flawed customs legislation, lack of transparency and openness at the customs, corruption, intentional overstatement of customs value of goods, and outdated technical equipment have remained the main problems in the work of the customs over all the four annual iterations of this survey.

Information about the surveyed enterprises

- The surveyed enterprises are made up of micro-enterprises (37.9%), small enterprises (30%), medium-sized enterprises (20.1%), and big enterprises (12%).
- The surveyed enterprises belong to three groups by their foreign trade. 38% of them are both exporting and importing, 34% are only importing, and 28% are only exporting.
- The surveyed enterprises work in agriculture, industry, trade, and services.
- European Union is the main foreign market for the surveyed enterprises (both exporters and importers).

Barriers for exporting

- In 2018, 24% of exporters faced obstacles when trading across borders. This share increased compared to 2017 when 19% of exporters reported barriers, but at the same time it is smaller than it used to be in 2016 when 27% of exporters reported obstacles.
- The four main obstacles for exporting are: inadequate quality of transport infrastructure, Ukraine's unpredictable trade policy, excessive bureaucracy at customs, and a large number of permits required for exporting.
- The frequency of reporting "excessive bureaucracy at customs" increased in 2018 after decreasing significantly in 2017.
- Fewer exporters reported long waiting time for customs clearance of export and inefficiency of the VAT refund mechanism compared to 2017.

Barriers for importing

- In 2018, 28% of surveyed importers faced some obstacles when trading across borders. This share almost did not change compared to 2017 when 29% of companies reported problems with importing.
- For two consecutive years, the share of enterprises facing obstacles for importing has remained lower than in 2016, when it was 35%.

- The main problems for importers are complicated legislation and lack of transparency in customs valuation of goods. At the same time, the relevance of the problem of customs valuation increased compared with 2017.
- Importers frequently report long waiting times at the customs when clearing imported goods.
- In 2018, exchange rate was a lesser obstacle for importers compared to 2017. In addition, for the second year in a row, the relevance of the problem with currency regulations has been reducing for importers.
- 14% of importers report the presence of “gray” imports on their markets. These are mostly enterprises that work in trade.

Customs assessments: performance, problems, appeals

- After minor deterioration in 2016, the assessment of the customs performance has been improving over the latest two waves of the survey. At the same time, in 2018, as before, most respondents believe that the customs needs changes.
- The main problems at the customs that have remained relevant since the first wave of the survey in 2015 are imperfect customs legislation, lack of transparency and openness of the customs, and corruption. At the same time, the impact of such problems as intentional – per the respondents – overstatement of the customs value of goods and constant changes in the structure and management of the customs has been decreasing for the second year in a row.
- Approximately every sixth enterprise has filed administrative or court appeals against the actions of the customs authorities. For most of them, the appeals have resulted in at least partial success.
- There was a growing tendency in 2018 of the increase of the monetary cost of exporting, while the trend of the reduction of time expenditures continued. However, most exporters did not experience any changes with either time or cost of customs clearance compared to 2016.
- The share of exporters that reported increase of the monetary cost of customs clearance over a two-year period peaked in 2018 compared to the two previous waves of the survey reaching 39%. At the same time, the ratio of the exporters that reported reduction of the time needed for customs clearance of exports to those for which the clearance, on the contrary, took up more time, has remained almost unchanged for the last three consecutive years: the first ones significantly exceed the latter ones.
- According to the respondents, the tendencies of the changes of the cost and duration of the customs clearance of imports have remained virtually unchanged over the last three years. The share of importing enterprises that reported spending more money for customs clearance in 2018 than they had spent two years prior is bigger than the share of those that spent less. In contrast, the percentage of the enterprises that spent less time at the customs when clearing imports exceeds the share of those that noted an increase of the time spent on imports clearance. This is consistent with the results obtained in 2016 and 2017.
- Approximately every third enterprise feels the need to maintain informal relations with the officials of customs authorities, and every fourth one, with the officials of tax authorities.
- A total of 39% of the surveyed enterprises consider it necessary to maintain informal relations with representatives of at least one government body, including local and central authorities, as well as law

enforcement and local self-government bodies. This percentage is slightly lower than in 2017 when such enterprises constituted 42%.

- The larger the size of an enterprise, the more important informal relations with the authorities are for it.
- Almost half of the respondents do not know the share of the goods imported with violations of customs rules, including those imported without ant fees and taxes, on their markets.
- The companies that did make such an estimation most frequently estimated this share to be under 10%.
- Simplification and lowering the cost of customs clearance is the measure aimed at removing such products from the market that is most frequently supported by the surveyed enterprises. Some firms also support the action steps that would strengthen government control over imported goods and would entail more active efforts from law enforcement agencies and government oversight bodies.

The Aggregate Indicator of Customs Performance

- In 2018, the highest values of the Aggregate Indicator of Customs Performance were registered in Kherson, Kirovohrad, Donetsk and Zaporizhzhya oblasts.
- Its lowest values were in Ivano-Frankivsk, Zakarpattya, Khmelnytsky and Dnipropetrovsk oblasts.
- The values of the Aggregate Indicator increased most of all in Kyiv city and Volyn, Zaporizhzhya, Kherson and Odesa oblasts.
- In two oblasts – Ivano-Frankivsk and Khmelnytsky – the most significant decline of the value of the Aggregate Indicator was recorded.
- The total number of oblasts where the value of the Aggregate Indicator increased (13 oblasts) exceeds the number of the oblasts where this value decreased (five oblasts).

Problems at different stages of customs clearance

- The survey showed what stages of customs clearance the enterprises go through and what kind of difficulties they encounter at each of these stages.
- The most prevalent part of customs clearance for the surveyed enterprises is submitting the certificates of origin (73%). Additionally, more than half of the respondents went through preliminary customs clearance and product classification at customs. A little less than half of the enterprises went through customs valuation of the goods, and one out of five enterprises was audited after customs clearance.
- Surveyed companies encountered certain problems at every stage of customs clearance. The main ones encountered at preliminary customs clearance were technical problems, in particular difficulties with computer processing of documents, and inconsistency of Ukrainian and foreign certificates.
- Speaking about the difficulties at the stage of customs valuation of goods, enterprises report a set of interrelated problems that stem from the lack of transparency at customs and unpredictability of the customs authorities, which leads the respondents to the conclusion that the customs intentionally raises the cost of the goods.
- The most frequently reported problems at customs valuation are refusal of the customs authorities to recognize the contract price of the goods, requirements to provide a large number of additional

documents, in particular the documents that constitute commercial secret, non-transparent customs valuation, and, as a result, an unjustified, according to the respondents, increase in the customs value of the goods.

- Exporters and importers often face requirements to provide a large number of additional documents when submitting certificates of origin. At this stage, enterprises also often report considerable duration and complexity of customs clearance.
- Approximately two out of three importers that face problems at the stage of product classification at customs report unjustified, in their opinion, designation of the goods customs code that entails a higher customs duty. Among the problems at this stage, respondents often name different classifications for identical goods imported by different companies, refusal of the customs authorities to recognize the declared product code, and requests to provide a large number of additional documents.
- When undergoing post-clearance audit, enterprises most frequently face the problem of different interpretations of the same legislation by customs officers and auditors. In addition, the difficulties at this stage of customs clearance include changes of the customs codes of goods that had already been set in the customs declaration and unjustified increases in the customs value of goods.

Recommendations for solving problems encountered at customs clearance

- The respondents who encountered problems at different stages of customs clearance offered their recommendations for solving these problems. The enterprises believe that to simplify preliminary customs clearance, it is necessary in the first place to make Ukrainian documents compatible with international ones, to cut down the list of the documents required at this stage, and to make it fully automated.
- The step most often demanded by businesses that reported difficulties at the stage of customs valuation is that the customs use supporting documents provided by enterprises to determine the customs value. The businesses also expect the list of the documents required for customs valuation to be shortened.
- Another recommendation voiced by the respondents is giving access for enterprises to the customs values database, increasing personal liability of customs officers and employees, and increasing transparency of customs valuation.
- In order to solve the problems the respondents faced at post-clearance audit, they suggest increasing transparency of decision-making at this stage, limiting the mandate of the customs authorities, reducing the list of documents required for the audit, and simplifying this procedure in general.

Working with customs brokers

- 87% of the surveyed companies use the services of customs brokers.
- This share has increased over the last three waves of the survey: it was 84% in 2017 and 81% in 2016.
- The smaller the size of the enterprises, the more often they work with customs brokers.

Joint customs control

- 76% of the surveyed enterprises support the idea of joint customs control at the customs offices of Ukraine and neighboring countries.

- The western Ukraine and some central regions have expressed the most support for this initiative, while in the oblasts bordering Russia or located close to its borders, this idea has the least support.

Causes of cargo delays during border control

- 60% of exporting enterprises and 52% of importing enterprises did not experience any cargo delays during border control.
- Other respondents – those who reported delays – name border queues as the main cause of delays. Importers report waiting at borders more often than exporters.
- The customs pointing out issues with the documents provided by the companies is another quite frequent cause of delays at the border according to the respondents. This problem is slightly more relevant for importers.

Customs innovations: “single window”, Authorized Economic Operator, the “24 hours law”

- The share of the enterprises that personally used the “single window” system when going through customs clearance increased in 2018. Such enterprises constituted 86% of all respondents taken without those that could not answer this question because they only used the services of customs brokers for clearance. In 2017, this share was 54%, and in 42% in 2016.
- Only half of the companies that used the “single window” at the customs confirmed that the time of clearance in this format did not exceed the expected four hours.
- Almost two-thirds of the enterprises that used the “single window” at the customs filed documents in their entirety electronically.
- The share of enterprises that would like to receive the status of an Authorized Economic Operator was 44% in 2018. Big companies are the most interested in this status: 63% of them would like to become an AEO.
- Most companies made a positive or neutral assessment of the law that limits tax-free imports under the sum of EUR 500 and only if the importers have spent at least 24 hours outside Ukraine and traveled abroad not more often than once every 72 hours.
- Micro-enterprises and companies that work in trade assess this law better than enterprises of other sizes and sectors.

Electronic documents

- Exchanging documents in electronic form with public authorities is quite common for enterprises engaged in foreign trade. Approximately three out of five enterprises submit most or all of the documents to the government agencies electronically. This share increased in 2018 compared to 2016 and 2017.
- The documents most companies provide to state authorities entirely in electronic form are a customs duties payment receipt, a transit declaration, a customs value declaration, as well as export and import declarations.
- More than half of the enterprises that submit documents in an electronic form have to provide their paper duplicates.

- This happens primarily because the government authorities demand that the businesses provide paper documents, in particular documents with seals. Some companies keep original documents in paper in case of government control or possible court cases.
- The respondents also named unsatisfactory organization of document exchange in government agencies, in particular the lack of a single platform for sharing electronic documents, as the reason why they must provide paper duplicates. Because of this, enterprises have to provide original documents in paper when going through customs clearance.
- Yet, even having a computer system at the customs that should make electronic paperwork possible does not guarantee it would work without malfunctions, which occur quite often according to the respondents. This is another reason why enterprises engaged in foreign trade have to submit both electronic and paper versions of documents simultaneously.

Impact of the Association Agreement with the EU on enterprises

- Both assessments and expectations regarding the impact of the EU-Ukraine Association Agreement, including the Free Trade Area, went back to the 2016 levels after an improvement in 2017.
- Like two years prior, 28% of companies positively assessed the impact of the Association Agreement with the EU on their operations in 2018.
- 41% of respondents expect their company to benefit from the implementation of the Agreement over the next five years. This is a slightly smaller share than in 2016 when such respondents constituted 45% and much less than in 2017 when more than half of the respondents had positive expectations about the Agreement's impact on their businesses.

Foreign trade financing and international payments

- The 2018 survey again showed that some Ukrainian enterprises engaged in foreign trade use such trade finance instruments as letters of credit, buyer and seller loans, and bank collection.
- At the same time, payments in advance and after the delivery remain the most common types of payments. Some enterprises use deferment of payment.
- One third of the surveyed enterprises are insuring their foreign trade operations.
- The practice of insuring foreign trade operations becomes more prevalent as the size of the enterprises increases. For example, more than half of large enterprises insure their foreign trade operations.
- Enterprises normally do not encounter any difficulties when insuring foreign trade operations. Only a small share of the respondents reported such problems related to insurance as substantial insurance expenses, mismatch between the available insurance policies and the needs of their particular enterprise, as well as reluctance or financial insolvency of insurers to compensate expenses according to the insurance contract.
- In 2018, the share of the enterprises that encountered any difficulties with international payments significantly decreased compared to 2017. Receiving and making international payments was not accompanied by any problems for more than half of both exporters and importers.
- The enterprises that did report certain problems connected with international payments most often meant the difference between foreign currency exchange rates when buying and selling as well as currency devaluation.

- The impact of regulatory and administrative problems, such as the obligatory sale of foreign currency, the requirements to provide a large number of documents, or certain restrictions on making international payments, decreased in 2018.

Protecting businesses and advocating for its interests

- 20% of enterprises are engaged in a dialogue on trade facilitation with government authorities. Most of them communicate with authorities through intermediaries, such as business associations and chambers of commerce and industry.
- The share of the enterprises involved in the dialogue with the government on trade facilitation has decreased over the past two years. The share of such enterprises was 28% in 2016 and 24% in 2017.
- 36% of enterprises are members of business associations. This share has been gradually diminishing over the last two waves of the survey. In 2016, 45% of the surveyed enterprises said that they were members of business associations or other business unions, and 41%, in 2017.
- The larger the size of an enterprise, the more likely it is to be involved in the dialogue on trade facilitation with the authorities and to be a member of a business association.
- Providing information and conducting trainings have remained the most widespread services provided by business associations to businesses.
- Advocacy and representation of the interests of businesses are the least widespread services of business associations according to the respondents.
- At the same time, protecting the rights of businesses is the service of business associations that the enterprises engaged in foreign trade are most willing to pay them for. This indicates a lag between the demand from businesses and the supply from business associations. Businesses need help in protecting their interests. Business associations should consider this when setting their agenda.
- The enterprises that are members of business associations expect their associations to initiate legislative changes, host meetings with government officials, and provide commentary on draft legislation in order to protect business interests.
- Half of the respondents are not familiar with the activities of the Public Council under the Ministry of Economic Development and Trade.
- Others rated the work of the Council at a medium level in 2018: by 3.0 points on the scale of 1 to 5.
- This assessment has remained virtually unchanged during the last three wave of survey: in previous years, the respondents rated the work of the Public Council under the Ministry of Economic Development and Trade at an average of 3 to 3.1 points.
- Micro-enterprises and enterprises that only import make lower assessments of the work of the Council.
- Most respondents believe that the work of the Public Council under the Ministry of Economic Development and Trade has not changed compared to 2017.
- The remaining respondents are split into those who say that the work of the Council has improved and those who say it has got worse. The share of the first ones exceeds the share of the latter; thus, the value of the corresponding index on the scale from -1 to +1 is +0.13. This is a positive value, but it is lower than both in 2017 when it was +0.19 and in 2016 when it was +0.16.

- In 2018, the respondents were asked to evaluate the work of three other public councils for the first time: the Public Council under the State Fiscal Service of Ukraine, the Public Council under the respondents' regional division of the State Fiscal Service of Ukraine and the Public Council under the Ministry of Finance of Ukraine.
- The respondents rated their work at 2.9 points, 3 points, and 2.9 points on average respectively.
- Yet, the majority of the respondents are not familiar with these public councils: from 73% to 77% of them are not aware of the existence of each of the three public councils.
- In 2018, the surveyed exporting companies also assessed the work of the Export Promotion Office for the first time. The Office is a government agency that provides services and consulting to exporters. It started out as a foreign assistance project. Only a quarter of the surveyed exporters know about the existence of this institution.
- The respondents who know about the Export Promotion Office rated it by 3.3 points on average on the five-point scale.

Sources of information

- Enterprises use different sources of information about trade procedures and terms in Ukraine much more often than sources of information in partner countries. The number of the latter is limited.
- The Internet, customs brokers, and the media are most often the sources of such information in Ukraine. From outside of the country, the enterprises receive such information from the Internet and from their buyers and suppliers.
- In 2018, the Internet has topped the list of the sources of information on trade conditions in Ukraine substituting contractors as the previous primary source of such information.
- The larger the size of the enterprises, the more often they receive information on the conditions and procedures of doing business in Ukraine from customs authorities, chambers of commerce and industry, and business associations, and less often from the customs.
- Nearly half of the respondents use the online ProZorro public procurement system. Industrial and trading enterprises use ProZorro more often than agricultural and service enterprises.

Education and training

- Employees of more than two thirds of the surveyed enterprises did not receive any training on issues related to foreign trade including trade facilitation.
- The smaller the size of the enterprise, the less often their employees participate in such trainings.
- Chambers of commerce and industry and the State Fiscal Service most often provide trade-related trainings for the enterprises. Seminars and trainings by independent experts, business associations and local self-government bodies are also quite common.